




**EAST BAY REGIONAL PARK DISTRICT
BOARD OF DIRECTORS MEETING
AGENDA STAFF REPORT**

DATE	June 4, 2024
TITLE	Informational Report on 457 Plan Transition
DIVISION	Finance and Management Services
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APPROVED	Sabrina Landreth, General Manager 

RECOMMENDATION

This is an informational report on the 457 Plan transition.

BACKGROUND

The East Bay Regional Park District (Park District) has provided a 457 Deferred Compensation Plan (457 Plan) to its employees since 1981, with MissionSquare (previously known as ICMA) serving as the 457 Plan Administrator since inception. In early 2023, as the MissionSquare contract was set to expire, staff began planning to issue a Request for Proposals (RFP) for a Deferred Compensation Administrator. Conducting an RFP for 457 Plan administration services is a best practice.

In August, proposals received through the RFP process were reviewed by a panel of five Park District employees. AFSCME member of the Deferred Compensation Advisory Committee (DCAC), who currently serves as its chair, was invited to serve on the review panel, but eventually declined because of other obligations, and designated the Police Association member to serve in her place. The panel reviewed the proposals based on the following criteria: 1) firm strength, experience and qualifications, 2) recordkeeping, cybersecurity and custody, 3) participant account statements, communication and education, 4) reporting statements, system technology and functions, 5) Plan sponsor services, 6) investment flexibility, and 7) fees and expenses. Following careful review of all of the proposals, and interviews, the panel's unanimous decision was to recommend that the Board of Directors award the contract to Empower. The DCAC was kept informed of the RFP process throughout the months leading up to the RFP issuance and throughout the Board approval process.

At the Board of Directors meeting on October 3, 2023, the recommendation to select Empower was presented to the Board for approval. A presentation outlined the reasons that Empower had been selected. These reasons included: size and length of experience, an easy to use website, fiduciary services, lower fees and investment flexibility. No public comments were received regarding this recommendation. The Board of Directors voted unanimously to approve the award of the contract to Empower.

On December 29, 2023, an EBRPD-All email was sent to Park District staff explaining that a new Plan administrator had been selected and that the transition would be underway in the coming months. An FAQ document regarding the transition was attached to the email and posted on the retiree page of the Park District's website at that time.

On January 17, 2024 Park District staff requested that the liaison with the EBRPD Retirees Association distribute information regarding the transition to Empower as the 457 Plan Administrator. With that liaison's help an email with information regarding the transition was sent to the Retiree listserv (an email list that is maintained by the Park District's retiree group).

On February 5, 2024, Empower mailed an informational letter regarding the dates and timelines for the 457 Plan transition to all Plan participants. An EBRPD-All email was sent to Park District employees on February 8th sharing the same information.

On February 6th, 2024, the Investment Policy Statement and proposed Empower fund lineup were presented to the Board of Directors. Information regarding the savings expected to be realized by Plan participants through this new investment fund lineup was also shared. No public comment was received regarding this agenda item. The Board of Directors unanimously approved the Investment Policy Statement and fund lineup.

Process and Information Provided to Deferred Compensation Advisory Committee (DCAC)

The Park District established a DCAC in 2017 to make recommendations to the Board of Directors regarding the 457 Plan. The DCAC was kept informed of the RFP process throughout the months leading up to the RFP issuance and throughout the Board approval process. Below is a summary of the information provided to the DCAC:

- At the May 25, 2023 DCAC meeting, Finance staff informed the DCAC that an RFP would be issued. The DCAC was advised that the RFP was expected to post at the end of June 2023 with proposals due in mid-July. At that point it was expected that the timeline would allow for a recommendation to be made to the Board Finance Committee on July 27, 2023, and then a recommendation to the Board on August 8, 2023. The DCAC was informed that the intent was to have a signed contract by September 1, 2023, and if necessary, the transition date would be January 1, 2024. The committee was informed that the RFP interview panel would consist of one member of the DCAC, a staff member from the Human Resources Division with experience in employee benefits and deferred compensation, a staff member from the Finance & Management Services Division with experience in finance, investments, deferred compensation, and procurement, and likely a staff member from the Legal Division with experience in procurement, employee benefits, and the legal environment surrounding deferred compensation.
- At the July 27, 2023 DCAC meeting, the DCAC was advised that the RFP was currently posted on the Park District's website and that the timeline and the process for scoring proposals was also posted on the website. The DCAC was informed that Finance & Management Services planned to bring a recommendation directly to the Board on September 19, 2023, bypassing the Finance Committee. The DCAC was also informed that if a transition was made, the effective transition date would likely be March 1, 2024.
- At the September 28, 2023 DCAC meeting, the DCAC was informed of the panel's recommendations. DCAC members were also advised that the RFP recommendation would be presented to the Park District's Board of Directors on October 3, 2023 and that the decision to award the contract to Empower was ultimately up to the Board of Directors.
- At the January 11, 2024 DCAC meeting, the timing of the transition from MissionSquare to Empower was discussed. It was explained that the Investment Policy Statement and proposed fund lineup would be brought to the February 6, 2024 Board of Directors meeting. The DCAC was informed that a "blackout period" would commence on February 26th during

which participants could not make changes to their investments, but deductions would continue. During the blackout period, Empower and Mission Square would work together to prepare for the transition. On March 1, 2024, the transition would be complete, but participants would not be able to access their accounts immediately. The DCAC was informed that Empower would send brochures to all Plan participants, and the Park District would share information via email and on the SharePoint portal. DCAC members were asked to assist in sharing this information with the participants that they represented.

ANALYSIS

The transition from MissionSquare (MSQ) to Empower was completed on March 1, 2024. Empower held three online trainings in the weeks following the transition to introduce features of the plan website to participants. One training was scheduled to specifically address the questions of retired Plan participants. A total of 148 participants attended the trainings. In the following two months, 41 participants signed up for online meetings with Empower Retirement Plan Advisors to review their investment portfolios. From March 1st to May 23rd the number of plan participants increased from 1,048 to 1,052. The value of 457 plan assets decreased slightly from \$144,459,000 on March 1, 2024 to \$142,241,668. Empower provides quarterly reports with comparative information regarding changes in plan participation, asset values, interaction with investment advisors and use of the plan website. These quarterly reports will be presented to the Board of Directors and to the DCAC.

Fees

The fee structure used by Empower differs from the fee structure used by MissionSquare. MissionSquare collected fees primarily through its fund lineup, and the fees being charged were not visible to Plan participants on Plan statements. MissionSquare's fund lineup charged a weighted average of .49 basis points, or .49%, of the total amount invested. By contrast, Empower charges a weighted average of 31 basis points, or .31% of the total amount invested. A basis point is a unit of measurement commonly used to describe investment fees, where one basis point is equal to 0.01% or one-hundredth of a percent. If total fees are 50 basis points, that means the annual fee is .50% of the total amount invested. The MissionSquare fund lineup charged fees ranging from .19 to 1.67 basis points with a weighted average of 49 basis points. The fees in Empower's fund lineup range from .04 to .84 with a weighted average of approximately 31 basis points. When the previous MissionSquare funds are mapped to the new Empower fund lineup, savings to Plan participants are estimated at over \$200,000 per year. This information was shared with the Board of Directors and DCAC in order to explain the savings that Plan participants would realize via the transition to Empower's fund lineup.

The RFP asked for proposers to describe the fees that would be charged under the following circumstances:

- Basis point fees charged if open architecture
- Basis point fees charged with only fixed fund lineup
- Revenue Requirement with proprietary funds
- Revenue Requirement without proprietary funds

MissionSquare's proposal included responses to these questions. However, during the interview process, when MissionSquare was asked about selecting investments outside of their standard fund lineup they noted that that this was not something they commonly provided. This would have required the Park District to hire an additional investment advisor to select the funds and provide oversight, which would add complexity and cost.

