

Deferred Compensation Plan

BOARD REPORT 17-08

Date: March 21, 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 receive and file staff update regarding the Deferred Compensation Plan's Third Party Administrator (TPA) transition.

Discussion:

At the Board's special meeting of **September 6, 2016**, the Board approved the selection of Voya Institutional Plan Services ("Voya") as the Third Party Administrator (TPA) for the City's Deferred Compensation Plan. At the Board's **November 15, 2016** meeting, the Board approved communications to the City Controller and Department of Water and Power requesting assistance in implementing the necessary payroll programming changes related to the transition. At the Board's **January 17, 2017** meeting, the Board approved a proposed communication to Plan participants regarding the change in Plan administrators. This report provides an update on various developments related to the transition.

A. Participant Website

Since the initial implementation meeting, Voya has been actively working on the logistics of blending the Deferred Compensation Plan's unique retirement income projection methodology into Voya's participant website platform. This has involved a substantial effort and commitment of resources on Voya's part, as their existing platform and embedded assumptions were designed to function across their entire client base. Nevertheless, Voya has recognized the Board's objective to customize the communication of retirement readiness to City participants in order to significantly enhance individual retirement outcomes.

Staff is pleased to report that Voya recently shared its success in this endeavor and how it will be implemented. Participants, when logging in to their accounts, will receive instant and prominent information regarding their progress towards the goal of achieving 100% replacement of "lifestyle income" based on incorporating the City's unique retirement/pension benefit rules and methodology. These rules and methodology are presently embedded within the Plan's Retirement Income and Projection Calculator – under Voya they will be fully integrated into the website user experience. Significantly, the state-of-the-art features that Voya presently has as part of its platform (e.g. its "sliders" which allow a participant to quickly model increases in deferrals or changes to

planned retirement age) will be fully functional and integrated with the retirement income projection, meaning that participants will be able to see the instant impact on their unique retirement income projection as they consider changes. The visual, interactive, and instantaneous nature of the website functionality will provide participants with a significantly higher level of information and vastly improved means of communicating it. This should, in turn, have direct impact on contribution rates, tax-savings elections, and ultimately improved retirement readiness outcomes. As Voya and staff continue work on this project, a modeling of the user experience will be developed for review by the Board.

Staff is simultaneously in the process of working with Voya on a full review of the current website and Voya's website, to identify areas where different functionality exists and options for addressing/communicating enhancements and gaps.

B. Participant Communication/Survey

Staff has scheduled issuance of a communication to Plan participants regarding the change in providers. Production/issuance was delayed as staff determined it was more prudent to use the City's internal fulfillment resources to send the communication rather than have Voya do so, given that it would have been necessary to provide participant contact information to Voya and there is no agreement yet in place between the City and Voya relative to the exchange of participant records. Going forward this agreement, which is being drafted, will assure that the highest level of administrative safeguards are in place as the City prepares to exchange records between the incoming and outgoing TPAs. The production/mailing cost of the communication will nevertheless be paid by Voya.

As previously discussed with the Board, the communication will incorporate access to a web-based mechanism for employees to provide feedback regarding the transition. Staff took this opportunity to include a brief survey (**Attachment A**) which will gather information about the transition as well as data regarding Plan services, retirement confidence, and other questions similar to questions posed to participants as part of the 2015 Plan Services survey. The survey is scheduled to go live on March 28, 2017. As a result, any Board edits/changes to the survey questions from the March 21 Board meeting can be addressed before the go-live date.

C. Payroll/TPA File Exchange

As previously reported, staff and the City Controller met in January to discuss enhancements to the data file exchange between the City's payroll systems and the Plan TPA in order to allow the City to fully implement the available technologies and communication resources offered by Voya. At a high-level introductory meeting the Controller's Office was extremely receptive to the Board's objectives in this area. Since then, staff has been developing a payroll requirements document. A meeting involving the Controller, Information Technology Agency (ITA), Voya, and Personnel staff is being scheduled on or around March 16, 2017. The results of that meeting will be presented orally to the Board.

