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 2011:

- 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.

The 2011 NAGDCAST Series Begins with a Legislative Update

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 the Capitol Hill meetings and provide an overview of the current legislative environment in Washington. Heading up this webcast will be NAGDCA's Legislative Counsel, Susan White, and NAGDCA's Legislative Chair, Ed Lilly.

Please stay tuned for developments concerning the Legislative Update webcast and the Executive Board's visit to Washington DC.

NAGDCA would like to thank the sponsors of the 2010 NAGDCAST series. Without their support these events would not be able to take place. We need sponsors for the 2011 NAGDCAST series. Special thanks to ICMA-RC and TIAA-CREF for signing up early. If you are interested in sponsoring the 2011 NAGDCAST series please click here or contact Kari Emmons at 859-519-9218 or kemmons@amrms.com.

PRESIDENT'S CORNER

NAGDCA Members,

We've just entered the second decade of the 21st century. Congress received a makeover, and the country is hopeful for a new economy in the upcoming years.

2011 should be an exciting and busy year for NAGDCA members. As you know, the Executive Board, along with Susan White, Legislative Counsel, have been working tirelessly over the last several years to get a Roth 457. Those efforts finally paid off on September 27, 2010, when President Obama signed into law the Small Business Jobs Act of 2010. The new law means that beginning this month, January 2011, governmental 457(b) plans will be able to offer a Roth account. It also provides for Roth conversions within the plan. Many plan sponsors are planning to offer the Roth and so the timing of the NAGDCAST on December 8 couldn't have been better. Dean Weltman, Plan Compliance Officer for the City of New York, provided excellent insight and suggestions to plan sponsors considering adding the Roth. New York City has had a Roth 401(k) in place for several years. Dean's input on the demographics and history of the Roth 401(k) and deemed IRAs were both interesting and helpful. The presentation is available on the NAGDCA website.

I want to thank all of the NAGDCA members who have volunteered to serve on committees and task forces in 2011. Assignments were made at the November Executive Board meeting and all volunteers were placed on a committee or taskforce.

Evaluations for the Annual Conference in Philadelphia, PA received an overall favorable response – with an average rating of 8 out of a possible score of 10 points. The top ranked sessions were the keynote presentation with Peter Ricchuiti, the Washington Update, IRS Update, Stable Value Funds and Fixed Account Options: Best Practices, Target Date Funds - "New Trends", and Keep Participants Saving for Retirement. The evaluations are very important and we appreciate members' input as it helps us improve the conference from year to year. Julia Durand will lead the 2011 Annual Conference Committee, which will be held in Albuquerque, NM.

The Board plans to once again seek bipartisan resolutions from the House and Senate for National Save for Retirement Week (NS4RW). We believe NS4RW has increased both awareness and participation in defined contribution plans across the country as employers celebrate the week with open house events, workshops, email blasts and web messages about the importance of saving for a secure future.

The Arthur N. Caple (ANC) Foundation's raffle was very successful in 2010, bringing in $2,000. Donations to the ANC Foundation returned to the level seen in 2008 due in large part to the matching donor program. Thanks to everyone who supported the foundation last year. Congratulations to Graham Brown, the winner of the 2010 ANC scholarship award who was recently offered a position at SunTrust Robinson Humphrey in Atlanta where he will provide financial analysis of the companies the bank lends money.

I am pleased to announce the addition of an internship section on the NAGDCA website. Industry members with internship programs can add openings on the site, and that information will be pushed out to the universities that have a financial planning program connected to InFRE. This service is free of charge and the process is easy to complete. Please contact Kari Emmons for additional information on the Internship program.

I am honored to serve as President, and I am looking forward to working with all of you and hope you will call me if you have any questions or concerns.

INDUSTRY VIEWPOINT

Happy New Year! Let's Review

By Bob Beasley, CRC®, CIC®, Nationwide Retirement Solutions

One of the best tools to boost productivity, increase morale and get better outcomes is a performance evaluation. That's why many employers conduct them with employees annually. In this case, we're not going to discuss employee evaluations; rather, it's time to **consider an annual review for your deferred compensation plan**.

