Dear Deferred Compensation Plan Participant,

A year ago the Board of Police Commissioners appointed a new Deferred Compensation Committee. The Committee has been meeting monthly to learn more about our existing Deferred Compensation program, which is administered by Voya, and to learn more about how other plans our size administer their Deferred Compensation programs. The Committee members act as plan fiduciaries and our job is to act in the best interest of the plan and its participants. Here are some of the things the Committee has learned that we think should be shared with program participants:

- There are 1,650 participants (both active and retired KCPD employees) with deferred compensation accounts through Voya with assets of $138 million. Voya manages both the administration and investments for our plan. The plan administrator is also the record keeper and maintains participant account information. In addition the plan administrator processes participant investment transactions, provides quarterly participant investment statements, provides participant education programs, and maintains a plan website that allows participants to access their plan and account information. The KCPD Deferred Compensation program was established in July of 1980 with Aetna, who later became ING and now Voya. Since then, the contract has never been bid out or renegotiated.

- Most plans our size use an outside consultant to advise the Deferred Compensation Committee on the investment options in the plan and to provide oversight of the plan administrator. In February 2018, the KCPD contracted with the Hyas Group to serve as the consultant to the Committee.

- The Hyas Group has analyzed our contract with Voya and found that its form and fee structure are outdated. The fees participants pay, for both administration and managing the investments, are significantly higher than other current Deferred Compensation program contracts similar to ours. The structure of our current contract became obsolete over 20 years ago.

- On an annual basis, the participants in our plan pay $450,000 (or 0.31% of your account balance) for administration and record keeping services. Participants do not see those fees on their quarterly statements because they are deducted prior to the balance showing their account gain/loss. A review of 19 recent contracts for plans our size, show that administration costs average approximately $130,500 annually.

- The fee structure on our investments is more expensive than peer programs. We currently operate under a revenue sharing plan where the funds we invest in charge a fee and then rebate a portion of that fee back to Voya. For example, the total fees for investments in the Fidelity VIP Contrafund are 0.63%. Fidelity's management fee is 0.42% of the total fee and the fund revenue share, paid to Voya, is 0.21% of the total fee.

- Today, most plans charge a per participant fee, which is shown on the quarterly statement, and that fee is used to pay for plan expenses such as plan administration, record keeping, the website, and participant education. The investment funds also charge a fee, which is calculated as a percentage fee and may include a revenue sharing option. The difference is the revenue sharing goes back to the plan to pay expenses rather than to the plan administrator or investment manager. With our current investment menu, the total annual investment fees paid by participants are approximately $900,000 per year. Of that total, about half is kept by the investment manager and the other half is rebated back to Voya.

All of this information has led the Deferred Compensation Committee to conclude that it is well past time to restructure our deferred compensation program. All of our peer programs have unbundled the plan administration from the investment management. They have bid out the plan administration and record keeping services, identified well known and respected investment managers with much lower fee structures, required the plan administrator to serve as a fiduciary, constructed on-site and web based retirement saving education programs, and provided access to certified financial planners who help participants construct appropriate investment plans.

As we talk about restructuring the KCPD deferred compensation program, two issues quickly dominate the discussion:

- First, is the Voya Fixed account, which currently pays 4% interest. We have 1,030 participants who have invested $55.2 million in that fund. Obviously this is a low-risk and an important investment tool for our participants.

- Secondly, our contract has deferred sales charges for investments by newer participants that have not been in the program for at least five years. The current amount of deferred sales charges that would be due to Voya if we move from Voya to a new plan administrator is approximately $205,000.

In January, the Deferred Compensation Committee determined that we needed to issue a Request for Proposal (RFP) for plan administration services and to unbundle the investment menu from the plan administrator. The Hyas Group recommended an interim step, which the Committee endorsed, to go back to Voya and ask them to propose a one-year contract which would give us their current contract and fee structure, allow us to unbundle investments, eliminate deferred sales charges by the end of the one-year contract, continue the 4% fixed account, and replace the local Voya staff with certified financial planners. A one-year deferral of the RFP process would give the Committee time to prepare an RFP and also allow us to see how Voya would perform under a more current contract and program structure.

Voya responded with proposals for 3-year, 5-year, or 7-year contracts. For the 3-year contract, the administration cost would have been reduced from $450,000 to $177,000, the deferred sales charges would be eliminated at the end of three years, and the fixed account interest rate would be set at 3% for years 1 and 2 of the contract and then at the current credit rate in year 3. (The current credit rate is about 1.75 %.)

The Committee reviewed the Voya proposals and determined that even with the proposed fee reduction; the proposal was still tilted too much in Voya's favor to the financial detriment of our participants. We have issued an RFP through the Hyas Group for a plan administrator and record keeper. Voya will certainly be eligible to respond to the RFP. We expect the RFP process to be completed in September 2018 and will schedule informational meetings for all participants, including retirees, in October regarding the RFPs received.

Later this year, the Hyas Group will assist the Committee in selecting a portfolio of investment funds that are appropriate for our plan participants and have a more reasonable fee structure. Following industry standards and best practices, the Committee will likely reduce the number of investment funds from the current portfolio of more than 40 funds to a more manageable portfolio of approximately 20 funds.

We recognize this update will likely generate many questions from program participants. To help provide additional information about what we have learned and why the Committee is proceeding with the RFP process we have scheduled information sessions on:

- April 18th at 1800 hours at FOP Lodge 99, 527 W. 39th Street
- April 24th at 1000 hours and 1830 hours at the Regional Police Academy, 6885 N.E. Pleasant Valley Road
- April 25th at 1300 hours at Police Headquarters, 1125 Locust (1st floor Board Room)
- April 25th at 1000 hours and 1830 hours at South Patrol Division, 9701 Marion Park Drive (SPD Community Room).

In the meantime, if you have any questions for any of the Deferred Compensation Committee members, our email addresses and phone numbers are listed below:

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