

Deferred Compensation Plan

BOARD REPORT 17-16

Date: June 20, 2017

To: Board of Deferred Compensation Administration

From: Staff

Subject: Third Party Administrator 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 update regarding the Deferred Compensation Plan's Third Party Administrator (TPA) transition; and (b) approve an additional TPA contractual services cost including a \$47,500 set-up fee, \$2,400 per month ongoing, and miscellaneous design costs as needed, for the purpose of creating an ongoing archive of participant quarterly statements.

Discussion:

At its special meeting of **September 6, 2016**, the Board approved the selection of Voya Institutional Plan Services ("Voya") as the TPA for the City's Deferred Compensation Plan pursuant to the Board's Request for Proposal (RFP) for TPA and trustee services for the City's Deferred Compensation Plan. This report provides an update on various developments related to the transition from the incumbent TPA, Empower Retirement, to Voya.

A. Blackout Period and Data Conversion Process

(1) Blackout Period

At the time of transition there will be a "blackout period" during which time Empower will transfer participant records to Voya and participants will be unable to make transactions. The blackout period is necessary to ensure that all participant elections, records, and balances are captured fully and precisely at the final point of transition, and sufficient time exists to validate the tremendous volume of participant records that are moving between the incoming and outgoing TPAs.

The length of a blackout period is primarily determined by the outgoing TPA, as it needs time to prepare and transmit the data to the incoming TPA. Empower initially proposed a blackout of five business days, from September 25-29, 2017; this would have translated, however, to nine calendar days. Staff reviewed this with the Board's consultant with Segal Consulting, Wendy Young-Carter, who indicated that transition periods have been trending higher in recent years as the size and complexity of defined contribution plans have grown. However, a nine-day blackout period would likely create concerns for many Plan participants. As a result, staff worked to identify a blackout period target that best balances the need for good process and our participants'

interests in having access to their accounts. As a result, upon further discussions with staff, Empower agreed to reduce the transition period to three working days. This will mean the total blackout period will be approximately five calendar days.

Empower will transfer an initial data file following the close of the trading day on September 22, 2017. Voya will use this to set up the participant database and generate PIN numbers to mail to Plan participants. Empower will generate a second file following close of business on September Tuesday, September 26th, 2017, to capture any changes that occurred from September 22. Following close of business on September 29, 2017, Empower will transmit the final data file to Voya. If the file is received in good order and there are no discrepancies or issues with the file, the Plan will go live under Voya for participant transactions on October 2nd, 2017. However, if there are issues with the file, the go-live date is subject to being pushed back.

| SEPTEMBER | | | | | | |
|------------------------|---|----|--|----|----|------------------------------------|
| S | M | T | W | T | F | S |
| | | | | | | 1st Data File from Empower to Voya |
| 17 | 18 | 19 | 20 | 21 | 22 | 23 |
| | | | * Blackout Period Begins * 2nd Data File from Empower to Voya | | | |
| 24 | 25 | 26 | 27 | 28 | 29 | 30 |
| OCTOBER | | | | | | |
| S | M | T | W | T | F | S |
| * Blackout Period Ends | Open for Participant Transactions (tentative) | | | | | |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |

B. Data Exchange: Payroll/TPA File Exchange, TPA Data Conversion Process, and Automatic Enrollment

(1) Payroll/TPA File Exchange

Presently there are three files exchanged between the City's payroll systems and the TPA relative to City employee bi-weekly paychecks:

Inbound Files

- *Contribution Feedback Files* – The Contributions Feedback File is a file generated from the TPA to the City's payroll systems, communicating instructions as to the salary deferral amount to take from each participant's paycheck and the tax-treatment type of those amounts (pre-tax vs. Roth).

- *Loan Feedback Files* – The Loan Feedback File is a file generated from the TPA to the City, communicating instructions as to the loan repayment amount to take from each participant's paycheck. Loan repayments are all after-tax, but not "Roth," dollars.

