



Board Report 20-27

Date: August 4, 2020

To: Board of Deferred Compensation Administration

From: Staff

Subject: Third-Party Administrator (TPA) Service Provider
Contract Extension

Board of Deferred Compensation Administration

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Recommendation:

That the Board of Deferred Compensation Administration (Board): (a) approve extending the term of Contracts No. C-130070 and C-130069 with Voya to provide Third-Party Administration (TPA) and trustee services, respectively, for the Deferred Compensation Plan (DCP) for an additional three years from September 27, 2022 to September 26, 2025 for a total eight-year term, with an option to extend for two additional years; (b) instruct staff to negotiate and draft a contract extension with Voya in consultation with Board counsel and authorize the Board Chairperson to execute said contract extension on behalf of the Board, subject to agreement between the City and Voya as to all applicable terms and conditions and approval of the City Council; and (c) authorize the Board Chairperson to sign and submit a communication, pursuant to Mayoral Executive Directive No. 3, from the Board to the Office of the Mayor recommending extension of the contract with Voya for TPA and trustee services for the DCP for an additional three years, with an option to extend for two additional years.

Discussion:

A. Background

At its October 15, 2019 meeting, the Board directed staff to assess potential considerations for a contract extension with the Deferred Compensation Plan (DCP) Third-Party Administrator (TPA), Voya, including a review of service, fee, and performance guarantee contract provisions, and report back to the Board. At that meeting staff provided the following background to the Board:

- Following a lengthy procurement process for administration of the DCP, the Board entered into a five-year contract with Voya to provide TPA and trustee services for the period September 27, 2017 through September 26, 2022.

- Staff indicated that the contract’s performance guarantees need to be adjusted in order to better align with the DCP’s evolving objectives and strategies, and that such adjustments require a contract amendment.
- Prior to proceeding further on developing contract amendment recommendations, staff recommended the Board determine its interest in either conducting another procurement or seeking an extension of the current contract given the length of time involved with procurement development, contract execution, and any potential transition in service providers.
- Staff noted its perspective that DCP participants might be best served by extending the current contract provided the Board can maintain or expand the services, commitments, and value offered by the incumbent provider, as TPA procurements consume an exceptional amount of staff time and resources. These procurement processes tend to largely “freeze” the execution of other important initiatives related to plan design improvements or participant outcomes while the search is taking place. Staff indicated that 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.
- Staff flagged a unique consideration over the next 18 months with the City’s pending transition from its custom-built payroll system, PaySR, to a new Human Resources Payroll (HRP) system through service provider, Workday. Staff stated that the conversion to HRP, which has already begun, is a significant undertaking given the important role the payroll system plays in communicating eligibility and contribution information for the DCP. This transition will require fundamental reconstruction of the payroll file exchange and alignment with historical data previously exchanged between the City and Voya. Staff recalled that development and payroll file exchange testing were the most significant and time-consuming aspects of the City’s transition to Voya in 2017. That transition required 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 stored within the payroll system.
- 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 suggested that the considerations involved in a contract extension be fully vetted. Staff noted that 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 of an extension, including meeting with the service provider to negotiate potential conditions for an extension.

The results of negotiations with Voya and staff’s assessment of a contract extension are provided in the next section of this report.

B. Key Provisions Related to Potential Contract Extension

Staff and Voya have engaged in extensive and productive discussions regarding the terms related to a potential contract extension. Staff’s objective in these discussions was to address

opportunities for innovations aligned with the Board’s evolving objectives for DCP administration, as well as to secure any available pricing accommodations consistent with providing participants with excellent customer service. Following are key items staff and Voya propose be included as part of a potential extended term of the Voya contract.

(1) Participant Fee Reduction

Pursuant to Los Angeles Administrative Code Division 4, Chapter 14, all of the City’s internal DCP administrative costs are required to be paid by participant fees. Voya’s administrative fee charged to the DCP is \$32.00 per participant annually. Fee collection is performed through an annual asset-based fee of 0.09% (or “nine basis points”) up to a fee cap of \$115. The difference between the amount of revenue collected from the asset-based fee and the amount contractually due to Voya is maintained in the DCP Reserve Fund to pay for other DCP administrative expenses (e.g., staffing, elections administration, and training).

