

Board of Deferred Compensation Administration  
**Plan Governance Committee**  
**COMMITTEE REPORT 17-01**

Plan Governance Committee Members

John R. Mumma, Chair

Clifford Cannon

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Date: March 21, 2017  
To: Plan Governance & Administrative Issues Committee  
From: Staff  
Subject: Deferred Compensation Plan Resources Review

**Recommendation:**

That the Plan Governance and Administrative Issues Committee receive and file report regarding Deferred Compensation Plan staffing and fee reduction scenarios.

**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 and other long-term planning for Plan resources. The assumptions were last reviewed and adopted by the Board in November of 2013.

At its December 7, 2016, meeting the Committee reviewed and discussed the key long-term variables along with other considerations relative to the long-term resources dedicated to the City’s Plan, including options for addressing the quality/continuity of the Plan’s staffing resources (**Attachment A**). The Committee requested a report back from staff providing further detail regarding Plan staffing, as well as potential adjustments to Plan participant fees.

**A. Staffing and Other Resources**

At the Committee’s December 7, 2016 meeting, the Committee and staff discussed long-term strategic planning for staffing resources for the Deferred Compensation Plan. This discussion includes options for improving the stability of staffing resources, succession planning, and adapting/enhancing resources to keep pace with the future growth of the Plan.

Staff has identified several options that fall within these strategic planning objectives for Plan staffing. They include:

- Options for Improving Plan Executive Oversight Resources
- Options for Enhancing Resources/Continuity in Non-Executive Staff Support

Staff will address each of these topics separately.

## **(1) Staffing: Options for Enhancing Plan Executive Oversight Resources**

The Committee requested that staff explore options for fostering greater stability in the crucial senior plan management role overseeing the City's Plan. Presently, the Plan utilizes two staff resources to provide senior Plan oversight.

First, the Plan uses the civil service classification of Senior Personnel Analyst II to function as the "**Plan Manager**" (working title). This position is responsible for overall management of the administrative, operational, contractual, supervisory, and communications functions of the City's Plan. The percentage of time this position is allocated to the City's Plan is approximately 60%. This position is located within the Personnel Department's Employee Benefits Division. In addition to these duties, 40% of the position has historically been dedicated to supervision of the Division's Human Resources Benefits budget as well as its Commute Options & Parking Program. This position is presently vacant.

The Senior Personnel Analyst II reports to the Employee Benefits Division Chief, a Chief Personnel Analyst who serves as the Plan's "**Executive Director**" (working title). This position is responsible for long-term strategic planning, coordinating the Plan's functions and communications within the larger context of the City's assorted benefits-related programs, and interfacing at a high level with national state/local government resources sharing common interests/best practices in advancing the fundamental mission of defined contribution plans. The percentage of time this position is allocated to the City's Plan is approximately 20%. In addition to these duties, this position is responsible for oversight of the City's Civilian LAwell Benefits Program, Commute Options and Parking Program, Pension Savings Plan, Human Resources Benefits Budget, and Unemployment Insurance Cost Containment Program.

In combination, these two positions provide opportunities for creating and sharing institutional knowledge, synthesizing communication of the Deferred Compensation Plan within the broader context of the City's compensation and benefits package for its employees, and establishing credibility and leadership within the broader state/local universe of defined contribution plans.

Looking forward, staff has identified two potential mechanisms for improving Plan executive oversight resources: (1) adjustments to the allocation of time committed to the Plan from the Plan Manager and Executive Director roles; and (2) creating a separate classification for the Plan Manager position that would provide the Plan with the ability to recruit from among the broadest array of individuals nationwide with the unique experience of administering a large defined contribution plan.

### **(a) Allocation of Time**

The current allocation of time commitments for the Plan Manager and Executive Director roles is a legacy of the gradual growth of the City's staffing commitment to the Plan as it has developed over the years. Looking forward, staff's finding is that the Plan would be better resourced by increasing the allocation of time for the Plan Manager role from 60% to 90%, while reducing the allocation of time from the Employee Benefits

Division Chief from 20% to 10%. The change to the allocation of time for the Plan Manager position would allow for an increased focus on the Plan commensurate with the growing demands and complexity of the program. It would remove responsibilities for oversight of the Commute Options & Parking Program and Human Resources Benefits Budget while still retaining some margin for oversight of the related Pension Savings Plan.

Reduction of the Division Chief allocation from 20% to 10% would partially offset the cost of this change as well as represent the shifting of certain oversight duties to the Plan Manager. This adjustment would strengthen the Plan Manager's position without losing the additional depth, strategic planning, coordination with other benefits programs, and other support provided by the Executive Director role. Maintaining both roles also helps to better protect the Plan relative to ongoing continuity and succession planning.

