Deferred Compensation Plan
BOARD REPORT 17-10

Date: March 21, 2017

To: Board of Deferred Compensation Administration

From: Staff

Subject: FY 16/17 Plan Goals, Strategies and Metrics Update

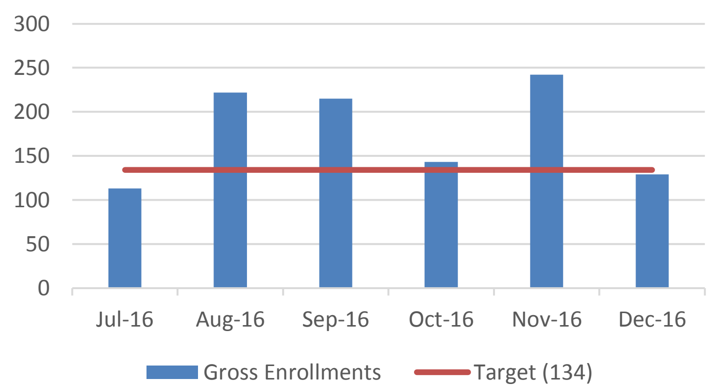
Recommendation:
That the Board of Deferred Compensation receive and file staff update regarding Deferred Compensation Plan participant goals, strategies and metrics for the 2016-17 fiscal year.

Discussion:
At its October 18, 2016 meeting, the Board adopted certain goals related to creating more successful participant outcomes for Plan Participation, Contributions, Distributions and Rollover Retention. This report provides an update regarding progress for each of these goals.

A. Participation

For FY 16/17 the Board adopted a goal of increasing enrollment by establishing a 5% year-over-year increase in gross new enrollments, which would result in a total of **1,606** gross new enrollments. During the first and second quarters of the fiscal year, there have been **1,064** new enrollments, or **66%** of the goal.

Figure 1: Gross Enrollments by Month FY 16-17



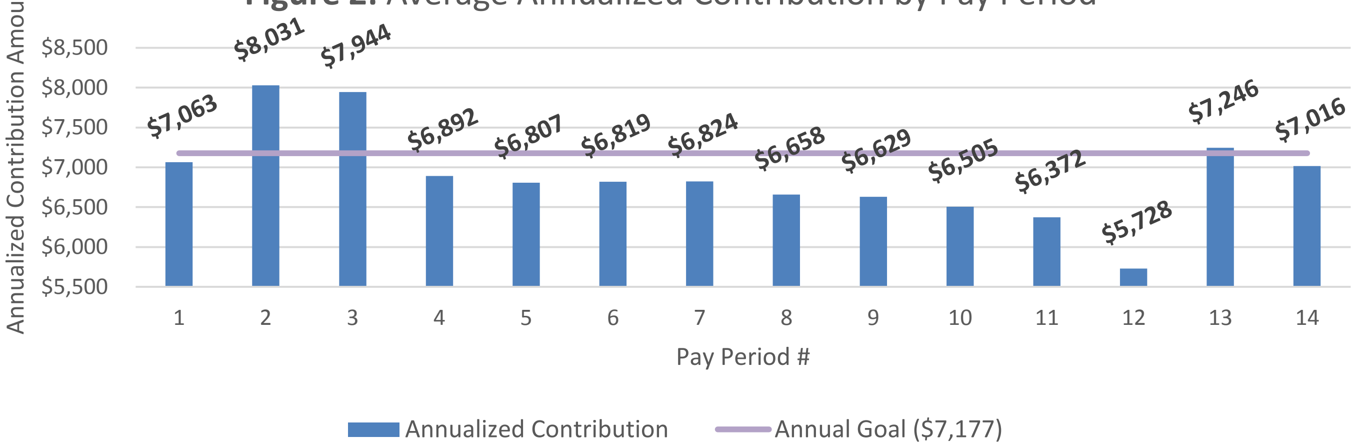
Strategies Update:

- Local Counselor Outreach – Local Retirement Counselors continue to reach out to the Library Department and conducted 24 meetings for the department in the fourth quarter.
- New Hire Targeted Communications – Staff has finalized the design of new-hire marketing materials. This targeted outreach will be in addition to any other existing onboarding communications materials provided to new employees regarding the Deferred Compensation Plan (e.g. group enrollment meetings, benefits package mailings, etc.).

