



Board Report 19-28

Date: July 16, 2019
To: Board of Deferred Compensation Administration (Board)
From: Staff
Subject: Participant Outcome Goals

Board Members

John R. Mumma
Chairperson

Thomas Moutes
Vice-Chairperson

Raymond Ciranna
First Provisional Chair

Robert Schoonover
Second Provisional Chair

Wendy G. Macy
Third Provisional Chair

Joshua Geller

Hovhannes Gendjian

Neil Guglielmo

Linda P. Le

Recommendation:

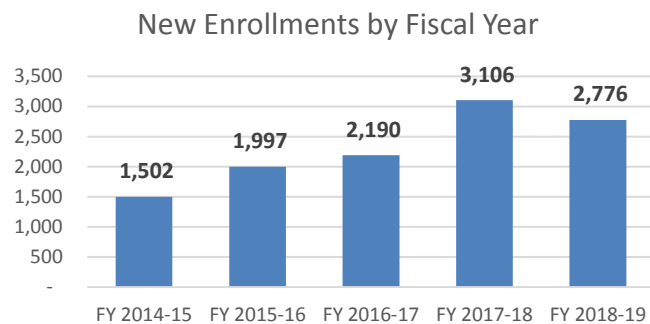
That the Board (a) receive and file staff's report regarding DCP goals, metrics, and strategies related to participant retirement outcomes; and (b) adopt staff's recommended participant outcome goals related to participation, contribution, distributions, and rollovers for fiscal year (FY) 2019-20.

Discussion:

This report provides the Board with a final review of progress toward FY 2018-19 goals and proposes new goals for FY 2019-20. Additionally, this report provides a summary of key strategies related to meeting participant outcome goals.

A. Participation

For FY 2018-19 the Board adopted a goal of increasing new enrollments by 6% over the prior year, which equated to 3,292 new enrollments. The DCP missed the goal with 2,776 employees enrolling in FY 2018-19. FY 2017-18 saw a significant increase in engagement with City employees and retirees due to the change in third-party administrator (TPA) and the uniquely high volume of



DCP communications that accompanied this change. While this year's goal was not reached, this number still represents a significant positive achievement for the DCP.

For FY 2019-20, staff recommends improving enrollment goals by targeting populations that have lower participation rates. The first targeted population is employees with less than one year of City service. This population currently has a participation rate of 43%, which is

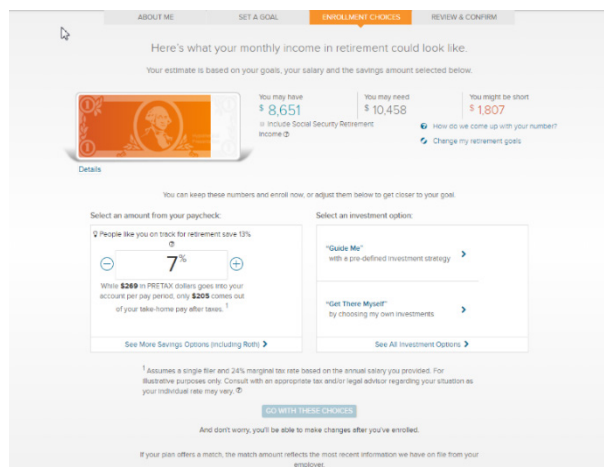
significantly below the total population average of 73%. Additionally, staff recommends participation goals for the five City departments with the lowest participation rate (among departments with greater than 50 full-time employees). These goals are intended to replace the traditional goal that focuses on total new enrollments compared to the prior year. Focusing on total new enrollments as the primary goal isn't ideal as often large departments that already have high participation rates comprise the majority of new enrollments (i.e., Los Angeles Police Department, Los Angeles Fire Department, Los Angeles World Airports, and the Department of Water and Power). Additionally, total new enrollments are significantly influenced by variables outside the DCP's control like Citywide hiring trends. Although staff recommends different goals for the upcoming year, total new enrollments would still be reported to the Board every quarter. Staff recommends the following goals for the upcoming year:

- Increase participation of employees with less than one year of service by 3%, from 43% to 46%.
- Increase participation of the following five departments by 3%:
 - Mayor's Office – 38% to 41%
 - Council Offices – 45% to 48%
 - Public Works Street Services – 50% to 53%
 - General Services – 51% to 54%
 - Recreation and Parks – 56% to 59%

Below is a review of key strategies employed during the year to increase participation as well as related initiatives in development:

- **New Resource Center and LA457.com** – In September 2018, the DCP introduced its new online resource center. This resource was a website custom built by Voya for the DCP that could be managed by DCP staff and updated regularly with DCP-specific messaging. In January 2019, the resource center became the homepage for LA457.com so that all participant web traffic first went to a custom site rather than the more generic and authenticated TPA site. LA457.com averages over 3,000 unique visitors each week. The homepage features articles each week on relevant financial wellness topics, videos about retirement readiness, and other DCP content. It features a welcome video that explains the benefits of enrolling in the DCP and steps on how to do so online.
- **Automatic Enrollment Program (AEP)** – In May 2018 the Los Angeles Police Protective League (LAPPL) signed a letter of agreement with the DCP adopting the DCP's AEP. In September 2018 staff began processing the first automatic enrollments from Police Academy cadets. DCP staff subsequently engaged in meetings with labor organization leaders to gather feedback about AEP interest. At its June 18, 2019 meeting, the Board approved staff's recommendation to coordinate a meeting hosted by the Board Chair and DCP labor representative to gather labor organization leaders' input about enhancements to the AEP to improve labor organization participation.

- **New Enrollment Journey** – In January 2019, Voya implemented a new “Enrollment Journey” that revamped the participant experience during online enrollment. The Enrollment Journey provides participants with guidance as they decide how much to contribute, how to invest, and whether to save pre-tax or after-tax (Roth) dollars. The tool informs participants about the DCP’s risk-based portfolio funds and defaults the participant to saving as a percent-of-pay.



- **Increased Outreach** – The DCP’s team of local retirement counselors conducted targeted outreach to employee populations with low participation. Targeted departments included the Library, Public Works–Street Services, General Services, Recreation & Parks, Economic & Workforce Development, and Housing. Counselors also targeted all departments located at Figueroa Plaza.
- **Compound Interest Video** – Voya is developing a video for the DCP explaining the concept of compound interest and the benefits of saving early.

B. Contributions

Contribution Rate - For FY 2018-19, the Board adopted a goal of increasing participant contributions as a percent-of-pay from 6.85% to 7.35%. The DCP missed this goal with an increase in the overall contribution rate to 7.04%. Although the goal was not reached, the increase nevertheless represents meaningful progress in the desired trajectory for participant contributions. Staff observed that newly enrolled participants (who typically enroll at lower contribution rates than the Citywide average) tend to lower the average.

Staff’s proposed goal for the upcoming year attempts to account for this challenge by including non-participant eligible full-time employees in the calculation of the average contribution rate (which presently stands at 5.14% when both participating and non-participating eligible are included). Thus, as the DCP is successful in enrolling new participants, overall average contributions as a percent of pay for the entire eligible City workforce will increase. This revision to the calculation is better aligned with the DCP’s core mission to support the retirement readiness of the entire eligible workforce.

Percent-of-Pay Elections - In the TPA transition to Voya in October of 2017, the DCP implemented the ability for participants to contribute to their DCP account as a percent-of-pay. The benefit of this option is that as a participant’s salary grows, so too will their DCP

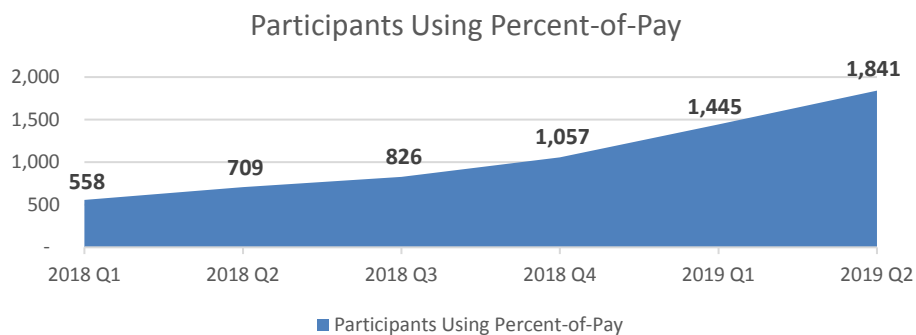
savings rate. Through June 2019, 1,841 participants have elected this contribution feature. Creating ongoing goals for improving its utilization will further support the objective of increasing participant contributions, as the percent-of-pay option tends to produce higher contribution rates.

