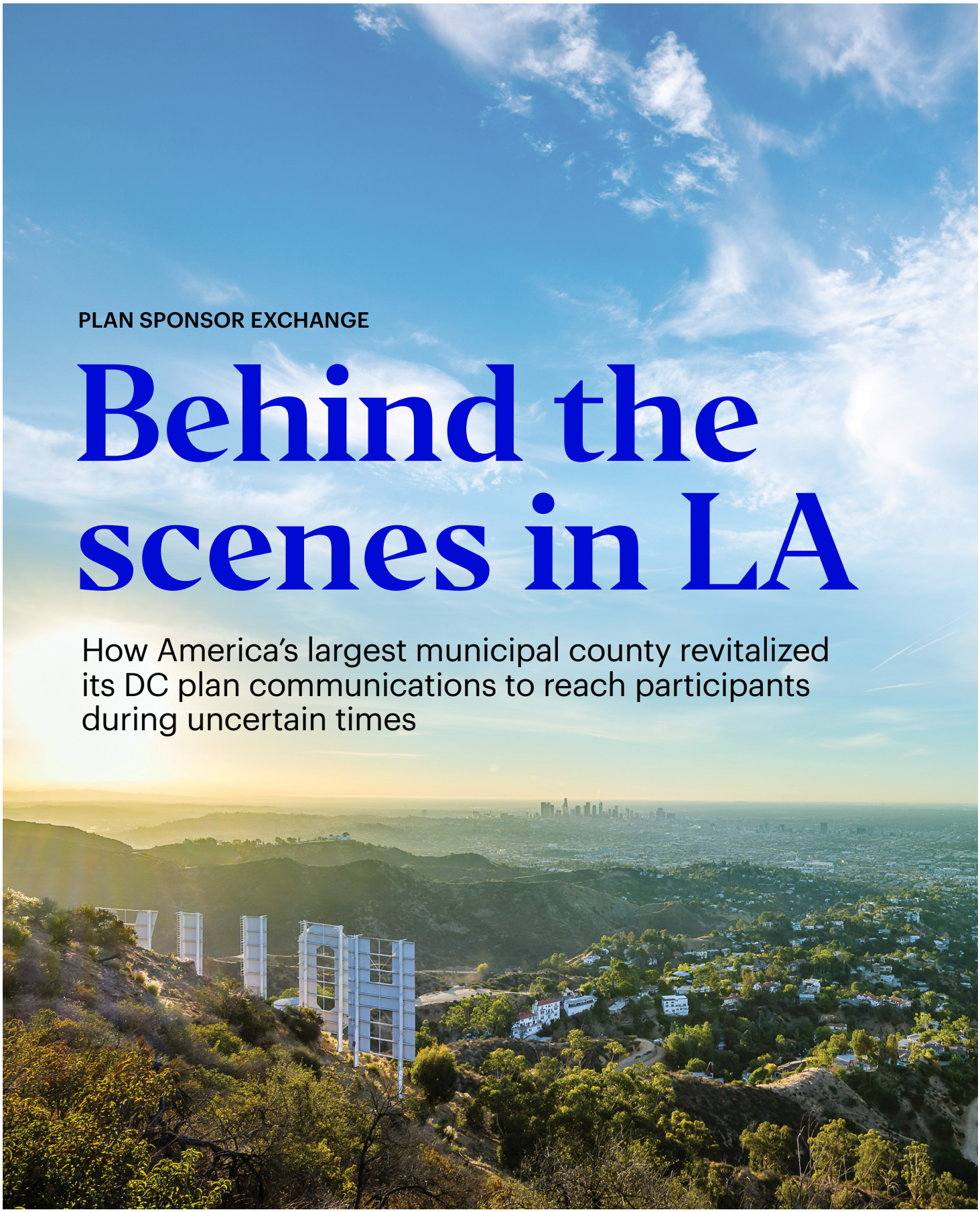
PLAN SPONSOR EXCHANGE

Behind the scenes in LA

How America's largest municipal county revitalized its DC plan communications to reach participants during uncertain times



PLAN SPONSOR EXCHANGE

Interview with Keith Knox
Mr. Knox is the Treasurer, Tax Collector and Public Administrator, appointed by the Los Angeles County Board of Supervisors. Mr. Knox is the ex-officio trustee of each of the two governing boards of the Los Angeles County Employees Retirement Association (LACERA), the Board of Retirement and Board of Investments. He also serves as the ex-officio member on the County's three Deferred Compensation Plan Administrative Committees.

County of Los Angeles Defined Contribution Plans
(as of November 30, 2021)

$20.7B
TOTAL ASSETS

135,363
TOTAL PARTICIPANTS

Shifting DC Times caught up with **Keith Knox,** Treasurer, Tax Collector and Public Administrator for the County of Los Angeles. Mr. Knox is responsible for overseeing the investments within the County of Los Angeles 457(b) Horizons and 401(k) Savings Plans. Here, he talks with us about how Los Angeles County quickly adapted to virtual communications at the start of the pandemic, the approach they take to encourage employees to stay in-plan(s) post retirement, and the plan committee's point of view on including alternatives and ESG investments in the defined contribution (DC) plans.

