

Deferred Compensation Plan BOARD REPORT 17-12

Date: April 18, 2017

To: Board of Deferred Compensation Administration

From: Staff

Subject: Plan Governance & Administrative Issues
Committee Recommendations Relative to Budget
Forecasting Assumptions and Staffing Resources

*Board of Deferred
Compensation Administration
John R. Mumma, Chairperson
Michael Amerian, Vice-Chairperson
Cliff Cannon, First Provisional Chair
Raymond Ciranna, Second Provisional Chair
Wendy G. Macy, Third Provisional Chair
Linda P. Le
Thomas Moutes
Robert Schoonover
Don Thomas*

Recommendation:

That the Board of Deferred Compensation Administration:

- (a) Receive and file a report from staff on behalf of the Plan Governance & Administrative Issues Committee relative to its review of Deferred Compensation Plan resources; and
- (b) Approve the recommendations from the Plan Governance and Administrative Issues Committee to:
 - i. Modify, as proposed in the report, the assumptions for key variables used to forecast the Plan's long-term reserve fund balance;
 - ii. Adjust, as proposed in the report, the allocation of time committed to the Plan from the Plan Manager and Executive Director roles;
 - iii. Request that the General Manager, Personnel Department, or designee, establish a new classification of "Defined Contribution Plan Manager," subject to the approval of the Civil Service Commission;
 - iv. Assuming the Civil Service Commission approves the new classification, request that the City Administrative Officer (CAO) establish the salary for the new classification of Defined Contribution Plan Manager;
 - v. Request Mayor and Council to authorize the position as part of the budget development process, or on an interim basis by resolution employment authority, one Defined Contribution Plan Manager, in the Personnel Department, subject to establishment of the new classification; and
 - vi. Establish an ongoing "Administrative Intern" position for the Plan.

Background

At its October 18, 2016 meeting, the Board requested that the Plan Governance and Administrative Issues Committee ("Committee") conduct a resource review for the Deferred Compensation Plan. Committee meetings subsequently occurred on December 7, 2016 and March 21, 2017. The Committee reviewed assumptions for key variables, which are used in forecasting the long-term projections of Plan reserve fund balances (**Attachment A**) relative to their target. The assumptions were last reviewed and adopted by the Board in November of 2013. The Committee further considered issues related to the long-term staffing resources dedicated to the City's Plan. In completing its review and discussion, the Committee's recommendations are now being forwarded to the Board for its review and approval.

Discussion

A. Budget Review and Reserve Fund Variable Assumptions

To assist the Committee in its budget review, staff prepared an analysis relative to each of the key variables, which are used in forecasting the long-term projections of Plan reserve fund balances. That review is included in **Attachment A** to this report. Staff reviewed and discussed each of these assumptions with the Committee at its meetings.

Using what staff and the Committee regard to be a fairly conservative set of assumptions and status-quo expenses, the long-term outlook for the Plan's Reserve Fund appears strong and in fact above the targeted reserve amount. Recapped as follows are the Committee's recommendations to the Board to modify and/or maintain the following long-term assumptions for key variables, which relate to management of the Plan's Reserve Fund:

Variable	Current	Proposed
Plan Assets Growth Rate	6.5%	6.5%
Net Enrollment Growth Rate	1.0%	2.0%
Annual Expenses Increase Factor	2.0%	2.0%
Special Rates Increase Factor: Personnel	86.2%	100.0%
Special Rates Increase Factor: City Attorney	74.2%	100.0%
Stable Value Interest Rate	2.0%	2.0%
Participant Fees: Basis Point Charge	0.10%	0.10%
Participants Fees: Annual Dollar Cap	\$125.00	\$125.00

As part of its deliberations, the Committee asked for information regarding the impact of reducing participant fees. Two primary options exist for a broad-based fee reduction: (1) a reduction in the ten basis point administrative fee charge presently assessed on participant account balances, up to the present \$125 fee cap; or (2) a reduction in the \$125 fee cap.

