Deferred Compensation Plan
BOARD REPORT 16-29

Date: October 18, 2016

To: Board of Deferred Compensation Administration

From: Staff

Subject: FY 16/17 Plan Goals and Metrics

Recommendation:
That the Board of Deferred Compensation:
- (a) Receive and file this report regarding Deferred Compensation Plan goals and metrics, including the results for FY 15/16 related to targets/results for gross new enrollments in the Plan;
- (b) Adopt a new goal of increasing the gross number of new enrollment by 5% in FY 16/17;
- (c) Adopt a new goal of increasing average participant contributions by 2% in FY 16/17;
- (d) Adopt a new goal of decreasing the total number of full distributions by 3% in FY 16/17; and
- (e) Adopt a new goal of reducing outgoing rollovers by 5% in FY 16/17.

Discussion:
In previous discussions with the Board, staff has recommended that the City's Deferred Compensation Plan increase its emphasis on creating specific goals and outcomes to measure the success of the Plan, specifically in regards to meeting its core mission to assist City employees in achieving retirement income security. As goals are developed, new strategies will necessarily need to be executed to meet those goals. As strategies are implemented, the results can be tested and measured. As results are evaluated, goals and strategies can evolve to focus more on those that generate the most success in meeting the Plan's core mission.

For Fiscal Year (FY) 15/16, the Board adopted a goal of increasing Plan participation enrollments by 3%. This report details the results of that goal for FY 15/16, as well as staff's proposed goals for the new fiscal year. As previously indicated to the Board, these goals are established on a FY rather than Calendar Year basis because they correspond to FY goals/metrics reporting to the Mayor's Office from the Personnel Department.

For FY 16/17, plan staff proposes broadening goals beyond participation to include contributions, distributions, and asset retention. These metrics were selected because they represent primary components impacting the individual employee's ability to achieve retirement income security. Voluntary participation in the defined contribution plan, along with mandatory participation in the defined benefit plan, is a pre-requisite for achieving retirement income security. An adequate contribution range (as a percent of salary) over a career is necessary to achieve retirement income security. Distribution elections with the accumulated balance directly impact the participant's ability to maintain retirement income security within retirement. This includes potential elections to roll assets out of the Plan, where they become more vulnerable to higher expenses and decumulation.

A. Participation

For FY 15/16 the Board adopted a goal of increasing enrollment by 3%, which would result in an increase of 1,426 gross new enrollments. The Plan was successful in meeting this goal. The final result was 1,997 new participants, averaging 166 enrollments per month. The Plan ended the fiscal year with 42,403 total participants, a net increase of 1,075 participants over the previous fiscal year-end.

Figure 1: Gross Enrollments Results, FY 2015-16

FY Goal: 3% increase = 1,426 New Enrollments
(target 119 per month)
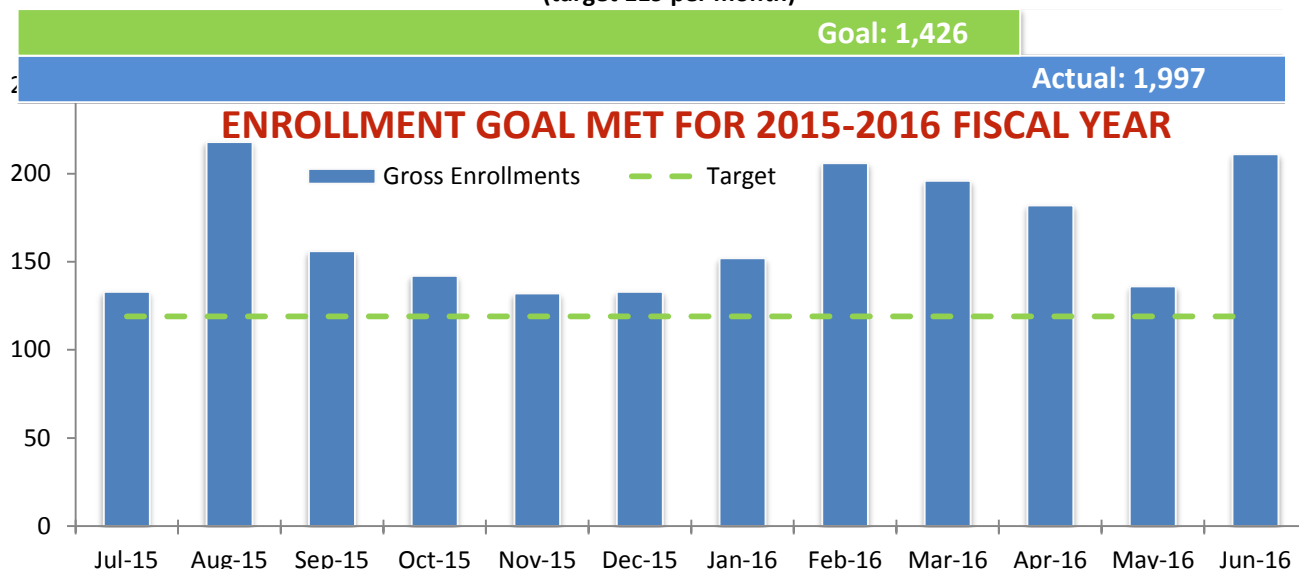
Additionally, the Plan ended the fiscal year with a 70% participation rate which compared favorably to its peers in the public sector as seen in **Figure 2** to the right. The data was provided courtesy of the NAGDCA 2016 "Perspectives in Practice" Benchmarking Survey.

