

# DEFERRED COMPENSATION PLAN STRATEGIC PRIORITIES & INITIATIVES 2016

February 16, 2016

# CITY OF LOS ANGELES DEFERRED COMPENSATION PLAN GOVERNANCE/ADMINISTRATION

## Board of Deferred Compensation Administration

*Chairperson - John R. Mumma*

*Vice-Chairperson - Michael Amerian*

*First Provisional Chair - Cliff Cannon*

*Second Provisional Chair - Raymond Ciranna*

*Third Provisional Chair - Wendy G. Macy*

*Linda P. Le*

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*Robert Schoonover*

*Don Thomas*

## Personnel Department Staff

*Assistant General Manager - Gregory Dion*

*Plan Executive Director - Steven Montagna*

*Plan Manager - Alexandra Castillo*

*Administration - Esther Chang*

*Operations - Vacant*

*Communications - Matthew Vong*

*Participant Services - Vacant*

# EXECUTIVE SUMMARY

The City's Deferred Compensation Plan has undergone an evolution in recent years in creating greater clarity around its mission and its interest in benchmarking and achieving higher levels of success. The Plan's progress in this regard began with the introduction of the **Plan's Retirement Income Projection Calculator**; continued with its refinement of a clearer and more detailed delineation of the Plan's **core mission** to assist City employees in achieving and maintaining retirement income security; and, most recently, with its recent enrollment initiatives, begun the process of shifting into **goal-setting and measuring success** with data-driven analysis.

Staff's participation on the Executive Board of the National Association of Government Defined Contribution Administrators (NAGDCA) has provided a unique opportunity to assist in the creation of that Association's national benchmarking initiative, which is aimed at acquiring the data which is necessary for governmental defined contribution plan sponsors to measure success on an internal and relative basis. In 2016, staff's participation on the Executive Board will also provide the opportunity to focus the Association's Annual Conference around this vital question of how governmental plans can measure and create success.

The synergy created by these concurrent City of Los Angeles and national initiatives has created the opportunity for the City's Plan to expand its vision and continue to exercise a leadership role in creating ever higher levels of success in meeting its core mission and serving Plan participants. The purpose of creating Strategic Priorities is to define a broader framework of objectives and resources which can assist the City's Plan in its success-creation efforts.

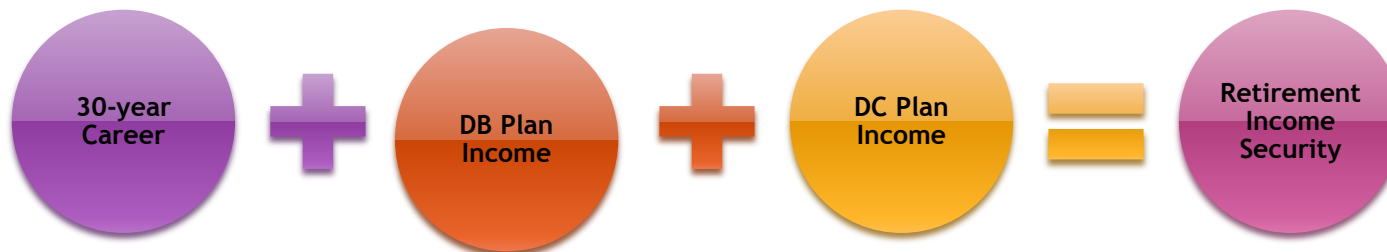
# CORE MISSION

The mission of the City's Plan is to assist all City employees in achieving retirement income security.

The City's Plan defines retirement income security as **100% replacement of "lifestyle income" upon retirement**. Lifestyle income means an employee's nominal annual salary less primary defined benefit, defined contribution, and Medicare salary reductions.

Employees who spend a full career with the City have the opportunity to achieve retirement income security through a combination of their defined benefit plan income and a defined contribution plan contribution rate of 2-10% of salary, subject to certain investment and broader market/economic outcomes.

It is the Plan's objective to align all of its Plan services and features, goals and objectives, and evaluation of participant outcomes, around achieving ever higher levels of success in meeting the core retirement security objective.



# STRENGTHS & CHALLENGES

## WHERE WE HAVE STRENGTHS

- Strong collaborative relationship between Board/staff
- Strong governance infrastructure (e.g. Plan Document, Investment Policy Statement, Bylaws, Procurements)
- Clear sense of mission
- Dedication to innovation
- Strong network of expert advisors (consultants, internal & external counsel)
- Participants trust Plan and feel positively about their future retirement income security
- Strength in key metrics: average participation, contributions, account balance, etc.

