

Deferred Compensation Plan BOARD REPORT 18-10

Date: March 20, 2018
To: Board of Deferred Compensation Administration
From: Staff
Subject: Plan Goals, Strategies, and Metrics

*Board of Deferred
Compensation Administration*
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Recommendation:

That the Board of Deferred Compensation Administration: (a) receive and file this report regarding Deferred Compensation Plan goals, strategies, and metrics; and (b) adopt Fiscal Year 17/18 goals to: (1) increase the number of gross new enrollments by 6%; (2) increase average participant contributions by 2%; (3) reduce the number of closed accounts as a percent of retired participant accounts from 7% to 6%; and (4) reduce the number of outgoing rollovers as a percent of retired participant accounts from 5% to 4%.

Discussion:

At its October 18, 2016 meeting, the Board adopted specific goals and outcomes related to improving key participant outcomes for Fiscal Year (FY) 16/17. Goal categories included participation, contributions, distributions, and asset retention. Each goal was accompanied by proposed strategies in order to reach the goal. Since that meeting, staff has not yet proposed new goals for FY 17/18 or provided a review of progress made toward FY 16/17 goals. This report provides the Board with (a) a review of FY 16/17 goals and progress made, (b) proposed goals for FY 17/18, and (c) proposed strategies for attaining said goals.

A. Participation

For FY 16/17 the Board adopted a goal of increasing new enrollments by 5% over the prior year, for a target of 1,606 new enrollments. The Plan reached **136%** of this goal with **2,190** new enrollments.

For FY 17/18, staff proposes establishing a **6%** year-over-year increase in new enrollments. However, the targets would be further refined at the departmental level, with targets for each department adjusted according to the department's size and current Plan participation rate. Departments with higher enrollment rates would have smaller targets, while departments with lower enrollment rates would have larger targets. This refinement helps focus local enrollment efforts on populations which have historically proven more challenging to enroll. *Figure 1* below indicates FY 16/17 new enrollments by department, departmental participation data, and staff's proposed numerical targets for FY 17/18. Departmental groupings are ranked in order of their participation rates.

Figure 1

Department Name	16/17 Enrollments	Participants	Eligible	Participation Rate	17/18 Goal
Fire – Sworn	142	2,984	3,183	94%	146
Police – Sworn	384	9,083	10,227	89%	396
LACERS	11	114	137	83%	11
ITA	19	295	387	76%	20
Public Works – Board	6	72	95	76%	6
CAO	7	86	114	75%	7
Fire & Police Pensions	5	86	115	75%	5
Harbor	38	651	880	74%	40
Public Works – Engineering	36	559	763	73%	38
Public Works - Street Lighting	18	171	233	73%	19
Controller	6	101	141	72%	6
Finance	13	228	318	72%	14
Police – Civilian	190	1,651	2,296	72%	201
Convention & Tourism	2	7	10	70%	2
Personnel	26	343	491	70%	28
Transportation	67	925	1,315	70%	71
City Attorney	48	642	933	69%	51
City Clerk	11	73	108	68%	12
Fire – Civilian	31	237	349	68%	33
Aging	2	24	36	67%	2
Public Works - Contract Administration	16	194	296	66%	17
Emergency Management	4	15	23	65%	4
Water & Power	345	6,583	10,459	63%	366
Economic & Workforce Development	4	82	135	61%	4
Planning	28	210	346	61%	30
Airports	181	1,963	3,255	60%	192
Housing & Community Investment	37	347	583	60%	39
City Ethics	0	14	25	56%	0
El Pueblo	0	5	9	56%	0
Building & Safety	78	511	924	55%	86
Library	120	419	771	54%	132
Public Works – Sanitation	110	1,373	2,564	54%	121
Zoo	7	110	202	54%	8
Recreation & Parks	88	679	1,353	50%	97
Animal Services	7	144	306	47%	8
Cultural Affairs	4	26	55	47%	4
General Services	45	613	1,328	46%	50
Public Works - Street Services	23	440	958	46%	25
Neighborhood Empowerment	0	11	26	42%	0
Disability	0	7	20	35%	0
Council	16	113	342	33%	18
Employee Relations	0	1	3	33%	0
Mayor	15	43	184	23%	17

Figure 2 indicates the number of new enrollments for FY 17/18 against the 6% target. The target translates to 194 new enrollments per month. To date, the Plan has for most months exceeded the target. The largest increase occurred in October.