For fiscal year 2016-2017, staff proposes establishing a 5% year-over-year increase in gross enrollments. The increase in the percentage target is the result of a refinement/improvement in the methodology

Figure 2:City of L.A. Compared to State/Local Peers

used to calculate the target. The end result, however, produces a similar numerical target of 1,485 gross new enrollments.
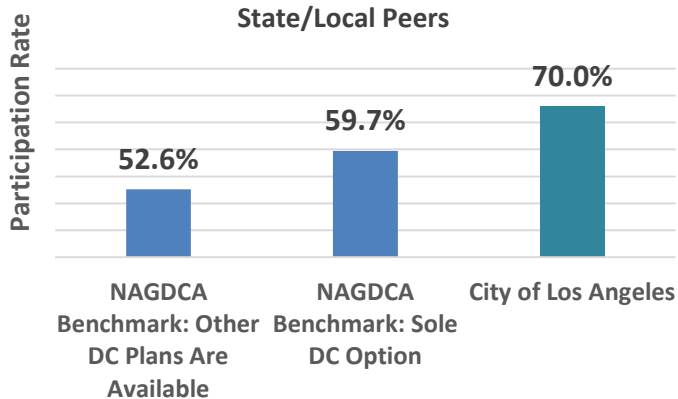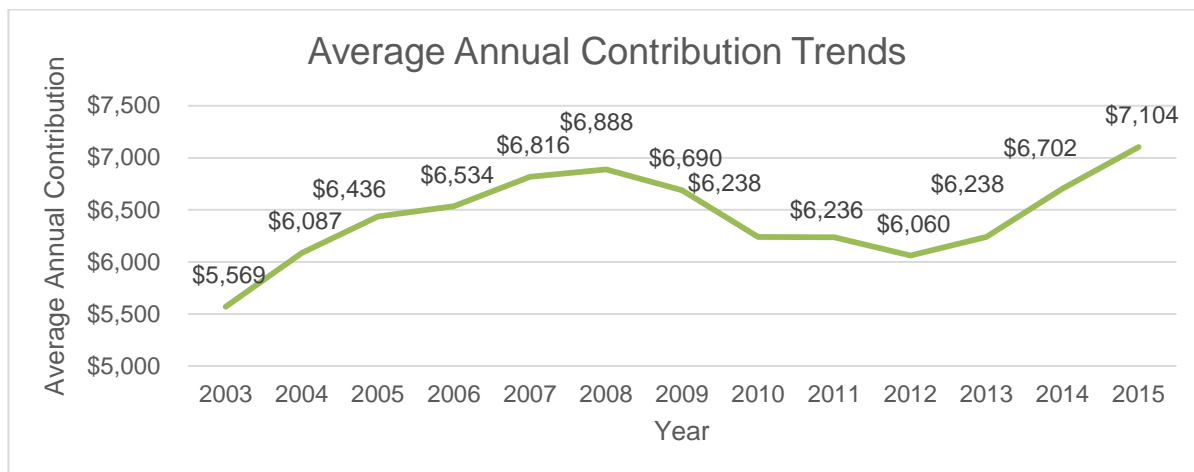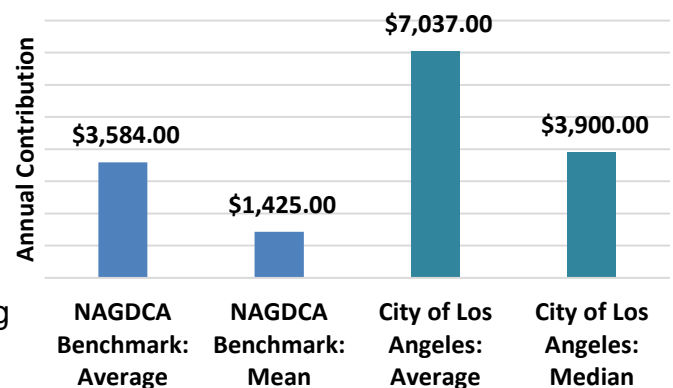
Proposed strategies to help meet this goal include:

✓ Coordinated messaging with the Employee Benefits Division's Benefits Program (already implemented)

- Coordinated local counselor outreach (continuing ongoing efforts to target different City departments and populations by working with Third Party Administrator (TPA) local representatives)
- New marketing to new employees (enhancing communication materials targeted to newly hired employees)
- New marketing to current employees (producing new engagement efforts for the current workforce, e.g. through the National Retirement Security Week campaign)
- Establishing auto-enrollment w/new TPA

B. Contributions

City employee average/median annual contributions compare favorably to their state and local government peers. Through the course of FY 15/16 Plan participants contributed an average of $7,037, or approximately $270 per paycheck to their Deferred Compensation Plan account. The City employees' contribution rate is approximately double that of the 2016 NAGDCA benchmark (see **Figure 3**). Average contributions fell during and after the 2008/2009 recession, but have been steadily rising since bottoming in 2012 (see charts below).

Figure 3: City of L.A. Compared to State/Local Peers

Average Annual Contribution Trends

For the upcoming fiscal year, Plan staff proposes establishing a goal of increasing average annual contributions by 2% increase, which translates to an average contribution of $7,177.
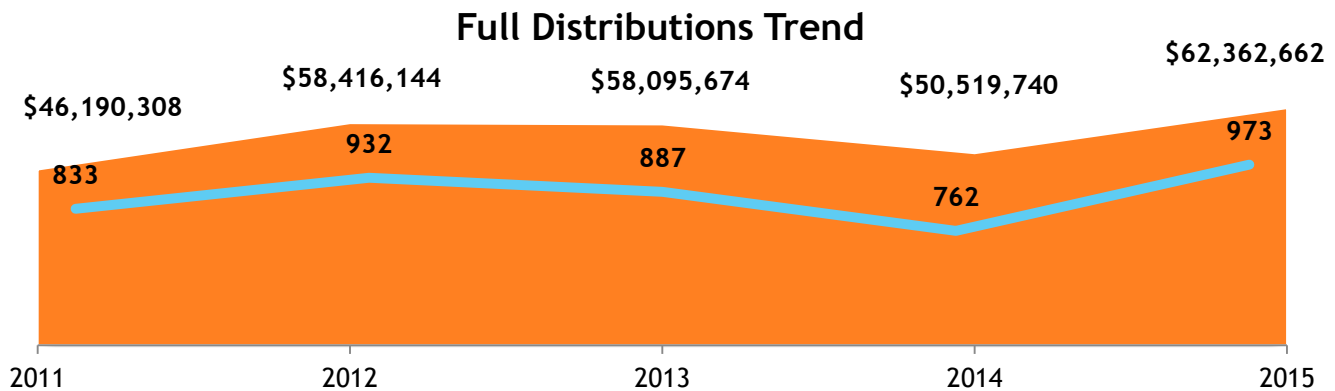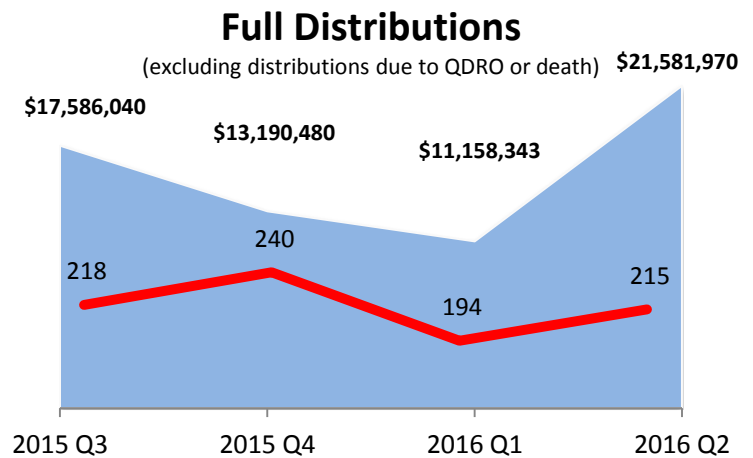
Proposed strategies to help meet this goal include:
- **Creating a new web tool for showing contribution as % of pay along with target contribution percent/amount to meet retirement income replacement objective**
- **New emphasis on annual fourth quarter contribution limit messaging**

