

# **Memorandum**

## **City of Lawrence**

### **Administrative Services Department**

**TO:** Dave Corliss, City Manager  
Debbie Van Saun, Assistant City Manager  
**FROM:** Frank Reeb, Administrative Services Director  
Lori Carnahan, Personnel Manager  
Beth Frailey Krishtalka, Management Assistant  
**CC:** Ed Mullins, Finance Director  
Benefits Committee  
**Date:** January 18, 2007  
**RE:** Proposal to Change 457 Deferred Compensation Plan Provider

#### **Executive Summary**

Administrative Services and Finance Department staff has completed a first-time market survey of administrative, recordkeeping and investment services with respect to the City's 457 Deferred Compensation Plan. Established 1974 as an optional, supplemental retirement savings program for eligible employees, Plan assets now exceed \$13.5 million, all of which are held in trust for the benefit of Plan participants. To date, all provider services have been provided by ICMA Retirement Corporation.

A Request for Proposals was issued July 20, 2006, to which 11 proposals were received, including a proposal from ICMA-RC. With the assistance of benefit consultants from CBIZ Financial Solutions, advice from the City's Benefits Committee and input from employees and participants at large, staff has determined a competitive and more comprehensive service arrangement is available through an arrangement with Diversified Investment Advisors. Factors supporting this determination include, but are not limited to, staff's belief that such an arrangement will provide the Plan with an improved due diligence process, state-of-the-art quality control system, expanded employee communications and plan reporting capabilities, and targeted strategies for increasing employee participation levels.

Implementation of a change in the service provider arrangement from ICMA-RC to Diversified would necessitate multiple employee and participant communications, establishment of an investment policy statement, a trust-to-trust transfer of Plan assets and development of new Plan documents. Sustained support from Diversified representatives would be provided throughout the process.

If approved this month, it is anticipated the conversion process would be completed by early July 2007. Staff requests City Commission approval to provide ICMA-RC with the requisite termination notices, enter into contract negotiations with Diversified and initiate the conversion process.

- I. **Project/Item Description.** The City has sponsored a deferred compensation plan for eligible employees through a provider arrangement with ICMA Retirement Corporation (ICMA-RC) since 1974. Pursuant to a first-time market survey of deferred compensation plan providers, Administrative Services and Finance Department staff has determined that a competitive and more comprehensive arrangement is available through Diversified Investment Advisors (Diversified). As more fully described below, in the interests of better meeting the City's fiduciary duties and providing more comprehensive participant services, we recommend the City terminate its existing provider arrangement with ICMA-RC and establish a new arrangement with Diversified.

- II. **Project Description/History.**

**457 Deferred Compensation Plan.** Established 1974 and later amended to comply with Section 457(b) of the Internal Revenue Code, the Plan is an optional, supplemental retirement program for full-time regular, part-time regular, and extraboard employees. Upon enrollment, eligible employees defer income to participant accounts and invest account assets in the Plan's fund portfolio. The City sponsors the Plan but makes no matching contributions. All assets are held in trust under the Plan. Approximately 37% of eligible employees actively participate in the Plan through current payroll reduction contributions. Current Plan assets exceed \$13.5 million. (See [Attachment 1](#) for Plan data).

To date, all Plan administrative, recordkeeping and investment services have been provided by ICMA-RC. The current arrangement provides for a 0.29% asset-based administrative fee, which is charged against participant accounts.<sup>1</sup> Participants receive quarterly account statements, with access to their accounts either online or through a toll-free call center. An ICMA-RC representative visits City Hall one day each month for scheduled meetings with individual employees but is not licensed to provide investment advice. Through 2006, limited participant investment advice has been available through ICMA-RC's arrangement with Morningstar Online Advice.<sup>2</sup>

Based on our review of the Plan's history, ICMA-RC has not provided any portfolio advisory services to the City as Plan sponsor with respect to, *e.g.*, development of an investment policy statement, selection of appropriate investment funds or assistance monitoring fund performance. Participant statements report account assets but do not include individualized information about aggregate retirement assets through incorporation of other retirement savings data such as KPERS or Social Security. No targeted mailings or other outreach strategies have been offered by ICMA-RC for City use in increasing the low participation level among eligible employees.

As Plan sponsor, the City has a fiduciary duty to exercise due diligence and reasonable care with respect to the Plan, including the provision of administrative, recordkeeping and investment services. Consistent with this fiduciary duty and a May 22, 2006, letter from Dave Corliss (then Interim City Manager) to Kathy Elkins

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<sup>1</sup> From 1999 to 2006, the fee was 0.55%. Prior to 1999, the fee was 0.90%.

<sup>2</sup> In 2007, this limited online service will be replaced by an individually advised account option having a tiered fee structure based on the level of participant account assets under management.