## WHERE WE HAVE CHALLENGES

- Goals and metrics need further development, discipline & accountability
- Administrative/regulatory complexity creates ongoing communications challenges
- Awareness and organizational buy-in of retirement security objective is not consistent through all City departments, labor groups, and other potential advocates
- Communications clarity/efficacy can be improved upon
- Resource levels and types may not be fully aligned with the scope and ambitions of the Plan
- Improvements needed in key metrics: low-participation sub-populations, rollover retention, etc.



# RESOURCES



All of the City's internal administrative costs are required to be paid by participant fees. Two accounts are used to pay expenses: a fund held with the Plan administrator which acts as a repository for participant fees and from which most Plan expenses are paid; and a fund held within the City, from which travel and equipment purchases are made. In order to maintain stability within the fee structure, the Plan maintains a reserve balance. The target reserve amount is 50% of annual Plan operating expenses.

In 2016, the target reserve is \$1.5 million while the projected reserve is \$2.5 million, or \$1 million above target. Over a ten-year period, the surplus is projected to be significantly above the target reserve: ranging from \$412,000 in 2020 to \$1.4 million in 2025. This resource position should be considered as the Board evaluates its current and long-term strategic priorities.

10-Year Projection: Projected Reserve vs. Target Reserve

— Projected Surplus  
— Reserve Target

	2016	2017	2018	2020	2020	2021	2022	2024	2024	2025
Projected Surplus	\$2,505,211	\$2,279,215	\$2,118,446	\$2,028,976	\$1,985,529	\$2,026,273	\$2,158,712	\$2,359,098	\$2,667,232	\$3,092,363
Reserve Target	\$1,491,126	\$1,519,372	\$1,531,992	\$1,544,891	\$1,573,975	\$1,587,448	\$1,601,215	\$1,631,182	\$1,645,553	\$1,660,234

# PROPOSED STRATEGIC PRIORITIES 2016



## Administrative Priorities

1. Execute Third-Party-Administrator Search
2. Innovate Plan Marketing/Communications/Distribution Channels
3. Implement Automatic Enrollment Program
4. Evaluate Benefits of Benchmarking/Data Management Resources
5. Review/Update Investment Policy Statement, Plan Document & Bylaws

## Participant Priorities

1. Promote Retirement Security Awareness/Conduct Participant Survey
2. Identify/Meet Participation Growth Targets
3. Identify/Meet Average Contribution Rate Growth Targets
4. Identify/Meet Rollover Retention Targets
5. Research Distribution Behaviors for Purpose of Creating Related Metrics



# PROPOSED ADMINISTRATIVE PRIORITIES





# STRATEGIC ADMINISTRATIVE PRIORITY #1

## EXECUTE THIRD-PARTY-ADMINISTRATOR SEARCH

### Key Dates:

- RFP Issue Date: 02/05/16
- RFP Due Date: 03/24/16
- Target Decision Date: 06/21/16

### Overview:

The Third-Party-Administrator (TPA) search process is the highest priority objective for the Plan in 2016, given the complexity of the services and the TPA's impact on participant outcomes.

### Objective:

The objective of the TPA search process is to identify the organization that can best partner with the City to achieve its ambitious objectives for administrative and participant outcomes.

### Resource Considerations:

The review process for the TPA RFP will involve a significant dedication of staff time and resources during the period March-June 2016. Because of that resource commitment, it will likely crowd out virtually all but the most critical participant service functions during that period. Any decision to change TPAs would extend that resource commitment at least for the balance of 2016 and until any conversion-related administrative issues have been fully addressed.

### Recommended Board Action:

None required at this time. The RFP has been adopted and released.

REQUEST FOR PROPOSAL  
**THIRD PARTY ADMINISTRATOR SERVICES**  
City of Los Angeles Deferred Compensation Plan  
Personnel Department - Employee Benefits Division  
On behalf of the Board of Deferred Compensation Administration

Date Issued: February 1, 2016

TITLE: THIRD PARTY ADMINISTRATOR SERVICES FOR THE CITY OF LOS ANGELES DEFERRED COMPENSATION PLAN

CONTRACT TERM: Five (5) years

PRE-PROPOSAL CONFERENCE:  
February 17, 2016  
City Hall  
200 North Spring Street, Room 805  
Los Angeles, CA 90012  
1:00 p.m. – 2:00 p.m.

PROPOSAL DELIVERY ADDRESSES:  
City of Los Angeles  
Attention: Esther Chang  
City Hall  
200 North Spring Street, Room 867  
Los Angeles, CA 90012

DEADLINE FOR SUBMITTING PROPOSAL: March 18, 2016 at 3:00 p.m.

