BOARD OF SUPERVISORS AGENDA ITEM REPORT

Requested Board Meeting Date: September 5, 2017

Title: Pima County Employee Benefits - Deferred Compensation Plan

Introduction/Background:

Pima County has approximately 6,100 benefits eligible employees of which 1,496 participate in a deferred compensation plan. The County currently offers the following three plans:

- National Association of Counties (NACO), administered by Nationwide
- International City/County Management Association (ICMA), administered by ICMA-Retirement Corporation
- Prudential, administered by Retirement Plan Advisors.

Human Resources and the Procurement departments evaluated what would be advantageous within a deferred compensation plan and whether the existing plans could be modified. A key feature of most current plans is to provide participants with an open architecture structure, giving them the ability to invest not only in the core financial products but also in the full line of both the plan administrator's and competing firms' financial products. The current three Pima County plans do not have this option.

Discussion:

As detailed in the attached memorandum, Pima County essentially has four options available to provide a deferred compensation plan as a personal benefit to its employees. The options are:

1. Keep the existing plans in place;
2. Issue an RFP for one new plan to replace the existing plans;
3. Consolidate the existing three plans into one plan;
4. Transition into the Arizona State Retirement System (ASRS) plan.

If the County decides to maintain its own plan(s) by choosing any of the first three options, the County will need to establish a deferred compensation board to oversee financial performance of the plan(s) as the County has a fiduciary responsibility to ensure that the plans are performing at an appropriate level. Although the County currently has this responsibility, we have not been evaluating plan performances as we should. A deferred compensation board would generally consist of County management representatives and representatives of plan participants.

Conclusion:

Staff believes the best option is for the County to participate in the ASRS 457 plan, which was recently awarded to Nationwide following a competitive solicitation. Due to the economies of scale, it provides more favorable fees to our employees than we would experience in any other plan we would be able to maintain independently. Joining the ASRS plan would also transfer the fiduciary responsibility to oversee plan performance from the County to the State. The State plan already has a review board in place to oversee its deferred compensation plan.

Because the County's current Nationwide plan has been in place for approximately 30 years, there is one option available in that plan, a guaranteed fixed rate of 3.5 percent account, that is not available in any of the other plans, including Nationwide's plan with ASRS or any new plan available on the market. Because that is a much more favorable option than any of the other plans, elimination of that component would negatively impact members in that plan if the County establishes a new plan. Staff recommends that, if the Board chooses option 4, to join the ASRS plan, monies already deposited in the 3.5 percent fixed account with Nationwide be grandfathered to allow the funds to remain in that account. Nationwide has indicated it would agree to such an arrangement.

Recommendation:

Human Resources recommends that the Board end the current three plans and join the 457 Deferred Compensation plan offered by the Arizona State Retirement System, while maintaining existing accounts in the 3.5 percent fixed account with Nationwide.

Fiscal Impact:

None

Board of Supervisor District:

☐ 1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☒ All

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PIMA COUNTY
HUMAN RESOURCES

MEMORANDUM

Date: July 12, 2017

To: C.H. Huckelberry
County Administrator

From: M. Allyn Bulzomi, Director
Human Resources

Re: Deferred Compensation

Pima County currently offers three different deferred compensation plans as a personal benefit to employees. The plans offer employees a means to defer taxation on some income by investing in an eligible 457 Deferred Compensation plan. The County currently offers the following three plans:

- National Association of Counties (NACO), administered by Nationwide
- International City/County Management Association (ICMA), administered by ICMA-Retirement Corporation
- Prudential, administered by Retirement Plan Advisors.

As shown in Table 1, NACO (often referred to as Nationwide) is the plan having the most Pima County employees participating.

Table 1.

	Number of Participants	Percent Participation
Nationwide	906	61 percent
ICMA	328	22 percent
Prudential	262	18 percent
Total	1,496	

In October 2016, Human Resources had all three plans reviewed by our insurance consultant, CBIZ, and recommended the County begin to offer only one plan to employees. Based on the attached CBIZ report, Human Resources and Procurement evaluated what would be advantageous to have within a deferred compensation plan and whether the existing plans could be modified. Each of the three plans has different investment options for plan participants and each has a different fee structure. Although Pima County pays for none of the charges, the County is responsible for designing and administering the plans and naturally wants our employees to pay as little as possible in fees. It is unusual for an employer to offer its employees multiple choices of plans, and the recommendation of CBIZ, Human Resources and Procurement was to have only one plan, and for that plan to provide participants with the features of an open architecture structure, giving participants the ability to invest not only in the core financial products but also in the full line of both the plan administrator's and competing firm's financial products. The current three Pima County plans do not have this feature.

