TOP STORY

NAGDCA Executive Board Slated to Visit Capitol Hill

This year, NAGDCA's Legislative Committee has begun its work by developing three specific goals for 2010:

- Be recognized as the single voice of the public sector defined contribution community by national and state governmental entities and agencies.
- Be called upon first by government for views, information and reactions to proposed legislation and regulations that may impact the public sector defined contribution community.
- Be proactive by advancing legislative and regulatory enhancements to public sector defined contribution plans to ensure the financial security of plan participants at retirement.

In implementing these goals, NAGDCA's first order of business is to conduct its annual "Hill Visits". NAGDCA's Executive Board will meet with influential leaders on Capitol Hill in March, including the House and Senate tax committees and the U.S. Department of the Treasury.

The meetings offer NAGDCA's Executive Board an opportunity to consult on retirement related legislation, offer and seek clarification on recently implemented regulations and provide first hand information on the current trends within the defined contribution community. Additionally, each year the Executive Board uses the Washington meetings as a venue for kicking off the legislative effort to establish National Save for Retirement Week.

Each year since 2006 NAGDCA has worked closely with the Members of Congress in the House of Representatives and in the Senate to pass resolutions in recognition of National Save for Retirement Week.

As a follow-up to this year's "Hill Visits", NAGDCA will again schedule a NAGDCAST to provide a Legislative Update in April to review these meetings and provide an overview of the current legislative environment in Washington. Heading up this webcast will be NAGDCA's Legislative Counsel, Susan White.

Please stay tuned for developments concerning the Legislative Update webcast and the Executive Board's visit to Washington DC. You may also check www.nagdca.org for ongoing updates.

PRESIDENT'S CORNER

NAGDCA Members,

Happy New Year and I hope everyone enjoyed a very festive holiday season. 2010 is off to a fast and productive start.

But before diving into 2010, thank you to David Turla, Barbara Healy, and Marie Swartzwelder for a very informative web cast on December 7 on "Plan Sponsor Investment Oversight/ Investment Performance." We appreciate your insight into this most important topic.

I am pleased to report that many NAGDCA members volunteered to serve on committees and task forces during the upcoming year. The Executive Board met in November and made assignments based on individual requests as much as possible. Everyone who volunteered for an assignment was placed on a committee or task force. The committees and task forces have begun their work for 2010 and I look forward to many productive results.

We received many comments about the Annual Conference in Austin, TX. In general, the Conference received very favorable comments and ratings. But with any event as large as the Annual Conference, there is always room for improvement. The 2010 Annual Conference Committee, chaired by Gay Lynn Bath, will be reviewing all the comments and working hard to bring together a very educational conference that will provide great value to all.

Each year NAGDCA highlights National Save for Retirement Week. NS4RW provides an opportunity to give greater vision to public employees in our plans to save for their retirement. It has been successful in many localities throughout the country. NS4RW will be in October again this year (exact dates TBD). The Executive Board will be again urging Congress to adopt a resolution proclaiming that week NS4RW. The time to begin planning for NS4RW on your plan level should begin now also. Encourage your plan sponsor to adopt a resolution. Think about how to prepare for your plan's activities for the week. Be ready when October comes around to make NS4RW 2010 better than ever.

Our plans face various issues throughout the year and many of them involve some legal issues. NAGDCA is instituting an on-line discussion forum to assist NAGDCA members who are attorneys to be able to discuss and stay on top of the legal issues facing our plans. Any attorney of a NAGDCA government or industry member is eligible to participant in this on-line forum. Attorneys can sign on to the Counsel's Corner at http://forum.nagdca.org. This on-line discussion board will be valuable to the general NADGCA membership as a new information resource.

Finally, NAGDCA will again be sponsoring three web casts in 2010. The first will be held in April and will focus on Congressional and other legislative developments. There is a great deal of discussion in Washington about plan fees, disclosure, reporting, and an after tax savings option. Later in the year NAGDCA will have webcasts on target date funds and best practices in conducting a request for proposal for plan services. These issues were suggested on the evaluation forms returned by NAGDCA members after prior webcasts and at the Annual Conference.

Thanks to all who are contributing their time and talent to making 2010 a successful and rewarding NAGDCA year. I am sure that all NAGDCA members will benefit from the combined efforts of the many talented individuals who make up this great organization.