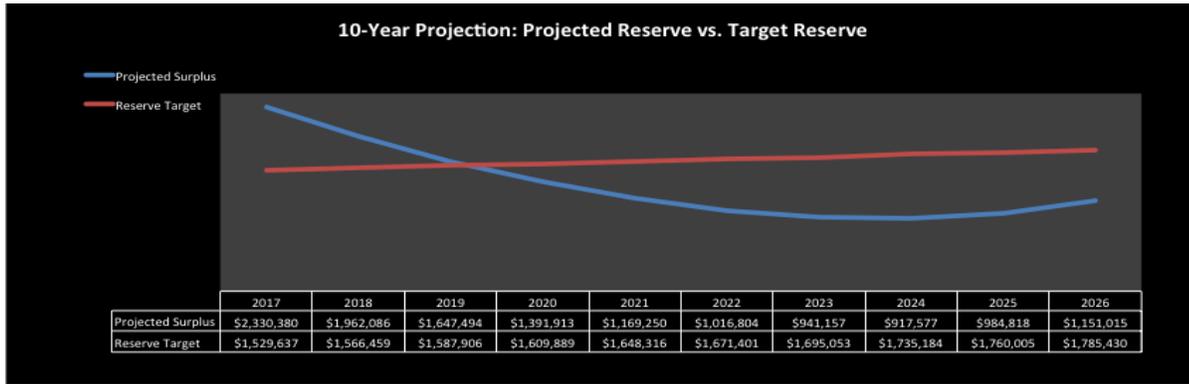
To create a baseline, staff incorporated all of the variables identified above into its projections. In terms of establishing a staff compensation baseline, staff assumed current salaries for filled positions and the mid-point of pay scales for vacant positions.¹ Staff also assumed, for the purpose of these illustrations, the addition of a half-time Administrative Intern position as discussed later in this report.

As identified in prior communications with the Committee and the Board, the targeted reserve amount for the Plan's reserve fund is one-half of Plan annual operating expenses. Staff's analysis focused on the impact of different scenarios on the targeted reserve over a ten-year period.

¹ Given the elongation of step increases with many City classifications, staff believes this approach should provide for the most realistic estimates, especially because the spreadsheet formula which computes long-term salary costs inflates those costs by 2% annually. These projections also do not account for any periods of vacancy over the course of the ten years, which would subtract some unknown level of compensation.

(1) Reduction in Basis Points

A downward reduction by one basis point (0.01%) results in the surplus falling below the reserve fund target starting in the year 2020, significantly increasing its deficit for several years before reversing course in the year 2025. The lowest cap would occur in 2024, with the projected reserve being approximately half the targeted amount.



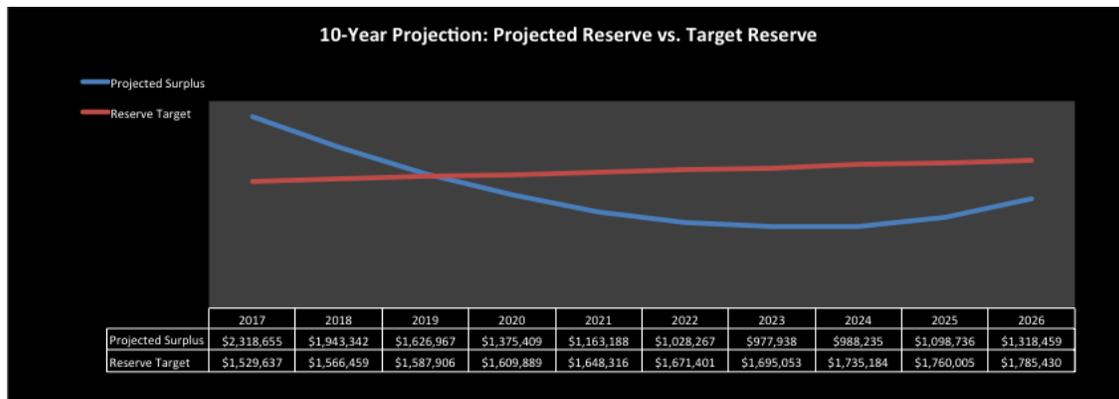
(2) Reduction in \$125 Fee Cap

Reducing the annual dollar cap from \$125 to \$120 had a less significant impact but is forecasted to bring the surplus slightly under 50% of operating expenses by the year 2021. Reducing the cap to \$115 results in an impact closer to that of the fee reduction of 1 basis point.

\$120 Fee Cap Scenario



\$115 Fee Cap Scenario



It should be noted that a reduction in the fee cap only applies to participants with accounts over \$125,000. These participants represent approximately 12,400, or 30%, of the total participant population.

The Committee noted in its discussions the potential for other conceivable contracting costs for the Plan that are not presently part of budgeted expenses, including audit services and data management services. Based on the long-term impact of a fee reduction and the potential for these other expenses, the Committee determined that adjustments in administrative fees would not be prudent at this time.

B. Staffing Resources

At its March 21, 2017 meeting, the Committee and staff discussed options for improving the stability of staffing resources, succession planning, and adapting/enhancing resources to keep pace with the future growth of the Plan. Staff identified for the Committee several options consistent with strategic planning objectives for Plan staffing. They include:

- Implementing mechanisms to improve Plan Executive Oversight Resources; and
- Enhancing Resources/Continuity in Non-Executive Staff Support by establishing an internship position in the Plan.

Staff will address each of these topics separately.

