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# DEFERRED COMPENSATION PLAN BOARD REPORT 08-26



Date: July 1, 2008

To: Board of Deferred Compensation Administration

From: Staff

Subject: Investment Survey Results

Recommendation:

That the Board of Deferred Compensation Administration receive and file the following information regarding results of the Board's Investments Survey, and refer further study of these results to the Investments Committee for the purpose of developing recommendations for further action.

Discussion:

Attached to this report are results of the Investments Survey developed by the Board and recently issued in partnership with Great-West Retirement Services. The survey report includes the following:

- The original survey
- A breakdown of the percent/number of responses for each question and potential answer, along with an accompanying chart; and
- A listing of each written comment received from respondents sorted by the questions with which they were associated.

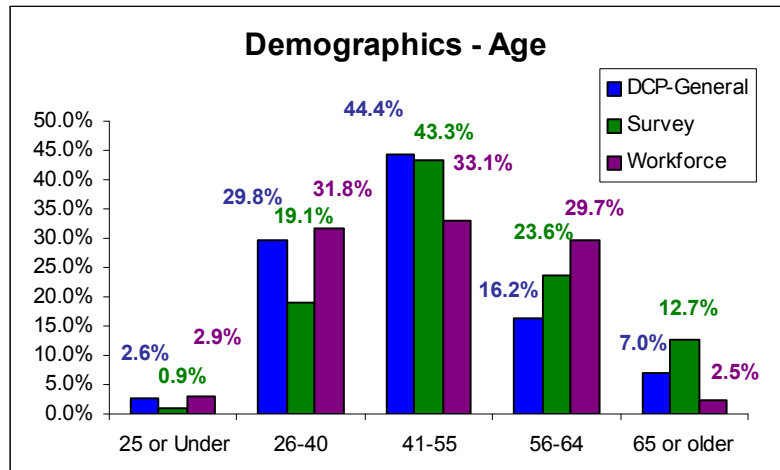
The survey generated a strong response. Of the 38,691 participants to whom it was mailed, 8,139 individuals responded, a response rate of 21.04%. According to Great-West this is the highest survey response percentage they have seen with any of their clients – typically response rates are closer to 10%. In addition, the response rate was slightly higher than that for the previous survey issued by the Plan (in 2005) in which just under 20% of participants replied. Given the complexity of the concepts for which the survey was soliciting feedback, this response rate is impressive and provides yet another indication of how active and engaged our population is with this program.

Staff will review the survey report results in detail with the Board. This report provides some additional data and interpretation of some of the results to supplement the information included in that report.

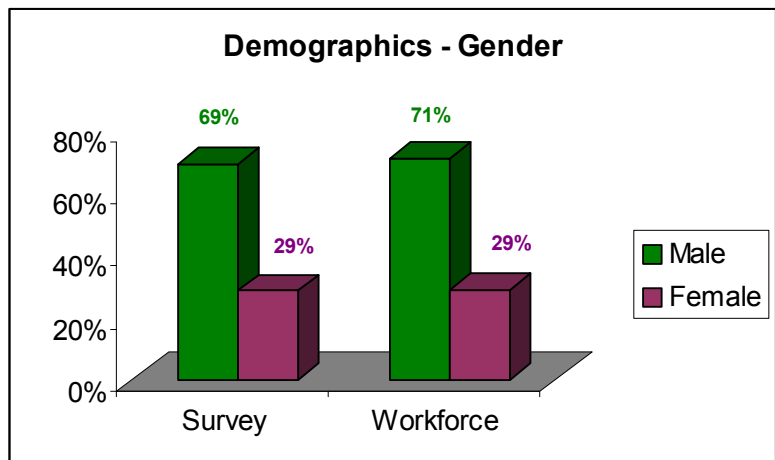
## Demographic Supplement

The survey asked for several demographic data items, including age, tenure, expected remaining working time, work/retired status, length of time in Plan, gender, and race/ethnicity. For those responses for which comparative data was available, staff believed it would be helpful to contrast the survey respondents with broader demographic data where it was available.

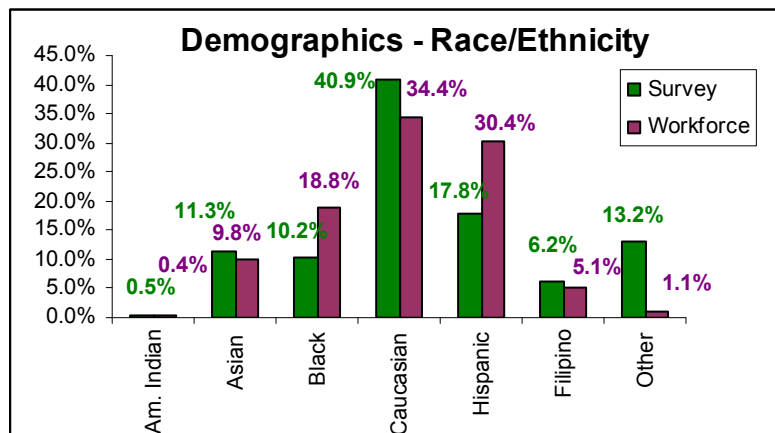
Age – This chart compares age ranges of survey respondents with age ranges of Deferred Compensation Plan participants as a whole and with age ranges of the overall City workforce. The results indicate that there were slightly higher response rates among participants in older age ranges and lower response rates in younger age ranges.