The net impact of this reallocation of time would result in an increase of annual reimbursements from the Deferred Compensation Plan Reserve Fund to the General Fund of \$40,000 in both direct salary and indirect costs.

**(b) Defined Contribution Plan Manager Classification**

The present classification of the Plan Manager position as a Senior Personnel Analyst II is the product of the gradually evolving level of staff support that has occurred with the Deferred Compensation Plan over the course of its growth. When administration of the City's Plan was moved from the City Treasurer to the Personnel Department in 1995, it came with only two position authorities (a Principal Clerk and Accounting Clerk). The Personnel Department first added one professional position (a Personnel Analyst), and then gradually increased to the present complement:

<u>Position</u>		<u>Estimated Reimbursement %</u>
Senior Personnel Analyst II	-	60%
Senior Personnel Analyst I	-	90%
Management Analyst II	-	90%
Management Analyst II	-	90%
Benefits Specialist	-	100%

The Plan Manager position is presently allocated at 60% for the reasons previously stated. The remaining positions are typically estimated to be reimbursed at less than 100% because of certain other Division duties and functions, including most prominently administration of the City's Pension Savings Plan.

The Plan Manager role is evolving as the size, complexity, and responsibility of administering the City's Plan is growing. The administrative complexity of defined contribution plans has grown immensely in the past 15 years. Federal rules have allowed new features such as unlimited distributions, expanded rollovers, loans, and a Roth 457 savings option. At the same time, the City's oversight and administrative responsibilities have grown, as staff is responsible for a growing number and often increasingly more complex policy and process initiatives, communications development,

goals/strategies/metrics, procurements, investment search processes, contracts, budget/finance, and other duties.

Over the next ten years Plan assets are projected to reach over \$9 billion, and participant accounts over 50,000. Should a vacancy or multiple vacancies occur at the executive levels of program administration, the City cannot assume that its lower-level Plan staff will always have the skills or experience required to assume this level of program oversight. Nor should the City assume that the knowledge and experience required to administer a defined contribution plan is likely to be found within other City staff, even at executive levels. While the City's defined benefit retirement plans may appear to offer a potential reserve of applicable experience, in fact they function very differently by possessing:

- Wholly different regulatory frameworks
- Fundamentally different service administration designs (defined benefit self-administered plan recordkeeping vs. defined contribution contracted recordkeeping); and
- Different investment portfolio constructions, procurements, and investment provider relationships.

As a result, to put the Plan in a better position to meet its fiduciary, administrative, operational, investment, and oversight responsibilities, one option would involve the City establishing the ability to recruit from both external as well as internal candidates when filling the Plan Manager position.

Creating a unique classification for this position would involve the following:

- a. Requesting the General Manager, Personnel Department, or designee, to establish a new classification of what may be entitled, "Defined Contribution Plan Manager," subject to the approval of the Civil Service Commission;
- b. Assuming the Civil Service Commission approves the new classification, requesting the City Administrative Officer (CAO) to establish the salary for the new classification of Defined Contribution Plan Manager; and
- c. Requesting Mayor and Council to authorize the position in the next budget development process, or on an interim basis by resolution employment authority as follows: one Defined Contribution Plan Manager, in the Personnel Department, subject to establishment of the new classification.

Relative to the process involved in actually filling the position, the exam would be administered on an open basis only, meaning that even though both internal and external candidates could apply, internal candidates would not receive seniority points when being considered for appointment to the position.

Notwithstanding the Committee's or the Board's interest in pursuing the creation of a new position, a vacancy presently exists in the Senior Personnel Analyst II position and must be filled as soon as practical. Staff is presently in the process of scheduling interviews of candidates who responded to a Citywide promotion/transfer opportunity notice.

## **(2) Staffing: Options for Enhancing Resources/Continuity in Non-Executive Staff Support**

**(a) Staffing: Job Classifications** – Committee and staff previously discussed exploring the merits/feasibility of developing a professional employee classification that is specific to defined contribution plan and/or retirement plan administration, an approach which 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. Staff recommends that further exploration of this option be deferred pending the Committee's discussions regarding creating the Defined Contribution Plan Manager classification.

