

COUNTY OF MILWAUKEE
Inter-Office Communication

Date: August 18, 2023

To: Marcelia Nicholson, Chairwoman, Milwaukee County Board of Supervisors

From: Select Committee on Deferred Compensation

Members: Erika Bronikowski, Director, Retirement Plan Services
Steve Cady, Research and Policy Director, Office of the Comptroller
Jennifer Folliard, Director of Audits, Office of the Comptroller
Joe Lamers, Director, Office of Strategy, Budget and Performance
Judd Taback, Assistant Corporation Counsel, Office of Corporation Counsel

Subject: From the Select Committee on Deferred Compensation, requesting authorization to implement automatic enrollment and automatic escalation into the County's 457(b) Deferred Compensation Plan for most employees beginning in 2024

File Type: Action Report

REQUEST

The Select Committee on Deferred Compensation is requesting policymaker approval to enact an automatic enrollment and automatic escalation provision in the County's 457(b) Deferred Compensation plan for most employees, with the ability to opt out, effective pay period two 2024, beginning January 7, 2024. Authority is also requested to create an interest-bearing trust fund account to hold a not-to-exceed amount of \$20,000 of Plan participant administrative fee revenue to help communicate the program to employees and any other Plan approved expenses.

BACKGROUND

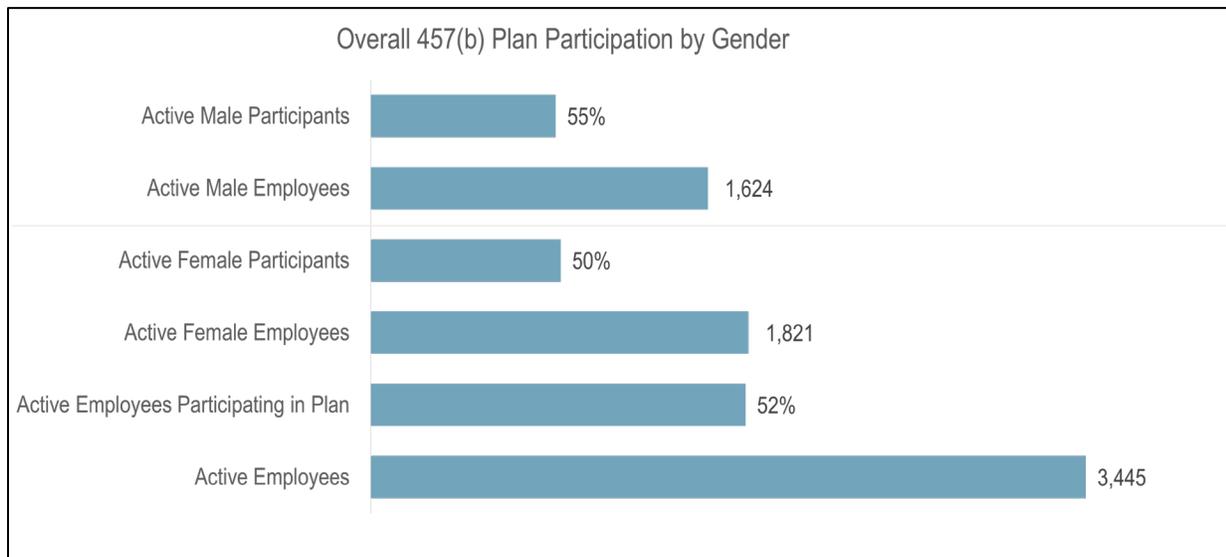
The Milwaukee County 457(b) Plan of deferred compensation ("Plan") was created in 1984 to provide a voluntary, supplemental vehicle for employees to save for retirement. The 457(b) plan is similar to other participant-directed defined contribution retirement plans, such as a 401(k) plan, but is geared toward public sector employees. A *defined benefit* plan (Milwaukee County's Employees' Retirement System) specifies exactly how much retirement income employees will get once they retire. A *defined contribution* plan only specifies what the employer and employee contribute to an employee's retirement account. The County 457(b) Plan is 100 percent employee funded and is administered through participant fees and is not provided any tax levy support. The Plan is governed by the Internal Revenue Code, including limits on annual contributions, and is administered to comply with applicable laws and regulations.

