

Deferred Compensation Plan

BOARD REPORT 16-33

Date: November 21, 2016

To: Board of Deferred Compensation Administration

From: Staff

Subject: Third Party Administration Transition Update

*Board of Deferred
Compensation Administration
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Michael Amerian, Vice-Chairperson
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Recommendation:

That the Board of Deferred Compensation Administration (a) receive and file this update regarding the Deferred Compensation Plan's Third Party Administrator (TPA) transition; and (b) approve and authorize the Board Chairperson to sign a communication from the Board to the City Controller and Department of Water and Power requesting their cooperation and assistance in implementing the necessary payroll programming changes related to the transition.

Background

At the Board's special meeting of September 6, 2016, the Board approved the selection of Voya Institutional Plan Services as the Third Party Administrator (TPA) for the City's Deferred Compensation Plan. At the Board's October 18, 2016 meeting, the Board approved a request to City Council to extend contracts with the incumbent provider, Empower Retirement Services, through September 30, 2017. This report provides an update with respect to development of the transition plan for changing providers and requests approval for a communication from the Board to the City Controller and Department of Water and Power requesting assistance in implementing the necessary payroll programming changes related to the transition.

A. Transition Planning

Staff held a preliminary transition planning meeting with Voya representatives on September 15, 2016. On October 25/26, staff held a two-day implementation meeting. At this meeting, the City and Voya discussed an early draft of a Plan Provision and Service Requirements (PPSR) document. The intent of the PPSR is to identify and codify the administrative, operational and communications functions related to the transition of service providers. As part of that discussion, City staff and Voya engaged in a dialogue over the broader goals and service enhancements that would be addressed as part of evolving the Plan and enhancing customer service.

As a result of this discussion, it was determined that the most optimal and forward-thinking approach would be to develop a mission statement and key objectives for the transition. This proposed statement and mission would form the basis for developing goals, strategies and methods of evaluating the success of not only the transition but also the City's ongoing partnership with Voya. They would also form the basis for a

participant communication to be developed and issued to inform Plan participants about the reasons for the TPA change and to establish mechanisms for them to be active partners in the development of Deferred Compensation Plan services and resources which can best serve their needs.

B. Proposed Mission & Objectives

Staff has developed the following proposed mission statement for the transition to and ongoing service partner relationship with Voya:

Voya Institutional Plan Services has been selected to administer the City of Los Angeles Deferred Compensation Plan. The mission of the transition to and ongoing service partner relationship with Voya is to support Plan participants in creating and maintaining their individual retirement income security. In support of this mission, key objectives for the City and Voya include:

- 1) Incorporating and evolving the most current technology and tools to help participants assess their ongoing progress towards retirement income security*
- 2) Enhancing participant support by further developing personalized, customer-focused Participant Advocate resources*
- 3) Streamlining and simplifying administrative and operational processes to support participants in effectively executing desired transactions*
- 4) Ongoing development of innovative engagement campaigns and communication materials to assist participants in interpreting and acting on relevant information in support of their retirement income security*
- 5) Incorporating a broad success framework of goals, strategies and measured results for ongoing assessment of the Plan's success in supporting its participants*

This mission and five key objectives, upon adoption of the Board, will help inform the ongoing communication of the change to Plan participants and key stakeholders.

In support of these objectives, on a preliminary basis staff and Voya have identified the following areas of service continuity and improvements that will form the first key targets for success upon implementation of Voya's services:

- Ensure that participants will not experience an increase of any per-participant or transactional fees
- **Enhancement** - Incorporate the City's retirement income replacement theory/methodology into an enhanced web-based experience which places retirement income, rather than accumulated balance, as the primary prism for participant account engagement
- **Enhancement** - Implement automatic enrollment payroll functionality
- **Enhancement** - Implement a percent-of-pay contribution option
- **Enhancement** - Expand demographic data provided by the City's payroll systems to the TPA
- Continue the one-time temporary deferral change tool provided under the incumbent administrator's contribution options

- **Enhancement** - Provide for direct deposit of loans into participant personal checking or savings accounts, rather than issuing paper checks
- **Enhancement** - Provide participants the option to accelerate their loan repayments by establishing higher bi-weekly repayment amounts in new amortization schedules
- **Enhancement** - Create greater flexibility in unforeseeable emergency withdrawal processing
- **Enhancement** - Provide for ACH of purchase of service payments
- **Enhancement** - Offer ability for unforeseeable emergency withdrawal applicants to electronically upload supporting documentation as part of application process
- **Enhancement** – Improved ACH banking experience
- **Enhancement** - Improve loan processes and communications as part of reducing incidences of late loan payments and defaults
- **Enhancement** - Improve participant and plan-level reporting to incorporate goals, strategies and metrics

C. Board Request for Assistance from City Controller/Department of Water and Power Payroll

Staff is recommending that the Board approve a proposed communication to come from the Board to the City Controller and Department of Water and Power Payroll requesting their assistance in implementing the transition in service providers from Empower to Voya (**Attachment A**). Assistance from both payroll centers will be crucial to secure a successful transition, as well as deliver many of the service enhancements that are available to the City related to the exchange of data between the City and Voya. The letter provides an opportunity for the Board to communicate its mission and vision for the transition and ongoing administration of the City's Plan.

