



Board Report 19-36

Date: December 10, 2019

To: Board

From: Plan Governance & Administrative Issues Committee and Staff

Subject: Financial Education and Investment Advisory Services

Board of Deferred Compensation Administration

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Recommendation:

That the Board of Deferred Compensation Administration (Board) approve issuing a Request for Information for financial education and investment advisory services.

Discussion:

At its April 17, 2018 meeting, the Board directed the Plan Governance & Administrative Issues Committee (Committee) to review the merits and feasibility of offering financial education and investment advisory services for Deferred Compensation Plan (DCP) participants and develop recommendations for further consideration.

At its meeting on November 26, 2019, the Committee considered staff's findings related to these services and approved staff's recommendations. This report provides a review of (a) the current state of advisory and educational resources available to City employees both as part and outside of the City's DCP; (b) an overview of potential service offerings and their prevalence within other governmental plans; and (c) the Committee's and staff's recommendation for acquiring more information regarding potential services and their related costs as they would apply specifically to the City's DCP.

A. Background

The core mission of the DCP is to assist full-time City employees in achieving retirement income security. Historically, the DCP has focused narrowly on education related to saving for retirement through the DCP. Most of those resources are offered through local retirement counselors provided through the DCP's Third-Party Administrator (TPA). Retirement counselors staffed by the TPA can educate participants on the types of investment options the DCP offers and the potential benefit of the DCP's risk-based portfolios, but they cannot provide investment advice or manage a participant's investments.

However, since the inception of the DCP, many participants have communicated to DCP representatives and counselors an interest in receiving greater advice and support. This has focused on but is not exclusive to investment advice. As the DCP has recently begun expanding its engagement resources to address a broader range of financial wellness topics, it has become apparent that an appetite exists for more information regarding financial matters that goes beyond retirement savings.

Retirement readiness and security are inseparable from other aspects of an employee’s financial life. The DCP is a unique City benefit in that it represents a single program and resources for the entire full-time City workforce, including its civilian, sworn, and Department of Water and Power (DWP) populations. Virtually all other City benefits (with the exception of the City’s Pension Savings Plan) are provided on a fragmented basis, where benefit design and administration are divided among a range of employer, association, and union sponsors. Given its positioning, as well as the dynamic nature of managing one’s account over a career, the DCP has a unique opportunity to engage and educate the full breadth of the full-time workforce.

B. Current Advisory and Educational Resources Provided to City Employees

Investment advice and financial education should be addressed as two distinct potential areas of service offerings. For the purpose of this review, the Committee should consider them as incorporating the following key characteristics:

FINANCIAL EDUCATION
Providing participants with information and tools for approaching financial needs and objectives holistically, including topics such as savings, debt, insurance, etc.

INVESTMENT ADVICE
Providing participants with specific recommendations regarding selections of and changes to investments (can include both inside and outside the DCP)

This report section will review the current sources of investment advice and financial education resources presently available to City employees.

(1) FINANCIAL EDUCATION SERVICES

- **Employee Assistance Program (EAP) Services** – An EAP is an employer-sponsored resource designed to assist employees in resolving a wide range of life challenges, including but not limited to financial matters. Most City employees have access to an EAP, although the service offerings vary across each product offering. The LAwell Civilian Benefits Program (LAwell Program) provides an Employee and Family Assistance Program (EFAP) for full-time and half-time civilian employees. Through their unions, sworn Police and Fire employees have separate EAPs, as do civilian employees of the Department of Water and Power (DWP), Los Angeles World Airports (LAWA), and Harbor Department. While each program design is different, insofar as financial topics are concerned they generally offer group education at employee worksites, limited free financial coaching on a per-topic basis, and referrals to employee-paid financial services.

- **LAFPP Financial Counseling for DROP Members** – Los Angeles Fire & Police Pensions (LAFPP) is currently piloting a financial counseling program for Deferred Retirement Option Plan (DROP) members. LAFPP utilizes Cambridge Financial Partners, LLC, to provide members with a financial review. Its advisors are familiar with LAFPP benefits and offer guidance on all aspects of their finances. The cost to members is \$275 per session. The program follows a three-step process beginning with a one-hour meeting where a member provides the advisor with relevant financial information. The second meeting is a follow-up to collect any additional information, discuss the member’s financial goals, and input the information into retirement planning software called “Trak.” Finally, the third step is a one-hour meeting where the advisor and member review the advisor’s findings and the entirety of the financial plan, including budgeting, taxes, retirement, long-term care, insurance, and estate planning. The advisor does not offer investment advice and is not permitted to sell any financial products.
- **LAPPL Financial Counseling** – In November 2019, the Los Angeles Police Protective League (LAPPL) introduced a new financial wellness resource called PlanSmart offered through the Metropolitan Life Insurance Company (MetLife) and Ernst and Young (EY). This program provides LAPPL members telephonic and electronic access to EY financial planners. In addition to offering general financial education on common topics like money management, debt management, and retirement planning, the planners are trained in topics unique to LAPPL members like DROP and the DCP. This program is offered free of charge to LAPPL members.

