

Deferred Compensation Plan BOARD REPORT 13-02

Date: January 2, 2013
To: Board of Deferred Compensation Administration
From: Staff
Subject: Strategic Plan Finalization and Update

*Board of Deferred
Compensation Administration
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Recommendation:

That Board of Deferred Compensation Administration (a) approve the final attached Strategic Plan for 2012-2016 and (b) receive and file information regarding progress on goals for Plan Year 2012.

Discussion:

Finalization of Strategic Plan - At the Board's February 21, 2012 meeting, Board members provided input to staff regarding a draft Strategic Plan for the period 2012-2016. Two matters related to the Strategic Plan needed to be resolved before the Strategic Plan could be finalized: (a) a review of staffing needs and (b) development of a training program. Both of those issues were subsequently addressed: the Board approved adding a Senior Management Analyst I position to the staffing plan (and this was subsequently adopted in the City's budget) for FY 12/13; and a training policy and program was adopted by the Board at its October 16, 2012 meeting.

At the February 21 meeting, the Board asked that an Internal Revenue Code compliance review be added to the Plan, with that review to be preferably conducted by outside tax counsel. That item has been added to the Strategic Plan (and staff has been working with the Board's legal counsel on a review of candidates to provide external tax counsel services). The final item to complete the Strategic Plan has been an update of the budget assumptions, including the addition of the Senior Management Analyst I position, for the period 2012-2016.

The Plan is attached to this report for final Board approval. Staff recommends approval of the proposed Plan for the period 2012-2016.

Committee Review – At its February 21 meeting the Board also requested that the Strategic Plan be reviewed by the Plan Governance and Administrative Issues Committee on a recurrent basis. Staff recommends that this review be conducted semi-annually, with the first review to occur mid-year 2013.

Review of Goals for Plan Year 2012 – Although the Strategic Plan has not yet been formally adopted, staff will review progress on goals it had previously developed in draft form for the 2012 Plan Year.

I. COMMUNICATIONS

Goal A - Work with communications consultant to develop program and materials for personalized account management counseling service.

Goal B - Create retirement planning calculator to provide participants with means of assessing anticipated income replacement based on a consolidated review of their defined benefit and defined contribution income streams.

As reported at the Board's December 18, 2012 meeting, staff has been working with the Board's communications consultant, Buck Consultants, on a project to develop a new account management communications campaign centered on two primary goals: (1) focusing participants on translating their account balance into its retirement income replacement value through a custom calculator which will solve for the amount of working income likely to be replaced by the combination of retirement and Deferred Compensation benefits; and (2) developing a communications/education campaign that will focus participants on managing their accounts through a handful of "account maintenance" items centered around the retirement income goal.

Although these projects are not yet complete, significant development work was completed in 2012 and both projects are expected to be completed by mid-year 2013.

Goal C - Develop and initiate "Green Campaign" as part of replacing, where feasible and appropriate, paper with electronic means of communication.

Some progress on this goal was made in 2012 but a number of logistical and administrative hurdles presented themselves which will need to be addressed in 2013. First, in terms of reducing the use of paper in the enrollment and distribution processes, Great-West has indicated that this project will require substantial recordkeeping work before it can be implemented.

With respect to online enrollment, staff identified a number of errors in the testing process which Great-West indicates present unique challenges because the City does not provide an eligibility file to the Great-West recordkeeping system.¹

With respect to online distribution, staff similarly identified a number of limitations in the recordkeeping process which significantly narrow the scope of its applicability. Specifically, the online functionality would apply to participants taking full and partial distributions of pre-tax money only (leaving out periodic payments, purchases of service credit, and required minimum distribution) and participants would not be able to prioritize the investment options from which they would like to take distribution as they can currently do on paper.

¹ An "eligibility file" is a file containing all City employees eligible to participate in the Plan, not just those participating. The City Attorney's Office has, in the past, indicated that providing an eligibility file is not permitted because of confidentiality concerns, although other plans, including the County of Los Angeles, do provide eligibility files to recordkeepers. Staff will be revisiting this issue as part of looking for better long-term solutions to the challenges presented in online enrollment.

Staff is working with Great-West to move forward with that functionality which can be implemented immediately and to encourage them to add expanded functionality to their systems programming calendar over the longer-term. (Note that this type of functionality is not plan-specific, but would apply to all of their plans.)

With respect to electronic statement delivery, staff has determined that a prerequisite to significantly improving these numbers is increasing the number of participants accessing their accounts online. Currently 7% of participants have elected electronic statement delivery, and approximately 25% of Plan participants are routinely going online to view their accounts. Thus, significant improvement in electronic statement delivery will require more participant interaction with the Plan website.