The Select Committee on Deferred Compensation (“SCDC”) was created to “...have supervisory authority and shall be responsible for all discretionary decisions in the administration of the plan.” The SCDC, with the approval of the County Board of Supervisors, retains Empower Retirement as a third-party administrator which includes helping educate plan participants on investment and financial wellness decisions. The SCDC also retains an independent investment consultant, R.V. Kuhns & Associates, Inc. (“RVK”) to assist in monitoring the investment offerings and help the Committee perform its fiduciary oversight responsibilities.

Plan participants can save by either deferring pre-tax earnings and/or post-tax (Roth) funds from their paychecks. Plan participants have options to choose an investment portfolio that matches their risk tolerance including free investment guidance and fee-based managed account services. A popular option are the series of target date funds which are mutual funds that automatically adjust the asset mix and allocation over a time period that is based on the participant’s age and when they wish to retire. More information can be found on the Plan’s website at: www.MilwaukeeCounty457.com.

CURRENT 457(b) PLAN PARTICIPATION

The chart below reflects a snapshot of the Plan participation as of June 1, 2023. It excludes seasonal employees.

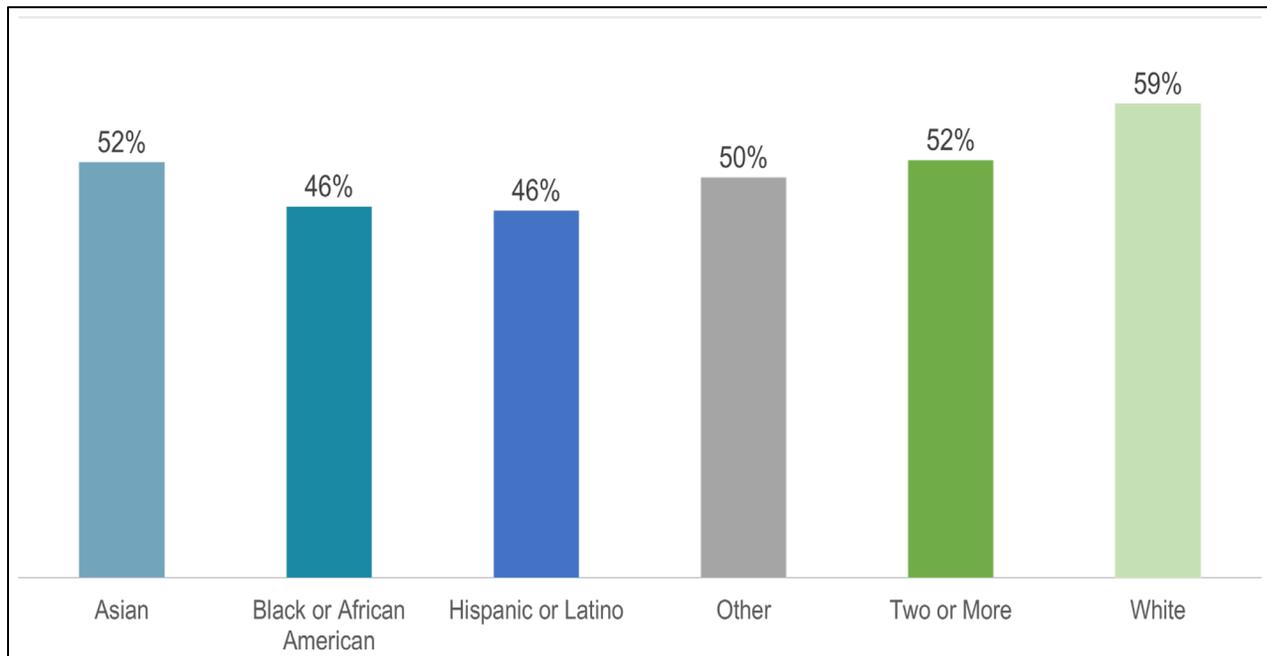


Key takeaways from the above chart:

- Of the 3,445 filled (non-seasonal) positions, approximately 1,791, or 52%, are participating in the Plan. (The Plan has approximately 4,060 participants with 2,235 participants separated/retired from the County; 35 are participating in the Plan as a seasonal position.)

- Males participate in the Plan at a higher rate (55%) than females (50%).

An examination of the Plan participation rate by race is shown in the chart below.



Key takeaways from the above chart:

- The overall Plan participation rate for active employees is 52% (Chart one)
- Black or African American and Hispanic or Latino participate in the Plan at a much lower rate (46%) compared with white employees (59%).