Voya has agreed to reduce the fee from \$32.00 to \$30.00 per participant annually. This represents a reduction of 6.7%, or approximately \$112,000 annually if averaged over five years. The following table illustrates the value of the fee reduction over a five-year period¹:

	Assumed Number of Participants	Annual Per Participant Charge: \$32.00	Annual Per Participant Charge: \$30.00	Difference
Year 1	52,831	\$ 1,690,607	\$ 1,584,944	\$ 105,663
Year 2	54,416	\$ 1,741,325	\$ 1,632,492	\$ 108,833
Year 3	56,049	\$ 1,793,565	\$ 1,681,467	\$ 112,098
Year 4	57,730	\$ 1,847,372	\$ 1,731,911	\$ 115,461
Year 5	59,462	\$ 1,902,793	\$ 1,783,868	\$ 118,925
			TOTAL-->	\$ 560,979
			Five-Year Average-->	\$ 112,196

(2) HRP Conversion Cost Waiver

Voya’s implementation of the City’s DCP in 2016-2017 required a substantial staffing and administrative resource commitment for developing the payroll-TPA interfaces for the exchange of eligibility and contribution data between the City and Voya. The City, pursuant to its HRP conversion, is now essentially mandating a second payroll-TPA implementation just three years after the first one took place. As a result, in 2019, the Personnel Department requested that \$250,000 of funding for DCP HRP implementation be included within the City’s Fiscal Year (FY) 2020-21 budget. That recommended amount was included in the Mayor’s Proposed Budget and was subsequently adopted by the City Council in June 2020.

¹ For this illustration the starting number of participants is adjusted for a projected total beginning in 2022 and subsequently inflated by 3% annually in accordance with the Board’s adopted assumptions for net increases in total enrollment growth.

Voya has agreed to waive the costs of the HRP implementation. Although this savings accrues to the City (as the City has agreed to fund the cost), this accommodation nevertheless represents a substantial value to the City overall as part of Voya's contract extension proposal.

(3) Engagement, Data, and Outcomes Specialist

When the City issued its 2016 TPA RFP, it requested the services of a full-time, dedicated onsite communications specialist. As the City and Voya have partnered in developing and executing a variety of program and service enhancements and initiatives, it has become clear that a vital link exists between engagement, data development and analysis, and participant outcomes. Staff and Voya have agreed that the role of this position should therefore be redefined to provide for the following:

- Integration of engagement initiatives with the ongoing analysis and reporting of DCP data as it relates to achieving the Board's adopted goals.
- Evaluation of program and participant success with consideration given to a much wider array of metrics.
- Aggressive application of engagement initiatives towards influencing participant behaviors related to achieving retirement income security.

Staff envisions that a major responsibility of this redefined position will involve closely working with data sources both within and outside the DCP, including resources from independent research, the Public Retirement Research Lab (PRRL)², and outreach to the City's governmental peers. Strategically, this would provide the Board and the DCP with a key resource enabling it to create and apply more data-driven strategies for achieving key DCP objectives and improving participant outcomes.

(4) Retirement Speakers and Subject Matter Experts

Recently the City conducted a workshop jointly hosted by the DCP and the Los Angeles City Employees' Retirement System (LACERS) focused on addressing a variety of financial wellness topics for active and retired participants. Voya provided a speaker from its investment services division and absorbed all associated costs for the speaker.

As one of the largest TPAs nationwide in the governmental space, Voya has access to a wide variety of subject matter experts on a similarly wide variety of retirement topics, including behavioral economics, investments, financial planning, financial education, markets and the economy, and other topics. Voya is proposing providing the City with the ability to access a broad array of internal retirement experts on an as-needed basis for consultation, speaking, or perhaps even research services. Voya indicates that the City would have broad discretion to direct these

² The PRRL is a data and research collaboration between the National Association of Government Defined Contribution Administrators (NAGDCA) and Employee Benefits Research Institute (EBRI).

resources to its needs and modify them over time. Speaking resources could be made available at the participant level at a variety of engagement events.

