

# Deferred Compensation Plan

## BOARD REPORT 17-22

Date: July 18, 2017

To: Board of Deferred Compensation Administration

From: Staff

Subject: Third Party Administrator Transition Update

*Board of Deferred  
Compensation Administration  
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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 retaining Qualified Domestic Relations Order (QDRO) processing as an internal function performed by City staff.

### **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**

At its June 20, 2017 meeting, staff and Voya provided the Board with details related to the blackout period and data conversion process relative to the TPA transition date. One additional clarification discussed and resolved since the last Board meeting involves participants in the Plan's Self-Directed Brokerage Option (SDBO) offered through Charles Schwab. Staff has clarified that SDBO participants will not have any trading restrictions or limitations during the transition period, apart from the fact that they will not be able to initiate transfers into or from the City's core investment options during that period. Beyond that, SDBO participants will be able to log in to their accounts and make trades without limitation.

#### **B. Data Exchange**

In the midst of the testing process involving the City and Voya, a staff member of the City Controller's office raised certain questions regarding the City's use of an eligibility file as part of the future ongoing file exchange with Voya. Staff held subsequent meetings with Controller's management and operations staff, including the Principal Deputy Controller, to explain that the decision to use an eligibility file was made by the Board early in the procurement and transition decision-making process, and was designed to incorporate a wide array of improvements to the services and capabilities

offered by the Plan. These improvements include but are not limited to allowing for online enrollment (eliminating the requirement of completing a paper enrollment form); online distribution elections (eliminating the requirement of completing a paper distribution form and requiring City validation of termination status, both of which add processing time); new employee and targeted communications to non-enrolled participants; and the production of new data analytics which will assist the Plan with moving forward with its objectives to offer a more goals-driven, outcomes-based approach towards increasing participation and contribution levels, and generally improving the retirement readiness of the entire eligible City workforce.

Staff further indicated that the City presently utilizes eligibility files in a wide array of City contracted relationships to provide services to City employees, including but not limited to benefit administration. Staff further explained that many other governmental agencies use eligibility files as part of their defined contribution plan administration, including the County of Los Angeles, County of San Bernardino, State of Michigan, State of Delaware, and other state and local agencies. Board counsel is assisting with further review of this matter, but the City's PaySR Governance Committee (which approves and administers all of the City's PaySR-related programming projects) has affirmed that the project (including testing) will proceed without interruption.

### **C. Plan Administration and Contract Development**

In recognition of the Board's direction at its June 20, 2017 meeting, staff is proceeding with an expedited effort to complete the City's contract with Voya prior to commencement of services. On July 5, 2017, staff drafted and submitted contract documents to Voya for their review, with a review/response deadline of July 14, 2017. Review of their comments/edits will occur immediately, with transmission to the City Attorney scheduled for July 17, 2017, and its initial review and comments to be completed by August 1, 2017. Additional rounds of review involving Voya, Employee Benefits Division staff, the Personnel Department's Administrative Services Division, and the City Attorney are scheduled for the month of August, with the objective of refining and completing the contract language by August 31, 2017. The Mayor's Office and City Administrative Office (CAO) then require additional review and approval before the contract can be executed.

### **D. QDRO Processing**

As previously discussed with the Board at its June 20, 2017 meeting, staff has been reviewing an option for the City's Plan to consider relative to the provision of Qualified Domestic Relations Order (QDRO) processing. QDROs involve separation of Plan accounts related to divorce and the related division of community property interest between a participant and ex-spouse. QDRO services are presently performed by the City Attorney's Office. This process includes answering questions from participants, their spouses, and attorneys; receiving and responding to joinders (legal documents related to placing holds on participant accounts while a property settlement is being negotiated) and placing distribution-holds on participants accounts; and reviewing draft QDROs for approval to ensure they meet the City's guidelines.

Staff performed a cost-benefit analysis regarding keeping this function with the City vs. assigning the function to Voya's QDRO processing unit. Voya submitted Statements of Work outlining the costs and services for handling QDROs and joinders. Staff then reviewed data regarding the City's processing of these documents, the estimated amount of staff time and cost, and the estimated cost if Voya would perform these services.

During 2012-2016, the City Attorney's Office administered and supported 254 account separations. During this same period, the indirect cost for all legal assistance provided by the Legal Secretary position performing services for the City's Plan (including but not limited to QDRO processing) was \$155,141. The Legal Secretary provides additional support services to the City's Plan including responding to inquiries from parties to divorces and divorce attorneys in situations which never result in an account separation; processing more complex beneficiary claim issues; researching certain administrative and legal issues at the request of Personnel Department staff; and responding to other general inquiries that may come from Plan participants. Since QDRO hours by themselves are not uniquely tracked, after consulting with the Legal Secretary, staff estimates that approximately 70% of the 2012-2016 gross cost, or \$108,000, can be attributed to those 254 cases. This equates to a per-case cost of approximately \$425.

By contrast, Voya's proposed pricing for QDRO and joinder pricing is \$400 per QDRO and \$125 per joinder, or approximately \$525 total per case. For 254 cases, Voya would have charged approximately \$133,000, a larger amount than the estimated cost of processing by City staff. In addition, upon examination of the Statements of Work, it became apparent to staff that while Voya would do the bulk of the QDRO administration, certain aspects of the process would still be subject to City review and involvement, increasing the gap in costs further.

Finally, it should be noted that the legal assistance provided by the City Attorney's office includes a less easily quantified and very high level of personalized customer service. As an example, the Legal Secretary frequently has lengthy discussions with Plan participants and their attorneys which, in staff's view, would be unlikely to occur in a Call Center environment, but which provide important support to participants during what are often very personally challenging circumstances. Given these findings regarding both costs and service levels, staff recommends that the Board approve retaining Qualified Domestic Relations Order (QDRO) processing as an internal function performed by City staff.

#### **E. Plan Setup – Culture Training**

Staff and Voya have scheduled a "Culture Training" session on Wednesday, September 13, 2017. Culture Training is a special engagement/communications opportunity that Voya offers as a best practice when setting up a new plan. It provides an opportunity for Voya's telephone customer service representatives to interact directly with City staff to learn first-hand about unique aspects of the City's Plan, common areas of inquiry from Plan participants, demographics of Plan participants and eligible employees, current administrative processes and participant expectations relative to those processes, and other nuances of the City's Plan and its participant population. Through these trainings,

which will be conducted electronically in a virtual training environment using Skype, staff and the client service operation will have opportunities to exchange information and establish a firm foundation for Voya to provide informed and customized participant service.

## **F. Communications**

Staff has been working with Voya's communications team to finalize the second transition notification newsletter, which will be released in July (**Attachment A**). This newsletter will provide participants with more details regarding the transition period as well as illustrate in greater depth certain new services and features which will be available from the new provider.

Relative to the Plan website, staff and Voya are continuing their work on developing and customizing the site. Staff and Voya are working towards providing a presentation to the Board of website functions at the Board's August 2017 meeting.

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