DEADLINE FOR OUTREACH TO SUBCONTRACTORS (pursuant to the City's Business Inclusion Program outreach requirements): February 1, 2016 at 5:00 p.m.

RFP ADMINISTRATOR:  
Esther Chang, Assistant Plan Manager  
Phone (213) 978-1586  
Email: [esther.chang@cityofla.org](mailto:esther.chang@cityofla.org)

# STRATEGIC ADMINISTRATIVE PRIORITY #2

## INNOVATE MARKETING/ COMMUNICATIONS/ DISTRIBUTION CHANNELS



### Key Dates:

- Staff/consultant recommendations for communications innovations due at 03/15/16 Board meeting
- Launch changes/resources in full or in part by October 2016 National Retirement Security Week

### Overview:

Personnel staff have been working with the Board's new Communications Consultant to develop proposals for refining and improving upon the core messaging for the City's Plan. In addition, staff and the consultant are developing a proposal for developing new communications initiatives and distribution channels targeted at both "Participants" and "Advocates."

### Objective:

The objective of attempting innovations and Plan marketing and distribution channels is to increase participant awareness of the benefits of Plan participation and contributing at a level consistent with achieving the retirement income security objective.

### Resource Considerations:

Communications resources come from staff, the Plan's communications consultant, and the Third-Party-Administrator. Development of new materials and resources would involve additional investments from the Plan; the specifics of those investments and costs would be provided in the 03/15/16 staff report for Board consideration.

### Recommended Board Action:

None required at this time. Recommendations will be presented at the Board's 03/15/16 meeting.

# STRATEGIC ADMINISTRATIVE PRIORITY #3

## IMPLEMENT AUTOMATIC ENROLLMENT PROGRAM

enroll



### Key Dates:

- ◉ The Board has requested that the City Controller implement Auto Enrollment payroll functionality by 03/31/16.
- ◉ Assuming the 03/31/16 deadline is met, implementation of the pilot phase of Auto Enrollment could occur on or around 07/01/16.

### Overview:

The Board has adopted an Automatic Enrollment Program (AEP) within the Plan Document. At least one employee labor organization is willing to participate in the AEP on a pilot basis. Moving forward is dependent upon the City Controller and DWP payroll devoting the resources to establish the required payroll functionality and data exchange with the TPA.

### Objective:

The objective of implementing the AEP is to increase the number of employees with an opportunity to meet the retirement security objective.

### Resource Considerations:

In this case it is the resources of the City Controller and DWP payroll that are the key to moving forward with AEP implementation.

### Recommended Board Action:

None required at this time. At its 01/19/16 meeting, the Board approved a communication to the City Controller emphasizing the importance of completing AEP payroll development by 03/31/16.

# STRATEGIC ADMINISTRATIVE PRIORITY #4

## EVALUATE BENEFITS OF BENCHMARKING/ DATA MANAGEMENT SERVICES



### Key Dates:

- Convene the Plan Governance & Administrative Issues Committee as soon as practical to consider benchmarking & data management resource options.

### Overview:

Historically the Plan has relied on the TPA to generate Plan data, but in certain key areas the TPA is ill-situated to maintain data regarding the most essential measurements of Plan success (e.g. calculations of the Plan participation rate and retirement income replacement projections, which rely on marrying TPA recordkeeping data and payroll data; measuring/surveying participant awareness and preferences, particularly at more complex levels of demographic and population characteristics; and the Plan's independent Retirement Income Projection Calculator, which was produced by a TPA affiliate). NAGDCA's recent benchmarking initiative and this year's annual conference will help position its member plans to obtain greater clarity around relevant data, but it will still be up to individual plans to delve more deeply into developing/analyzing data, setting goals, and creating processes to reach for ever-higher levels of success. The City's Plan is positioned to potentially enhance its leadership role in this area by considering options for combining different data sets (TPA, payroll and survey) into an independent data warehouse. When NAGDCA conducted its Request for Information (RFI) for benchmarking services, the responses suggested the costs of utilizing a benchmarking firm for the required services may not be prohibitive.

### Objective:

The objective of considering additional data management services is to assist the Plan in generating data and setting goals relative to the Plan's most essential measurements of success.

### Resource Considerations:

Utilization of a data management resource would require additional contracted expenditures.

### Recommended Board Action:

Refer consideration of new benchmarking and data management resource options for review and recommendations by the Plan Governance & Administrative Issues Committee.

