



City of Rialto

Legislation Details (With Text)

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Title: Request City Council Approve the Professional Services Agreement with SFG Retirement Plan Consulting, LLC (SFGRPC) for 457(b), 457(b) OBRA, and 401(a) plan consulting and investment fiduciary services.

Sponsors:

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Attachments: 1. City of Rialto 457 & 401 Investment Policy Statement Draft.pdf, 2. SFG Disclosure FormRialto Doc.pdf, 3. RIALTO- NON ERISA FIDUCIARY AGREEMENT-CLEAN-05-22-2019 v JP 11-5-19.pdf

Date	Ver.	Action By	Action	Result
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For City Council Meeting [December 10, 2019]

TO: Honorable Mayor and City Council

APPROVAL: Rod Foster, City Administrator

FROM: Jessica Brown, Finance Director

Request City Council Approve the Professional Services Agreement with SFG Retirement Plan Consulting, LLC (SFGRPC) for 457(b), 457(b) OBRA, and 401(a) plan consulting and investment fiduciary services.

BACKGROUND

The City provides an employer-sponsored deferred compensation plan under Section 457(b), a 457 (b) OBRA Plan for Part-Time Employees, and a 401(a) defined contribution plan under the Internal Revenue Code (IRC). The 457(b) Plans provide tax benefits to employees whom make deposits into the Plan for their retirement. ICMA-RC, Lincoln and Nationwide provide record-keeping and administrative services for the 457(b) Plans. The 457(b) OBRA plan is also known as a Social Security Alternative Plan and is a mandatory plan for the City's part-time employees - it also provides tax benefits for employees on the deposits made by the City and the employees. Nationwide provides record-keeping and administration services for the 457(b) OBRA plan. The 401(a) Plan provides additional tax benefit retirement savings for employees. Lincoln provides record-keeping and administration services for the 401(a) Plan. The City manages the 457(b), 457(b) OBRA and 401(a) Plans with internal staff. As the plan sponsor, the City has certain fiduciary duties and responsibilities under State law (California State Constitution, Article XVI Section 17). These duties and responsibilities focus on ensuring the operation and investment of the public retirement plan is for the exclusive purpose of providing benefits to participants and beneficiaries. Specifically, fiduciary responsibilities include:

- Investing the assets of the plan;
- Administering the plan; and
- Engaging in a prudent process for making all decisions related to the operation of the plan, including decisions related to the plan's investments and related services.

Because of the increasing complexity of the investment process and associated responsibilities, staff sought to learn more about trends affecting the employer sponsored retirement plan marketplace and laws governing fiduciary requirements for the operation of the City's sponsored plans. In addition, in an effort to fulfill the City's fiduciary responsibility to provide plans in the best interests of participating employees, the City seeks to conduct a review of existing plans and an RFP for record-keeping services.

ANALYSIS/DISCUSSION

SFGRPC was introduced to the City after providing consulting and fiduciary services for the retirement plans sponsored by other local Cities. The Cities utilized SFGRPC to evaluate their contract terms, plan fees and investments with their current providers. SFGRPC also conducted RFP's to alternative record-keepers resulting in the Cities greatly reducing their plan fees, improving the guaranteed interest rates, enhancing their investment line-ups and boosting participant services.

Staff met with SFGRPC to find out more about their process and the results SFGRPC obtained for other cities. During the meeting Staff learned SFGRPC provides fiduciary and consulting services to over 40 other cities, including the cities of San Bernardino, Ontario, Chino, Upland, Claremont, Oxnard and Beverly Hills. One of SFGRPC's greatest strength is in their fee and interest rate negotiations. The results of SFGRPC's five most recent RFP's for their City clients resulted in an average reduction of 85% in record-keeping fees and a 0.90% increase in the interest rate being credited on the guaranteed interest options for participants. Overall, including investment fees and SFGRPC's fees, the fees charged to participants reduced an average of 50%, thereby enhancing participant balances.

