



Board Report 20-34

Date: September 15, 2020

To: Board of Deferred Compensation Administration

From: Staff

Subject: Request for Information Results – Investment Advice and Financial Education Services

Board of Deferred Compensation Administration

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Recommendation:

That the Board of Deferred Compensation Administration (Board) direct staff to schedule a presentation from GuidedChoice regarding its platform and services at the October 20, 2020 Board meeting.

Discussion:

A. Background

At its meeting on **April 17, 2018**, 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. At its meeting on **December 10, 2019**, the Board approved the Committee's and staff's recommendation to issue a Request for Information (RFI) for financial education and investment advisory services. At its meeting on **February 18, 2020**, the Board approved and authorize the release of a proposed RFI for Financial Education and/or Investment Advisory Services. Since that action, the following has occurred:

- **March 4, 2020** – The RFI was released to the vendor community on the Los Angeles Business Assistance Virtual Network (LABAVN) with a response deadline of April 7, 2020.
- **April 7, 2020** – Four responses were received from the following providers
 - Cambridge Financial Partners, LLC and Four Square Financial Literacy Partners, Inc. (Cambridge/Four Square)
 - GuidedChoice, Inc. (GuidedChoice)
 - International City Management Association Retirement Corporation (ICMA-RC)
 - Voya Financial (Voya)

As this was not a Request for Proposals (RFP), respondents were not required to submit documents at this stage with respect to compliance with the City’s general contracting requirements. Staff subsequently completed all of the process and evaluation steps as required in the RFI to assess each proposer’s services and generate a recommendation to the Board.

B. Overview of Provider Submissions

The RFI solicited identified financial education and investment advisory services as two distinct potential areas of service offerings with the following key characteristics:

FINANCIAL EDUCATION/PLANNING
Providing participants with information and tools for understanding and planning for financial needs and objectives holistically, including 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), including digital tools or personalized support.

The review panel consisted of staff members Steven Montagna and Jenny Yau, with support from Wendy Young-Carter of Segal Consulting. This staff report will summarize the key findings and results of the RFP evaluation and recommendations for next steps.

OVERVIEW

Each proposal differed substantially from the other. **The findings of the review panel were that GuidedChoice provided the service design model most consistent with the goals and objectives of offering financial education and investment advice services within the DCP.**

Key findings for each provider are summarized as follows:

(1) Cambridge/Four Square

- **Overview** – Cambridge/Four Square are two corporations owned by husband and wife Robert and Joanna Hinkel; the former firm provides investment advisory services, the latter firm provides financial education services. Cambridge/Four Square jointly submitted a response for both financial education and investment advice services.
- **Fee Structure** – Cambridge/Four Square fees include:
 - (a) Education - \$3,000 per day for an educational group meeting.
 - (b) Financial Planning - \$375 per individual financial plan.
 - (c) Investment advice – 0.75% of assets.
- **Recordkeeping Interface** – Cambridge/Four Square would not need to rely on an interface with the DCP TPA to provide eligibility information and other data to support their services.
- **Scope of Educational Content** – Cambridge/Four Square offers group educational content on topics such as money philosophies, understanding pension and survivor options,

understanding paychecks vs. pension checks, debt management, taxes, Social Security, insurance, education, and estate planning.

- Participant Engagement Staffing – Cambridge/Four Square is located in Newport Beach, with additional offices in Pasadena, City of Industry, and Miami, FL. For financial education, six individuals would provide some or all of the group education, financial planning, and investment advice services.
- Eligible Assets – All DCP assets, including those within the core menu and Self-Directed Brokerage Option (SDBO), as well as outside assets.
- Derivative Income or Sales Related to their Services – None.
- Fiduciary Relationship – Four Square would not assume any fiduciary role for its educational services. Cambridge would act as fiduciaries to plan participants who utilize their services but the firm would not act as a named fiduciary to the DCP.
- Number of Employees – Cambridge has four full-time and two part-time staff and works with 45 financial advisors; Four Square has one full-time and two part-time staff.
- Clients – Cambridge/Four Square presently has two clients incorporating the full complement of financial education and investment advice services the City is requesting: Los Angeles Fire and Police Pensions (LAFPP) and the National Air Traffic Controllers Association (NATCA).

