



Board Report 22-40

Date: July 19, 2022

To: Board of Deferred Compensation Administration

From: Staff

Subject: DCP Employer Match Considerations

Board of Deferred Compensation Administration
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Discussion:

Presentation providing information about the design and implementation of an employer match program for the Deferred Compensation Plan (DCP).

A. Background

At the Board of Deferred Compensation Administration (Board) meeting on June 29, 2022, staff reported to the Board that there had been recent inquiries about the feasibility of implementing a match program for the DCP. The most recent inquiry had been from the City Administrative Office (CAO), but there has also been interest in recent years from Board members and participants. In light of these inquiries, it would be prudent for the Board and staff to be well apprised of the considerations involved in designing and implementing such a program and for the Board to determine if it wants to take further steps to explore the possibility of including a match program.

This report provides a high-level review of staff's general findings through consultation with the DCP's legal counsel, consultants, and third-party administrator. Each item described herein has additional nuance that is not captured in this report and would need more granular consideration if there were a desire to pursue a match program.

B. Choosing a Match Vehicle

One of the fundamental decisions the City would have to make if implementing a match is deciding whether to structure the match within a 457(b) or 401(a) vehicle. Deciding what kind of vehicle the match dollars contribute to changes how those dollars can be used and affects the employee's annual contribution limits. Specifically, choosing to contribute match dollars to a **457(b)** would have the following negative consequences:

- *Potential Impact on Taxable Earnings.* The amount of any matching contribution allocated to the 457(b) plan reduces the maximum deferral amount available to a participant. This means the employee loses, to an extent, the ability to reduce their taxable earnings for the year, and would be eligible to contribute fewer dollars overall.
- *Potential Tax Impact.* From an employer's perspective, matching contributions made in a 457(b) plan are considered deferred compensation, and the employer may be required to pay FICA taxes on those amounts.
- *Potential Reporting Requirements.* Any employer contribution to a 457(b) plan (including a matching contribution) may subject the plan to new rules under Governmental Accounting Standards Board (GASB) Statement 97, which applies specific accounting and reporting requirements on the employer.

At the same time, there are various practicable upsides to utilizing a **401(a)**:

- *Post-Tax Contributions.* Employees could be permitted to make additional after-tax contributions to the 401(a), thereby increasing retirement savings opportunities.
- *Ability to implement a vesting schedule.* If the City were to tie the match to a vesting schedule (i.e., an employee could only keep the match dollars after a certain amount of service with the City), it would be significantly easier to administer the vesting schedule if the funds were kept in a separate vehicle. In that scenario, the DCP may choose to impose certain limitations on those funds (for example, not allowing non-vested match funds to be used for plan loans).

There are two notable disadvantages to utilizing a 401(a) instead of a 457(b) for match contributions. First, because the 401(a) is a separate vehicle, implementation would be more complex and involve more processes than a 457(b), including the adoption of a second plan document and trust document. Second, 401(a) contributions would count against the Internal Revenue Code (IRC) 415(c) contribution limit. Although the limit is relatively high (\$61,000 in 2022), employee purchases of service credit from their pension system are typically post-tax and count toward the 415(c) limit. DCP staff would have to ensure that matching contributions did not cause an employee in that situation to exceed the 415(c) limit.

C. Aligning employer match with the DCP's participant outcome goals

Implementing an employer match could assist the DCP in meeting its goal of increasing employee participation in the program. It could also help build retirement security by increasing the number of dollars a participant has invested in the DCP account. However, studies have shown that one adverse trend in implementing match programs is the tendency of employees to only contribute up to the match amount. This trend works against the DCP's other goal of increasing employees' individual contribution rates. One comprehensive way to address this shortfall of an employer match would be to tie the adoption of a match to an adoption of automatic enrollment. Employer match is the second most effective way to increase participation, followed only by automatic enrollment. The DCP already has an automatic enrollment program, but it has only been adopted by one bargaining unit thus far. The automatic enrollment program is designed to start employees with a contribution rate of 2% with an annual automatic increase of 0.25%. In addition to an employee's defined benefit retirement plan, this methodology is expected to allow an employee to retire with 100% of their lifestyle income ("lifestyle income" means an employee's gross salary at retirement minus retirement and other salary deductions). While implementing an employer match program on its own would offer some progress toward the DCP's goals, pairing it with automatic enrollment would have a far greater impact.

