

DEFERRED COMPENSATION PLAN BOARD REPORT 12-58

Date: December 12, 2012
To: Board of Deferred Compensation Administration
From: Staff
Subject: Retirement Income Projection Calculator

Board of Deferred
Compensation Administration
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Recommendation:

That the Board of Deferred Compensation Administration authorize staff to begin working with Great-West and its web developer Masterypoint to develop staff's proposed online retirement income calculator.

Discussion:

At its meeting on August 20, 2011, the Board directed staff to begin developing a concept for an online calculator which would allow Plan participants to compare how their projected retirement income (principally the sum of their defined benefit income and defined contribution income) would compare to their current taxable income. The purpose of the calculator is essentially to solve for a percentage: for example, given a certain set of assumptions, the calculator would inform a participant that he/she is likely to replace $x\%$ of the income he/she is living off of now.

Background - Staff views this project as a crucial communications priority for the Plan. In informal testing of a spreadsheet version of this functionality, focusing participants on a retirement income replacement percentage has proven to be one of the most engaging and impactful tools staff has ever seen used by participants. This is because it allows participants to visualize their post-retirement income relative to the most fundamental aspects of their participation in the Plan.

The calculator, in spreadsheet form, was developed by staff in years past as an informal means of projecting retirement income. Over time it has been refined and enhanced. Only recently did staff consider, and subsequently propose to the Board, developing it as a web-based tool.

The calculator is not intended to provide a definitive *projection* of retirement income. Rather, it should provide an *illustration* that participants can easily manipulate by changing variables.

In informal use of the spreadsheet functionality with various Plan participants, which has stepped up in recent years as the calculator has been refined and improved, several recurrent themes have emerged. Some of these results have been surprising and challenged the conventional wisdom that participants and even staff had previously brought to the topics involved. For example:

- (1) Participants often under-estimate their potential for more taxable income in retirement than they have while working.
- (2) Participants often don't realize that replacing 100% of the income they are living off of currently, as opposed to their nominal salary amount, is a readily achievable goal (primarily because they are not accounting for the fact that they are not living off defined benefit and defined contribution amounts being subtracted from their paychecks).
- (3) Under existing defined benefit programs, the average participant can often reach a 100% income replacement goal through a modest and gradually increasing contribution rate, requiring little if any exposure to risk assets.

As participants review the calculator results, they're able to achieve clarity on fundamental questions such as:

- (1) How much will I be making in retirement?
- (2) How does my Deferred Compensation account translate into retirement income?
- (3) How much risk do I need to take on in order to meet my income replacement objective?
- (4) How do my income projections affect my decision to save pre-tax vs. post-tax dollars?
- (5) When is it feasible for me to retire?

The Board should be aware the Retirement Income Calculator concept is an integral component of a related communications project staff is developing, a "Healthy Account Management" checklist, which will essentially involve a set of review items that participants can return to again and again to ensure their account is in good standing. These review items include the following:

- (1) Defining a savings objective (primarily by using the calculator)
- (2) Growing contributions to the Plan over time to meet the retirement income objective
- (3) Ensuring investment holdings align to one's savings objective and risk tolerance
- (4) Optimizing pre-tax and after-tax saving options relative to one's projected retirement income
- (5) Withdrawing funds gradually post-retirement in alignment with the savings objective
- (6) Maintaining updated beneficiary information

The overall goal of these projects is to help participants focus on using their accounts to achieve an individualized outcome of retirement income security. Staff's hope is that by creating consistency and repetition in communicating these core concepts, the Plan can better assist participants to focus on and achieve the retirement security goal.

Staff is working with the Plan's communications resources from both Great-West Retirement Services as well as Buck Consultants to develop the specific concept and delivery system(s), which are likely to be highly interactive and web-based.

Development Process – Staff identified several governing principles for the online calculator. The primary objective for the calculator project is to develop a user-friendly interactive tool likely to engage participants in a meaningful way regarding their retirement income objective and action plan. These principles include the following:

- (1) The calculator must be simple to navigate.
- (2) The calculator must be engaging and interactive.
- (3) The calculator must provide "one-stop shopping," such that the participant will not be required to "cut and paste" information from more than one resource in order to arrive at a result.
- (4) The calculator must prioritize ease-of-use over the precision of a result; in other words, more generalized estimates are acceptable if more nuanced or finely-detailed projections result in conflicts with the principles identified in (1), (2) and (3).
- (5) The calculator must be rigorously tested on participant users before being finalized.

On November 30, 2011, staff met with representatives from the City's three retirement systems to obtain their input on development of the calculator. At the meeting, staff provided information about the goal of the Retirement Income Calculator and some examples of how the calculator would generate an employee's income replacement percentage at a particular age. Staff received valuable information during and following the meeting about the tiers, calculations and details of the various plans.

Subsequently, staff has been working with Great-West to develop a proposal for the actual website functionality. Great-West uses a subcontractor, Masterypoint, to perform the development work.

Total web programming costs are expected to be approximately \$50,000. Funding for this project is already embedded within the Great-West services contract as part of the Plan's ongoing communication budget (\$100,000 is set aside annually for various communications projects and materials – this project will be funded primarily by a balance of funds remaining in this sub-account for the first contract year, with any additional residual costs coming from the second contract year's budget).

Web Calculator Design Proposal - Staff has attached a draft of its Retirement Income Calculator. Because it is still a concept at this point, this draft is not in actual web form; it is an outline prepared by staff and which was submitted to Masterypoint for feedback as to feasibility and cost. Masterpoint has indicated that the outline is fundamentally sound and that it is prepared to begin development.

At the Board meeting, staff will walk the Board members through the proposed design structure and key decision points that arose in the development process. Following that presentation and the noting of input offered by Board members, staff is recommending that the Board authorize staff to begin working with Great-West and Masterypoint to develop the calculator.

As part of the development process, Board members and representatives from the City's three retirement/pension systems will be asked to participate in testing and refinement. In addition, focus groups will be held with Plan participants for the purpose of testing as well. Staff's plan is to report back to the Board on a regular basis throughout the development process before the calculator goes live.

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