INDUSTRY VIEWPOINT

Fiduciary Responsibility and Underrepresented Asset Classes in Defined Contribution Plans

By Kurt Walten and Matt Bechard, National Association of Real Estate Investment Trusts (NAREIT)

For decades, defined benefit pension plans have been using real estate, including REITs, within their investment portfolios. This is because pension plans, like numerous academics including widely recognized economists and investment experts consider real estate a fundamental asset class that should be included in all investment portfolios along with stocks, bonds and cash.

The defined contribution world, including 401(k), 403(b) and 457 plans, is rapidly catching up with the defined benefit world in terms of the use of real estate, particularly through the use of publicly traded REITs (real estate investment trusts). And for good reason. Studies conducted by the Center for Retirement Research at Boston College, John Hancock, CEM Benchmarking and others have found that defined contribution plans have underperformed defined benefit plans. The CEM Benchmarking study found that a key driver of the underperformance was the fact that certain asset classes used in defined benefit plans, such as real estate, are not always made available in defined contribution plans. In fact, over the eight-year period used for the CEM study, defined contribution plans underperformed defined benefit plans by 1.8% per year. After 25 years, that difference would reduce a defined contribution plan participant's future account value by 34%.

This raises the question, "are plan sponsors at risk of not meeting their fiduciary responsibility because they are not offering diversifying asset classes (like real estate) in their defined contribution plans already used in their defined benefit plans?" It is a concern that many plan sponsors are working hard to address with their investment offerings.

In terms of investments, the most significant trend in the defined contribution industry is associated with asset allocation products such as age-based ("target date," "life cycle"), risk-based ("lifestyle") funds and managed accounts. This is borne out by industry data, including the recently released paper by consulting firm Casey, Quirk & Associates, which states, "...Target-date funds are becoming the core, if not the sole, product of interest within defined contribution plans..." The use of these products allows defined contribution plan participants to take advantage of professional portfolio management and asset allocation expertise found in defined benefit plans.

Due to the enactment of the Pension Protection Act of 2006 as well as other factors, industry experts believe that it is not inconceivable that within the next decade, a vast majority of the assets within the defined contribution market will be invested in these types of products. According to the Casey, Quirk paper, "target-date and target-risk retirement vehicles will attract 80% of new and reallocated flows into defined contribution schemes for the next decade. Target-date funds alone will swell to $2.6 trillion of assets in 2018 from $311 billion in 2008."

Because of this trend, defined contribution plans will continue to gain greater exposure to diversifying asset classes because investing will be done less by plan participants and more by investment professionals – individuals who understand the importance and value of diversification. These include those individuals who develop target-date funds or advise plan sponsors on these products. In fact, according to PIMCO's 2009 Defined Contribution Trends Survey, which featured 32 investment consultants including seven of the 10 largest in the U.S., consulting firms are promoting diversification and inflation hedging in defined contribution plans by adding asset classes such as TIPS, REITs and commodities.

The question is: How do REITs fit into this new paradigm? The good news is they fit in very well-in part because the primary impediment to their inclusion in the past has been removed. At the time many defined contribution plans were taking off in the 1980s, there was not a simple way to provide participants access to a real estate investment option. Back then, the REIT market did not yet have sufficient size and liquidity to permit defined contribution plans to implement a REIT option. This has all changed in the past 15 years, in what is referred to as the "modern REIT era." Now, the REIT market offers a liquidity pool deep enough for the largest of pension and defined contribution plans.

The increase in the use of real estate particularly through REITs within asset allocation products has been the buzz in the defined contribution industry. Different organizations in the defined contribution industry have focused on the different benefits of REITs. For example, some have focused on diversification and others on inflation-protection. There has been an increase in both the number of fund families which are using real estate in their target date and risk products as well as an increase in the percentage allocation to real estate within these funds. A 2009 Callan Associates industry survey found that 73% of target-date fund managers surveyed had a dedicated real estate allocation in their offerings. A minority of managers had a dedicated real estate allocation as recently as 2005. In addition, based on a survey of more than 400 defined contribution plan sponsors conducted jointly with the Profit Sharing/401(k) Council of America for the purposes of the Casey, Quirk paper, REITs were identified as the most "highly sought" additional target-date fund asset class by far by respondents of the survey.