Why conduct an annual review? Perhaps first and foremost, to ensure the plan is acting in the interest of plan participants and their beneficiaries, following it plan documents and procedures, and being operated in accordance with current legislation and regulation.

Secondly, reviews can help reveal what has been done successfully, where improvements may be made and opportunities that may be as-yet untapped.

Thirdly, conducting an annual review can help avoid misunderstanding. Well-designed reviews can help foster a collaborative approach to long-term plan administration. They can help the plan sponsor, plan provider and other parties responsible for the plan's success gain a shared understanding among of "how we got here vs. where we wanted to be."

> *If you don't know where you are going, you will probably end up somewhere else.*
>
> – Laurence J. Peter

Put in context, the review is the last step in an annual plan, with its recommendations providing the first step in the next planning cycle. But, if your deferred comp plan has never prepared an annual plan, conducting a review can be a good place to start. It can be as comprehensive or as high-level as you'd like, but boiled down to its simplest form, a successful review tends to be based on three criteria:

1. *Standard measurement* – The sponsor and provider need to agree on what's being measured as well as how it's being measured.

2. *Benchmarking* – By using the last review as a standard for the next review, the plan can ensure the results compare apples-to-apples.

3. *Objectivity* – The review should let the data tell the story. Where data are not available or insufficient, the report should note that condition so that future reviews can avoid confusing "feeling" with fact.

Service providers can pull together reports that can help you understand how your plan is operating, and help you decide what to keep, what to grow, what to change, and what eliminate. Data to be reviewed may include:

- *Cash flow* – contributions, distributions and loans (if applicable).

- *Net flow* – contributions and distributions by plan investment option.
- *Average contribution by age of plan participants* – an indicator of whether contributions are substantial enough to accumulate an account balance that may provide a secure retirement, and whether a particular age group may need to be targeted with messages that encourage increased contributions.
- *Participation rates by age of plan participants* – to help you decide with a specific age group is under-represented in the overall participation rate in the plan and against established benchmarks.
- *Average deferral percentage by age* – to help you decide with a specific age group is under-deferring vs. other age groups in the plan and vs. established benchmarks.
- *Asset allocation by age of plan participants* – can help you decide whether a specific segment of your participant base needs more education about the benefits of asset allocation.
- *Average number of funds participants are invested in* – an important indicator of whether participants, as a group, are adequately diversified.

> The use of diversification and asset allocation as part of an overall investment strategy does not assure a profit or protect against loss in a declining market.

Through a well-developed and implemented annual process, you and your service provider can develop, observe and respond to trends that the reviews can identify – which can help ensure the plan is allocating its operating resources appropriately.

INDUSTRY VIEWPOINT

The Rise of Emerging Markets

By Vincent Galindo, Americh Massena

“Made in China,” “Made in India,” and “Made in Brazil” are as familiar to American citizens as the everyday objects they are stamped on. While these emerging markets and others have become an integral part of our lives as consumers, they are gaining interest among investors as well. Consider:

- Nearly half (46.1%) of the world’s Gross Domestic Product (GDP) comes from emerging markets.[1]
- More than a third (34.1%) of the world’s exports are produced by emerging markets countries.[1]
- And 85% of the world’s population is in emerging markets countries.[1]

Until now, emerging markets have played a minor role in defined contribution plans, if any at all. However, as developing countries garner the world's spotlight, it may be a good time to give some consideration as to how this asset class is incorporated into your plan.

Gaining in growth

In the last decade, developing countries have grown from being 37% of the world's share of GDP to nearly half of the world's GDP. And the pace of growth appears to be accelerating. The International Monetary Fund projects the GDP growth of emerging and developing economies at 6.5% and 6.7% for 2011 and 2015, compared to the projections for advanced economies of 2.4% and 2.3% for the same periods. Economists largely agree that developing economies have led the recovery and will continue to drive world economic growth in the near future.