(President of the Local 1596, International Association of Firefighters), staff has undertaken a first-time market analysis of 457 plan provider services pursuant to a July 20, 2006, Request for Proposals (RFP). Staff's goal was to ascertain if the current arrangement or alternative arrangements might best serve the City in fulfilling its fiduciary and administrative responsibilities.<sup>3</sup> Bob Fischgrund and Cindy Orr of CBIZ Financial Solutions, Inc. (CBIZ) are providing consulting services to the RFP process, with ongoing input from the City's Benefits Committee.

### **III. Project/Purchase Status.**

**RFP Process.** Eleven proposals were submitted by the August 2006 deadline, including a proposal from ICMA-RC. CBIZ consultants evaluated and ranked all proposals based on administrative and recordkeeping services and investment fund services criteria. (See [Attachment 2](#) for evaluation criteria).

The Diversified proposal was among the highest ranked proposals, with strengths in the following areas (as noted by CBIZ consultants):<sup>4</sup>

- Operational and legislative compliance, including a high-quality recordkeeping system;
- Comprehensive employee communications and plan reporting capabilities;
- Website quality;
- State-of-the-art quality control system;
- Competitive fees with expanded participant services; and
- Solid investment management and an improved due diligence process.

An on-site interview and reference checks provided additional support for staff's determination that the Diversified proposal offered the best range of services and resources within a competitive pricing structure. (See [Attachment 3](#) for a detailed comparison of the Diversified proposal relative to ICMA-RC.)

As we progressed through the RFP process it became apparent that significantly improved investment services were available from other providers—and from Diversified in particular. Diversified is willing to assume co-fiduciary status with respect to sub-advised investment funds included in the Plan's portfolio.<sup>5</sup> In addition, it offers fiduciary support to the City through multiple processes such as:

- Development of a customized investment policy statement;
- Continuous investment monitoring and evaluation to ensure *inter alia* strict fund compliance with stated investment styles;
- Ongoing review of investment selection and monitoring criteria; and
- Regular on-site Plan portfolio review meetings with appropriate staff.

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<sup>3</sup> The City pledged to complete an RFP process in 2006 concurrent with negotiations for the current Memorandum of Understanding.

<sup>4</sup> Other top ranked proposals came from Fidelity Investments Tax-Exempt Services Company (Fidelity), MassMutual Financial Group and Prudential Financial. Fidelity later withdrew from further consideration.

<sup>5</sup> Diversified offers two groups of investment fund families. The first group is institutional funds, for which Diversified (a registered investment advisor in its own right) hires specialized sub-advisors to manage a specific asset class and investment style. The second group is retail mutual funds.

Other important factors are Diversified's:

- Ability to provide participants with more comprehensive and individualized statements covering other retirement resources;
- Targeted strategies for increasing participation levels;
- Culture fit (many not-for-profit and governmental clients);
- 457 plan experience (as of December 2005, Diversified provided services to 60 governmental plans with over \$181 million in assets and to 90 other tax-exempt plans with over \$96 million in assets); and
- Sole business focus on retirement plans.

**ICMA-RC Proposal.** CBIZ consultants ranked the ICMA-RC proposal tenth based on such factors as its 1) leased recordkeeping system, 2) proprietary investment funds, 3) limited fiduciary due diligence, and 4) quality of enrollment materials and participant statements. In addition, ICMA-RC's proposed elimination of the current 0.29% asset-based plan administration fee was conditioned upon status as the exclusive provider for a five-year period and an investment revenue realization of 0.42% based on the existing fund line-up. Although adequate, its scope of services was considered to be somewhat lagging in certain areas, *e.g.*, availability of an individually advised investment option for participant accounts, which is being introduced for the first time this year. Staff and the Benefits Committee discussed at length whether to include ICMA-RC in the on-site interviews notwithstanding its low ranking by the consultants given its status as the current provider, but ultimately decided not to extend this opportunity.

#### **IV. Project/Purchase Details.**

**Staff Activities.** Subsequent to July 20, 2006, staff has met six times with the Benefits Committee regarding the RFP process, in addition to subcommittee meetings on employee communication strategies and multiple communications with CBIZ consultants. Substantial staff time has been spent in RFP review, discussion and decision-making activities. Should the proposed recommendation be accepted by the City Commission, additional staff time will be needed for a variety of activities related to the transition of Plan assets, *e.g.*, ongoing communications, assistance with data transfers, formation of an investment advisory committee and development of an investment policy statement.

**Transition Process.** A change in the provider arrangement from ICMA-RC to Diversified will involve such activities as 1) termination notices to ICMA-RC with respect to the provider arrangement overall and the Plan transfer of assets from the Stable Value PLUS Fund in particular,<sup>6</sup> 2) adoption of a resolution establishing a new arrangement with Diversified, 3) ongoing employee and participant communications, development of a new Plan investment portfolio, 4) mapping of current investments to the new portfolio, and 5) the trust-to-trust transfer of Plan assets.

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<sup>6</sup> Due to the investment characteristics of the Stable Value PLUS Fund, ICMA-RC reserves the right to fund employer withdrawals over a 12-month period.