(2) INVESTMENT ADVICE SERVICES

- **Self-Directed Brokerage Option and Schwab Intelligent Advisory** – DCP participants who utilize the DCP’s Self-Directed Brokerage Option (SDBO) can authorize an investment advisor to fully manage their SDBO assets on their behalf. The participants are also able to compensate their advisors directly from their SDBO balance. The investment advisor is, therefore, providing not only advice but direct account management.

C. Programs Offered by Governmental Peers

Staff researched other governmental agencies to determine what type of financial education and investment advisory services, if any, they offer. Most plans generally only offer retirement education through their TPA, similar to the services provided by the DCP. For those offering advisory services, the prevailing service provided is often referred to as “managed accounts” through the plan’s TPA. Managed accounts generally provide web-based “robo-advisor” investment advice using a fixed or sliding scale asset-based fee model whereby participants are charged an advisory fee as a percentage of their overall defined contribution plan assets. Participants pay the fee and in return are provided with investment recommendations or virtual account management that operates based on certain proprietary advice algorithms generated

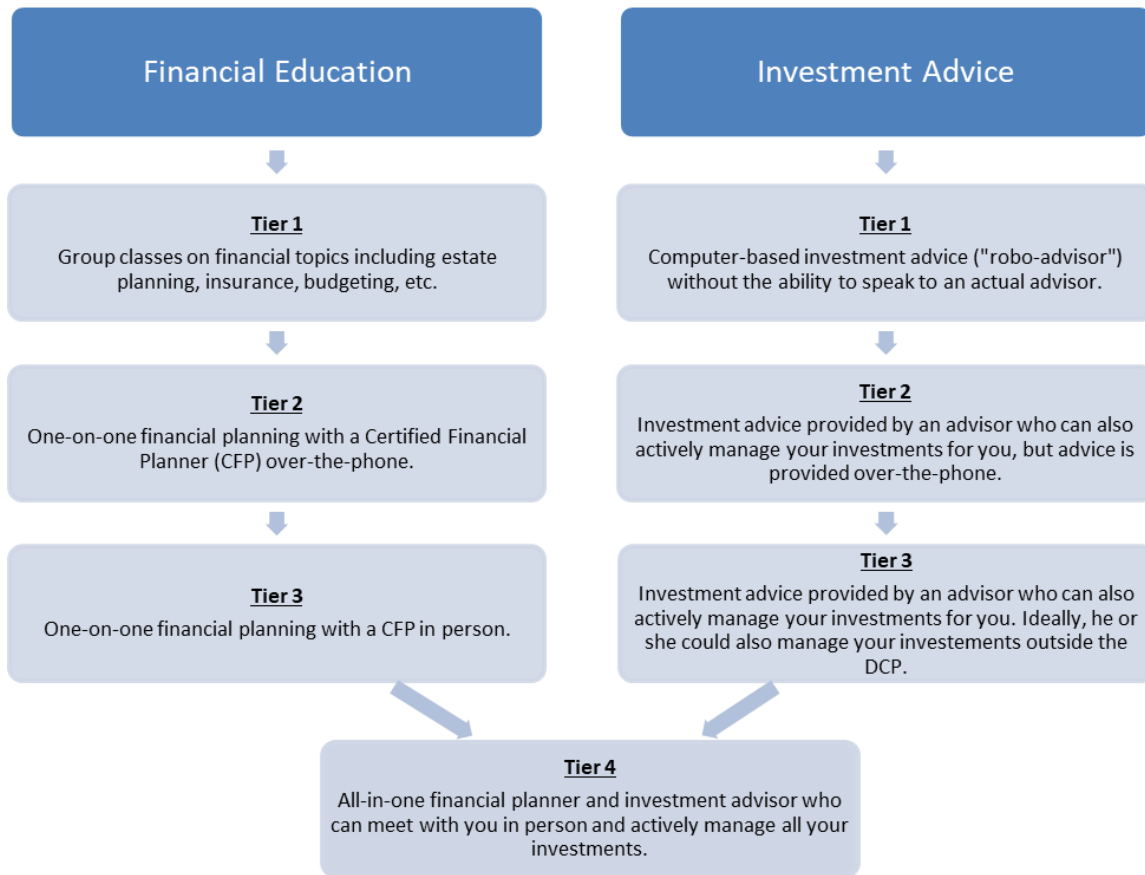
by the service provider. The service design can apply the fee to either the entire population, only those who opt for the service, or some combination.

