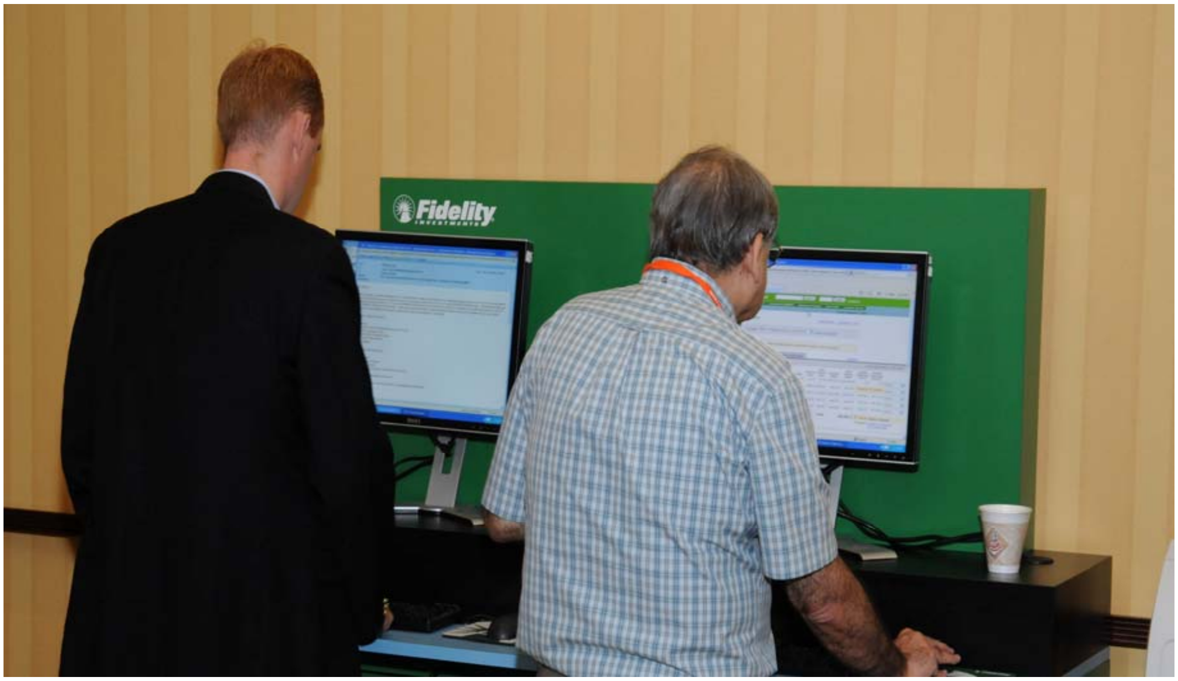
TOP STORY

2009 Annual Conference

The NAGDCA 2009 Annual Conference Committee developed a very successful conference this year. The conference held September 12-16 in Austin, Texas focused on the theme "Finding the Right Notes for Retirement". Session topics centered on helping plan participants successfully reach their retirement goals.

More than 57 NAGDCA members served as speakers and over 56 guests joined us for the week. Overall, the conference was a great success with delegate comments including "The conference was excellent and the concentration on education was great!" and "The annual conference was full of useful information and it provided me with the opportunity to discuss issues with my peers."

Alain Kaloyeros, Ph.D., Senior Vice President, Chief Executive Officer, Professor, College of Nanoscale Science and Engineering, University at Albany kicked off the 2009 NAGDCA Annual Conference with his presentation on Nanotechnology – The Future and the Economy.



Members taking advantage of the Cyber Café sponsored by Fidelity Investments.

General Session: The Washington Report. Moderator: Mindy Harris, Multnomah County (OR). Featured speakers: Rod Crane, TIAA-CREF; Jerry Golden, Nationwide Retirement Solutions, Inc; Susan White, NAGDCA legislative Counsel

General Session: Investments in the Current Market Environment. Moderator: Michelle Berklacich, State of California. Featured Speakers: Kamila Kowalke, Dow Jones Indexes and James Sia, Wellington Management Company, LLP

One of NAGDCA's ten educational breakout sessions: Stable Value Funds (Speakers: David Fischer, State of New York; Bruce Goode, Goode Investment Management, Inc.; Keith Hocter, Bellwether Consulting; Michael Halpin, State of Maryland, Moderator)

NAGDCA Arthur N. Caple Scholarship and the Student Mentoring Program at the 2009 NAGDCA Annual Conference

NAGDCA and the ANC Foundation recognizes the following 2009 Scholarship Recipients.

Full Scholarship Winner – Meghan Shepard (University of Georgia)

Shepard was selected by the ANC Foundation Board based on her demonstrated knowledge on retirement planning and commitment to the industry. Shepard received $1,000 to go towards her last year in graduate school at the University of Georgia where she is studying Family Financial Planning. She also received all-expense paid travel to the 2009 NAGDCA Annual Conference.

A travel stipend and conference registration was also awarded to the following students: Matthew Bagley (Texas Tech University), Katie Reeves (University of Georgia), Tim Griesdorn (Texas Tech University), Kristin Smith (University of Georgia) and Alden Mergenthal (University of Georgia).

Applications for the 2010 Scholarship Program will be accepted in Spring 2010.