The most populous county in the US,[1] LA County's employees and participants are geographically spread out over the region.

[1] US Census Bureau, 2021.

Q

How has the pandemic changed the way Los Angeles County approaches the employee retirement plans, its participant communication strategy and outreach?

KNOX: The pandemic made the need for proactive engagement and adaptable communications even more pressing. Our county is quite large, with employees and participants geographically spread out over the region. In addition, we have a diverse mix of occupations — from working in an office, to health care settings, to those in the field doing construction and park management. In addition, our staff in community outreach — such as children and family services workers — visit people in their homes on a regular basis. Plan outreach efforts were tremendously impacted by the pandemic.

So, in March 2020 we launched our *Ready, Set, Communicate!* initiative, doubling down on our participant communication strategy and outreach. We pivoted to a virtual engagement model and increased the frequency and scope of communications as an efficient and targeted way to instill positive changes in participants' retirement wellness. However, some participants still prefer to meet or learn in-person. Of course, there's also a digital divide and technology is not equally accessible to everyone. So, offering both allows us to be much nimbler and more responsive to all our participants' needs.

As we always do, during any moment of crisis, we communicate with a mix of very direct, calming messages, using plain language, that assure participants of the value of taking a long-term perspective for their retirement assets. This was no different during the pandemic's market volatility and uncertainty — especially in the aftermath of the March 2020 market correction, and even today as we're facing rising interest rates. We have consistently communicated a "don't panic" message, and the importance and value of leaving your funds with the County plan options, which are "investments you know." We also reiterate that we're a resource for people when they have questions and encourage them to engage with our vast retirement education curriculum online.

The growing virtual environment has been very positive for us. Like many organizations, we've shifted from in-person services to virtual interactions, which allows participants to avail themselves of information at a time and manner that's suitable for them. Whether it's watching one of our many on-demand presentations, engaging one-on-one with a financial counselor, or getting information online, the increase in efficiency and time savings (compared to fighting Los Angeles traffic to get to a scheduled appointment) for both employees, counselors and staff has been significant, allowing all to be more productive overall in their work/life balance.

By transitioning to a virtual meeting format, events such as in-person benefits fairs and table service were replaced with invaluable educational webinars, one-on-one appointments, and phone calls. In 2020 alone, DC Retirement Plan Counselors engaged with participants across 30,996 touchpoints as part of the *Ready, Set, Communicate!* initiative. This is just one statistic from the initiative, which won a 2021 NAGDCA Leadership Recognition Award.[2] We're all proud of its success and the internal teams that drove it.

Through the county's award-winning *Ready, Set, Communicate!* initiative, LA County's DC Retirement Plan Counselors engaged with participants across over

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in 2020 alone — including virtual meetings, webinars, and phone calls.

[2] NAGDCA Leadership Awards recognize public plans making exceptional efforts to support participants during the pandemic. Leadership award categories include: participant education and communications, plan design, technology and cybersecurity, and National Retirement Security Month. Los Angeles County won in the participant education and communications category for the County's extensive participant education strategy and outreach and campaign results. Winners are selected by an Awards Committee who review and score each nomination.

"We pivoted to a virtual engagement model and increased the frequency and scope of communications as an efficient and targeted way to instill positive changes in participants' retirement wellness."

Going forward, our retirement plan team is constantly looking at how we can provide even greater value and increase access to information and support. As we continue in year three of the pandemic, we're all very accustomed to the Amazon Prime model of instant gratification: "I want it today; I want somebody to answer my question in real time. I don't want to set an appointment. I can't wait a month from now because by then I'll have moved on to something else." On top of this, people are taking a hard look at their life circumstances. The new "Great Resignation" reflects a rethinking of what people are (or are not) willing to work for anymore, and what they want in their work/life/benefits balance.

> "It's important to inform and educate participants about their ability to stay in the plan when they leave, the financial benefit of doing so and the value of the investment options available to them."

Q

Does Los Angeles County prefer participants keep their DC assets in the plan post retirement? If so, what retirement income/investment options do you offer to encourage them to stay?

KNOX: We really encourage people to stay in the plans post retirement or post separation for a couple of different reasons. First, due to our size and volumes, we offer some favorable fee structures they're unlikely to see elsewhere. Second, we have a variety of investment options participants can access. Our target date funds (TDFs) have a lot of options which are often not accessible within a DC plan structure, such as: direct real estate, commodities, infrastructure, global tactical asset allocation, and inflation protection — through Treasury inflation-protected securities (TIPS) and real assets. And when you combine the fact that we have a defined benefit (DB) plan, our TDFs can take on a higher measure of risk. And as the funds get more mature, there's a retirement income component.

Beyond TDFs, we offer nine core investment options including a bond fund, an inflation-protection fund, a stable value fund, and a bank depository fund, in addition to a self-directed brokerage account option.

