



# CITY OF *Los Angeles*

## DEFERRED COMPENSATION PLAN

### Board Report 21-03

Date: January 19, 2021  
To: Board of Deferred Compensation Administration  
From: Staff  
Subject: 2021 Deferred Compensation Plan Strategic Initiatives

#### Board of Deferred Compensation Administration

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#### **Recommendation:**

That the Board of Deferred Compensation Administration (Board) approve proposed 2021 Deferred Compensation Plan (DCP) strategic initiatives as follows:

##### Governance:

- (1) Conduct Defined Contribution (DC) Plan Manager Position Selection Process
- (2) Develop Board Findings Regarding Filing of Statements of Economic Interests and Related Requirements
- (3) Complete Plan Document Review

##### Procurements and Contracts:

- (4) Complete Investment Manager Searches
- (5) Complete Investment Advisory and/or Financial Education Services Review
- (6) Complete Request for Proposal for DCP Investment Consulting Services

##### Operations and Plan Design:

- (7) Initiate DCP Financial Audit
- (8) Design Automatic Enrollment Program Supplemental Model
- (9) Develop Options for Deemed IRA Investment Menu

##### Communications and Member Outcomes and Engagement:

- (10) Adopt Fiscal Year 2021-22 Participant Goals
- (11) Implement Participant Survey Plan
- (12) Develop DCP Communications Strategic Plan

#### **Discussion:**

##### **A. Background**

At its May 19, 2020 meeting, the Board adopted 2020 Strategic Initiatives for the DCP. Progress on the status of Strategic Initiatives is provided at each monthly Board meeting. A summary of those initiatives and review of the progress made on each initiative in 2020 is provided below.

2020 DCP Strategic Initiatives Review	
Strategic Initiative	Status
1. Review and Update the Board's Election Policies and Procedures	Completed December 2020
2. Adopt Updated Fiscal Year (FY) 2020-21 Participant Goals and Outcomes	Completed October 2020
3. Design Participant Survey	In process
4. Create Defined Contribution Plan Manager Classification	Completed October 2020
5. Complete Investment Manager Searches	In process
6. Complete Plan Document Review	In process
7. Initiate DCP Financial Audit	In process
8. Complete an Investment Advisory and Financial Education Services Review	In process
9. Expand Automatic Enrollment Program (AEP) Participation	In process
10. Develop a Strategic Communications Plan	In process
11. Conduct Deemed IRA Review	Completed December 2020

This report identifies proposed strategic initiatives for 2021. As work required to complete many of the 2020 strategic initiatives spans more than one calendar year and was also affected by the impact of the COVID-19 pandemic on staffing and DCP operations, most of the 2021 initiatives are carried over or modified from 2020. The 2021 initiatives also include five 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 governance, operations and plan design, investment oversight, and communications.

Following is a summary of proposed strategic initiatives for Plan Year 2021. The status of that initiative, whether new or continued is also identified below.

### 1. Conduct Defined Contribution (DC) Plan Manager Position Selection Process (New)

**Background:** The creation of a DC Plan Manager position was included as a strategic initiative for 2020. The Board of Civil Service Commissioners approved the creation of the new DC Plan Manager classification at its June 25, 2020 meeting. Additionally, as part of the Personnel Department's Fiscal Year 2020-21 Budget, the City Council adopted a recommendation by the Chief Legislative Analyst to add one resolution position authority for the newly created Defined Contribution Plan Manager classification.

**Status:** At its October 20, 2020 meeting, the Board approved several recommendations with respect to the recruitment and salary considerations for the new DC Plan Manager position, including requesting exemption of the new position from civil service, requesting an unfreeze to fill the position, and setting the salary of the classification at the level of Chief Personnel Analyst. Staff is currently working with the Board Chairperson on issuing the necessary communications required to facilitate these processes. Given the high importance of filling this position, staff recommends that conducting the DC Plan Manager selection process be included as a strategic initiative for 2021.

## 2. Develop Board Findings Regarding Filing of Statements of Economic Interests and Related Requirements (New)

**Background:** In the past, the Personnel Department has included the Board within its liaison work with the Los Angeles City Ethics Commission (Ethics Commission) for the purpose of identifying positions required to file Statements of Economic Interests and coordinating related requirements. DCP staff have assisted but not been the primary interface with the Ethics Commission.

**Status:** Staff believes that, in connection with DCP autonomy provisions as reflected in the recently adopted Memorandum of Understanding (MOU) between the Board and Personnel Department, the Board should establish its findings with respect to identifying positions required to file Statements of Economic Interests and coordinating related requirements, and that such action be included as a strategic initiative for 2021.

## 3. Complete Plan Document Review (Continued)

**Background:** The Board approved conducting a Plan Document review as a strategic initiative for 2020. Initial revisions to the Plan Document have been reviewed 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 signed into law on March 27, 2020 to provide economic support due to the impact of COVID-19.