In 2016, the State of Arizona issued a Request For Proposals (RFP) to replace its own deferred compensation plan, and Procurement recommended waiting to see the results of that competitive selection process. The Arizona State Retirement System (ASRS) deferred compensation plan was designed to allow other jurisdictions, such as Pima County, to become participants in the plan. The ASRS plan that was initially selected from the competitive process in late 2016, however, was significantly more limited in its features than what staff believed would most benefit County employees. Based on those limitations, Human Resources and Procurement recommended Pima County conduct its own competitive selection of an administrator for a single deferred compensation plan for County employees. Human Resources worked with Procurement to develop an RFP, but before issuing the RFP, the ASRS plan improved to include many of the features Pima County was seeking. The improved selection of core offerings became available May 16, 2017. Human Resources and Procurement were in the process of making a recommendation to the County Administrator to have Pima County join the ASRS plan as a participating agency. At the same time, during the Board of Supervisors Budget Hearing on May 18, 2017, Chair Bronson requested that the decision about the procurement of a new deferred benefit plan be brought to the Board of Supervisors. Pima County essentially has four options available to provide a deferred compensation plan as a personal benefit to its employees. The four options are described below along with the advantages and disadvantages of each. The first three options involve the County continuing to have its own County plan(s). The fourth option involves joining with the ASRS plan. If the County decides to maintain its own plan(s), the County will need to establish a deferred compensation board to oversee financial performance of the plan(s) as the County has a financial responsibility to ensure that the options are performing at an appropriate level. Although the County currently has this responsibility, we have not been evaluating plan performances as we should. A deferred compensation board would generally consist of County management representatives and representative of plan participants.

1. <u>Status Quo</u> – The first option would be to leave all three plans in place, each with different options and fee structures. The advantage of this option is that it has no disruption to employees' current plan choices. However, the best practices for 457 plans is to offer only one to employees. The disadvantages include:
   - <u>Overwhelming amount of choices</u> - Employees currently have so many choices available now that it is very difficult to make educated decisions on what options best meet their needs.
   - <u>Fees</u> - With three plans, employees are paying higher fees than if there were only one plan option.
   - <u>Fiduciary Responsibility</u> - The County would need to establish a deferred compensation board to oversee plan performances.

2. <u>Develop a Request for Proposal (RFP) for having only one plan.</u> While this option eliminates the overwhelming amount of options available and would reduce the current fee structure, it does not eliminate the need to establish a board for oversight and management. Although the outcome would likely reduce costs to employees, the potential fees would

not be expected to be lower than those provided through the ASRS plan, which has a much larger participation base.

3. Close down two of the current plans and offer only one plan. This option would save the efforts involved with the procurement process, reduce the confusing number of options and provide a more favorable fee structure. This option would not eliminate the County's fiduciary responsibilities requiring establishment of an investment board. As discussed below, Nationwide would seem to be the most suitable company if this option is selected. The Board would need to terminate the ICMA plan and the Prudential plan and migrate the employees participating in those plans into the existing NACO plan with Nationwide.

4. Transition current enrollments to the ASRS 457 plan. A fourth option is to have the County participate in the ASRS 457 plan, which was recently awarded to Nationwide following a competitive solicitation. Due to the economies of scales, it provides more favorable fees to our employees than we would experience in any of the options mentioned above. Even more importantly, it transfers the fiduciary responsibility from the County to the State. The State plan already has a Board in place to oversee its deferred compensation plan. Nationwide already covers 61 percent of County participants. Although staff originally was recommending against joining the ASRS plan, the plan with the State was recently enhanced by adding a fixed rate option that is currently at 2.59 percent (although this rate is not guaranteed) similar to the option described below as well as several new investment options, so that it now would be a suitable option for our employees.

Because the County's Nationwide plan has been in place for approximately 30 years, there is one option available in that plan that is not available in any of the other plans, including Nationwide's plan with ASRS or any new plan that Nationwide may propose. There is a guaranteed fixed rate of 3.5 percent option available that needs special attention. This allows participants to place their funds in a guaranteed fixed rate investment yielding 3.5 percent. Because that is a much more favorable option than any of the other plans, and would be a negative impact to members in that plan, that portion of money on account should be grandfathered and remain as is. Grandfathering in this sense means to allow the monies already deposited to the Nationwide 3.5 percent fixed account to remain in that account with no future deposits permitted. Below is a breakdown of the 3.5 percent fixed plan transition with the four available options.

Option 1 Current 3.5 percent fixed funds remain as is and future contributions may also continue.

Option 2 There is no grandfathering option and those funds will need to transition to a less favorable fund.

Option 3 If Nationwide is selected, current 3.5 percent fixed funds remain as is and future contributions may continue. If Nationwide is not selected, there is no grandfathering option available and those funds will need to move to a less favorable account.

Option 4 Current 3.5 percent fixed funds will be grandfathered. Participants may choose to invest in the 2.5 percent fixed account that is available with the ASRS 457 plan.

If any option other than 1 is chosen, all accounts, with the exception of the 3.5 percent fixed with Nationwide, will transition to the new plan. While all options except option 4 above require a Board to oversee performance, managing multiple plans with many options would unnecessarily be much more labor intensive. It is preferable to have only one plan. The County has a very low participation rate in the three plans, only about 25 percent of employees participate. The County cannot really encourage one plan over another and therefore provides little guidance to employees in choosing a good plan. If the County had only one plan, more effort could be spent educating employees of the benefits of deferring income, even if only a small amount each pay period. The deferred compensation plan benefit provides an extremely helpful tool for employees to prepare for retirement costs. With only one plan, the County can focus on ways to better educate and promote deferring income.