# STRATEGIC ADMINISTRATIVE PRIORITY #5

## REVIEW/UPDATE INVESTMENT POLICY STATEMENT, PLAN DOCUMENT & BYLAWS



### Key Dates:

- The Plan's authoritative governing documents are all due for review.
- Investment Policy Statement and Plan Document review can be led by contracted resources with staff coordination; Plan Bylaw review will be led by staff. All of these review processes would ideally be completed in 2016.

### Overview:

The Investment Policy Statement, Plan Document, and Plan Bylaws are all due for review. The Investment Policy Statement would also entail a review of the Plan's investment menu and any potential adjustments thereto. The Plan Document review would involve a review by Board internal/external counsel and Plan consultant, not simply for technical accuracy but also for any policy options that should be explored. The Bylaws would be reviewed for updates as well as incorporating any additional policy/governance subjects.

### Objective:

The objective of these reviews is to ensure that the Plan is executing best practices in the governance and design of the Plan.

### Resource Considerations:

These reviews would require investment consultant, administration consultant, and outside tax counsel expenditures.

### Recommended Board Action:

That the Board refer review of the Plan's Investment Policy Statement to the Investments Committee; and refer review of the Plan Document and Bylaws to the Plan Governance & Administrative Issues Committee.

# PROPOSED PARTICIPANT PRIORITIES





# STRATEGIC PARTICIPANT PRIORITY #1

## PROMOTE RETIREMENT SECURITY AWARENESS/ CONDUCT PARTICIPANT SURVEY



### Key Dates:

- In October 2014 the Plan promoted its Retirement Income Replacement Calculator and awareness of the Retirement Income Security objective; in 2015 the Plan began measuring participant awareness of plan services/features, confidence in future retirement security and trust of the Plan, and service preferences.
- October 2016 is National Retirement Security Week and is the ideal target for promoting awareness and conducting a participant awareness survey.

### Overview:

The Board has been using National Retirement Security Week as an opportunity to engage participants on the topic of retirement readiness as well as on the benefits/services/features of the Plan. Engagement and survey data acquired from these efforts has now established a baseline to benchmark participant engagement/awareness.

### Objective:

The objective of promoting and measuring participant awareness of what creates retirement readiness is to influence the behaviors which drive successful participant outcomes.

### Resource Considerations:

Development/issuance of marketing materials, promotional campaigns, surveys, and enhancements to the Plan's Retirement Income Projection Calculator involve time and funding resources.

### Recommended Board Action:

None required at this time. Specific recommendations for actions will be brought forward in late spring/early summer.



# STRATEGIC PARTICIPANT PRIORITY #2

## IDENTIFY/MEET PARTICIPATION GROWTH TARGETS



### Key Dates:

- The Plan should set annual goals for improvements in participation metrics, to be measured year over year (2015 vs. 2016) and monitored throughout the year.

### Overview:

Participation in the Plan is a pre-requisite for virtually all eligible City employees to achieve the retirement security objective, because retirement security is otherwise not possible to achieve by relying on the defined benefit program alone. Participation can be measured from multiple perspectives: the overall participation rate (participation of active employees as a percentage of the overall eligible population); the gross number of participants (the total number of overall participants, both active and separated from service); gross new enrollments (the gross number of new participants enrolled into the Plan); and net new enrollments (the net number of new enrollments which takes into account those accounts which are closed due to in-service withdrawals or post-service full account liquidation).

### Objective:

The Board recently adopted a goal of increasing the gross number of new Plan enrollments by 3% on an annualized basis. Additional goals can be set around improving the Plan's overall participation rate, gross number of participants, and net new enrollments. Staff's objective is to develop strategies for increasing enrollment making the most efficient use of available resources.

PARTICIPATION		
Metric	2016 Goal	2015 Results
Gross New Enrollments	3% increase	Pending
Participation Rate	Year-end participation rate 1% higher relative to prior year-end rate	Pending
Net New Enrollments	3% increase	Pending
Total Number of Participants	3% increase	Pending

### Resource Considerations:

Increasing participation results will require staff and TPA resources; success can be accelerated by innovating marketing strategies and distribution channels as outlined in Strategic Administrative Priority #2, which would require an additional investment of resources.

### Recommended Board Action:

None required at this time. Recommendations related to improving participation metrics and developing new innovations in engaging Participants and Advocates will be presented at the Board's 03/15/16 meeting.