What makes a country a developing market?

A variety of classification systems exist to separate developing from developed markets, based on factors such as a country's economic development, affluence, and the sophistication of its securities market.

According to the World Bank, "In developing countries, the majority of population makes far less income, and has significantly weaker social indicators, than the population in high-income countries. A developing country is one in which the majority lives on far less money- and often lacks basic public services- than the population in highly industrialized countries.

Demographics

Why such rapid growth? Not only has the population expanded, with the largest increase being in developing countries, but the demographics of emerging markets countries have shifted. More and more of the population is rising to a middle class socioeconomic level with a resultant increase in consumer demand.

Risk

The increased risks of investing in emerging markets are well-known; uncertain politics, lax regulations, and varying reporting and accounting practices can make for a bumpy landscape. And the emerging markets asset class, historically, has had a higher level of volatility than other asset classes. However, there are some ways in which emerging markets may offer reduced risk. Developing countries, on the whole, have better balance sheets and less debt than developed nations. In the current economic environment, this may prove to be a substantial advantage over more developed countries.

Correlation

Efficiently diversified portfolio construction relies upon the inclusion of asset classes with low correlation (that don't move similarly to one another). As developed international markets have begun to correlate to a greater and greater extent with U.S. markets, finding lower correlation to boost a portfolio's diversification has become more difficult. Emerging markets, with historically low correlation to U.S. markets, may be able to add efficiency to a diversified portfolio.

Making it possible for your employees to participate in the opportunities of emerging markets may be easier than you think. Many international funds incorporate emerging markets into their holdings. You might also consider including a dedicated emerging markets fund among your fund options. In either case, some participant education about emerging markets and both the risks and benefits will help your employees make the most of the opportunity. Alternatively or adjunctly, you might include emerging markets as a portion of target-date or risk-based pre-mixed portfolios.

This way, you have greater control over how emerging markets are allocated into the overall portfolio.

1 International Monetary Fund, World Economic Outlook, April 2010

Prominent Emerging Markets Countries and GDP Growth				
Country	**2008 Real GDP***	**2009 Real GDP***	**Projected 2011 Real GDP***	**Projected 2015 Real GDP***
Brazil	5.1	-0.2	5.5	4.1
China	9.6	8.7	10.0	9.5
Colombia	2.4	0.1	2.2	4.5
Egypt	7.2	4.7	5.0	6.5
India	7.3	5.7	8.8	8.1
Indonesia	6.0	4.5	6.0	7.0
Mexico	1.5	-6.5	4.2	4.0
Russia	5.6	-7.9	4.0	5.0
South Africa	3.7	-1.8	2.6	4.5
Turkey	0.7	-4.7	5.2	4.0
Vietnam	6.2	5.3	6.0	7.5

Source: International Monetary Fund, World Economic Outlook, April 2010
*Real GDP is an inflation-adjusted measure that reflects the value of all goods and services produced in a given year, expressed in base-year prices.

INDUSTRY VIEWPOINT

2011 RESOLUTION FOR DC PLANS: SIMPLIFY AND DIVERSIFY

By Jonathan Hubbard, CFA and Ravi Venkataraman, CFA

Defined contribution (DC) plan sponsors have been thrust center stage during the current retirement savings crisis facing American workers. The Pension Protection Act of 2006 and subsequent depart of Labor regulations gave DC plan sponsors the ability to increase participation rates and levels through auto enrollment and auto escalation. Plan sponsors can also default participants into a qualified default investment alternative (QDIA), which provides participants with exposure to multiple asset classes. While these are steps in the right direction, the reality is that many DC investors do not have well-diversified portfolios that are optimized to help them achieve their retirement savings objectives. In this article, we focus on two key DC investment-focused issues related to helping participants build portfolios that are more likely to achieve their objectives: simplification of investment lineups and inclusion of non-traditional asset classes and strategies.

