



CITY OF *Los Angeles*  
DEFERRED COMPENSATION PLAN

## Board Report 20-19

Date: May 19, 2020  
To: Board of Deferred Compensation Administration  
From: Staff  
Subject: 2020 Deferred Compensation Plan (DCP) Strategic Initiatives

### Board of Deferred Compensation Administration

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### Recommendation:

That the Board of Deferred Compensation Administration (Board):

- (a) Approve proposed 2020 DCP strategic initiatives as follows:
  - (1) Review and update the Board's Election Policies and Procedures
  - (2) Adopt Updated Fiscal Year (FY) 2020-21 Participant Goals and Outcomes
  - (3) Design Participant Survey
  - (4) Create Defined Contribution Plan Manager Classification
  - (5) Complete Investment Manager Searches
  - (6) Complete Plan Document Review
  - (7) Initiate DCP Financial Audit
  - (8) Complete an Investment Advisory and Financial Education Services Review
  - (9) Expand Automatic Enrollment Program Participation
  - (10) Develop a Strategic Communications Plan
  - (11) Complete Deemed IRA Review
- (b) Direct the Plan Governance and Administrative Issues Committee to review the Board's Election Policies and Procedures and return to the Board with recommendations.
- (c) Direct the Participant Engagement Committee to develop a draft participant survey and return to the Board with recommendations.

### Discussion:

#### A. Background

At its January 15, 2019 meeting, the Board adopted 2019 Strategic Initiatives for the Deferred Compensation Plan (DCP). Progress on Strategic Initiatives is provided at each monthly Board

meeting. A summary of those initiatives and review of the progress made on each initiative in 2019 is provided below.

2019 DCP Strategic Initiatives Review	
Strategic Initiative	Status
Implement Strategies to Achieve Goals for Participant Outcomes	Completed July 2019
Conduct Annual DCP Long-Term Revenue and Expenses Review	Completed February 2019
Expand Automatic Enrollment Program Participation	In Progress
Complete Investment Manager Searches	In Progress
Conduct Financial Audit	In Progress
Conduct Plan Document Review	In Progress
Conduct Deemed IRA Review	In Progress
Conduct Investment Advisory and Financial Education Services Review	In Progress
Develop Strategic Communications Plan	In Progress

This report identifies proposed strategic initiatives for 2020. As work required to complete many of the 2019 strategic initiatives spans more than one calendar year, most of the 2020 initiatives are carried over or modified from 2019. The 2020 initiatives also include four new initiatives. Staff's overriding objective is to align the strategic focus of the DCP around core measurements of participant success as well as excellence in plan design, governance, investment oversight, and communications.

Following is a summary of proposed strategic initiatives for Plan Year 2020. The status of that initiative, whether new or continued is also identified below.

### 1. Review the Board's Election Policy for Refinements and Updates (New)

**Background:** The terms for both the active Los Angeles City Employees' Retirement System (LACERS) and Los Angeles Fire and Police Pensions (LAFPP) Representatives on the Board expire on June 30, 2020. The election to fill these positions is scheduled to be held on May 15, 2020, with new terms beginning July 1, 2020, and ending on June 30, 2023. Elections for the Water and Power Employees' Retirement Plan (WPERP) and Retired Participant Representatives will take place in 2021 on a similar schedule.

**Status:** Due to the global 2019 novel coronavirus (COVID-19) pandemic and its impact on the execution of the 2020 election process, the Board suspended the nominating petition signatures-gathering requirement at its March 31, 2020 meeting allowing the election to continue as originally scheduled without disruption. The emergency measures provided an immediate resolution of challenges unique to the COVID-19 epidemic but the Board's Election Policies and Procedures would benefit from a more thorough review for possible refinements and

improvements, particularly as those may relate to unusual contingencies. Staff therefore recommends that the Board include review of the Board's Election Policies and Procedures as a strategic initiative for 2020 (to be completed in 2020). In connection with adopting this strategic initiative, staff further recommends that the Board direct the Participant Engagement Committee to develop a draft participant survey and return to the Board with recommendations.