Recommendation

The Human Resources and Procurement staff recommend that the Board adopt the 457 Deferred Compensation plan with the Arizona State Retirement System and transition all accounts (with the exception of monies in the 3.5 percent fixed account) to Nationwide.

TB/AB/GH/mp

c: Tom Burke, Deputy County Administrator for Administration
John Voorhees, Assistant Deputy Count Administrator for Administration
Wendy Petersen, Deputy Director for Human Resources
Gayl Hayes, Benefits/Wellness Division Manager for Human Resources

CBIZ Retirement Plan Services

Review of Pima County Governmental 457(b) Plans

October 18th, 2016

PIMA COUNTY

HUMAN RESOURCES

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Section I – Introduction

Objective

Pima County, with the assistance of CBIZ Retirement Plan Services *(CBIZ)*, is conducting a due diligence process with the objective of retaining, replacing, reducing or expanding its current governmental 457(b) retirement plan providers. CBIZ and the county will be evaluating potential providers on the basis of participant services, plan sponsor services, expenses, and investments, among other considerations.

Administrative Conventions

When comparing the three existing platforms, they will be expressed in the order of assets (Nationwide, ICMA, then Prudential). This is not intended to impart favoritism or derogatory expression but will simply be the convention used. Other recordkeepers mentioned will be in alphabetical order.

The plans were evaluated from quarter end June 30th, 2016 information.

Also, pricing from outside recordkeepers to validate or expose pricing will be listed under the convention of "Recordkeeper #1, Recordkeeper #2, etc. This is done due to the request for information process that was a non-binding arrangement.

Section II – Current Situation

Pima County currently sponsors a governmental 457(b) plan with three different recordkeepers. Below is a summary of plan assets and participants for each of the three providers.

As of 6/30/2016	Assets	Percent of Total Assets	Participants With a Balance	Percent of Account Balances	Participants Currently Contributing	Percent of Current Contributors	Annual Contributions	Percent of Current Contributions
Nationwide	$101,930,945	70.89%	1863	63.61%	878	60.05%	$7,700,000	78.02%
ICMA	$29,022,367	20.19%	602	20.55%	302	20.66%	$1,355,000	13.73%
Prudential	$12,826,263	8.92%	464	15.84%	282	19.29%	$814,000	8.25%
Totals	$143,779,575	100.00%	2929	100.00%	1462	100.00%	$9,869,000	100.00%

Most municipalities and counties are reducing the number of governmental 457(b) offerings to their employees rather than expanding the selections. It is rare that a governmental 457(b) over $100 Million utilizes multiple vendors and commissioned advisors.

Plan Features

Features			
	Nationwide	ICMA	Prudential
Self Directed Brokerage Account	Schwab	TD Ameritrade	None
Loans	Yes	Yes	No
Roth	Available	Available	Available
Managed Account Option	Yes	Yes	Advisor

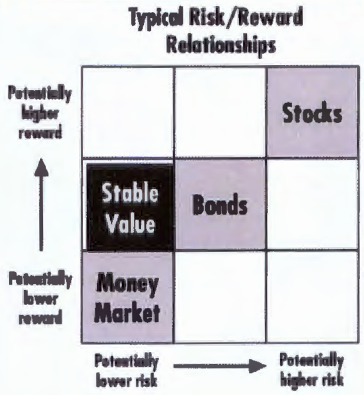
Loans			
	Nationwide	ICMA	Prudential
Payment Outside Payroll	Yes	Yes	Available
Loan Initiation Fees	$50	$75	N/A
Annual Maintenance Fee	$40	$50	N/A
Default Fee if Not Paid	$25	$20	N/A

All loans are paid outside of the payroll process. Through our discussions, we are confident that each of the two providers that offer loans are automatically defaulting the loans that have suspended payment.

Stable Value Funds

Each of the three retirement plan platforms utilizes a stable value fund as their interest bearing account. This results in a higher yield to the participants, but with the result of possible restrictions for plan liquidation of the stable value funds.

Stable Value Funds			
	Nationwide	ICMA	Prudential
Current Interest Rate	3.50%	1.70%	3.00%
Liquidity	5 Year Restriction	Restrictions	Restrictions



SECTION III – CURRENT PRICING

Current Pricing Structure

When comparing the pricing of the three existing platforms, we exclude the cost of the stable value funds (interest bearing accounts). This is due to the fact that the interest rate credited to participant accounts is net of all expenses.

As all of the investment platforms are self-directed by the participant, we analyzed the average expense ratio of the investments rather than the asset-weighted average expense ratio.

As of 6/30/2016	Assets	Stable Value Assets	Non-Stable Value Assets	Average Investment Expense	Average Account Value
Nationwide	$101,930,945	$35,227,261	$66,703,684	0.96%	$54,713.34
ICMA	$29,022,367	$6,889,210	$22,133,157	0.80%	$48,209.91
Prudential	$12,826,263	$2,080,796	$10,745,467	1.41%	$27,642.81
Totals	$143,779,575	$44,197,267	$99,582,308		

The Nationwide and ICMA platforms are working with the county without a financial advisor receiving an asset based fee. The Prudential platform has a financial advisor associated with the platform that receives .34% of the 1.41% total fee.

