



## Legislation Details (With Text)

**File #:** 2021-0255    **Version:** 0    **Name:** Deferred Compensation Investment Management Consulting Services RFP  
**Type:** MOTION    **Status:** PASSED  
**File created:** 3/30/2021    **In control:** Board of Trustees  
**On agenda:** 4/5/2021    **Final action:** 4/5/2021  
**Title:** Deferred Compensation Investment Management Consulting Services RFP

### Code sections:

**Attachments:** 1. Investment Management Consulting Services, 2. Wells Fargo Agreement, 3. Retirement Plan Consulting Agreement, 4. Signed Contract

Date	Ver.	Action By	Action	Result
4/5/2021	0	Board of Trustees		
3/30/2021	0	Village Manager	INTRODUCED TO BOARD	

### Title

Deferred Compensation Investment Management Consulting Services RFP

### History

The Village issued an RFP seeking services of a co-fiduciary and investment advisor for Plan oversight, investment selection and monitoring of the 457 Deferred Compensation Plan. The selected consultant will review all current vendors to determine performance and fees. The selected consultant, with consultation from the Employee Deferred Compensation Committee, will make a recommendation(s) to the Village on strategy for 457 Plan administration, consolidation of vendors and improvement of fees paid by participants. The selected consultant will also prepare, deliver, and present semi-annual performance reviews to the Village as well as provide communication strategy to help Village employees achieve retirement security. There are no Village costs related to this agreement since fees will only be assessed post consolidation/restructuring and will be paid from assets as a percentage of the fee savings delivered to plan participants.

### Highlights

The Village provides an employer-sponsored deferred compensation plan under Section 457(b) and a 401(a) defined contribution plan under the Internal Revenue Code (IRC). The 457(b) Plan provides tax benefits to employees whom make deposits into the Plan for their retirement. The Village's current 457 Deferred Compensation vendors include: Nationwide (\$5,332,257 total assets with 32 participants), ICMA-RC (\$1,690,937 with 7 participants), Mass Mutual (\$9,357,814 with 61 participants) and AXA (\$196,352 with 8 participants). The 401(a) Plan provides an additional tax deferral benefit retirement savings program for some employees. Mass Mutual administers the 401(a) for the Village (\$1,659,665 total assets). Additionally, the Village provides a retiree healthcare savings plan ("RHS") to a limited number of employees. The RHS plan provides some employee's tax-free savings to be used to pay for qualified medical expenses during retirement.

As the plan sponsor, the Village has certain fiduciary duties and responsibilities. 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. Because of the increasing complexity of the investment process and associated responsibilities, the Village has sought to learn more about trends affecting the employer sponsored retirement plan marketplace and laws governing

fiduciary requirements for the operation of the Village's sponsored plans.

The four (4) major trends in the current deferred compensation landscape include:

- \* High Fees - In other plan reviews, advisors have found fees to be inappropriately high.
- \* Education - Education programs are not being monitored for effectiveness or updated to fit current employee needs.
- \* Multiple Plans - It may seem that having multiple plans is good for employee choice; however, Employee Retirement Income Security Act (ERISA) courts have set the precedent that they are actually harmful. The precedent set rationalizes that they create confusion for employees, extra burdens for the fiduciary managing them, and eliminate fee discounts that would be obtained from holding the plans with one provider.
- \* Poor Fund Performance - Many other plan reviews have found the requirement of "proprietary" funds in the lineup, which means the service provider uses their own mutual funds in the plan. This increases the overall fees that your provider captures and creates a conflict of interest. There is a disincentive to remove those funds if they are underperforming. Because of this disincentive, other plan reviews have found plans that are not doing regular fund reviews to ensure the fund lineup is appropriate.

In an effort to ensure the Village is following best practices related to the defined contribution plans offered to its employees, staff requested proposals from qualified firms that provide defined benefit investment consulting and co-fiduciary services.