The fees charged by Empower for certain transactions are designed to encourage efficiency in the use of administrative services by participants. Plan participants are unfamiliar with these transaction fees and were unaware that MissionSquare essentially charged for its administrative costs by charging higher investment fees to all participants. A full listing of the fees charged by Empower is attached to this report as Attachment B.

Questions have arisen about the administrative fee rebate previously provided by MissionSquare. This rebate reflected the opaque way in which MissionSquare charged participant fees. MissionSquare collected higher fees than required, disbursed a percentage of that revenue to the investment companies included in the Mission Square fund lineup, and later rebated the excess revenues to Plan participants on an equal basis.

Another point of information that was revealed through the RFP proposal process was that MissionSquare's Retirement Plan Advisors receive compensation for enrolling people into MissionSquare administered funds that earn higher fees for MissionSquare. MissionSquare's proposal also noted that on-site Retirement Plan Advisors received additional compensation for increasing Managed Account enrollments.

Empower's advisory services are called "My Total Retirement." The fees for investment advice provided through Empower's "My Total Retirement" are significantly lower than the fees charged by MissionSquare for "Managed Accounts." Empower's Retirement Plan Advisors serve in a fiduciary capacity and do not receive compensation based on the funds that are selected for investment, or for enrolling Plan participants into "My Total Retirement" Accounts.

Required Minimum Distributions & Related Fees

Empower has provided the Park District with information regarding their required minimum distribution (RMD) process. RMDs are a minimum withdrawal that participants age 73+ must take from their accounts. MissionSquare provided Empower with RMD information for 31 Plan participants. Empower charges a \$50 one-time setup fee to establish an RMD and an annual fee of \$25 for RMDs with regular fixed distribution amounts. The participants who had RMDs previously on file with MissionSquare will not be subject to the \$50 setup fee. Plan participants who have reached the required RMD age of 73 and do not have RMDs on file will be contacted by Empower to begin the RMD process later this year.

Plan Advisory Services

Empower provides access to Retirement Plan Advisors for all Plan participants. Empower's Retirement Plan Advisors provide fiduciary advice, but they do not have a Certified Financial Planner (CFP) certification. Plan participants can pay an additional fee to receive CFP advisory services from Empower. CFP advisory services were available through MissionSquare without charge.

Call Center Wait Times

During the first month of the transition, Plan participants reported long delays in contacting Empower by phone, particularly leading up to Tax Day on April 15. Empower has been providing the Park District with updates on their Call Center wait times. Empower's standard of service is 80% of calls answered within the first 20 seconds. The current average call pickup time for the call center has improved from a low of 42% of calls answered in 20 seconds to the current rate of 92% of calls answered within 20 seconds. Empower provides Call Center hours on Saturdays, a feature that was not available with MissionSquare. However, call wait times on Saturday are typically longer than on weekdays.

Retiree and Plan Participant Communications

When MissionSquare served as Plan Administrator, the Park District did not maintain updated contact lists of EBRPD Retirees and separated employees. Additionally, many Plan participants had not updated their address information with MissionSquare, particularly if they had switched to receiving electronic statements. The Park District was reliant on the addresses that MissionSquare provided to Empower to communicate with these categories of participants. The Park District also funneled communications through the Retiree Association and the retiree page of the Park District's

website. In the future the Park District will be able to pull a report from Empower with the contact information of all Plan participants to share information more effectively. Human Resources has also been working on creating a listserv with retiree email addresses that will allow Benefits to send announcements when an update is made to the Retiree Information web page. It will require retirees to provide their email addresses at the webpage we created, but this will only be used to ask them to visit our website.

FISCAL IMPACT

The Park District's 457 Plan is provided as a benefit for its employees, as it provides an additional tax deferred source of saving for retirement. There are no costs to the Park District related to the Plan, aside from the staff time and Board of Director time required for Plan management. All costs and benefits of the Plan are borne by and accrue to Plan participants who are Park District employees, former employees, and retirees.

ATTACHMENTS

Attachment A – Listing of fees charged by Empower