

# Deferred Compensation Plan BOARD REPORT 15-24

Date: April 10, 2015  
To: Board of Deferred Compensation  
From: Staff  
Subject: Proposed Targeted Enrollment Initiative

*Board of Deferred  
Compensation Administration*  
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## Recommendation:

That the Board of Deferred Compensation Administration approve staff's recommendation to develop a targeted enrollment initiative to increase the Deferred Compensation Plan's active employee participation rate, with a targeted goal for increasing net participation by 3% in 2015.

## Discussion:

As the Board is aware, staff has been developing benchmarking data analysis for the City's Deferred Compensation Plan. The first samples of staff's proposal for performing this benchmarking will be included along with the Empower quarterly data review for the first quarter of 2015. Simultaneously, the Personnel Department has instituted a metrics review process with all of its Divisions, the focus of which is helping Divisions define performance measurements and objectives and evaluate their success.

In connection with both of these efforts, staff is proposing moving forward with new initiatives regarding increasing the Plan's participation rate. As stated in previous communications, the core mission of the City's Deferred Compensation Plan is assisting employees with achieving retirement income security. Retirement income security is defined as 100% or greater replacement of lifestyle income upon retirement from a full (e.g. 30-year) career with the City. Lifestyle income is defined as an employee's nominal salary less primary reductions for retirement savings.

Achieving a 100% lifestyle income replacement objective depends upon a combination of an individual's defined benefit and defined contribution income streams. Absent any alternative income stream, meeting this objective thus requires participation in the City's Deferred Compensation Plan.



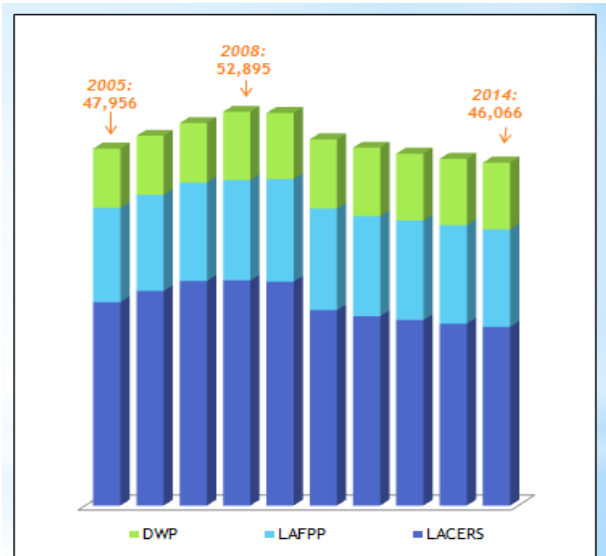
On a relative basis, the City Plan's ending 2014 contribution rate of approximately **69%** compares favorably with the average **40%** Section 457 plan participation rate reported by NAGDCA in the 2014 survey of its member plans. Nevertheless, on an absolute basis, approximately 31% of eligible City employees are likely precluded from being able to achieve the lifestyle income replacement objective by having not met the threshold requirement of participating in the City's Plan.

Given this, staff is recommending that the Plan set a specific **targeted goal for increasing net participation by 3% in 2015**. Staff would propose attempting to meet this objective through a combination of ongoing and targeted enrollment initiatives.

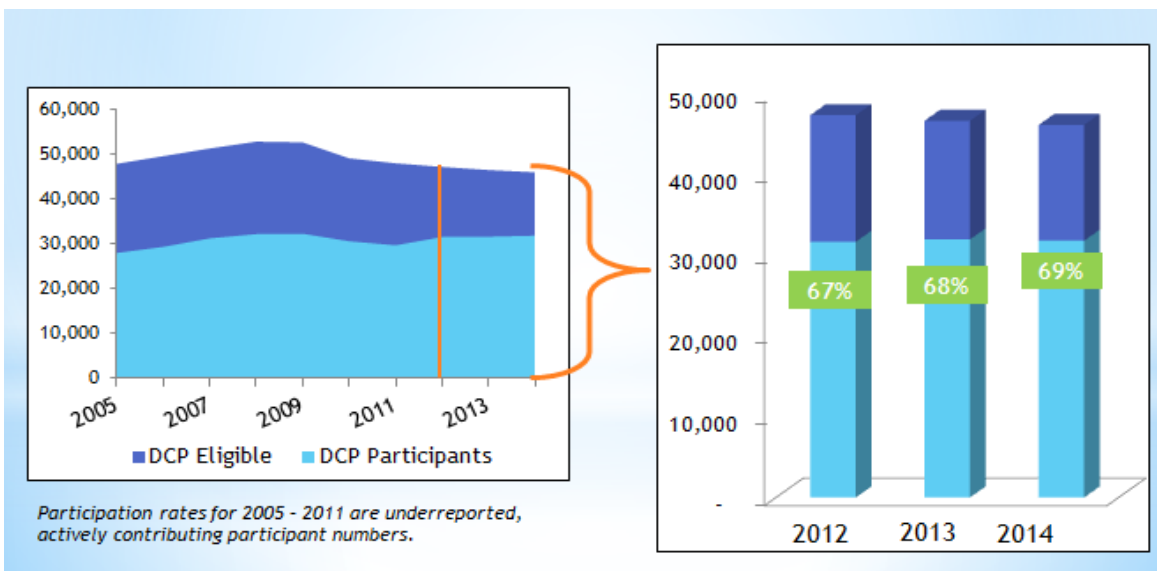
### A. Eligible Population and Participation Rates

Employees are eligible to enroll in the Deferred Compensation Plan once they are contributing to one of the City's three primary pension systems. Overall, the total number of eligible employees peaked in 2008 and has been decreasing since, as employment separations have exceeded new hires on a net basis following the 2008 financial downturn (see chart to right).

