



TO: <b>HONORABLE MEMBERS OF THE PERSONNEL COMMITTEE</b>	DATE: <b>03/15/11</b>
REFERENCE:	COUNCIL FILE:
SUBJECT: <b>DEFERRED COMPENSATION PLAN/ PENSION SAVINGS PLAN</b>	

### RECOMMENDATION

That the City Council:

- (a) Authorize the Board of Deferred Compensation Administration to renew the City's contact with Great-West Retirement Services for administration of the City of Los Angeles Deferred Compensation Plan for an additional five years through December 31, 2016; and
- (b) Authorize the General Manager Personnel Department to renew the City's contract with Great-West Retirement Services for administration of the City of Los Angeles Pension Savings Plan for an additional five years through December 31, 2016.

### SUMMARY

The City of Los Angeles Deferred Compensation Plan (DCP) is an optional supplementary retirement savings program established in 1983 under Section 457 of the Internal Revenue Code as well as City of Los Angeles Administrative Code Division 4, Chapter 14. All City employees, including employees of the Department of Water and Power, have the option to voluntarily set aside a portion of their salary into the Plan. The City does not contribute any monies for this program. The Plan is governed by the City's Board of Deferred Compensation Administration. The Board has the authority to enter into contracts for providing Plan services, including third-party-administration, investment management, and consulting services. The Plan currently has approximately \$3.2 billion in assets and over 40,000 participants.

The City of Los Angeles Pension Savings Plan (PSP) is the City's retirement plan for part-time, temporary and seasonal employees. It was established in 1993 under Section 457 of the Internal Revenue Code as well as City of Los Angeles Administrative Code, Division 4, Chapter 16. The Plan is overseen by the Personnel Department. The General Manager has the authority to enter into contracts for providing Plan services, including third-party-administration, investment management, and consulting services. The Plan currently has approximately \$59 million in assets and over 35,000 participants.

The City has two separate contracts with Great-West Retirement Services ("Great-West") to provide administrative services for both programs. The Board and General Manager Personnel Department are recommending that both contracts be extended for five years.

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EUGENE K. CANZANO, CHAIRPERSON  
BOARD OF DEFERRED COMPENSATION ADMINISTRATION

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MARGARET M. WHELAN  
GENERAL MANAGER, PERSONNEL DEPARTMENT

## DISCUSSION

(A) Deferred Compensation Plan - The City of Los Angeles Deferred Compensation Plan utilizes the services of a third-party administrator to provide administrative services including recordkeeping, enrollment, trustee services, and communications. All fees for this service are paid by Plan participants – no City funds are used in the administration of the contract. The cost of this contract is presently approximately \$1.6 million annually.

The contract with the incumbent provider, Great-West, will expire on December 31, 2011. The contract with Great-West provides the option for an extension of up to five years. Such extension is subject to the approval of the City Council.

Given the pending expiration of the original contract term, the Board recently reviewed the merits of either (a) moving forward with a new procurement process or (b) exercising its option under the current contract to extend its length for five years. The Board examined the question of whether a procurement process at the present time would be in the best interests of Plan participants. The Board's conclusion was that maintaining continuity in administration of the City's Plan was preferable based on two primary factors:

- (1) **Investment Menu Changes** – The Board will shortly be embarking on a multi-year restructuring of the Plan's investment menu. This restructuring will move the City's Plan to a best-practice model utilized by other large deferred compensation plans such as the State of California, City of New York, and County of Los Angeles, in which the Plan's investment menu will be reduced in size and options will be branded by asset class rather than investment manager. This will have the effect of promoting better asset allocation decisions by participants as well as reducing investment management fees. Because these changes will represent a comprehensive restructuring of investment choices, the Board has determined that simultaneously taking on the potential disruption of a change in third-party-administrator would be ill-advised. Plan participants have struggled along with the rest of the City's employee population with both the economic downturn as well as the consequences of the City's strained budget situation. Many Plan participants have taken loans and hardship withdrawals, and/or reduced their contributions to the Plan, due to economic hardships. In the Board's view conducting a procurement process raises the potential for further disruption at a time when stability and continuity would be in the best interests of Plan participants.
- (2) **Green Initiative** – The Board negotiated the parameters of a potential contract extension with Great-West. The Board's focus was on identifying efficiencies in Plan administration which could both improve service as well as reduce costs. This resulted in a broad-based "green" initiative which would put the City's Plan on the cutting edge of deferred compensation plans in terms of its reduction of paper-based communications and ease of providing electronic transactions. The elements of the green initiative include:
  - Online Enrollment – Approximately 1,500-2,000 City employees enroll in the Deferred Compensation Plan each year. All of these enrollments are currently processed via paper. Creating functionality for a paperless, online enrollment

option would represent a service improvement for individuals comfortable with the electronic medium for financial services.

- Online Distribution Requests – Over 13,000 participant distribution are processed every year. Most of these distributions are currently done with paper. Expanding the paperless functionality for distributions would represent a major service improvement for retired participants.
- Electronic Transaction Confirmations – The Plan issues approximately 45,000 transaction confirmations annually, two-thirds of which are generated from web-based transactions. Replacing paper with electronic confirmations for web-based transactions will reduce the unnecessary use of paper – participants would still have the option of printing confirmations or requesting historical transactions if they so chose.
- Electronic Statement Expansion – The Plan distributes quarterly statements to each of its 40,300 participants (a total of approximately 161,200 annually). Electronic statement delivery is an option currently exercised by only 7% of participants. Engaging in a comprehensive campaign to raise electronic statement delivery from the current 7% to 50% of participant population over the next five years will provide for both a more convenient method of delivery as well as significantly reduce the use of paper.

All told, these initiatives are expected to save approximately 175,000-200,000 pieces of paper annually, or the equivalent of five tons of paper over a five-year contract term. **This not only represents a huge step forward for the Plan in terms of implementing greener efficiencies, it will also result in a minimum 7% reduction in Plan administrative fees** (with more fee savings possible if Plan participants exceed initial targets for electronic statement issuance).

In weighing whether it made more sense to conduct a procurement process at the present time or exercise its option to extend the contract, the Board has determined that none of its review factors justified the former and all supported the latter. As a result, the Board is recommending that the City Council provide approval for a five-year extension of the Great-West contract.

Pension Savings Plan - The City has a separate contract with Great-West to provide administration of the City of Los Angeles Pension Savings Plan, the retirement program for part-time, temporary and seasonal employees. Participation in this Plan is mandatory for those employees eligible to participate. Each employee contributes 4.5% of gross salary and the City makes a matching contribution of 3.0%.

The General Manager Personnel Department is the contracting authority for this Plan, with the Board serving in an advisory capacity. Although a different provider can be utilized other than the one selected for the Deferred Compensation Plan, certain efficiencies are available to the City by using a single provider. These efficiencies relate to the high level of reciprocal activity between the two programs and because it is difficult to find vendors interested in administering the smaller Pension Savings Plan on a stand-alone basis.

Given this, the Board and General Manager Personnel Department have attempted to place both programs on an identical procurement cycle. The contract with Great-West for Pension

Savings Plan administration also expires December 31, 2011. The General Manager Personnel Department is supportive of extending the Great-West Pension Savings Plan contract for a length of time identical to the extension of the Great-West Deferred Compensation Plan contract. This will keep both programs on the same procurement track and continue to provide the efficiencies of doing so to participants in both programs.

**FISCAL IMPACT**

None. The third-party-administrator costs for both programs are funded entirely by participant fees.