Two unique financial planning services offered by the City of New York and the State of Missouri are detailed as follows:

- The State of Missouri offers financial planning through a vendor, ICMA Retirement Corporation (ICMA-RC). For an optional flat fee of \$175 (waived for participants who have an account balance of \$100,000 or more), the service provides goal-specific financial planning to help participants address one or two specific financial goals. For an optional flat fee of \$450 (waived for participants with an account balance of \$200,000 or more), the service provides comprehensive financial planning assessing every aspect of a participant's financial situation. Included within the program is a suite of online calculators provided at no additional cost to all participants. These calculators cover topics such as projecting investment growth, calculating Required Minimum Distribution (RMD) amounts, and evaluating pre-tax vs. after-tax investing.
- The City of New York offers financial counseling at a per-session cost to participants of \$179. However, they also offer twelve group seminars at no cost to attendees. The group seminar topics include tax planning, insurance planning, and elder care, among others. The stated purpose of these services is to provide holistic financial education without a profit incentive and by doing so help the program to retain participant assets, and help participants to conserve assets, in retirement. This program provides financial planning services only, not investment advice.

D. Potential Service Provider Offerings

Overview – If the Board wished to expand its financial education and/or investment advice services, a wide range of potential service offerings could be considered. The table on the following page provides a general overview of potential services. Key variables include (a) whether services are personalized or electronic and/or (b) if personalized, whether services are provided one-on-one or in a group setting. For investment advisory services, an additional variable is whether the advisor can manage investment assets outside of the DCP.



Incumbent Provider Services Available but not Presently Offered – Staff reached out to both the DCP TPA, Voya, as well as SDBO provider, Charles Schwab, to identify their advisory and/or educational services:

- **Voya Retirement Advisors** – Voya offers a suite of advisory services called Voya Retirement Advisors (VRA) that can be enabled by plan sponsors. VRA includes a fee-based service as well as a free service; the free service cannot be provided unless the fee-based service is activated.

The fee-based service offers professional management to participants who elect to have their accounts entirely managed by an advisor. Additionally, for plans like the DCP that have on-site retirement counselors, those counselors can acquire the necessary Financial Industry Regulatory Authority (FINRA) licensing to provide investment advice. Fees related to professional management are paid by the participant via an asset-based charge:

- ⇒ 60 basis points for the first \$100,000 in assets managed
- ⇒ 45 basis points for the next \$150,000 in assets
- ⇒ 30 basis points for balances over \$250,000

Enabling these services does not impose a cost for the plan sponsor. Additionally, if the service is enabled, all participants gain access to new online resources at no cost. Participants are provided access to Voya's version of an online robo-advisor providing recommendations for a custom portfolio comprised of DCP core funds based on certain inputs submitted by the participant.

The VRA has the benefit of being fully integrated with the DCP's existing recordkeeping platform. Because advisors for the professional management service are Voya staff, they would be able to help participants with general TPA functions like changing contributions or facilitating withdrawals.

However, while the combination of personalized, electronic, and certain free services provides many of the potentially desirable features of investment advisory services, the asset-based fee structure imposes higher relative costs on larger account balances for essentially the same service, with no fee cap. Staff requested that Voya review whether it could provide the City with an alternative fee structure, but Voya was not able to do so. Services like the VRA are typically offered by recordkeepers and have a high prevalence with governmental plan sponsors. According to the 2018 National Association of Governmental Defined Contribution Administrators (NAGDCA) Perspectives in Practice survey, 58% of plan sponsors offered managed account services through their TPA, 3% offered the service through another avenue, and 39% did not offer the service at all.

- **Schwab Intelligent Advisory Subscription Fee Model** – Charles Schwab offers a proprietary advisory service called the Schwab Intelligent Advisory that is currently only available to retail customers. Although providing this service is not an option for the DCP, awareness of the construction of its fee model as compared to the VRA model is useful to understand as a potential developing alternative to asset-based fee design (similar to the ICMA-RC subscription model found within the State of Missouri plan). With Schwab Intelligent Advisory, customers pay a one-time planning fee of \$300, then a \$30 per month advisory fee. This fee provides customers with access to Schwab's online financial planning tools, a robo-advisor, and unlimited access to a Certified Financial Planner who can provide financial and investment guidance. In addition to offering a non-variable fixed fee, this model is further appealing because it combines financial planning services with investment advisory services.

