



# AGENDA REPORT

SAN CLEMENTE CITY COUNCIL MEETING  
Meeting Date: August 15, 2017

Agenda Item 6M

Approvals: \_\_\_\_\_

City Manager JM

Dept. Head ES

Attorney SS

Finance JV

**Department:** Finance & Administrative Services  
**Prepared By:** Heather Lowe, Human Resources Manager

**Subject:** *APPROVAL FOR PROFESSIONAL SERVICES AGREEMENT WITH MILLIMAN FOR DEFINED BENEFIT ADMINISTRATION*

**Fiscal Impact:** Yes, the total cost of the contract is up to \$35,200 annually, with an annual increase based on CPI. Contract will be paid through the pension fund.

**Summary:** The City of San Clemente is requesting approval to enter into a five-year contract with Milliman for Defined Benefit Administration of the City's legacy retirement program, the City of San Clemente Restated Employees Retirement Plan. The recommendation is approve the contract with Milliman to provide Sponsor Review & Oversight, Participant Communications, Benefit Calculations, Database Maintenance and Retiree Payment Services.

**Background:** The City maintains a legacy retirement plan for employees who were not transitioned over to CalPERS in 2014. This includes employees who retired or separated prior to the CalPERS transition as well as active and inactive CASA employees. This program has been administered through Empower Retirement, formerly Great-West Retirement Services. In March of 2017, the City was notified that Empower will be eliminating all services relating to Defined Benefit only plans effective September 30, 2017.

The City initiated discussions with a number of pension administration entities to determine eligible organizations who would consider providing this service. Additionally, Empower referred their affected clients to Milliman for the Defined Benefit Administration portion of services. After reviewing all options available at this time, the City has determined to contract with Milliman for this service.

**Discussion:** City Policy and Procedure # 201-2-3, Selection of Professional Services Contractors establishes the methods for selecting service providers and includes a competitive bid process. The City Council has the authority to determine that the procedure not be followed when direct selection of a professional services contractor is in the interest of the public in certain situations. Due to the time limitation initiated by Empower, as well as the specialized service that is needed, the City conducted an informal review of vendors that could provide these services. After that review, the City determined that Milliman is the vendor of choice for these services. This decision was based on the recommendation from Empower, several other clients in this same situation are also contracting with Milliman, the unique circumstances and that Milliman has an

established relationship with Empower that will assist in the transition process. Due to these reasons, staff is requesting the Council authorize an exemption to the selection process for the proposed contract based on Exemption 7.1.2 of the policy, the proposed professional services provider has unique familiarity with the project, subject area, or possesses other attributes that make the professional services provider uniquely qualified to provide the services.

**Recommended**

**Action:** STAFF RECOMMENDS THAT THE CITY COUNCIL TAKE ACTION AS FOLLOWS:

1. Approve and authorize the City Manager to execute, a five year professional services agreement with Milliman to provide defined benefit administration services for the City of San Clemente Restated Employees Retirement Plan, in the amount not to exceed \$35,200 annually, with an annual CPI escalator.

**Attachments:** Milliman Defined Benefit Administration Overview

**Notification:** The San Clemente City Employees Association



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# Defined Benefit Administration Overview

Prepared for the City of San Clemente

July 6, 2017

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July 6, 2017

Judith Vincent  
Deputy Administrative Services Director  
Finance & Administrative Services  
City of San Clemente  
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San Clemente, CA 92672

**RE: Defined Benefit Administration Overview**

Dear Judi:

We are pleased to provide the enclosed overview of Milliman's defined benefit administration services. For nearly 70 years, Milliman has pioneered human capital strategies, tools and solutions. With 60 offices in 27 countries, Milliman is one of the largest consulting and actuarial firms in the markets it serves. Headquartered in Seattle, Milliman has more than 3,500 employees, including more than 1,600 credentialed consultants, and reached \$940 million in revenues in 2016.