(1) Enhancing Plan Executive Oversight Resources

The Committee explored options for fostering greater stability in the crucial senior plan management role overseeing the City's Plan. Presently, the Plan utilizes two staff resources to provide senior Plan oversight.

First, the Plan uses the civil service classification of Senior Personnel Analyst II to function as the "**Plan Manager**" (working title). This position is responsible for overall management of the administrative, operational, contractual, supervisory, and communications functions of the City's Plan. The percentage of time this position is allocated to the City's Plan is approximately 60%. This position is located within the Personnel Department's Employee Benefits Division. In addition to these duties, 40% of the position has historically been dedicated to supervision of the Division's Human Resources Benefits budget as well as its Commute Options & Parking Program. This position is presently vacant.

The Senior Personnel Analyst II reports to the Employee Benefits Division Chief, a Chief Personnel Analyst who serves as the Plan's "**Executive Director**" (working title). This position is responsible for long-term strategic planning, coordinating the Plan's functions and communications within the larger context of the City's assorted benefits-related programs, and interfacing at a high level with national state/local government resources sharing common interests/best practices in advancing the fundamental mission of defined contribution plans. The percentage of time this position is allocated to the City's Plan is approximately 20%. In addition to these duties, this position is responsible for oversight of the City's Civilian LAwell Benefits Program, Commute Options and Parking Program, Pension

Savings Plan, Human Resources Benefits Budget, and Unemployment Insurance Cost Containment Program.

In combination, these two positions provide opportunities for creating and sharing institutional knowledge, synthesizing communication of the Deferred Compensation Plan within the broader context of the City's compensation and benefits package for its employees, and establishing credibility and leadership within the broader state/local universe of defined contribution plans.

Staff identified for the Committee two potential mechanisms for improving Plan executive oversight resources: (1) adjustments to the allocation of time committed to the Plan from the Plan Manager and Executive Director roles; and (2) creating a separate classification for the Plan Manager position that would provide the Plan with the ability to recruit from among the broadest array of individuals nationwide with the unique experience of administering a large defined contribution plan.

(a) Allocation of Time

The current allocation of time commitments for the Plan Manager and Executive Director roles is a legacy of the gradual growth of the City's staffing commitment to the Plan as it has developed over the years. Looking forward, the Committee's finding is that the Plan would be better resourced by increasing the allocation of time for the Plan Manager role from 60% to 90%, while reducing the allocation of time from the Employee Benefits Division Chief from 20% to 10%. The change to the allocation of time for the Plan Manager position would allow for an increased focus on the Plan commensurate with the growing demands and complexity of the program. It would remove responsibilities for oversight of the Commute Options & Parking Program and Human Resources Benefits Budget while still retaining some margin for oversight of the related Pension Savings Plan.

Reduction of the Division Chief allocation from 20% to 10% would partially offset the cost of this change as well as represent the shifting of certain oversight duties to the Plan Manager. This adjustment would strengthen the Plan Manager's position without losing the additional depth, strategic planning, coordination with other benefits programs, and other support provided by the Executive Director role. Maintaining both roles also helps to better protect the Plan relative to ongoing continuity and succession planning.

The net impact of this reallocation of time would result in an increase of annual reimbursements from the Deferred Compensation Plan Reserve Fund to the General Fund of \$40,000 in both direct salary and indirect costs.

(b) Defined Contribution Plan Manager Classification

The present classification of the Plan Manager position as a Senior Personnel Analyst II is the product of the gradually evolving level of staff support that has occurred with the Deferred Compensation Plan over the course of its growth. When administration of the City's Plan was moved from the City Treasurer to the Personnel Department in 1995, it came with only two position authorities: a Principal Clerk and Accounting Clerk. The Personnel Department first

added one professional position (a Personnel Analyst), and then gradually increased to the present complement:

<u>Position</u>		<u>Estimated Reimbursement %</u>
Senior Personnel Analyst II	-	60%
Senior Personnel Analyst I	-	90%
Management Analyst II	-	90%
Management Analyst I	-	90%
Benefits Specialist	-	100%

The Plan Manager position is presently allocated at 60% for the reasons previously stated. The remaining positions are typically estimated to be reimbursed at less than 100% because of certain other Division duties and functions, including most prominently administration of the City's Pension Savings Plan.

The Plan Manager role is evolving as the size, complexity, and responsibility of administering the City's Plan is growing. The administrative complexity of defined contribution plans has grown immensely in the past 15 years. Federal rules have allowed new features such as unlimited distributions, expanded rollovers, loans, and a Roth 457 savings option. At the same time, the City's oversight and administrative responsibilities have grown, as staff is responsible for a growing number and often increasingly more complex policy and process initiatives, communications development, goals/strategies/metrics, procurements, investment search processes, contracts, budget/finance, and other duties.