Figure 2

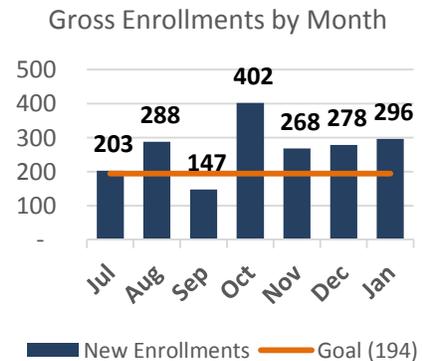


Figure 3 provides a “heat map” of new enrollments by department and indicates degrees of progress made toward per-department goals proposed in Figure 1. The greener the percentage change, the greater the progress toward or in excess of the target.

Figure 3

Department Name	17/18 Goal	FY 17/18 Enrollments	Percentage
Aging	2	0	0%
Airports	192	155	81%
Animal Services	8	20	260%
Building & Safety	86	51	59%
CAO	7	5	67%
City Attorney	51	46	90%
City Clerk	12	9	77%
LACERS	11	10	88%
City Ethics	0	0	100%
Economic & Workforce Development	4	3	71%
Controller	6	11	173%
Council	18	30	170%
Cultural Affairs	4	2	45%
ITA	20	8	41%
El Pueblo	0	0	100%
Emergency Management	4	0	0%
Employee Relations	0	0	100%
Fire – Sworn	146	163	111%
Fire – Civilian	33	13	40%
Finance	14	13	94%
General Services	50	46	93%
Harbor	40	45	112%
Housing & Community Investment	39	32	82%
Library	132	40	30%
Mayor	17	18	109%
Neighborhood Empowerment	0	5	100%
Convention & Tourism	2	2	94%
Fire & Police Pensions	5	5	94%
Department on Disability	0	0	100%
Personnel	28	15	54%
Planning	30	29	98%
Police – Sworn	396	310	78%
Police – Civilian	201	113	56%
Public Works – Board	6	4	65%
Public Works - Contract Administration	17	19	112%
Public Works – Engineering	38	34	89%
Public Works – Sanitation	121	149	123%
Public Works - Street Lighting	19	10	52%
Public Works - Street Services	25	53	209%
Zoo	8	11	143%
Recreation & Parks	97	92	95%
Transportation	71	60	84%
Water & Power	366	251	69%
	2,325	1,882	81%

Strategies Update:

- Local Counselor Outreach – As new and more refined data becomes available to Plan staff, it is shared in close collaboration with the Plan’s Third-Party Administrator (TPA), Voya, and Voya’s local retirement counselors. This allows the counselors to target specific employee populations. Targeted local counselor outreach over the current fiscal year includes enrollment events at the Personnel Department building, Hyperion Wastewater Treatment Plant, and Figueroa Plaza (which includes employees of the departments of Aging, Animal Services, Building & Safety, Cultural Affairs, Recreation & Parks, and Disability). In addition staff will establish a presence at the City Hall weekly (Thursdays) Farmers’ Market located on Main Street during the month of May.
- Targeted New Hire Communications – Staff worked with Voya to design new-hire marketing materials which are direct-mailed to all newly hired employees eligible for the program. This is an enhancement resulting from exchanging bi-weekly eligibility files with Voya. Employees are advised of how to enroll online without needing to submit a paper enrollment form. Proactive individualized communication to new employees, as well as taking advantage of other opportunities to engage employees at onboarding events, creates the multiple “touch points” which can improve voluntary enrollment outcomes.