To help people spend that nest egg they've accumulated, we offer many distribution options, including periodic payments, lump-sum withdrawals, partial withdrawals, and the ability to purchase an annuity contract from one of the annuity providers selected by the Plan. Our recordkeeper also helps people with their required minimum distribution (RMD) calculation when they reach the right age. This isn't always top of mind for people.

It's important to inform and educate participants about their ability to stay in the plan when they leave, the financial benefit of doing so (we really emphasize the affordability of fees) and the value of the investment options available to them.

We want to assure people they're important and valued. And just because they're leaving the County, it doesn't mean their money needs to leave the County too. So, educating participants, providing value, and demonstrating that value is our goal.

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LA County has been a pioneer on including alternatives in your target date funds. Can you walk us through your thinking behind that and the underlying philosophy?

KNOX: We're always looking for opportunities to enhance investments through diversification within our white-label funds that offer a potential benefit to Plan participants.

For us, private real estate was a great way to offer an asset that was different from equities and fixed income. It has both income-producing and inflation-protection characteristics, with less price volatility in the short term when compared to Real Estate Investment Trusts (REITs). Given these benefits, including private real estate wasn't a hard sell to the committee. They readily agreed that this was an excellent addition to the target date funds. There's a focus on rising inflation these days, and we certainly see no reason to move away from this asset class.

Q

What do you think about alternatives such as private debt, private equity, or other asset classes?

KNOX: While we generally like to take a "walk before you run" approach, we're always open to anything that provides an additional enhancement or a potential benefit from a diversification standpoint and is compatible with what we already offer. In terms of your examples, we are still monitoring their development and compatibility for the DC space.

Q

Given increasing interest in environmental, social and governance (ESG) investments, how does the County think about ESG more broadly within the DB and DC plan?

KNOX: We have a county sustainability plan that was adopted by our Board of Supervisors in 2019. For our DB plan, we talk a lot about ESG and the investment office is constantly looking at the ESG perspective.

In terms of our DC plan, we recently incorporated ESG language in our investment policy. We wanted to be mindful and remind everyone of our fiduciary responsibility to focus first and foremost on the financial benefit to our members. While we believe that companies and entities that focus on ESG issues will generally be more successful over time than not, we also want to educate our members to focus on the financial benefits to participants and not lean towards something that only aligns with our hearts and ideals. In our investment policy, we're focused on what's happening now, but we know this will change over time.

In communications with our Board of Supervisors, we've let them know this is a start. Over time, we can get more data and differentiate the potential benefit. Regarding the DC plan, we look at how the managers evaluate ESG and integrate it into their decision-making process — versus a designated ESG fund for participants. The reality is, we have over 135,000 participants and they may view ESG very differently. And their perspectives are important to us. So, we lean more on asset allocation and really have the managers focus on why they see ESG integration as important to their recommendations and decisions.

There's so much evolving. Most folks see the value of ESG. Over time, the focus will make a difference, but it's hard right now to carve out specific investments, from a fiduciary perspective. As I mentioned, we still have a self-directed brokerage option, so if a participant wants to access it on their own, they're certainly able to.

We also emphasize to participants, and focus on as a committee, our proxy voting program — which is another area where we can exert our influence as a plan.

Q

When you think of DC plans today, is there a service or capability you wish was out there for larger plans like yours?

KNOX: I think one thing that's missing overall is helping participants with a post-career plan to spend down their retirement savings as they get older, in a smart way. After years of being told to build our savings, it can be very challenging to unwind the savings and now turn it into income. We all get excited when we hit these big savings milestones (say, $10,000 if you're early in your career or $1 million if you're nearing retirement). But it's concerning to have to rewind your savings mindset, and instead, start spending down your assets — without running out of money. And what if they want to leave a legacy? Participants need a great deal of help with this issue and the industry is just getting started.

So, figuring out the post-career spend down as you get older — and making the most of what you want to spend versus what you want to leave behind — I believe, is missing.

Also, something we have, but still have a way to go, is financial wellness — the importance of savings, planning for retirement, setting goals and how to achieve those goals. It's not just about participants, but it goes back to youth in the school systems. That lifelong financial wellness and education is an area where I think we have a way to go.

One thing I'm also passionate about is getting people comfortable with engaging their money and helping to get over the fear factor of loss. Some folks don't even want to look at their portfolio. Or they only look at it once a year, which surprises me. I look at my portfolio all the time, in both up and down markets. I liken it to having kids. You don't need to watch them every second, but you generally like to know where they are, who they're spending their time with, and what they're up to. We need to help participants avoid a "head in the sand" approach.

> **"After years of being told to build our savings, it can be very challenging to unwind the savings and now turn it into income."**

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While government plans are not bound by ERISA, how do you view Department of Labor (DOL) guidance as it pertains to investments?

KNOX: We're not bound by ERISA (Employee Retirement Income Security Act), but we generally look at DOL guidance as a best practice. It's a frequent conversation topic at our committee meetings, which is helpful because our committee's approach to what we do needs to be consistent over time, especially as committee members change. We also stress ongoing, quarterly fiduciary training for our committee members. ■

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