The ANC Foundation in partnership with the International Foundation for Retirement Education (InFRE), developed the criteria for the scholarship. To be considered, applicants must be enrolled as a full-time student at a university or college, be a junior or senior, be enrolled to continue university studies for the following semester, and be a U.S. citizen.

The scholarships commemorate the lifework of Arthur N. Caple, former Executive Director of the State of Maryland Supplemental Retirement Plans and NAGDCA Past President, who passed away in 2004.

For additional information about the scholarship program or to make a donation please visit the ANC Foundation website at www.caplefoundation.org.

The Arthur N. Caple Foundation was formed to advance knowledge in the field of public sector retirement security. The Foundation, established in 2006 as a supporting organization of the National Association of Government Defined Contribution Administrators (NAGDCA), supports both individual educational opportunities and research to expand knowledge related to the importance of retirement readiness. To accomplish its mission, the Foundation operates under the following principals:

- Retirement Education - The Foundation is to provide higher education students with funding to study financial or retirement planning and to create opportunities for the students to participate in related learning opportunities.

- Research and Information Exchange - The Foundation supports research, information sharing and collaborative endeavors that further retirement readiness and expand knowledge of retirement issues and solutions.

2008-2009 NAGDCA President, Alex Turner, presents Meghan Shepard,
a student at the University of Georgia, with a check for the Arthur N. Caple Scholarship

Student Mentoring Program

Along with the presentation of the Arthur N. Caple Scholarship, 34 students from three different universities participated in the 2009 NAGDCA Student Mentoring Program. With the surge of financial planning programs found in universities throughout the United States, it has been a goal for NAGDCA to reach out to these individuals and introduce them, early on, to the benefits of NAGDCA and its membership. For the fifth year, NAGDCA has provided the Student Mentoring Program at the Annual Conference, and it was another great success. With the help of the International Foundation for Retirement Education (InFRE), NAGDCA paired 34 students, representing three universities (Texas Tech University, the University of Georgia, and the University of Texas-Pan American), with two mentors from both the industry and government sector of the defined contribution community.

Some of the students who were in attendance at the 2009 Annual conference.

The students and their mentors attended a specially planned session that introduced the students to NAGDCA and its many benefits, while opening a channel of communication between the students and their mentors. Mentors were also encouraged to take some time out of their busy conference schedules and help the students network with fellow attendees, offer themselves as future resources, and provide onsite support for the students while at the conference.

Students were invited to attend sessions with their mentors to gain a better understanding of current issues.

The students and mentors were both polled on their experience, and from the responses that were received, this program will continue to expand and develop in years and conferences to come.

National Save for Retirement Week

This week, NAGDCA and its members are celebrating National Save for Retirement Week (October 18-24, 2009).

NAGDCA would like to hear what your plan has done to promote this very important week. Please send your information and sample materials to Tracy Tucker (ttucker@amrms.com).

A NAGDCA task force worked hard this year to create promotional materials for plan sponsors to utilize during National Save for Retirement Week. The materials are downloadable and can be personalized. Please visit the National Save For Retirement Week page on the NAGDCA website for information.

PRESIDENT'S CORNER

Dear NAGDCA Friends,

A favorite saying during the late sixties and early seventies was "never trust anyone over thirty." Perhaps you muttered that line at one time or another also. Over the years, that generation matured and knows well the benefits of a lifetime of experiences.

NAGDCA itself is turning 30 during 2010 and has grown in knowledge, experience, and respect. I suspect that turning 30 will add luster and not tarnish to NAGDCA. The Department of the Treasury, Congress, and numerous organizations and media outlets recognize NAGDCA as a reliable and trustworthy source of information and policy analysis. This success is a tribute to each of NAGDCA's members, both government and industry, who have contributed their time and knowledge.

I look forward to celebrating NAGDCA's 30th anniversary and reaching new heights on behalf of our members and the public employees who are saving for their retirements through the retirement savings plans that our employers sponsor.

The 30th Annual NAGDCA Conference in Austin, TX was a tremendous success. Over 610 delegates attended the conference at which 57 NAGDCA members provided valuable information at the Conference's general sessions, concurrent sessions and member breakout sessions. In addition, it is always rewarding to recognize the 56 government members who attended their first NAGDCA conference. I am sure that many of these first year participants will become active contributors to the future success of NAGDCA.

The general session "Nanotechnology – The Future and the Economy" presented by Alain Kaloyeros, Ph. D., received rave reviews from conference attendees. Dr. Kaloyeros made it clear to us that the future is now and that we must be innovative in all we do.

Part of our future is within the Arthur N. Caple Foundation and NAGDCA's student program. Your financial support of the Caple Foundation is greatly appreciated. The silent auction and raffle that was held during the Conference raised over $3,200 that will be matched by contributions from five of our industry partners for a total of more than $6,400. Thank you to all who contributed prizes, bought raffle tickets, and bid in the auction. Congratulations to all the winners.

The highlight of the NAGDCA student program is awarding the Arthur N. Caple Foundation Scholarship and welcoming students from around the country to NAGDCA conference. This year 34 students attended the Annual Conference which is a record. Introducing students, our future generation, to public employer defined contribution plans and our industry partners is a wonderful program that is appreciated by the students each year. A special thank you to those who served as mentors.

Congratulations to Meg Shepard of the University of Georgia who was awarded the 2009 Arthur N. Caple Scholarship and to each of the students who applied for the scholarship. This is a group of bright and talented students who will make great strides in the field on retirement planning.