## 2. Achieve Fiscal Year (FY) 2019-20 Participant Outcome Goals and Adopt FY 2020-21 Participant Outcome Goals (New)

**Background:** At its July 2019 meeting, the Board adopted staff's recommended participant outcome goals related to participation, contribution, distributions, and rollovers for FY 2019-20. The Board's adopted goals for FY 2019-20 include:

### (1) Participation Rate

- 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%

### (2) Contributions

- Increase average employee contributions from the current 5.14% to 5.39%, calculated to include all full-time employees eligible in participate in the DCP
- Increase the number of participants saving as a percent-of-pay from 1,841 to 3,000

### (3) Distributions

- Maintain 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)

### (4) Asset Retention

- Maintain 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)

**Status:** Staff worked with Voya to develop and implement engagement strategies for achieving FY 2019-20 participant outcome goals. Progress towards achieving these goals is presented in Voya's quarterly review. As FY 2019-20 is nearing completion, staff will work with Voya to prepare the next quarterly review summarizing the results of achieving the FY 2019-20 goals. FY 2019-20 results will be included as part of the analysis used in developing proposed goals for FY 2020-21. However, staff will also more thoroughly re-examine all DCP goals in light of some of the potentially fundamental ways the current financial and economic backdrop may impact participation, contribution, and distribution patterns. Staff anticipates presenting proposed FY 2020-21 goals to the Board at its August 18, 2020 meeting.

### 3. Participant Survey (New)

**Background:** The DCP periodically conducts surveys to assess participant feedback on various topics which are useful for the Board's consideration of service and plan design feature improvements or additions.

**Status:** Recent economic and market events, as well as broader workforce and retired participant trends, may be shifting perspectives on saving, investing, and/or withdrawing funds. It would be valuable to solicit participant feedback on key perspectives, needs, and concerns that can help guide new thinking on the long-term priorities and objectives for the DCP. Staff therefore recommends that designing a participant survey be included as a strategic initiative for 2020. In connection with adopting this strategic initiative, staff further recommends that the Board refer development of the participant survey to the Participant Engagement Committee. The target survey issuance date would be determined after review by the Participant Engagement Committee and the Board.

### 4. Creation of Defined Contribution Plan Manager Classification (New)

**Background:** At its February 18, 2020 meeting, the Board adopted the creation of a Defined Contribution Plan Manager classification as a strategic initiative for the DCP. The new classification will:

- a) Provide expert and dedicated management of the DCP;
- b) Provide for effective succession planning by establishing the ability to recruit from both external as well as internal candidates; and
- c) Place the DCP in a better position to meet its fiduciary, administrative, operational, investment, and oversight responsibilities.

**Status:** Since that meeting, staff has made significant progress in moving this initiative forward and anticipates that the request to create the new classification will be forwarded to the Board of Civil Service Commissioners (CSC) for their approval in the second quarter of 2020. In Board Report 20-20, staff is further recommending that the Board proceed with next steps and direct the Ad Hoc Committee on DCP Autonomy to review proposed salary ranges and recruitment considerations for the new classification. Subsequently, any recommendations adopted by the Ad Hoc Committee will be presented to the Board for their consideration.

### 5. Complete Investment Manager Searches (Continued)

**Background:** At its February 18, 2020 meeting, the Board approved Requests for Proposals (RFPs) for (i) DCP Investment Management Services and (ii) Stable Value Fund Investment Management Services. Subsequently, at its March 31, 2020 special meeting, the Board approved postponing the release of the RFPs for a minimum of 60 days, with direction to staff to report back within 30 days (or the next available Board meeting after 30 days) with updated findings and recommendations as to when and how to proceed with conducting the procurements.

**Status:** An update on the status of the RFPs is provided in Report 20-21. As the investment manager searches are expected to proceed in 2020, completion of the searches and selections is recommended to be included as a strategic initiative for 2020.

## 6. Complete Plan Document Review (Continued)

**Background:** The Board approved conducting a Plan Document review as a strategic initiative for 2019. Initial revisions to the Plan Document have been reviewed both by Segal Consulting, the DCP's consultant for administrative concerns, and Ice Miller, outside tax counsel for the DCP. Additional revisions are required to incorporate provisions of the (1) Setting Every Community Up for Retirement Enhancement Act of 2019 (SECURE Act) and (2) Federal Coronavirus Aid, Relief, and Economic Security Act (CARES Act) which was recently signed into law on March 27 to provide economic support due to the impact of COVID-19.

