MEMORANDUM

Date: February 17, 2016
To: State of Delaware Deferred Compensation Council, Office of the State Treasurer
From: Cammack Retirement Group
Re: State of Delaware RFP Process: Recommendation of Service Model and Vendor

I. Introduction

The State of Delaware currently sponsors three defined contribution retirement plans, the 457(b), the 403(b) and a frozen 401(a) plan.

457(b) Plan

- The 457(b) plan uses one vendor, Fidelity Investments ("Fidelity") and covers State of Delaware employees who are pension eligible, excluding casual and seasonal employees.
- Employees eligible for the 403(b) plan are also eligible to participate in the 457(b) plan.

401(a) Plan

- The 401(a) match plan is a "frozen" plan that is identical in features to the 457(b) plan and also uses Fidelity as the sole vendor.

403(b) Plan

- The 403(b) plan covers employees from all 20 public school districts in the State of Delaware, Delaware State University, Delaware Technical and Community College, as well as the Delaware Department of Education.
- Currently there are 15 vendors holding plan assets with 13 actively receiving salary deferral contributions. A common remitter distributes employee contributions to the appropriate vendor(s) to fund participant accounts.
- The 403(b) plan assets are predominately held through individual contracts; only $37.6 million of the $339 million are held in group contracts that are free of surrender charges.

Summary of Plan Balances
As of March 31, 2015

Plan	Assets 3/31/2015		Annual Contributions		Eligible Employees	Accounts with a balance as of 3/31/2015	Accounts actively receiving contributions as of 3/31/2015
457(b)	$559,000,000	61%	$37,000,000	64%	38,950	16,629	12,391
403(b)*	$339,000,000	37%	$20,900,000	36%	18,000	7,300	5,700
401(a)	$22,700,000	2%	N/A	-	N/A	11,600	N/A
TOTALS	**$920,700,000**	**100%**	**$57,900,000**	**100%**	**56,950**	**23,929**	**18,091**

Please note that all figures presented are approximations
*Approximately $39M of 403(b) assets are held in group contracts free of surrender charges.

II. Selection of Cammack Retirement Group

Cammack Retirement Group ("Cammack Retirement") was selected by the Office of the State Treasurer ("OST") and the Deferred Compensation Council ("DCC") in April 2015. Under the engagement, Cammack Retirement:

- Evaluated both the 457(b) and 403(b) plans in terms of participant engagement and administrative complexity
- Recommended a course of action to improve the Plans both for participants, as well as improved administration to reduce time and cost spent by the OST
- Assisted with the evaluation of the received proposals and act as a subject matter expert for members of the OST and DCC
- Helped develop plan performance benchmarks
- Performed a fee analysis to determine competitiveness of the vendors currently providing services to the State
- Conducted a formal Request for Proposal ("RFP") process to solicit capable firms that can provide recordkeeping/administration, general participant services to large, governmental organizations

III. The RFP Process

The information below outlines key tenants of the Office of the State Treasurer ('OST') and the Deferred Compensation Council ('DCC') in conducting the RFP.

1. Improve the participant experience:

    - Implement strategic communication/education program designed to engage participants in the retirement planning process.
    - Offer web-based tools, technology and mobile applications to allow participants to manage their accounts and see a complete view of all benefits, encourage plan participation and promote retirement readiness.

2. Reduce costs borne by participants:

    - Consider consolidating assets where possible to enhance purchasing power and enable prospective vendors to quote reduced administrative costs.
    - Transition away from underutilized and expensive annuity products to reduce overall investment expenses.

3. Ease the overall administrative burden and cost of the program for OST

    - Implement full transactional outsourcing - e.g. approval of hardships, withdrawals, etc. (Note: only available if a single provider is used) to reduce administrative work associated with current program.
    - Improve the cumbersome and costly audit requirements associated with the current plan structure.

4. Develop a streamlined investment array

    - Improve participants' ability to understand the plan program and features and streamline the investment array to encourage plan participant and promote retirement readiness.
    - A reduction in the number of funds reduces the fiduciary burden of the DCC by allowing for a more efficient due diligence process.

IV. RFP Timeline of Events

- On August 28, 2015, the State of Delaware Office of the State Treasurer ("OST") issued a formal Request for Proposal ("RFP") for defined contribution administration / recordkeeping services for the three plans. Bidders were asked to submit proposals based on two scenarios:

    - Scenario I: Vendors will submit a bid to provide recordkeeping / administrative services as a single vendor for the 457(b) plan, 403(b) plan, and frozen 401(a) plan.
    - Scenario II: Vendors will submit a bid to provide recordkeeping / administrative services as a single vendor for the 457(b) / 401(a) plan and as one of no more than three vendors offered under the 403(b) plan.