I am pleased to welcome two new members to the Executive Board. Eric Sanderson, DC Plan Manager at the Ohio Public Employees Retirement System, is the newly elected Member-at-Large

Representative and Kurt Walten, Sr. Vice President of NAREIT, is the President of the Industry Committee. Eric and Kurt are welcome additions to the Board.

A sincere thank you goes to Mindy Harris and Tim Rouse whose terms on the Executive Board are ending. Mindy has given six years of dedicated service as a member of the Executive Board. She is a great leader and will continue to serve NAGDCA as a past president and an active member. Tim Rouse served on the Executive Board during 2008 and 2009 as the Industry Committee President and Industry Observer. His insights and knowledge have been very helpful.

National Save for Retirement Week, October 24 – 28, is just around the corner. This is a special time to heightened awareness of the need to plan and save for retirement. Your efforts to make NS4RW a success will be appreciated by all of your plan participants. For ideas and resources on NS4RW visit the NAGDCA website.

I look forward to a very productive 2010 and the value that NAGDCA will provide to you. We will bring to you a new series of NAGDCA web casts, informative publications and brochures, and a conference in Philadelphia that will be a rewarding experience. Keep in touch with your Executive Board and all the updates on the NAGDCA website

INDUSTRY VIEWPOINT

Redesigning Public Sector DC Plans after the Crash

By: Roderick B. Crane, TIAA-CREF; Michael Heller, TIAA-CREF; Paul Yakoboski, TIAA-CREF Institute

The Dow Jones Industrial Average (DJIA) closed at 13058 on May 2, 2008; less than one year later the DJIA closed at 6547 on March 9, 2009, a drop of 50%. In April 2008, the national unemployment rate was 5.0%; since that time it has almost doubled to 9.7% as of August 2009. Unemployment rates range from 4.3% in North Dakota to 15.2% in Michigan. From the second quarter of 2008 to the second quarter of 2009, inflation-adjusted national GDP has fallen 4%. Total state and local tax revenue was $296 billion in the first quarter of 2009 compared with $312 billion during the first quarter of 2008, a decrease of 5%. The National Conference of State Legislatures and the National Association of State Budget Officers have projected that states will face deficits of $90 billion to $100 billion over the next 30 months.

Against this economic backdrop, state and local governments are scrutinizing all areas of operations and expenditures. Retirement benefits for employees are no exception given the magnitude of the expenditures involved[1] and the year-to-year volatility of necessary contributions with traditional pensions. Reform options on the table include a tier of lower defined benefit (DB) pension benefits for new hires and higher employer and employee contributions. In some cases, there are calls to give a fresh look at the potential use of defined contribution (DC) plans as the primary retirement income vehicle for public employees. Given the current dismal experience of 401(k) participants in the private sector, any proposal to adopt the standard 401(k) model should be greeted as one of dubious merit – simply put, the typical 401(k) is poorly designed to function as a vehicle for generating an adequate and secure retirement income. The arguments against the 401(k) model are many, and NAGDCA's policy that DB approaches best serve the interest of participants recognizes these flaws. There are DC designs without the flaws of the typical 401(k) model, however, and to the extent that governments are considering this step, it is important that public policy makers do so in a way that considers DC designs focused on generating retirement income.

The remainder of this article discusses best practice designs for DC plans that function as primary retirement plans for public sector employees.

Guiding Principles for Plan Design

[1] In 2007, state government contributions to employee retirement systems totaled $30.1 billion and local government contributions totaled $42.3 billion. (Source: 2007 Census of Governments, Survey of Public Employee-Retirement Systems, U.S. Census Bureau).

To establish best practice benchmarks for the design of public sector DC plans that are intended to be the primary source of retirement income, it is useful to set out principles for their design, funding and administration:

- Principle #1: The primary principle being that retirement plans focus on providing adequate and secure income throughout retirement for all employees – not wealth accumulation.
- Principle #2: Adequate funding of a sponsored plan is a shared employer/employee responsibility.
- Principle #3: Effective retirement programs require an appropriate investment offering.
- Principle #4: Effective retirement programs require a broad range of integrated participant services.
- Principle #5: Retirement programs are more effective with competent fiduciary mechanisms.

The resulting implications for best practice plan design are:

- Provide participation and vesting requirements that maximize retirement savings.
- Provide for a total contribution level and an investment structure that together are expected to accumulate sufficient savings to fund an adequate retirement income for each participant.
- Include a payout design that provides an adequate and secure income level throughout retirement.
- Manage the various risks that threaten retirement objectives, including investment volatility, longevity, and inflation.
- Provide access to independent, expert and personalized education, planning and investment advice services during both the accumulation phase and through retirement.
- Active management of the plan by the sponsoring employer with an emphasis on administrative simplicity to control costs.

Resulting Best Practices for Plan Design

The following is an outline of DC plan design best practices proposed by the authors in a recent paper published by the Pension Research Council.[2] These practices, if adopted, would increase the likelihood of the plan fulfilling the principles outlined above. Best practices are compared with current practices in the public plan market. Two sets of plans, chosen to be illustrative of common practice, were examined; eleven covering general public sector employees plans and seven covering public higher education employees.[3]

Eligibility and Participation

Mandatory participation is the best practice for a core DC plan, along with low or no age restrictions on participation and waiting periods for participation of no more than one year. Employers may also consider expanding the eligibility for plan participation to less than full-time employees.