Regardless of the reason, defined contribution plans that do not currently allow participants access to real estate as part if their asset allocation offerings are likely to consider providing this access, particularly through the use of REITs. According to the Casey, Quirk research, "plan sponsors increasingly believe that the current array of asset classes that existing target-date options provide is likely insufficient to mitigate the broader array of risks they feel their participants now face, including prolonged longevity, more volatile markets, and potential inflation."

WASHINGTON REPORT

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

President Obama and Congress faced ongoing struggles with the economy, as well as an uphill battle to pass major health reform legislation in 2009. The year began with the passage of a major economic stimulus measure and ended with passage of health care legislation in the both the House and Senate.

In the face of continuing economic woes, the Administration proposed a second economic/jobs package—the Jobs for Main Street Act, and, as the House and Senate negotiate final health reform legislation, the President has turned much of his attention to passage of this proposal. In fact, the House of Representatives approved its version of the jobs bill in a close vote (217-212) on December 16. The Senate has yet to act.

Fees Disclosure, Investment Advice and Saver's Credit
Although savings and retirement issues were not top priorities in 2009, some important legislation was introduced in Congress and there will likely be additional activity this year. The Committee on Education and Labor, led by Chairman George Miller (D-CA) produced H.R. 2989, the 401 (k) Fair Disclosure for Retirement Act of 2009.

The bill amends ERISA and requires reporting and disclosure rules for individual account plans. It also seeks to regulate how independent investment advice for participants and beneficiaries is conducted.

The Committee on Education and Labor is in the process of working out a joint bill with the House Committee on Ways and Means. Under a joint bill, it is our understanding that governmental defined contribution plans will also be subject to the provisions which may include, some level of unbundling and a requirement that fees be disclosed annually. The agreement may not address investment advice but would instead rely on pending Department of Labor regulations. It is our understanding that, although considered, there will not be a requirement that an index fund be offered.

A merged bill could move forward for vote by the full House within the next few months. There has been very little activity, however, in the Senate on these issues. Senate committees and staff report that there is definite interest, however, they indicate that the members want more in-depth review of the issues before agreeing to legislation.

On other fronts, Representative Earl Pomeroy (D-ND) introduced the Saver's Credit H.R. 1961, The Savings for American Families' Future Act of 2009. NAGDCA supports expansion of the Saver's Credit and has provided a number of recommendations on how to ensure deposit of the credit into current defined contribution arrangements. This and other retirement related issues may have to wait for tax reform, which Congress and the Administration plan to address, or other legislative vehicles.

National Save for Retirement Week
National Save for Retirement Week was in effect during the week of October 18 and was extremely successful. H. Res. 662 was co-sponsored by Representative Sam Johnson (R-TX) and Representative Allyson Schwartz (D-PA), both members of the Committee on Ways & Means with jurisdiction over state and local government plans. Representative Schwartz also spoke about the National Save for Retirement week in a statement before the House of Representatives and in a Dear Colleague letter sent to members of the House. The letter contains a link to NAGDCA's website for further information on Save for Retirement Week.

A companion resolution was introduced and passed in the Senate, S. Res. 234, originally sponsored by 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. Senator Ben Cardin (D-MD) joined as an additional co-sponsor soon after the resolution was introduced.

State and local governments throughout the country held events promoting National Save for Retirement Week, and the federal Thrift Savings Plan used the Week for promotion events.

Roth 457
NAGDCA continues to advocate strongly for a Roth 457, and met recently with the House and Senate tax committees, as well as the Department of the Treasury to discuss the issue and recently sent a letter to key members of Congress reiterating NAGDCA's well established advocacy of the Roth 457.

NAGDCA Member Spotlight

<u>Ronnie Nichols</u>
What do you do in the retirement industry?
I am the National Retiree Advocate consultant for Great West Retirement Services. After 40 years of assisting participants save money, we need to assist them with ways to make that money last as long as possible.

How has your membership in NAGDCA benefited you/your entity?
I have attended every annual meeting for the last 30years. The networking and the friends that I have made over the last 30 years both Industry and Government is invaluable. Also, the InFRE designation and education.