Simplification of Investment Lineups

Problem: In many DC plans, the ultimate investment decision is still often in the hands of plan participants, many of whom have neither the knowledge nor the desire to create optimal portfolios. Over the past 10 to 15 years, investment lineups have ballooned. The addition of equity funds to fill every style box has been a particular driver of expanding investment choices. The average 401k plan has over 18 different investment options and many participants do not optimize their use of these options. Even participants who invest in target-date funds may not be optimizing their investment choices. In fact, a recent study by the Employee Research Benefit

Institute found that that 55% of target date users mix and match other investments with their target date holding, which is intended to be an all-in-one investment choice.[1]

Implications: If a participant is overloaded with investment choices, he or she may put all of their assets in just one investment, spread it evenly over all investments, or make otherwise suboptimal choices. The result can be an under-diversified or over-diversified portfolio that does not get the participant to his or her desired retirement goal.[2] Mixing and matching target date portfolios has serious implications, including invalidating the target date fund's glide path and altering the employee's risk reward mix. Research has shown that many plan participants don't understand, don't have time, or just don't care about learning even the most basic investment tenants.

Best practice: Plan sponsors, through a methodical, process-oriented selection process, should design a plan lineup that includes a range of well diversified investment options. Some plan sponsors choose to offer multiple tiers, such as target-date tier, a core do-it-yourself tier, and an extended-choice tier, which allows different investor types to navigate within the tier that is most appropriate for their investment approach.

For the **target-date or target-risk tier**, multi-manager strategies may make much sense as they offer diversification across asset classes and best-in-class managers in a packaged solution. While there should always be transparency to the underlying investments, the emphasis here should be on clearly and simply communicating investment objectives and factors to be considered in making in appropriate selection. For the **core do-it-yourself tier**, multi-manager or well-diversified single-manager strategies can be used to provide investment options across broad asset classes such as domestic equity, global/international equity, fixed income, and cash. When selecting core options within each asset class, plan sponsors should pay special attention to managers' style specificity, consistency of performance, and risk management processes. The **extended tier** can be in the form of a brokerage window that allows sophisticated investors access to a wide range of investment options that includes specialist investment managers with potentially narrower investment objectives. The goal should be to provide more choice in assembling the building blocks of a diversified portfolio rather than to offer esoteric strategies.

Non-traditional asset classes and strategies

Problem: Ease of communication, affinity for brand names, and perceived simplicity have typically been drivers of asset class selection for a core lineup. As a result, many plan menus offer too many funds that are highly correlated and invest in traditional areas of the market. Most institutional investors would agree that adding alpha and beta generating strategies in lesser correlated asset classes could benefit the outcome of participant portfolios. Non-correlated asset classes have the potential to move out the efficient frontier and provide potential for a better risk/return profile.

Implications: Over exposure to only traditional asset classes may prevent a participant from optimizing his or her risk/return profile. Offering a large number of style-based equity options often does a disservice to participants as these funds are generally highly correlated. The correlation matrix in Exhibit 1 highlights a few major asset classes that are found in some target date portfolios. A well designed portfolio that includes low or non-correlated asset classes may provide investors with a smoother ride and the potential to improve their risk/return profile. Now consider the higher correlations among the six most common equity options in DC plans (Exhibit 2), illustrating that many plans do not have well-diversified options.

Exhibit 1: Asset class correlation matrix including non-traditional asset classes

February 1972 to December 2009

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[1] EBRI Notes, December 2009 Volume 30, No. 12
[2] Of course, diversification does not guarantee a profit or protect against a loss.

US Bond					
0.20	US Equity				
0.12	0.61	Int'l (non-US) Equity			
0.18	0.58	0.44	Real estate		
-0.07	0.05	0.10	0.05	Commodities	

Research has shown that investing in asset classes that have exhibited low to moderate correlations with each other may provide investors with a smoother ride and the potential to improve their risk/reward profiles.