In the public sector plans examined (both state and higher education), participation by the employee is mandatory in all cases. The only caveat is in the case of an optional retirement plan, where participation in a retirement plan is mandatory, but the individual chooses whether to participate in the primary DB plan or the primary DC plan. In two other plans, all new hires are automatically enrolled in the DB plan, but then have a limited period of time to switch to the DC plan if they so choose.

Not only is plan participation mandatory, but it is also typically immediate. There are several instances of service requirements.

Contribution Levels

Best practice calls for non-elective contributions by both the employer and employee that will result in an adequate retirement income assuming typical investment returns. This implies mandated contribution levels totaling at least 12 percent of pay if covered by Social Security and 18-20 percent of pay if not.[4]

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[2] "Defined Contribution Pension Plans in the Public Sector: A Benchmark Analysis," in The Future of Public Employee Retirement Systems, edited by Olivia S. Mitchell and Gary Anderson, Oxford University Press (2009). A copy of the full paper can be obtained at http://www.tiaa-crefinstitute.org/articles/042408.html.

[3] DC plans reviewed include those sponsored by the states of Alaska, Colorado, Florida, Michigan, Montana, Nebraska, North Dakota, Ohio, South Carolina, West Virginia, the District of Columbia, and those sponsored by Indiana University, Michigan State University, Purdue, State University of New York, University of Iowa, University of Michigan, and University of Washington.

[4] Assumes a 77 to 94 percent wage replacement target as derived in the *2008 Georgia State University/Aon RETIRE Project*. This target reflects, in part, the higher costs of retiree health care that current and future retirees are likely to experience. Public safety employees would need to have significantly higher contribution rates in order support earlier retirement ages common to those job classifications.

All of the public plans examined specify both non-elective employer and employee contribution levels as a fixed percentage of pay. In the state plans examined, non-elective employer contribution rates range from 4 percent of salary to 10.15 percent. In some plans, the employer contribution rates vary for different types of positions. The non-elective employee contribution rate ranges from 0 percent to 9.4 percent. Combining the non-elective employer and employee contribution rates results in total non-elective contribution levels ranging from 4 percent to over 18 percent.

In the public higher education plans examined here, employer non-elective contribution rates range from 5 percent to 15 percent of salary. In addition, employer non-elective contribution rates can vary within the plan based on salary, years of participation or age. The employee non-elective contribution rate ranges from 0 percent to 10 percent. As with employer contribution rates, required employee contributions sometimes vary within a given plan based on years of participation, age or salary. Across the public higher education plans examined, combined employer and employee non-elective contribution rates were a minimum of 10 percent, typically in the range of 15 percent, and as high as 20 percent.

Vesting

Best practice calls for participants to be immediately vested in employer contributions after no more than one year of service. If immediate participation is adopted by a plan sponsor, then best practice allows for the imposition of a vesting period of up to one year. If participation is delayed, then best practice implies a vesting period of less than one year and possibly immediately (given the best practice of participation beginning no later than one year after the hire date.)

In the state plans examined, only one had immediate vesting in employer contributions. The typical vesting schedule is graded vesting over a period of 5 years, though the period of service required ranged from 1 to 12 years. Immediate vesting is the near universal norm in the public higher education plans examined, with the exception of 100 percent cliff vesting after 1 year of service in one plan.

Investments

Best practice calls for mandatory investment or default into an option that automatically manages the participant's asset allocation. Vehicles for this purpose include lifecycle target-date funds, and simplified low-cost advice or qualified managed accounts to address investment risk.[5] When participants are given choice, best practice calls for a limited non-overlapping array of investment options (about 15-20) covering the major asset classes and allowing participants a reasonable opportunity to manage their own risk and return needs.

The number of options offered in the state plans examined ranges from 9 to 70. The number of investment options offered in public higher education is typically greater than the number offered elsewhere in the public sector. With one exception, which offers 10 options, all other higher education plans examined offer anywhere from 31 to over 150 options. The larger number of funds offered by these public universities is usually related to the existence of multiple service providers offering stand alone bundled arrangements.

All plans reviewed specify a default option for when a participant does not specify investment elections. In some cases, the default is a managed account or a target-date fund; in other cases, it is a relatively conservative investment, such as a short term bond fund or a balanced investment fund.

Pre-Retirement Distributions

Best practice plan design eliminates or minimizes leakage from participant accounts prior to retirement. Best practice would not allow lump sums at job change, hardship withdrawals or loans.[6] All public plans examined provide full lump sum distributions at job change. With a couple exceptions, hardship withdrawals and plan loans are not available.

Retirement Distributions

Best practice plan design regarding retirement distributions is to limit participant ability to withdraw funds as a lump sum combined with the requirement that a minimum amount (e.g., 40%) of the account be annuitized, ideally through a vehicle providing some degree of inflation protection.[7] This addresses both longevity and inflation risks in retirement.

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[5] These options can be customized to use investment allocation glide paths and strategies that take into account specialized circumstances including when the core defined contribution plan is part of a combination DB/DC arrangement and when the participant does not participate in Social Security.

[6] A limited exception can be made for small benefit accruals that do not exceed thresholds established by the plan sponsor to control the cost of administering numerous small value accounts (e.g., $5,000).

[7] Inflation protection can be provided through vehicles such as participating guaranteed annuities, a variable payout annuity, or specialized inflation-protection annuities.