Speaking resources could also be made available to the Board as well as its key stakeholders, including the City's elected officials, department heads, and labor organizations. Utilizing experts in the retirement field could assist the Board in engaging these stakeholders in key initiatives as well as benefit the City overall by enhancing awareness of retirement readiness and retirement security matters generally.

C. Voya Investments in the City's DCP

As Voya is a national TPA enhancing its systems and resources for all of its clients, the Board should be aware of the investments Voya has made and continues to make in its services, both nationally and for the City's DCP, specifically. Staff's recommendation and the Board's decision to select Voya as its TPA was based in large part on Voya's commitment to evolve and customize its services over the duration of the contract. Voya has proven to be a forward-thinking partner in this regard and its investments and organizational commitment to resource development are an important consideration for the Board as it contemplates a possible contract extension.

(1) Digital Investments in Participant Outcomes

Voya has partnered with the City to increase DCP participant engagement and meet Board objectives for participation, contributions, distributions and asset retention. As part of these efforts Voya launched a number of digital and record keeping service enhancements to drive increased participant engagement and retirement outcomes. Examples of these enhancements include the following:

- Customization of DCP Retirement Calculator – Upon conversion in 2017, Voya integrated the City's unique Retirement Calculator methodology and defined benefit plan rules into its "My Orange Money" platform to provide for highly specific and customized projections of retirement replacement income for City employees. This tool helps drive increased participant savings and more informed decision-making with regard to investments, contributions, and distributions. The key impacted outcomes include a range of data points provided to the Board at its June 17, 2020 meeting in the DCP 2019 Annual Report and Voya's quarterly DCP review for March 31, 2020, including metrics related to average contributions and Retirement Calculator utilization.
- Enhanced Loan Functionality – Voya recently added new digital utility into the user experience for participants interested in taking loans. For example, a participant considering a loan is now able to see how that could impact future monthly income in retirement. This has impacted participant behaviors when taking loans, as discussed at the Board's June 17, 2020 meeting and reflected in the following table:

Participant Loan Guidance Results	Q2 2019	Q3 2019	Q4 2019	Q1 2020
Used loan guidance and did not take a loan	38%	38%	40%	44%
Used loan guidance and went on to take a loan	62%	62%	60%	56%
Skipped guidance and did not take a loan	20%	19%	20%	19%
Skipped guidance and went on to take a loan	77%	80%	81%	80%

- Financial Wellness Platform - Voya has developed and is investing substantially in a financial wellness digital experience designed to help employees understand how to improve their overall financial wellness. This experience is accessible via a link on the DCP website and begins with completion of a Financial Wellness assessment used to evaluate a participant’s performance in six key areas: Protection, Spending & Saving, Emergency Fund, Retirement, Debt, and Other Goals. An engine scores each of the six pillars and personalizes the Financial Wellness dashboard for the participant. Participants then have access to their scores, guidance on which pillars to focus on first, and educational content inside each pillar relevant to the participant’s unique circumstances.
- Targeted Communications and Participant Journeys - Voya created a marketing automation system enhancing the participant experience by allowing Voya to deliver relevant and personalized emails based on what it knows about individual participants and their interactions with Voya. This foundational capability is being leveraged by its “participant journeys,” including Save More, Restart Savings, Financial Wellness and Beneficiary Election. The success rate from these “nudge” communications is greater than that for traditional multi-touch print and mail campaigns.
- On-Demand Video - Voya partnered with the City to develop on-demand video content enabling DCP participants to access general education at their convenience and which is customized uniquely to the City’s program.

(2) Investments in Recordkeeping Platform

A key consideration for the City in its relationship to a TPA is the ongoing investments it makes in its recordkeeping platform. Voya’s objectives for platform development include the following:

- Plan Sponsor Services – Voya is improving its plan sponsor portal to provide for easier navigation, improved alerts and messages, more interactive and customizable dashboards, greater data access, access to Voya aggregate data maintained for other plans to generate custom peer comparisons, and greater utility in updating participant data.
- Participant Services – Voya is expanding its digital interfaces to include consolidated pages combining web content and features on single pages to improve usability, “Saturday language” (i.e., using more commonly understood language for written communications with participants), new participant engagement journeys, statement of income projections, text alerts and nudges, and voice biometrics (authenticating caller identity by leveraging inherent biological and behavioral characteristics unique to each individual).