C. Distributions

NAGDCA's benchmarking data did not provide data regarding full/partial non-rollover distributions as a percent of overall plan accounts. For the City of Los Angeles, during fiscal year 2015-16, 867 accounts were closed (full distribution), which equated to 2.07% of total Plan accounts. These full distributions accounted for approximately $63 million leaving the Plan during the course of the year.

For FY 16-17, Plan staff proposes establishing a goal of reducing the total amount of closed accounts by 3%. This would equate to reducing the total number of account closes from 867 to 841.

Full Distributions
(excluding distributions due to QDRO or death)

$17,586,040 $13,190,480 $11,158,343 $21,581,970

218 240 194 215

2015 Q3 2015 Q4 2016 Q1 2016 Q2

Full Distributions Trend

$46,190,308 $58,416,144 $58,095,674 $50,519,740 $62,362,662

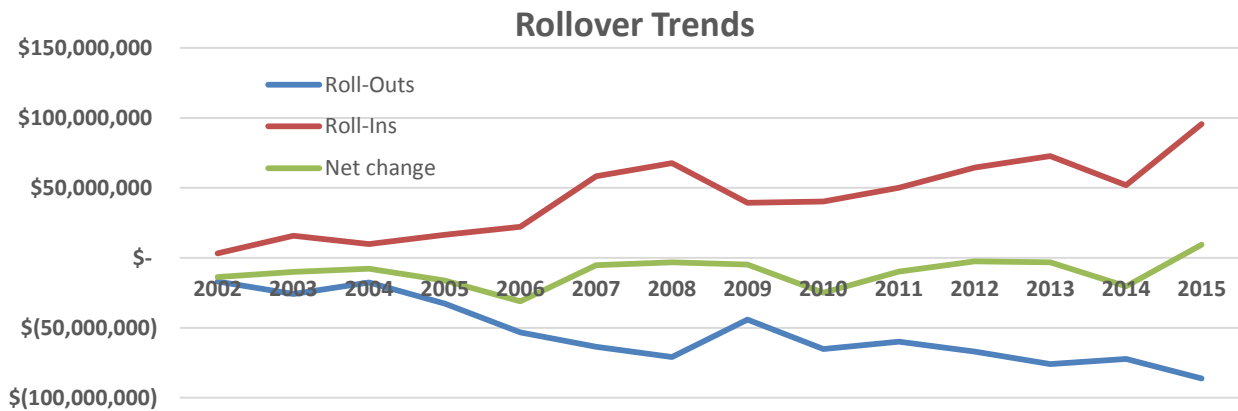833 932 887 762 973

2011 2012 2013 2014 2015

The proposed strategy to help meet this goal is:
- **Creating a web link & form/flyer for partial & lump-sum withdrawals, with the objective of providing greater education to participants contemplating full withdrawals as well as gathering data as to their reasons for electing full withdrawals.**

D. Asset Retention

NAGDCA's benchmarking data did not provide equivalent data regarding assets rolled out of member plans. For the City of Los Angeles, during the prior fiscal year, $91.5 million was rolled out of the Plan. For the current fiscal year, Plan staff proposes setting a goal of reducing gross dollars rolled out of the plan by 5%, which would reduce roll-outs to $86.6 million.

Rollover Trends

The proposed strategy to help meet this goal is:
- **Creating a web link & form/flyer for account rollovers (w/emphasis on fiduciary rule requirements), with the objective of providing education to participants contemplating rolling funds out of the Plan, as well as gathering data as to their reasons for rolling funds out.**

Conclusion

Adopting these goals and employing these strategies supports increased transparency and accountability for creating more successful results for the City's workforce. As the City's Plan moves forward with this goals/metrics emphasis, more data-mining and expanded goals/strategies are the likely result. This year's efforts represent, in staff's view, a modest but important step forward in advancing the Plan's core mission.

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