In the state plans examined here, full lump sums are always a distribution option. On the other hand, most of the state plans have annuitization as a distribution option, but none require any degree of annuitization by the participant. Three of the state plans also provide an inflation hedged annuitization option. All other state plans examined provide no inflation hedge other than the ability to invest in equities after retirement.

Among the DC plans in higher education examined, all have an annuitization option providing features that at least partially address inflation risk, including the use of variable life annuities and fixed life annuities with a feature for annual benefit increases. These plans, however, also offer full lump sums as a distribution option and do not require any degree of annuitization at retirement.

Administrative Structure

Best practice is a single recordkeeper structure. High administration and investment fees reduce the ultimate level of retirement savings available to DC plan participants. Multiple vendor structures and agent-broker delivery models are generally more expensive than single recordkeeper administrative platforms. Larger plans should be able to take advantage of available economies of scale to deliver plan services at lower cost. Total costs (administrative and investment fees) for a quality, state-of-the-art core DC plan should be available for 100 basis points or less for larger plans.

Among the state plans examined here, all but one use a single recordkeeper structure. Among public university plans, however, multiple recordkeeper structures are the norm.

Education and Advice

Best practice design provides broad-based retirement and investment education services to participants. A higher best practice hurdle is the provision of individual-specific investment advice. The mode for delivering personalized retirement services will need to reflect the evolving ways that individuals access information, e.g., by phone, through the internet and in person. While technology can enable more effective communication, it will not replace the need for one-on-one consultation, particularly as individuals approach retirement.

All of the plans reviewed provide their participants with basic information regarding the plan, as well as basic education about saving for retirement. Eight of ten state plans examined provide investment advice.[8] Participant investment advice is provided by all but one of the public university plans examined here.

Conclusion

Defined benefit plans will likely remain as the primary vehicle for delivering secure retirement benefits to state and local government employees. However, the current financial stresses are causing some governments to consider alternative defined contribution plans. DC plans will not be a panacea to solve these financial problems. However, in the consideration of DC plans, it is important not to follow the path of the flawed private sector 401(k) model. Through appropriate plan design, DC plans can provide an adequate and secure retirement income for participants.

You should consider the investment objectives, risks, charges and expenses carefully before investing. Please call 877-518-9161, or go to www.tiaa-cref.org for a current prospectus that contains this and other information. Please read the prospectus carefully before investing.

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[8] The authors were not able to ascertain whether investment advice is provided in the North Dakota PERS Defined Contribution Plan.

NAGDCA would like to recognize and congratulate the 2009-2010 Industry Committee:

President: Kurt Walten, NAREIT
Vice President: Michael Studebaker, Nationwide Retirement Services
Secretary: Alex Hannah, ICMA-RC
Treasurer: Rod Crane, TIAA-Cref
Member-at-Large: Julie Klassen, Great-West Retirement Services
Member-at-Large: Cathie Eitelberg, The Segal Company
Past President: Janet Kendall, ING

NAGDCA Automation of DC Plans Taskforce
Consideration of DB Features for DC Plans Guide

Background

The Pension Protection Act of 2006 (PPA) provides important safeguards that permit defined contribution (DC) plan sponsors to implement a number of specific defined benefit (DB)-like features. Various studies (see "References" on page 2) have concluded that DC plans underperform DB plans by as much as 1 to 2% per year due to the combined impact of inferior asset allocation by plan participants and higher plan costs. There are many who believe that adopting certain elements of DB plans can significantly improve participant outcomes in DC plans. The protections offered by PPA apply to private plan sponsors under ERISA and can serve as useful plan design guidance to the public sector for this purpose.

NAGDCA established the Automation of DC Plans Task Force in 2008 to study DB-like elements being implemented or considered by DC plans and to provide an analysis for NAGDCA plan sponsors who may be considering implementing any of these features.

Structure of Guide

The Task Force prepared the following document in four sections to address the different elements of the DB-type plan features currently being implemented or considered by DC plans:

1. **Asset Allocation Vehicles: Qualified Default Investment Alternatives Under PPA**

   DC plans generally require plan participants to build their own individual portfolios from an investment line up selected by the plan sponsor. The result is a wide range of asset allocation strategies. Many participants take on far too little or far too much market risk for their individual situations. Once in place, inertia sets in and allocations rarely, if ever, change. The result is an extreme dispersion of investment outcomes for participants who have similar employment, salary, age, and other characteristics. The PPA provides a plan sponsor with fiduciary protection against investment losses by participants who are defaulted into a Qualified Default Investment Alternative (QDIA) following a pre-notification period. This section examines the pros and cons of the three QDIAs designated by the Department of Labor: target-risk funds, target-date funds and individually managed accounts.

2. **Diversifying Asset Classes: Incorporating Underrepresented Categories Into DC**

   Studies indicate that one of the reasons DC plans underperform DB plans is the underweight positions they carry in certain asset classes that contribute to the stability of DB portfolios (see "References" on page 2.). Labeled as "alternative" investments only a few years ago, these investments are now becoming mainstream. This section will examine several asset classes commonly found in DB portfolios that are now being added to DC plans as part of asset allocation portfolios and sometimes as standalone menu options: real estate, commodities and inflation protected securities.