(2) GuidedChoice

- Overview - GuidedChoice formally submitted a response for investment advice services only. Their services include a digital platform together with face-to-face services providing participants with online webinars, videos and articles; an advisory call center; onsite educational courses and meetings; and one-on-one advisor sessions for assets both within and outside of the DCP within a pricing model that caps both plan sponsor and individual participant costs. Although they did not propose a separate financial education program or financial planning services, their advisory services include financial planning educational content, their advisory services include a high level of face-to-face interaction, and they indicated they could partner with a financial planning provider if the City wished to add financial planning as part of the service offering. Finally, they offer a retiree income tool which would provide a unique resource for the DCP retired population.
- Fee Structure – GuidedChoice fees include:
 - (a) \$175-200k set-up and recordkeeping integration fee.
 - (b) \$275,000 annual platform fee.
 - (c) Voluntary participant advisory service fee of \$50 per year.
 - (d) Voluntary managed account service fee of 0.25% per year, capped at \$250.
 - (e) Voluntary managed account services for other household accounts (\$250 annually – would require the other household investor to populate data manually).
 - (f) Unlimited virtual meetings and up to ten free onsite meetings annually, with additional onsite meetings priced at \$2,000 per day.
 - (g) Unlimited virtual counseling; in-person counseling sessions priced at \$250 per hour.

- Recordkeeping Interface – GuidedChoice would rely on an interface with the DCP Third-Party Administrator (TPA) to provide eligibility information and other data to support its services.
- Scope of Educational Content – Although they did not formally propose a financial education or financial planning resource, GuidedChoice offers online planning modules on health plans, college savings plans, emergency savings, budgeting, debt management, insurance, taxes, and estate goals. They also provide video courses on the basics of investing, retirement planning, and entering retirement. They can provide unlimited virtual meetings at no additional cost.
- Participant Engagement Staffing – GuidedChoice is located in San Diego, with a satellite office in Santa Monica, and would provide 5-8 dedicated advisors, depending on the City's needs.
- Eligible Assets – All DCP assets, including those within the core menu and Self-Directed Brokerage Option (SDBO), as well as outside assets.
- Derivative Income or Sales Related to their Services – None.
- Fiduciary Relationship - GuidedChoice would be a named fiduciary to the DCP and would accept fiduciary responsibility for all advice and related communications they provide, with contractual indemnification to the plan sponsor.
- Number of Employees – 30
- Clients – Over 10,000 defined contribution plans with over 2.5 million covered employees.

(3) ICMA-RC

- Overview – ICMA-RC submitted a response for financial education services only. Their services include a team of three financial planners providing onsite and virtual education and financial planning participant services.
- Fee Structure – ICMA-RC fees include:
 - (a) Education and Financial Planning (three planners) - \$0.80 per participant per month (assessed on all plan participants), equaling approximately \$480,000 annually assuming 50,000 participants. The cost would increase to \$1.10 per participant per month for five planners, or \$660,000 annually.
 - (b) Financial Planning - \$375 per individual financial plan.
- Recordkeeping Interface – ICMA-RC would rely on an interface with the TPA to provide eligibility information and other data to support its services.
- Scope of Educational Content – ICMA-RC would provide financial plans generated by their financial planners. Their seminars and webinars include a variety of financial planning topics including retirement basics, retirement income planning, investment basics, social security, Roth IRA conversion, financial planning basics, college planning, estate planning, long term care planning, estate planning, retirement saving challenges for women, special needs planning, and annuities. Their resources also include a Social Security analyzer tool and a variety of printed resources on markets and the economy and topic-specific supplementary material.
- if a participant attends a college planning seminar they would be provided content on the federal student loan program).

- Participant Engagement Staffing – ICMA-RC is located in Washington DC, with a satellite office in San Jose, CA. If the City were to bring in three representatives, two of those representatives are residing in the LA region and one resides in Murrieta.
- Eligible Assets – All DCP and outside assets would be included within the financial planning services offered by ICMA-RC.
- Derivative Income or Sales Related to their Services – None.
- Fiduciary Relationship – ICMA-RC indicated they would accept fiduciary responsibility to the extent they exercise discretion in regard to the administrative services or plan related products made available to the City.
- Number of Employees – ICMA-RC has 890 employees for its recordkeeping and administrative services for retirement plans.
- Clients – ICMA-RC has over 4,800 public sector clients representing over 1.4 million participant accounts and \$59.9 billion in assets.