# STRATEGIC PARTICIPANT PRIORITY #3

## IDENTIFY/MEET CONTRIBUTION RATE

### GROWTH TARGETS



#### Key Dates:

- If Auto Enrollment is implemented in 2016, participants will have the option to elect contributions as a percent of pay rather than only by dollar amount. This feature, along with concurrent marketing efforts to align contributions as a percent of salary with income replacement as a percent of salary, should promote higher contribution levels.

#### Overview:

Contribution levels as a percent of salary are a key metric for determining whether a participant is contributing at a level commensurate with achieving the retirement income security objective. The Plan has research indicating that a contribution range over a 30-year career ranging from 2-10% is sufficient to achieve 100% lifestyle income replacement, and data indicating that on the aggregate participants are contributing at a 5-11% range over a full City career. The City's Plan can therefore identify the appropriate contribution level based on years of service; further action is required to communicate that to participants, provide them the tools to elect an appropriate contribution level, and measure progress over time.

#### Objective:

The objective of setting contribution rate growth targets is to raise awareness and promote successful outcomes with respect to contributions at a rate that will meet the retirement security objective.

#### Resource Considerations:

City Controller and DWP Payroll resources are needed to implement AEP payroll functionality and establish percent of pay contributions. Additional staff and consultant time is required to develop proposals for other tools and marketing materials to promote higher contribution levels.

#### Recommended Board Action:

None required at this time. Staff will address specific proposals related to this as soon as administratively feasible.

# STRATEGIC PARTICIPANT PRIORITY #4

## IDENTIFY/MEET ROLLOVER RETENTION TARGETS

### Key Dates:

- Net rollover activity is already monitored on a quarterly basis, but no specific goals or related strategies to implement those goals have been implemented. In 2016 the Plan should establish specific rollover retention targets and a strategy for ongoing improvement.

### Overview:

On a quarterly basis the TPA provides statistics indicating aggregate rollover activity (incoming and outgoing) and the net amount. However, the Plan has not identified a strategy for improving rollover outcomes. That strategy should include setting specific targets for improving upon the retention of assets as well as reducing rollover outflows, developing marketing materials and communication “checkpoints” for participants considering rolling out funds, reviewing the resources available to participants within the Plan that are able to meet the needs that outside investment managers may be representing they are better positioned to fulfill, and monitoring how/where external financial advisors are accessing our participants.

### Objective:

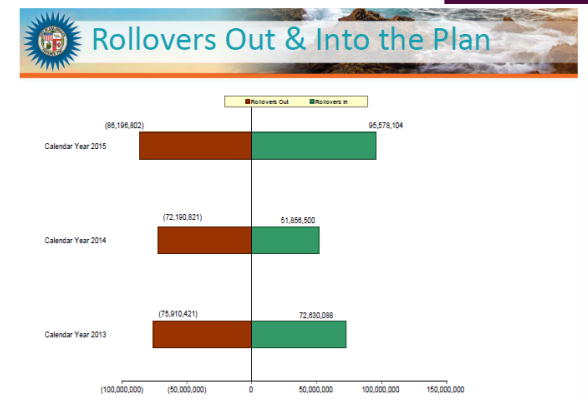
The objective of improving upon rollover retention targets is to assist participants in preserving their retirement income security resources.

### Resource Considerations:

Additional staff and consultant time is required to develop proposals for tools, strategies and marketing materials to develop the data, strategies, and resources to measure and create success.

### Recommended Board Action:

None required at this time. Staff will address specific proposals related to this as soon as administratively feasible.



# STRATEGIC PARTICIPANT PRIORITY #5 RESEARCH DISTRIBUTION BEHAVIORS FOR PURPOSE OF CREATING RELATED METRICS



## Key Dates:

- Distribution elections are already monitored on a quarterly basis, but no specific goals or related strategies to implement those goals have been implemented. In 2016 the Plan should establish specific distribution goals and a strategy for ongoing improvement.

## Overview:

There has been little research nationally or within governmental plans specifically regarding what is driving participant behaviors around drawing down assets post-severance of employment. Before defining any specific goals in this arena, research is required to assess why retired participants are making the distribution decisions they're presently making, whether a "one-size-fits-all" approach to measuring success makes sense or whether participant behavior may involve a wide range of considerations (e.g. medical care, eldercare, emergency planning, etc.) that need to be first understood before determining what constitutes success in this arena and where to set appropriate objectives.

## Objective:

The immediate objective of this research is to identify the primary drivers/considerations of participant behaviors with respect to drawing down assets following separation from service.

## Resource Considerations:

Additional staff and consultant time is required to develop proposals for conducting research and developing recommendations for further action.

## Recommended Board Action:

None required at this time. Staff will address specific proposals related to this as soon as administratively feasible.