3. **Retirement Income Vehicles: Guaranteed and Non-Guaranteed, In and Out of Plan**

   While many of the best elements of traditional DB pensions can be incorporated into DC plans, the one element that has been beyond the reach of DC plan participants is the DB plan's greatest benefit: guaranteed lifetime income. In recent years, new product and service offerings have been introduced to the market as in-plan options, or to assist participants when they begin taking distributions at the point of retirement. This section will review features of new living benefit and traditional deferred annuities as well as rollover platforms and non-guaranteed payout options.

4. **"Auto Everything": Complete Automation of the Participant Experience**

   DC plans have been built historically on the premise that participants are engaged and qualified to build their own investment portfolios after careful consideration of their individual retirement needs. Recent behavioral research indicates this idealized vision is far from reality. The PPA provides protections under ERISA for private sector DC plan sponsors wishing to exert far more control over participant decision-making and outcomes than has been the practice. This section describes a model for complete automation of DC participation including auto-enrollment, auto-escalation of contributions, implementation of Qualified Default Investment Alternatives (asset allocation defaults) combined with re-enrollment of existing participants into those defaults, and, finally, the integration of insurance guarantees into default funds to provide a lifetime stream of income in retirement.

For each feature, the guide provides a description, a rationale for considering the feature (e.g., research basis) and implementation considerations.

To view the guide please visit:
http://www.nagdca.org/documents/Final_Automation_of_DC_Table.pdf

Acknowledgment
Special thanks go to the Automation of DC Plans Task Force for its efforts and the development of this guide:

- Kurt Walten, National Association of Real Estate Investment Trusts, Chair
- Tim Berry, State of Indiana
- Dick Davies, AllianceBernstein
- Michael T. Halpin, State of Maryland
- Brian McCleave, Prudential Financial
- Polly Scott, State of Wyoming

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WASHINGTON REPORT

By Susan J. White and Jonah Mainzer, Susan J. White and Associates, Inc.

With the focus in Washington, first on the economy and the passage of economic stimulus legislation and, secondly, on health reform, retirement related issues have taken a back seat, but there are several developments underway with the Administration and in Congress that will ultimately impact retirement programs and defined contribution plans specifically.

The Administration, which would like to move the conversation on the economy forward with discussions targeted on Americans' need to save more, has proposed an Automatic IRA and an expanded Savers Credit, as part of its overall economic plan-- and Congress continues to discuss these issues and those related to disclosure and fees in defined contribution plans.

For example earlier this year, Representative Earl Pomeroy (D-ND), a member of the House Committee on Ways and Means, introduced H.R. 1961 (The Savings for American Families' Future Act of 2009) on this issue. Currently the bill has eight cosponsors including Representative McDermott (D-WA) Chairman, Subcommittee on Social Security and Representative Allyson Schwartz (D-PA) who is the lead Democratic sponsor for National Save for Retirement Week. There are no Republican cosponsors and there is no companion bill in the Senate.

The Administration and Congress are also planning to move forward on tax reform legislation in the coming year and such legislation may prove a venue for the Administration's proposals or a Roth 457 provision as discussed later in this article.

National Save for Retirement Week

H. Res. 662, calling for a National Save for Retirement Week during the week of October 18, was introduced on July 20 by Representatives Allyson Schwartz and Sam Johnson (R-TX). The Resolution was sent to the Committee on Ways and Means and the then to the full House where it passed without objection on July 31. In the Senate, Senators Kent Conrad, (D-ND), Chair of the Senate Committee on the Budget and a member of the Senate Committee on Finance and Mike Enzi, (R-WY), the ranking Republican on the Senate Committee on Health, Education, Labor and Pensions and a member of the Senate Committee on Finance, introduced a companion measure S. Res. 234 on August 3 which went directly to the floor and was passed by Unanimous Consent. Senator Ben Cardin (D-MD) signed on as a cosponsor as well.

NAGDCA has pointed out, in its advocacy efforts on Capitol Hill, that the Resolution this year is more important than ever and, while the economy makes this more difficult, the need to save has not changed.

Roth 457

On June 22, President Obama signed H.R. 1256 (Family Smoking Prevention and Tobacco Control Act of 2009) into law becoming Public Law 111-31. The majority of this bill dealt with smoking prevention and cessation, providing broader authority to the Food and Drug Administration (FDA) to regulate tobacco; however, the stepped up FDA activities are funded by allowing Roth plans for federal employees—deemed to be a revenue raiser for the federal government.

A by-product of this bill is that key committees in Congress are reviewing their previous concerns with Roth-type plans for state and local employees' 457 plans. This is due to the fact that now most other retirement plans can offer them and policymakers have indicated that it is not fair to state and local government employees not to have the option. The Senate Committee on Finance has long supported the provision, as it raises revenue, and has inserted it into various bills. These bills have either not been approved or the provision has been pulled out. NAGDCA continues to advocate for the Roth 457.

Fee Disclosure/Investment Advice Hearings

On October 1, the Committee on Ways & Means held a hearing and one of the panels was focused on investment advice. All of the witnesses agreed that more advice was better but there have been a number of questions raised regarding Chairman George Miller's (D-CA) bill H.R. 2989 (401(k) Fair Disclosure for Retirement Act of 2009) and whether it is the best vehicle to mandate advice. A number of witnesses felt that the bill made the independence requirements for advisors too onerous and as a result many pension plans would stop offering advice rather than fulfilling the obligations. The private sector testified that passing the Miller bill could be disruptive, because so many participants are not trained in these financial issues and-- as a result defined contribution plans and their participants could be put financially at risk.