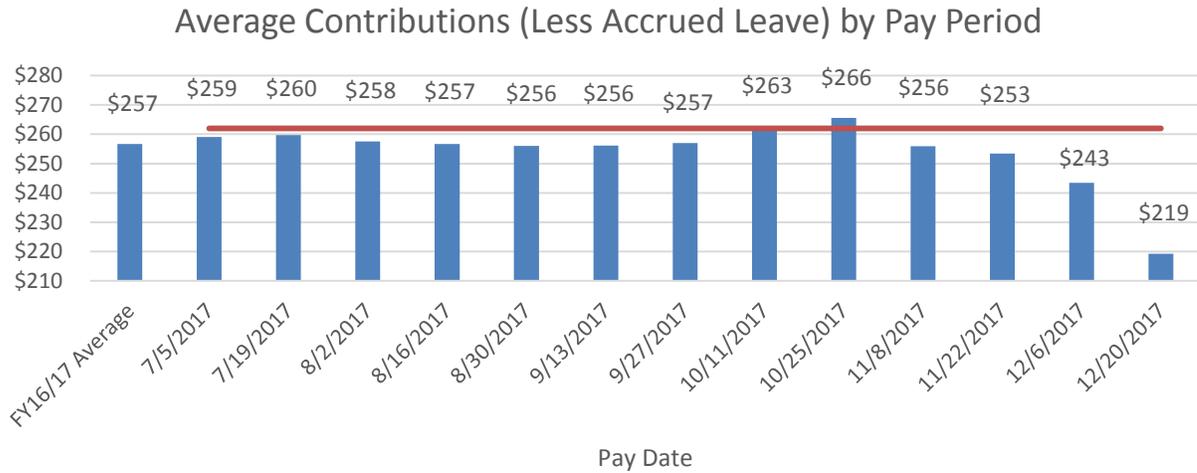
B. Contributions

For FY 16/17 the Board adopted a goal of increasing average annual contributions by 2%, which translates to reaching an average contribution of \$7,177 (up from \$7,036 in the prior FY). The Plan did not achieve this goal with average contributions increasing by approximately \$30 to \$7,066.

For FY 17/18 staff proposes again establishing the goal of 2%, however, staff has refined the target by removing accrued leave deferrals (large lump sum amounts contributed from unused sick and vacation payouts upon retirement) due to the volatility of these deferrals. The average FY 16/17 contribution less accrued leave contributions was \$6,736, or \$259 per pay period; a 2% increase above the FY 16/17 level equates to an annual average annual contribution of \$6,870, or \$264 per pay period.

Thus far in FY 17/18, the Plan is not on pace to meet this goal. Staff has observed that success in increasing new enrollment goals tends to reduce average contributions, as new participants contribute lower dollar amounts than existing participants. Also, since retiring participants tend to contribute larger dollar amounts, their exits also tend to reduce the average. For the future, staff is evaluating ways to develop data and goals that will focus on increasing contributions as a percent of pay, rather than absolute dollar figures.

Figure 4



Strategies Update:

- Prior to the transition of TPA service providers, staff created a new web tool allowing participants to calculate their contribution as a percent of pay and provided information about how much to save in order to replace their lifestyle income upon retirement. The tool was hosted on the Deferred Compensation Plan page of the Employee Benefits Division website and was utilized over 12,000 times.
- The aforementioned web tool served as a stop-gap feature until the Plan transitioned to the new website at LA457.com which provides participants with a retirement calculator that provides similar but more integrated functionality. The new retirement calculator allows participants to establish their contributions as a percent of pay as opposed to a flat dollar amount. This is advantageous for participants because their contributions will automatically increase as their compensation increases. To date, 2,890 participants have changed their contributions after utilizing the new calculator. 126 participants have increased their deferral percentage on average from 8.3% to 10.1% and 2,764 participants have changed their deferral amount on average from \$365 to \$381. Additionally, over 500 participants have elected to utilize the Plan’s new percent of pay feature.
- Staff issued a Citywide 2017 end-of-year email that informed employees of 2018 increases to Plan contribution limits. Staff took this opportunity to promote the new retirement calculator and percent of pay contribution feature.
- Staff is partnering with Voya to launch a targeted “Save More” email campaign in April 2018. The campaign will target participants who have not recently changed their contribution rate and invite them to consider an increase. At the conclusion of the campaign, the TPA will provide comprehensive data detailing the effectiveness of the campaign by breaking

