

National Association of Government Defined Contribution Administrators (NAGDCA)
Annual Conference
September 27-30, 2015 – Indianapolis, IN

Thank you for the opportunity to attend the NAGDCA annual conference this year. This was the first time I have attended NAGDCA and I was pleasantly surprised about how beneficial the conference was despite having such a large audience and strong vendor presence. The sessions I attended were interesting and relevant to MPERA and it was helpful to learn how other plans are administering certain aspects of their defined contribution plans. I have included my abbreviated notes from these sessions below in the event you would like to read the highlights.

Pre-Conference Fiduciary Training

Fee disclosure in gvntl plans need not follow ERISA, but if not, should explain why not

- Overview of Authority:
 - Law
 - IRS oversees guidance on federal tax laws
 - DOL oversees guidance on ERISA
 - Employee Benefits Security Admin (EBSA) of DOL enforces ERISA
 - PBGC insures private sector DB plans
 - ONLINE RESOURCES: Commerce clearing house, Bureau of national affairs
 - Treasury Regulations, proposed, temporary and final
 - Revenue Rulings - IRS' statement of position, official interpretation of related statutes and regulations; clarifies and standardizes how the law applies to specific set of facts
 - Revenue Procedures - Official statement of procedure impacting rights or duties of taxpayers/general public; pertains to related statutes and regulations and provides general instructional info
 - Private Letter Rulings
 - Notices
 - Announcements
- Fiduciary identification/education – critical to assumption of role and responsibilities
 - Documentation of rationale for decisions/conclusions especially necessary to protect against claims w/ decision/issue made in distant past
 - Define Board's role/responsibilities in the Investment Policy Statement
- Plan costs – provide to participants before they choose to participate; on statements, w/ any cost change
 - Ensure explanation and examples allow them to make informed decisions

Fixing the US Retirement System (Theresa Ghilarducci) - layer DC plan on top of DB element

Retirement crisis - result of 30 year failed experiment w foray away from DB plans will result in more working Americans being worse off than their parents and grandparents

- Thought that "working longer" will make up for shortages is a delusion -
 - Americans are already working more hours per week, year and lifetime than counterparts in many other countries;
 - experience shows that older people are making less in retirement time;
 - having less retirement time...and less control over pace and content of that time
- Top 20% of baby boomers own 72% of all retirement assets
- DC plans as primary assets fail as pension in part because of
 - allowance of lump-sum withdrawal before retirement
 - Annuities generally less than DB plans
 - Associated reliance on SSA and savings, which are not guaranteed
 - Cost of liquidity - no need for daily valuations etc. which come at significant cost
- Public polling shows greatest concern in aging is not health care, but out living assets
 - Given 3 choices, rather than cutting benefits or raising retirement age, most opt for mandatory savings plan
- She calls for end of "3 legged stool" metaphor replacing it with a pyramid, like the food pyramid
 - Top - private savings
 - Middle - guaranteed retirement account - universal coverage, portability, pooled assets, transparency + lower fees, withdrawal through annuity only at retirement

- Bottom – SS
 - 17 states are addressing gap in availability of pooled plans for private EEs, - no state or mandatory ER contribution
 - CA, MA, IL seeking DB plan for private sector Ees
 - MA allows nonprofits to enroll, IL uses IRAs, CA uses exchange
 - Australia has a basic social security system AND mandated savings accounts (*started with 1% - to increase to 12% this year?*)
 - Concern about cost of investment management, particularly for small plans - recommendation for plans w/ <\$1B to form cooperatives
- Future: Most economists predict 1.7% growth for next 20-30 years: suggests
- household sector should not be in debt and borrowing, but government and industry should to chase innovation, not retain surpluses
 - 40% of our jobs pay less than 25k/year - wages will have to come up to increase employment participation/justify employment - raise min. wage to \$15/hr with mandatory retirement savings

Washington Update

NAGDCA priorities this year were:

- to maintain deferred tax treatment of DC plans
- Push to exempt Roth assets from RMD, similar to Roth IRA - *would allow participants ability to avoid rolling assets to other plan with higher fees*
- Increase contribution for low income savers tax credit

Government Section I - Participant Statements

- WY Recently added income projections to allow user context to their balance and pushed the account balance to the last page in hopes participants will read projected income first. Also using:
 - a benchmark; and
 - **combined reporting** (DC + 457 or SSA?)
- OH mails annual statement, even if participant has selected e-delivery of quarterly statements
 - Removed narrative info from 1st page and replaced with
 - Balance
 - Potential account value at retirement
 - "Will you be ready for retirement?" w/ hook to call to action on 2nd pg to increase income
 - 2nd page - potential monthly income at retirement and projection if they add additional "smart" increase
 - Results in 800-1000/year enrolling in smart increase
 - 3rd page - sample asset allocations, participant allocations, graphic showing level of risk associated w/ asset, beneficiary designation
 - Results in significant asset allocation changes (tool on website to help with this) by members after receiving statement
- GA planning Total Retirement Statement - to include DB plan w Hybrid DC + Social Security (and 457 if member has a 457 account)
 - Provide estimate of **total retirement income**, estimate amount needed with additional text if there's a shortfall (less than 80% of current salary) -
 - they get SSA info from Aon Hewitt (uses Financial Engines)
 - *does not account for currently part-time earners (80% replacement may not be adequate)*

