



County of Los Angeles CHIEF EXECUTIVE OFFICE

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Chief Executive Officer

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August 30, 2011

The Honorable Board of Supervisors
County of Los Angeles
383 Kenneth Hahn Hall of Administration
500 West Temple Street
Los Angeles, CA 90012

Dear Supervisors:

ADOPTED

BOARD OF SUPERVISORS
COUNTY OF LOS ANGELES

13 August 30, 2011

Sachi A. Hamai
SACHI A. HAMAI
EXECUTIVE OFFICER

**AMENDMENT NUMBER FOUR TO CONTRACT NO. 76808 WITH
GREAT-WEST LIFE & ANNUITY INSURANCE COMPANY
FOR CHANGES TO THE COUNTY OF LOS ANGELES PENSION SAVINGS PLAN
(ALL DISTRICTS) (3 VOTES)**

SUBJECT

Proposed amendment to contract with Great-West Life & Annuity Insurance Company (Great-West) to add a provision for blended rate services in the County of Los Angeles Pension Savings Plan (Plan).

IT IS RECOMMENDED THAT YOUR BOARD:

1. Approve the attached Amendment Number Four to add a provision for blended rate services in the County of Los Angeles Pension Savings Plan.
2. Instruct the Mayor to sign an amendment to the contract with Great-West Life & Annuity Insurance Company, Contract No. 76808.

"To Enrich Lives Through Effective And Caring Service"

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PURPOSE/JUSTIFICATION OF RECOMMENDED ACTION

The County of Los Angeles Pension Savings Plan is a defined contribution plan for part-time, temporary, and seasonal employees of the County and Los Angeles Superior Courts who are not eligible to participate in Los Angeles County Employees Retirement Association (LACERA) or the Judges Retirement System.

The \$135 million in Plan assets are invested in the SEI Stable Asset Fund (SEI Fund) that is managed by Dwight Asset Management (Dwight). A recent performance review of the SEI Fund revealed that the Stable Fund managed by Charles Schwab (Schwab Fund) would yield higher returns while preserving principal. Therefore, in May 2011, the Pension Savings Plan Administrative Committee (PAC) requested that a blended investment option be established to permit new contributions to earn a higher yield provided by the Schwab Fund while the existing assets in the SEI Fund are released. Once the Plan requests complete withdrawal from the SEI Fund, the current contract provisions allow the investment manager up to 12 months to release Plan assets as a mechanism to protect the yield of remaining SEI Fund participants from the negative impact of a large withdrawal. It is likely that existing Plan assets will be paid out over a 12-month period.

Great-West, as the County's third-party administrator (TPA) for the Pension Savings Plan, is capable and willing to establish the blended fund for approximately 26,000 participants. Great-West will continue to be responsible for the daily administration of the Plan such as record keeping and participant services.

In addition, Great-West will administer the Schwab Fund and create a blended yield consisting of existing assets in the SEI Fund and new contributions to the Schwab Fund. Once SEI releases all assets back to the Plan, Great-West will discontinue blending the two rates and the Schwab Fund will completely replace the blended account. By replacing the Fund, the Plan would have the ability to increase its investment yield by approximately 150 basis points. Participants will be notified of the fund transitions through communication materials included with their quarterly account statements from Great-West.

Implementation of Strategic Plan Goals

The recommended change is consistent with the Countywide Strategic Plan Goal, Organizational Effectiveness by providing fiscal integrity and financial responsibility in offering Pension Savings Plan participants a significant yield improvement to their retirement income.

FISCAL IMPACT/FINANCING

There is a County cost of not to exceed \$20,000 to create the new fund in the Pension Savings Plan. The initial cost for Great-West to set up the blended fund is \$10,000 and an annual fee of \$5,000 for daily administration. If the transition of assets back to the Plan extends beyond 12 months, Great-West will continue to provide the blended rate service on a prorated basis of \$5,000 per year. The initial set-up and annual fee(s) would be allocated to the departments that have employees who participate in the Pension Savings Plan. These fees are part of the County administrative fee which includes County staff time providing administrative services to the Plan, as well as the cost of outside contractors other than Great-West that provide services to the Plan such as fiduciary insurance providers, investment advisers, auditors, and attorneys.