According to Diversified's proposed timeline, the conversion process will take approximately five months and involve the following:

- *Informational gathering phase*, including collection of current Plan documents, development of new investment portfolio and Diversified communications with ICMA-RC regarding the transfer of Plan assets;
- *Planning phase*, including preparation of an implementation manual and new Plan documents, scheduling enrollment meetings, and establishing remittance procedures with the Finance Department;
- *Implementation phase*, including setup of participant and City website links, delivery of enrollment kits and on-site education meetings (during which participants will be provided with opportunities to make adjustments to the proposed mapping of current investments into comparable new investment funds);
- *Plan installation phase*, including preparation of an administration guide, test runs of conversion data and finalizing legal documentation;
- *Conversion phase*, including the processing of the final remittance file by ICMA-RC, start of the blackout period with ICMA-RC, asset transfer, reconciliation, "go-live" status and preparation of final conversion summary report; and
- *Post conversion phase*, including countersigned document binder for City and first participant statement mailing.

**Employee/Participant Communications.** In addition to general information provided by Benefits Committee members to coworkers, Administrative Services staff provided employees with information about the RFP process during each of the 19 Open Enrollment sessions in October 2006. A notice was distributed at these sessions and also posted on the City's Intranet along with a dynamic Questions and Answers document. On December 8, 2006, all employees and participants were notified about the proposed recommendation to change the Plan provider. All were invited to attend one of four meetings to learn more about, and comment on, this recommendation prior to staff's presentation of the recommendation for Commission consideration. The last of these information meetings occurred January 5, 2007. One or more meetings were attended by a total of 75 individuals. A second dynamic Questions and Answers document was posted on the Intranet in response to questions raised at these meetings or submitted by email or telephone.

To date, staff has not received any objections to the proposed change in provider. Questions have been focused on such areas as whether all Plan assets would be transferred to Diversified, the impact of the transfer on current contributions and distributions, the new investment choices, the impact of the transfer on PLUS Fund investments and the reasons why Diversified is being recommended as the new provider. (See [Attachment 4](#) for the Questions and Answers on the proposed recommendation to change providers.)

## **V. Project/Item Funding.**

CBIZ was the successful respondent to the June 9, 2006, solicitation bid for consulting services to the City with respect to the RFP process and contract

negotiations with the successful RFP respondent. Consulting services are being provided for a fee of \$12,500, payable from Personnel Division budgeted funds. CBIZ consultants have attended many of the Committee meetings (on-site or via conference call) and provided continuous, comprehensive and high-quality services throughout the RFP process.

Any fees charged by ICMA-RC with respect to the transfer of Plan data via electronic format or otherwise are expected to be nominal and will be paid out of the Personnel Division's budget, as will any outside counsel legal fees incurred with respect to the Plan transfer. No transfer-related fees will be charged against participant accounts. We are advised by ICMA-RC that redemption fees otherwise applicable to participant trading in certain investment funds will not apply to a conversion of Plan assets occurring within active fund holding periods. Diversified advises us that it will charge no fees with respect to the transition process.

**VI. Action Request.** Staff requests approval to initiate termination of the current Plan provider arrangement with ICMA-RC and establishment of a new provider arrangement with Diversified. Upon receiving approval, staff will prepare appropriate authorizing resolutions, provide notice of termination to ICMA-RC, commence contract negotiations with Diversified and initiate conversion activities with respect to a transfer of Plan assets to occur on or about May 1, 2007.

## ATTACHMENT 1

### City of Lawrence 457 Deferred Compensation Plan

#### Plan Participation Information (approximate, as of 7/2006 when RFP issued)

800	Eligible employees
524	Participants (current & former employees)
281	Active participants ( <i>i.e.</i> , salary reduction contribution in prior pay period)
37%	% Eligible workforce actively participating in Plan

#### Plan Asset Information (as of 12/31/06 Quarterly Statement)

\$13,503,293	Total assets
44	Investment funds
5	Market Sectors
\$2,378,070	Stable Value Fund/Money Market Funds (3)
[\$2,368,487]	Stable Value Fund
[\$9,583]	Money Market Funds
\$352,786	Bond Funds (4)
\$3,634,893	Balanced Funds (12)
\$6,642,515	U.S. Stock Funds (21)
\$495,029	International Stock Funds (4)

## ATTACHMENT 2

### I. Evaluation of Administrative & Record Keeping Services:

The following are the evaluation factors and maximum points possible for technical point scores and cost:

A.	Firm Qualifications and Experience	17 Points
B.	Implementation	10 Points
C.	Operational and Legislative Compliance	14 Points
D.	Statements and Reports	10 Points
E.	Internet, Voice Response and Call Center	17 Points
F.	Quality Control	10 Points
G.	Ability to coordinate with Retired Health Care Program	5 Points
G.	Cost / Expenses	<u>17 Points</u>
Total		100 Points

