



## Board Report 22-64

Date: December 20, 2022

To: Board of Deferred Compensation Administration

From: Staff

Subject: Communication of Employer Match Program Considerations

### Board of Deferred Compensation Administration

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### Recommendation:

That the Board Chair form an ad hoc committee for Employer Match Program Considerations, in order to document Deferred Compensation Plan (DCP) preferred parameters and considerations for implementation of a potential employer match program to be communicated to the City.

### Discussion:

#### A. Background

The Board has previously discussed the topic of a possible City of Los Angeles employer match program at the following meetings:

- June 29, 2022 – Staff reported receiving inquiry from the Office of the City Administrative Officer (CAO), related to the feasibility of an employer match program for the DCP.
- July 19, 2022 – Staff provided the Board a report outlining key considerations. The Board requested a follow up to address whether costs to implement such a program could be funded by DCP assets when it would not benefit all participants in the plan.
- September 29, 2022 – City Attorney’s Office provided a report to address the payment of expenses associated with the implementation of an employer match for the DCP that not all participants may benefit from. Generally, the liability for the expenses of implementing a match would be dependent on the design of the program and significance of the costs.

## B. Documentation and Communication of Key Considerations

Given the discussions thus far, staff is recommending the Board Chair form an ad hoc committee to discuss and develop a DCP Employer Match Framework Preference Plan that would document the DCP's preferred parameters for an employer match program for which the DCP may use to communicate with the City should it further consider implementation of an employer match. Such communication may include thoughts on:

### Framework

Notwithstanding that program elements of an employer match would be determined by the City, it would be advantageous for the DCP to forward its considerations and stances related to such potential decisions, as indicated below.

- 401(a) vs. 457(b) Considerations – Indicate whether an employer match program vehicle may be more administratively preferable.
- Auto-enrollment – DCP could recommend that an employer match be paired with an auto-enrollment feature, to ensure an improved retirement security outcome for employees.
- Eligibility – The DCP could indicate its preference for a uniform match program for all active employees, new or existing, to avoid creating different allocations or tiers of account recordkeeping fees and mitigate administrative errors and communications challenges.

### Payment of Expenses

DCP assets are to be used for the exclusive benefit of all its participants, and as an employer match program does not benefit all its participants (e.g. retirees and other active employees depending on how the match is designed), the Board has sought clarification on whether DCP assets may be used. The City Attorney previously indicated to the Board at its September 19, 2022 meeting that plan expenses are generally categorized as “settlor” or “plan” type expenses:

- “Settlor” expenses – should not be paid from plan assets, can be viewed as expenses incurred for employer’s benefit or for services the employer would incur in normal course of business. This also includes expenses associated with making settlor decisions such as establishing or designing a plan.
- “Plan” expenses – May be paid from plan assets, provided the expenses are reasonable. These are incurred for the benefit of the plan and its participants and may include expenses association with the implementation of settlor decisions.

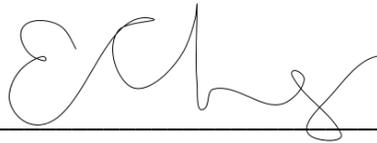
Communication should be provided to the City to indicate that certain costs for which DCP funds cannot be utilized will need to be borne by the City as the employer (though the extent of such costs would be contingent on the program design elements). Should the employer match program vehicle be established through the 457(b), the City may minimally need to fund the pre-implementation costs; if the employer match vehicle is the 401(a), the

City would need to fund all implementation and administrative costs as DCP funds could not be utilized. In the latter scenario, it is noted the City could potentially be reimbursed from 401(a) funds once the plan is established.

Timing of Implementation & Resources

Staff is currently working to complete testing of various payroll processes that will be going live at the end of the 2023 calendar year through the new Human Resources & Payroll (HRP) system Workday. Ideally, implementation of any additional program enhancements should be scheduled after 2023 to ensure appropriate staffing resources and availability from all vendors. Aside from any payroll implementation, the administrative timeline for establishing the employer match would, in staff's estimation, take from one to two years depending on the program design elements. This would include, but not limited to: establishing changes to governing documents (such as the DCP Plan Document, Administrative Code), amending service agreements and setting up necessary trusts, ensuring the program would be able to meet any specific accounting and reporting requirements, etc.

Submitted by:



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