CBIZ benchmarked private sector plans between $12.5 Million and $15 Million. The advisor fee associated with that size of plan in the market today is below.

As you can see, the advisory fee is in the top 25% of expense based on the size of the Prudential plan. In fact, the Prudential platform as a whole is the most expensive of the three platforms (47% more expensive than the Nationwide platform and 76% more expensive than the ICMA platform). The Prudential platform also has the fewest participants, lowest average account balance, and least amount of assets.

Consequently, our pricing analysis focused on the Nationwide and ICMA platforms. The Prudential platform is inherently disadvantaged from a pricing perspective with the additional advisory fees, reduced asset base and lower account balances. From a fiduciary standpoint, it would not be prudent to move assets to a higher priced product.

SECTION IV – CURRENT PRICING – WITH EXISTING PLATFORM PRICING CONCESSION

CBIZ approached the existing governmental 457(b) platforms as an advocate of the Pima County plan and its participants. A case was made for the reduction of fees based on the existing matrices of the plan assets and average account balances.

Nationwide – Expense .96% reducing to .86%

CBIZ approached Nationwide to receive pricing concessions due to the increased plan size and high average account balance on the platform. Nationwide agreed to reduce the asset charge on all non-stable value funds by .10%. Currently all of the Nationwide funds have a .10% or .45% asset charge on all the non-stable value investment choices. With this price concession, those asset charges are reduced to a.00% or .35% asset charge on all the funds.

This discount will result in an ongoing discount to all Nationwide participants of .10% in fees. This reduction reduces the expense ratio of all the investments on the Nationwide platform from .96% to .86%.

At the current asset level of $66,703,684, this results in an annual savings for participants of $66,703 for participants in the Nationwide plan. This reduction at Nationwide will be initiated without any movement of assets or adjustments to the three existing platforms.

ICMA – Expense .80%

The current platform utilized by Pima County at ICMA is currently at the minimum pricing model. Consequently, ICMA could not reduce fees on their existing platform.

Prudential – Expense 1.41%

The Prudential platform is inherently disadvantaged from a pricing perspective with the additional advisory fees, reduced asset base and lower account balances. From a fiduciary standpoint, it would not be prudent to move assets to a higher priced product. Any reduction would not approach the fee structures of the other two platforms.

SECTION V – POSSIBLE ELIMINATION OF THE PRUDENTIAL PLATFORM

CBIZ approached ICMA and Nationwide with the possible addition of the Prudential assets to determine if those platforms would reduce their existing fee structure with the addition of those assets.

Nationwide – Expense .86% with price concession dropping to .80%

CBIZ approached Nationwide to receive pricing concessions due to the increased plan size and high average account balance on the platform. Nationwide agreed to reduce the asset charge on all non-stable value funds by .10%. With the currently proposed price concession all of the Nationwide funds have a .00% or .35% asset charge on all the non-stable value investment choices. With this price concession, all asset charges are reduced to a.00% on all the funds.

This discount will result in an ongoing discount to all Nationwide participants of .10% in fees. This reduction reduces the expense ratio of all the investments on the Nationwide platform from .86% to .80%.

At the current asset level of $66,703,684, this results in an additional price concession of .06% with the merging of the Prudential assets resulting in an additional annual savings to Nationwide participants of $40,022 (.06% of the plan assets in the Nationwide platform). This would be a total cost reduction to Nationwide participants of $106,725.

Moreover, the savings to existing Prudential participants would approximate $65,547 annually (.51% of plan assets in the Prudential platform).

The total savings to Nationwide and Prudential participants would be $170,123 annually.

ICMA – Expense .80%

The current platform utilized by Pima County at ICMA is at the minimum pricing model. Consequently, ICMA could not reduce fees on their existing platform.

Section VI – Future Cost Savings

With the consolidation of the Prudential Assets into the Nationwide platform, both the Nationwide and ICMA platforms would be at the minimum price level of both platforms. In other words, no future pricing concessions would occur without Pima County changing the platforms to an open architecture platform.

None of the existing recordkeepers or any of the at large recordkeepers will bid on the Pima County governmental 457(b) plan unless they were the only provider to the plan.

To improve the pricing of the Pima County 457(b) in the future would require a full RFP of recordkeepers. Through CBIZ's request for information we estimate future pricing after a full RFP would approximate a total cost of .47% - .58%:

Recordkeeper	Average Mutual Fund Expense	Asset Charge	Total Cost	Notes
Nationwide	0.40%	0.17%	0.57%	Lose 3.5% stable value yield and 5 year withdrawal feature
ICMA	0.40%	0.12%	0.52%	2.05% current stable value yeild
At Large Recordkeeper #1	0.40%	0.18%	0.58%	
At Large Recordkeeper #2	0.40%	0.07%	0.47%	

<u>This cost savings to the plan participants would approximate a .30% reduction based on $99,582,308 in assets and would result in an annual savings of $298,747. These savings would benefit all participants in the plan.</u>

Section VII – Operations

It is important that the county meet annually with the providers to discuss operations, investment lineups, new features, etc. In the past, fund changes have occurred on a negative consent from the county. CBIZ recommends that these elections be made intentionally rather than through default.