If legislation moves forward in the House of Representatives this year, a final measure for floor debate will include, not only the Miller bill, but a bill to be produced by the House Committee on Ways and Means. It is this legislation that could address fees and disclosure for state and local government plans—as Miller's bill address ERISA plans only. Additionally, on the heals of the Ways and Means hearing on investment advice, it is Ways and Means that may help in forging a compromise on these issues. Ways and Means Committee staff have indicated that there will be movement on this legislation prior to the end of this year.

Saver's Credit

NAGDCA's Legislative Committee formed a Saver's Credit Task Force that developed a set of recommendations, in follow up to NAGDCA Board discussions with the Department of the Treasury (DOT) on this and other NAGDCA priorities. The recommendations focused on how best to ensure that an individual chooses to defer their Saver's Credit immediately into an existing plan.

The recommendations, sent by NAGDCA to DOT and to Capitol Hill include 1) suggesting caution in directing these amounts into a new class of savings vehicles, and that a better approach directs the credit/match amount into the plan (or IRA) that received the contribution that generates the credit, 2) any system of federal plan contributions related to the credit should be as automated or automatic as possible, 3) statutes that establish such a system should exempt the credit amounts from state and federal offset/collection programs, in order to simplify administration and processing and 4) the program should have a clear and simple mechanism and rules for processing undeliverable funds.

Financial Literacy

Recently, several members of the NAGDCA board held a conference call with Congresswoman Schwartz to discuss financial literacy and the need to begin financial education earlier. NAGDCA agreed to work with the Congresswoman's office on this critically important issue and will continue to do so in the future. The discussions focused on youth and financial literacy, specifically looking at high school students, with specific updates from members of the NAGDCA board on how some of these programs work locally. Other programs discussed included the need to educate teachers regarding financial literacy and ongoing financial literacy education for state and local government employees.

Contribution Limits

Recently there have been reports that individual retirement plan contribution limits could be lowered in the coming year, as these limits are tied to inflation and there has been negative inflation this year. NAGDCA has been in contact with DOT and with the House Committee on Ways and Means on these issues and decisions have not as yet been made. There are questions regarding the authority to decrease contributions, however, we have learned that the IRS believes they have the authority to do so. However, there are conflicting reports on whether there are plans to reduce the limits. NAGDCA will continue to monitor these developments.

Securities and Exchange Commission Proposed Regulations

The Securities and Exchange Commission (SEC) recently released draft regulations addressing pay to play arrangements. The proposed new Rule 206(4)-5 under the Investment Advisers Act of 1940 seeks to address political contributions by certain investment advisers. Although the proposed rule does not directly address conferences and meetings attended by advisors, it does raise the question of whether the definition of "contribution" should be broadened to include attendance by such advisors at meetings and conferences or-- whether the rule should attempt to define education/technical meetings and conferences, as opposed to "fundraisers". NAGDCA continues to monitor this rulemaking process and its potential impact on state and local government defined contribution administrators.

Government Accountability Office Report

Last year the House Committee on Ways and Means formally requested that the Government Accountability Office (GAO) review and report to the Committee on the status of state and local government defined contribution plans and practices of such plans related to fees and disclosure. NAGDCA worked closely with the GAO, providing information, meeting and discussing at length the various governmental defined contribution plans and arrangements and how they are administered. The report, “Better Information and Sponsor Guidance Could Improve Oversight and Reduce Fees for Participants”, was released on October 5th and it can be viewed here.

GAO makes a number of recommendations, including suggesting that Congress should consider amending ERISA to require sponsors to disclose fee information to facilitate comparisons, giving the Department of Labor’s specific authority over certain plans, and that the Internal Revenue Service (IRS) develop guidance on sponsor involvement, collect additional data on 457(b) plans, and share more information with financial regulators.

AROUND THE COUNTRY

2009 Leadership Awards from Coast-to-Coast

This is truly an Around the Country article which reaches from coast-to-coast. At the 2009 NAGDCA Annual Conference, 54 plans from across the country were recognized for their innovative and outstanding achievements in celebrating National Save for Retirement Week, effective communication, and/or plan design & administration in defined contribution/deferred compensation.

The NAGDCA Leadership Recognition Awards were established in 2000 to highlight plans who are making huge strides in improving communication and education about their defined contribution/deferred compensation plans. A special *Award of Distinction* was presented to the top three plans in each category.

Nominations from both government and industry members came pouring in as soon as nominations opened. All nominees ranging from 401(k) to 403(b) to 457 plans, whose innovations have resulted in a sound improvement in their plans, were recognized with an award at the 2009 Annual Conference.

2008-2009 NAGDCA President, Alex Turner, presents San Bernardino County, CA with two Awards of Distinction.