Staff is hopeful that the communications campaign regarding the income replacement calculator and “account maintenance” communications campaign, both of which are web-based and highly interactive, will significantly promote use of the website by Plan participants.

Goal D - Complete and distribute informational materials regarding investment menu changes scheduled for April 2012.

This goal was completed in April 2012.

Goal E – Revise Distribution Request Form and Distribution Guide to make these materials more accessible, visual and user-friendly.

This goal has been deferred to 2013. The content and design will likely be significantly influenced by completion of the calculator and “account maintenance” projects discussed under Goals A and B.

Goal F - Update Plan Highlights & Enrollment Guide to make these materials more accessible, visual and user-friendly.

These materials were updated in 2012, but these documents will also need to be revised with completion of the calculator and “account maintenance” projects discussed under Goals A and B.

Goal G - Continue marketing Roth savings option.

As staff indicated at the Board’s December 18 meeting, promotion of after-tax saving as an important savings option will probably be most impacted by implementation of the retirement savings calculator, which will provide a much more direct and tangible means for participants to evaluate their post-retirement income and assess how best to utilize the Plan’s tax-advantaged savings choices.

Goal H – Create communications materials for National Save for Retirement Week.

This was completed in October 2012.

Goal I - Create Custom DROP Informational/Marketing Materials for both new and exiting members.

This goal has been deferred to 2013. Since a significant emphasis in these materials is on fees, the content should be aligned with whatever documents are finalized in conjunction with fee disclosure communications staff has been developing. These documents are likely

to be further refined once testing of our pilot non-participant fee disclosure mailing is completed.

Goal J - Create New Recurring Communications report for Board meetings.

This goal was completed in 2012.

II. INVESTMENTS

Goal A - Conduct Procurements for Deferred Compensation Plan for assorted categories.

The procurements for 2012 have been delayed pending resolution of issues regarding RFP design (see Board Report 13-01).

Goal B - Refine investment provider review process, standardizing vendor reporting formats and creating more interactive and substantive review discussions at Board meetings.

This goal was completed in 2012.

Goal C - Implement new policy for Bank Deposit Account Savings option.

This goal was completed in 2012.

III. ADMINISTRATION

Goal A - Implement Online Enrollment allowing participants to enroll in the Deferred Compensation Plan via the Plan website.

See discussion under Communications, Goal C, regarding the Plan's "Green" initiative. This item is continuing given the recordkeeping issues needing to be addressed by Great-West.

Goal B - Develop records retention policy which will provide for the length of time that participant records will be maintained by the Plan.

This item is resolved for the immediate future. This item principally concerns those records predating Great-West's administration of the Plan in 1999 and is relevant to participants engaged in account separations due to divorce. Staff has been working with the City Attorney on this question and, on an interim basis, developed solutions which provide the highest degree of responsiveness to affected Plan participants and forestall, for the time being, any need to develop a blanket policy limiting participant access to historical records. This matter will likely need to be revisited at an unknown future date.

Goal C - Implement Online Distribution allowing participants to initiate and complete certain distribution methods via the Plan website.

See discussion under Communications, Goal C, regarding the Plan's "Green" initiative. This item is continuing given the recordkeeping issues needing to be addressed by Great-West.

Of note, Goal A for 2013, implementing a retiree loan program, was completed early in 2012.

IV. GOVERNANCE/PROCUREMENT/CONTRACTING

Goal A - Establish Strategic Plan for 2012-2016.

This goal was completed in 2012.

Goal B - Conduct elections for DWP and Retired Board representatives.

This goal was completed in 2012.

Goal C - Execute new consulting services contract(s) for 2012-2015.

This goal was largely completed in 2012 (the procurement process was completed and vendors selected; a contract has been executed for Buck Consultants and finalization of the contract with Mercer Investments Consulting is pending).

V. RESOURCES

Goal A - Adopt and adhere to Plan 2012 budget.

This goal was completed in 2012.

Goal B - Maintain Plan reserve fund accounts at or above target surplus amount.

This goal was completed in 2012.

VI. INTELLECTUAL RESOURCES

Goal A - Create Training/Education Policy.

This goal was completed in 2012.

Goal B – Implement two in-meeting Board trainings.

This goal was completed in 2012.

Goal C – Coordinate attendance of appropriate conferences/ trainings.

This goal was completed in 2012.

Goal D - Participate in meetings of California Defined Contribution Peer Network.

This goal was completed in 2012.

Goal E - Conduct staff on-site visit to Great-West.

Although this goal was not completed in 2012, a site visit has been incorporated into the Plan's Travel Policy and a request for travel authorization will be incorporated into the Personnel Department's budget request for FY 13/14.

Submitted by

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