Government Section II - Recordkeeping Conversions

- General notes - Most panelists used a consultant for their RFP and employed elaborate communication plans
 - 1 plan believes they have authority to recall an RFP and extend current contract if that is of greatest benefit to participants
- Austin: TDs 18-20 BP, RK 5.5
- Boise: TDs 12 BP, - hired consultant after RFP + paid @ \$10k
 - In retrospect, they wished they had done member surveys, general outreach prior to converting
- Virginia: change from 18BP to flat \$30.50/person/year fee
 - NO revenue sharing simplifies fee reporting

- TPA branding does not appear anywhere - because of these/similar limits, their RFP was over 500 pages long containing samples of all of their documents, file formats etc.
- Rebranded and updated investment lineup BEFORE conversion
- Prior TPA imaged all docs and daily sent a copy of everything to the Plan - now they log into new TPA's records and access copies and status of changes etc.
- Very proactive about including explanation during >200 ER based meetings, in brochures, on last 2 quarterly statements preceding switch,
 - Included warning they would receive 0 balance statement from prior TPA
- Missouri: **Transitioned to e-statements w/opt out provision - today 50% of terminated/inactive accounts receive e-communication**
 - Includes estimated SSA information
 - *Requested and received prior balances, quarterly statements, distribution history and demographic data from previous record keeper*
 - TIP: specify file format of annual statements to ensure new TPA and Plan can read them

Plan Governance, Responsibilities and Best Practices

- RESOURCE: NAGDCA Best Practices Guide to Administering Your Governmental Defined Contribution Plan (Plan Sponsor Education)
- Fiduciaries held to highest standard of conduct under state law; can be personally liable for breaches
- Duties:
 - Loyalty - act solely in the best interests of the plan participants and ensure fees/expenses are reasonable, avoid conflict of interest
 - Avoid representing ER or single interest group - must represent ALL participants
 - Prudence - use reasonable care, skill, caution, diligence and judgment of knowledgeable person administering a retirement plan
- Critical Docs - Plan docs, trust agreement, forms, rules, procedures, service agreements, 3d part contracts, investment contracts, IPS and all amendments
- Plan Document and IPS compliance, read and understand
- Selecting + Monitoring Service Providers - use objective criteria to establish process, monitor compliance with agreement, document the evaluation and decision making process
- Limiting fiduciary liability - fiduciaries to remain active, exercising continuing duty to monitor
- Remember hired experts typically not fiduciaries (attorneys, recordkeepers, other service providers)
- Agendas - build with goals + objectives, focus on items w/in control of committee/board - *most investment committees spend @ 40% of time on issues outside their control*

SAMPLE AGENDA

457(b) Deferred Compensation Plan Committee - 2015 Goals and Objectives

Deferred Compensation Committee

- § Increase participation rate by an agreed-upon percentage each year
- § Encourage roll-ins and discourage roll-outs
- § Provide targeted education and/or training:
 - for employees who are in the various PERS tiers on how deferred compensation compliments their PERS retirement fund
 - around budgeting and the benefits of long term saving strategies
 - based on life stages (newly employed, with children, close to retirement, etc.)
- § Conduct an employee survey
- § Based on participation, evaluate retirement readiness in general for all employees
- § Key Fiduciary Committee Functions & Responsibilities
- § Select and train qualified people to serve on Committee
- § Hold regular meetings and document decisions through minutes
- § Maintain an Investment Policy Statement (IPS) that reflects the plan objectives and clarifies the responsibilities of all parties
- § Determine types of investment options to be offered:
 - § Number of asset classes
 - § Diversification
 - § Target-date funds
 - § Managed accounts
- § Follow a prudent process when making decisions

- § Thorough review of investments and service providers
- § Authorize changes to investments and investment providers
- § Monitoring of fees and expenses
- § Design the plan and fee allocation to be reasonable to all participants
- § Establish appropriate rules and policies for participants and enforce plan rules consistently
- § Review plan documents at least annually to ensure compliance
- § Review trust, custodial and other service agreements regularly
- § Competitive bid or search process should be based on objective criteria

Government Breakout Sessions by Asset Size

Michigan and Oregon/Washington use their DB fund as a "white label" fund option for the DC plan