We believe that due to our experience and expertise, Milliman is uniquely positioned to deliver exceptional value to the City of San Clemente ("City") regarding the administration of your Employees' Restated Retirement Plan. Benefits of Milliman's fully outsourced administration services, which we will discuss in detail in our overview, include:

- Independence of service provider
- Consultative approach to benefits administration
- Quality participant experience
- Technical and regulatory expertise

Milliman also offers investment consulting and monitoring services to many public clients. We are known for our client-centered approach and technical expertise. Milliman is not an investment manager, rather, we are an investment advisor to our clients and consult as a prudent expert regarding investment and asset allocation decisions for retirement plans. Specifically, Milliman serves investment committees as a consultant assisting in defining investment policy, selecting and monitoring investment managers and performing other tasks as requested by the committee. Milliman is committed to providing the highest level of conflict free investment consulting services to our clients through our reporting systems, business philosophy, stability, and staff. I would be happy to introduce Jeff Nipp, one of our San Francisco-based Senior Investment Consultants, at the City's request.

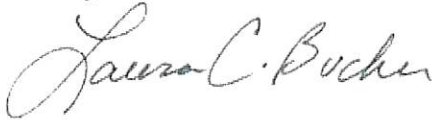
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Please note that Milliman does not provide trust and custody services as this allows us greater flexibility to our clients. We are able to work with any trustee to best serve the City and the plan. We do not receive any commissions or fees for the services provided by the trustee and remain free from conflicts of interest. At the City's request, we would be pleased to provide a list of recommendations and contacts for trustees we believe to be exceptional partners and service providers.

Milliman continually strives to meet and exceed the expectations of our clients. Our commitment to quality is evident throughout all of our services – in our conversion timeliness, the accuracy of the data we present to participants and plan sponsors, and the dedication we expect from our people. The attributes upon which Milliman was founded over 70 years ago – integrity, commitment, and superior customer service – form an integral part of every product and service we offer. We are confident that Milliman's services can provide significant value to your organization. Please feel welcome to contact me if you have any questions or wish to discuss further.

Sincerely,

A handwritten signature in black ink that reads "Laura C. Bucher".

Laura Bucher, CPC, CEBS  
Principal, Defined Benefit Administration

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Table of Contents

**Executive Summary** .....1

**Defined Benefit Administration Services** .....2

    Sponsor Review & Oversight.....2

    Participant Communications.....2

    Benefit Calculations.....3

    Database Maintenance.....4

    Retiree Payment Services.....4

**Fees**.....5

## Executive Summary

Milliman is pleased to present our defined benefit administration services overview to the City of San Clemente ("City"). The City will experience many advantages by selecting Milliman to fully outsource the administration of your defined benefit plan.

### Independence

Founded in 1947 as an independent actuarial consulting firm, Milliman continues to be committed to transparency and to serving defined benefit retirement plans. Milliman does not sell products. Instead, we offer unbiased, objective advice with no requirements for clients to use costly proprietary tools. Our goal is simply to provide services which help employers effectively manage their retirement plans.

### Consultative Approach

Our West Region offices have been providing administrative services for defined benefit plans since 1995. Milliman has always believed that exceptional customer service is critical to our success. We take a consultative approach to managing client relationships, seeking to proactively deliver solutions centered on the needs of our clients and their participants.

Your Milliman service team will form a business partnership and long-term relationship with the City without risk of acquisition or a change in focus. Many of our administration client relationships have continued for more than 15 years.

### Efficiency in Participant Experience

The City's participants will be confident that they can contact the Milliman Benefits Service Center for assistance with any question or concern they have on their defined benefit plan. We are committed to maintaining a level of customer service that your participants deserve. Our commitment to customer service is consistent with our core values of quality and accountability; when your participants contact Milliman, they will speak with representatives that are knowledgeable, well-spoken and ready to help.

A distinguishing feature of our service model is that our benefits analysts and customer service staff work together to service clients and participants. This structure increases the overall efficiency of our services, increases the knowledge and understanding of the customer service representatives, and connects the benefits analysts to the ongoing needs of plan participants.

Milliman will provide the City's active and vested terminated participants with a robust defined benefit calculation website. Coupled with access to our call center, participants will quickly realize the City's commitment to its employees' understanding and taking full advantage of their retirement benefits.

### Technical Expertise

Milliman is an innovator in defined benefit administration services nationally, providing administration for an estimated \$60 billion in total defined benefit assets. We manage administrative services for other public plans, including California plans subject to PEPRA, and we regularly publish our thought leadership on issues affecting defined benefit administration. Since 1986, Milliman has maintained a dedicated research department in the Washington, DC office. The Employee Benefits Research Group monitors and keeps Milliman consultants abreast of all federal developments affecting employee benefits, including legislation, regulations, and judicial rulings.