What is your favorite NAGDCA memory?
This is a sad but important memory, as we gathered in Savannah on September 11, 2001, the tears and the togetherness as we all made it through that day and that week brought us together as a group and as a people. The military choir on the last night added a special period to this very trying week.

If you could meet anyone in the world for a cup of coffee and an hour of conversation, who would you like to meet?
My father who died twenty years ago.

How do you like to spend time away from work?
I play a little golf since I live in Myrtle Beach where we have over 100 courses. I am President of a condo association and also an Elvis Tribute Artist.

<u>Doug Miller</u>
What do you do in the retirement industry?
I work for Suffolk County New York and serve on the county's 457 deferred compensation board as a management representative. I also manage the county's deferred compensation website and the onsite vendor visits and marketing.

How has your membership in NAGDCA benefited you/your entity?
Our plan has two vendors and just over 7,000 participants that include retirees. I would say that my membership in NAGDCA has greatly improved my understanding of the Deferred Compensation plans, how to improve our plan and how best to serve the participants who depend on us to make the right decisions for their retirement planning. As members our board uses the NAGDCA website throughout the year to keep track of changes to laws, take advantage of the online training and connect with other members. Recently NAGDCA helped us with a problem we were having with our local community college becoming independent and how it would impact our plan. NAGDCA was instrumental in arranging a meeting with the IRS and also the New York State model plan administrators that resulted in a resolution. It would have been a very difficult process if wasn't for the guidance and support that we received as members of NAGDCA.

What is your favorite NAGDCA memory?
Our Board attended the Annual Conference in Nashville and aside from the great location it was also the conference that our plan administrator Regina Hilbert was elected as NAGDCA President.

If you could meet anyone in the world for a cup of coffee and an hour of conversation, who would you like to meet?
Robert Ben Moshe The CEO of AIG, I think he is a real salt of the earth New York financial guy that is interested in making the business work in the global market and not just chasing returns.

How do you like to spend time away from work?
I am active in my community and in the Fire Department and enjoy restoring classic cars and antique wooden boats.

Mary Moglia-Cannon
What do you do in the retirement industry?
As a portfolio strategist with a specialty in defined contribution asset allocation products, I am an adjunct to Manning & Napier's investment management team. Much of my time is spent with investment consultants, institutional clients and record keepers. The focus is typically on due diligence issues regarding Manning & Napier's unique approach to investing and to achieving participant objectives.

How has your membership in NAGDCA benefited you/your entity?
I've benefited from increased knowledge of public sector plan specific concerns, and from participation in the investment policy task force. Moreover, the NAGDCA website has proven to be a timely and reliable resource for GAO releases, relevant industry discussions and many important DC-related considerations. While NAGDCA has been providing a valuable service since the 1980s, the association's united effort in the current environment is critical for increased understanding and to impact change.

What is your favorite NAGDCA memory?
I enjoy the industry break out sessions at the annual NAGDCA Conference. The discussions are open, frank and collegial, and there is the sense that committee participation provides a vital service. My favorite memory is that of the candidacy speech given by Cathie Eitelberg of Segal Advisors, just prior to her election to the NAGDCA Industry Committee. She aptly reviewed her qualifications with greater emphasis on the responsibility at large than the individual achievements. In fact, it was that particular session which inspired me to volunteer.

If you could meet anyone in the world for a cup of coffee and an hour of conversation, who would you like to meet?
It's a tie between John Adams and Nelson Mandela, agents of great change at pivotal times in history. Both served as negotiators of peace, both exhibited integrity and commitment to serve the greater good, and both were gifted with superior command of language and intellect. However, similarities end there as Adams was known for his less-than-diplomatic demeanor while the charismatic Mandela became appreciated even by those who would otherwise hate him if inherent biases were not overcome.

How do you like to spend time away from work?
Spending quality time with my husband, Rich, and our daughters, Lauren and Meghan, provides the optimal counterbalance to work. We live on the peripheries of a county park and 'forever wild' foundation land; and we prefer vacations that afford us plenty of time outdoors. Our family seems to re-connect easily when we connect with nature. Hiking fosters conversation, and road biking is a great stress reliever.

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!!!

NAGDCA Industry Associate Member
Peter Gulia
Fiduciary Guidance Counsel

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

- Online Discussion Forum for Attorneys to network, share ideas, and comment on cases
- 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 Website 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

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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