FACTS AND PROVISIONS/LEGAL REQUIREMENTS

In 1990, the United States Congress passed the Federal Omnibus Budget Reconciliation Act of 1990. This Act requires that beginning January 1, 1992, all County employees not participating in a qualified retirement plan, such as LACERA, be placed in Social Security or another program meeting federal requirements.

Since January 1, 1992, the Pension Savings Plan has satisfied that requirement as an "eligible deferred compensation plan" under Section 457 of the Internal Revenue Code (IRC) and as a "retirement system" pursuant to the Treasury Regulations under Section 3121(b)(7)(F) of the IRC.

County Counsel has approved the proposed Amendment as to form.

CONTRACTING PROCESS

Your Board approved the contract with Great-West for third-party administrative services on June 17, 2008. The Pension Savings Plan Administrative Committee hired Mercer Investment Consulting, Incorporated (Mercer) to review the performance and investment structure of the SEI Stable Asset Fund. In March 2011, the Pension Savings PAC approved Mercer's recommendation to replace the SEI Fund managed by Dwight with Schwab, and in May 2011, the PAC requested that a blended fund consisting of SEI and Schwab investments replace the SEI Fund until all Plan assets can be fully invested in the Schwab Fund. The proposed Amendment adds a provision to the TPA contract for blended rate services for the Pension Savings Plan.

IMPACT ON CURRENT SERVICES

The proposed Amendment will establish a new fund in the Pension Savings Plan. This will allow Plan participants the opportunity to achieve higher investment yield with the Schwab Fund.

Respectfully submitted,



WILLIAM T FUJIOKA
Chief Executive Officer

WTF:BC:JA
MTK:AJ:mst

Attachment

- c: Executive Office, Board of Supervisors
- County Counsel
- Auditor-Controller
- Human Resources
- Treasurer and Tax Collector
- Pension Savings Plan Administrative Committee
- SEIU Local 721
- Coalition of County Unions

**CONTRACT BETWEEN
COUNTY OF LOS ANGELES
AND
GREAT-WEST LIFE & ANNUITY INSURANCE COMPANY
FOR
THIRD PARTY ADMINISTRATIVE SERVICES
(Contract No. 76808)**

AMENDMENT NO. 4

WHEREAS, on November 20, 2008, the County of Los Angeles, hereinafter referred to as the "COUNTY," entered into a contract with Great-West Life & Annuity Insurance Company, hereinafter referred to as the "CONTRACTOR," for defined contribution plan services; and

WHEREAS, on March 30, 2010, the COUNTY and CONTRACTOR entered into Amendment No. 1 to the Contract; and

WHEREAS, on December 7, 2010, the COUNTY and CONTRACTOR entered into Amendment No. 2 to the Contract; and

WHEREAS, on March 29, 2011, the COUNTY and CONTRACTOR entered into Amendment No. 3 to the Contract; and

WHEREAS, Section 8.4.2, "Amendments" of the aforementioned contract requires that revisions, which affect the Statement of Work and Contract Sum, be prepared and executed by the CONTRACTOR and by the COUNTY Board of Supervisors;

WHEREAS, with respect to the Pension Savings Plan ("Plan") established for part-time employees, the CONTRACTOR has agreed to provide valuation and recordkeeping services for a blended fixed fund during the 12-month put period after the termination notice is received for the SEI Stable Asset Fund ("SEI Fund").

NOW, THEREFORE, it is agreed between the parties that the Contract shall be amended as follows:

- 1. This Amendment No. 4 shall commence and be effective on August 30, 2011 ("Effective Date").**

With respect to the Pension Savings Plan, COUNTY hereby instructs CONTRACTOR to provide the following services for the Transitional Stable Value Fund ("Stable Value Fund") until all assets from the SEI Fund are distributed to the Plan:

- a. The Stable Value Fund shall be an investment pool comprised of the following two (2) underlying investment options authorized by the COUNTY:
 - (i) SEI Fund; and
 - (ii) Schwab Stable Value Fund.

It is intended that an investment in the Stable Value Fund will represent an investment in the constituent underlying investment options set forth above, and not a separate security.