Gender – The gender breakdown of respondents matched the City’s workforce exactly. Great-West no longer maintains reliable gender data because this category is no longer requested on the enrollment application (at the City’s request).



Race/Ethnicity – The responses indicate some disparities between the survey population and the City’s general workforce. Great-West does not collect data on race/ethnicity, so it is unknown if the respondent population differs from the Deferred Compensation Plan population as a whole.



## Survey Topic Results – Key Findings

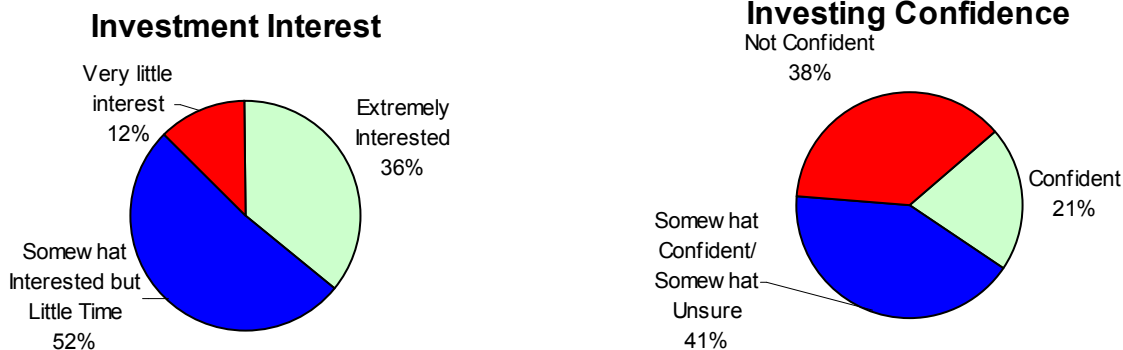
The purpose of this survey, which was drafted by the Board’s Investments Committee, was to both inform Plan participants of, as well as gauge reaction to, certain changes being contemplated by the Board with respect to redesigning the Plan’s core investment menu. These changes can essentially be summarized as follows:

- Reducing the total number of core investment options; and
- “Branding” the City’s options by asset class rather than by investment manager.

These changes are being considered by the Board based on studies that have indicated that defined contribution plan participants tend to make worse asset allocation decisions when given too many investment choices (in excess of a range of roughly 8-12) and when their investment choices are branded by investment manager rather than by asset class. With respect to the latter, confusion can result if participants pick an assortment of recognized fund managers, thinking that they’ve achieved diversification, when in reality they might have simply invested in multiple providers within the same asset class.

The survey was intended to test certain possibilities related to these concepts to determine whether the changes being contemplated by the Board would (a) meet an identified need and (b) have a reasonable chance of being understood and accepted by the participant population as a whole. Staff will review key responses and reframe the results from the Board’s perspective to see how the responses inform its consideration of these plan design concepts.

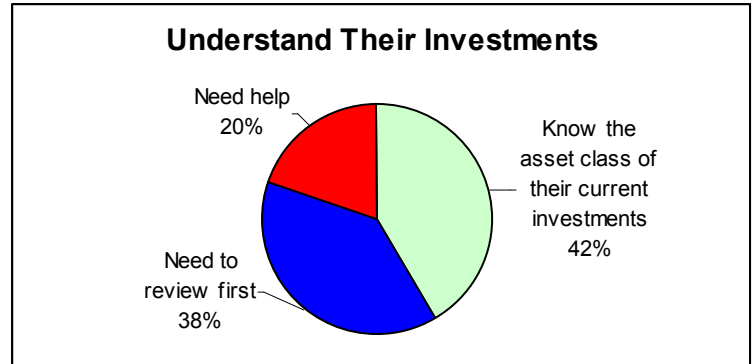
Interest/Confidence in Investing - *Do a majority of participants have a strong interest in investing? Do a majority of participants have a high level of confidence when it comes to investing?*



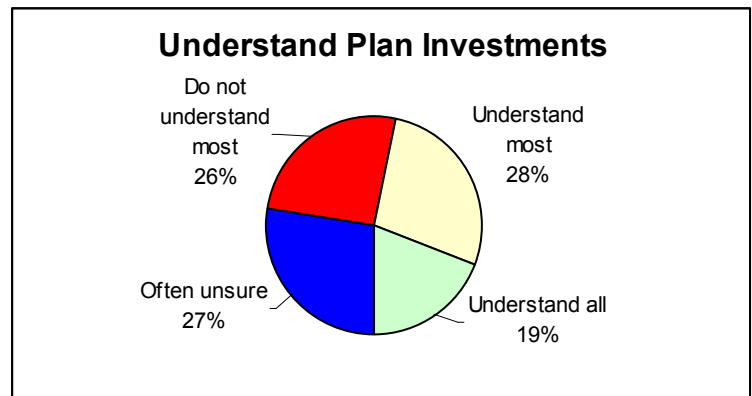
Answers to both questions would appear to be no. The results suggest that majorities of participants are either (a) not interested or do not have time to pursue their interest; or (b) only somewhat confident or not at all confident when it comes to investing.