Outbound Files

- *Payroll Files* – The Payroll File is a file that comes from the City to the TPA and provides a record of actual salary deferral and loan repayment amounts for all participants for a given payday.

Post transition, Voya will consolidate the Contribution and Loan files into a single file which will contain all participant deferral and loan repayment amounts. The City's bi-weekly payroll files will be expanded to include contributing participants, non-contributing participants, and those eligible for but not currently enrolled in the Plan.

Both the City Controller and DWP Payroll have created the test Outbound Payroll Files, and both files have been received and processed by Voya in good order. Voya has in turn created and successfully transmitted the test contribution/loan feedback files for both payroll systems. The next phase of testing will begin on June 19, 2017, and involve testing various scenarios for participant changes. Testing will be ongoing to ensure that the data file exchanges are functioning as required.

(2) TPA Data Conversion Process

Empower, as the current TPA, maintains an array of participant data elements, including deferral amount elections, investment elections for new contributions, loan status and loan repayment amounts, distribution elections, and other participant elections or status of records. That information will be "converted" from Empower's recordkeeping system to Voya's recordkeeping system through an electronic data conversion process.

To ensure a successful conversion, Voya first creates a conversion guide outlining the mapping of information from the Empower to Voya system. Mapping means that like repositories of data from the outgoing TPA recordkeeping system flow to their equivalent repositories with the incoming TPA recordkeeping system. The conversion guide also incorporates other details like blackout dates and timing for the delivery of data.

The conversion guide is reviewed with the City prior to the final conversion. On or around July 10, 2017, a full test conversion will be done for the participant data and loaded to a copy of the City's Plan in what Voya refers to as a "conversion region." In this conversion region, Voya looks to identify data from Empower that is questionable or missing. Voya then works with Empower and City staff to address any missing data. Certain missing demographic data will be supplied by the demographic files from the City's two payroll centers.

Throughout testing Voya engages in a quality control process to ensure the data being added to the system is being mapped successfully and per the requirements outlined in

the conversion guide. This includes populating all participant demographic data as well as fund elections and participant account balances.

With respect to participant account balances, Voya will validate totals in testing to ensure that the balances match and that participant records are in line with aggregate Plan totals. Additional test conversions are done if there are issues arising in testing that require changes to the data or the process to map the data. The test conversion(s) ensure the process has been fully tested before the live conversion is completed.

For the live conversion Voya will perform the same quality control and validation process performed for the test process, and complete the reconciliation of assets. A full final conversion report is then provided to the City after the conversion is completed.

(3) File Security

In preparation for the October plan implementation, a system programmer with the Department of Water and Power brought forward a concern related to the testing of transmission of Outbound Payroll files from DWP to Voya through a Secure File Transfer Protocol (SFTP). SFTP provides file access, file transfer, and file management capabilities. After successfully connecting to Voya's site through SFTP, the user saw some additional directory information and files, and questioned whether she should be able to view them.

Upon being notified of this concern, Voya's information security team immediately blocked access to the site while they investigated the matter. They quickly determined that this was not a security issue, and that no confidential information was inappropriately accessed or viewable. They indicated that the directory of files at issue contained non-essential operating system configuration files, and did not contain any client data and could not be altered. They indicated that although typically the directory information has been viewable, in response to the City's concerns, going forward City of L.A. staff will only be able to see the City's specific files and folders (and none of the non-essential operating system configuration files or folders).

Voya indicates they are appreciative of the matter being brought to their attention, and that protection and security of client information is a primary responsibility and priority for their operations.

