

Board of Deferred Compensation Administration
Plan Governance Committee
COMMITTEE REPORT 16-01

Plan Governance Committee Members

John R. Mumma, Chair

Clifford Cannon

Linda P. Le

Michael Amerian

Date: December 2, 2016
To: Plan Governance & Administrative Issues Committee
From: Staff
Subject: Deferred Compensation Plan Resources Review

Recommendation:

That the Plan Governance and Administrative Issues Committee:

- 1) Adopt recommendations to the Board of Deferred Compensation Administration to revise the assumptions for key variables used to calculate the reserve fund balance of the City's Deferred Compensation Plan; and
- 2) Consider and discuss long-term planning with respect to developing future Plan resources, including staffing, auditing, data management, and stakeholder resources.

Discussion

At its October 18, 2016 meeting, the Board requested that the Plan Governance and Administrative Issues Committee ("Committee") conduct a resource review for the Deferred Compensation Plan. This review includes a review of the assumptions for key variables which are used in forecasting the long-term projections of Plan reserve fund balances relative to their target. These assumptions were last reviewed and adopted by the Board in November of 2013. As part of the current review process, staff will also incorporate new information related to the reduction in administrative fees under the Board's recently selected new Third-Party-Administrator, Voya.

In addition, staff will also present several matters for discussion related to long-term planning for staffing and other resources. Staff's objective is to assist the Committee in potentially developing additional resource strategic planning recommendations for consideration by the full Board.

A. Budget Review and Reserve Fund Variable Assumptions

To assist the Committee in its budget review, staff has prepared an analysis relative to each of the key variables which are used in forecasting the long-term projections of Plan reserve fund balances (**Attachment A**). Staff will review and discuss each of these assumptions with the Committee at its meeting.

Historically, the Plan Growth Rate and Indirect Cost assumptions have been the most volatile and impactful variables. The former will likely continue to be volatile, as it is a

product of employee contributions (including rollovers) net of withdrawals, investment market returns, and participant investment allocations.

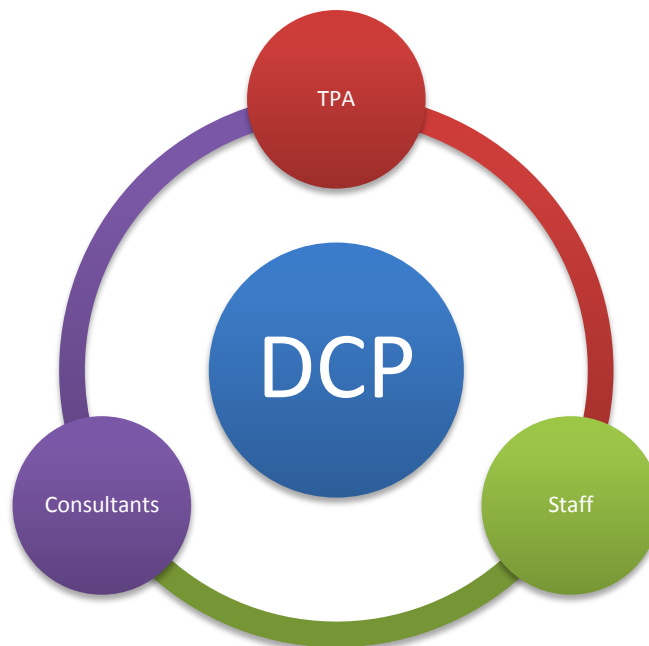
Using what staff regards to be a fairly conservative set of assumptions and status-quo expenses, the long-term outlook for the Plan’s Reserve Fund appears strong and in fact above the targeted reserve amount.

Staff is recommending that the Committee adopt for recommendation to the Board the following long-term assumptions for key variables which relate to management of the Plan’s Reserve Fund:

Variable	Current	Proposed
Plan Assets Growth Rate	6.5%	6.5%
Net Enrollment Growth Rate	1.0%	2.0%
Annual Expenses Increase Factor	2.0%	2.0%
Special Rates Increase Factor: Personnel	86.2%	100.0%
Special Rates Increase Factor: City Attorney	74.2%	100.0%
Stable Value Interest Rate	2.0%	2.0%
Participant Fees: Basis Point Charge	0.10%	0.10%
Participants Fees: Annual Dollar Cap	\$125.00	\$125.00

B. Staffing and Other Resources

In staff’s view, a comprehensive review of Plan resources should also address those ongoing and potential future resources that support the City’s Plan. Broadly speaking, the current resources supporting the City’s Plan include the following:



Staff recommends that the Committee review the Plan’s resource support and consider the following as potential future Plan resources:

- **Staffing: Executive Director** - Explore the merits/feasibility of developing a professional employee classification specifically for a Plan Executive Director position that would enable the Board to recruit both internally and externally to fill this crucial senior plan management role.
- **Staffing: Job Classifications** - Explore the merits/feasibility of developing a professional employee classification that is specific to defined contribution plan and/or retirement plan administration. This approach may produce more stability and continuity in the staff positions supporting the Plan by drawing in individuals who have demonstrated an interest in a career path in defined contribution plan administration either academically and/or through prior public sector employment working with these plans.
- **Staffing: Internship** - Explore the merits/feasibility of adding an internship position as part of Personnel Department staffing for the Plan; this would allow the Plan to efficiently add additional staff resource support by recruiting from individuals who are pursuing careers in the field of retirement and financial planning.
- **Contracted Resources: Auditor** – Consider adding a recurring audit as an ongoing contracted service; the audit could cover financials and/or rules compliance. Recurring audits are found in many but not all governmental plans.
- **Contracted Resources: Data Management** – Consider adding an external data management firm to help store and sort the growing amount of Plan-related data, including certain participant records not subject to transfer at the time of transition of a Third-Party-Administrator, Plan metrics and goal related data, certain Plan records (e.g. historical meeting materials), participant survey data, etc.
- **Stakeholder Resources: Advocates & Ambassadors** – Consider developing a stakeholder infrastructure that would extend beyond the Plan’s formal staff and contracted service providers and include labor representatives, management representatives, active/retired participants, and other interested parties who can represent the Plan and assist in leveraging the Plan’s engagement/education efforts.

The Committee’s input on these concepts can help inform any reports-back that may require additional research and analysis. Once the analysis is complete, any specific Committee recommendations can then be created for consideration by the full Board.

Submitted by:

Matthew Vong

Steven Montagna