#### ***Scoring Method for Cost Proposal Portion***

Each cost proposal expense will be evaluated by use of the following formula:

$$\frac{\text{Lowest cost of all proposals}}{\text{Cost of Proposal being evaluated}} \times 17 = \text{Cost Score}$$

### J. Evaluation Criteria for Investment Fund:

The following are the evaluation factors and maximum points possible for investment point scores and cost:

A.	Firm Qualifications and Experience	20 Points
B.	Risk / Return - 3 & 5 years	15 Points
C.	Fund Management	10 Points
D.	Net Rate of Return - 3 & 5 years	10 Points
E.	Investment Rating - Trailing 3 & 5 years	10 Points
F.	Advice, Modeling & Education	15 Points
G.	Cost / Expenses	<u>20 Points</u>
Total		100 Points

#### ***Scoring Method for Cost Proposal Portion***

Each cost proposal expense will be evaluated by use of the following formula:

$$\frac{\text{Lowest cost of all proposals}}{\text{Cost of Proposal being evaluated}} \times 20 = \text{Cost Score}$$



<p align="center"><b>ATTACHMENT 3</b>  <b>COMPARISON OF PROPOSED &amp; CURRENT PROVIDER ARRANGEMENTS</b></p>		
City of Lawrence 457 Deferred Compensation Plan		
Category	Diversified	ICMA-RC
<b>Administrative &amp; Recordkeeping</b>	<b>82/100</b>	<b>63/90 = 70/100</b>
<b>Firm Qualifications &amp; Expertise (17)</b>	<b>14 points</b>	<b>14 points</b>
	<ul style="list-style-type: none"> <li>Retirement plans are sole business focus; over 50 years experience including with 457 plans (60 of which are for government clients w/ over \$181 million &amp; 90 of which are for tax-exempt clients w/over \$96 million as of 12/05); many nonprofit clients; \$74 billion in assets under management</li> </ul>	<ul style="list-style-type: none"> <li>Primary business is 457 plans (services to 4,600 plans, early market provider); over 34 years experience, \$26 billion in assets under management</li> </ul>
<b>Implementation (conversion) (10)</b>	<b>10 points</b>	<b>N/A</b>
<b>Operational &amp; Legislative Compliance (14)</b>	<b>12 points</b>	<b>8 points</b>
Consultant assessment: Diversified provides top-of-the-line proprietary recordkeeping systems.	<ul style="list-style-type: none"> <li>State-of-the-art recordkeeping system (developed system, maintenance &amp; quarterly upgrades occur in house)</li> <li>5 ERISA attorneys (providing expanded fiduciary expertise)</li> </ul>	<ul style="list-style-type: none"> <li>Leased, customized SunGard Omni Plus system (maintained by SunGard)</li> <li>Proposal generally references Legal Department</li> </ul>
<b>Statements &amp; Reports (10)</b>	<b>8 points</b>	<b>5 points</b>
Consultant assessment: Diversified provides excellent enrollment & educational material & plan reporting capabilities as well as website access to research, e-learning tools & guidance.	<ul style="list-style-type: none"> <li>Increased targeted materials &amp; educational tools for participants &amp; eligible employees; personalized reports for more comprehensive retirement planning; successful strategies for increasing enrollment &amp; contribution levels</li> <li>12 annual opportunities for one-on one meetings in addition to group meetings; optional 10 bps account for additional services</li> <li>Increased plan sponsor services, including <i>Plan Sponsor Online</i> providing wider range of standard reports and opportunity for customized reports, trend analyses &amp; participant lookups; quarterly meetings &amp; plan design consultations</li> <li>Quarterly statements mailed w/i 5 days</li> </ul>	<ul style="list-style-type: none"> <li>Current participation &amp; contribution levels low despite long-term opportunities to increase</li> <li>12 monthly one-on-one meetings</li> <li>Limited plan sponsor ability to access plan data &amp; create reports without going through request procedure with representatives</li> <li>Quarterly statements mailed w/i 10 days</li> </ul>
<b>Internet, Voice Response &amp; Call Center (17)</b>	<b>15 points</b>	<b>12 points</b>
	<ul style="list-style-type: none"> <li>Full breadth of services, including customer contact center, Diversified Direct (interactive website, toll-free voice response unit), Retiretrack planning tools &amp; Participant Advisory Services (toll-free hotline)</li> </ul>	<ul style="list-style-type: none"> <li>Below-average, less comprehensive services according to consultants; 5 calculators; no learning tools</li> </ul>
<b>Quality Control (10)</b>	<b>9 points</b>	<b>6 points</b>
Consultant assessment: Diversified provides a top quality control system.	<ul style="list-style-type: none"> <li>Immediate data edits &amp; validations; good audit trail &amp; verification process; no time limits on resolving operational &amp; compliance issues</li> </ul>	<ul style="list-style-type: none"> <li>Greater reliance on manual verification; 30-90 day notice requirements regarding error corrections</li> </ul>
<b>Retirement Health Care Savings Plan (5)</b>	<b>0 points</b>	<b>5 points</b>