(4) Auto Enrollment Program

Authority for the City's Auto Enrollment Program (AEP) has already been created within the Deferred Compensation Plan "Plan Document." The AEP provides that only those employee bargaining units that opt into the program through their Memorandum of Understanding (MOU) will have their new employees placed onto the AEP "track." Following several meetings and discussion of various alternatives for implementing AEP payroll functionality, it was determined that the most efficient approach would involve Voya applying the AEP participation criteria/rules using the information already being provided within the Outbound Payroll File. Voya will read the file to identify employees who (a) are in a bargaining unit that has opted for the AEP, and (b) are first-time

contributors to a City defined benefit plan. Those employees will then receive advance communications followed by being placed on to the AEP's auto enrollment/escalation track in accordance with the Plan Document rules. Staff's objective is to implement the first AEP pilot with the Police Protective League (PPL), MOU 24, at a date to be determined post-transition and upon execution of the necessary Letter of Agreement with PPL.

C. Plan Administration and Contract Development

(1) TPA Services Agreement, Trust Agreement, SDBO Account

City staff and Voya have been working together to draft both a TPA services agreement, as well as a trust agreement. The TPA services agreement will be between the City and Voya Institutional Plan Services for the provision of TPA services as described in the City's RFP. The trust agreement will be between the City and Voya Institutional Trust Company for the provision of passive trustee services (to receive and hold Plan assets) which assist the City's Plan in fulfilling its Federal trust requirements. Voya has submitted a draft Trust Agreement which is presently under review by staff and the City Attorney's Office. Voya will be shortly delivering a draft of the TPA services agreement.

Staff is also completing the required paperwork to register the Self-Directed Brokerage Option (SDBO) account offered by Charles Schwab through Voya as the TPA services provider. As Charles Schwab is the incumbent provider of the SDBO, there will be no changes to the services offered by the SDBO; this is a re-registration process only.

(2) QDRO Processing

Staff is presently reviewing an option for the City's Plan to consider relative to the provision of Qualified Domestic Relations Order (QDRO) processing. QDROs are presently handled by the City Attorney's Office. This process includes answering questions from participants, their spouses, and attorneys; receiving and responding to joinders; putting holds on accounts; and reviewing draft QDROs for approval to ensure they meet guidelines in Plan governance documents. Staff is currently performing an analysis regarding keeping this function with the City vs. assigning the function to Voya's QDRO processing unit. The analysis will consider financial as well as breadth of service and customer service considerations. Once this analysis is complete, staff will provide the Board with a recommendation for action. The recommendation is expected to be presented at the Board's July 18, 2017 meeting.

D. Plan Setup: Website Functionality Review and Loan Processing

(1) Website Functionality Review

Plan Setup includes basic functions such as creating a website URL and dedicated phone line, and establishing process and functional protocols for various participant transactions (contribution elections, investment designations, loans, withdrawals, beneficiary changes, and other transactions). Staff is working closely with Voya to conduct a full inventory of current TPA website functionality and organization vs. the

functionality and customer experience with Voya. Staff's objective is to replicate existing processes and access to information to the greatest degree possible, while simultaneously incorporating enhancements where possible. As part of this work, staff and Voya are also evaluating opportunities for adding new functionality that would automate certain functions which now may require forms or some other manual process. These decisions must be approached and evaluated carefully, as automation can create unforeseen consequences if not accompanied by the appropriate related effective communications and allowances for variations to standard processes.

(2) Loan Processing

As part of Plan Setup a major focus of discussion has been improving the customer experience relative to loan processing. Participation in the loan program has grown steadily since loans were first introduced, from 2,483 in 2004 to 20,163 as of 03/31/17. Loan repayments work relatively seamlessly to the extent there is no interruption in the participant's loan repayments. Potential complications arise in three situations where the loan repayment cycle is interrupted:

- (1) Retirement or other separation from service
- (2) Approved leaves of absence (military or other)
- (3) Other situations involving employees going into a reduced or non-pay status

Any interruption in the loan repayment cycle can lead to participant confusion or misinterpretation of the strict rules established under the Internal Revenue Code for loan repayment. As a result, staff and Voya are examining ways to improve the participant experience both with respect to loan processing and loan communications.