E. Plan Sponsor Fiduciary Considerations for Offering Investment Advisory Services

Plan sponsors are typically focused on evaluating the fiduciary obligations related to providing investment advisory or financial planning services. The United States Department of Labor (DOL) has offered guidance on this issue to plan sponsors. The DOL indicated that as long as plan sponsors prudently select and monitor investment advice providers, they will not be liable for advice given by the provider. The DOL also indicated that the plan sponsor does not have an obligation to monitor the specific investment advice given by the investment advice provided to any particular recipient of the advice.

F. Next Steps

As stated earlier in this report, the DCP is uniquely positioned to engage and educate the full breadth of the full-time workforce on financial topics. The DCP has experienced considerable success with this approach through its emphasis on providing local retirement counselor services, with approximately 30,000 local participant contacts annually. While pairing counseling with a streamlined investment menu of risk-based funds appears to meet the needs of most participants, there has nevertheless been long-standing interest from many DCP participants in working with a professional advisor. In the DCP's 2015 survey, 83% of participants indicated they were interested in investment advisory services, with 49% of participants indicating they would consider paying for such a service. Furthermore, 1,019 participants who utilize the SDBO pay an advisor to manage their assets, further evidence of the appetite for this service. In addition, in DCP surveys of retired participants who take full distributions of their account balance or who initiate an outgoing rollover of their DCP funds (which has to date been completed by 69 retirees), 48% indicated that the desire to work with a financial advisor who can offer investment advice was an important factor in their decision to roll assets out of the DCP.

The rollover survey data provides an important reminder that participants who are interested in delegating management of their account or who have outside assets that need management may go outside the DCP to secure those services. In particular, participants who have retired or otherwise separated from service may roll funds out of the DCP to work with a financial advisor. Offering investment advice services (paid for by the participants who elect to use them) could support the needs of an important subset of the participant population as well as support the DCP's asset retention objective. An investment advisor provided by the DCP would be carefully vetted and overseen by the City, which would ensure participants are not subject to excessive fees or unscrupulous sales practices.

In reviewing available services, the Committee's and staff's conclusion is that Tier 1 and Tier 2 services are largely redundant of resources already provided to full-time City employees through either the DCP or through EAPs. If the DCP were to expand its service offerings, participants would be best served by options that exist in Tier 3 or Tier 4. DCP participants place high value on in-person interactions and service. Obtaining those personalized services appears to be the driving feature for participants interested in rolling funds out of the DCP after separation from service. An ideal service offering would be the one described in Tier 4 and utilized in the State of Missouri plan. Under this ideal service offering, participants pay a non-variable flat fee and can meet one-on-one with an advisor who can provide a holistic and comprehensive assessment and guidance for their finances, which would include ongoing management of all their investments if so desired.

In that investment advice and financial education resources are a developing service offering within the retirement space industry, the Committee's and staff believe that a prudent next step would be to issue a Request for Information (RFI) to gain a larger understanding of what product-specific offerings might be available to the City. The RFI could include the following key interrogatories:

- Vendor capabilities in offering combined services within Tier 3 and/or Tier 4
- Subscription vs. asset-based fee structures
- Personalized and/or group education or advice vs. web-based services

An RFI is generally used to assess general service capabilities. The decision regarding whether to actually select a service provider or conduct a more exhaustive procurement through a Request for Proposal (RFP) can be deferred until after RFI responses are evaluated. The Committee and staff recommend that the Board approve issuing an RFI for financial education and investment advisory services. If this recommendation is adopted by the Board, staff will present a draft of the RFI to the Board at its January 2020 meeting. If approved, staff will plan to release the RFI in accordance with the timeline below:

Month(s)	Action	Status
November 2019	Staff's recommendation to issue an RFI is reviewed by the Committee	Committee approved recommendation to issue RFI
December 2019	Committee's recommendation to issue an RFI is reviewed by the Board	Upcoming
January 2020	Draft of the RFI is reviewed by the Board	Upcoming
February 2020	RFI is released	Upcoming
April 2020	RFI responses due	Upcoming
April – May 2020	RFI responses evaluated by staff	Upcoming
June 2020	Staff reports findings back to the Board	Upcoming


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