Chicago Public Schools – NAGDCA Award Application

Project Summary

Plan Profile – Chicago Public Schools ("CPS") is the third-largest school district in the United States, and the largest in the State of Illinois, operating approximately 636 schools–including district-run, charter, and contract—with combined enrollment of approximately 330,000 students and approximately 40,000 employees. Employee benefits offered by CPS include a 403(b) Plan and a 457(b) Plan. As of April 2022, total 403(b) Plan assets were approximately $1.89 billion, and 457(b) plan assets were approximately $108 million. Overall, over 38,000 current and former employees have accounts in one or both Plans. Investment advisory services are provided by RVK, Inc.; conflict of interest structures and sales practice review services are provided by RetireAware; and, recordkeeping and administration services are provided by AIG Retirement Services.

Background Information – In 2020, CPS began working on a Request for Proposal ("RFP") process to explore consolidating to a single provider for recordkeeping and third-party administration services for the Plans leveraging an open architecture mutual fund-based investment lineup. Like many other K-12 school districts, CPS' 403(b) and 457(b) plans had historically operated in a multi-vendor environment, successfully reduce the number of active vendors. At the time the RFP process began, CPS had two active annuity providers and one active mutual fund provider, along with several inactive providers. The RFP was prompted by concerns that the existing multi-vendor environment led to vendors operating with a sales and commission-oriented approach rather than CPS driving an effective communication and education program in line with the organization's other wellness programs. There were also concerns regarding the potential for cross-selling of non-plan products and services to participants that might divert money otherwise meant for increasing contribution rates. Operating with multiple vendors also presented administrative complexities for CPS HR Staff. CPS also believed that a single-vendor structure would prove to be more cost effective than the existing multi-vendor structure.

Goals – The goals of the RFP process were to help participants achieve retirement readiness and financial wellness; provide non-conflicted retirement education; streamline administrative processes; and, ensure transparent and best-value pricing for both investment management fees and recordkeeping and administration fees.

In their own words – *We are very happy with our transition to a single active recordkeeping and administrative services provider for our 403(b) and 457(b) Plans. The change has been well received by our employees, who are better able to understand their benefits, have lower fees, and are able to more effectively save for retirement.* – Karla Kirkling, Executive Director of Healthcare & Benefits, Talent Office, Chicago Public Schools

Written Justification

1. **Detailed description of the project (timeline, significance of the improvement to the operation of the plan, examples (e.g., images, screenshots, etc.)**

Recordkeeper RFP Process

The RFP process began in 2020. The RFP indicated that CPS' goal was to select a single vendor to provide recordkeeping and third-party administration services for both the 403(b) and 457(b) Plans with an open architecture, mutual fund-based investment lineup. The RFP included minimum qualifications to ensure qualified responses within a public procurement; a detailed description of key characteristics of the Plans for which services were being sought; a detailed scope of services; an extensive technical questionnaire; and, a fee proposal template designed to produce comparable price proposals. Respondents were asked to provide fee proposals under two scenarios: (1) assuming the mapping of existing deferral rates only (no mapping of existing account balances) and (2) assuming the mapping of existing deferral rates and all existing account balances held in group contracts at current and recent legacy providers.

The RFP was issued in March 2021, with responses received from qualified respondents in April 2021. An Evaluation Group comprised of individuals representing various CPS departments reviewed and scored the responses, leveraging analysis and subject matter expertise from consultants. Finalists were selected, and interviews were held in June 2021. In July 2021, the Evaluation Group selected AIG Retirement Services as the single vendor. Once the selection decision was finalized, implementation activities with the selected vendor began.

Significance: The RFP was designed to address CPS' administrative needs as well as communication and engagement goals, including a requirement that the selected provider only provide education while seeking to eliminate where possible, and otherwise mitigating, potential conflicts of interest. Responses also included multiple fee proposals with scenarios that contemplated different usage levels of proprietary investment management offerings (e.g., no usage, implementation of target date funds, implementation of a fixed account, and implementation of both), allowing CPS to ensure competitive and comparable option-based pricing for all services. In addition, the Evaluation Group documented through the RFP process that a single vendor could more effectively coordinate with CPS to ensure appropriate coverage of all CPS locations and that retirement education could be harmonized with other benefits topics, benefiting participants through a more focused and holistic approach to benefits education activities.

