



Board Report 19-32

Date: October 15, 2019
To: Board of Deferred Compensation Administration
From: Staff
Subject: TPA Service Provider Contract

Board of Deferred Compensation Administration

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Recommendation:

That the Board of Deferred Compensation Administration (Board) direct staff to fully assess potential considerations for a contract extension with Voya including a review of service, fee, and performance guarantee contract provisions, and report back to the Board at its December 2019 meeting.

Discussion:

Following a lengthy procurement and selection process for the administration of the City's Deferred Compensation Plan (DCP), the Board entered into a five-year contract with Third-Party Administrator (TPA) Voya to provide TPA and trustee services for the period September 27, 2017, through September 26, 2022. The Board's current contract with Voya contains certain performance guarantees which are used to ensure a wide variety of participant service functions are administered within acceptable standards. This contract also guarantees Voya is focusing its services on advancing targeted improvements in participant outcomes as established by DCP staff and the Board. Staff has been reviewing Voya's performance relative to those guarantees.

While Voya's performance has been strong, as part of its review staff has been developing certain recommendations for adjusting the contract's performance guarantees in order to better align them with the evolving objectives and strategies for the DCP. Performance guarantee adjustments would require an amendment to the contract. However, before proceeding further on developing those recommendations for amending the contract, staff determined that it would be prudent to review with the Board its interest in either conducting another procurement or seeking an extension of the current contract.

Although three years remain on the term of the current services agreement with Voya, the time is quickly approaching for the Board to determine whether to conduct a new procurement or seek approval from the City Council to extend the current contract beyond

five years. Due to the nature of the services provided, an exceptionally long period of planning and execution is required in order to successfully and timely conduct a TPA procurement for the DCP. Procurement development, including incorporating certain pre-development best practices utilized in the prior RFP (such as a consultant review and participant survey) may take six months or longer. Actual issuance and review of responses may take up to one year, and a transition of providers is minimally one year in length. Contract development, which runs concurrently to a transition, may also take up to one year. In total, approximately two and a half years in advance of a future contract termination date should be set aside for a DCP TPA procurement process and potential transition.

Staff's perspective is that DCP participants would be best served by extending the current contract provided the Board can maintain or expand the service performance, commitments, and value offered by the incumbent provider. TPA procurements consume an exceptional amount of staff time and resources and tend to largely "freeze" the execution of other important initiatives related to improvements in plan design or participant outcomes while the search is taking place. If the procurement results in a change in service providers, that change is typically extremely disruptive to participants as they must familiarize themselves with new processes and requirements.

Additionally, a unique consideration over the next 12-24 months is the City's pending transition of payroll systems. In 2017, the City began the process of seeking a replacement for its custom-built payroll system, PaySR. On July 11, 2018, the City released a Request for Proposal (RFP) for a replacement system that would accommodate both Human Resources and Payroll (HRP) operations. In September 2019, EBD staff was informed that the winning bidder is a firm called Workday and that the City is currently in the process of negotiating a contract with Workday to implement its new payroll system to replace PaySR. DCP staff has been notified that the implementation process for the new payroll system is expected to begin in 2020.

This 2020 PaySR replacement system implementation will be a significant undertaking for all parties involved, including the DCP given the important role PaySR plays in communicating eligibility and contribution processing for the DCP. Each pay period PaySR transmits to the DCP's third-party administrator (TPA), Voya, a file detailing each employee's contributions for the pay period, loan payment amounts, and all DCP-eligible employees' demographic information, including date of hire, employment status, employing department, and job classification. On each Friday of payroll week, Voya transmits to the City a feedback file detailing changes to participant contributions and loan payments.

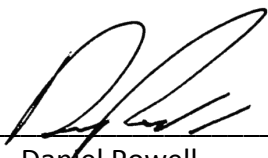
The transition process to Workday is just beginning and staff is still assessing its impact on the DCP. However, it is clear, even at this early stage, that a fundamental reconstruction of the payroll file exchange between the City and the TPA will be required. Development and testing of the payroll file exchange were the most significant and time-consuming aspects of the City's transition to Voya. That transition involved the creation of eligibility file exchanges built

around rules and specifications driven by the manner in which employee demographics, work history, and payroll information are all stored within the payroll system.

Staff has notified Voya of the forthcoming change in payroll systems. The implementation will involve Voya's implementation team, which typically only engages with a plan when it is transitioning from another TPA to Voya. As such, staff will need to engage in discussions with Voya regarding resource needs for addressing this implementation effort. In addition, DCP staff will be required to invest significant time and resources into the conversion in order to maintain the integrity of the data exchanges and employee payroll contributions.

Given the resource commitment required for a TPA procurement, the potential disruption to DCP participants, the impact on other program priorities, and the immediate needs for the City's payroll conversion, staff believes the considerations involved in a contract extension should be fully vetted. In prior TPA relationships, when the Board has determined it is interested in investigating the merits of a contract extension, it has directed staff to conduct a full assessment, including meeting with the service provider to negotiate potential conditions for an extension. Staff, therefore, recommends the Board direct staff to fully assess potential considerations for a contract extension with Voya including a review of service, fee, and performance guarantee contract provisions, and report back to the Board at its December 2019 meeting.

Submitted by:



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