Our mission is to serve our clients to protect the health and financial well-being of people everywhere.

The entire Milliman team will deliver what you ask without surprises in cost or service. We are committed to high quality work and attending to details, and are proud of our people and services. We will make sure that the City will have confidence in accurate defined benefit records and defined benefit calculations, and succeed in your effort to provide valuable retirement benefits to your employees.

## Defined Benefit Administration Services

By engaging Milliman for fully-outsourced defined benefit administration services, the City will have a dedicated Milliman plan administration team which will be responsible for comprehensively administering your plan. Milliman personnel will provide all defined benefit administration services for the City.

Following are a series of charts that illustrate services that the City will receive under a fully-outsourced administration solution.

### Sponsor Review & Oversight

Milliman's Defined Benefit Administration Outsourcing Services	
<i>General Administration / Role of the City as Plan Sponsor</i>	<p>Milliman will take primary responsibility for <u>all</u> pension administration tasks.</p> <p>The City will become <i>Vendor Manager</i>, providing assistance with higher level plan administration questions and offering historical information and perspective.</p>
<i>Plan Provision Documentation</i>	<p>Milliman will work with the City to develop plan provision documents that will help facilitate efficient administration.</p>
<i>Monthly Administration Conference Call</i>	<p>The City and Milliman will participate in monthly conference calls to discuss any ongoing administrative issues that need to be addressed.</p>
<i>Quarterly administration report</i>	<p>Milliman will provide the City with a quarterly report on call center and calculation statistics.</p>
<i>Quality Assurance Controls</i>	<p>The appropriate level of review is applied to all benefit calculations. An additional detailed review is conducted on a post-release basis of a random 3% sample.</p> <p>Annual SSAE 16 (formerly SAS70 Type II) independent audit of controls is performed.</p>
<i>Benefit compliance</i>	<p>Milliman will work with the City to monitor the Plan for compliance with administrative regulations and legislation. Milliman will work with the City's internal auditors and will respond to any pension audit requests</p>

### Participant Communications

Industry Standard Practice	Milliman's Defined Benefit Administration Outsourcing Services
<p><i>Communication with participants</i></p> <p>Provide a toll-free number with knowledgeable representatives for participants to call for defined benefit questions or requests.</p>	<p>All participant communications go through Milliman. Participants are able to call, fax, or email Milliman. Representatives are available 6 am to 5 pm P.S.T. Monday through Friday.</p>
<p><i>Turnaround times</i></p> <p>Calculations and other defined benefit requests should be provided within two weeks of request.</p>	<p>Milliman will receive and fulfill all participant requests. From request of calculations to mailing, Milliman has established an average turnaround time of 3-4 days for core calculations.</p>



## Benefit Calculations

Industry Standard Practice	Milliman's Defined Benefit Administration Outsourcing Services
<p><i>Website for defined benefit calculations</i> Participants should have online access to information about their defined benefit plan and be able run an estimate of their benefit.</p>	<p>Active and vested terminated participants will have online access to information about their defined benefit plan and will be able to run an estimate of their benefit.</p>
<p><i>Written benefit estimates</i> Written benefit estimates should be provided within two weeks of request.</p>	<p>City participants or representatives may contact Milliman to request a written pension estimate. Requests are calculated and distributed by Milliman.</p>
<p><i>Final defined benefit determinations</i> Final defined benefit determinations should be provided to the participant within 60 days of the vested participant's termination date.</p>	<p>Milliman will calculate and send final defined benefit determinations to vested terminated participants within 45-60 days of notification of termination.</p>
<p><i>Benefit Election Forms</i> Benefit election forms include all forms of payment, required notices and other applicable forms (ACH, W4-P, etc.)</p>	<p>Participants will contact Milliman to request retirement paperwork. Milliman will calculate and distribute the retirement paperwork to the participant, including all required notices and optional forms.</p>
<p><i>Annual Participant Benefit Statements</i> Active participants should be provided a written statement at least every three years.</p>	<p>Annual benefit statements for participants accruing a benefit will be calculated and distributed by Milliman. For active participants not accruing a benefit (i.e. frozen benefits), Milliman will provide an annual notice of availability.</p>
<p><i>Contacting vested terminated participants as they reach Normal Retirement Age (NRA)</i> Terminated vested participants should be provided retirement paperwork 60-80 days before they reach NRA.</p>	<p>Every month, Milliman will run a query of those vested terminated participants nearing NRA, and will send a retirement election form.</p>
<p><i>QDRO Administration</i> Adjudication and calculation of QDROs are performed timely.</p>	<p>For most fully outsourced clients, Milliman provides full qualification, adjudication, and calculation services for QDROs. This is an optional service.</p>