Regulatory Update

- Obergefell decision - no new IRS or DOL regulations
- ANPRM for governmental entity still pending
- IRS 5 year Determination letter program announcement in June that Cycle E will be last
 - Issue: must have current DL to use voluntary compliance program
- 72(t)(10) amended for distributions on/after 1/1/16 under HR 2146 - exemption for 10% early penalty for public safety distributions extended from DB plans to DC plans for those over 50 with a bonafide separation (maybe a year, 6 months, possibly the period called for in statute prior to returning to work in that system if there is one)
- SEC No-Action Letter -- Rule 482: Use DOL template w/ no additional information
- Tibble v. Edison International - *SOL case but decision requires fiduciaries to monitor on ongoing basis ...including asking whether a lower fee basis is available*

Structuring Investment Menus

General - plans surveyed participants before fund restructure to assure buy-in

Urgency to reduce fund options based on:

- regulatory drive to keep costs down and inability to constantly review so many options
- Too many choices lead to investor fatigue (see *Nudge* book)
- knowledge that participants investment choices don't actually constitute diversification (i.e. 3 funds with underlying overlap)
- Missouri - 34(?) options reduced and mapped to fewer options
 - State has auto enrollment at 1%; auto-escalation at 0.1%;
 - Following fund restructuring in 2009, average expense ratio decreased from 0.90% to 0.34%
 - Reduced options mapped assets from old funds to:
 - Default QDIA - **MO Custom Target Date Funds**
 - Additional Core Options
 - Stable income
 - MIP fund - monthly valued defined benefit plan portfolio
 - Self-directed brokerage for hands-on investors
- City of LA - 70% participation in DC plan; peaked at 29 options in 2005 - reduced to 12 options (with brokerage window) following research about participant burnout
 - Implemented asset-class branded funds, communicates asset classes though, not brands
- Colorado PERA - reviewed industry best practice rather than surveying EEs, reduced total asset-based fee to 0.35% and offered three tier options:
 - TDFS
 - Asset Class Funds (7 options)
 - Self-Directed Brokerage (*plan wanted to eliminate these as there were very few but vocal participants who pressured the governor's office to request to keep them; 1 member invested in gold at \$200 - now at \$1300*)

DC Withdrawal Strategies

- Pension landscape changing - Since 2008 total state/local government EEs have declined by 662,000
 - Most DB plans have reduced calculation

- General 4% withdrawal strategy to provide stable inflation adjusted income for 30 years requires annual rebalancing, counterintuitively continuing to invest when market tanks.
- Because of inclination to protect assets most insure homes, cars etc., but not DC assets – even though over 30 year investment period near 100% chance of hitting market failure

Options:

- In-plan retirement income
- Managed Payout Solution - loosely follows 4% strategy but management is assumed by vendor
- Longevity insurance - portion of assets used to pay for annuity starting at age certain
- Guaranteed Minimum Withdrawal Benefits (GMWB)
 - Complex product in a young market
 - Insures ability (though not withdrawal rate) to provide lifetime income
 - Not an annuity - if a lock-in period, it is limited to allow participant access to underlying portfolio
 - Expensive (100 BP) fee
 - Portability used to be a problem, but more and more vendors are willing to record keep others' products
 - Industry may push for “auto-out” of assets into certain product (push participants unless they opt to do something else - similar to auto enrollment/escalation)

Behaviorally Based Retirement Plans

- "Nudging" employees to participate significantly increases rates
 - There is no neutral plan design
 - Auto-enrollment in Vanguard study was 91% vs. 42% for voluntary enrollment
 - Simplifying process and reducing fund choice/providing default additionally increases participation rates
 - Set-up EEs to accept a second auto-escalator option by first offering a more significant increase (which most will decline)
 - Offer increased contribution election through anchor (1st web page) w/in account
 - Use option placement – 1st choice most often chosen (optimal contribution increase rate first)
 - Use peer behavior to influence and illustrate what peers/top savers are doing (show graphs etc. for participant to compare selves to targeted outcome)
 - Consider and test messages
 - Confidence increases investing (narrative, brochure, video, visual/interactive tool)
 - Default contribution rate is the MOST important determinant of participant's retirement security
 - Decisions are heavily influenced by context; opportunities to influence the context in which employees make decisions abound
 - Incentives and education are imperfect solutions
 - Continue to identify improved methods of communication
 - Your context differs from the contexts in which research results are found - to the extent possible, test employee interventions.

Resources:

Conferences

- RAND Behavioral Finance Forum
- Boulder Summer Conference, Center for Research on Consumer Financial Decision Making
- Behavioral Decision Research in Management
- Society of Judgment and Decision Making
- ASSA Meetings

Other Resources

- Center for Retirement Research at Boston College
- Pension Research Council
- University of Michigan Retirement Research Center Recommended Reading
 - Influence: The Psychology of Persuasion
 - Beyond Nudges: Tools of a Choice Architecture
 - Employees' Retirement Choices, Perceptions and Understanding: A Review of Selected Survey and Empirical Behavioral Decision-Making Research (available at www.soa.org)