	<ul style="list-style-type: none"> <li>Not offered</li> </ul>	<ul style="list-style-type: none"> <li>Yes (but pending IRS issue re tax status of employee contributions)</li> </ul>
<b>Costs &amp; Expenses (17)</b>	<b>14 points</b>	<b>13 points</b>
Consultant assessment: Diversified provides competitive fees (both hard and soft dollar costs) with expanded participant services.	<ul style="list-style-type: none"> <li>No plan administration fee</li> </ul>	<ul style="list-style-type: none"> <li>Prior to 2006, 0.90% plan administration fee/participant; reduced to 0.29% for high balance accounts effective 1/2006 &amp; for all accounts effective 4/2006</li> <li>RFP proposal eliminates fee subject to exclusive 5-year contract and 0.42% investment revenue realization (based on existing fund line-up)</li> </ul>
<b>Investment Management</b>	<b>82/100</b>	<b>76/100</b>
<b>Firm Qualifications &amp; Experience (20)</b>	<b>17 points</b>	<b>16 points</b>
	<ul style="list-style-type: none"> <li>Registered investment advisor; no internal or proprietary funds; all funds managed externally through independent sub-advised mutual funds or retail funds</li> <li>Co-fiduciary role in selection/monitoring of Plan portfolio; extensive support to plan sponsor in developing customized investment policy statement &amp; fund selection, including regular investment review meetings</li> </ul>	<ul style="list-style-type: none"> <li>Many proprietary funds; uses a sub-advisor approach for Vantagepoint funds</li> <li>More limited due diligence support services; appears to have been no investment services support in terms of investment policy statement, portfolio review meetings, etc.</li> </ul>
<b>Performance</b>	<b>27 points</b>	<b>26 points</b>
Risk/Return 3&5 years (15) Net Rate of Return-3&5 years (10) Investment Rating-Trailing 3&5 years (10)	<ul style="list-style-type: none"> <li>Access to premier investment funds (American Funds); extensive screening process for investment fund selection</li> <li>4.55% Stable Value net</li> <li>7.45% annualized rate of return, ending value \$143,239 (hypothetical)</li> </ul>	<ul style="list-style-type: none"> <li>Many proprietary funds in portfolio</li> <li>4.5% Stable Value rate</li> <li>5.55% annualized rate of return, ending value \$131,017 (hypothetical)</li> </ul>
Hypothetical 5-year comparison using Morningstar Principia Pro & initial \$100,000 investment		
<b>Fund Management (10)</b>	<b>8 points</b>	<b>8 points</b>
Consultant assessment: Diversified provides solid investment management and an improved due diligence process.	<ul style="list-style-type: none"> <li>Significant due diligence process; strict investment fund style consistency parameters; continuous investment fund monitoring &amp; evaluation</li> </ul>	<ul style="list-style-type: none"> <li>Only assumes responsibility for non-discretionary administrative functions; no assistance provided to date in monitoring &amp; evaluating portfolio</li> </ul>
<b>Advice, Modeling &amp; Education (15)</b>	<b>14 points</b>	<b>10 points</b>
	<ul style="list-style-type: none"> <li>Multiple investment support, advisory &amp; educational services for participants &amp; plan sponsor (toll-free &amp; online)</li> <li>Self-directed brokerage option with CharlesSchwab, \$50 annual fee/participant</li> <li>Individually advised account option, 0.75 bps/participant</li> </ul>	<ul style="list-style-type: none"> <li>Less extensive investment support, advisory &amp; educational services</li> <li>Self-directed brokerage option with UVEST VantageBroker, \$50 set-up fee &amp; \$50 annual fee/participant</li> <li>Current option for more individually advised accounts is Morningstar Advice Online, \$35 annual fee/participant</li> <li>In 2007 this Morningstar Online option replaced with individually advised account option, 0.60 bps/participant for first \$25,000 invested w/reduced fee scale thereafter</li> </ul>
<b>Cost/Expenses (20)</b>	<b>16 points</b>	<b>16 points</b>
See above comments	<ul style="list-style-type: none"> <li>0.82% Estimated weighted average investment expense ratio (includes stable value fund)</li> <li>Diversified will "solve" for 0.60 bps of revenue, 0.10 of which could be used to fund a plan sponsor account option for third-party services</li> </ul>	<ul style="list-style-type: none"> <li>0.81% Estimated weighted average investment expense ratio (includes stable value fund)</li> <li>Issue whether there is a plan administration fee if 5-year exclusive contract &amp; 0.42 revenue realization provisos not met</li> </ul>



## ATTACHMENT 4

### ***City of Lawrence, Kansas 457 Deferred Compensation Plan***

#### ***Questions and Answers Notice to Change Providers***

Administrative Services staff and the Benefits Committee have completed review and evaluation of responses to the Request for Proposals regarding administrative, recordkeeping and investment services for the 457 Plan. In January 2007 we will be recommending the City Commission approve a change in the provider arrangement for these services.

