

# Deferred Compensation Plan

## BOARD REPORT 17-29

Date: August 22, 2017

To: Board of Deferred Compensation Administration

From: Staff

Subject: Third-Party Administrator Transition Update

*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:**

For the Board to (a) receive and file staff update regarding the Deferred Compensation Plan's Third-Party Administrator (TPA) transition; and (b) approve replacing existing share classes for the Natixis Loomis Sayles Core Plus Bond Fund, Voya Mid-Cap Opportunities Fund, and Hartford Small Cap Growth Fund to share classes "Y," "Portfolio I," and "IB," respectively.

### **Discussion:**

At its special meeting of September 6, 2016, the Board approved the selection of Voya Institutional Plan Services ("Voya") as the TPA for the City's Deferred Compensation Plan pursuant to the Board's Request for Proposal (RFP) for TPA and trustee services for the City's Deferred Compensation Plan. This report provides an update on various developments related to the transition from the incumbent TPA, Empower Retirement, to Voya.

#### **A. Plan Website Demonstration**

Voya, with input from staff, is continues its work to develop the Plan's participant website. Although the live site is still under construction, at the Board's August 22, 2017 meeting Voya will demonstrate some of the website's key organizational features and content, including the following:

- Pre log-in page
- Post log-in landing page
- Customized web retirement calculator update incorporating the City's retirement income projection calculator into the Voya platform
- Drop down navigation and links to transaction and information sections of the site
- Deferral changes
- Withdrawal and termination distributions sections available online

#### **B. Data and Process Conversion**

Voya is continuing its data conversion testing process with Empower. The following is a list of data elements have been provided by Empower and successfully tested, as well as those that are still pending final testing:

**Items Received and Tested**

- Participant Indicative Data
- Investment Elections
- Balance by Fund/Source
- Inception-to-date Contribution Information
- Loan Information
- Account Type (Beneficiary or QDRO) and original owner SSN
- Beneficiary Information
- Installment Information
- Prior-year Balance
- 457 3-year Catch-Up Information
- SDBO Account Numbers (Roth & Non-Roth)
- Ongoing Deferral Information
- Future-dated Deferral Information
- Rebalance Instructions
- Loan Payment Method
- Current Year Disbursements for Required Minimum Distributions
- List of Participants – Prior De Minimis Withdrawals
- Participants Electing Electronic Delivery
- Prior 5 years' Participant Balance Information

**Items Pending Completed Testing**

- Daily Prices From Inception
- Last Contribution Date
- Date of Death and Date of Birth (of original participant for beneficiary installments)

As part of data and process conversion, Voya identified two current participant functions that are not supported by its system: Dollar-Cost Average Transfers and fractional investment elections. Dollar-Cost Average Transfers is a specific type of transfer whereby participants can set up transfers of specific dollar amounts from one investment option (typically a large balance) to another on a recurring basis. As is the case with dollar-cost-averaging generally, the intended benefit of this feature was to provide for a “set and forget” series of ongoing systematic transfers into an investment, thus reducing the risks of a full lump sum transfer at an inopportune time, while removing the obligation of the participant to manually transfer portions of an investment. In practice, however, this option is very rarely used. Currently only 19 participants use this function. The vast majority of participants bypass this feature and make transfers manually.

Fractional investment elections is not a participant tool, but rather a matter of programming allowing participants to establish investment allocations up to fractions of a percent (e.g. a participant might direct 50.5% of a bi-weekly deferral to a specific fund). Voya's system does not allow elections of fractions for allocations – all allocations

must be designated in whole percentages. Only nine participants presently have fractional allocation designations.

For both of these functions, Voya is working with staff to reach out to the affected participants, advise them of the changes, and provide any necessary support to be able to satisfy their investment objectives using other tools and resources.

With respect to archived participant statements, both Empower and Voya are working to facilitate the transfer of these records. Due to the size and complexity of this effort, there is some potential that the archived statements will not be accessible immediately upon the conversion date. However, if access is delayed for a short period of time, the Plan will communicate this information to participants so they know when the materials will be available and how to access them. The user interface has already been reviewed.

### **C. Data Interfaces**

The City and Voya are continuing Payroll and Feedback File testing for the transition. This process has progressed from testing of manual to auto-generated files. As part of this effort, ongoing refinements continue to be made to facilitate the effective transfer of data between the City and Voya. As examples, some of the issues resolved in testing include the appropriate translation of City Controller PaySR legacy codes into employment status, providing descriptions of those legacy codes, ensuring that various withdrawals are recorded accurately, and removing catch-up contributions to avoid unused data fields.