D. Key implementation steps

The items below provide a high-level overview of the steps involved in implementing a match program:

Framework

The City may desire to determine and adopt a framework for implementation. Through adopting the framework, it may consider the approach and range of the match program by addressing key components to be included or excluded from the program. These framework decisions may greatly impact or change the overall implementation aspects, the number of steps needed, and the duration of the implementation timeline. The considerations include identifying preferences and desires with program items such as:

- Which match vehicle would be best to use, (457(b) vs. 401(a))?
- What should the structure of the match program look like (percent-of-pay vs. flat dollar, parameters and limitations)?
- Should the match program be coupled with other terms or conditions, such as auto-enrollment?
- Which members should be included (specific employee populations, all DCP-eligible employees, new hires only, etc.)?

- How should implementation with each membership be approached ?
- Should a pilot program be executed before a full-scale implementation?

Physical Action Steps

The following tasks would need to be completed in order to implement a match program:

- Amend the DCP Plan Document if a match is implemented as a 457(b). If the match is implemented as a 401(a), a new Plan Document would also need to be created.
 - If using a 401(a), a new and separate trust would need to be established. Additionally, the Administrative Code would need to be amended to grant the Board the authority to administer a 401(a) in addition to the 457(b).
- Negotiate the cost of the implementation with Voya and amend the professional services agreement.
 - Voya indicated that on its side, the implementation of a match typically takes 3-6 months to complete.
- Program the City’s payroll system to calculate the match, including payroll adjustments and retroactive payroll entries. The outbound biweekly payroll file to Voya would need to be updated to include match amounts.
- Conduct robust testing of both the City’s payroll system and Voya’s recordkeeping system.

Implementation Timeline

The DCP Board, staff, and consultants would need to develop a full implementation timeline including:

- A detailed action plan outlining the necessary timeline to complete all action steps and identifying a target “go-live” date.
- An education and communication campaign to inform and educate members
- Metrics and goal setting: a plan to monitor changes in contributions and enrollment factors and determine points to reevaluate plan education and match design.

E. Ongoing administrative responsibilities

The addition of any new plan features introduces complexity to the program and hence increases the administrative burden in overseeing the program. Additionally, an employer match would introduce unique new responsibilities. The DCP would have a responsibility to ensure the accurate calculation and contribution of City matching contributions. DCP staff would have to monitor and audit each pay period’s matching contributions and ensure

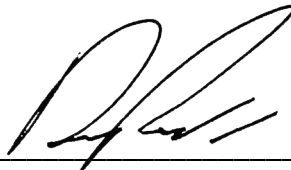
retroactive payroll changes and adjustments accurately impact the employer match. It is unclear exactly what the staffing resource commitment will be. Because the DCP's current staffing model does not provide a large margin for new administrative responsibilities, the ongoing administration of an employer match may require additional staffing resources. If the City does pursue a match, staff can reach out to other similarly sized plans with a match program to gain a better understanding.

If an employer match is implemented through the labor negotiations process, there is a possibility that certain bargaining units become eligible for an employer match while others are not. Another consideration is certain bargaining units may negotiate different terms for their respective employer match (a different matching amount or percentage, a different vesting schedule, etc. than others). The more variations that exist between employee populations, the greater the complexity in administering the program and in communicating with employees about their plan features. For that reason, to the extent possible, it would be beneficial if the features of a match program were consistent across all bargaining units.

F. Conclusion

The prospect of an employer match program could offer an additional meaningful strategy in the DCP's efforts to improve participant retirement outcomes. However, the design and implementation of such a program would be a significant undertaking that would compete with other strategic DCP priorities for Board and staff resources.

Submitted by:



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