**Status:** On April 17, 2018, the Board referred review of the Plan Document to the Plan Governance and Administrative Issues Committee (Committee). The intention of this review was not merely to incorporate regulatory updates, but to conduct a comprehensive update and review to ensure it is consistent with applicable law, regulation, and administrative processes. Eight review sessions occurred between August 2019 and May 2020. In addition to staff and City Attorney review, the draft has also been reviewed by outside tax counsel Ice Miller and Third-Party Administrator (TPA) Voya. The Plan Governance & Administrative Issues Committee (Committee) met on January 14, 2021 to review the proposed updates to the Plan Document. Upon final action by the Committee, the revised Plan Document will be brought back to the Board for its consideration and adoption.

## 4. Complete Investment Manager Searches (Continued)

**Background:** The Stable Value Fund Investment Management Services Request for Proposal (RFP) was released to the vendor community on July 20, 2020 resulting in 14 proposals. An Investments Committee meeting was held on October 30, 2020, and staff and the Investment Committee's recommendations to the Board were presented in Board Report 20-44. Presentations from SVF proposers, Galliard Capital Management and Invesco are scheduled for today's Board meeting on January 19, 2021.

The Investment Management Services RFP was released to the vendor community on August 17, 2020 with a deadline for proposers to submit a response by October 1, 2020. Staff received proposals from 65 firms. All firms were determined to have passed the City's general contracting requirements compliance review. Staff is working with Mercer and will schedule meetings of the Investments Committee in 2021 to evaluate proposals for each of the DCP's unique investment manager mandates.

**Status:** As the investment manager searches will continue through 2021, completion of the searches and selections is recommended to be included as a strategic initiative for 2021.

## 5. Complete Investment Advisory and/or Financial Education Services Review (Continued)

**Background:** A Request for Information (RFI) for investment advisory and/or financial education services was issued on the City's Los Angeles Business Assistance Virtual Network on March 4, 2020 with responses due on April 7, 2020, resulting in four responses. Staff's evaluation of the responses to the RFI is addressed in Board Reports 20-34 and 20-38. A presentation by one of the firms, GuidedChoice that submitted a response to the RFI is scheduled for the Board's February 16, 2021 meeting.

**Status:** Considering investment advisory and/or financial education services for the DCP is an important policy review. Accordingly, staff recommends that completing the investment advisory and/or financial education services review be continued as a strategic initiative for 2021.

## 6. Complete Request for Proposal for DCP Investment Consulting Services (New)

**Background:** The term of the contract with the DCP's investment consultant, Mercer will end on December 31, 2021 (total 6.5 year term). Mercer currently provides three primary categories of services under its contract: (1) ongoing investment performance monitoring and reporting; (2) ad hoc miscellaneous research and other assignments; and (3) investment manager searches.

**Status:** Staff will be drafting a Request or Proposals (RFP) for investment consulting services in the first quarter of 2021 to ensure there is sufficient time for the review and evaluation of proposals and development and execution of a contract with no lapse in coverage for the provision of investment consulting services. Staff recommends that completing a DCP investment consultant search be included as a strategic initiative for 2021.

## 7. Initiate DCP Financial Audit (Continued)

**Background:** The contract with Crowe LLP to provide financial audit services for the DCP was executed on December 18, 2020.

**Status:** On January, 6, 2021, staff met with Crowe LLP staff to discuss a proposed plan for the commencement of a financial audit. According to Crowe, a financial audit would require a significant amount of dedicated DCP staff time to assist in the audit work including extensive

payroll and record data mining, as well serving as a liaison to work with the Controller's Office and the Department of Water and Power to obtain payroll records not available to staff. Staff would also play an integral role serving as point of contact with the DCP's Third-Party Administrator, Voya to assist in collecting Plan data information required for the audit, and taking an active role in the review and evaluation of the data and audit results. Staff is reviewing this information and will return to the Board at its February 16, 2021 meeting with a recommended project plan. Staff recommends that initiating the DCP financial audit be included as a strategic initiative for 2021.

## 8. Design Automatic Enrollment Program (AEP) Supplemental Model (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. Expanding AEP participation was included as a strategic initiative in 2020.

**Status:** Staff has developed a discussion document for the City's labor organizations with respect to designing a supplementary optional AEP model. Under this option, labor organizations could elect a model 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). Outreach has not yet been provided to the City's labor organizations given their present focus on a myriad of issues related to COVID-19 and the City's associated financial impacts. Nevertheless, it is anticipated that in 2021 there will be opportunities to proceed with discussions. Staff recommends that designing a supplemental AEP model be included as a strategic initiative for 2021.