Investment Platform and Investment Lineup Changes

Once the recordkeeper search was completed, CPS worked with RVK on the investment lineup with RVK performing investment manager search and selection activities and providing CPS with a recommendation for mutual funds to be made available to participants on the new single vendor platform. With the transition, CPS was switching from having two annuity platforms and one mutual fund platform to offering participants a single institutionally priced mutual fund platform for new contributions.

RVK first worked with CPS to identify an investment menu structure aligned with best practices that would meet the needs of participants. It was determined that the lineup would be streamlined (to avoid "choice overload" for participants); diversified (providing broad asset class exposure to allow participants to focus on asset allocation decisions); and, cost effective (recognizing that controlling plan fees plays an important role in helping participants create successful outcomes). The lineup was structured with different tiers for different types of investors including both "do it for me" investors who were offered target date funds as a default option and "do it with me" investors who were offered a mix of active and passive investment options by asset class.

Following the finalization of the investment menu structure, RVK conducted searches on behalf of CPS for available mutual funds. Efforts were made to focus on institutionally priced investment options that avoided the inclusion of revenue sharing payments in order to provide a low, reasonable, and transparent investment menu for participants. CPS then selected the final investment lineup, which was shared with participants as part of the recordkeeper implementation process.

Significance: With the new investment lineup, CPS was able to select high quality investment managers providing funds at reasonable costs. Fund expense ratios ranged from 0.04% to 0.77%. Overall, average annual account fees (including average investment expense ratios and recordkeeping and administration fees) were estimated to be lower on the new mutual fund platform than any of the legacy platforms (including average investment expense ratios, mortality & expense charges, and recordkeeping and administration fees). The approximate fee reduction for a $50,000 account was estimated to be $177 - $492 annually, while a $100,000 account was expected to save $372 - $1,012 annually.

Transition to a New Single Recordkeeper

CPS recognized that transitioning to a single recordkeeping vendor represented a very significant change for participants, all of whom would be transitioning to a new investment platform. At the beginning of the implementation process, CPS, collaborating with its consultants, determined that only existing deferral rates would transition to the new platform (rather than account balances). This determination recognized the need to give participants a choice with how to treat existing balances, which may have had assets subject to surrender fees or which may have benefitted from comparatively high guaranteed minimum withdrawal benefits. CPS communicated an established window of time prior to the transition during which participants were requested to determine (or affirm) their deferral rate effective January 1, 2022 in tandem with making their new investment elections. A clear communication was provided that specified that any participants who did not establish new investment elections would have all new contributions invested in a designated age-appropriate target date fund. CPS also decided to combine the transition with the implementation of a Roth contribution feature that would allow participants an additional way to save for retirement.

CPS worked with its selected recordkeeping vendor and consultants to establish an implementation timeframe and process that would allow for contracting, administrative setup, and participant communications to take place in an effective and timely manner. An implementation date of January 1, 2022 was targeted during initial implementation discussions.

CPS recognized early on that clear and comprehensive communication to employees, including retired employees with a balance in the Plans, and other stakeholders was an essential part of the implementation process. In addition to working with the selected recordkeeping vendor, CPS partnered with an external communications firm, Jasculca Terman Strategic Communications, to help develop communications materials to be used throughout the transition.

A proactive communication program was prepared ahead of the implementation. Transition communications provided to participants included an initial announcement letter, a transition guide, a transition microsite, and a series of webinars. The goals of the communications program were to: ensure that participants understood the benefits of saving for retirement through a 403(b) or 457(b) plan; review why the plans were redesigned to move towards a single-vendor structure; explain the new Roth contribution feature, new investment options, and differences between mutual funds and annuities; provide instructions for participants to set up an account on the new platform, make changes to the deferral rate, and transfer existing balances if desired; and, inform participants how to request additional assistance from a recordkeeper representative. Samples of the communication materials are provided below:

Significance: The transition occurred with very positive feedback from participants. Thirty-one transition webinars were conducted, attended by over 1,100 participants. Participants were surveyed afterwards and asked to rate on a scale of 1-5 (5 being the highest) their confidence in being able to plan for retirement after attending the workshop—the average score was 4.11, indicating that the webinars were very helpful. Representatives conducted an additional 1,600 one-on-one educational meetings with participants.

