

Deferred Compensation Plan BOARD REPORT 13-14

Date: April 16, 2013

To: Board of Deferred Compensation Administration

From: Staff

Subject: * Retirement Income Replacement Illustration Tool
* Account Tune-Up Communication Tool

*Board of Deferred
Compensation Administration
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Recommendation:

That the Board of Deferred Compensation Administration receive and file this report regarding the Retirement Income Replacement Projection and Account Tune-Up Communication Tool.

Background

Staff has been working with the Board, Great-West, and other resources to develop two new tools to assist Deferred Compensation Plan participants with projection of potential retirement income and ongoing account maintenance. These will take the form of user-friendly, web-based tools: a **Retirement Income Replacement Calculator** and an **Account Tune-Up** web tool, as part of a broader communications initiative entitled "**Roadmap to Retirement**," which we are targeting to go live by August/September 2013.

Discussion

To represent these concepts and its tools, a broad theme was required to provide a framework for development. Staff chose a theme tentatively entitled, "**Roadmap to Retirement**." This theme encapsulates the goals of the Retirement Income Replacement Calculator and the Account Tune-Up tool as it likens the idea of saving for retirement with picking a destination, planning a long road trip, and ensuring you maintain the vehicle that will get you to the destination safely.

Destination: Retirement Income Replacement Percentage

Before any trip, one needs to select a destination – in the case of Plan participants, the destination is retirement and, more specifically, the percentage of "lifestyle" income (i.e. income they are presently living on) a participant will be able to replace in retirement.

In the past, participants have not had a simple way to translate their combined pension/supplemental plan benefits into a "lifestyle" income replacement percentage. As a result, many participants have difficulty understanding the incentives to save more and then, after separating from service, do not treat their supplemental plan account as

a secondary income source (only 20% of participants separated from service opt for a periodic payment stream from their account).

The Retirement Income Replacement Calculator tool presently under development will provide a holistic view of each participant's retirement, to include the defined benefit from the applicable City retirement system, their Deferred Compensation Plan account, and other outside assets or considerations for retirement.

PROJECT STATUS: Currently, staff is working on refining an initial prototype of the calculator that was completed by the programmer, Masterypoint, in late March. Staff is presently awaiting costing estimates for the following edits prior to any testing:

1. Exceptions for participants that may not yet qualify for a retirement benefit (not vested) or may take an early retirement (which would require calculation of early retirement penalties);
2. Addition of the retirement formula for the second LACERS tier, to be effective July 2013;
3. Addition of pre- and post-assessment of participant's knowledge or opinion regarding retirement; and
4. General edits to text and layout.

Once these revisions are complete, staff will begin testing with Plan participant focus groups. Subsequently, staff will forward the refined prototype to be tested by the Board, and seek input from the LACERS, Fire and Police Pensions, and DWP Retirement systems.

Additionally, staff and Masterypoint are working through technical logistics addressing issues involved with Masterypoint developing the program and Great-West hosting the tool on its website. The only issue of significance is the ability to identify unique users of this tool. Masterypoint is already able to track the total number of clicks into the tool, but is working with Great-West to identify a method to track unique users for staff's metrics purposes.

Maintenance: Account Tune-Up

Many individuals approach saving for retirement with some degree of trepidation and anxiety. Part of that anxiety involves fear of the unknowns about what one's future needs will be; part comes from a belief that investing is a "province of experts" requiring significant information and time to execute properly; and part is concern that saving for tomorrow might make it too difficult to meet the financial needs of today.

The goal of the Account Tune-Up tool is to empower participants with a message that being successful with one's Deferred Compensation Plan account can be accomplished with a relatively simple handful of review/action items. Like maintaining a vehicle, account maintenance can be addressed with periodic review of key areas. In other words, it is not necessary to try and learn everything about how a vehicle works so long as you know the key items that must be maintained to keep the vehicle healthy.

The tool will walk the participant through different screens that will discuss six key review items:

1. *Focus on where you're going*
Participants will be asked to engage in the retirement projection tool and obtain their estimated replacement percentage – this number is key because it frames every aspect of key decision-making for one's account.
2. *Pick your vehicle: pre-tax, after-tax, or hybrid*
Participants will be asked to review the basic tax-advantaged options for saving - pre-tax, after-tax, or both – and determine whether they wish to continue doing what they're doing or make adjustments.
3. *Fuel-Up*
Participants will be asked if they are comfortable with their current contribution amount, and whether their current contribution level is consistent with their income replacement goals.
4. *Pick your investing road map*
Participants will be asked to review their investment choices and determine whether their current risk level is consistent with their income replacement goals.
5. *Arrive with a full tank and use it wisely*
Participants will be asked to think about taking distribution from their account in the context of meeting the combined pension/supplemental income target they previously identified through the retirement projection illustration – this helps maintain awareness that one's account is best used as a retirement supplement.
6. *Who takes over your vehicle?*
Participants will be asked to verify and update who they wish to be the beneficiaries of their account, an item that is often neglected or overlooked over time.

Once the participant is walked through these items, they will know what needs to be updated, or will know that they have done their part in maintaining their account. They will receive a congratulatory message and encouraged to use the tool periodically as they would perform a tune-up on a car.

PROJECT STATUS: Currently, staff is working with Great-West on developing the creative design of the tool. The materials will be provided in print as well as web tool format. Once the design concept is finalized, staff and Great-West will work to develop the prototype of the web tool.

Both projects will launch at the same time as the Plan undergoes its website conversion with Great-West. The launch of the new website provides a very unique opportunity to ask participants to re-engage with the Plan and their account. The calculator and web tools will be the primary emphasis of the new capabilities offered by the new website. Implementation is targeted for August or September 2013.

Staff is also developing a timeline for converting all Plan materials to incorporate the “Roadmap to Retirement” theme and present a cohesive Plan-wide communications message. Staff is pursuing this as expeditiously as possible.

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