County of San Mateo

Inter-Departmental Correspondence

Department: HUMAN RESOURCES
File #: 23-150 Board Meeting Date: 3/14/2023

Special Notice / Hearing: None
Vote Required: Majority

To: Honorable Board of Supervisors

From: Rocio Kiryczun, Director of Human Resources

Subject: Authorize agreement with Empower to administer the County's deferred compensation program

RECOMMENDATION:
Adopt a resolution:

A) Accepting the Deferred Compensation Advisory Committee's unanimous recommendation to select Empower as the County's deferred compensation plans provider; and

B) Authorizing an agreement with Empower to administer the County's deferred compensation plans for the period from March 22, 2023, to March 21, 2028, for an amount not to exceed $175,000 annually.

BACKGROUND:
The County's current provider for its deferred compensation plans is Empower, formerly known as MassMutual. A deferred compensation plan reduces income in the year an employee puts money into the plan and allows that money to grow for retirement savings without annual tax being assessed on the invested earnings. The current agreement with Empower resulted from the request for proposal (RFP) process in 2015 and contract extension in 2021; it expires on March 21, 2023. Empower currently administers the County's 457 retirement savings plan, a 401(a) retirement plan and the extra help employees' 457 and 401(a) OBRA retirement savings plans. Pursuant to its fiduciary duty on behalf of the County, the Deferred Compensation Advisory Committee initiated an RFP in February 2022 to ensure that the County is receiving the best plan benefits currently available in the marketplace.

DISCUSSION:
The Deferred Compensation Advisory Committee received proposals from five providers: Empower, Nationwide, Fidelity, Voya and AIG. The County's investment consultant, Innovest, determined all five were reputable and had the capacity to successfully service plans the size of the County's (about $625 million in total). The County evaluated all proposals on the following RFP criteria: firm overview, personnel, participant education and communication, administrative services, cybersecurity,

investment services, transition services, service level agreements and pricing.

Based on these criteria, the Committee selected only one interview finalist: Empower. While other proposals were competitive in multiple areas, the primary challenge for any other provider was their ability to record keep the SAGIC Core Bond Fund, the County's primary stable value option with over $174 million in assets. This investment account can only be managed as part of the Empower proposal. Because today's market-to-book ratio of the underlying investments is 87%, alternative proposals that would require the County to leave the SAGIC fund and move to another stable value option would cost over $22 million. During the term of the new contract, the County will work with Empower to get out from under the market value adjustment in time for the next RFP.

Empower's proposal reduces their current administrative expenses for the primary 457(b) and 401(a) plans from 3.5 basis points (bps, 0.035% of assets) to 2.5 bps. (Extra help OBRA plans are charged a fixed annual fee of $30/account.) Based on the plans' latest reported assets of $625 million, this rate reduction would lower current annual administrative fees from about $218,750 to $156,250, saving participants about $62,500 per year. Administrative costs for the agreement will be paid through fees from participants deferred compensation accounts. These estimated expenses are subject to change based on the assets of the plans and changes in the fund selections.

In addition to offering significant reductions in expenses, a new contract with Empower will provide the following new or enhanced services:

- A new record-keeping platform that will substantially improve reporting, security and communication capabilities;
- Expanded website services that will allow participants to obtain a gap analysis to determine whether they are on track to obtain desired retirement income;
- A new free advice service from a certified financial planner (CFP) for County participants, who are not required to enroll in a managed account;
- New administration of a 401(a) plan for a small number of high-earning employees who have exceeded the SamCERA contribution limits due to PEPRA and must be enrolled in a separate 401(a) plan for tax compliance purposes.

The resolution authorizes the Director of Human Resources or designee to execute contract amendments that modify the County's maximum fiscal obligation under the proposed agreement by no more than $25,000 and/or modify the term and/or services as long as the modified term or services is/are within the current or revised fiscal provisions. The resolution also delegates authority to the Director of Human Resources or designee to execute supporting technical agreements, such as a supplemental trust agreement, as long as said agreements fall within the scope of the Master Service Agreement (MSA) discussed above and do not modify the County's maximum fiscal obligation.

The agreement and resolution have been reviewed and approved by County Attorney's Office as to form.

PERFORMANCE MEASURE(S):
Empower has committed that if they do not hit the specified performance measures each quarter, they will forfeit 1% of quarterly fees for each metric that is missed, up to 3.75% per quarter. Selected metrics include:

Measure	CY 2022 Actual	CY 2023 Projected	FY 2024 through FY 2028
Response Time of Participant Call Center	85% of calls answered within 80 seconds.	80% of calls answered within 20 seconds.	80% of calls answered within 20 seconds.
Timeliness of Participant Statements	100% of statements mailed 15 business days of quarter-end.	100% of statements mailed 15 business days of quarter-end.	100% of statements mailed 15 business days of quarter-end.
Withdrawals Paid	None.	99% of disbursements processed within two days of request.	99% of disbursements processed within two days of request.

FISCAL IMPACT:
The term of the agreement is from March 22, 2023, to March 21, 2028. The entire cost for the agreement will be paid through participants' deferred compensation accounts.