A meeting with Department of Water and Power (DWP) payroll took place on February 15, 2017. DWP staff were also extremely receptive and supportive of the Board's objectives for this transition, and their programmers have been actively working with Voya since the meeting to develop the programming required to fulfill key transition objectives, including the exchange of an eligibility file, providing for a percent-of-pay contribution option, and expanding demographic data.

D. Participant Records Transfer

Staff is working with Empower and Voya on planning for the transfer of participant data. Included within this data are investment holdings, investment deferral instructions, distribution elections, investment unit values, beneficiary designations, and other items.

One area that staff is investigating involves participant post-transition access to Empower's participant quarterly statements. Industry practice is that participant quarterly statements do not transfer from one recordkeeper to the next but are available to be obtained by the participant from the prior recordkeeper upon request, either indefinitely or on some set records retention schedule.

However, with the growth of individual electronic data storage, the question of how participants can maintain these types of records over long periods of time (and through successive recordkeeping systems) is one staff is actively reviewing. This issue is not limited to defined contribution plan recordkeeping. Presently, once a relationship between an individual and a financial services firm of any type (e.g. a bank, lender, investment firm, etc.) ends, access to historical records typically ends as well. Although individuals always have the ability to print and retain those records prior to the business relationship ending, or to store them electronically on their personal data devices, these options are not well aligned with the intended convenience of electronic data storage.

For the City's Plan and this transition, staff is investigating what options, if any, exist for developing a more user-friendly mechanism for accessing Empower's participant quarterly statements post-transition. Staff will provide further updates as it continues its assessment.

E. Investment Option Descriptions and Historical Data

Staff is working with Voya to enhance the level and type of investment data that will be available to participants regarding their Plan investment choices. In the past the City's Plan worked with Empower to develop investment option descriptions that provided summary and high-level data. Upon transition, Voya will use the services of Morningstar to produce investment fund descriptions that will include a format and content mirroring Morningstar's profiles for other investment funds. These fund profiles will be customized to include the information specific to the City's Plan-branded funds, including investment holdings, custom benchmarks, style-box designation, investment returns, etc. This will better meet the needs of participants who are looking for the more detailed data that is typically available for retail investment products.

In addition, staff and Voya are working to ensure seamless participant access to historical investment return information for Plan investment options. This will require creation of custom historical return data documents that will be available on the Plan website and in connection with quarterly statement communications.

F. Deemed IRA

In the course of ongoing transition meetings with Voya, one of the topics staff has inquired about concerns Voya's ability to administer a Plan-sponsored Individual Retirement Account (IRA). This is commonly referred to in defined contribution plans as a "Deemed IRA."

The Economic Growth and Tax Relief Reconciliation Act of 2001 ("EGTRRA") amended Section 408(q) of the Internal Revenue Code to allow Plan sponsors to issue Deemed IRAs alongside their defined contribution plans. Some of the benefits of offering a Deemed IRA include providing competitive investment management fees, familiar and plan-vetted investment choices, and an additional contribution option for those who are already contributing the maximum under Internal Revenue Code Section 457 limits. Both Traditional and Roth IRAs can be established. Although presently participants can roll in fully pre-tax Traditional IRAs to the City's Plan, neither a Roth IRA, nor a Traditional IRA with a mixture of pre-tax and after-tax dollars, can be rolled in to the Plan.

Few governmental plans have adopted Deemed IRAs. A notable exception is the New York City Deferred Compensation Plan, which has been offering a Deemed Traditional and Roth IRA since 2006. Some of the apparent challenges involve the coordination of Third Party Administrator and trustee/custodial support, since the assets in the Deemed IRA must be separated from the defined contribution plan, even though the assets may be commingled for investment purposes.

Voya has indicated that it can support the City's Plan in administering a Deemed IRA. Additional research would be required to assess the feasibility/value of adding such an option to the City's Plan. Before proceeding, staff is looking for Board direction as to whether it is interested in pursuing this further. Given the priorities related to the transition and other functions, this would not be an objective for implementation at the time of transition, but further review/discussions with Voya can nevertheless proceed over the coming months.

Submitted by: _____
Steven Montagna