Over the next ten years Plan assets are projected to reach over \$9 billion, and participant accounts over 50,000. Should a vacancy or multiple vacancies occur at the executive levels of program administration, the City cannot assume that its lower-level Plan staff will always have the skills or experience required to assume this level of program oversight. Nor should the City assume that the knowledge and experience required to administer a defined contribution plan is likely to be found within other City staff, even at executive levels. While the City's defined benefit retirement plans may appear to offer a potential reserve of applicable experience, in fact they function very differently by possessing:

- Wholly different regulatory frameworks
- Fundamentally different service administration designs (defined benefit self-administered plan recordkeeping vs. defined contribution contracted recordkeeping); and
- Different investment portfolio constructions, procurements, and investment provider relationships.

As a result, the Committee determined that establishing the ability to recruit from both external as well as internal candidates when filling the Plan Manager position would place the Plan in a better position to meet its fiduciary, administrative, operational, investment, and oversight responsibilities.

Creating a unique classification for this position involves:

- a. Requesting the General Manager, Personnel Department, or designee, to establish a new classification of, "Defined Contribution Plan Manager," subject to the approval of the Civil Service Commission;
- b. Assuming the Civil Service Commission approves the new classification, requesting the City Administrative Officer (CAO) to establish the salary for the new classification of Defined Contribution Plan Manager; and
- c. Requesting Mayor and Council to authorize the position as part of the budget development process, or on an interim basis by resolution employment authority, one Defined Contribution Plan Manager, in the Personnel Department, subject to establishment of the new classification.

Relative to the process involved in actually filling the position, the exam would be administered on an open basis only, meaning that even though both internal and external candidates could apply, internal candidates would not receive seniority points when being considered for appointment to the position.

It is noted that notwithstanding the pursuit of creating this new classification, a vacancy presently exists in the Senior Personnel Analyst II position and must be filled as soon as practical. Staff is presently concluding its interview process for candidates who responded to a Citywide promotion/transfer opportunity notice.

(2) Enhancing Resources/Continuity in Non-Executive Staff Support

- (a) Staffing: Job Classifications** – Committee and staff discussed the merits/feasibility of developing a professional employee classification that is specific to defined contribution plan and/or retirement plan administration, an approach that may produce more stability and continuity in the staff positions supporting the Plan by drawing in individuals who have demonstrated an interest in a career path in defined contribution plan administration either academically and/or through prior public sector employment working with these plans. The Committee's finding is that this option should be deferred pending creation of the Defined Contribution Plan Manager classification.
- (b) Staffing: Administrative Intern** – The Committee and staff discussed the merits/feasibility of creating an internship position to support the City's Plan. Such a resource could support both greater continuity and resourcefulness in Plan staffing by recruiting individuals from fields of study designed for career paths in investments or retirement. Three potential classifications exist which could be used to create an Intern position: Administrative Intern, Administrative Trainee, and Student Professional Worker. Staff found, and the Committee concurred, that Administrative Intern (**Attachment B**) would provide the City's Plan with a greater degree of flexibility in making an appointment and potentially extending an employment relationship based on the educational and other qualifications of the selectee. First, Administrative Intern is intended as a recruitment holding class for the Management Assistant examination, providing an opportunity for an individual with an affinity for a career in public sector retirement administration to pursue that with the City. An Administrative Intern also has two pay grades: Pay Grade 1 requires completion of three years of education at a college/university, while Pay Grade 2 requires completion of four years. These pay

grades provide recruitment flexibility. Finally, the class specification provides for applicable duties, such as collecting and analyzing data and preparing reports on administrative, fiscal, budgetary, organizational, personnel, and planning matters.

The approximate annual cost of an Administrative Intern Pay Grade 1 is \$16,508 (this estimate assumes the individual is employed at approximately 20 hours per week). There are no indirect costs. The National Association of Government Defined Contribution Administrators (NAGDCA), in cooperation with the International Foundation for Retirement Education (InFRE), sponsors an annual event at the NAGDCA Conference in which students from across the nation pursuing retirement counseling careers attend the conference as well as participate in a competition. These students, along with programs sponsored by regional universities, would provide a pool from which to recruit for this position. Creating the Administrative Intern position immediately would assist the City with research and special projects that would not otherwise be performed by existing staff. The Committee recommends that the Board approve this position.

C. Conclusion and Next Steps

Assuming the Board's adoption of the Committee's recommendations, staff will proceed to incorporate the assumptions for key variables into future quarterly budget reviews and proceed with the staffing action items. In addition, the Committee requested that staff report back with respect to actual recorded staff time dedicated to Plan functions relative to the projected allocations. Staff is preparing that report.

Submitted by:

Matthew Vong

Steven Montagna