One area of focus involves participants who have retired or otherwise separated from service. Given that Voya will be receiving a full demographic file, Voya offers the ability to allow these participants to, upon separation from service, be automatically provided an opportunity to convert their "active loans" to "retiree loans" so long as participants provide banking information to have the loan amounts automatically deducted from their accounts. Presently, the administration of loan status elections for retiring participants is entirely a manual process. The City and Voya are evaluating the automation option in the context of all loan-interruption scenarios to ensure that the related communications are effective, transmitted at the proper point in time, and take into account variations that may occur in the timeliness of reporting a change in employment status vis-à-vis the Outbound Payroll File.

E. Custom Functions: Retired Participant Website Resources and Archived Participant Statements

(1) Retired Participant Website Resources

As previously reported to the Board, Voya has designed its website platform to integrate the City's retirement income projection formula/methodology into its income projection tool. This will create a user experience unique to the City's Plan.

In addition, staff has requested, and Voya is developing, a Retiree Resource Center on the first page of the website which will provide a centralized resource for retired participants to have convenient access to information and tools for processes specific to their needs. The City has communicated to Voya that a primary objective for evolving Plan communications will be to ensure they fully reflect that the City has two distinct audiences: active and retired participants. The latter make up approximately one quarter of the participant population and hold a significant amount of Plan assets. Asset retention is a primary goal for the City's Plan, and achieving greater success in this endeavor requires improving the Plan's effectiveness in meeting the needs of its retired population.

One notable enhancement for retired participants will be allowing for automated online distributions. Participants will be able to submit distributions requests via the Plan's website. Because the City will be providing a demographic file, Voya will automatically be able to validate separation from service and process the distribution. This will eliminate the lengthier and more complex current process, where participants either process forms or must speak with a customer service representative in order to request distribution, then process that request through the City to validate the termination date.

(2) Archived Participant Statements

Typically when a transition of a large defined contribution plan occurs, participant documents such as quarterly statements are not transferred from the prior TPA to the successor TPA. Participants who wish to retrieve that information would be required to contact the Plan or the prior TPA in order to obtain those records. TPAs in the defined contribution space operate in this manner due to the enormous challenges and data requirements involved in transmitting and storing volumes of documents that accrue and grow over time.

The City made its last transition of TPAs in July, 1999, when Empower assumed the TPA role, replacing then Hartford Life Insurance and Washington Mutual Bank. For many years after this transition date, participants requesting historical quarterly statements (generally for the purposes of divorce settlement/account separation) could obtain them by working through City staff to request them from one or both of the prior TPAs. As time has gone on, it has become more difficult for participants to access those older records. Hartford Life Insurance was acquired by MassMutual, and Washington Mutual Bank's recordkeeper was acquired by Nationwide Retirement Solutions ("Nationwide").

The City Attorney's Office acts as an intermediary for assisting participants in acquiring these records as part of providing support for account separations related to divorce. City Attorney staff indicate that Nationwide no longer provides archived records, and MassMutual only sporadically responds to requests, and often only after multiple inquiries from the City. When MassMutual responds, they now only provide year-to-date information for specific time periods, not full statements.

Beyond the documentation needs of participants engaged in a divorce, many participants have opted for electronic statement delivery through Empower. They have

done so on the assumption that their statement records would be stored electronically and the participant would not have to retain paper copies. As of March 31, 2017, 15,680 participants, or 36% of the total participant population, have elected electronic statement delivery.

With the transition to Voya, if the City were to follow industry practice, participants would lose the convenience of being able to go online to access their pre-transition electronic statements. Given that the City's Plan is at a pivotal moment with respect to its change in TPA providers, staff has been attempting to look forward to identify a long-term solution to this challenge.

The Plan does not have an obligation to retain records on behalf of participants. However, in staff's view, the Plan may have an opportunity to improve customer service and respond to the evolving and growing expectations consumers have for electronic data storage.

