



**COMMISSION
AGENDA MEMORANDUM**

Item No.

4c

ACTION ITEM

Date of Meeting

June 13, 2017

DATE: June 5, 2017

TO: Dave Soike, Interim Chief Executive Officer

FROM: Tammy Woodard, Director Human Resources – Total Rewards
Anika Klix, Total Rewards Consultant

SUBJECT: Contract to Provide Defined Contribution Investment and Plan Consulting Services

Total estimated project cost: \$500,000

ACTION REQUESTED

Request Commission authorization for the Chief Executive Officer to conduct a competitive procurement and execute a service agreement with a consulting firm to provide investment and plan advisory services to the 457 Deferred Compensation Plan Administrative Committee (the Committee). The agreement will be for three years with three possible one-year extensions. The contract will be effective February 4, 2018, and the total cost of the contract over the maximum six year duration is estimated to be \$500,000.

EXECUTIVE SUMMARY

The Port sponsors four tax-deferred, defined contribution retirement savings plans for its employees: 457 Deferred Compensation Plan, 401(a) supplemental savings plan for non-represented employees, 401(a) plan for sworn Police Department employees, and 401(a) plan for Firefighters. Total Plan assets for the four plans as of 3/31/17 were approximately \$215 million.

The Port of Seattle's 457 Deferred Compensation plan was established in 1975 to provide an opportunity for Port employees to voluntarily set aside tax-deferred income for their retirement years. Non-represented employees, who choose to participate in the Deferred Compensation Plan, receive matching funds contributed to a 401(a) Supplemental Savings Plan account up to a maximum dollar limit, based on tenure, ranging from \$1,000 to \$2,200 annually.

The Police and Fire Department employees do not participate in Social Security and the Port contributes 6.2% of their earnings into their respective 401(a) plans in lieu of making Social Security contributions.

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Human Resources is responsible for administering the plans. The Deferred Compensation Administrative Committee (the Committee) oversees many aspects of the deferred compensation plans including selecting the investment fund options available to plan participants, monitoring the performance of the funds, establishing the investment strategy that guides the investment funds, and recommending what options are available to plan participants within the deferred compensation plans (such as an after tax option or loans from the plan). They also recommend many of the non-investment details of the plans and assist with determining plan design.

The fees associated with the employees' 457 plan accounts as well as the Police and Fire Departments' 401(a) accounts are paid by plan participants. The fees associated with the non-represented employees' matching 401(a) plan accounts, approximately 10% of the total fees, are paid by the Port. The contract with the current consultant expires February 3, 2018.

JUSTIFICATION

By conducting a competitive procurement for this work, we hope to gain a highly qualified, fully competent firm to fulfill the necessary services and to have the opportunity to learn about each potential firm that submits a bid in order for us to choose the absolute best option. The plan administrator and selection committee will work the Office of Social Responsibility to determine small business participation opportunities aligning with the Port's Century Agenda objective to increase the percentage of funds spent on construction, consulting, and goods and services with small businesses to 40 percent.

DETAILS

The Committee has historically used the services of an investment advisor to help fulfill their fiduciary responsibilities by monitoring performance of the investment funds, recommending replacement funds when funds underperform their benchmarks, and updating the plans investment strategy when appropriate. The Committee also utilizes the services of a plan consultant to bring a market perspective to the process of procuring a third party administrator for plan administration, to help the Committee maintain awareness of changing legislation that can impact the plans, and provide briefings and articles related to contemporary deferred compensation topics. The consultant acts as a fiduciary to the plans and provides fiduciary training to the Committee members. On an ongoing basis, the consultant provides information regarding industry trends that can enhance the value of the plans to employees.