- The RFP requested the vendors to provide the following service capabilities:

    - Administration, recordkeeping and custodial trustee services
    - Employee communication/education
    - Plan compliance services
    - An investment management platform along with investment advisory / managed account / self-directed brokerage services

- On October 7, 2015 the OST received proposals from nine (9) vendors:

    - Scenario I: Eight (8) vendors submitted proposals

    - Scenario II: Seven (7) vendors bid to provide services as a single vendor for the 457(b) / 401(a) and as one of no more than three 403(b) vendors. Six (6) vendors bid as one of the three vendors to provide services to the 403(b) plan.

Proposals Received			
Vendor	**Scenario I**	**Scenario II: Part I** ***Single vendor for 457(b)/401(a) and one of three vendors for 403(b)***	**Scenario II: Part II** ***One of three vendors for the 403(b)***
AXA Advisors*	✔	✔	✔
Fidelity**	✔	✔	✔
Horace Mann*	✕	✔	✔
Lincoln Financial Group*	✔	✕	✕
MassMutual*	✔	✔	✔
MetLife*	✔	✔	✔
TIAA-CREF	✔	✕	✕
VALIC*	✔	✔	✔
Voya*	✔	✔	✕

**One of several incumbent vendors for the 403(b) Plan*
***Fidelity is sole vendor for the 457(b) and 401(a), and one of the incumbent vendors for the 403(b) Plan*

- From July 2015 to December 2015, several meetings were held with key stakeholders including legislators, members of the NTSA and DSEA and members of the public to discuss the retirement plans and the RFP process.

- On January 14th and 15th, two hour finalist presentations were conducted with the following seven vendors:

- Lincoln
- Fidelity
- MassMutual
- MetLife
- TIAA-CREF
- VALIC
- Voya

- Additional due diligence was completed with three selected finalists, Fidelity, TIAA-CREF and Voya during the week of January 18th. This included website demonstrations of participant and plan sponsor sites, reference checks of both active and terminated clients and the request of responses of clarifying questions surrounding service proposals.

After a thorough and thoughtful procurement process as outlined above, Cammack Retirement is putting forth the following recommendations to the DCC and the OST:

V. Recommendation 1 – Selection of the single vendor solution

Cammack Retirement recommends that the DCC and OST select one vendor to provide services to the three defined contribution plans (401(a), 403(b) and 457(b).) This recommendation is for the following reasons:

1. **Overall participant/employee experience:** Though investments and plan design are foundational elements of a defined contribution plan, the majority of a fiduciary's time should be spent effectuating positive change through proper and prudent communication and education to plan participants and employees. It is significantly easier for a participant to understand and enroll in a retirement program using a single vendor model.

   Under such a model, participants will have a single call center, website, consolidated account statement and additional tools to help them manage their assets and assess their ability to retire. The communication/education campaign would be an outcomes driven program run by the selected vendor and overseen by the State.

   The participant experience would be most greatly improved through a single vendor model; a limited multi-vendor model would reduce confusion, but would not offer the retirement readiness, communication/.education campaign capabilities of a single vendor.

2. **Plan Expenses:** Recent legislation surrounding excessive investment and administrative expenses indicates an increased focus on fees and fee transparency by Federal regulators.

   - Investment fees: Current investment and administrative fees range from an approximate weighted average of 0.65% in the 457(b)/401(a) to an approximate average of over 2.25% for variable annuities offered in the 403(b) (depending on the vendor.)
   - Recordkeeping fees: The revenue needed by each vendor to administer the plan is only established with the 457(b)/401(a) vendor and one of the 403(b) vendors.

   Fees are an important driver in determining the retirement readiness of individual participants. A multiple vendor scenario, even one that reduces the number of 403(b) vendors to a more manageable 3 to 5 adds unnecessary cost and burdens plan participants with unnecessary fees. Implementation of Scenario I is the most attractive service model from a fee perspective, even when balanced against the potential disruption of a transition to a single vendor.

3. **403(b) regulations and overall fiduciary responsibility:** As a result of the 403(b) regulations, the DCC has a responsibility to review and evaluate the Plans, available investment options,

associated service providers, assess the reasonableness of plan fees and to act in the best interest of plan participants and employees.

A significant reduction in 403(b) vendors will allow the DCC to most effectively manage its fiduciary responsibility, administer the plan with minimal compliance issues and ensure fees are reasonable in light of services provided.