## Database Maintenance

Industry Standard Practice	Milliman's Defined Benefit Administration Outsourcing Services
<p><i>Payroll data loads</i> The defined benefit database is updated periodically (ideally monthly) with payroll and demographic updates.</p>	<p>On a periodic basis, the City will send one data update file to Milliman to update the defined benefit data for active participants.</p> <p>Due to the size of the active population, an annual data update is sufficient, with mid-year ad-hoc updates for actual terminations or retirements.</p>
<p><i>Database maintenance, including historical information</i> Data required to administer the benefits for defined benefit plan participants must be maintained.</p>	<p>Milliman will maintain the database based on payroll data loads, as well as other changes to the data, including deaths, retirements, address/ACH/tax changes, and other demographic changes, as provided by participants or the City. Milliman will maintain off-site backup of the defined benefit database.</p>
<p><i>Valuation file</i> Defined benefit valuation data must be provided to the plan actuary on annual basis.</p>	<p>Milliman will provide the actuaries with the annual defined benefit data and is responsible for answering all questions regarding the data.</p>
<p><i>File retention</i> All defined benefit calculations and correspondence with participants must be maintained.</p>	<p>Milliman will scan all future documents into an electronic, optical image database. Analysts and benefits service center representatives are able to quickly retrieve any document. Hard copy historical files will continue to be maintained at the City.</p>
<p><i>Audit support</i> The Plan must be audited annually.</p>	<p>Milliman will work with the City's internal auditors and will respond to defined benefit audit requests.</p>

## Retiree Payment Services

Industry Standard Practice	Milliman's Defined Benefit Administration Outsourcing Services
<p><i>Incoming paperwork review</i> Retiree paperwork is reviewed for completeness and accuracy. Upon receipt of complete and accurate forms, a confirmation letter is sent to the participant.</p>	<p>Milliman will review retiree paperwork for completeness and accuracy. If the paperwork is not complete or accurate, a letter will be sent to the participant requesting information. If the paperwork is correct and all required forms are included, Milliman will send a benefit confirmation letter that includes required TEFRA information.</p>
<p><i>Retiree benefit commencement</i> Benefit payments are electronically provided to the benefit payment trustee.</p>	<p>Milliman will send an electronic file to the benefit payment trustee and reconcile benefit payments on a monthly basis.</p>
<p><i>Trustee interaction.</i> Total benefit payments from the trust are reconciled monthly to the defined benefit database.</p>	<p>Milliman will work with the trustee to update addresses and bank account information, and will also be responsible for tracking "stale" checks as reported by the trustee.</p>

## Fees

Defined Benefit Administration Outsourcing Services	Frequency	Fee
Implementation/System Setup	One-time	Waived
All retirement administration and services provided by Milliman	Annual (billable monthly)	\$32,000
Expenses	Ad-Hoc	Charged at cost

Fees for administration services are potentially payable from the Plan assets.

### Administration fees include:

- Benefits service center for defined benefit plan participants
- Website with estimates for active and vested terminated participants
- Website with City access to participant data
- Written defined benefit estimates
- Final termination, retirement and death benefit calculations
- Annual benefits statements for active participants accruing a benefit, or annual notice of availability of online benefit calculation for active participants not accruing a benefit
- Processing one annual data load file with payroll and demographic information
- Payment set-up and changes with custodian, including annual COLA calculation
- Monthly reconciliation of retiree payment register
- Full database maintenance, including death audits, beneficiary info, etc.
- Calculate and administer minimum required distributions
- Tracking employee contribution amounts (PEPRA) and distributing to non-vested terminated employees
- Work with plan auditors
- Annual data file to plan actuary
- Periodic management conference calls with the City

### Administration Work To Be Billed Separately

- Special projects, including large volume work (i.e. calculating prior frozen benefits, retiree lump sum distribution project, etc.)
- Processing more than one payroll and demographic data load per year
- QDRO adjudication and processing
- Nonqualified calculations
- Retiree Medical administration, including determining eligibility, facilitating enrollment and deducting premiums from monthly pension checks
- Researching participant data in hard-copy files
- Assisting in the preparation of plan communications
- Providing non-standard or ad-hoc listings and reports
- Pension Committee or participant counseling meetings.
- Out of pocket expenses

No separate system usage or license fees apply for the defined benefit administration system.