(4) Voya

- Overview – Voya submitted a response for both financial education and investment advice services. Voya offers a web-based platform of financial education/planning services and investment advice in the form of digital managed account services with the ability to provide advisory services for assets within the DCP (not outside assets). Voya’s advice/managed account services are offered through Voya Retirement Advisors, LLC (VRA), a proprietary services established by Voya in partnership with Financial Engines, Inc. VRA provides access to its customer service representatives and no-cost personalized advice/planning sessions, although these services are only made available to plan sponsors who include the option for participants to sign up for managed account services. Through the managed account services they also can access Professional Management services allowing them to speak to investment advisors when they have questions.
- Fee Structure – Voya’s fees include:
 - (a) Financial Planning - \$300 per individual financial plan (more complex planning involving more than three hours of time would be charged an additional \$100 per hour).
 - (b) Voya provides its VRA advice services at no fee to participants providing that the plan sponsor offers optional managed account advisory services to participants. Managed account advisory services for all services included in the RFI would be structured as follows:
 - First \$100,000 – 0.60%
 - Next \$150,000 – 0.50%
 - Over \$250,000 – 0.40%
- Recordkeeping Interface – Voya already has the recordkeeping infrastructure in place to provide its services to DCP participants.
- Scope of Educational Content – Voya would provide seminars, in person or electronic, on topics including benefits of your retirement plan, investing concepts simplified, personal finance basics, saving for retirement goals with smart budgeting, reaching your retirement goals, social security, estate planning, etc.

- Participant Engagement Staffing – Voya is located in Braintree, MA. Its proposed local engagement representatives would be the team of Voya local representatives currently providing participant counseling services, with the difference being that they would now (per agreement with the City) be able to provide investment advisory services.
- Eligible Assets – Voya’s advisory services would include assets for which Voya is doing recordkeeping but would not actively manage assets in the SDBO or otherwise outside the core assets.
- Derivative Income or Sales Related to their Services – None.
- Fiduciary Relationship – Voya indicated that it would act as an investment fiduciary with respect to advisory services provided to participants.
- Number of Employees – Voya has 5,898 employees, 2,853 of which work exclusively on retirement plan services.
- Clients – Voya has over 5,100 retirement plans representing approximately 5.5 million participant accounts and \$603 billion in assets.

C. RFI Response Evaluation, Findings, and Recommendations for Next Steps

Having considered all of the proposed service models, the review panel’s findings are that GuidedChoice provided the service design model most consistent with the goals and objectives of offering competitively priced financial education and investment advice services within the DCP, based on the following observations:

SERVICES

- One of the most compelling aspects of the GuidedChoice offering is the proposed pricing caps for both City and participant potential fees. Plan sponsor platform costs are capped at \$275,000 annually, while participant costs for those utilizing managed account services would be capped at no more than \$250 annually, regardless of account size. Considering the City’s size and potential usage based on its size, this is a more desirable pricing model than one with no caps to asset-based fees.
- The GuidedChoice service offering includes both platform-based and in-person investment advice services. While the company did not formally propose financial education services, their platform nevertheless includes a fair degree of educational planning content and unlimited ability to interact virtually with plan participants as well as provide plan-level educational sessions as part of their base platform fee. This online method provides self-guided learning tools which can be used at an employee’s own pace.
- In-person educational services (both for individual meetings and group education) would come at an additional cost but in the emerging post-COVID-19 world, it is unclear at this point the degree to which a high level of in-person services will be desired by participants.
- GuidedChoice can partner with a financial planning provider to provide financial plans for those participants who want them. It appears, based on feedback from all firms and also general industry observations, that the uptake for participants desiring formal financial plans may be fairly low. Although adding a planning design feature would make a financial

education/investment advisory service complete, it would not be determinative in terms of seeking an investment advice service provider.

PRICING MODELS

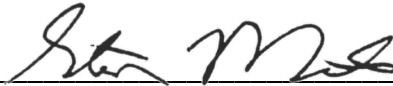
- One of the most influential factors in the review panel's consideration was the fee structures outlined by each service provider. **Attachment A** provides summary fee information for each of the primary services included in the RFI.
- GuidedChoice has a plan-level platform fee which would open up its base platform to all plan participants. Participants would have the ability to voluntarily opt for services but at a fixed or not to exceed cost. Advisory services would cost participants who opt for the service \$50 annually. Managed accounts are a very competitive 25 basis points and capped at \$250 – also only applying to participants who opt for these services. The setup fee, translated as an amortized cost over a five-year contract term, equates to \$40,000 annually.
- Cambridge/Four Square offers educational and advisory services but provides no cap on investment advice fees of 0.75 basis points.
- ICMA-RC offers financial education and planning services but its base costs for these services are charged to all participants and are considerably higher than the platform costs of GuidedChoice (which is providing investment advisory services).
- Voya's platform and related services are provided at no cost to all plan participants but its managed account services have no cap – essentially meaning that those who use managed accounts are subsidizing the platform/services cost for other participants.
- In models involving (a) base services open to all participants plus (b) optional services offered at direct cost to those electing them, it is important to keep in mind who is effectively funding the services overall. In a model where the plan sponsor as a whole is subsidizing part of the cost, all participants are essentially contributing to the broad service offering. In a model strictly relying on revenue from users of optional services, fewer users may be subsidizing the broader service offering.
- Overall, an asset-based fee without a cap means that as assets tend to inflate over time, more revenue is paid by users to the service provider based on that asset inflation. An asset-based fee with caps in place means that participants are not paying more from accounts simply because their accounts are rising in value; revenues to the service provider will only increase if new participants are attracted to the platform. Thus, the GuidedChoice service and pricing model may be the preferred approach if the Board pursues adding any or all of these services.