AUTOMATIC ENROLLMENT & AUTOMATIC ESCALATION

Automatic enrollment (“auto-enrollment”) and automatic escalation (“auto-escalation”) are retirement plan features that are becoming increasingly common as employers encourage and help employees to accumulate retirement savings. Auto-enrollment allows an employer to automatically deduct elective deferrals from an employee's wages unless the employee makes an election not to contribute or to contribute a different amount. Auto-escalation automatically increases an employee's deferral rates to their retirement savings at set intervals until it hits the maximum contribution rate. **The employee has the opportunity to decline the enrollment or deferral escalation by opting out within a defined period.**

In December 2022, Congress passed the Securing a Strong Retirement Act of 2022 (Secure 2.0) which, beginning in 2025, requires all *new* 401(k) and 403(b) plans to automatically enroll new employees at an initial contribution amount between three and 10%. The amount will increase by one percentage each year until it reaches 10-15%.

While this provision does not apply to governmental 457(b) plans, it does highlight the growing recognition that auto-enrollment and auto-escalation features in retirement plans produce better outcomes for employees, especially lower wage earners.

RECOMMENDATION TO IMPLEMENT AUTO-ENROLLMENT & AUTO-ESCALATION

The SCDC is recommending Milwaukee County authorize auto-enroll and auto-escalation features for the 457(b) Plan of Deferred Compensation beginning in 2024. This includes:

- ✓ Auto-enroll current and new employees into the Plan at a deferral rate of 3% of salary. This includes employees not participating in the Plan or currently contributing less than 3% of pay.
- ✓ Annually, re-enroll employees contributing zero to 2% at the 3% amount.
- ✓ Auto-escalate deferrals by 1% of salary each year beginning in January 2025 on the employee's auto-enroll anniversary date to a maximum of 6%. These dates will vary depending on date of hire.
- ✓ Provide a 60-day opt out period for employees to decline the auto-enrollment into the Plan or auto-escalation of deferrals.
- ✓ Provide a 90-day permissible withdrawal from date of deposit of any deferrals that were made through auto-enrollment or auto-escalation which the participant did not wish to occur.

ELIGIBILITY

All Milwaukee County employees would be included in the auto-enrollment and auto-escalation **except for the following**:

- ✓ Seasonal, Hourly, and Intern positions that are not fringe benefit eligible. (Note: these positions are still eligible to participate in the Plan)
- ✓ Represented employees, including:
 - Association of Milwaukee County Attorneys (AMCA)
 - International Association of Fire Fighters (IAFF)
 - Milwaukee Building and Construction Trades Council (MBTC)
 - Milwaukee Deputy Sheriffs' Association (MDSA)
 - Technicians, Engineers and Architects of Milwaukee County (TEAMCO)

IMPLEMENTATION

Existing employees:

- ✓ Will receive a notification (email and letter) by November 13, 2023, they are being auto-enrolled into the Plan.
 - Affected employees will have until January 18, 2024, to opt out, therefore providing the 60-day opt out period.
 - On January 19, 2024, Empower Retirement will send a file to the County (Payroll Division) including anyone who has not opted out.
 - The County would begin deferrals with the January 26, 2024, paycheck. (Pay Period 2)
 - For participants who do not specify how the money should be invested, the Plan's Qualified Default Investment Alternative (QDIA) are the Vanguard Target Date Funds; the specific one will be based on when the participant turns 65.
 - Participant would have up to 90 days from January 26, 2024, to request a withdrawal of auto-enrolled dollars (adjusted for market gains/losses) if they missed the opt out period.

Any new hires will be afforded the same 60-day opt out period before enrollment in the Plan at 3% would begin and 90-day permissible withdrawal from date of deposit of any deferrals that were made through auto-enrollment or auto-escalation which the participant did not wish to occur. The process to opt out of the auto-enrollment initiative is easy and participants can either log into their account on the website (www.MilwaukeeCounty457.com) or calling Empower and speaking to a representative.

Beginning in January 2025, auto-escalation would begin for those auto-enrolled in January 2024. Other employees hired after the initial enrollment will have unique anniversary dates based on their initial enrollment into the Plan.

A communication plan is being developed that will include a letter from the SCDC, emails, newsletter updates, website notifications, workplace posters, and information packets included with all new hires. In addition, the onsite representatives from Empower will be holding group meetings at various locations to explain the changes and answer questions about the Plan and/or auto-enrollment and future auto-escalations of deferrals.