B. Contributions

For FY 16/17 the Board adopted a goal of increasing average annual participant contributions by 2%, from $7,037 in FY 15/16 to $7,177 in FY 16/17. **Figure 2** below shows the average annualized deferrals for the first 14 pay periods of FY 16/17. Thus far, the average annualized contribution is **$6,895**. It was reported previously that there is a significant level of volatility on a pay-period by pay-period basis, as contributions fluctuate based on variables such as accrued leave contributions. As anticipated, the Plan also saw a significant drop-off in contributions leading up to the end of the calendar year as employees reached their maximum annual contribution. Contributions increased significantly with the start of 2017.

Figure 2: Average Annualized Contribution by Pay Period



Strategies Update:

- <u>Percent of Pay Contribution Tool</u> - Staff developed a custom "Contribution Calculator" web-tool which participants can use to determine how their bi-weekly contributions (which are established by dollar amount) translate as a percent of pay. This tool was introduced as part of its annual announcement regarding annual contribution limits.

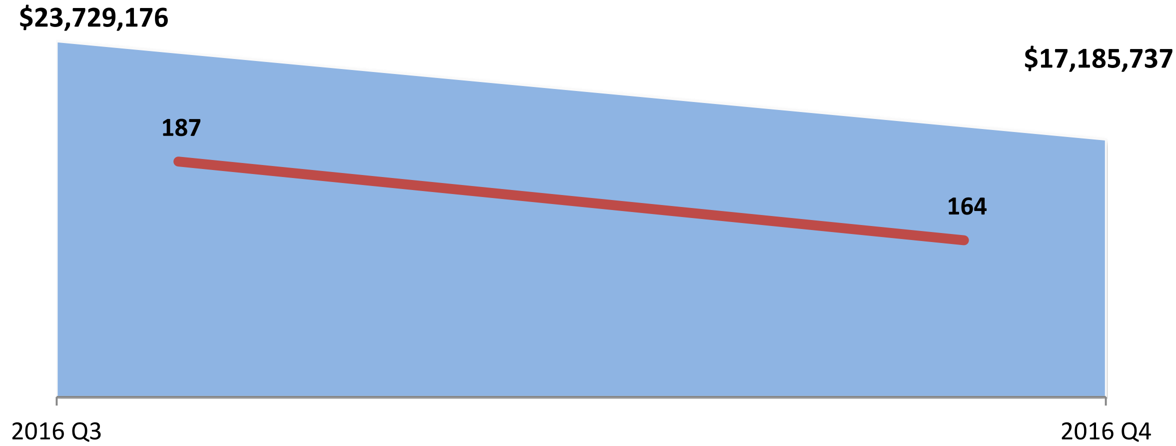
  Since its introduction on December 13, 2016, the calculator has been utilized **4,717** times. This resource seems to have positively impact contribution figures for the start of 2017. Comparing the first payday of January 2017 (typically the most active of the year) vs. the equivalent payday in 2016, the number of participants making changes increased **29%**, total contributions grew **9%**, total contributing participants grew **3%**, and the average contribution increased **5%**.

C. Distributions & Asset Retention

The discussion of Distribution and Asset Retention goals is consolidated given that they involve a common denominator (account liquidations in some form) and communication strategies/materials for engaging participants which are anticipated to be consolidated into a single marketing piece.

For FY 16/17 the Board adopted a goal of reducing the total amount of closed accounts by 3%, from 867 in FY 15/16 to no more than 841 in FY 16/17. To meet this goal, full account distributions should be no greater than 210 on a quarterly basis. For the first quarter of the fiscal year, 187 participants closed their accounts and were issued full distributions, below the target amount. For the second quarter, 164 participants closed their accounts, keeping the Plan on target to meet its goal.