- \* Wells Fargo Advisors - Chicago, IL - 0.12%\*
- \* Mesirow Financial Retirement Advisory Services - Chicago, IL - 0.20%\*
- \* Retirement Plan Advisors - Chicago, IL - 0.25%\*
- \* AndCo Consulting - Winter Park, FL - \$27,500 annual fee

\*Annual fee assessed post consolidation/restructuring and will be paid from assets as a percentage of the fee savings delivered to plan participants.

Following a review of proposals and cost analysis, staff is recommending the Village enter into a five (5) year agreement with the Wells Fargo Advisors to provide independent on-going investment consulting related to its defined contribution plans. Wells Fargo Advisors currently works with a number of municipalities assisting in the review of their plans and to fulfill their fiduciary responsibility to provide a plan that is in the best interests of the participants. Wells Fargo will be responsible for directly communicating and educating the Employee Deferred Compensation Plan Committee regarding recommendations for defined contribution plans, record keepers and investment options. In addition, Wells Fargo Advisors will provide the following services:

- \* Serve as a Co-Fiduciary for the City's defined benefit plans
- \* Provide on-going investment monitoring and evaluation
- \* Provide plan governance assistance and document support
- \* Negotiate favorable pricing and fee reductions
- \* Ensure plan(s) are in compliance with state and federal laws
- \* Provide administrative support to the Employee Deferred Compensation Plan Committee
- \* Manage the relationship with the record keepers
- \* Draft and review participant communications as appropriate
- \* Ensure plans are fair and transparent
- \* Conduct provider RFPs as necessary

It is anticipated that through this engagement, inefficiencies within current plan offerings will be revealed.

If so, an eventual consolidation of assets from the plan providers into one would result in the Village receiving lower recordkeeping and administration fees applied to employee accounts, economies of scale, lower expenses for employees, and providing more attractive investment options. Plan participants, in aggregate, could expect to realize net fee savings over the term of the agreement. Annual costs will be paid directly by the record keepers from on-going plan savings. There are no Village costs related to this agreement since fees would only be assessed post consolidation/restructuring and will be paid from assets as a percentage of the fee savings delivered to plan participants. The Employee Deferred Compensation Plan Committee will participate in recommendations related to future extensions of these investment consulting and co-fiduciary services.

Establishment of an Employee Deferred Compensation Committee:

The purpose of the Deferred Compensation Committee would be to establish rules and processes consistent with fiduciary law, regulations, Village policy and best practices. The Committee would monitor the investment line-up of the Deferred Compensation Program, make any investment changes, approve and amend the investment policy statement, and other administrative tasks. The Village Board would retain responsibility for general oversight and also with regard to determining or amending plan documents.

The five (5) member committee would consist of the following individuals:

- \* Village Manager (or his/her designated alternate)
- \* Finance Director (or his/her designated alternate)
- \* Human Resources Director (or his/her designated alternate)
- \* Two (2) Employees nominated by mutual agreement of recognized employee organizations in the Village

Working with Wells Fargo Advisors, the Employee Deferred Compensation Committee will be tasked with the responsibility of ensuring that the plans are being administered under well documented defined contribution plan "best practices" relating to fees, investments, participant education and administration on behalf of eligible employees and retired participants.

Financial Impact

There is no fiscal impact associated with this contract, as any costs associated with this agreement would be paid by the record keepers solely from participant savings.

Recommended Action/Motion

I move to authorize the execution of a three (3) year agreement with Wells Fargo Advisors to provide defined benefit investment consulting and co-fiduciary services;

And,

To authorize the Village Manager to execute a professional services agreement with Wells Fargo Advisors for Deferred Compensation Investment Management Consulting Services;

And,

To authorize the Village Manager to establish a five (5) member Employee Deferred Compensation Plan Committee consisting of the Village Manager (or designee), the Finance Director (or designee), the Human Resources Director (or designee), and two (2) Village employees nominated by mutual agreement of the

recognized employee organizations in the Village.