ACHIEVING RACIAL AND GENDER EQUITY BY HELPING TO CLOSE THE GAPS IN FINANCIAL DISPARITY

Many financial professionals say employees need at least 80% of their pre-retirement earnings to comfortably maintain their pre-retirement standard of living. Milwaukee County's pension covers approximately 16% of pay for every ten years of service, while Social Security may replace approximately 20% to 45% of earnings. Personal savings like 457(b) plan assets need to make up the rest.

As shown in the chart on page three, Black or African American and Hispanic or Latino participate in the County's 457(b) Plan at a much lower rate (46%) compared with white employees (59%). Women also participate in the Plan at a lower rate (50%) than male employees (55%). These metrics lead to racial and gender disparities in the number of people that will have financial security at retirement. Improving financial wellness is a critical factor in improving the overall health of an individual, which Milwaukee County strives to do as part of its mission.

CITY OF MILWAUKEE EXPERIENCE

The City of Milwaukee implemented auto-enrollment in late 2016 and has dramatically improved the overall participation rates of employees (non-union) from approximately 63% to 89%. The City of Milwaukee also saw these improvements since the implementation of auto-enrollment in 2016:

- Participation in the Plan among women jumped from 66% to 89%
 - The average savings deferral rate among women rose from 5% to 6.3%
- Black employees' participation in the Plan grew from 62% to 87%
 - The average savings deferral rate increased from 4% to 5.6%
- Latino employees' participation in the Plan improved from 69% to 87%
 - The average savings deferral rate advanced from 5.1% to 7%

The City of Milwaukee has an overall employee participation rate of 89% compared to 52% for the County largely due to the implementation of automatic enrollment in 2016. This results in better financial outcomes, on balance, for City workers who have more assets to fund their retirement. Automatic enrollment has also reduced the participation and saving disparities for employees of color.

Interest Bearing Trust Fund

Empower Retirement manages the administrative fee revenue collected from participants on behalf of the Milwaukee County Plan of Deferred Compensation and processes payment requests for Plan approved expenses. If approved, the Plan will be incurring expenses for participant communications this fall that would be easier to administer if payments could be processed by Accounts Payable from a County trust account. Authority is requested to allow the creation of an interest-bearing trust account to hold no more than \$20,000 in administrative fee revenue to pay Plan expenses approved by the Select Committee and in accordance with IRS guidelines.

ALIGNMENT TO STRATEGIC PLAN

Describe how the item aligns to the objectives in the [strategic plan](#):

1A: Reflect the full diversity of the County at every level of County government

- 1B: Create and nurture an inclusive culture across County government
- 2C: Apply a racial equity lens to all decisions
- 3A: Invest “upstream” to address root causes of health disparities
- 3B: Enhance the County’s fiscal health and sustainability
- 3C: Dismantle barriers to diverse and inclusive communities

The implementation of automatic enrollment/automatic escalation in the County’s voluntary Plan of Deferred Compensation will align with numerous provisions of the County’s strategic plan, as identified above. The Select Committee used a racial equity lens to determine that participants, especially employees of color, are not participating in the Plan, which leads to disparate outcomes in retirement readiness and fiscal health. The Select Committee will be measuring the changes in employee participation and expect to report significant gains amongst employees of color based on experiences from other entities that have implemented the automatic enrollment feature to their 457(b) Plan.

FISCAL EFFECT

There is no fiscal impact to Milwaukee County as any expenses to administer the program will be paid from administrative revenue collected from Plan participants. There are no public funds used to operate the Plan.

VIRTUAL MEETING INVITES

- Stephen.Cady@milwaukeecountywi.gov
- Emily.Lockwood@Empower.com
- Kathy.Castle@Empower.com
- Tony.Johnson@rvkinc.com
- Pete.Madrid@rvkinc.com
- jculotti@reinhartlaw.com

PREPARED BY:

Stephen J. Cady, Select Committee on Deferred Compensation

APPROVED BY:

Select Committee on Deferred Compensation

ATTACHMENTS:

Report, Resolution, Fiscal Note, and PowerPoint

- cc: Kelly Bablitch, Chief of Staff, Milwaukee County Board of Supervisors
Janelle M. Jensen, Legislative Services Division Manager, Office of the County Clerk
Margo Franklin, Chief Human Resources Officer, Department of Human Resources