Knowledge Level – *Do participants generally understand the asset classes within which they're invested? Do they understand the differences between the City's options generally?*

The response here can be interpreted in two ways. The 38% response of "need to review first" could be combined with either of the other two alternate responses to comprise a majority of participants who either (a) don't know which asset classes they're invested in or (b) are capable of obtaining that information by themselves.

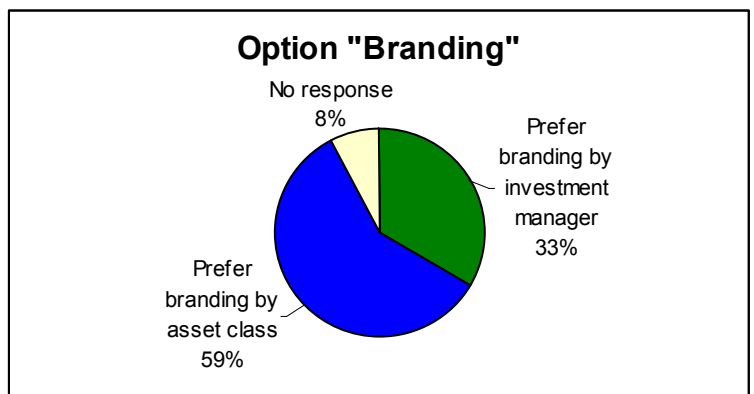


A very slight majority of participants report that they do not understand the differences between most, if not all, of the City's investment options. The balance indicate they understand the differences between most or all of the options, but only 19% indicate they understand the differences between all.



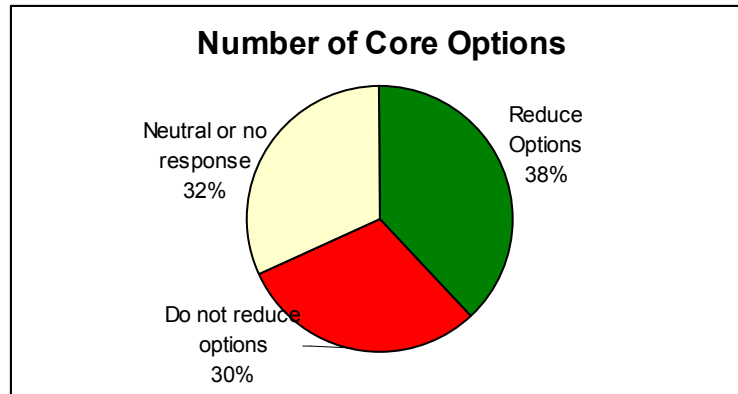
Investment Option Branding – *Would participants find their investment choices easier to understand if they were branded by asset class rather than by investment manager?*

The answer would appear to be yes. The large positive response could be read as somewhat surprising given that this approach represents a significant change from how choices are currently presented, and the general assumption is that participants are typically skeptical about major plan design changes.



It should be pointed out, however, that this question also generated the highest amount of "no response" of any question, suggesting that some respondents might have had difficulty understanding this fairly complex concept or its implications.

Investment Option Branding – *Is there support for reducing the number of core investment options?*



Similar to the previous questions, these results could be read as surprisingly receptive or at least ambivalent to a major plan design change. This may be a result of the wording of the original question (e.g. different wording might have generated a different response); or, a more positive interpretation would be that the survey as a whole, and the question, were effective at presenting the potential benefit of reducing the number of core options.

Conclusions:

In staff's view, the survey results provide a credible basis for moving forward with the Board's redesign concepts. There appears to be more support for rebranding than for reducing options, but neither concept appears to be generating strong disapproval.

However, the results also suggest that the Board should continue down what has been a very deliberate and transparent path thus far. The 21% response rate, an amount vastly exceeding what would be typically expected for a survey of this type, as well as indications of greater investment interest and awareness, suggest that our participant population continues to be engaged with this program to a degree which may indeed differ from other programs. Ongoing attempts to study, communicate the Board's deliberations, and solicit participant feedback will be key to making a successful transition.

Staff recommends that these results be referred back to the Investments Committee for further deliberation, and that the Committee be requested to develop recommendations for next steps. More specific instruction to the Committee may be developed as a result of the Board's discussion of this matter at its July 15<sup>th</sup> meeting.

Submitted by: \_\_\_\_\_  
Steven Montagna