As stated in our December 8 notice, we are holding information meetings between December 14 and January 5 about this proposed change in providers. Below are questions we have received and answered to date. If you have any other questions, please call or email Frank Reeb (832-3201), Lori Carnahan (832-3202), or Beth Frailey Krishtalka (832-3210), Administrative Services. We will post updates to these Questions and Answers on an ongoing basis on the City's Intranet under the 457 Plan link.

*Please note: we are still in the very early stages of the proposed change. Diversified staff will not be reviewing our Plan documents until after the recommendation is approved. In addition, Diversified will be depending upon getting complete and accurate information from ICMA-RC regarding all participant accounts. The following answers are based on the best information we have available at the present time. Assuming this recommendation is approved, there will be many materials and on-site informational meetings involving Diversified to keep you informed throughout the process.*

**December 21, 2006**

- Q1:** Who is the recommended new provider for Plan services?  
**Q1** We will be recommending the City change its 457 Plan provider arrangement from ICMA-Retirement Corporation (ICMA-RC) to Diversified Investment Advisors (Diversified). We anticipate making this recommendation to the City Commission at a January 2007 Commission meeting.
- Q2:** Does Diversified have a website I can look at for more information?  
**A2:** Yes, <http://www.divinvest.com>.
- Q3:** What kinds of assurances is Diversified giving the City in terms of establishing a long-term relationship with the City?  
**A3:** Diversified is a financially strong company with long-term experience in 457 and other retirement plans. In fact, its entire business is retirement plans. A proven

Benefits Committee: Lori Carnahan, Marlo Cohen, Tony De La Torre, Beth Frailey Krishtalka, Mike Hayes, Casey Liebst, Ed Mullins, Heidi Nelson, Ed Noonan, Ron Olin, Dave Pentlin, Stan Ray, Frank Reeb, Justin Rhoads, Craig Shanks, Troy Squire, Roger Steinbrock, Michael Tubbs, Debbie Van Saun, Scott Wagner

track record and financial stability have been important factors in the selection process. We anticipate being able to maintain a long-term relationship with Diversified.

**Q4:** Why aren't you recommending a choice of two 457 Plan providers?

**A4:** Recognizing our participants might be interested in having a choice, the Request for Proposals asked respondents to indicate any adjustments if they were selected as one of two rather than the sole provider. Few of the respondents were willing to submit a proposal for anything other than sole provider status, and those that did were not among the top group of respondents. As you probably already know, asset management and other fees tend to reduce or be eliminated as Plan assets increase. These cost savings can be significant and benefit all participants. If Plan assets were to be spread between two separate providers, costs savings would likely be adversely impacted. Cost savings and administrative ease are important reasons for having a sole provider. However, we were willing to consider alternative cost-effective proposals.

**Q5:** What criteria were used to evaluate responses to the Request for Proposals?

**A5:** The Request for Proposals contained the following evaluation criteria:

- Administrative & Record Keeping Services
  - Firm qualifications & experience
  - Implementation
  - Operational & legislative compliance
  - Statements & reports
  - Internet, voice response & call center
  - Quality control
  - Capacity to provide/coordinate with retirement health care savings plan
  - Cost/expenses
- Investment Fund
  - Firm qualifications & experience
  - Risk/return—3 & 5 years
  - Fund management
  - Net rate of return—3 & 5 years
  - Investment rating—trailing 3 & 5 years
  - Advice, modeling & education
  - Cost/expenses

**Q6:** On which areas did ICMA-RC score lowest?

**A6:** The ICMA-RC proposal was not competitive due to the 1) leased recordkeeping system, 2) proprietary investment funds, 3) limited fiduciary due diligence relative to other providers, 4) quality of enrollment materials and participant statements, 5) rates of investment return and 6) conditions placed on a proposed elimination of the current 0.29% asset-based plan administration fee (*i.e.*, remaining the exclusive Plan provider for five years and achievement of an investment revenue realization of 0.42% based on the existing fund portfolio.)