NEXT STEPS

Expanding services educational or advisory services for DCP participants is a significant consideration for the Board. The RFI provided an important first step in acquiring information regarding the range of potential service offerings from respondents. As a next step of the investigatory process, the review panel believes it would be beneficial for the full Board to,

minimally, review a demonstration of the platform from GuidedChoice and have an opportunity to engage directly with the firm regarding its services. Staff therefore recommends that the Board direct staff to schedule a presentation from GuidedChoice regarding its platform and services at the October 20, 2020 Board meeting. The Board also has the option to interview some or all of the other RFI respondents. Further decisions regarding options for conducting further procurement review, contracting, or not moving forward with offering financial education or investment advice services can be deferred to a later date.

Submitted by:



Steven Montagna, Chief Personnel Analyst

FEE SUMMARY
FINANCIAL ADVICE SERVICES

FINANCIAL ADVICE	Guided Choice	Cambridge/Financial Partners	ICMA-RC	VOYA
<i>Plan Level Fee</i>	\$275,000	n/a	n/a	n/a
<i>Plan Level Fee Expressed on a Per-Participant Basis</i>	\$5.50	n/a	n/a	n/a
<i>Per Participant Fee (advisory services)</i>	\$50 per user annually (only for those who opt in to service)	n/a	n/a	Fees charged only to those electing managed accounts. <u>Tier 1 & 2</u> First \$100k - 0.50% Next \$150k - 0.40% Over \$250k - 0.30% <u>Tier 3 & 4</u> First \$100k - 0.60% Next \$150k - 0.50% Over \$250k - 0.40%
<i>Per Participant fee (managed account)</i>	25 bp up to \$250 max annually	n/a	n/a	n/a
<i>Participant Advisory Service Cost Per 1,000 Users</i>	\$50,000	n/a	n/a	n/a
<i>Participant Managed Account Cost Per 1,000 Users</i>	\$250,000	n/a	n/a	n/a
<i>Participant Managed Account Cost Per 2% of DCP Assets</i>	n/a	\$1,050,000	n/a	\$700,000 (Assumes average 0.50% asset-based charge)

FEE SUMMARY
FINANCIAL EDUCATION/PLANNING SERVICES

FINANCIAL EDUCATION	Guided Choice	Cambridge/Financial Partners	ICMA-RC	VOYA
<i>Plan Level Fee</i>	n/a	n/a	n/a	n/a
	n/a		<p>2 staffing options for City:</p> <ul style="list-style-type: none"> • 3 Onsite CFPs: Monthly Account Fee: \$1.10 • 2 Onsite CFPs: Monthly Account Fee: \$0.80 <p>No hard-copy printing/ mailing related costs; all communications being conducted electronically.</p>	<p>Basic Financial Plan: (approximately 3 hours of analysis/data collection/plan delivery): \$300 annually.</p> <p>Participants with complex financial plans requiring more than 3 hours to prepare assessed additional \$100/per hour.</p> <p>Planning fees collected through check or ACH.</p>
<i>Financial Planning</i>		\$375 per financial plan		
<i>Cost Per 500 Financial Plans</i>	n/a	\$ 187,500	n/a	\$150,000
	n/a	One scheduled day is \$3,000; includes all expenses except meals; attendees usually 40-100 per day.	No separate charge for group meetings	No separate charge for group meetings
<i>Group Meetings</i>				
<i>Cost Per 100 Group Meetings</i>	n/a	\$30,000	n/a	n/a
<i>Total</i>	n/a	\$217,500	\$480,000	\$150,000