(3) Technology and Security

A key focus for the City's DCP is ongoing vigilance with respect to effectively managing cybersecurity risk. Voya is investing heavily in cybersecurity and fraud prevention with the following:

- Advanced, multi-factor threat detection for web and voice channels
- Enhanced security event correlation based on predictive models to flag high risk accounts (such as unregistered accounts)
- Stepped-up authentication with decreased reliance on personal information (e.g., conducting first time registration with knowledge-based authentication tools and randomized personal identification numbers)
- The "Secure Accounts for Everyone Guarantee" program, or S.A.F.E., providing that if any assets are taken from a participant's workplace retirement plan account due to unauthorized activity and through no fault of the participant, Voya will restore the value of the account subject to the participant satisfying certain requirements such as registering accounts and devices with Voya, updating Voya with contact information changes, reporting suspicious activity, and practicing safe online habits.

(4) Future Digital and Web-Based Investments

Voya has been investing in its web-based participant experience based on behavioral finance and is experimenting with further enhancing the user experience in its "Digital by Design" program. Digital by Design is intended to leverage direct customer feedback from participant and plan sponsor user groups (including the DCP) along with insights from its global digital partners. This multi-year investment in digital platforms includes plans to introduce:

- A refreshed look and feel of customer-interfacing web pages to enhance usability, accessibility and ensure consistency across all channels.
- A multi-lingual online experience, starting with Spanish.
- Richer digital content.

Active partnership between the City's DCP and a TPA regarding service and resource development at the broad platform level (not just customized for the DCP) has been a longstanding objective for staff in TPA relationships. Voya has frequently solicited input from the City and staff noted its feedback has been incorporated into evolution of Voya's platform both to the City's benefit as well as other clients.

D. Recommendation and Next Steps

Staff's finding is that negotiations regarding future enhancements for a potential contract extension with Voya have resulted in valuable opportunities for the Board and the City to:

- (a) Reduce participant fees
- (b) Reduce the City's costs related to HRP conversion, and
- (c) Enhance the intellectual resources available to the Board and DCP for advancing the mission of the DCP.

Given the breadth of Voya's offer, staff believes that an extension of three to five years would be to the long-term benefit of DCP participants and the City. The extension proposed by staff would include an initial extension of three years, from September 2022 through September 2025, with an option for the Board to extend for an additional two years, through September 2027, following a future performance review. Staff would further take this opportunity to revise and update DCP performance guarantees, particularly those tied to targeting improved participant outcomes. Staff would also use the contract amendment to address any items which may require additional clarification of services, for example those related to offering a DCP Deemed Individual Retirement Account (IRA) or developing additional data support needs related to the Engagement, Data and Outcomes Specialist position. These additional details would be refined as part of a contract amendment, the specific provisions of which would return to the Board at a future date but prior to finalization.

Voya has agreed to implement all but the revised participant fee reduction upon approval of the terms of the contract extension by the Board and City Council. This would allow the City to implement these favorable provisions prior to 2022.

Staff recommends that the Board (a) approve extending the term of Contracts No. C-130070 and C-130069 for with Voya to provide Third-Party Administration (TPA) and trustee services, respectively, for the Deferred Compensation Plan (DCP) for an additional three years from September 27, 2022 to September 26, 2025 for a total eight-year term, with an option to extend for two additional years; (b) instruct staff to negotiate and draft a contract extension with Voya in consultation with Board counsel and authorize the Board Chairperson to execute said contract extension on behalf of the Board, subject to agreement between the City and Voya as to all applicable terms and conditions and approval of the City Council; and (c) authorize the Board Chairperson to sign and submit a communication, pursuant to Mayoral Executive Directive No. 3, from the Board to the Office of the Mayor recommending extension of the contract with Voya for TPA services for the DCP for an additional three years, with an option to extend for two additional years. Upon approval by the Mayor, the request will then be transmitted to the City Council for final authorization of the contract extension.

Submitted by:



Steven Montagna, Chief Personnel Analyst