4. **Plan administration and cost of the program for OST:** Full transactional outsourcing - e.g. approval of hardships, withdrawals, etc. is only available if a single provider is used. Additionally, a single provider model significantly reduces time and taxpayer cost associated with completing annual plan audits and ensuring that the plan is administered per the plan document.

   Ensuring the selected vendor administers the program per the plans' documents, outsourcing services and administrative costs are most effective under a single vendor model.

Though the single vendor service model is the recommended approach, it is incumbent upon the State and the DCC to recognize some of the challenges that exist and will need to be overcome as a result of a planned transition.

- Data needed to outsource functions to the vendor requires commitment of payroll and internal resources. Depending on the vendor selected, an implementation will require significant OST/Board resources from April – August 2016

- The selected fixed product may have lower guaranteed rate than some existing fixed options. Approximately $61M (18%) of 403(b) assets are held in fixed annuity contracts for additional details.

- The ongoing investment array will not include many of the current investment options and variable annuity funds.

- Vendors may react to being eliminated.

- Legacy vendors will continue to hold plan assets held in individual contracts.

VI. <u>Recommendation 2 – Select VOYA Financial as the single vendor</u>

Cammack Retirement independently reviewed and evaluated vendor proposals for the three finalists – Fidelity, TIAA-CREF and Voya. A summary of the overall cost and scoring is included in the Appendix.

Though each of the vendors had significant strengths, Voya separated itself in four key areas that would best meet the needs of the OST, DCC and the State long term:

1. **Knowledge and experience in the governmental 457, 401(a) and 403(b) marketplace and knowledge of the State of Delaware.** The current vendor service model is disparate. Voya demonstrated its knowledge and experience working with governmental entities of all shapes and sizes, and inclusive of a multitude of plan types. Further, their senior leadership team has been further solidified by Charlie Nelson's arrival as president of the retirement division. Nelson developed Great-West's (now Empower's) governmental business over a 30 year period, and he and his team seem poised to continue that effort with Voya. Recent wins in Indiana, and CALSTRS, have supported the thesis that the organization is committed to providing services to the governmental market, especially State retirement plans. Voya currently serves as a vendor in the 403(b) plan, and therefore has knowledge of working with the State. They also have billboards in the State so brand awareness should not be an issue.

2. **Relationship management team.** Voya's relationship manager, Kasi Boyles, demonstrated her experience and knowledge during the finalist presentations. Throughout the presentation, she

showed command of the major issues – administration/recordkeeping, technology, communications and education – considerable poise in leading an experienced team, as well as intimate knowledge of the geography of the State of Delaware. Though she lacked the tenure of some of her counterparts at the other firms, long term she is the best fit to deliver the kind of high-level service the State desires from its partner vendor. On an ongoing basis Voya has proposed putting 20% of its fees at risk annually through service performance guarantees.

3. **Commitment to technology, infrastructure development, and website tools and calculators.** Participant/employee communication and education is a key tenet of any defined contribution retirement plan. Voya demonstrated its commitment to integrating the latest technological innovations in the financial services industry in to its efforts to ensure that it offers a well rounded arsenal of tools to its clients. The demonstration of the "Orange Money" website provided insight in to how future State of Delaware enrollment and participation campaigns can be executed and the level of reporting available to the OST and DCC. The ability to enroll employees with a mobile device will allow OST members, and field representatives to more effectively drive plan results.

4. **Experience of the service team.** The implementation manager was particularly strong both in the paper proposal and in the finalist presentations. He demonstrated his knowledge of plan conversions, including the many pitfalls that can beset even the best transition. Having performed over 95 transitions from Fidelity shows a deep level of experience that was not as well matched by the other competing firms. Having this level of knowledge and experience will best ensure that a plan transition is executed effectively, and on time. For an additional fee Voya will provide a reimbursement up to 3% to participants who transfer from legacy vendors within the first 12 months to help incentivize the movement of participant balances at legacy inactive providers. Additionally, an enhanced implementation guarantee of $25,000 was offered to ensure the transition is implemented smoothly.

Voya clearly represents the optimal solution for the State of Delaware, but as illustrated above under recommendation number 1, the selection of an alternative vendor necessitates a plan transition. This plan transition will require considerable OST, technology and payroll resources to minimize disruption and ensure a positive transition experience for the State and its employees.

If State resources are an issue, Fidelity represents a safe alternative. Though not as strong in the areas listed above, changes could be made to further strengthen the relationship management team to improve upon the effectiveness of the relationship overall.