Staff recommends that the Board adopt the following goals related to increasing participant contribution rates for FY 2019-20:

- Increase average employee contributions from the current 5.14% to 5.39%, calculated to include all full-time employees eligible for the DCP (versus the FY 2018-19 goal, which included only employees who were already enrolled in the DCP).
- Increase the number of participants saving as a percent-of-pay from 1,841 to 3,000, which staff believes is achievable with ongoing marketing campaigns and the DCP’s current success in enrolling new participants into percent-of-pay elections.

The following is a review of ongoing strategies for increasing average participant contributions:

- **Save More Journey** – In June 2018, the DCP implemented Voya’s automated “Save More Journey,” which is an ongoing campaign that provides targeted messaging to participants who haven’t recently increased their contributions.
- **Focus on Percent-of-Pay** – To increase the adoption of this feature, DCP staff and Voya have utilized principals of behavioral finance in designing DCP communications and processes. For example, participant enrollment and contribution forms have been redesigned so that the percent-of-pay option comes before the dollar-based option. This approach was also implemented in Voya’s new Enrollment Journey by defaulting participants to percent-of-pay. Additionally, the local retirement counselor presentations have been updated to provide savings examples that are based on percent-of-pay.



- **Restart Savings Journey** – In January 2019, the DCP implemented Voya’s new “Restart Savings Journey.” This ongoing campaign targets participants who are still working and have a DCP account balance but have stopped contributing to their DCP account. This

population will also be specifically targeted during National Retirement Security Week in October 2019.

C. Distributions

For FY 2018-19, the Board approved a goal of maintaining the number of retirees who close their accounts at no more than 2.6% of the retiree population. The DCP met this goal with 2% of retirees closing their accounts (excluding closures of qualified domestic relations orders (QDRO) and beneficiary accounts) which translates to 256 participants closing their account and taking a 100% cash distribution. For FY 2019-20 staff proposes that the Board adopt a goal of maintaining the number of retirees who close their accounts to no more than 2.5% of the retiree population (excluding closures of QDRO and beneficiary accounts).

The following is a review of ongoing strategies for reducing the number of account closures by DCP retirees:

- **Quarterly Email Surveys** – In August 2018, staff began issuing quarterly surveys to participants who either took a 100% cash distribution of their account balance or rolled funds to an outside provider. Since then, the distribution survey was sent to 194 retirees with 17 responses, a response rate of 9%. **Attachment A** provides a review of the survey's findings.
- **Retiree Outreach** – Staff has begun surveys with retirees about how they utilize their DCP account. Retirees are randomly selected to be invited to participate in the survey to ensure a diverse pool of respondents. Once a sufficiently large number of responses have been collected, staff will present its findings to the Board.
- **Retiree Resource Center** – With the launch of the new LA457.com in September, the DCP website now features a dedicated online resource center for retirees. This portion of the site offers unique and relevant content for the retiree population on topics including required minimum distributions, distribution options, and retiree loans.
- **Installment Payments** – Staff will continue to promote the DCP's installment payments option, which encourages participants to utilize their DCP savings as lifetime income rather than a one-time payment. This goal is further supported by the DCP's retirement calculator, which expresses participant savings in that fashion.

D. Asset Retention

For FY 2018-19, the Board approved a goal of maintaining the number of outgoing rollovers to no more than 4.8% of the retiree population (excluding rollovers of QDRO and beneficiary accounts, or rollovers to one of the City's pension systems). The DCP reached this goal with 3.9% of retirees rolling funds out of the DCP, which equates to 481 retirees. For FY 2019-20 staff proposes that the Board adopt a goal of maintaining the number of retirees who roll

funds out of their account to no more than 4.5% of the retiree population (excluding closures of QDRO and beneficiary accounts).

Strategies to reduce outgoing rollovers among retirees will be in alignment with the strategies to reduce account closures that were described in section C of this report. In August 2018 staff began issuing quarterly surveys to participants who had rolled funds out of the DCP. Two of the reasons that participants rolled funds out of the DCP were to work with an investment advisor and because they wanted to continue saving even after retirement. Both of these concerns may be addressed by the DCP's current research into offering a Deemed IRA and advisory services. A summary of the survey responses is included as **Attachment B**.

E. Alignment of TPA Contract with DCP Goals

When the TPA contract with Voya was executed in 2017, it featured a unique performance guarantees component that established participant outcome-based goals with penalties for Voya if the goals were not met. These were in addition to standard operational goals that are typical of TPA contracts. While the goal categories are generally in alignment with the Board's desired participant outcomes, the particular measurements are different than the goals adopted by the Board each year. Staff has contemplated changes to the contractual performance guarantees and contractor evaluation, which will bring both items into alignments with the DCP's goals as adopted by the Board each year. Recommendations from staff regarding revising the performance guarantees will be presented at the Board's September meeting.