## 9. Develop Options for Deemed IRA Investment Menu (New)

**Background:** At its June 18, 2019 meeting, the Board reviewed Board Report 19-21 and directed staff to develop a detailed set of recommended Deemed IRA design features for consideration by the Board. Completing the Deemed IRA review was included as a two-year strategic priority for both 2020 and 2021, with actual implementation of a Deemed IRA targeted for 2021.

**Status:** At its December 15, 2020 meeting, the Board reviewed staff's analysis of the Deemed IRA option in Board Report 20-45. The Board adopted staff's recommendation to direct the Investments Committee to work with staff and the DCP investment consultant to develop options and considerations for a potential alternative investment menu design for the DCP Deemed IRA. As this review may be a lengthy process requiring further discussion on implementation with the DCP's Third-Party Administrator, staff recommends that developing options for a Deemed IRA investment menu be included as a strategic initiative for 2021. Actual implementation of a Deemed IRA would be scheduled based on future actions to be taken by the Board.

## 10. Adopt Fiscal Year 2021-22 Participant Goals (New)

**Background:** At its September 15<sup>th</sup> and October 20<sup>th</sup> meetings, the Board adopted staff's recommended goals related to participation, contributions, distributions, and asset retention for FY 2020-21 as follows:

### (1) Participation Goals

- Participation Goals by Years of City Service
  - a) Increase participation of employees with less than one year of City service by 1%, from 40% to 41%.
  - b) Increase participation of employees with less than three years of City service by 1%, from 52% to 53%.
- Participation Goals for Lowest Participating Departments and Labor Organizations
  - a) Increase participation of the five departments with the lowest participation by 1%:
    - Mayor's Office – 42% to 43%
    - Council Offices – 46% to 47%
    - General Services – 53% to 54%
    - Public Works, Street Services – 54% to 55%
    - Recreation and Parks – 59% to 60%
  - b) Increase participation of the five labor organizations or non-represented employees (greater than 50 full-time employees) with the lowest participation by 1%:
    - MOU 15 (Service Employees) – 34% to 35%
    - MOU 00 (Non-Represented) – 53% to 54%
    - MOU 04 (Equipment Operation & Labor) – 53% to 54%
    - MOU 14 (Service & Craft) – 56% to 57%
    - MOU 02 (Building Trades) – 60% to 61%

### (2) Contributions Goals

- Average Employee Contributions – Maintain average employee contributions at the current 5.48%, calculated to include all full-time employees eligible for the DCP.
- Percent-of-Pay Savings – Increase the number of participants saving as a percent-of-pay from 3,064 (9% of contributing participants) to 3,446 (10% of contributing participants).

### (3) Distributions Goals

- Retirees Closing Accounts – Maintain the number of retirees who close their accounts to no more than 2.5% of the retiree population (excluding closures of Qualified Domestic Relations Order and beneficiary accounts).

### (4) Asset Retention Goals

- Assets Rolling out of Plan – Maintain the number of retirees who roll funds out of their accounts to no more than 4.5% of the retiree population (excluding rollovers of Qualified Domestic Relations Order and beneficiary accounts).

**Status:** For the current fiscal year 2020-21, staff thoroughly reexamined participant goals as a result of the current financial and economic climate caused by the COVID-19 pandemic and how it may impact participation, contributions, distributions, and asset retention patterns. The impact

of the Citywide hiring freeze, postponement of pay raises, and workforce reductions due to the Separation Incentive Program resulted in the Board adopting more modest goals for FY 2020-21. Participant goals and strategies are reassessed and established annually. As improving participant outcomes is an ongoing and paramount focus for the Board and staff, staff recommends that adopting proposed participant goals for FY 2021-22 be included as a strategic initiative for 2021.

### 11. Implement Participant Survey Plan (Continued)

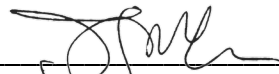
**Background:** The DCP periodically conducts surveys to assess participant feedback on various topics which are useful for the Board’s consideration of service and plan design feature improvements or additions.

**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 as well as refine current strategies for achieving DCP participant goals in future years. Staff has completed a preliminary review of an approach involving shorter and repeated “micro-surveys” to encourage responsiveness and develop trend data over time. Staff is presently developing a proposal for issuing these surveys which will be presented to the Participant Engagement Committee at a future meeting. Staff recommends that implementing a participant survey plan be included as a strategic initiative for 2021.

### 12. Develop DCP Communications Strategic 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:** Although staff has not made progress on this project in recent months, further work is anticipated to be completed in 2021. This effort involves developing a strategic plan for delivering effective and coordinated DCP messaging for the purpose of increasing employee participation, engagement, awareness, and satisfaction. Staff will develop a draft plan which will be presented before the Participant Engagement Committee at a future meeting. Staff recommends that implementing a DCP communications strategic plan be included as a strategic initiative for 2021.

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