APPENDIX

Summary of Overall Costs

	Required revenue is not contingent on the use of proprietary funds			
	Scenario I			
	Required Revenue Per Plan %	**Number of FT Field Representatives**	**Total Estimated Expenses Over Life of Contract (5 Years)**	**Ranking of Total Expenses (Low to High)**
Fidelity	0.165%	3	$4,991,250	3
TIAA-CREF	0.140%	3[1]	$4,235,000	1
Voya	0.150%	3[2]	$4,537,500	2

Notes:

1 If the State elects 2 full time field service representatives the fee will reduce to 0.12%/$41 per participant with a balance

2 Voya has proposed 3 full time field service representatives and 1 part time representative. An additional full time representative cost 0.01%/$2.50 per participant

Overall Scoring

Vendors were scored based on their overall proposal (65 points), finalist presentation (15 points), technology demonstration (5 points) and follow up questions (15 points).

Cammack Retirement Group				
Vendor Scores				
	Weight	**Fidelity**	**TIAA-CREF**	**Voya**
RFP Proposal	65	55	57	54
Presentation	15	12	12	13
Demo	5	4	3	5
Follow Up Questions	15	14	12	14
Final Score	**100**	**85**	**84**	**86**

Terminated Reference Calls

Though not incorporated in to the overall scoring, members of the Cammack Retirement team conducted terminated reference calls. Details of those calls are outlined below:

Fidelity
City of Arvada

- The City undertook a search to review and evaluate vendors in 2009 for all three of the City's Plans.
- Fidelity had been the incumbent for over 10 years and there was no intention to replace Fidelity initially. They had been performing well, and the relationship management team had been sufficiently handling the scope of services.
- Fidelity was perceived as willing to make the necessary investment in resources and time to improve the program overall, including administrative efficiencies and employee education.
- Key drivers of the search included (1) fees, (2) field representation and (3) self-directed brokerage fund availability.
- The Trustees narrowed the field of respondents to two vendors – Fidelity and Great-West (now Empower).
- Great-West appeared more "hungry" and willing to compete for the business.
    - Their fee was extremely attractive. Fidelity was not willing to compete on price.
    - The education service model – on site field representatives – was something that was perceived as attractive.
    - The Great-West self-directed brokerage option had a broader fund offering.
- The City selected Great-West to replace Fidelity on all but one Plan. The Police Plan was extremely happy with the service offering, and decided that it offered more value relative to the lower cost offered by Great-West.
- The Fidelity relationship management team was extremely helpful pre- and post-transition.
- "If the City were to go out to bid again, Fidelity would still be in the running."

TIAA-CREF
Purdue University

- The University undertook the search process as a direct result of the 2009 403(b) regulatory changes that became effective on 1/1.
- The Committee consisted of professors and administration and were "knee-deep" in reviewing and evaluating the proposals and assessing the vendors.
- Key objectives of the search included (1) lower and transparent fees, (2) streamlined administration and (3) full array of non-proprietary investment offerings
    - The University felt that offering proprietary investments presented a clear conflict of interest and therefore wanted to expand to brand name managers outside of the offerings of the provider.
- Fidelity was selected as the provider with a contract effective date in 2011.
  TIAA-CREF maintained $2.8 billion in assets as funds were not mapped during the time of transition. All new contributions were mapped.
  The University determined that a flat dollar fee would be the approach to charge participants on a go-forward basis.
- TIAA-CREF did not have the flexibility on its platform to offer as many outside mutual funds as its competitors. The self-directed brokerage option at the time did not have as many fund offerings.
- Overall, though it did not select TIAA-CREF as the provider going forward, the University and Administration were satisfied with TIAA-CREF services, including administration of the Plan. TIAA-CREF fully cooperated during the transition to Fidelity.

Voya
State of Hawaii

- The State's contract expired June 30, 2013. The contract originated in 2003 with CitiStreet (CitiStreet was acquired by ING in 2009.)
- "Evolution of the Plan was great."
    - "Took the Plan to another age."
    - More functionality
    - Great communications and outreach to plan participants.
    - Great relationship manager.
- The entire Board is the evaluation Committee. The key objectives of the search were (1) vendor qualifications, (2) experience and (3) fees and transparency.
- Following a review of proposals, VOYA's fees were higher than its competitors, ultimately resulting in a loss of the client. The bid was protested by employees.
- VOYA fully participated in the transition to the new vendor.
- Key lessons or takeaways:
    - Transition: really helpful to have lots of EE meetings and to spend time with pre-rollout communications meetings
    - Given the geographic make up of Hawaii, it was important to have multiple meeting sites on all the major islands
    - Take advantage of newer technology – webinars, videos and mobile – to reach as many people as possible.