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# DEFERRED COMPENSATION PLAN BOARD REPORT 05-33



Date: October 5, 2005

To: Board of Deferred Compensation Administration

From: Staff

Subject: NAGDCA Conference

Recommendation:

That the Board of Deferred Compensation Administration receive and file the following information regarding the 2005 NAGDCA Conference in Miami, Florida.

Discussion:

The following report contains a brief summary of some of the information obtained at the 2005 National Association of Government Defined Contribution Administrators (NAGDCA) Conference. The Conference once again provided a unique learning opportunity for Board members and staff. Session topics covered a broad range of administrative and plan design topics directly relevant to the City's Plan. In addition, the conference allowed City representatives to establish relationships with peers in the state and local government plan sponsor community, which creates ongoing opportunities for generating ideas to improve our Plan. Some of the most useful conference discussion topics and potential action items include the following:

**Legislative Issues** – The conference opening session included a discussion of “negative” or automatic enrollment initiatives currently making their way through Congress. Depending on the form of any legislation actually passed, many existing state legislative hurdles to automatic enrollment may be overcome, focusing the debate for plan sponsors on the policy merits. Part of this legislation may concern the use of asset allocation funds as default investment vehicles. The session also indicated that no immediate action is expected on making permanent those 457 improvements provided for in 2001 tax legislation, and that in fact action on this may wait until the eve of expiration in 2010. Amendments to Plan Documents for technical corrections included in last year's revised Treasury regulations are due for enactment by 12/31/05.

Action Items:

- Discussion of automatic enrollment and default asset allocation funds with Board and appropriate Committee(s);
- Complete Plan Document revisions for Board's November meeting to meet IRS due date.

**Plan Audits** – IRS representatives participated in several sessions related to 457 plan regulations as well as plan audits. Some of the most useful information included specifics regarding what types of items have been tested in actual recent audits. This provides a basis for the City to conduct pre-testing as well as focus the work of any future contracted audits directed by the Board. IRS representatives reminded Plan sponsors that sick and vacation accruals can be deferred into 457 plans (up to applicable annual limits) for up to 75 days after termination of employment.

Action Items:

- Staff will work with Great-West to pre-test some of the items identified by the IRS to assist in preparation for any potential future audit; in a related vein, staff will begin assembling Plan policies and procedures to assist towards an efficient and timely audit process.
- Staff will continue its efforts with the Paysr Task Force to effect changes to the legacy and new payroll systems to permit deferral of sick/vacation accruals into the Plan.

**Investment Menu Design** – In plan sponsor breakout sessions there was an evident trend in the City's peer group of large plans (greater than \$1 billion) to consider consolidating investment offerings and using more of a separate account structure, with Plan branding of the investments. Some entities (such as the City of New York) have already made this transition and found that it has allowed them to leverage their size to achieve greater fee reductions. In addition, a session on market timing provided opportunities to consider alternate ways of addressing this issue from the fund, plan and participant perspective.

Action Items:

- The New York City model should be studied in depth by the Board and Investments Committee.
- Work with the Investments Committee to comprehensively address the full range of outstanding menu design/investment policy issues.

**Loans** – A session on loans indicated that only approximately one-quarter of state and local government 457 plan sponsors are offering loan programs. Also, while session moderators were skeptical about the prospect of offering loans to retirees, there was no demonstrated regulatory impediment to doing so.

Action Item:

- Explore in the appropriate Committee(s) and or with full Board the prospect of offering loans to retired Plan participants.

**Communications** – Several sessions explored issues concerning communication strategies for different segments of the participant population. Some of the concepts inspired by these discussions, all of which staff would propose be considered in the Board’s Communications Committee, include the following:

- A targeted communication effort for the large number of DROP participants who will be separating service beginning next year, to ensure they receive all the information they need regarding options for their DROP account balances;
- Additional targeted mailings to certain segments of the participant population to address specific issues (e.g. participants with only one asset class in their accounts, to remind them of the benefits of diversification, or participants who have not recently changed their deferral amount, to remind them of the benefits of gradual increases in contributions);
- Developing incentives to read quarterly newsletters by offering some kind of reward program;
- Developing closer relationships with each of the City’s three retirement systems to work on coordinating communications in group meetings, print materials and statements;
- Use of a “mascot” (e.g. cartoon character) as part of a City of L.A. branding strategy;
- Create a more user-friendly Plan-level website name.

**Miscellaneous Items** - During and following the conference staff considered several other concepts inspired by the conference, each of which will be further reviewed/discussed in Committees or directly with the Board, as appropriate:

- Continue work with Great-West on development of options for participants to sign up for automatic contribution increases;
- Consider use of the City’s retirement funds as investment options within the Plan;
- Continue to explore options for expanding the ability to defer accrued sick/vacation pay upon retirement into the Plan into other investment vehicles and beyond the applicable 457 contribution limits.

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