**(b) Staffing: Administrative Intern** – Committee and staff previously discussed the merits/feasibility of creating an internship position to support the City's Plan. Such a resource could support both greater continuity and resourcefulness in Plan staffing by recruiting individuals from fields of study designed for career paths in investments or retirement. Three potential classifications exist which could be used to create an Intern position: Administrative Intern, Administrative Trainee, and Student Professional Worker. In staff's analysis, relative to the other two classifications, Administrative Intern (**Attachment B**) would provide the City's Plan with a greater degree of flexibility in making an appointment and potentially extending an employment relationship based on the educational and other qualifications of the selectee. First, Administrative Intern is intended as a recruitment holding class for the Management Assistant examination, providing an opportunity for an individual with an affinity for a career in public sector retirement administration to pursue that with the City. An Administrative Intern also has two pay grades: Pay Grade 1 requires completion of three years of education at a college/university, while Pay Grade 2 requires completion of four years. These pay grades provide recruitment flexibility. Finally, the class specification provides for applicable duties, such as collecting and analyzing data and preparing reports on administrative, fiscal, budgetary, organizational, personnel, and planning matters.

The approximate annual cost of an Administrative Intern Pay Grade 1 is \$16,508 (this estimate assumes the individual is employed at approximately 20 hours per week). There are no indirect costs. The National Association of Government Defined Contribution Administrators (NAGDCA), in cooperation with the International Foundation for Retirement Education (InFRE), sponsors an annual event at the NAGDCA Conference in which students from across the nation pursuing retirement counseling careers attend the conference as well as participate in a competition. These students, along with programs sponsored by regional universities, would provide a pool from which to recruit for this position. Creating the Administrative Intern position immediately would assist the City with research and special projects that would not otherwise be performed by existing staff.

## B. Budget Review and Reserve Fund Variable Assumptions

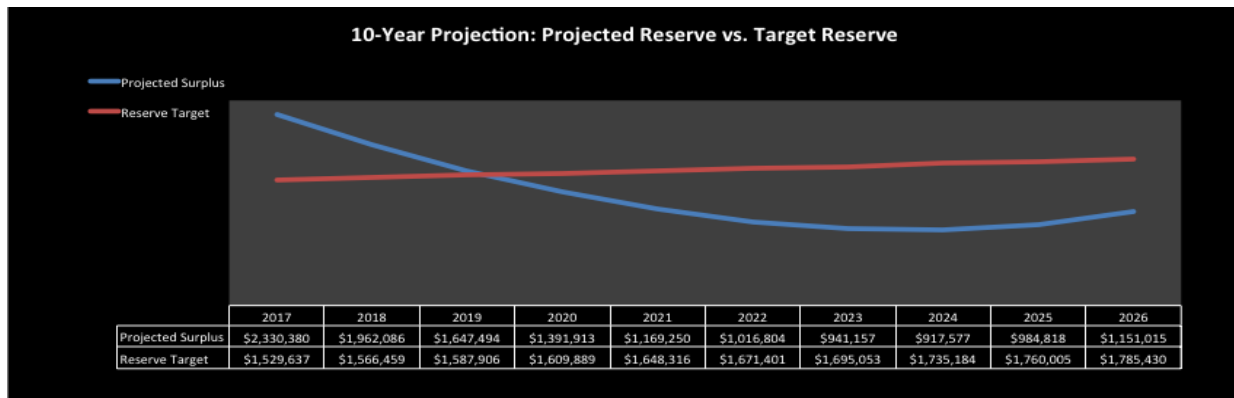
To assist the Committee in its budget review, staff previously prepared an analysis relative to each of the key variables used in forecasting the long-term projections of Plan reserve fund balances. The Committee asked for further information regarding the impact of reducing participant fees. Two primary options exist for a broad-based fee reduction: (1) a reduction in the ten basis point administrative fee charge presently assessed on participant account balances, up to the present \$125 fee cap; or (2) a reduction in the \$125 fee cap.

To create a baseline, staff incorporated all of the previous discussed variables into its projections. In terms of establishing a staff compensation baseline, staff assumed current salaries for filled positions and the mid-point of pay scales for vacant positions.<sup>1</sup> Staff also assumed, for the purpose of these illustrations, the addition of a half-time Administrative Intern position as previously discussed.

As identified in prior communications with the Committee and the Board, the targeted reserve amount for the Plan's reserve fund is one-half of Plan annual operating expenses. Staff's analysis focused on the impact of different scenarios on the targeted reserve over a ten-year period.

### (1) Reduction in Basis Points

A downward adjustment to the basis point charge by one basis point (0.01%) results in the surplus falling below the reserve fund target starting in the year 2020, significantly increasing its deficit for several years before reversing course in the year 2025. The lowest cap would occur in 2024, with the projected reserve being approximately half the targeted amount.