Roth Implementation

CPS also used the recordkeeper transition as an opportunity to implement a Roth contribution feature for both the 403(b) and 457(b) Plans. The Roth feature gives participants the ability to defer on an after-tax basis and receive non-taxable withdrawals in retirement. Implementing a Roth contribution feature required additional coordination with CPS' HR, payroll, and information technology teams to ensure that the contributions were deducted from employees' paychecks appropriately.

From a communications perspective, efforts also had to be made to ensure that participants understood the Roth feature. Webinars prior to and after the transition explained to participants the implications of contributing on a Roth basis compared to the more familiar traditional pre-tax contributions.

Significance: In the months following the implementation, Roth contributions have been steadily growing in popularity among participants. For the month of January 2022, Roth contributions consisted of 2.7% of contributions to the Plans, and by March 2022, they consisted of 3.6% of contributions. CPS is planning additional education to help participants understand the Roth feature and determine if it may be appropriate to help them reach their retirement savings goals.

2. Results – key outcomes and measurable benefits (i.e., KPIs)

Based on CPS' goals and objectives for the RFP process and recordkeeping vendor consolidation project, the project was successful in achieving its goals with the following key outcomes and measurable benefits.

- **Better controlling plan fees and improving transparency:**
    - The RFP process was successfully performed and facilitated the documentation of a new contract structure based on competitive and transparent fee proposals in response to the desired scope of services.
    - CPS selected institutionally priced investment options that are all institutional share classes of mutual funds, avoiding less transparent revenue sharing models, while continuing to provide participants access to a fixed account with a competitive crediting rate and less restrictions than prior products.
    - The website 403bwise.org gave the CPS 403(b) Plan an A rating as a result of this transition due to the reduced fees.

- **Reducing overall plan costs (and passing along those savings to participants):**
  - CPS' review of RFP fee proposals documented that a single vendor structure was more cost effective than any of the existing options in the multi-vendor structure.
  - The Plans' new investment option fees range from 0.04% to 0.77%.
  - The approximate fee reduction for a $50,000 account was estimated to be $177 - $492 annually, while a $100,000 account was expected to save $372 - $1,012 annually.
- **Offering a simple, yet diversified, investment menu:**
  - The Committee implemented a tiered investment menu, including:
    - Tier 1: A series of target date funds
    - Tier 2: Four passive asset class funds
    - Tier 3: Eight active asset class funds
- **Increasing and easing the coordination and quality of participant education**
  - CPS has worked and is continuing to work with the selected recordkeeping vendor to develop and maintain an ongoing coordinated communication and engagement plan.
  - Legacy vendors are no longer allowed at the school locations.
- **Simplifying information flows and reducing plan complexity while adding plan features:**
  - All payroll and administrative duties are now coordinated through one vendor – dramatically simplifying plan administrative complexity.
  - This project also offered CPS a natural opportunity to implement a Roth contribution feature, which was successfully implemented and has been well received by participants.
  - A simplified enrollment process was established that offers participants the ability to execute a single enrollment online or through a phone or onsite representative (previously, participants had to enroll through the common remitter as well as their selected vendor using paper forms).
  - A significant enhancement to the coordination and collaboration between CPS and the vendor on participant engagement activities, reporting, and monitoring. Previously CPS had little insight into overall plan participation and savings due to the challenges of reconciling data among the different vendors.

3. Feasibility of use by other governments of a similar size

There are many K-12 school districts, as well as some other government entities, still operating in a multi-vendor environment. Plan sponsors that still operate in a multi-vendor structure may find consolidating vendors to be intimidating or unreasonably challenging. Plan sponsors may fear negative participant feedback from taking away "their" vendor representative, even if the overall retirement saving experience and cost structure has been enhanced by the consolidation. Plan sponsors may also be cautious about transitioning participants from an annuity-based platform to a mutual fund platform, even if the mutual fund platform has lower fees.

CPS' recordkeeping consolidation project provides a blueprint that other similarly situated plan sponsors can follow. The process demonstrated that, if effectively communicated, participants will be able to recognize the value of moving to a single vendor structure, and that such a project can result in more effective communications, simpler administration, and reduced overall plan costs.

If the industry standards for K-12 school districts were better aligned with the best practices followed by other governmental organizations, we would likely see improved cost efficiency, higher participation rates, and better retirement outcomes for employees within the K-12 school district systems. We can help other plans move in that direction by providing plan sponsors with a blueprint and process to help them achieve their goals.