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MEMORANDUM

To: City of Los Angeles Deferred Compensation Plan
Board of Deferred Compensation Administration Meeting

From: Wendy Young Carter

Date: September 6, 2016

Re: **THIRD-PARTY-ADMINISTRATOR TRANSITION AND IMPLEMENTATION**

Transition Services

Procuring defined contribution services may result in a change in service providers, which is facilitated through a process frequently referred to as a plan transition or implementation. Over the years, these services have largely become standardized; however, it is a time and process that presents the opportunity to review plan operations and processes with an eye toward improvement. It is also a complex process that needs to be carefully managed.

Keys to Success

Before undertaking a service transition, it is important to consider a few areas that will drive success:

- *Reasonable Timeline:* Needless to say, a too-short transition period increases the likelihood of errors due to rushing to meet a deadline. As it is critical to meet the timeline communicated to participants, it is prudent to ensure that there is enough time and that the timeline has critical milestones and progress dates so that you can be sure you are meeting each key requirement by its deadline.

Within the public sector market, and particularly for large (more than 10,000 participants), reasonable timelines are generally the norm. For example, typical timelines are generally 6 to 12 months, which allows for a deliberate process. These timelines provide for the complex processes needed, and more importantly usually have a little room for slippage. Also, if changes to the plan are being added (such as auto-enrollment) or there is the desire for a highly customized service and communication, more time may be helpful.

- “Meeting of the Minds:” A plan transition is, in its simplest terms, an exchange of information and data with the newly selected service provider. As part of this process, care must be taken to ensure that the parties are “speaking the same language.” Because terminology can differ between the parties involved and because individuals representing

different organizational, administrative, or communications functions will have different points of reference, care should be taken to have thorough conversations, define concepts, and ask clarifying questions.

- **Balancing the Blackout Period:** In today's expectation of instant information, the blackout period that will occur in any transition period can be unsettling; however, selecting a blackout period that ensures adequate time is better than being too aggressive. It is infinitely better to go live early than to miss the live date communicated to participants. For large plans like the City of Los Angeles a 3 or 4-day blackout is typical and can usually be arranged over a weekend to minimize the participant impact.
- **Sponsor Strengths:** A transition is a partnership and the sponsor's involvement and commitment is a key to the ultimate success. The City brings some strong value-adds to the process including knowledgeable and experienced staff and a clearly articulated vision for the Program. There are also aspects of the current plan design that are beneficial including:
 - An unbundled structure so that no change needs to be made to investment options
 - Having the Schwab brokerage window available so that investments do not need to be transferred and retitled
 - No managed accounts are currently offered
- **Key Challenges:** Every plan sponsor has unique challenges when considering a transition. The City of LA challenges are not unusual for public sector sponsors but include:
 - Some payroll complexities and data limitations
 - Custom funds that require unitization and rebalancing
 - Highly customized services
 - Loans and Roth contributions
 - The addition of an auto-enrollment feature
 - Lack of demographic data transmission

The more complex and often troublesome processes include loans, Roth contributions, beneficiary designations and Required Minimum Distributions (RMDs).

Transition Plan

As mentioned, the transition plan is critical. Generally, the incoming service provider, in consultation with the sponsor, prepares the transition plan and:

- Outlines the roles and responsibilities of the various parties involved, which include the plan sponsor staff (including payroll) and consultant as needed as well as representatives from the outgoing and incoming recordkeeper. As one would expect the outgoing "deconversion" team is significantly smaller, but no less important than the incoming service provider's local and home office teams.
- Defines the many tasks that are involved and assigns responsibilities for each task along with targeted time frames for task completion
- Sets the schedule for meetings and calls including the kick-off meeting which typically includes:

- Reviewing the proposed transition plan
 - Identifying issues any of the parties have
 - Ensuring complete buy-in with all of the parties involved
 - Agreeing on an adequate time and resources for testing
- Typically involves an ongoing weekly conference call of all parties to ensure the plan transition remains on track. Segal recommends that the kick-off meeting and several other meetings during the process be conducted in person. While weekly conference calls are critical to keeping the process moving, in-person meetings can greatly add to the future success of the client/service provider relationship.

Transition Team

A plan transition is a total team effort fluid enough to address unexpected obstacles. As would be expected, the incoming service provider is the primary driver for the process and their team will typically include at a minimum:

- A key plan contact or client relationship manager
- A conversion specialist and various IT personnel
- A communications manager including a website specialist
- A field services manager

For a large and complex transition, these key personnel will lead the various teams and the plan sponsor can be expected to meet either in person or via conference calls many of the members of the full team. In addition, as the implementation process nears completion, the plan sponsor can expect to see new additions to the team. For example, initially field services may be covered by a home office or regional person who will later be supplemented by the local office manager that will be hired for the plan sponsor's plan.

It should also be noted that the plan sponsor would also need to appoint a day-to-day plan sponsor "administrator" contact(s) who would be designated as the "go-to" person(s) for executing on this process from the plan sponsor's side and who will:

- Provide transition oversight
- Represent the plan sponsor in all planning calls
- Review all planned participant communications
- Assist in scheduling on-site transition meetings
- Coordinate with payroll personnel and IT staff

The outgoing service provider should provide a de-conversion specialist to aid in the successful transition.

Participant Communications

As one would expect, participant communications are critical to successful transition. While most service providers have conducted hundreds if not thousands of transitions and have a general process and time for communicating with plan participants, plan sponsor input is critical in developing a communication plan that will work best for its participants. The plan sponsor also plays a pivotal role in helping identify channels for communication and ensuring that all key stakeholders understand, are aware and understand the transition process as it will be communicated to participants.

The communication campaign will need to:

- Reflect the plan sponsor and its typical communications approach
- Disclose all material information—usually no action is required by participants
- Engage participants to promote awareness of essential information
- Reassure participants that the change is in their best interest and will enhance their overall experience
- Be sure to consider retirees (especially those in payout) and having customized materials and educational services for this population
- Use all mediums and provide:
 - An introduction to the incoming recordkeeper
 - Highlight the plan changes and service enhancements
 - A time line of critical events as well as clearly letting participants know that generally they do not need to take any specific action
 - A summary of the on-site educational transition seminar schedule including availability for individual appointments with local service staff and informational videos or webinars
 - Material should be in the hands of plan participants as early as 60 days ahead of the actual transition

In conclusion, plan transitions for sponsors like the City require care, commitment, cooperation among the parties and clear communications. Thorough advance planning, diligent follow through and acting quickly to course correct as needed a transition can be smooth and successful.