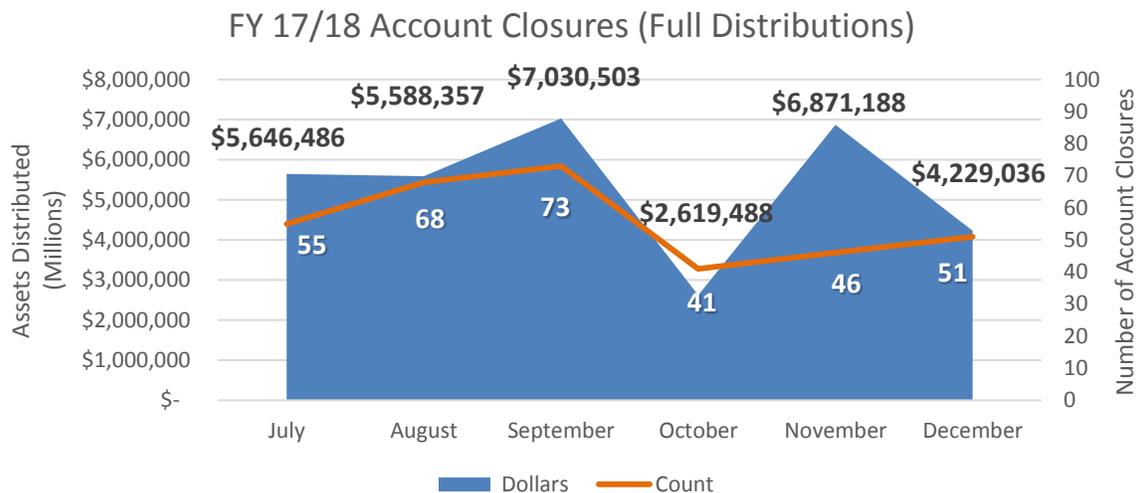
down the number of participants who opened the emails, clicked the links, and ultimately chose to increase their contributions.

C. Distributions

For FY 16/17 the Board adopted a goal of reducing the absolute number of accounts closed due to distribution by 3%. Numerically, this translated to reducing the number of closed accounts from 867 in the prior FY to 841 in FY 16/17. The Plan reached this goal with only 682 account closures.

For FY 17/18 staff proposes a more refined goal of reducing the percentage of closed accounts relative to the total number of retired participant accounts. The target would be reducing from 7% in FY 16/17 to 6% in 17/18, or a ceiling of no more than approximately 650 account closures. Moving to a percentage-based goal allows the goal to float with changes in the total number of retired accounts that may occur over the course of a year.

Figure 5



Strategies Update:

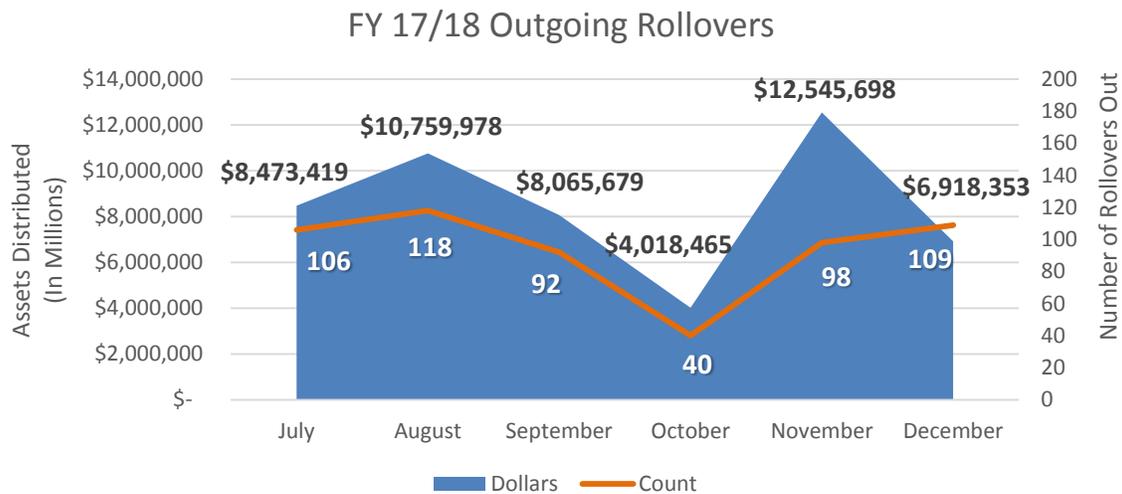
- With last year's transition to Voya, the Plan gained the ability to transmit a biweekly demographic file with information about the eligible employee population. Because of this enhancement, Voya's records are automatically updated to reflect employment status. Staff worked with Voya to develop automatic special communications to participants upon separation from service. The communication informs participants that they are not obligated to take distribution or remove their accounts from the Plan upon separation from service and reminds them of the various benefits (low costs, local counselors, etc.) that remain available to them.

D. Asset Retention

For FY 16/17 the Board adopted a goal of reducing the total number of dollars rolled out of the plan by 5%, which translates to \$86.6 million. The plan did not reach this goal with \$104 million rolled out of the plan during the year, though it should be noted that a total of \$121 million rolled into the Plan, for a net change of \$17 million.

For FY 17/18 staff proposes a goal of reducing the number of outgoing rollovers as a percent of retirees from 5% to 4%, which translates to approximately 430 outgoing rollovers or fewer. Similar to the proposed goal related to full distributions, a shift to a percentage-based goal allows the Plan to account for changes in the size of the employee population. Furthermore, staff proposes a change to tracking the number of rollovers rather than the dollar amount of rollovers in order to place primary focus on participant behaviors.

Figure 6



The Plan is currently not on track to meet this goal with 563 outgoing rollovers having occurred thus far, amounting to approximately 5.1% of total retirees. However, upon further analysis, staff determined that 312 of these rollovers, or 55%, were rollovers to the three City retirement/pension plans for purchase of service credit or annuity benefits. Since those rollovers are clearly aligned with the retirement income security goal, for FY 18/19 staff is evaluating adjustments to goal-setting which would more specifically target rollovers to institutions other than the City’s retirement/pension plans.

Strategies Update:

- Staff has worked with Voya to develop a “Stay in the Plan” communication that will be issued to all retirees which reviews the benefits of maintaining their funds in the City’s Plan. The communication also includes a fee worksheet that would help a participant compare Plan fees versus potential fees charged in alternative rollover vehicles. The content of the

communication has been developed and is presently in design phase. The communication is anticipated to be mailed in the next 4-6 weeks.

- Staff is working with Voya to develop an exit survey that would be issued to participants who roll assets to another provider. The purpose of the survey is to further understand the rationale behind the rollovers and whether there are improvements the Plan can implement in order to retain their assets.

E. Retirement Income Security

The Plan’s primary goals and strategies all relate to the Plan’s core mission of supporting its active and retired participants in achieving retirement income security. As part of compiling data for this report, staff was able to organize the following table which breaks out participation rate, contribution amount and rate, and salary by years of service for the active participant population. The data provides substantial validation that City employees who participate in the Plan are doing so at levels supporting their future retirement readiness. Information such as this helps guide the Plan’s outreach and communication strategies. It also validates anecdotal observations pertaining to new employee behaviors.

