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DEFERRED COMPENSATION PLAN BOARD REPORT 07-30



Date: July 9, 2007
To: Board of Deferred Compensation Administration
From: Staff
Subject: Self-Directed Brokerage Option

Recommendation:

That the Board of Deferred Compensation Administration (a) authorize staff to develop a Request for Information for an independent SDBO service provider and return the proposed document to the Board for approval prior to releasing it; and (b) direct staff to work together with Great-West to develop a proposed survey (or surveys), as well as proposed survey delivery systems, and return to the Board for further discussion and approval.

Discussion:

At the Board's June 19, 2007 meeting, staff provided a presentation regarding options for improvements to the Plan's Self-Directed Brokerage Option (SDBO). Staff indicated that the central challenge with the SDBO was that the incumbent provider did not provide a level of service consistent with what might be expected for a large, mature plan such as the City's; but fee increases associated with changing to a new provider and service model would likely be viewed extremely unfavorably by participants.

Given this dilemma, staff had indicated some potential next steps for proceeding on this issue:

- Surveying Plan participants regarding the SDBO to obtain feedback regarding the options presented to the Board at its meeting;
- Issuing a Request for Information (RFI) to help determine the feasibility of offering an independent Self-Directed Brokerage Option provider alongside the current Great-West sponsored provider.

Staff was requested to return to the Board with specific recommendations.

One of the questions posed by the Board at its June 19 meeting was whether it made sense to proceed with both steps simultaneously or to address them sequentially. Having considered all of the options, staff believes it makes sense to issue the RFI immediately (given that the cost of issuing it and time involved in preparing it will be relatively modest) but

take more time to develop the survey (since the development of any survey will be significantly more time-consuming).

Board members appeared interested in surveying not just participants in the current First Trust OptionsPlus program, but the broad participant population as well. A broad-based survey is not a minor endeavor, as was demonstrated by the Plan's 2005 survey of participants regarding fees and services. In addition, there is considerable expense associated with a survey conducted through the Plan's consultant (total costs for that project were in the range of \$100,000).

However, the new contract with Great-West Retirement Services provides for Great-West bearing the administrative responsibilities and costs for up to two broad-based surveys, and two limited surveys of populations of 5,000 or less, over the full five-year contract term. Given this, it is staff's conclusion that if a broad-based survey is to be conducted, it might not be wise to limit it to the topic of the Self-Directed Brokerage Window. Other topics should be incorporated as well so that maximum value can be derived from the effort.

An alternative approach which staff believes would be more efficient and still provide the Board with the information it is looking for would involve issuing a survey targeted to two populations:

- (1) The approximately 1,400 OptionsPlus participants; and
- (2) A sample of participants not enrolled in OptionsPlus, but not the entire participant population.

There is ample research in the realm of survey work indicating that a modest sample size will provide the same results as surveying an entire population. Given the fact that the vast majority of Plan participants are NOT interested in utilizing the SDBO, it is staff's view that using up one of the Board's broad-based surveys on this topic would be a waste of limited resources. As long as an adequate sample is used staff believes that the results will be valid.

Due to the complexity of some of the issues involved, staff further believes that holding focus groups with SDBO participants will add considerable value to the analysis. As a result, staff recommends that the SDBO survey effort contain three elements:

- (1) A focused survey issued to OptionsPlus participants;
- (2) A broad-based survey issued to a sample population of Plan participants not currently enrolled in the SDBO; and
- (3) Focus groups.

In addition, one additional alternative which staff will be exploring with Great-West is use of a web-based survey delivery system, as opposed to the traditional paper-based system. However, a web-based survey may or may not involve additional costs not provided for under the contract, and it may create certain challenges regarding self-selection or overlap with that portion of the survey geared specifically to OptionsPlus participants. These matters would need to be researched thoroughly before staff would recommend the use of a web-based approach.

Given this information, staff recommends that the Board take two actions. First, that the Board authorize staff to develop a Request for Information for an independent SDBO service provider and return the proposed document to the Board for approval prior to releasing it. Second, that the Board direct staff to work together with Great-West to develop a proposed survey (or surveys), as well as proposed survey delivery systems, and return to the Board for further discussion and approval.

Submitted by: _____
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Approved by: _____
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