**Status:** DCP and City Attorney staff are conducting a thorough review process to ensure that all language in the Plan Document is consistent with the Los Angeles Administrative Code, applicable state law (including the State of California Probate Code), and best practices related to DCP administration. Eight review sessions occurred between August 2019 and May 2020; the City Attorney review is complete and the Plan Document with all edits has been provided to Ice Miller. Once Ice Miller's review and refinements are complete the revised Plan Document will be presented to the Plan Governance & Administrative Issues Committee. This meeting is expected to be scheduled in June or July 2020. Staff recommends that completing the Plan Document review be included as a strategic initiative for 2020.

## 7. Conduct Financial Audit (Continued)

**Background:** At its December 18, 2018 meeting, the Board approved the selection of Crowe LLP to conduct a financial audit for the DCP.

**Status:** Staff has been working with Crowe LLP and the City Attorney to execute a Professional Services Agreement. A few contractual items are still being resolved. Pending execution of the contract, commencement of audit services would begin. Staff recommends that completing the contract and initiating a DCP financial audit be included as a strategic initiative for 2020.

## 8. Complete Investment Advisory and Financial Education Services Review (Continued)

**Background:** Staff's report detailing its findings was presented to the Plan Governance & Administrative Issues Committee at its November 26, 2019 Board meeting. Staff and the Committee's recommendation to issue a Request for Information (RFI) for financial education and/or investment advisory services was approved by the Board at its December 10, 2019 meeting. Subsequently, the Board approved a RFI for both services at its February 18, 2020 meeting.

**Status:** The RFI was issued on the City's Los Angeles Business Assistance Virtual Network on March 4, 2020 with responses due on April 7, 2020. A total of four responses to the RFI were submitted. Staff is currently reviewing the RFI responses and anticipates presenting its findings and recommendations to the Board at its August meeting. Staff recommends that completing the investment advisory and financial education services review be designated as a strategic initiative for 2020.

## 9. Expand Automatic Enrollment Program (AEP) Participation (Continued)

**Background:** 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 to gather feedback and gauge interest in the AEP.

**Status:** Staff is developing a discussion document for the City's labor organizations with respect to designing a supplementary optional model for labor organizations to elect providing for a higher default contribution rate, higher and faster auto escalation of the contribution rate, and/or applying automatic enrollment to current non-participating employees (not just new hires). Although completing this discussion document can be done shortly, the timing of engaging labor organizations on this topic will be done in consultation with the Board's Labor Representative. Staff recommends that expanding AEP participation be included as a strategic initiative for 2020. Staff believes that the immediate objectives of consulting with labor organizations and designing a supplementary AEP model can be accomplished in 2020.

## 10. Develop 2020 Communications Plan (Continued)

**Background:** The Participant Engagement Committee met on October 31, 2019 to participate in a communications workshop facilitated by Segal Consulting. The workshop detailed best practices as they relate to retirement communications and how to implement key principles of behavioral finance.

**Status:** Staff is currently working on developing a strategic communications plan incorporating these strategies. The strategic communications plan will serve as a long-term plan for delivering effective and coordinated DCP messaging with the ultimate goal of increasing employee participation, engagement, awareness, and satisfaction. The plan is anticipated to be presented to the Committee in the third quarter of the year. Staff recommends that developing a 2020 communications plan be included as a strategic initiative for 2020.

## 11. Conduct Deemed IRA Review (Continued)

**Background:** At its April 17, 2018 meeting, the Board directed staff to work with the City Attorney and outside tax counsel to conduct a full review of the regulatory requirements and implications of offering a Deemed IRA and develop recommendations for Board action.

**Status:** Although staff has not made progress on this project in recent months, further work can be done in 2020. Staff recommends that completing the Deemed IRA review be included as a two-year strategic priority for both 2020 and 2021, with actual implementation of a Deemed IRA targeted for 2021.

### **Conclusion:**

Once the Board adopts its strategic initiatives staff will prioritize these projects moving forward. Progress reporting will continue to be provided to the Board at each monthly meeting.

Submitted by:



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Approved by:



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