With the addition of ADP as the county's payroll vendor, CBIZ recommends the expansion of the use of the Roth money source into the Pima County governmental 457(b) plans.

Section VIII – Education

Currently, the retirement plan providers are available for meetings with participants twice a month. The providers also route the enrollment forms back through payroll.

The participation of eligible participants that are currently actively contributing to the 457(b) plans approximate 25%. It is likely that many of the Pima County employees are unaware that they may qualify for an additional federal tax credit based on their income and participation in the plan. Below is a table outlining this eligibility.

Adjusted Gross Income: Married Filing Jointly	Adjusted Gross Income: Single or Married and Filing Separately	Adjusted Gross Income: Head of Household	Tax Credited if you defer $2,000*
$37,000 or less	**$18,500 or less**	**$27,750 or less**	**$1,000 (50%)**
$37,001 up to $40,000	**$18,501 up to $20,000**	**$27,751 up to $30,000**	**$400 (20%)**
$40,001 up to $61,500	**$20,001 up to $30,750**	**$30,001 up to $46,125**	**$200 (10%)**
Over $61,500	**Over $30,750**	**Over $46,125**	**$0**

File Form 8880 with your tax return to determine your tax credit.

SECTION IX– RECOMMENDATIONS

Having made a comprehensive analysis of the processes, operations and expense of the current governmental 457(b) retirement plan providers we make the following recommendations:

1) Accept the current price concession offer from Nationwide that reduces the cost to Nationwide participants by $66,703 annually, that will grow over time.

2) Strongly consider merging the Prudential plan assets into the Nationwide platform. The fees are excessive and it would not be prudent to continue to offer a plan of this structure to the Pima County employees. The transfer to Nationwide would be facilitated by the fact that the Prudential plan currently has no loans or self-directed brokerage accounts. This merger of plan assets would result in a savings to Prudential participants of roughly $63,398. Moreover, it would result in $26,681 in additional savings to all other Nationwide participants.

3) Continue the consulting relationship with CBIZ Retirement Plan Services for plan oversight to assist in the operation of the plan, meet with the plan providers with the county, and provide support on investment and plan provision decisions. This would also include coordinating a more robust education offering to employees.

4) At some point, Pima County will need to run a request for proposal on the governmental 457(b) plans. This will result in a single provider on an open architecture platform. This will leverage the ability to achieve price concessions. Other available governmental 457(b) retirement plan providers will only bid on Pima County's plan if they are the sole provider of retirement services to the county.

Section X– Appendix

Additional analysis was conducted to ensure that there was a correlation between expense and performance of the investments offered under Pima County's governmental 457(b) plan. Specifically, would it still be prudent to include the Prudential governmental 457(b) platform in Pima County's offerings even with the higher expense.

We compared the performance of the investments of each of the three platforms (Nationwide, ICMA and Prudential) by investment asset class. We also reviewed the diversity of investment selections within the three platforms.

Below are the assets classes that were not evaluated as Prudential did not have a fund in those asset classes. We also did not evaluated asset classes that were sector funds and were only represented by one provider. We also did not evaluate stable value funds or money markets as they were addressed in the report.

Prudential Asset Classes Not Represented –

Target Date Funds
Lifestyle Funds
Mid Cap Blend
Mid Cap Growth
Small Blend

Sector Funds Unique to a Provider -

ICMA –	VT Nuveen Real Estate Securities	Real Estate Sector
Prudential -	Delaware VIP Emerging Market Series	Emerging Markets
	MFS Research Bond Series	International Bond

Balanced						
Provider	**Investment Option**	**Morningstar Category**	**1 Year**	**5 Year**	**10 Year**	**Total Expense**
ICMA	VT Puritan Fund	Balanced	10.13%	11.41%	6.43%	0.56%
Nationwide	Fid Puritan	Balanced	9.63%	10.91%	5.96%	1.01%
Nationwide	NW Divrs Mgr Inst Svc	Balanced	5.70%	N/A	N/A	2.05%
Prudential	MFS Total Return Series	Balanced	9.96%	9.86%	4.98%	1.46%
Prudential	Prudential Conservative Balanced Portfolio	Lifestyle	9.13%	9.23%	5.59%	1.24%
Prudential	Prudential Flexible Managed Portfolio	Lifestyle	10.12%	11.25%	6.08%	1.29%

Global - Stock						
Provider	**Investment Option**	**Morningstar Category**	**1 Year**	**5 Year**	**10 Year**	**Total Expense**
Prudential	Prudential Global Portfolio	Global Stock - Growth	11.68%	11.76%	3.95%	1.49%
Prudential	Janus Aspen Series Worldwide Growth Portfolio	Global Stock - Growth	6.60%	11.21%	3.79%	1.18%
Nationwide	Opp Glbl A	Global Stock - Growth	5.51%	11.45%	4.83%	1.24%

High Yield Bond						
Provider	Investment Option	Morningstar Category	1 Year	5 Year	10 Year	Total Expense
Prudential	Prudential High Yield Bond Portfolio	High Yield Bond	11.28%	7.63%	6.72%	1.23%
Nationwide	W&R Advisor high Income Y	High Yield Bond	8.52%	8.69%	7.56%	0.84%
ICMA	Vt PIMCO High Yield	High Yield Bond	10.59%	7.52%	6.49%	0.81%

