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# DEFERRED COMPENSATION PLAN BOARD REPORT 08-39



Date: October 7, 2008

To: Board of Deferred Compensation Administration

From: Staff

Subject: Broad-Based Enrollment Initiative

Recommendation:

That the Board of Deferred Compensation Administration approve staff's proposed broad-based enrollment initiative as outlined in this report, and direct staff to begin providing regular monthly status reports.

Discussion:

The City's workforce has always experienced wide variations in enrollment rates within its various work group subsets. As the attachment to this report indicates, although the Plan as a whole has a 62% participation rate, at the department level those rates vary from a low of 22% to a high of 85%.

Congress has acted in recent years to encourage the use of automatic enrollment programs in order to improve retirement security for Americans. The Board of Deferred Compensation Administration, at its meeting of December 19, 2006, has also taken a position in support of automatic enrollment conceptually. However, California State Labor Code Section 300 contains language prohibiting employee payroll deductions without advance written authorization, and this language is generally interpreted to prohibit automatic enrollment programs. The specific State law language is in reference to "assignment of wages" and states that an assignment of wages is not possible unless:

*"...the assignment is contained in a separate written instrument, signed by the person by whom the wages or salary have been earned or are to be earned, and identifying specifically the transaction to which the assignment relates."*

In the performance exams which were recently utilized in the Request for Proposal for Deferred Compensation Plan Consulting Services, the test project for the "Plan Administration" segment of the RFP concerned ideas for developing a modified

automatic enrollment program. The specific examination question was how a consultant might recommend developing a “quasi-automatic” enrollment program which was consistent with current State law.

The discussions with both of the candidate firms generated some interesting ideas. Coupled with further discussion of this topic at this year’s NAGDCA Conference, staff is interested in initiating a comprehensive effort to reach out to under-enrolled subsets of the City’s workforce. This initiative would not constitute true “automatic” enrollment but rather a much more simplified enrollment process combined with a broad and well-planned communication strategy.

Staff has identified the primary components of this initiative as follows:

- For new employees, building functionality within the enrollment process for other benefit programs to provide for positive or negative election of participation in the City’s Deferred Compensation Plan;
- Development of simplified enrollment materials which could facilitate the enrollment process while still meeting federal regulatory disclosure requirements; and
- For current non-enrolled employees, development of a coordinated communication campaign which would utilize not only these simplified enrollment materials but which would include support from employee organizations and elected officials.

To be successful, we believe that this project will require a substantial investment of time and resources. We envision that this project will require (1) close coordination between staff, Great-West and the Plan consultant to develop a project timeline; (2) establishment of goals and metrics; (3) creation of simplified enrollment and specialized communication materials which are tested on focus or sample groups before being used; (4) obtaining support from employee organizations and elected officials; and (5) defining tools to measure success upon project completion.

We would like to coordinate the implementation of this project with National Save for Retirement Week in October 2009. The project would be assigned to Natasha Zuvich as lead, with Ashley Stracke providing support. Staff would propose that initially Ms. Zuvich have 25% of her time dedicated to this project, with the time commitment to be reviewed as the project develops. Part of her work would involve monthly reporting to the Board.

**Changes to California Law** - Concurrently staff would also propose reaching out to other California plan sponsors to explore the possibility for joint efforts to encourage legislative changes to permit more flexibility in establishing auto enrollment programs. Although the Board has previously gone on record as supporting automatic enrollment conceptually, and although this has been proposed to the City as a legislative priority, staff is not yet aware of what efforts, if any, other California entities might be engaged in regarding this matter.

However, staff does not believe that project success should be dependent upon any such potential legislative action. Even if the California law obstacles were removed, additional time would be required both to design a true auto enrollment program as well as seek support from labor organizations. In the meantime, we believe that a broad-based enrollment initiative of the type explained in this report, if executed properly, has the potential for great success at increasing participation particularly in those segments of the City workforce that have historically been under-enrolled.

Submitted by:

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Steven Montagna

Approved by:

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Maryanne Keehn