Included among the benefits of providing eligibility files to Voya are allowing the City's Plan to offer online enrollment as well as updating address information automatically, without requiring participant self-updates, as is the case currently for all participants. Going forward, civilian participants will no longer need to self-update their address information with the City's Plan and will be able to enroll online. Any updates in their City address will be reflected in their eligibility file, enabling Voya to update their records.

However, for personal security reasons, sworn Police Officers and Firefighters have their address information masked within the City's payroll system for most data management purposes. Consistent with this practice, addresses for Police Officers and Firefighters will not be provided to Voya. sworn participants will continue with the status quo of self-enrollment and self-updating their addresses, as they presently do under Empower. The lack of address information should not be a major impediment to enrolling for these two populations, as most of them are provided and submit enrollment information during the trainee phase of their employment. Not having addresses will affect Auto Enrollment processing, but staff is exploring options for working around this issue and will work closely with the affected departments and unions once the conversion is completed and the Plan can begin focusing on implementing the Auto Enrollment Program.

## **D. Contract Development and Plan Administration**

Contract Development - In recognition of the Board's direction at its June 20, 2017 meeting, staff, Voya, and Board counsel are continuing their combined expedited efforts to complete the City's contract with Voya. Staff created a tight schedule for contract deliverables, and all parties to date have met their deadlines. Most recently, Board counsel completed its edits on the primary services agreement and trust agreement, and those documents along with attachments have been provided to Voya for the next stage of review.

One of the contract attachments being developed is a robust Data Security Agreement (DSA). The DSA includes contractor requirements with respect to security standards and controls, vulnerability assessments, security incident notification, penetration testing, and privacy and confidentiality. The DSA also requires that Voya will maintain cybersecurity insurance for a policy amount no less than \$35 million. The agreement represents a substantial expansion of cybersecurity contractual and process requirements relative to prior contracts for TPA services. In addition to Plan consultant (Segal Consulting) and Board counsel review and feedback, management staff at the City Controller and Information Technology Agency (ITA) have been invited to provide input before the DSA contract language is finalized.

Administration - On July 11, 2017, Voya administrative and operations support staff came to Los Angeles to spend a full day reviewing and refining the Plan's developing administrative processes and forms. These discussions involved providing feedback and customizations to the content of Voya's standard forms templates, as well as establishing the appropriate protocols for administrative processes as forms are handled by City staff, local staff, and Voya's operation headquarters. The primary goal of this review was to enhance clarity, simplicity, and efficiency to Plan participants, reducing known areas of confusion or complexity. An additional area of focus involved reducing the amount of personally identifiable information (PII) on various forms to minimize potential data breaches. One example of this effort is that the requirement for full Social Security Numbers has been eliminated from virtually all forms.

## **E. Communications**

The previously approved second communication from Voya to Plan participants regarding the transition will be issued on August 21, 2017. Staff and Voya are now drafting the final communications that will be issued during the week of and week following the conversion.

In addition, per the Board's recommendation, Voya developed and will be issuing a communication to the City's labor organizations, the purpose of which is to facilitate support for the transition and provide a mechanism for those organizations to provide feedback and request assistance (**Attachment B**). A draft of this communication was provided to the Board's Chairperson and Labor Representative before being finalized.

## F. Fund Share Class Changes

City staff, Voya, and the Board's investment consultant (Mercer Investment Consulting) have been working to identify optimal share classes for all Plan core investment fund providers as part of establishing the City's investment options on Voya's recordkeeping platform. Towards that end, certain lower net-cost fund share classes have been identified and, as a result, staff is recommending that the Board approve the new share classes.

Investment fund providers often have multiple share classes of the same fund investment strategy. The construction, management, and operations of the fund are identical. Share classes simply reflect different pricing structures the investment provider may offer depending on where and how the fund is made available (e.g. to retail vs. institutional clients).

The transition to Voya presents an opportunity to change share classes in order to achieve lower net costs for the Plan. TPAs establish unique agreements with investment fund providers as part of making funds available on their individual platforms. Depending on the fund provider and the TPA, different pricing agreements may exist for certain funds and associated share classes, particularly as they relate to "revenue sharing" arrangements whereby a portion of overall fund expenses may be rebated by the investment provider to the TPA. In the City's case, this can result in a certain share class of a given fund on the Voya platform being more economical than it may be on the Empower platform.

Some defined contribution plan sponsors use revenue sharing amounts to offset their administrative expenses. However, in the City's Plan, these revenue sharing amounts are exclusively rebated to the individual investors in the funds from which the revenue sharing rebates have been provided; neither the TPA nor the City's Plan receive the value of any revenue sharing.