Intermediate Term - Bond						
Provider	Investment Option	Morningstar Category	1 Year	5 Year	10 Year	Total Expense
Prudential	Invesco V.I. Government Securities Fund	Intermediate Bond	2.51%	1.14%	3.41%	1.39%
Prudential	Prudential Diversified Bond Portfolio	Intermediate Bond	7.25%	4.72%	5.96%	1.10%
Prudential	Prudential Governmental Income Portfolio	Intermediate Bond	3.87%	2.14%	3.96%	1.18%
Nationwide	PIMCO Ttl Rtn A	Intermediate Bond	5.16%	3.67%	5.43%	0.96%
Nationwide	NW BD Indx A	Intermediate Bond	4.45%	2.34%	4.00%	0.78%
Nationwide	NW HM Bd Inst Svc	Intermediate Bond	5.48%	3.56%	4.97%	0.84%
ICMA	VT Western Asset Core Plus Bond	Intermediate Bond	7.50%	n/a	n/a	0.45%
ICMA	VT Vantagepoint Cor Bnd dx	Intermediate Bond	5.00%	2.85%	4.54%	0.20%

International - Stock						
Provider	Investment Option	Morningstar Category	1 Year	5 Year	10 Year	Total Expense
ICMA	VT Vantagepoint International	International Stock	10.51%	7.92%	2.38%	0.97%
ICMA	VT Vantagepnt Ovrseas Eq Idx	International Stock	6.37%	7.50%	1.68%	0.29%
ICMA	VT Harbor International	International Stock	7.49%	7.04%	n/a	1.01%
ICMA	VT Diversified International	International Stock	5.96%	9.60%	2.75%	1.00%
Nationwide	NW Intl Indx A	International Stock	5.73%	6.98%	1.21%	0.81%
Nationwide	MFS Intl Val R3	International Stock	16.13%	12.66%	6.33%	1.19%
Nationwide	Invesco Int Gr R5	International Stock	8.55%	8.10%	4.21%	1.09%
Prudential	Invesco V.I. International Growth Fund	International Stock	8.07%	7.48%	3.60%	1.72%
Prudential	Templeton Foreign Securities Fund - Class 1	International Stock	6.00%	5.40%	1.95%	1.44%

Large Cap Stock - Blend						
Provider	Investment Option	Morningstar Category	1 Year	5 Year	10 Year	Total Expense
Nationwide	Drey App	Large Cap Stock - Blend	11.11%	10.61%	5.50%	1.02%
Nationwide	AmFds Invmt Co Am A	Large Cap Stock - Blend	17.19%	15.23%	6.13%	1.03%
Nationwide	NW Fd Inst Svc	Large Cap Stock - Blend	13.79%	15.17%	5.63%	0.88%
Nationwide	NW S P 500 Indx Inst Svc	Large Cap Stock - Blend	14.91%	15.79%	6.67%	0.52%
Nationwide	SEI S P 500 Indx E	Large Cap Stock - Blend	14.62%	15.61%	6.54%	0.74%
ICMA	VT Vantagepoint 500 Stk Idx	Large Cap Stock - Blend	15.23%	16.14%	7.02%	0.20%
ICMA	VT Vantagepoint Brd Mkt Idx	Large Cap Stock - Blend	14.86%	16.11%	7.34%	0.20%
ICMA	VT Vantagepoint Grwth & Income	Large Cap Stock - Blend	12.23%	15.52%	6.82%	0.82%
ICMA	VT Parnassus Core Equity	Large Cap Stock - Blend	13.20%	n/a	n/a	0.87%
ICMA	VT Oppenheimer Main Street	Large Cap Stock - Blend	14.47%	n/a	n/a	0.69%
Prudential	Invesco V.I. Core Equity Fund	Large Cap Stock - Blend	11.35%	11.39%	5.59%	1.55%
Prudential	Jennison 20/20 Focus Portfolio	Large Cap Stock - Blend	10.25%	11.90%	6.29%	1.47%
Prudential	MFS Investors Trust Series	Large Cap Stock - Blend	10.38%	14.54%	6.36%	1.49%
Prudential	Prudential Equity Portfolio	Large Cap Stock - Blend	7.76%	12.14%	5.46%	1.13%
Prudential	Prudential Stock Index Portfolio	Large Cap Stock - Blend	14.58%	15.34%	6.28%	1.02%