Submitted by: _____
Daniel Powell

Approved by: _____
Steven Montagna

Attachment A

Full Distribution Survey Responses 2018 Q2 through 2019 Q1

Question 1

Why did you take a full distribution from your Deferred Compensation Plan account? Please select all that apply.

Answer Choices	Percent	Count
I needed the funds for personal expenses	41.18%	7
I provided funds to family members, friends, or a charitable organization	11.76%	2
I needed to finance a relocation	11.76%	2
I purchased a home	11.76%	2
I was under the impression I must cash out my funds upon retirement	11.76%	2
I paid for medical expenses for myself	5.88%	1
This was my final recurring distribution or installment payment	5.88%	1
I decreased my consumer debt	0.00%	0
I decreased my mortgage debt	0.00%	0
I needed resources for elder care for a family member	0.00%	0
I paid for medical expenses for a family member	0.00%	0
I purchased a vehicle	0.00%	0
	Answered	17
	Skipped	0

Other Responses
I wanted to maintain the amount I had, and don't trust the market going forward.
stock market volatility
I paid for major home remodeling
Injured unable to work
This amount was a small fraction from 15 years ago and was slowly growing and I was not able to add to it so I just took it all.

Question 2

Were you aware that the Plan allows retirees to take loans from their accounts?

Answer Choices	Percent	Count
Yes	88.24%	15
No	11.76%	2
	Answered	17
	Skipped	0

Questions 3

Please indicate the extent to which you agree or disagree with the following statement:

“Overall, I am satisfied with my decision to take a full distribution of my account.”

Answer Choices	Percent	Count
Strongly agree	64.71%	11
Agree	11.76%	2
Neither agree nor disagree	11.76%	2
Disagree	0.00%	0
Strongly disagree	11.76%	2

Answered 17

Skipped 0

Question 4

Please indicate the extent to which you agree or disagree with the following statement:

“I am optimistic that I will have sufficient income to last through retirement.”

Answer Choices	Percent	Count
Strongly agree	41.18%	7
Agree	35.29%	6
Neither agree nor disagree	11.76%	2
Disagree	0.00%	0
Strongly disagree	11.76%	2

Answered 17

Skipped 0

Attachment B

Outgoing Rollover Survey Responses 2018 Q2 through 2019 Q1

Question 1

Why did you transfer your account from the Deferred Compensation Plan? Please select all that apply.

Answer Choices	Percent	Count
Transferring allows me to work with a financial advisor who can offer investment advice	55.10%	27
I believe I can better meet my investment objectives with another service provider	40.82%	20
Other (please specify)	28.57%	14
I was dissatisfied with the City's Plan products and services	20.41%	13
Transferring allows me to work with a preferred self-directed brokerage provider	18.37%	9
I wanted to consolidate my assets with another employer-sponsored plan or provider	16.33%	9
I wanted lower investment fees	10.20%	5
	Answered	49
	Skipped	0

Other Responses
diversify
I'm simply diversifying some of my assets. I left most of my holdings in my deferred comp account.
I had an aggressive investment ratio, so when I retired I got off the "wild roller coaster ride of 2017-2018" and put my money in our credit union. Still untaxed and untouched.
To buy an annuity.
The City of LA has a great 451 investment service plan for active Employees, but when retired the Employee is no longer able to contribute to their individual investment portfolio.
All the years I was working for the City of LA, I never received any investment guidance.
Charles Schwab has automated allocation portfolios for free.

Question 2

Please indicate the extent to which you agree or disagree with the following statement:

"Overall, I am satisfied with my decision to transfer my account from the Deferred Compensation Plan."

Answer Choices	Percent	Count
Strongly agree	57.14%	28
Agree	36.73%	18
Neither agree nor disagree	6.12%	3
Disagree	0.00%	0
Strongly disagree	0.00%	0
	Answered	49
	Skipped	0

Question 3

Please indicate the extent to which you agree or disagree with the following statement:

“I am optimistic that I will have sufficient income to last through retirement.”

Answer Choices	Percent	Count
Strongly agree	61.22%	30
Agree	28.57%	14
Neither agree nor disagree	10.20%	5
Disagree	0.00%	0
Strongly disagree	0.00%	0
	Answered	49
	Skipped	0