Notwithstanding this trend, the Deferred Compensation Plan's overall participation rate has trended higher, albeit at a modest pace. The overall participation rate has increased by a percentage point each year over the past three years (see chart below).



Active membership by retirement system on June 30 of each year, beginning 2005 and ending 2014.



Participation rates for 2005 - 2011 are underreported, actively contributing participant numbers.

## B. Net Participation

Participant accounts close when participants who have separated service withdraw the last dollar from their accounts. The table below provides a summary of new accounts opened, account closures, and the net impact on enrollment for calendar years 2011-2014. Of note is the fact that 2014 was the first among recent years in which a meaningful increase in enrollment occurred. This could be attributed to rebounding investment markets, the improving economy, Plan communications, and other factors.

	2011	2012	2013	2014
DCP Account Opens	908	908	968	1,167
DCP Account Closures	841	932	887	762
<b>Net New Enrollments</b>	<b>67</b>	<b>-24</b>	<b>81</b>	<b>405</b>
<b>Percent Change</b>		-0.1%	0.2%	1.0%

## C. Increasing Participation Rates

The current number of eligible employees participating in the Deferred Compensation Plan as of the end of 2014 was 31,918. A net increase of 3% to this figure equals 32,876, or 958 net new participants. This would be more than double the increase in net enrollments achieved in 2014.

Given recent account closure trends, staff assumes that approximately 750 participants will close their accounts in 2015. Thus, to achieve a net 3% increase will require obtaining approximately 1,700 new enrollments in 2015.

Although at first glance this goal appears ambitious, the Plan has already achieved approximately 375 new enrollments in the first quarter of 2015, without applying any targeted enrollment efforts. As a result, staff believes it is appropriate to set a target somewhat in excess of the current trend.

## D. Strategies for Targeted Marketing Initiatives

As part of its analysis, staff has identified departments with below average participating rates as well as those with larger non-enrolled populations. Departments falling in this category include Recreation & Parks, Library, General Services, Transportation, Airports, and Public Works. Attachment A provides a current breakdown of Plan participation rates by department.

Staff also contacted the Plan's third-party-administrator, Empower Retirement, for samples of successful targeted enrollment initiatives carried out by other governmental agencies. One of the simplest that achieved results was a recent campaign by LA County to enroll non-participants. A postcard was mailed to eligible non-participants

and timed with other outreach to encourage plan participation. This campaign, as well as similar campaigns by other retirement plans, averaged

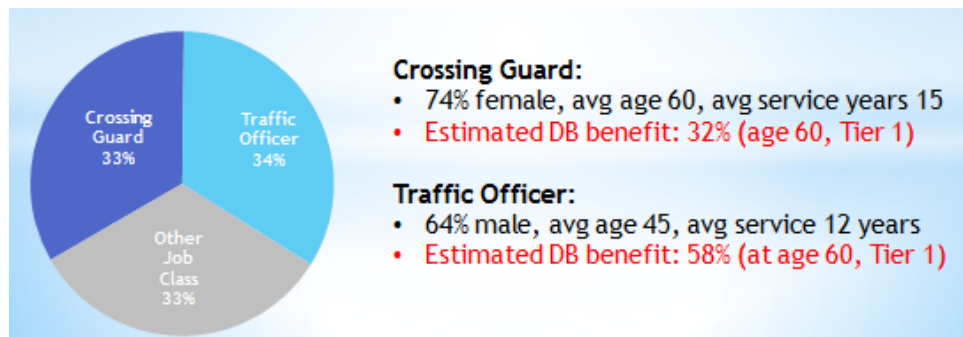
about a 3% response rate. That response rate is somewhat below the 3% target for a **net** increase in participation, but the results could potentially be improved upon through additional outreach efforts.

*Case Study: LA County*  
Postcard mailed to **6,705** eligible employees not participating in Plan; **221**, or **3.2%**, of those receiving the postcard ended up enrolling in the Plan.



As a result, staff proposes a similar but enhanced campaign targeting all Department of Transportation (DOT) non-contributing eligible participants on a pilot basis. Staff's analysis of the DOT non-participant demographic found that one-third of these employees are Crossing Guards, another third are Traffic Officers, with the last third including a mix of various job classifications. The Crossing Guard and Traffic Officer populations fit the typical non-participating demographic, in that they are decentralized and not working at a desk, which makes engaging them and raising their awareness of the Plan more challenging.

### **DOT: Eligible Non-Participants**



Staff will implement a “multi-touch” campaign for the targeted marketing effort, to include:

1. Postcard mailed to address on file with payroll system, with customized communications and contribution data regarding their employment group.
2. Partnering with department personnel staff to identify departmental gate-keepers providing access to employees.
3. Providing table service and/or presentations from local Empower representatives.
4. Partnering with representatives of employee bargaining units to identify ways to reinforce messaging.

## E. Conclusion

Unless and until such time as auto-enrollment is widely adopted within the City's workforce, voluntary enrollments will remain a vital focus for making meaningful improvements to the City Plan's participation rate and meeting its objective of helping a greater number of City employees achieve retirement income security. The Plan's emerging focus on metrics and benchmarking its success will necessarily include participation as a primary, although of course not the only, metric for measuring the success of the Plan.

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