Scope of Work

The consultant will assist the Committee and the Port to administer the deferred compensation plans and provide investment consulting services by preparing and conducting quarterly performance measurement presentations; providing information regarding Plan investment

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options, conducting fund manager searches, recommendations of minimum criteria, fee structure, risk and volatility tolerances, and providing performance benchmarks. Other services may include the review of fund manager performance and other required qualifications for investment vehicles, recommending plan structure, asset allocation, monitoring and evaluating of investment performance, reviewing plan statements and the investment policy. The consultant will assist the Committee and the Port with the third party administrator's record-keeping of each plan's administrative account, provide information on regulatory or industry investment standards (e.g. ERISA), and assist in audits of the plans. Acting as a fiduciary, the Consultant will mitigate risk to the Port and provide annual fiduciary training to the Committee.

ALTERNATIVES AND IMPLICATIONS CONSIDERED

Alternative 1 – Utilize new or existing Port staff to perform the Consultant role

Cost Implications: This would be new work for the Port and it is unlikely that it could be absorbed into an existing job. The estimated cost to hire an employee to do this work, on a full-time basis, would be an approximate \$130,000 annual salary, annual training costs of up to \$10,000 for specific on-going training, plus benefit costs of approximately \$52,000 for a total of \$192,000 annually.

Pros:

- (1) Staff time (from HR, CPO, Legal, and ICT) would not need to be allocated to a procurement process.
- (2) Staff time would be saved by not administering a consultant contract.

Cons:

- (1) The cost is more than twice that of the requested action; approximately \$1.5 million for the maximum six years of a contract.
- (2) This work would require adding a new job, and conducting a selection process to fill the job. In addition to the standard costs of having the Port's Talent Acquisition team perform the recruiting activities, the specialized nature of this job may require the use of a search firm which could add approximately \$45,000 to the cost of this alternative.
- (3) Purchasing expensive specialized tools or products such as financial analysis software or investment fund tracking tools may be required for a Port employee to perform the investment analysis and reporting required to help the Committee fulfill their role.
- (4) This alternative would eliminate the possibility of contracting with a small business, as we have in the past, to perform this work.

This is not the recommended alternative.

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Alternative 2 – Add this consulting work to the Scope of Work of the current Benefit Consultant

Cost Implications: The cost would be very similar to retaining a consultant who specializes in providing these services, approximately \$500,000 for a six-year contract.

Pros:

- (1) Less staff time might be required to negotiate an amendment to the current contract than to conduct a competitive procurement for a specialized consultant.
- (2) This alternative would mean one less contract for Port staff to administer and might thus result in some staff time savings.

Cons:

- (1) The Port's current benefits consultant may not have the specific expertise to provide the required services to the Deferred Compensation plans.
- (2) The current benefits consultant may not be able to comply with fiduciary requirements for keeping the Port plans in compliance.
- (3) This alternative would eliminate the possibility of contracting with a small business, as we have in the past, to perform this work.
- (4) This option will likely cost as much, possibly more, than contracting directly with a consultant that specializes in this type of work.

This is not the recommended alternative.

Alternative 3 – Contract with a specialized consulting firm to perform required services.

Cost Implications: \$500,000 for 6 years, or approximately \$83,333/year.

Pros:

- (1) Procuring a specialized consulting firm enables the Committee and the Port to carry out its responsibilities and actions in a prudent manner and will save the Port money by not adding an additional FTE and the expense of hiring and training Port staff.
- (2) Contracting with a qualified, specialized consultant to perform the required services will ensure continuity of investment and plan advising services to the Committee and the Port as well as mitigate risk associated with required fiduciary responsibilities.
- (3) This procurement would provide an opportunity for the Port to contract with a small business.

Cons:

- (1) Failure to procure a qualified, specialized consulting firm would adversely impact the Committee's ability to execute its fiduciary obligations and responsibilities to participants (employees and retirees) who have assets in these plans in a timely and responsible manner.

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- (2) Staff time for HR, CPO, and Legal would be required to conduct the procurement process and execute a new contract.

This is the recommended alternative.

FINANCIAL IMPLICATIONS

Annual Budget Status and Source of Funds

The Port paid fees associated with this contract, approximately 10% of the total, are included in the Port's benefits budget each year. They are rolled into the amount budgeted, and then allocated to departments, along with items such as life insurance premium costs, disability insurance costs, and medical and dental plan costs.

ATTACHMENTS TO THIS REQUEST

None

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

None