Large Cap Stock - Growth						
Provider	Investment Option	Morningstar Category	1 Year	5 Year	10 Year	Total Expense
ICMA	VT Vantagepoint Growth	Large Cap Stock - Growth	9.53%	14.29%	5.60%	0.81%
ICMA	VT Contrafund	Large Cap Stock - Growth	10.51%	15.41%	8.62%	0.71%
ICMA	VT T Rowe Price Growth Stock	Large Cap Stock - Growth	9.80%	17.07%	8.36%	0.92%
Prudential	AllianceBernstein Large Cap Growth Portfolio	Large Cap Stock - Growth	11.23%	17.64%	7.63%	1.49%
Prudential	Dreyfus Socially Responsible Growth Portfolio	Large Cap Stock - Growth	11.18%	13.33%	6.61%	1.75%
Prudential	Jennison Portfolio	Large Cap Stock - Growth	8.87%	15.52%	8.12%	1.28%
Prudential	MFS Emerging Growth Series	Large Cap Stock - Growth	12.63%	15.56%	9.06%	1.48%
Prudential	MFS Investors Growth Stock Series	Large Cap Stock - Growth	13.70%	13.96%	7.21%	1.48%
Nationwide	Fid Contra	Large Cap Stock - Growth	10.01%	14.89%	8.13%	1.16%
Nationwide	Fid OTC	Large Cap Stock - Growth	17.81%	17.99%	11.62%	1.28%
Nationwide	NeuBer Soc Resp Inv	Large Cap Stock - Growth	12.47%	14.60%	6.93%	0.95%
Nationwide	TRowePr Gr Stk Adv	Large Cap Stock - Growth	9.69%	16.96%	8.26%	1.02%
Nationwide	AmCent Gr Inv	Large Cap Stock - Growth	12.09%	14.20%	7.65%	1.42%
Nationwide	NW Gr Inst Svc	Large Cap Stock - Growth	8.08%	14.00%	7.87%	1.31%
Nationwide	NW LgCap Gr	Large Cap Stock - Growth	9.53%	14.43%	N/A	1.05%

Large Cap Stock - Value						
Provider	Investment Option	Morningstar Category	1 Year	5 Year	10 Year	Total Expense
ICMA	VT Vantage Equity Income	Large Cap Stock - Value	16.80%	13.12%	5.65%	0.77%
ICMA	VT Invesco Diversified Div	Large Cap Stock - Value	11.98%	n/a	n/a	0.58%
ICMA	VT AllianzGI NFJ Div Value	Large Cap Stock - Value	10.31%	12.12%	n/a	0.98%
Prudential	Alliance Growth & Income Portfolio	Large Cap Stock - Value	11.12%	15.15%	5.38%	1.27%
Prudential	American Century VP Income & Growth Fund	Large Cap Stock - Value	16.32%	14.69%	5.40%	1.35%
Prudential	Davis Value Portfolio	Large Cap Stock - Value	11.55%	13.13%	4.39%	1.47%
Prudential	Prudential Value Portfolio	Large Cap Stock - Value	6.18%	11.08%	3.84%	1.08%
Prudential	T.RowePrice Equity Income Portfolio	Large Cap Stock - Value	16.65%	12.90%	4.86%	1.50%
Nationwide	AmCent val Inv	Large Cap Stock - Value	17.87%	15.23%	6.21%	1.08%
Nationwide	Edgr Lomx Val	Large Cap Stock - Value	17.67%	13.59%	6.05%	1.41%
Nationwide	Invsco Gr Inc A	Large Cap Stock - Value	13.34%	14.55%	5.91%	0.94%

Mid Cap Stock - Growth						
Provider	Investment Option	Morningstar Category	1 Year	5 Year	10 Year	Total Expense
ICMA	VT Vantagepoint Aggressive Ops	Mid Cap Stock - Growth	12.02%	14.30%	6.68%	0.83%
ICMA	VT AMG Times Square Mid Cap Gr	Mid Cap Stock - Growth	9.63%	n/a	n/a	1.23%
ICMA	VT Harbor Mid Cap Growth	Mid Cap Stock - Growth	8.96%	13.86%	n/a	1.11%
Prudential	Invesco Van Kampen V.I. Mid Cap Growth Fund	Mid Cap Stock - Growth	7.14%	13.02%	5.20%	1.87%
Prudential	Janus Aspen Series Mid Cap Growth Portfolio	Mid Cap Stock - Growth	17.03%	16.88%	9.72%	1.32%
Nationwide	WF Disc Admn	Mid Cap Stock - Growth	7.29%	14.49%	9.24%	1.21%

Small Cap Stock - Growth						
Provider	Investment Option	Morningstar Category	1 Year	5 Year	10 Year	Total Expense
ICMA	VT Oppenheimer Discovery	Small Cap Stock - Growth	6.90%	n/a	n/a	0.86%
Prudential	AllianceBernstein Small Cap Growth Portfolio	Small Cap Stock - Growth	8.50%	13.75%	8.14%	2.25%
Prudential	Franklin Small-Mid Cap Growth Securities Portfolio	Small Cap Stock - Growth	6.73%	13.40%	6.86%	1.45%
Nationwide	NW NVIT Mult Mgr Sm Co I	Small Cap Stock - Growth	13.73%	15.26%	6.95%	1.32%
Nationwide	NeuBer Genesis Tr	Small Cap Stock - Growth	13.18%	13.15%	8.60%	1.20%
Nationwide	NW Sm Co Gr Inst Svc	Small Cap Stock - Growth	21.23%	n/a	n/a	1.43%

Small Cap Stock - Value						
Provider	Investment Option	Morningstar Category	1 Year	5 Year	10 Year	Total Expense
Prudential	Prudential Small Capitalization Stock Portfolio	Small Cap Stock - Value	17.33%	16.80%	7.74%	1.12%
Nationwide	NW US SmCap Val Inst Svc	Small Cap Stock - Value	13.30%	15.68%	n/a	1.42%

We did not analyze the short term bond category as each of the funds has different characteristics and inclusion would not be advantageous to Prudential.