Figure 7

<i>Years of Service</i>	<i>Participation Rate</i>	<i>Participant Count</i>	<i>Average Elected Deferral</i>	<i>Average Annual Deferral</i>	<i>Average Deferral as % of Pay</i>	<i>Average Annual Salary</i>
< 5 Years	53%	5,012	\$193	\$5,025	6.10%	\$77,947
5 - 10 Years	70%	3,265	\$237	\$6,160	6.08%	\$96,000
10 - 15 Years	75%	7,018	\$259	\$6,732	6.38%	\$98,810
15 - 20 Years	78%	7,054	\$286	\$7,431	6.69%	\$103,040
20 - 25 Years	86%	4,187	\$311	\$8,099	6.89%	\$112,878
25 - 30 Years	82%	3,840	\$390	\$10,136	7.98%	\$117,521
30 - 35 Years	77%	2,838	\$405	\$10,535	8.14%	\$118,742
35 - 40 Years	68%	644	\$368	\$9,562	7.92%	\$118,664
> 40 Years	61%	127	\$335	\$8,701	8.07%	\$114,417
<i>Grand Total</i>	<i>73%</i>	<i>33,985</i>	<i>\$289</i>	<i>\$7,502</i>	<i>6.80%</i>	<i>\$102,287</i>

F. TPA Performance and Service Enhancement Monitoring

Separate from the Plan’s goals relating to participant outcomes, staff is also developing a report and analysis for the Board’s April 17, 2018 meeting relating to TPA performance and service enhancement monitoring. TPA performance and service enhancement monitoring has not previously been an ongoing reporting item for the Board, but in staff’s view such reporting represents the next and most appropriate expansion of staff’s and the Board’s ongoing efforts to exercise diligence in administering the Plan and evolving and improving Plan services.

Since Voya’s introduction to the Plan in October 2017, staff and Voya have been actively working together to refine and improve upon a variety of work processes,

customer services, website capabilities, communications, and data management. Some areas of focus have arisen based on staff's longstanding objectives for improving the Plan (e.g. implementation of the eligibility file exchange, online distributions, a mobile application, forms simplification, etc.) and others have arisen based on participant feedback since the transition. A positive participant experience when interacting with the Plan, navigating the website, or conducting transactions is a primary focus for the Plan, as this is essential to building participant trust and supporting successful participant outcomes. By the same token, demonstrating innovation and providing new content is crucial to creating the kind of engagement supporting positive behaviors and improved outcomes.

Although these topics will be addressed at length at the Board's April 17, 2018 meeting, in brief for the purpose of this report the Board should be aware that in response to staff's post-conversion analysis as well as participant customer service feedback, new service initiatives and operational practices have been adopted or are being established which include:

- (1) Strategies for new ongoing communications outreach and engagement with video productions and social media, which will include the development of distinct monthly education/engagement themes for both the active and retired participant populations;
- (2) Creation of a new Plan microsite allowing the City's Plan to customize its education and engagement messaging for the active and retired participant populations;
- (3) A dedicated processing team for City of LA participants conducting all "money-in" and "money-out" transactions, such as transfers, rollovers, and purchases of service credit, to ensure seamless application of the City's customized processes;
- (4) Immediate satisfaction surveys at the conclusion of all call center interactions with direct escalation of any participant concerns to City staff, as well as an ongoing tracking log that consolidates participant issues across the call center, local office, and website;
- (5) Development of a participant survey that will further help the Plan evaluate participant satisfaction, areas of success, and areas of opportunity; and
- (6) Data development which provides the City and Voya an opportunity to create greater transparency around and accountability for operational, communications, and customer service outcomes.

G. Conclusion

Adopting proposed goals as outlined in this report continues the Plan's objective of increasing transparency and accountability for improving outcomes for the City's

employee population. Even when goals are not met, the process of establishing goals, experimenting with and learning from strategies, and refining and improving data, all benefit the Plan as it strives to improve participant outcomes. In addition, future ongoing reporting and analysis regarding improving TPA processes and customer service will assist staff and the Board in achieving its ongoing objectives to maintain the Plan's position at the leading edge of effective administration and ongoing innovation.

Submitted by: _____
Daniel Powell

Approved by: _____
Steven Montagna