

REPORT
FROM



THE PERSONNEL
DEPARTMENT

TO: Personnel and Animal Welfare Committee	DATE October 18, 2016
REFERENCE:	COUNCIL FILE _____

SUBJECT: **City of Los Angeles Deferred Compensation Plan Third Party Administrator Provider Selection and Incumbent Provider Contract Extension**

RECOMMENDATION:

That the City Council:

- (a) Receive and file this report regarding the Board of Deferred Compensation's action to select Voya Institutional Plan Services to replace Empower Retirement as the Third Party Administrator of the City's Deferred Compensation Plan; and
- (b) Authorize the Board of Deferred Compensation Administration to extend the contract with Empower Retirement Services for an additional nine months through September 30, 2017.

In 1983 the City of Los Angeles established a Deferred Compensation Plan ("the Plan") under Internal Revenue Code Section 457 as an optional supplementary retirement savings vehicle for all Civilian, Sworn and Department of Water and Power (DWP) employees who are members of one of the City's three primary defined benefit retirement/pension plans. The City's Plan allows employees to set aside a portion of their compensation up to applicable annual Federal contribution limits on a tax-advantaged basis. The mission of the Plan is to assist City employees in achieving retirement income security. The City's Plan presently has approximately 42,000 participants and almost \$5 billion in assets.

The City Council established a Board of Deferred Compensation Administration to oversee the Plan. The Board is composed of nine members representing the various constituencies of its participant population. The City Council further established the Personnel Department as the Plan administrator. The Board and the Personnel Department have a statutory and fiduciary obligation to act solely in the best interests of Plan participants.

The City Council has provided the Board with authority to contract with service providers to offer administrative, investment, and consulting services for up to five years. In accordance with City policy and based on a procurement schedule adopted by the Board, the Board conducts competitive search processes for Plan services in order to ensure that the Plan utilizes service providers that can best serve its participants.

In 2016 the Board conducted a procurement process for the Plan's Third Party Administrator (TPA) provider. On September 6, 2016, the Board approved the selection of Voya Institutional Plan Services ("Voya") to replace the incumbent provider, Empower Retirement ("Empower"), as the Plan's TPA. The purpose of this transmittal is to inform the City Council of the details of this action as well as request authority from Council to extend the contract with Empower through September 30, 2017, in order to ensure a successful transition of services.

A. PROCUREMENT DEVELOPMENT AND EXECUTION

The contract with the incumbent provider of the Plan's TPA services expires on December 31, 2016. In July 2015 the Board initiated its development of a procurement process for these services. In August 2015 the Board approved moving forward with a participant survey as part of ensuring that this RFP would incorporate a "participant-based" perspective focused first and foremost on addressing the communications and support services that participants are most concerned with and which directly impact their ability to achieve retirement income security.

(1) Surveys/Focus Groups

In October 2015 the Personnel Department conducted several member focus groups asking for feedback regarding the Plan. Focus group feedback in turn informed development of a survey issued to all Plan participants.

The survey was issued in November 2015 and generated approximately 1,653 responses, or 4% of the eligible population, thus providing a broad representative sample of the membership. Participants indicated a 91% confidence level in trusting the Plan, and 94% agreed that the Plan played an important role in their ability to achieve a secure retirement.

Among the most valued Plan services indicated by survey respondents were local counseling representatives, the ability to save both pre-tax and after-tax dollars, and the loan program. Among services participants would most like to see added were expanded local representatives and investment advice/support.

(2) RFP Development

The Personnel Department and Board used the focus group and survey feedback to help design the RFP. The RFP incorporated multiple innovations, best practices and participant-focused inquiries, including:

- **Communications Efficacy** – The RFP assessed vendor communications efficacy, which represents the single most important Plan resource for supporting the behavioral decisions which most impact retirement readiness and retirement income security.
- **Dedicated Communications Staff** – The RFP requested a dedicated full-time local Senior Communications specialist to help the City further innovate and strengthen its communications efficacy.
- **Retirement Security Participant Interface** – The RFP assessed vendor capabilities for placing the City's retirement income security theory, methodology, and web-based participant tool as the focal point of participant engagement with the Plan.
- **Recordkeeping and Administration** – The RFP assessed vendor capabilities for flexibility and customization of both recordkeeping and administrative processes, as the City pursues its unique strategies to drive ever more successful participant outcomes.
- **Performance Exams** – The RFP included, as part of the evaluation process, multiple "performance exams" providing opportunities for direct examination of bidders on topics of particular focus in the procurements.