### Fee Assumptions

- Counts reasonably close to 214 participants (approximately 7 actives, 80 deferred-vested and 127 retirees and beneficiaries in payment).
- Accurate initial data for all participants provided in electronic format that can be relied on for benefit calculation purposes, including but not limited to accurate employment history, compensation & hours data, Employee Contribution account balances and history, and accrued benefit amounts for terminated vested participants and/or participants with frozen accrued benefits.
- The monthly retainer fee will commence once Milliman begins providing ongoing defined benefit administration services ("live date"). Fees are fixed through 2018. For 2019 and beyond, fees will increase according to CPI-W increases, measured on the change in CPI-W from 3<sup>rd</sup> Quarter to 3<sup>rd</sup> Quarter. Annual increases will be limited to no more than 5% and no less than 0%, with any excess of CPI increases over 5% (or decreases below 0%) recoverable upon mutual agreement in a later year when CPI-W increases are less than 5% (or greater than 5%).

### Variable Fees, Special Projects

Milliman will work with the City to complete other special projects related to defined benefit administration.

Milliman will charge additional fees for these projects, based on time charges using standard billing rates for Milliman employees. Milliman will estimate the cost of these projects in advance, and will discuss with the City the potential impact of special projects on the service levels outlined above for ongoing defined benefit administration work.

## Out-of-Pocket Expenses

In addition to the base fee, out-of-pocket charges will be reimbursed for expenses incurred in connection with benefit administration services. Out-of-pocket expenses shall include, but are not limited to, the following:

- Charges for phone use and toll-free maintenance fee
- Postage, including express delivery as required
- Printing for materials dedicated to the City administrative services
- Assembly costs for large mailings
- Vendor costs for address searches and death audits
- Travel

Out-of-pocket charges will not include set-up charges for providing these services, such as costs for telephone systems, computer equipment, etc.

## Administration Implementation

The regular administration implementation fee of \$50,000 is waived. However, the following services, if required will be billed additionally on a time and expense basis, using the standard billing rates for the staff performing the following services:

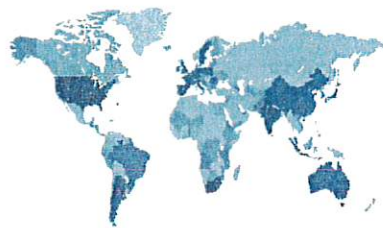
- Calculating final accrued benefits, frozen benefits, or prior minimum benefits that can be relied on for administration.
- Data research and clean-up of historical data. Our base fee includes data review and checks, but time for research and clean-up of individual historical data will be billed separately.
- Processing calculation backlog. Work required to process calculations for prior events will be billed separately. This includes, for example, retirement calculations for terminated participants past normal retirement age on the implementation date, and following up on pre-retirement death benefits payable for participants who died prior to the implementation date.
- Extensive reconciliation and documentation of data from multiple sources. Our base fee assumes that data will be provided in one electronic file, will be reliable for our use, and will include accurate descriptions noting how the data fields apply for benefit administration purposes. Extra implementation work required to complete these tasks, or to reconcile, compare and correct data from different sources will be billed separately.
- Special communications campaigns or materials provided during the implementation will also be billed separately.

We will not bill for additional implementation services without an advance discussion with you, and your approval that additional fees are applicable for the services.



Milliman is among the world's largest providers of actuarial and related products and services. The firm has consulting practices in employee benefits, healthcare, property and casualty insurance, and life insurance and financial services.

Founded in 1947, Milliman is an independent firm with offices in major cities around the globe.



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Milliman's overview is not an acceptance of terms and conditions and Milliman will not be obligated to perform any services until a mutually acceptable contract is executed.