Following extensive conversations with both Empower and Voya, both providers agreed to assist the City with creating an option for a custom solution for the City's Plan. Under this proposed solution, Empower would provide all participant quarterly statements for Plan participants dating back to July 1999 (approximately 2.5 million records). Voya will utilize a vendor with which it has an existing data storage master contract to create an online mechanism to store and for participants to access the older statements. Voya's recordkeeping system will retain quarterly statements for two years; after two years they will be added to the separate historical statement database.

The cost of this service to the City's Plan would be an additional \$2,400 per month, or \$28,800 annually. In addition, there would be a one-time set-up fee of \$47,500. There may also be certain incidental costs for customizing the user interface or creating other communications elements. In staff's view, this is a modest cost for putting the Plan in a superior position to manage these documents over time. As part of negotiating this service, the City will also address contingencies for maintaining the data if the City were to end its contractual relationship with Voya.

Based on this information, staff recommends that the Board approve the additional cost involved with allowing the Plan to create an ongoing archive of participant statements. This would better support Plan participants in maintaining their historical data, promote the environmental and convenience goals of paperless statements, and provide ready access for those Plan participants involved in divorce proceedings in easily being able to access vital information related to community property settlements.

Related to this, staff is also exploring the possibility, merits, and ramifications of defaulting participants to electronic statement delivery upon transition, unless they make an affirmative election to opt out. That discussion is deferred until more information becomes available.

F. Communications

(1) Transition Newsletter & Local Engagement

Staff has been working with Voya to draft the content of a transition newsletter that will be mailed to all participants. The newsletter is scheduled to be distributed on or around July 10, 2017. The purpose of the newsletter is to provide details to participants with respect to the transition blackout period and key facts about the transition, as well as highlights of new services and features that participants can expect once the transition takes place. This mailing will remind participants of the new website, phone, mobile application, and other account access channels that will be delivered to them at the point of transition.

The final communication to participants, providing them with specific information regarding the website, toll-free number, and unique password/login information, will be mailed the week of September 25th such that participants should have this information in advance of October 2nd.

In addition, staff is working with Voya to plan for other engagement opportunities for familiarizing participants with the upcoming changes. These will include, minimally, group education meetings at multiple City locations, as well as webinars.

(2) Citywide Email Announcement of Plan Changes

On June 8, 2017, staff issued a Citywide email regarding the transition. This communication is a follow-up to the informational flyer that was sent to all Plan participants in March 2017. The email announcement also included an invitation for non-participants to enroll in the Plan.

To date, the response to both communications has been minimal. The announcement mailing provided an online mechanism for participants to provide feedback to the Plan regarding the changes, as well as answer several survey questions regarding Plan services and features. The physical mailing resulted in only approximately 15 participants providing feedback through this mechanism. The email has similarly resulted in a small response, with only approximately 20 additional responses submitted via the online tool, and out of those only five directly asking about or commenting on the transition. In addition, staff has received approximately 25-30 phone calls from participants related to transition communications, but of those, only 10-12 have been related to the actual transition. The remaining participant inquiries produced by these communications have been related to a variety of other topics regarding Plan investments and services.

(3) Communications Materials Review

Staff has provided Voya with the full complement of Plan informational and educational materials (available in print and electronic form). The immediate objective is to largely recreate the existing content under the new branding with Voya. However, one longer-term goal is to critically review and update these materials as necessary, gauge their

effectiveness as informational tools, and add or delete materials as appropriate. This more rigorous approach to developing and refining communications content will begin in earnest once the locally-based communications specialist through Voya joins the Plan at the time of transition.

A secondary goal is to identify ways that the material can be incorporated into the Plan website in a more interactive, functional manner, rather than simply relying on PDF documents. This approach would also be more mobile-responsive.

Staff and Voya have already begun a similar approach to re-creating and improving the Plan's various forms. However, the Plan is expecting to rely less on requiring that participants fill out forms as it moves to more web-based mechanisms of accomplishing participant transactions.

G. Conclusion

This report has provided a status-to-date regarding key elements of the transition. Next month's report will follow a similar format and provide updates and any related recommendations as the Plan moves closer to the transition date.

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