



Metropolitan Water Reclamation District of Greater Chicago

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Title: Authorization to enter into an agreement for Contract 19-RFP-04 Deferred Compensation Plan Administrative Services with the Variable Annuity Life Insurance Company, for a five-year period, effective January 1, 2020 to December 31, 2024

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TRANSMITTAL LETTER FOR BOARD MEETING OF AUGUST 8, 2019

COMMITTEE ON PROCUREMENT

Mr. Brian A. Perkovich, Executive Director

Authorization to enter into an agreement for Contract 19-RFP-04 Deferred Compensation Plan Administrative Services with the Variable Annuity Life Insurance Company, for a five-year period, effective January 1, 2020 to December 31, 2024

Dear Sir:

Authorization is requested to enter into an agreement with the Variable Annuity Life Insurance Company to provide deferred compensation plan administrative services for a five-year period from January 1, 2020 through December 31, 2024.

On January 30, 2019, Request for Proposal 19-RFP-04, Deferred Compensation Plan Administrative Services was publicly advertised. Forty-six (46) firms were notified and twenty (20) requested proposal documents. On March 1, 2019, the District received five (5) responsive proposals from the following vendors: Great-West Life and Annuity Insurance Company; Massachusetts Mutual Life Insurance Company; Nationwide Retirement Solutions, Inc.; Voya Institutional Plan Services, LLC; and the Variable Annuity Life Insurance Company.

The proposals were evaluated by the District's investment consultant from Segal Marco Advisors. The criteria for this evaluation was outlined in Request for Proposal 19-RFP-04 and included: quality and performance of the stable value product offering; commitment to on-site support, employee communication and education and website capabilities; data management and recordkeeping services; call center services; size, resources and experience of the provider; trust and custodial services; and overall cost structure. Following the preliminary evaluation of proposals, excluding cost, all five proposers were deemed to be finalists and were invited to the finalist interviews.

Finalist interviews were held on June 12, 2019 and June 13, 2019. Interviews were conducted by the District's

investment consultant and the Deferred Compensation Committee. The Deferred Compensation Committee consists of Commissioner Frank Avila, Chairman of the Committee on Finance; Mary Ann Boyle, Treasurer; and Beverly K. Sanders, Director of Human Resources. A solicitation was sent to each finalist on June 21, 2019 for an unqualified “best and final” offer. The “best and final” offers were returned to the Director of Procurement and Materials Management on June 28, 2019. A cost analysis based on the “best and final” offers was conducted by the District’s investment consultant.

Based on the evaluation of the proposals using the criteria described above and the pricing provided in the “best and final” offers, the Deferred Compensation Committee has recommended that a contract for deferred compensation plan administrative services be awarded to the Variable Annuity Life Insurance Company. In order to leverage the resources and brand recognition of its parent company, the Variable Annuity Life Insurance Company operates under the brand name AIG Retirement Services. AIG Retirement Services received the highest overall score among the proposers and provided the lowest overall cost. It is a Fortune 500 company with brand recognition in the defined contribution retirement industry. It has been providing administrative services for defined contribution plans for over 50 years with approximately \$67.3 billion in assets under management. This includes \$7.86 billion in public sector plan assets under management with 1.9 million participants across 2,255 government entities.

The AIG Retirement Services client service team assigned to the District will be primarily Chicago-based and are a very experienced team with each member having more than 15 years of experience in their role. Their service model is a high-touch approach supported by comprehensive retirement planning and asset allocation tools. AIG Retirement Services is assigning three on-site representatives to provide education and assistance to participants five days each week at the various District locations. These representatives will be certified financial planners allowing them to provide professional financial advice and guidance, which will be a valuable added service for plan participants. The on-site representatives will be local and can be utilized for one-on-one meetings, group seminars, open enrollment meetings and other educational events as needed throughout the contract. In addition, a robust participant website and mobile app will be provided with self-service features and a robust suite of retirement education tools and materials. DALBAR, one of the nation’s leading financial services market research firms, ranked the AIG Retirement Services participant website as #2 in the industry in 2018.

The stable value product recommended to the District is the VALIC Fixed Interest Option, a General Account fund. AIG Retirement Services currently has \$44.9 billion in stable value assets under management including \$43.1 billion in this fund. The net interest rate earned by participants invested in this fund in 2020 will be 2.75% guaranteed which is significantly higher than the current interest rate of 2.20%. The net interest rate for subsequent years will be declared quarterly with a guaranteed minimum interest rate of 2.60% throughout the contract. The fund has a favorable exit provision allowing payment of all assets invested in this fund at book value with a 12-month notice. District participants currently have approximately \$74 million in assets in the stable value fund that will be transitioned to the VALIC Fixed Interest Option.

The administrative fees for the plan are paid by plan participants as part of the management fees on their investment selections. AIG Retirement Services fee for administrative services is 2.5 basis points, a reduction of 50% from the current fee of 5 basis points. This administrative service fee is projected to be approximately \$67,000 annually based on current plan assets.

Finally, AIG Retirement Services has provided a fully-developed transition plan. The 12-week estimated time for implementation will allow for a January 1, 2020 “go live” date. AIG Retirement Services has experience transitioning plans from the District’s current provider, Prudential Retirement Services. The implementation plan includes a comprehensive communication strategy that will leverage the on-site representatives for introductory meetings. The goal will be to educate participants regarding the new platform and generate excitement about the new retirement planning tools and resources for managing their retirement account.

The Diversity Section reviewed the request for proposal and concluded that Affirmative Action goals are not

applicable for this contract. The costs associated with these services are assessed as part of the mutual fund management fees paid by the individual participants. There are no direct costs paid by the District for these services. Affirmative Action participation goals are only applicable to proposals where the total estimated expenditure exceeds \$100,000.00.

In view of the foregoing, the Deferred Compensation Committee recommends that the District enter into an agreement with the Variable Annuity Life Insurance Company (operating under the name AIG Retirement Services) to provide deferred compensation plan administrative services for a five-year period from January 1, 2020 through December 31, 2024.

Requested, Frank Avila, Chairman Committee on Finance; Mary Ann Boyle, Treasurer; Beverly K. Sanders, Director of Human Resources

Recommended, Darlene A. LoCascio, Director of Procurement and Materials Management

Respectfully Submitted, Barbara J. McGowan, Chairman Committee on Procurement

Disposition of this agenda item will be documented in the official Regular Board Meeting Minutes of the Board of Commissioners for August 8, 2019