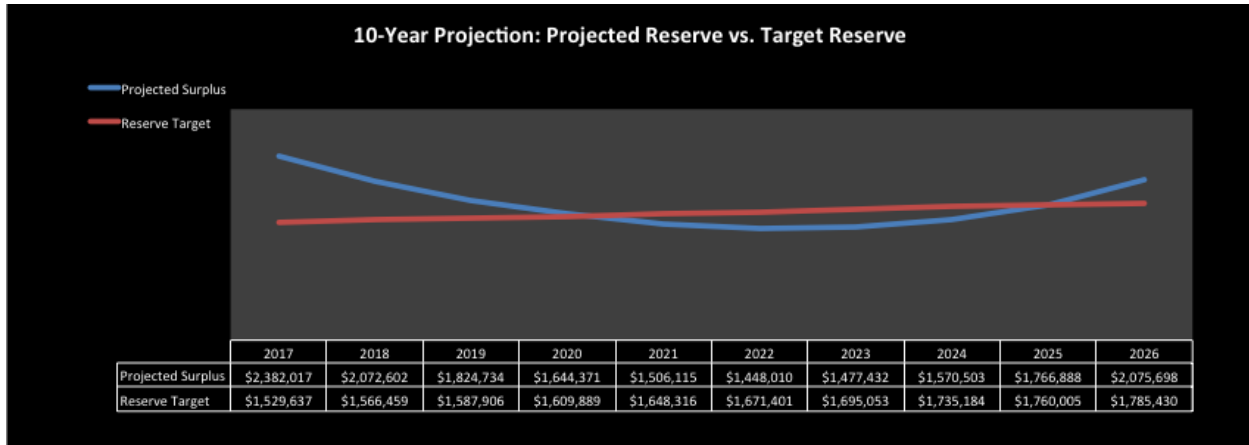


<sup>1</sup> Given the elongation of step increases with many City classifications, staff believes this approach should provide for the most realistic estimates, especially because the spreadsheet formula which computes long-term salary costs inflates those costs by 2% annually. These projections also do not account for any periods of vacancy over the course of the ten years, which would subtract some unknown level of compensation.

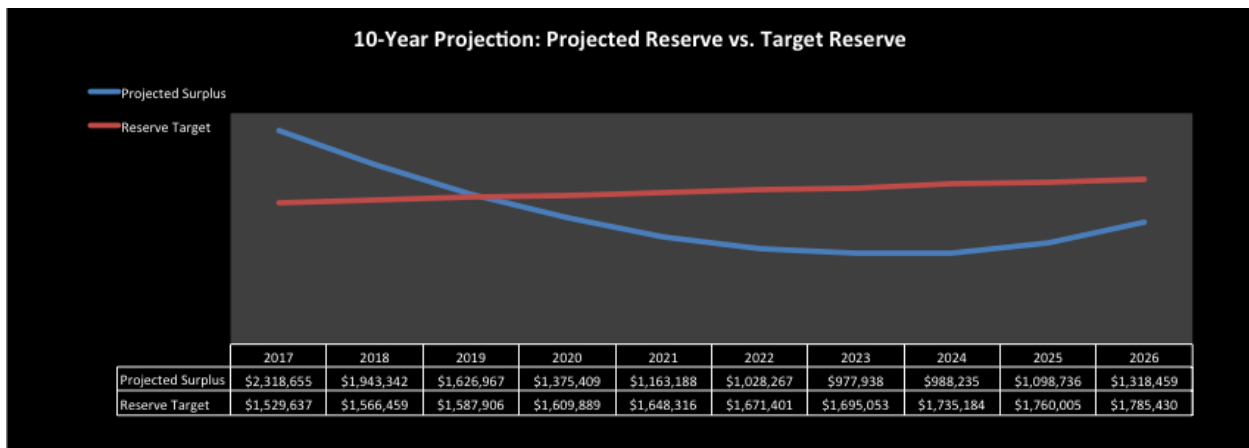
## (2) Reduction in \$125 Fee Cap

Reducing the annual dollar cap by \$5 from \$125 to \$120 has a less significant impact, but is forecasted to bring the surplus slightly under fifty percent of operating expenses by the year 2021. Reducing the fee cap to \$115 results in an impact closer to the impact of a 1 basis point reduction in fees.

### \$120 Fee Cap Scenario



### \$115 Fee Cap Scenario



It should be noted that a reduction in the fee cap only applies to participants with accounts over \$125,000. These participants represent approximately 12,400, or 30% of the total participant population.

### Summary:

Recapped as follows are the tentative long-term assumptions for key variables relating to management of the Plan's Reserve Fund presented and discussed at the Plan Governance Committee's December 7, 2016 meeting:

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

Submitted by: \_\_\_\_\_  
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