- b. The Stable Value Fund shall be valued on a “unitized” basis, and CONTRACTOR shall calculate and report the daily unit value (i.e. the value of net assets divided by the units outstanding) for the Stable Value Fund each day the New York Stock Exchange is open. Participants will be able to monitor the unit value of the Stable Value Fund on a daily basis on the web-site and voice response unit.
- c. All new contributions allocated to the Stable Value Fund shall be deposited to the Schwab Stable Value Fund.
- d. The underlying investment option allows Participant-directed benefits to be paid without restriction. All such benefit payments shall be deducted only from the SEI Fund.
- e. Effective on the date when the Plan’s assets in the SEI Fund is liquidated, COUNTY directs CONTRACTOR to eliminate the Stable Value Fund by transferring all proceeds from liquidation of the Plan’s assets in the SEI Fund into the Schwab Stable Value Fund.
- f. In the event the CONTRACTOR errs in the computation of the Stable Value Fund’s unit value, the pricing error shall be corrected as follows:
 - i. if the pricing error results in a difference between the erroneous unit value and the correct unit value equal to or greater than \$0.01 per share, then the CONTRACTOR shall reimburse the Stable Value Fund for any loss that results from its errors. (For example, a loss to the Stable Value Fund will occur due to net disbursements from the Fund when the unit value is overstated and from net purchases when the unit value is understated); and
 - ii. if the pricing error resulted in any loss (even if less than \$0.01 per share) to the accounts of one or more current or former participants (that is, the participants’ accounts are worth less, or the participants received a smaller distribution, than would have been the case if no error had been made), the CONTRACTOR shall fund the purchase of sufficient units to restore each affected participant’s account to the level it would have been on the date of correction if the pricing error had not occurred.
 - iii. if the pricing error resulted in an overpayment to one or more participants (each an “overpaid participant”) that ultimately caused a loss to CONTRACTOR, then CONTRACTOR may seek remuneration from the overpaid participants for such loss, provided that: (a) CONTRACTOR furnishes satisfactory evidence that the pricing error arose solely due to incorrect valuation data furnished by the SEI Fund or Schwab Stable Value Fund, and (b) CONTRACTOR agrees not to seek remuneration from an overpaid participant whose overpayment was less than \$20. The COUNTY will use commercially reasonable efforts to provide CONTRACTOR with the necessary information relevant for CONTRACTOR to seek remuneration from such overpaid participants.
- g. COUNTY hereby instructs CONTRACTOR to set up the blended fund and provide an invoice to the COUNTY in the amount of \$10,000 for set up costs and annual fee of \$5,000 for daily administration. If the Plan’s assets in the SEI Fund are not liquidated within 12 months after the termination notice is received for the SEI Fund, CONTRACTOR will continue to provide the blended rate service for no more than a two-year period and provide an invoice to the COUNTY on a prorated basis of \$5,000 per year.

2. Except as modified by this Amendment No. 4, all terms and conditions of the Contract shall remain in full force and effect.

IN WITNESS WHEREOF the County of Los Angeles and Great-West Life & Annuity Insurance Company have each caused this Amendment No. 4 to be executed by its duly authorized officer as of the date first above written.

GREAT-WEST LIFE
& ANNUITY INSURANCE COMPANY

Charles P. Nelson

By ~~Gregory E. Seller~~ Charles P. Nelson
Senior Vice President, Government Markets
President, GWR

COUNTY OF LOS ANGELES

Mike Antonovich

By MIKE ANTONOVICH
Mayor, Board of Supervisors

ATTEST:

SACHI HAMAI
Executive Officer
Board of Supervisors

By *Lachelle Amitherman*
Deputy

AUG 30 2011



I hereby certify that pursuant to
Section 25103 of the Government Code,
delivery of this document has been made.

SACHI A. HAMAI
Executive Officer
Clerk of the Board of Supervisors

By *Lachelle Amitherman*
Deputy

AUG 30 2011

APPROVED AS TO FORM:

ANDREA SHERIDAN ORDIN
County Counsel

By *Andrea Sheridan Ordin*
Principal Deputy County Counsel

ADOPTED
BOARD OF SUPERVISORS
COUNTY OF LOS ANGELES

13

AUG 30 2011

Sachi A. Hamai
SACHI A. HAMAI
EXECUTIVE OFFICER

76808
Supplement No. 7