Based on this analysis, three funds were identified which would allow the City's Plan to move to a lower net cost share class after accounting for revenue sharing rebated back to participants:

- **Natixis Loomis Sayles Core Plus Bond Fund** – Moving to share class Y reduces the effective net expense ratio from **0.39%** to **0.28%**
- **Voya MidCap Opportunities Fund** – Moving to "Portfolio I" reduces the effective net expense ratio from **0.88%** to **0.51%**
- **Hartford SmallCap Growth HLS Fund** – Moving to share class IB reduces the effective net expense ratio from **0.66%** to **0.61%**

A summary of fund costs for each of the afore-mentioned funds both pre- and post-transition is provided in the following table:

Underlying Mutual Funds	Current					Proposed				
	Share Class	Ticker	Prospectus Net Expense Ratio	Revenue Share	Effective Net Fee	Share Class	Ticker	Prospectus Net Expense Ratio	Revenue Share	Effective Net Fee
Natixis Loomis Sayles Core Plus Bond Fund	N	NERNX	0.39	0.00	<b>0.39</b>	Y	NERYX	0.48	0.20	<b>0.28</b>
Voya MidCap Opportunities Fund	R6	IMOZX	0.88	0.00	<b>0.88</b>	(Portfolio) I	IIIMOX	0.81	0.30	<b>0.51</b>
Hartford SmallCap Growth HLS Fund	IA	HISCX	0.66	0.00	<b>0.66</b>	IB	HBSGX	0.91	0.30	<b>0.61</b>

Based on the lower net costs available to participants vis-à-vis these share classes, staff recommends that the Board approve replacing share classes for the Natixis Loomis Sayles Core Plus Bond Fund, Voya Mid-Cap Opportunities Fund, and Hartford Small Cap Growth Fund with share classes “Y,” “Portfolio I,” and “IB,” respectively.

Because these funds are integrated into the Plan’s asset-class branded funds as well as its risk-based profile funds, eight of the Plan’s investment options would experience reductions in net costs, and overall Plan fees would decrease from approximately 0.25% to 0.24%, as indicated in information from Mercer Investment Consulting provided in **Attachment A**. The annual participant savings in dollars, based on assets as of 06/30/17, is approximately \$572,000.

In addition, the Board should be aware that in connection with the fund analysis which Mercer performed, it was determined that the existing share class for the Ridgeworth Mid-Cap Value Equity Fund (I shares), although offered on Voya’s platform, had lower revenue sharing than it did on the Empower platform (0.60% in revenue sharing under Empower vs. 0.50% in revenue sharing under Voya). This would have increased the net cost of the fund. After learning this, staff reached out to Ridgeworth and was able to secure agreement for increasing the revenue sharing to 0.60% for this fund for the City’s account only. This means there will be no change in the net cost for the Ridgeworth Mid-Cap Value Equity Fund, and the share class will remain the same.

Submitted by: \_\_\_\_\_  
Leonard Hyman

\_\_\_\_\_  
Steven Montagna



Attachment A

Fund	Current (as of 6/30/2017)			Proposed (as of 6/30/2017)			Style	As of 6/30/2017
	Fund Net Expense Ratio <sup>1</sup>	Expense Rebate	Expense Ratio after Expense Rebate	Fund Net Expense Ratio <sup>1</sup>	Expense Rebate	Expense Ratio after Expense Rebate		Fund Balance
FDIC-Insured Savings Account	N/A	N/A	N/A	N/A	N/A	N/A	Cash Equivalents	\$327,901,011
Deferred Compensation Stable Value Fund (Net)	0.32%	0.00%	0.32%	0.32%	0.00%	0.32%	Stable Value	\$1,092,820,476
DCP Bond Fund	0.21%	0.00%	0.21%	0.26%	0.10%	0.16%	US Fixed	\$174,366,951
Ultra Conservative Profile	0.28%	0.01%	0.27%	0.30%	0.06%	0.24%	Risk-based	\$57,704,315
Conservative Profile	0.30%	0.01%	0.29%	0.32%	0.07%	0.25%	Risk-based	\$152,064,850
Moderate Profile	0.30%	0.02%	0.28%	0.32%	0.06%	0.26%	Risk-based	\$349,917,523
Aggressive Profile	0.35%	0.03%	0.32%	0.37%	0.07%	0.30%	Risk-based	\$348,770,945
Ultra Aggressive Profile	0.40%	0.04%	0.36%	0.42%	0.08%	0.34%	Risk-based	\$145,274,086
DCP Large Cap Stock Fund	0.02%	0.00%	0.02%	0.02%	0.00%	0.02%	US Large Cap Equity	\$1,786,321,907
DCP Mid Cap Stock Fund	0.51%	0.15%	0.36%	0.50%	0.20%	0.30%	US Mid Cap Equity	\$264,496,693
DCP Small Cap Stock Fund	0.41%	0.00%	0.41%	0.49%	0.10%	0.39%	US Small Cap Equity	\$259,637,086
DCP International Stock Fund	0.75%	0.03%	0.72%	0.75%	0.03%	0.72%	International Equity	\$227,850,378
Schwab PCRA Self-Directed Brokerage Account	N/A	N/A	N/A	N/A	N/A	N/A	Brokerage Window	\$409,829,007
<i>Total investment expense (includes cash and brokerage; excludes assets on loan to participants) <sup>2</sup></i>	0.21%	0.01%	0.20%	0.22%	0.03%	0.19%		\$5,596,955,228
<b><i>Total investment expense (includes cash and brokerage; excludes assets on loan to participants) after expense rebate <sup>2</sup></i></b>	<b>0.20%</b>			<b>0.19%</b>				<b>\$5,596,955,228</b>
<i>Administrative &amp; Other Expenses (excludes assets on loan to participants) <sup>2, 3</sup></i>	0.05%			0.05%				\$5,596,955,228
<b>Total "All-in" Expenses including Admin &amp; Other Expense (excludes assets on loan to participants) <sup>2</sup></b>	<b>0.25%</b>			<b>0.24%</b>				<b>\$5,596,955,228</b>