- Q7:** Would all participant account assets be transferred to Diversified?
- A7:** Yes, all Plan assets would be transferred from ICMA-RC to Diversified, including any accounts of former employees. This conversion process will occur through a trust to trust transfer.
- Q8:** What if I want to stay with ICMA-RC?
- A8:** You will not be able to stay with ICMA-RC and still be a Plan participant. All Plan assets will be transferred to Diversified if the recommendation is approved. Of course, if you are no longer employed by the City, you always have the option of requesting a distribution of your participant account assets or rolling those assets over into an IRA with ICMA-RC or elsewhere up until the final transaction date before the actual asset conversion occurs.
- Q9:** Will I be able to begin participation in the 457 Plan after the change to Diversified even if I'm not currently participating in the Plan?
- A9:** Yes. In fact, if you're eligible to participate now, we encourage you to enroll so that you can start taking advantage of this supplemental retirement savings program.
- Q10:** Will there be any changes to the Plan's distribution and withdrawal options if Diversified becomes the new service provider?
- A10:** We do not anticipate there will be any changes to the Plan's current distribution and withdrawal options. Those current options are described in more detail in Article VII of the Plan and Trust Document (posted on the City's Intranet) and in your ICMA-RC 457 Enrollment Kit.
- Q11:** What will happen if I am currently receiving a distribution from the Plan?
- A11:** Your account assets will transfer over to Diversified as part of the trust-to-trust conversion process. You will continue to receive your distributions in the option previously elected by you.
- Q12:** In terms of the transfer of Plan assets from ICMA-RC to Diversified, is there any difference for me if I am retired and not yet taking a distribution versus retired and taking a distribution?
- A12:** No. Any and all Plan assets will transfer as part of the conversion process.
- Q13:** Assuming the conversion occurs, can you tell me about Diversified's procedures for processing distributions for former employees? Specifically, how easy will it be to transfer my account assets out of the Plan, what is the paperwork process and what is the average turnaround time after I initiate a distribution request?
- A13:** Based on the RFP materials provided to us by Diversified, this is our understanding of the processing procedure. Diversified will send a distribution kit to a separated employee/participant immediately upon receiving notice from the City of the separation. The separated participant will need to complete the necessary forms and send them to Diversified. After receiving a distribution request, Diversified will review the forms to make sure everything has been properly completed and, assuming all appropriate forms have been completed, the distribution will be processed the same day the request is received.

**Q14:** Would Diversified continue to provide the quarterly participant statements we currently receive?

**A14:** Yes.

**Q15:** Will we still have the option of one-on-one monthly meetings with an account representative?

**A15:** Yes.

**Q16:** Will there be any charges for the transfer of Plan assets from ICMA-RC to Diversified?

**A16:** No participant account will be charged for any costs associated with the transfer. Diversified has informed us there will not be any charges imposed by it for the transfer. Of course, as always, market fluctuations could affect account balances at the time of actual asset transfer.

**Q17:** Are there surrender fees for the transfer of Plan assets?

**Q17:** ICMA-RC has informed us there are no surrender charges for the transfer of all Plan assets to a new provider as part of the conversion process.

**Q18:** Can you tell me more about the special transfer rules for Plan assets invested in the ICMA-RC PLUS Fund?

**A18:** Yes. The PLUS Fund is a stable value fund. It is invested in guaranteed investment contracts. Due to the liquidity of these investments, ICMA-RC reserves the right to transfer all Plan assets invested in the PLUS Fund to a new provider over 12 months depending on market conditions. This 12-month period only applies to the conversion of all Plan assets to a new provider. It does not apply to individual participant decisions to change their allocations among the available Plan investment funds.

**Q19:** Can you tell me more about the investment funds available through Diversified?

**A19:** Yes. Diversified offers a range of fixed income and equity fund options in the following market sectors: stable value, intermediate-term, balanced, large cap, mid cap, small cap, international and real estate. It also offers LifePath investment funds, which are asset allocation funds based on different investment time horizons. Diversified representatives will work closely with the Plan's Investment Advisory Committee to develop a portfolio of investment funds for the Plan. Once the Plan's new portfolio is established, detailed investment information will be provided by Diversified representatives and us at on-site meetings and materials. A Proposed Fund Array was included in Diversified's RFP materials and has been posted on the City's Intranet for informational purposes only.

**Q20:** What will happen to my current investment allocations?

**A20:** As part of the conversion process we will be establishing a new Plan investment fund portfolio with Diversified. This portfolio will contain investment fund options for the same market sectors available in the current portfolio with ICMA-RC,

although it is likely we will have fewer fund choices within each market sector. Participants will be informed about the new portfolio when it is established. Their current investments will be “mapped” over to the new portfolio so that they can see what the comparable investments would be.

**Q21:** What is fund mapping?

**A21:** “Fund mapping” is the process of identifying new investment funds that have similar characteristics to existing investment funds, with the goal of maintaining or improving investment returns (subject to market conditions of course). When we sent out the Request for Proposals, we included information about the Plan’s current investment portfolio and asked that proposals contain information about comparable investment portfolios. This was done partly so that we could get an idea about investment yields for comparison purposes and partly in the interests of minimizing disruptions to participants’ current investment allocations. Assuming our recommendation is approved, we will begin working closely with Diversified representatives to develop the new investment portfolio. Next, Diversified will identify the new investment funds that are most like the investment funds currently selected by each participant. Participants will then be given mapped information about which investment funds in the new Diversified portfolio most closely mirror their current investments with ICMA-RC.

