



TITLE OF PROJECT

The City of Seattle Voluntary Deferred Compensation Plans Investment Lineup Enhancement & Recordkeeper Renegotiation

CATEGORY

Plan Design & Administration

COVID-19 RESPONSE AWARD?

Yes

PROJECT IMPLEMENTATION DATE

December 2021

PLAN ASSET SIZE

1,844,811,370

PROJECT DESCRIPTION

The City of Seattle ("City") sponsors a 457 Plan ("Plan") that supports approximately 10,700 participants. The Plan is overseen by a seven-member Committee ("Committee"). The 457 plan is voluntary and is intended to supplement the City's Defined Benefit plan. The Plan has grown significantly over the previous years benefiting from strong investment performance and boasting an average participant balance of approximately \$170,000.

In late 2020 and early 2021, the City engaged a new investment consultant for the Program. The City and the consultant team identified key initial goals to improve the plan, which included investment lineup enhancements, employee communications, and plan fee reductions. Despite the complications arising from the COVID-19 pandemic and a volatile market, the City was determined to initiate the objectives, properly evaluate the plan, make prudent decisions to improve the plan, and effectively support participants.

Cognizant of the changing and volatile environment, the Committee members were steadfast in their commitment to the Plan and, albeit virtually, maintained their bi-monthly meeting schedule discussing all pertinent information and data points to improve the plan options. By mid-2021, the Committee made the following decisions:

LARGE CAP GROWTH SIMPLIFICATION & COST SAVINGS

The Plan carried two large-cap growth options that together held approximately 20% of the plan's total assets. The Committee seized an opportunity to consolidate both funds, which were underperforming in recent years, into one low-cost large-cap growth fund. This update not only streamlined the lineup, but reduced participant fees by over \$600,000 annually. This change impacted approximately \$360 million in Program assets and presented a significant savings opportunity for participants.

SPECIAL ASSET CATEGORY

The Committee decided to remove an underutilized investment category in favor of mapping assets to a target retirement fund that provides more diversification and lower fees. After a thorough analysis of the special assets fund, the Committee noted that only 0.4% of the plan's

THE CITY OF SEATTLE
BY THE NUMBERS

10,700

Active Participants (approx.)

\$170,000

Average Participant Account Balance

\$600,000

Reduction in Participant Fees via Large
Cap Growth Fund Consolidation

\$45,000

Special Asset Fee Savings

\$145,000

Savings From Switching to CITs
From Mutual Funds

+

\$350,000

Recordkeeper Fee Reduction Savings

\$1,140,000

Total Combined Fee Reductions
(Annually)

assets were allocated to this fund. Additionally, the fund had experienced lagging performance in recent years relative to peer group and benchmark. As a result of the change, the Committee further streamlined the plan and reduced participant fees by over \$45,000 annually.

UTILIZE COLLECTIVE INVESTMENT TRUSTS (CITs) IN PLACE OF MUTUAL FUNDS

The Committee conducted a thorough cost analysis to determine if CITs would benefit employees. After review and discussion, the Committee opted to use the lower cost CIT version of their target retirement funds. At the time, the TDF mutual fund expense ratio's were 0.09% compared to the 0.065% fee for the CITs. By making the change, the Committee projected that they would save participants approximately \$145,000 annually. In addition to the cost saving actions taken, the Committee partnered with the consultant and Recordkeeper to launch a communication campaign that included branded communication pieces and live webinars with Q&A.

In addition to the investment actions that the Committee took in 2021, they also underwent a renegotiation with their recordkeeper, which resulted in further fee reductions for their asset-based fee and extended the contract of the recordkeeper for three years. In addition, as part of the renegotiation the Recordkeeper agreed to enhance service level commitments. The fee reduction is projected to result in a savings of approximately \$350,000 annually.

During 2021, the Committee was able to perform its assigned duties when complying with public health guidance that restricted how, where, and when business could be conducted. The actions taken by the Committee provided significant benefits to the plan participants and demonstrates the value of an engaged and active Committee. These updates are summarized below:

- 21% reduction in investment and recordkeeping fees.
- Fee reduction equates to approximately \$1.1 million savings per year.
- Streamline investment offerings in the lineup.
- Replace underperforming investment options.
- Initiate campaign to support participants through branded material, webinars, and one-on-one education.
- Update investment policy statement.
- Successfully transition and provide fiduciary education to three new Committee members.

SUMMARY

Despite the challenges, market volatility, and limiting conditions presented in 2021, the City of Seattle Trust Committee was resolute to improve their 457 Deferred Compensation plan by establishing key initiatives, thoroughly evaluating options, and implementing changes to improve the participants standing. As a result of the Committee's actions, participants will save approximately \$1.14mm in gross costs annually across the plan. Participants will also benefit from a more streamlined and customized investment line-up. Additionally, the City continued to ensure strong governance is a cornerstone of the Committee by preparing and equipping new Committee members with fiduciary training sessions.

FEASIBILITY FOR OTHER PLAN SPONSORS

The City of Seattle Trust Committee encourages all agencies to revisit their investment offerings to continually check whether lower-cost versions of your investment offerings exist. Using the lowest cost version of each investment offering can potentially save a significant amount for participants and their beneficiaries. Additionally, the Committee encourages agencies to monitor fund usage and identify low-utilized investment offerings. Streamlining the investment offerings can simplify the decision-making process for participants and encourage participation. Finally, the Committee encourages agencies to check the marketplace at least every five to seven years to ensure your recordkeeping fees are competitive. Asset size does not matter. All agencies can benefit from evaluating your Plan costs relative to your peers. In fact, NAGDCA has several resources available including the [NAGDCA Benchmarking Portal](#). In addition, the Committee encourages other Plan Sponsors to “sell” their Plan strength to the marketplace. Focus on healthy data and important features. Below are several areas to focus on:

- **Strong participation rates.**
- **Plan design features, such as auto-enrollment.**
- **Strong annual cash flow.**
- **High average account balance.**
- **Low or reasonable levels of loans.**
- **Engaged committee & well documented decision making process.**

The City of Seattle Trust Committee proudly submits this nomination for your consideration and is hopeful that other cities, counties, and agencies will benefit from the steps taken to improve the plan on behalf of participants.

IN THEIR OWN WORDS

We are excited to have offered these improvements to our plan participants. We pride ourselves in building an effective and impactful retirement benefit to those who are part of the City's plan. Our Committee works to ensure that our Defined Contribution Plan remain in the top tier in terms of service, technology, security, and low fees. – MICHELLE ELL, DEFERRED COMPENSATION MANAGER

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INDUSTRY PARTNERS

Hyas Group, Nationwide Financial