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DEFERRED COMPENSATION PLAN BOARD REPORT 07-45



Date: December 4, 2007

To: Board of Deferred Compensation Administration

From: Plan Governance & Administrative Issues Committee/Staff

Subject: Hardship Withdrawal Processing

Recommendation:

That the Board of Deferred Compensation Administration approve reassigning hardship withdrawal processing from Personnel Department staff to Great-West Retirement Services, and further authorize the Board Chairperson to execute the necessary contract amendment with Great-West to provide for this service.

Discussion:

The Board recently referred the issue of hardship withdrawal policies/processing to the Plan Governance & Administrative Issues Committee. The Committee has been studying the issue extensively over the last several months and is recommending that the Board reassign primary processing of hardship withdrawal applications from the Personnel Department to its third-party-administrator, Great-West Retirement Services. The Committee believes that doing so will:

- (a) More effectively allocate the Plan's resources available through its staff and third-party-administrator;
- (b) Provide for more consistent application of Internal Revenue Service regulations and thus provide better protection for the Plan and the Board; and
- (c) Substantially improve service to hardship applicants by significantly speeding up the consideration process.

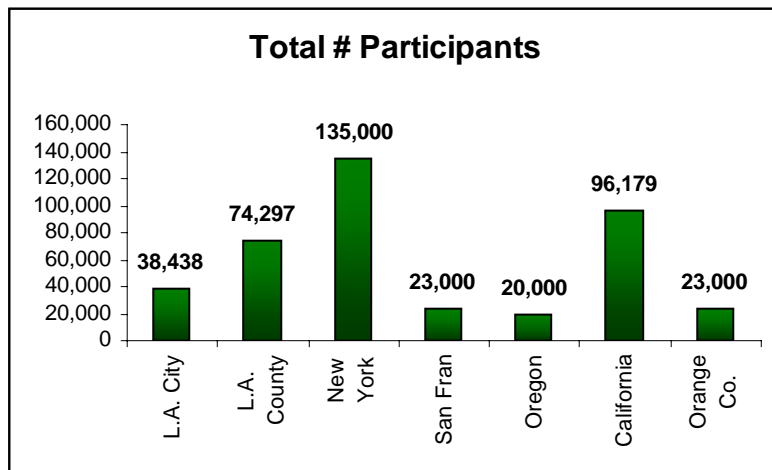
The Committee began its review by considering the question of whether the Plan should develop more specific policies concerning hardship withdrawal processing. As part of its study the Committee asked staff to survey several other large comparable Section 457 plans to determine how they handled their hardship processing. Staff surveyed six state and local government entities which would be considered close peers to the City.

These entities included:

- State of California
- Los Angeles County
- City/County of San Francisco
- City of New York
- State of Oregon
- Orange County

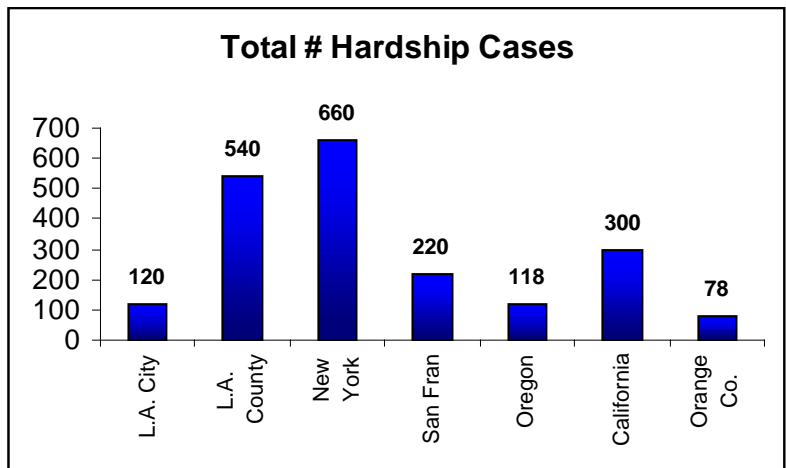
Following are the results of that survey (more details results are attached):

Participation - Total participation in these plans compared to City participation as follows:

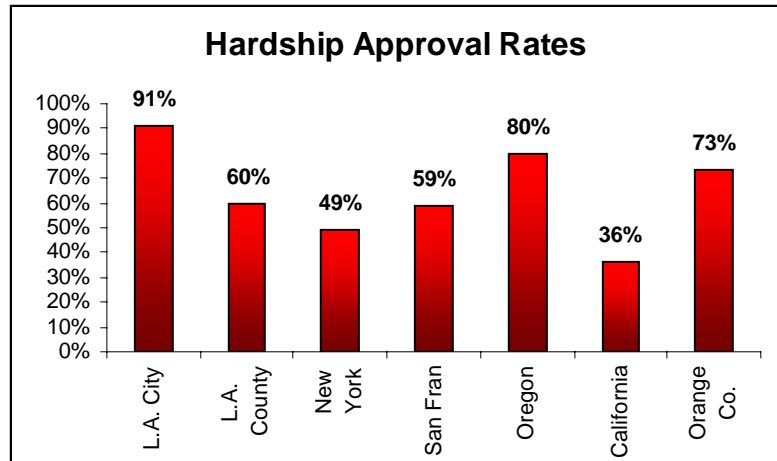


Total Hardship Cases – The total number of hardship cases generally tracked the size of the plans as measured by participants, although other plans had higher hardship application “rates” than the City. The City’s total caseload on a percentage basis was at the low end of the range, while L.A. County was at the high end of the range.