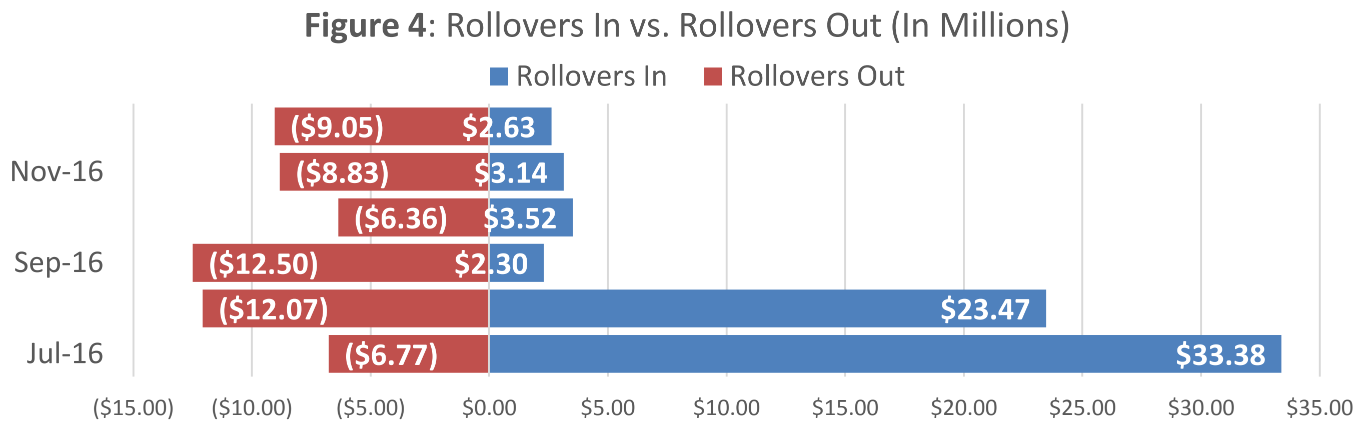
Figure 3: Full Distributions - 2016, Q1 + Q2
(excluding distributions due to QDRO or death)



In addition, for FY 16/17 the Board adopted a goal of reducing the total amount of gross dollars rolled out of the plan by 5%, which would reduce roll-outs from $91.5 million in FY 15/16 to $86.6 million in FY 16/17.

During the two quarters of the fiscal year, approximately **$55.6** million rolled out of the Plan. If the rollovers out continue at this rate for the remainder of the fiscal year, the Plan would not meet its goal of reducing roll-outs to no more than $86.6 million.

However, rollovers in continue to be in excess of rollovers out. During the first two quarters of the fiscal year, $68.5 million rolled into the Plan, $12.9 million more than what was rolled out. Figure 4 below details a month-by-month breakdown of rollovers in vs. out.



Strategies Update:

- Communication Materials – Staff is finalizing new communication materials 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. This material would be targeted for distribution to participants who are approaching retirement or exiting DROP. Options for engaging these participants with this information include point-of-processing receipt of the rollover form, pre-retirement education seminars, pre-retirement counseling sessions, website and newsletter publications, and direct mail.

  It should be noted that the Trump Administration has requested review of the Department of Labor's (DOL) recently adopted, but not yet made effective, "Fiduciary Rule," which expands the fiduciary definition under the Employee Retirement Income Security Act (ERISA), to require that investment advisors act in the best interests of their clients and place the interests of their clients above their own. This would replace the existing "suitability" standard, which provides that an investment recommendation is deemed appropriate as long as it meets the client's stated need and objective. The City's Plan is not covered under ERISA, but the new rule would impact participants contemplating rolling funds out of the Plan to external advisors. The rule was scheduled to be phased in between April 10, 2017 and January 1, 2018; however, the DOL recently announced that implementation may be delayed until at least June 9, 2017, and the DOL could end up revising or rescinding the rule. Irrespective of what becomes of the rule, the DOL has already issued communications materials for investors, including questions that can be posed to a financial advisor, that may be useful for the City's Plan in drafting materials to help its participants become better informed prior to making decisions to roll funds out of the City's Plan.

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