During the two-day transition meeting with Voya, one of the key topics of conversation that arose at multiple points was the benefit of expanding the data provided by the City's payroll systems to the Plan's TPA. Presently the only information provided by the City to the TPA is through the bi-weekly processing of payroll contributions, which includes the participant's name, Social Security Number (SSN), and contribution/loan repayment amount. Expanded data elements could include department code, class code, date of hire, Memorandum of Understanding (MOU), employment status, and other data.

Supplying the TPA with expanded demographic information creates a wide array of opportunities for expanding services and creating more successful results for City employees and Plan participants. These opportunities include understanding behavioral and outcomes patterns for different segments of the City's workforce, as well as targeted messaging to participant sub-groups in order to personalize engagement, communications and marketing. These kinds of communications could be targeted based on affiliations, such as with a City department or employee labor organization; core demographics, such as age and years of service; behavioral status, such as contribution amounts or types; and payroll status (active vs. terminated).

There are two options for expanding the amount of demographic data held by the TPA. The first involves expanding the number of data fields included in the bi-weekly contribution file. This expands the data set for all **contributing** participants only. The second option is to provide a full demographic file which would include the following:

- Contributing participants
- Non-contributing participants
- Non-participants

A full demographic file would create certain benefits as it would simplify and improve many aspects of administration. For example, communications to new hires or non-enrolled employees could be issued to promote voluntary enrollment. In addition, it would also allow the City to update the termination status of an employee on a regular basis, such that distribution processing could be delegated to the TPA instead of needing to be performed by City staff, thus creating a more expeditious distribution process for employees, as well as saving City time and resources.

Previously the City Controller has communicated its position that providing non-participant information to the TPA is prohibited since the Deferred Compensation Plan is a voluntary program. However, other governmental agencies provide full demographic files to their TPAs, including Los Angeles County, City of New York, and San Bernardino County.

From staff's perspective, providing demographic data for non-participants to the City's TPA is not materially different from providing similar data to the City's TPA for benefits administration. From a policy perspective, providing the data is to the benefit of non-participants and participants alike as it allows the Plan to more successfully engage them on their personal retirement income security.

Staff is unaware of any legal prohibition from providing the data. Certainly, other governmental and non-governmental plans alike are providing demographic files, utilizing modern and emerging technologies to create efficiencies in communications. Given that the City's Plan has always sought to take a leadership role in many aspects of administration, this is an area where the City appears to be lagging behind the best practices of its governmental and private sector peers.

In the event providing a full demographic file is not feasible, an expansion of demographic information on the contribution file would still be an important objective and represent an improvement over the status quo.

D. Participant Communication

Assuming the Board's adoption of the proposed TPA transition mission and vision, staff is recommending that the City's Plan prepare and issue a communication to Plan participants in January 2017 regarding the change in service providers. Staff proposes developing the communication to incorporate two crucial elements:

- Announce the basis for the change and the mission/objectives for the transition as well as ongoing administration of the Plan; and
- Invite participant feedback as part of the transition process so that participants are aware that the Board and the Personnel Department welcome their feedback and suggestions as the Plan continues to evolve and improve services both leading into the transition as well as beyond.

The City's Plan has built a substantial reservoir of trust and credibility with its participants. As a reminder, in October 2015 the Personnel Department conducted several member focus groups asking for feedback regarding the Plan. Focus group feedback in turn informed development of a survey issued to all Plan participants. The survey, issued in November 2015, generated approximately 1,653 responses, or 4% of the eligible population, thus providing a broad representative sample of the membership. Participants indicated a 91% confidence level in trusting the Plan, and 94% agreed that the Plan played an important role in their ability to achieve a secure retirement. Participants further indicated that among the most valued Plan services were local counseling representatives, the ability to save both pre-tax and after-tax dollars, and the loan program.

Setting forth a long-term mission for improving and evolving services, and inviting ongoing dialogue and feedback, is consistent with the Board's and Personnel Department's ongoing objective to improve the retirement income security of the City's workforce.

E. Contract Extension Update

At the Board's October 18, 2016 meeting, the Board approved a tentative target implementation effective date to take place within the third quarter of 2017. The Board further approved a draft report/recommendation to City Council requesting authority to extend the current contract with Empower through September 30, 2017.

Subsequently, staff determined that procedurally the request for a contract extension should more appropriately be processed via a request to the Mayor's Office, which then refers the request to the City Administrative Officer (CAO) for a report/recommendation to City Council in accordance with Mayor Antonio Villaraigosa's Executive Directive #3. The Personnel Department transmitted a request to the Mayor on November 7, 2016 which included requests for extensions of both the Deferred Compensation Plan and Pension Savings Plan Third-Party-Administrator contracts (**Attachment B**). The Mayor's Office will refer this item to the CAO for a report, and the CAO will report back to Mayor and Council. The item is tentatively expected to be heard by the Council's Personnel and Animal Welfare Committee on December 14, 2016, and by full Council at their next available meeting.

Submitted by: _____
Steven Montagna