

DEFERRED COMPENSATION PLAN BOARD REPORT 13-09

Date: February 6, 2013
To: Board of Deferred Compensation Administration
From: Staff
Subject: Behavioral Finance Review

*Board of Deferred
Compensation Administration*
Eugene K. Canzano, Chairperson
John R. Mumma, Vice-Chairperson
Michael Amerian
Sangeeta Bhatia
Cliff Cannon
Tom Moutes
William Raggio
Robert Schoonover
Margaret Whelan

Recommendation:

That the Board of Deferred Compensation Administration (a) decline the Behavioral Finance Review offered by Professor Schlomo Benartzi/Allianz Global Investors and (b) direct staff to conduct an assessment of behavioral finance review items as applied to the City's Plan and develop recommendations for the Board

Discussion:

At the 2012 National Association of Government Defined Contribution Administrators (NAGDCA) Conference in San Diego, CA, Professor Schlomo Benartzi of UCLA Anderson School of Management presented at a session regarding practical behavioral finance solutions to improve retirement plans. At the end of his presentation, he informed NAGDCA members that he would provide interested plans with a behavioral finance review at no cost to the entity.

At the October 16, 2012 Board meeting, the Board requested staff to reach out to Professor Benartzi to inquire about the possibility of conducting a behavioral finance review for the City's Plan. At the November 20, 2012 Board meeting, staff indicated that Professor Benartzi had indicated he could perform such a review. In staff's communications with Professor Benartzi, he also informed staff that he was working with Allianz Global Investor Center on this project and that they would contact Plan staff to obtain some background information concerning the Plan.

On December 21, 2012, staff participated in a fact finding conference call with the Allianz Global Investor Center in order to learn more about what would be involved with the review. Staff also wanted to obtain more information regarding Allianz's involvement in this project.

The review questions and supporting information requirements related to whether the Plan offers auto-enrollment, active-enrollment (i.e. where an employee would have to make an active election whether they chose to be in the Plan), future-enrollment option, auto-escalation, tools to help participants envision their own retirements, and

placement of information on quarterly statements. No individual participant data would be part of this review. For a full list of topics, please see Attachment.

In terms of the reasons for their involvement in this process, Allianz Global Investors indicated that they use these reviews as a means of promoting the investment management services offered by their firm. During the call they indicated that the review would be at no cost to the City but that they hoped to establish a relationship with the City for future investment products.

As a result, staff consulted with Board Counsel. He advised that conflict of interest requirements prohibit a contractor from providing services whereby that contractor later benefits from the services previously provided. This issue typically arises when a contractor is retained to make recommendations regarding the design of a program and then later bids to perform a part of the program.

He indicated that the performance of a review of the Plan by the contractor would not, by itself, preclude the contractor under conflict of interest requirements from later submitting a proposal to perform investment management services. However, the exact subject and scope of the review would have to be reviewed to determine whether it may raise a conflict of interest for the contractor.

The Board's Bylaws, Section 6.6, state that *"Board members and staff shall not act or participate in any manner on matters on which they may have a conflict of interest or an appearance of a conflict of interest as set forth in California law and City regulations and policy."* Additionally, under Section 7.1(A), *"Board members and staff agree not to meet privately with employees, representatives or registered lobbyists of any actual or potential respondents in the twelve months prior to scheduled initiation of a procurement process, nor within any time period following the initiation of a procurement process and up until the final contract award, with the purpose or result of engaging in a conversation materially related to the vendor's securing business from the City's Plan."*

Working with this firm for this purpose may or may not be technically prohibited by the bylaws. Although the work that they would be doing in theory is not related to securing City business, the vendor has acknowledged that this is at least part of what they hope will result as a byproduct of this collaboration. Additionally, staff is concerned that working with them on this project raises an appearance issue because it provides a particular vendor with unique access to staff and the Board in the middle of a procurement process. Therefore, staff recommends that the Board decline the Behavioral Finance Review.

There are approximately twenty review items included within the review. As an alternative, staff recommends that the Board direct staff to conduct an assessment of these items as applied to the City's Plan and develop recommendations for the Board.

If needed, staff will work with the Board’s consultant, Mercer, to assist with its analysis. The results of this review may inform other action items under consideration by staff and the Board, including various Plan communications initiatives, policy issues, and participant assessment efforts (e.g. surveys).

Submitted by: _____
Natasha Gameroz

Reviewed by: _____
Steven Montagna

Approved by: _____
Alejandrina Basquez

- Participation rate for Plan
- Use of auto-enrollment for new employees for Plan
- Use of auto-enrollment for existing employees for Plan
- Offer easy-enrollment for Plan
- Offer active-enrollment for Plan
- Offer a future-enrollment option when an employee decides not to participate in Plan
- Maximum percentage of pay that employer will match
- Average deferral rate for Plan
- Use of auto-escalation of deferrals for new employees for Plan
- Use of auto-escalation of deferrals for existing employees for Plan
- Percentage of salary auto-escalations are capped
- Plan implementation of auto-escalations to coincide with salary increases
- Offer specific tools to participants to help them envision their own retirements
- Percentage of Plan participants that are invested in default investment funds
- Offer a default investment choice for new employees for Plan
- Offer a default investment choice for existing employees for Plan
- Presentation of Plan's fund menu to participants
- Number of investment options the Plan offers in various categories
- System to group funds for Plan
- Percentage of Plan's assets in a company stock
- Present long-term performance information first on account statements
- Projected income at retirement given participants current savings trajectory on account statements