**Q22:** Is fund mapping automatic?

**A22:** Not exactly. After participants receive the fund mapping information, they will have time to review the information. They will also have the opportunity to opt out of the suggested mapping and make their own investment allocation choices within the new Diversified portfolio. However, unless participants elect otherwise within a specified period of time, their investments will be transferred into the new mapped investment funds.

**Q23:** The “Investment” section of the Diversified Questions & Answers flyer mentions a “window option that allows participants to select investments from more than 2,500 publicly traded and individual securities available through Charles Schwab & Company.” Can you tell me more about this?

**A23:** Yes, this is the self-directed investment option called the “Personal Choice Retirement Account.” It is offered by Diversified to participants through an arrangement with Charles Schwab. Participants electing this option are charged an annual fee of \$50. This self-directed option enables a participant to invest in publicly traded and individual securities in addition to the investment funds available in the to-be-established Plan investment portfolio with Diversified. It is similar to the VantageBroker Self-directed Brokerage Service available to participants through ICMA-RC.

**Q24:** Will information be provided to participants in making investment decisions with their account assets during this conversion?

**A24:** Yes. We anticipate ongoing and substantial support from Diversified for both participants and Administrative Services staff, both in terms of mailings and on-site meetings throughout the conversion process. In addition, participant support services at no charge will be available through Diversified Direct (online

and toll-free access) and Participant Advisory Services counselors. See [http://www.divinvest.com/participants/en/learnaboutinvesting\\_reviewchoices.jsp](http://www.divinvest.com/participants/en/learnaboutinvesting_reviewchoices.jsp) for more general information. You may also want to consult with your own financial advisors.

**Q25:** What kind of individualized advice will I be able to get regarding how to get the best return on my participant account investments?

**A25:** General investment information will be provided through future Diversified materials, on-site meetings and online/toll-free services as described above. More individualized investment advice will be available under the Diversified Managed Account, an arrangement available to participants through Diversified's alliance with Ibbotson Associates. There is a fee of 0.75% for participants enrolling in this optional investment advice service.

**Q26:** What is this "blackout period" I keep hearing about?

**A26:** In order to allow for an accurate and orderly conversion of Plan assets, there needs to be a short period of time—sometimes called the blackout or frozen period—during which participants cannot not change their investment allocations or distribution elections. This gives both the current provider and the new provider the time and continuity they need to make sure all assets are accurately identified, transferred, received, mapped and invested to the new investment funds. As required by law, you will be given at least 30 days notice before this blackout period will start.

**Q27:** How long will the blackout period last?

**A27:** It is difficult for us to provide an exact time frame for this period because the actual length of time depends on the accuracy and completeness of the data Diversified receives from our current provider as well as other factors. The entire blackout period is estimated to last a little more than three weeks, as indicated in the simplified Diversified timeline posted on the City's Intranet. The actual transfer of Plan assets will occur during the middle of this period. If we receive approval to move forward with the provider change, there will be a very detailed timeline covering the entire period from January 2007 until July 2007 listing all the many tasks to be completed as part of the conversion.

**Q28:** What happens to my participant account assets during the blackout period?

**A28:** Throughout most of the blackout period, your account will be fully invested and continue to be credited with any investment gains and losses. Also, during this period, payroll contributions will be received and processed as normal. In order for the transfer to occur, all Plan assets in ICMA-RC investment funds will be need to be liquidated, the liquidated funds will be wire transferred to Diversified and then reinvested in the appropriate Diversified investment funds. During the actual transfer period, the assets will need to be out of the market, but only for a very short period of time.

**Q29:** How soon after the transfer can I access my account?

**A29:** You will be able to access your account as soon as Diversified has fully reconciled all Plan accounts. Based on the proposed timeline we've posted on the Intranet,

you should be able to access your account no later than two weeks after Plan assets are received by Diversified.

**Q30:** Does Diversified offer supplemental IRAs?

**A30:** Yes, Diversified offers Traditional Tax-Deductible and After-Tax IRAs and Roth IRAs. Diversified also offers Rollover IRAs for plan participants who are leaving their employer and want to roll over their account assets into an IRA. See [http://www.divinvest.com/participants/en/diversifiedira\\_whyaddanira.jsp](http://www.divinvest.com/participants/en/diversifiedira_whyaddanira.jsp) for IRA information.

**Q31:** I have a supplemental IRA with ICMA-RC. It's not part of my Plan participant account. Will I be able to roll that over to Diversified?

**A31:** Yes, but that would not be part of the transfer of 457 Plan assets from ICMA-RC to Diversified. Instead, you would need to make the necessary arrangements on your own with Diversified for this to occur.

**Q32:** Does Diversified offer 529 college savings plans?

**A32:** Diversified does not offer a 529 college savings plan product, but it does have an arrangement with Alliance Investments through which it could make such a product available. In the meantime, if you are interested in learning more about 529 plans generally, please contact Jennifer Pereira in the Personnel Office (832-3204) for information on programs here in Kansas.