<sup>1</sup> Mutual fund expense ratio information as of 6/30/2017.

<sup>2</sup> Loan Account balance as of 06/30/2017 was \$196,926,033.

<sup>3</sup> The Administrative & Other Expenses (excludes assets on loan to participants) of \$2,788,715 shown above is an estimate and reflects a quarterly per participant fee of 0.025% on the first \$125K of balance. The number of participants with a balance less than or equal to \$125K during the quarter was 30,281, and total assets for this group amounted to \$1,093,339,867. There were 13,563 participants with balances in excess of \$125K with a billable balance of \$1,695,375,000. The total participant count is 43,844.

## Attachment B



**Michelle Williams, Vice President**  
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August xx, 2017

Union Name  
Attn: Union Rep First and Last Name  
Address  
City, State Zip

### **Re: City of Los Angeles Deferred Compensation Plan Third-Party Administrator Transition**

Dear Mr. / Mrs. Last Name:

Voya Financial® (Voya) is excited to have been selected as the Third-Party Administrator (TPA) for the City of Los Angeles Deferred Compensation Plan. We're working closely with the City's Board of Deferred Compensation Administration and the Personnel Department/Employee Benefits Division to expand the City's leadership role in providing its supplemental retirement savings program. In addition, we look forward to working closely with leadership from each of the City's Employee Labor Organizations to ensure that Voya is able to meet the needs of your members both during the transition and in the years to come.

We will focus on key areas of interest to your membership:

- Enhancing Retirement Readiness for Active Employees
- Improved Customer Service
- New Tools and Service Features
- Local and Personalized Support
- Clear, Concise Communication of Plan Investment Options
- Commitment to Competitive Fees
- Retired Participant Support

As just a few examples, your members will enjoy greater features and services by being able to designate Plan contributions as a percentage of pay, elect direct deposit of loans and withdrawals, and utilize a fully transactional mobile app and personal online planning center. We are also eliminating rollover account maintenance fees so that participants can consolidate their retirement assets without additional cost.

It will take approximately three market days, and two weekend days, to transfer account records to Voya. This information is being provided to participants well in advance and in multiple communications so as to provide them with abundant support and points of contact during the transition. The transition will begin on September 26, 2017. During the transition period account-holders will generally not be able to conduct account transactions (with the exception of participants utilizing the Self-Directed Brokerage Option). Access to their accounts is expected to be available on October 2, 2017. Although unlikely, any delays beyond this date will be communicated via LA457.com. Participants can also receive status updates by contacting the Plan Informational Line at 844-LADC457 or a City staff member at (213) 978-1586 or [perdcp@lacity.org](mailto:perdcp@lacity.org). We have attached for your reference our first two communications to Plan participants providing them with details regarding the change in providers.

Voya is one of the largest defined contribution recordkeepers in the industry, with more than 50 years of experience managing tax-exempt retirement plans across America. Our focus is on helping your members achieve their retirement goals by offering customer-focused solutions and innovative tools, with high-quality service.



We would very much appreciate your feedback and being able to work with you as we move into and beyond the transition. It would be my pleasure to meet with you, at your convenience, and discuss any questions you may have regarding our services. I can be reached directly at (720) 925-5729 or [Michelle.Williams@voya.com](mailto:Michelle.Williams@voya.com).

Sincerely,

Michelle Williams, Vice President  
Strategic Relationship Management

cc: Steven Montagna, Chief Personnel Analyst, Employee Benefits Division  
John R. Mumma, Chairperson, Board of Deferred Compensation Administration