On behalf of the City, SFGRPC will conduct a review of City's existing plans including a Request for Information ("RFI") to City's incumbent providers, Nationwide, ICMA-RC and Lincoln. The RFI includes a review of all contract related data, including but not limited to: Administrative fees associated with the plans, investment options, asset values, fixed account interest rates, and additional fees that may be charged by the plans. Utilizing the information obtained through the RFI, SFGRPC will conduct an RFP from leading record-keepers, including all three incumbents, to determine whether the incumbent Plans are competitive and fees assessed are reasonable. Based on the results SFGRPC has obtained for other cities, Staff believes City employees (plan participants) as a whole will benefit by a consolidation of the assets with the three providers to a single provider, thus obtaining economies of scale to greatly reduce plan fees.

SFGRPC will present the RFP results to Staff and represented units to obtain feedback and discuss next steps, including a final presentation to Council.

Assuming Staff requests approval from Council and Council approves the consolidation of the plans to a single provider, Staff and SFGRPC will begin the consolidation process. SFGRPC provides consolidation support services, including the review and consultation on plan design and provisions. At the point the plans' transition to a new platform, the fee for SFGRPC's services will be paid by plan assets, therefore ending any further financial outlay from the City. As stated above, the 50% average

reduction in participant fees SFGRPC obtains net of SFGRPC's fee. SFGRPC's fee for ongoing services that will be paid by plan assets will be \$2,500 per month.

Based on SFGRPC's performance and demonstrated experience in the RFI and RFP processes, the City would like to engage SFGRPC to provide investment advisory and consulting services for our plans. SFGRPC will act as a fiduciary to the plan investments and will implement a due diligence process for the City to follow and ensure the City is meeting its fiduciary responsibilities. SFGRPC's services will include the following:

- Investment Fiduciary;
- Fiduciary education and training;
- Investment policy statement development;
- Plan conversion support;
- Compliance assistance;
- Quarterly investment monitoring;
- In-depth qualitative and quantitative fund analysis;
- Annual plan demographic review; and
- Participant education strategy and support (including on-site meetings).

At the point the plans' transition and at no extra cost to the City or participants, the City is able to obtain the needed Fiduciary, Investment and Advocacy services our City and plan participants need. SFGRPC's Investment Advisory and Service Agreement will not include a minimum contract period which is a benefit to the City. The contract may be terminated with 30-day notice.

If approved, next steps will include the completion of the RFI and the issuance of an RFP by SFGRPC. Looking forward plan participants will benefit from lower fees, better quality funds to invest in, greater flexibility in investment choices and options, and maximizing pre-tax deductions thus lowering their income taxes.

ENVIRONMENTAL IMPACT

The request is not a Project as defined by Section 15378 of the California Environmental Quality Act (CEQA) Guidelines. A "Project" means the whole of an action, which has a potential for resulting in either a direct physical change in the environment, or a reasonably foreseeable indirect physical change in the environment. Pursuant to Section 15378(b)(5), a project does not include organizational or administrative activities of governments that will not result in direct or indirect physical changes in the environment.

GENERAL PLAN CONSISTENCY

This action is consistent with Guiding Principle 3A in the General Plan:

Our City government will lead by example, and will operate in an open, transparent, and responsive manner that meets the needs of the citizens and is a good place to do business.

LEGAL REVIEW

The City Attorney has reviewed and supports this staff report.

FINANCIAL IMPACT

Operating Budget Impact

There is an initial impact of \$500 per month until the plan transitions to an updated agreement with one of the current record-keepers (ICMA-RC, Nationwide, and Lincoln) or converts to an alternative record-keeper, with an estimated time frame of 120 days commencing Council approval. Once the plan is transitioned, there is no fiscal impact to the City as all fees are paid by plan participants. The City's employees (Plan participants) will benefit from lower plan fees, improved investment options and an overall higher fixed interest rate.

Capital Improvement Budget Impact

There is no fiscal impact to the Capital Improvement Budget associated with the approval of this item.

Licensing

Prior to execution of the Professional Service Agreement/Purchase Order/Construction Contract, the vendor shall submit a business license application and pay a Business License tax at the rate of \$104, as well as Administration and State fees.

RECOMMENDATION

Staff recommends that the City Council approve the professional services agreement with SFG Retirement Plan Consulting, LLC for 457(b), 457(b) OBRA, and 401(a) plan consulting and investment fiduciary services.