2009 Leadership Award Recipients

National Save for Retirement Week Leadership Award Winners

Special Award of Distinction:
Ventura County, CA
Metropolitan Water Reclamation District of Greater Chicago
State of New Jersey

Other Award Winners:
City and County of Honolulu, HI
City of Edmond, OK
City of Houston, TX
City of San Jose, CA
State of Florida

<u>Plan Design and Administration Leadership Award Winners</u>
Special Award of Distinction:
CalPERS
County of San Bernardino, CA
State of Oklahoma

Other Award Winners:
City and County of San Francisco, CA
City of Aurora Fire, CO
City of Aurora Police, CO
County of Los Angeles, CA
King County, WA
NY Metropolitan Transportation Authority
Multnomah County, OR
Oakland County, MI
State of Arizona
State of Florida
State of Hawaii
State of Michigan
State of New York
State of North Carolina
State of South Carolina

<u>Effective Communication Leadership Award Winners</u>
Special Award of Distinction:
City of Portland, OR
County of San Bernardino, CA
State of New Jersey

Other Award Winners:
CalPERS
CalSTRS
City & County of San Francisco, CA
City of Aurora Fire, CO
City of Aurora Police, CO
City of Kansas City, MO
City of New York, NY
Commonwealth of Kentucky
Commonwealth of Massachusetts
County of Los Angeles, CA
Johnson County, KS
NY Metropolitan Transportation Authority
San Diego County, CA
State of Florida
State of Hawaii
State of Indiana
State of New Jersey
State of New Mexico

To view examples of these award winning programs please visit the NAGDCA Clearinghouse and search the 2009 Leadership Award winners. Also, more extensive information can be retrieved on particular plan websites or by contacting the award winners for samples:
http://www.nagdca.org/clearinghouse/

NAGDCA Member Benefit Spotlight

To remind members of benefits they receive throughout the year, NAGDCA spotlights a benefit of membership in each edition of *The Contributor*. For more information on this or any benefits of membership, please visit our website at http://www.nagdca.org/ or contact NAGDCA staff at (859) 514-9161.

Information

- Career Center - Post job openings and review resumes

- The Contributor, NAGDCA's quarterly newsletter that provides the latest information on association issues, members and legislative matters

- Free or discounted participation in NAGD*CAST*s. NAGDCA's interactive, web-based educational programs.

- An interactive Web site at www.nagdca.org that provides current information on federal activities, meetings, members, RFPs, presentations and more!

- An electronic clearinghouse with resources that offer answers and perspectives on various issues by showing actual practices used by members across the country

- Legislative representation in Washington, DC

New Members

Please visit the NAGDCA on-line directory for member's full contact information. You will need a username and password to access the information. Join me in welcoming our new members!!!

State Government Primary Member
Linda Knudsen
Utah Transit Authority

Local Government Primary Member
Nancy L. Leavitt
City of Virginia Beach

Jacob Kuijper
CCOERA

Shareen Boone
Wayne County Airport Authority

Norman McRee
Travis County

Todd Mowbray
City of Aurora - Fire

NAGDCA Government Secondary Member
Patrick Bivins
California State Teachers' Retirement System

Susan Moomjean
County of Los Angeles

Debbie Cherney
Robert Jacobson
Irvine Ranch Water District

Jerry Griffin
ACCG/GEB Corp

Richard Caunitz
Rockland County

Priscilla Mullins
Ohio Deferred Compensation

Theresa Sullivan
Multnomah County

Sharon Graham CPA
State of South Carolina

Diane Peterson
City of Tacoma

Elaine Bieszk
City of Milwaukee

NAGDCA Primary Industry Member

Mike Cochran
TCG Consulting

Keith Kotfica
Affiliated Computer Services

Timothy Maher
Natixis Global Asset Management

Ronan Burke
AIB Investment Managers

John Chadwick
Hewitt Associates

Joshua Schwartz
Retirement Plan Advisors
Kathy Kellerman
Loomis Sayles & Company

Matthew Gnabasik
Blue Prairie Group

Chris Tobe
Breidenbah Capital Consulting LLC (BCAP)

NAGDCA Associate Industry Member

John Kells
Christian Putnam
Affiliated Computer Services

Alice Chung
Andrew Wilmot
Allianz Global Investors Distributors LLC

Beth Mannino
American Century Investments

Jacob O'Shaughnessy
Arnerich Massena & Associates Inc

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Clifton Gunderson LLP

Connie Rettig
Nancy Roth
Great-West Retirement Services

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Managers Investment Group

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Mercer Investment Consulting

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MFS Investment Management

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Nationwide Retirement Solutions (NRS)

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Natixis Global Asset Management

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Oran Walsh
Neuberger Berman Management Inc

Jennifer Addie
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Prudential Retirement

Ghian Foreman
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Retirement Plan Advisors LLC

Janette Leyden
RS Investments

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SST Benefits Consulting

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The Vanguard Group Inc

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Wells Fargo Funds Management LLC

Bruce Corcoran
Tony Cox
Paul Fields
Tim Lane
Kurt Ritter
TIAA-CREF

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Texas Tech University

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Texas Tech University

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Texas Tech University

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University of Texas Pan American

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ABOUT THE CONTRIBUTOR

The Contributor is published quarterly by the National Association of Government Defined Contribution Administrators, Inc. (NAGDCA). NAGDCA encourages the submission of articles on topics relating to defined contribution/deferred compensation retirement savings/plans. Articles that appear under the by-line of an individual express the opinions of the author and not those of NAGDCA as an organization. The deadline for submissions for the next issue is December 19, 2008. Articles should be approximately two pages in length and should be submitted in Word format. Please direct all newsletter items and questions to NAGDCA, 201 East Main Street, Ste. 1405, Lexington, KY 40507. You may also e-mail submissions to Kari Emmons at kemmons@AMRms.com. Please contact Robert Hansel at 859-514-9161 with any questions or comments.

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