(3) Proposal Evaluation Results & Provider Selection

In response to this RFP, two responses were received from the following firms: Empower and Voya. This response level was in line with expectations, given consolidation within the provider community and the significant investment/risk involved with vendors taking on new business. Based on the scoring results and findings of its review panel, the Board selected Voya as the Plan's TPA service provider. Overall, Voya best demonstrated an ability to partner with the City's Plan in developing and expanding success in fulfilling its core mission. Voya demonstrated significantly greater capabilities to:

- (a) Customize its resources to the City's specific needs;
- (b) Maintain the City's low cost structure by submitting a lower cost proposal than its competitor;
- (c) Integrate the City's core participant success methodology into its web platform;
- (d) Provide solutions to significant administrative challenges facing the City's Plan;
- (e) Provide within its cost proposal a new full-time Senior Communications/Metrics Development staff resource that will exercise a leadership role in producing innovative, outcomes-based communications educational content, materials, and initiatives, as well as assisting the City in improving key metrics such as participation, average contributions, rollover retention, and other metrics which impact participant retirement readiness/security;
- (f) Provide communications resources, flexibility and facility; and
- (g) Position itself to most flexibly partner with the City's Plan in its pursuit of retirement income security for the City's workforce.

Key participant service and benefit enhancements expected to be developed under this contract include the following:

Enhanced Local Services	<ul style="list-style-type: none">•Enhance Local Member Support•Establish "Wellness" Model of Peer Resources for Employees
Enhanced Retirement Readiness Tools	<ul style="list-style-type: none">•Create New Retirement Security Focused Web Interface•Integrate City's Custom Projection Tool into Web Experience
Expanded Contribution Options	<ul style="list-style-type: none">•Create Auto Enrollment•Add % of Pay Contribution Option
Communications & Metrics	<ul style="list-style-type: none">•Add Local Full-Time Communications/Metrics Specialist to support enhanced participant outcomes
Process & Administrative Customization	<ul style="list-style-type: none">•Improve process & administrative customization and user-friendliness

B. Extension of Incumbent Contract

Transitioning administration of a Plan as large and complex as the City's will require a significant commitment of time and resources. The Board is tentatively targeting an implementation effective date to take place within the third quarter of 2017, but no later than September 30, 2017. The Board's assessment is that this length of time will be necessary to ensure that all administrative systems, process and customer service improvements are fully developed upon implementation. Given the contract with the incumbent provider expires December 31, 2016, the Board requests that the City Council approve the Board's request for authorization to extend the Empower contract through September 30, 2017.

C. Fiscal Impact Statement

There is no fiscal impact to the City related to this contract or the transition in service providers. Pursuant to City of Los Angeles Administrative Code Division 4, Chapter 16, all of the City's administrative costs for providing the Plan are fully reimbursable by participant fees.

D. Conclusion

The Board and Personnel Department recognize a change in administrative service providers is a significant undertaking and may be experienced as disruptive for some participants. Nevertheless, the Board and Personnel Department believe the change in providers will result in improvements to customer service and enhance the Plan's ability to assist its active and retired participants in achieving and maintaining retirement income security.

The Board's vision is to maintain the City's Plan as a premier program in the universe of governmental defined contribution plans with respect to innovation, participant outcomes, participation on the national stage, and implementation of best practices. The City's Plan was among the first government plans to implement plan design innovations such as an after-tax "Roth" savings option, a loan program for its active and retired participants, a retirement income projection tool, and an automatic enrollment program for employee unions wishing to participate. Further, the Plan's Executive Director serves on the Executive Board of the National Association of Government Defined Contribution Administrators (NAGDCA), the central organization providing educational benefits and legislative advocacy for its state and local government plan sponsor members.

With respect to participant outcomes, the City's Plan exceeds its peers in participation, average contribution and account balance, and other key metrics. These results support the retirement readiness of the City's workforce. Notwithstanding these successes, both the Board and Personnel Department believe further successes and improvements are possible, and that this new TPA partnership will help to implement and accelerate future success.

JOHN R. MUMMA, CHAIRPERSON

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BOARD OF DEFERRED COMPENSATION ADMINISTRATION