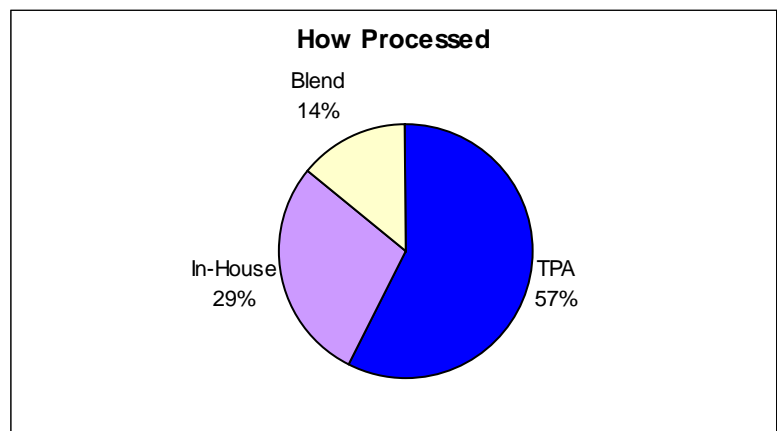
Hardships as % of Participants	
L.A. City	0.31%
State of California	0.31%
Orange County	0.34%
New York	0.49%
State of Oregon	0.59%
L.A. County	0.73%
San Francisco	0.96%



Hardship Approval Rates – Approval rates also differ substantially. The City had the highest approval rate of the group, while the State of California had the lowest.



TPA Hardship Processing – A majority of the entities used their third-party-administrator (TPA) to process their hardship applications, while two (including the City’s Plan) processed them in-house. One entity (San Francisco) utilized a blended approach.



As part of its research the Committee members interviewed the manager of Great-West’s Correspondence Unit, which handles hardship applications, beneficiary claims, and Qualified Domestic Relations Orders, among other administrative functions, in order to obtain more information about their hardship consideration process. The Committee obtained the following key pieces of information as a result of that interview:

- Great-West processes approximately 5,000 hardship applications per year for their various clients;
- Assuming all of the appropriate documentation is submitted, applications are processed in 3-5 days (compared to 4-6 weeks using the current process);
- On average, appeals of denied requests represent less than 1% of applications filed by participants from other entities;
- Great-West applies Internal Revenue Service regulations uniformly across all of its clients (as opposed to using different plan sponsor interpretations of those regulations); however, if there are specific nuances affecting a plan sponsor’s participants in a unique way, Great-West can incorporate that information into its decision-making process;

- Great-West's documentation requirements are also uniformly applied and are less burdensome to participants than the documentation requirements presently used by the City's Plan;
- Great-West consults with their internal legal counsel on complex cases; and
- Plan sponsors always retain the right to hear participant appeals of unfavorable decisions, assuming this is the way they wish to structure their hardship consideration process.

Regarding appeal rights, the Committee was advised by the Board's counsel, Deputy City Attorney Richard Bobb, that participants must be allowed appeal rights to the Board. Mr. Bobb indicated that the Board could create a sub-committee to hear those appeals as an interim step, but that participants ultimately had the right to have the full Board hear their case.

The Committee further determined that there has been a substantial increase in the number of hardship applications being processed, and that this is likely to continue for the foreseeable future based on immediate factors such as the current mortgage/credit crisis as well as long-term factors such as the strong growth in participant accounts. In addition, the Committee determined that currently hardships consume the time of greater than the equivalent of a full-time position in the Plan, and that this time obligation is growing quickly.

Regarding cost, the Committee learned that Great-West would charge \$250 per case to process the City's hardship applications. Based on a caseload of approximately 120 cases annually, this would total approximately \$30,000 per year. This compares very favorably to the cost of employing a full-time Management Analyst II to perform this task which, including related costs, is \$136,649.

Findings:

After considering all of this information, the Committee reached the following conclusions:

- Customer service to hardship applicants would be substantially improved by substantially reducing the processing time for hardship applications – presently it may take 4-6 weeks for a hardship approval depending on the timing of when the application is submitted relative to when a Board meeting takes place, compared to 3-5 working days using Great-West;
- Great-West could provide more consistent and accurate application of Internal Revenue Service guidelines concerning hardship withdrawals given its broader experience processing cases and its access to its own considerable internal legal resources;
- Shifting hardship application processing to Great-West would represent a wiser, more efficient use of Plan resources and improve local service to Plan participants at minimal additional cost – removing the hardship function from Personnel Department staff would free up those staff members to perform more education and outreach,

and would also forestall requests for future staffing increases, at a higher cost, should the hardship caseload continue to grow in future years;

- An appeal process is required, but Committee members do not believe that it makes sense to create a sub-committee as an interim level of review – this would add more time and an extra layer of bureaucracy that would, in the Committee's view, not serve the interests of applicants. The Committee believes that appealed cases should be heard by the full Board, but expects that based on Great-West's experiences with other plans the number of cases heard by the Board is likely to decline.

As a result, the Committee is recommending that the Board approve the immediate outsourcing of hardship application processing to Great-West, and further authorize the Board Chairperson to execute the necessary contract amendment with Great-West to provide for this service.

Submitted by: _____
Steven Montagna

Approved by: _____
Maryanne Keehn