Short-Term Bonds						
Provider	Investment Option	Morningstar Category	1 Year	5 Year	10 Year	Total Expense
Prudential	PIMCO PVIT Short Term Portfolio-Admin Share Class	Fixed Income - Short Term	1.52%	0.76%	1.56%	1.25%
ICMA	VT Vantagepoint Infltn Focused	Inflation Protected Bond	6.42%	1.38%	4.10%	0.65%
Nationwide	Fed US GovtSec 2-5 Years	Short-Term Govrnmt	1.22%	0.09%	2.72%	1.30%

Analysis

All things being equal, you would assume that each of the three platforms would have an equal representation of best performing and worst performing funds. In other words each of the platforms would have a third of the best performing funds and a third of the worst performing funds.

When we exclude the asset classes and funds as were discussed earlier, we are left with the following summary of funds

Asset Class	Nationwide	ICMA	Prudential
Balanced Funds	2	1	3
Global - Stock	1	0	2
High Yield Bonds	1	1	1
Intermediate Term - Bond	3	2	3
International - Stock	3	4	2
Large Cap Stock - Blend	5	5	5
Large Cap Stock - Growth	6	3	5
Large Cap Stock - Value	3	3	5
Mid Cap Stock - Growth	1	3	2
Small Cap Stock - Growth	3	1	2
Small Cap Stock - Value	1	0	1
Total of Funds	29	23	31
Percentage of Funds	34.94%	27.71%	37.35%

So Prudential would be thought to have 37.35% of the best funds as well as 37.35% of the worst funds under equal representation. Any deviation from this performance would conclude an improved or diminished result due to performance net of fees. For the purposes of this analysis we are excluding funds that performed towards the average of the funds analyzed.

Reviewing the fund performances included earlier in this report shows the following summary:

	Best Funds in Category	Best Fund as %	Worst Funds in Category	Worst Fund as %
Nationwide	16	50.00%	8	25.00%
ICMA	6	18.75%	5	15.63%
Prudential	10	31.25%	19	59.38%
Time Periods	32	100.00%	32	100.00%

As you can see, Prudential is under-represented in the best funds in a category and over-represented in the worst fund category. In fact, Prudential has almost twice the number of funds with the worst performance in a category than the number of their funds with the best performance in a category.

In fact, a closer look at the categories shows that Prudential is more apt to have the worst performance in asset classes that historically receive the most contributions (large cap stock funds, balanced funds and global funds). Prudential is also more apt to have the best performance in asset classes that historically receive fewer contributions (high yield, small cap stock and mid cap stock funds).

Lastly, Prudential has very few funds considered asset allocation funds and has no target date funds which are desirable for an employer population looking for pre-programmed investment solutions.

CBIZ stands by their initial conclusion that the performance of the investments inside the Prudential platform were not able to overcome their

Open versus Closed Investment Platform

We recommended moving to an open investment platform as your next step in the governmental 457(b) plan offering. This is for two reasons:

1) Pima County and its employees will not receive any more price concessions unless the plan moves to an open investment platform. This is due to the fact that all the funds have expenses that cannot be reduced without replacing them with a less expensive share class or different fund. This will also allow for greater transparency and efficient pricing.
2) As you can see by the analysis, each platform has funds that are the best performing and worst performing funds in that asset class. An open investment platform allows you to replace the worst performing funds with the best performing funds. In fact there may be a better fund in that asset class that is not currently offered in any of the three platforms offered to Pima County employees.

Future RFPs and Negotiation

Pima County presented the three platforms a letter of authorization to share information with CBIZ about the governmental 457(b) plan. The letter did not transfer authority to CBIZ regarding the retirement plan in any way. By definition, this was not a comprehensive revamp of the existing retirement platforms but rather an analysis of the existing retirement plan arrangement.

Immediate Recommendation - This analysis resulted in a recommendation of fee reductions that were possible on the current Nationwide platforms and a strong recommendation to reduce the number of platforms from three to two vendors. This proposal was warranted by a higher cost, lower performance and the under-utilization of the Prudential platform.

Next Steps Recommendation – CBIZ recommended a focus of continued investment analysis in concert with the existing retirement plan platforms, continued education to the employee base and setting a timeline for the eventual RFP that would be prudent for the county to pursue.

Whether the county conducted the future RFP or whether Pima County contracted that RFP process through an organization like CBIZ, it is required for future cost reduction and investment flexibility.

It is important to note, that no national governmental 457(b) plan provider will participate in an RFP unless the business is being awarded to a single provider. Any additional cost reduction and investment flexibility will come through the leverage of combining the assets of the existing platforms.

As of 6/30/2016	Assets	Stable Value Assets	Non-Stable Value Assets	Average Investment Expense	Average Account Value
Nationwide	$101,930,945	$35,227,261	$66,703,684	0.96%	$54,713.34
ICMA	$29,022,367	$6,889,210	$22,133,157	0.80%	$48,209.91
Prudential	$12,826,263	$2,080,796	$10,745,467	1.41%	$27,642.81
Totals	$143,779,575	$44,197,267	$99,582,308		