Sources: Bloomberg, Datastream, NAREIT.com, Barclays Live US Bond is based on Barclay's Aggregate Index data. US Equity is based on S&P 500 Index data. International (Int'l) Equity is based on the MSCI EAFE Index data. Real Estate is based on REIT Index data. Commodities is based on Goldman Sachs Commodities Index data. It is not possible to invest directly in an index.

Exhibit 2: Asset class correlation matrix of most common DC equity options

November 2000 to October 2010

US Large Cap Core Equity					
0.96	US Large Cap Value Equity				
0.96	0.84	US Large Cap Growth Equity			
0.83	0.90	0.72	US Small Cap Value Equity		
0.89	0.83	0.90	0.88	US Small Cap Growth Equity	
0.89	0.89	0.82	0.78	0.80	Non-US Large Cap Core Equity

In contrast to the low to moderate correlations exhibited among the diverse asset classes in Exhibit 1, the most common equity options in defined contribution plans are highly correlated and therefore not well-diversified.

Sources: Morningstar DirectSM.US Large Cap Core Equity is based on S&P 500 Index data. US Large Cap Value Equity is based on Russell 1000 Value Index data. US Large Cap Growth Equity is based on Russell 1000 Growth Index data. US Small Cap Value is based on Russell 2000 Value Index data. US Small Cap Growth is based on Russell 2000 Growth Index data. Non-US Large Cap Equity is based on MSCI EAFE Index data. It is not possible to invest directly in an index.

Key for both exhibits:

Correlation range

No correlation	-0.10 to 0.10
Low correlation	0.11 to 0.39
Moderate correlation	0.40 to 0.69
High correlation	>0.69

Best practice: Target-date portfolios, target-risk portfolios, and managed accounts allow sponsors to offer investments with exposure to lower correlated asset classes via well diversified portfolios. If plan sponsors are considering off-the-shelf target date funds, they may wish to examine those that include non-traditional investments. Plan sponsors may also want to consider building their own custom target date portfolios which provide the luxury of selecting best-in-class managers from a variety of asset classes. Examples of non-traditional asset classes include: emerging market debt, concentrated equity portfolios, Treasury Inflation Protected Securities (TIPS), absolute return strategies, commodities and real estate. These can be a combination of actively managed and passively managed, and can be constructed by many consultants, investment managers, and recordkeepers with expertise in creating custom asset allocations and glide paths. A custom target-date suite of funds also allows plan sponsors to consider the participant demographics unique to their plan and design funds accordingly.

While the challenge of communicating a non-traditional investment option cannot be overlooked, it should not be the reason for exclusion of these strategies, particularly if they are offered in a manner that increases the likelihood of appropriate use, such as with a target date portfolio or predetermined asset allocation model. Even within a core tier, a small number of internally-diversified portfolios with distinct risk and return characteristics (such as US equities, real assets, absolute return, fixed income) may make more sense that a large number of like funds, most of which tend to be equities. A mix of active and passive management could be used to help control or manage overall costs and deliver the core characteristics of the asset class in a cost effective manner while paying up for alpha.

Conclusion

Plan sponsors have a significant opportunity to help their participants achieve successful retirement savings outcomes. Recent legislative actions have created an environment where plan sponsors can take a more prominent role in guiding participants onto a path that will increase the likelihood that they meet their savings goals. Plan sponsors would be well served to engage with their consultant, recordkeeper, and asset managers to revisit the important topics of simplification of investment line ups and inclusion of non-traditional asset classes. Continued improvement in these key areas will allow DC plans to accelerate their evolution toward becoming leading institutional investors, proficient at helping American workers achieve successful retirement savings outcomes.

This article was excerpted from a longer white paper "Applying institutional investor best practices to defined contribution plans" available within the institutions and consultants area of mfs.com.

INDUSTRY VIEWPOINT

Behavioral Finance and the Government Worker

By Deborah Dupont, Director, ING Retirement Research Institute and Wendy Young Carter, Director, ING Strategic Client Relationships

Five or ten years ago, “Behavioral Finance” was an unfamiliar term even to those to whom the term potentially matters most: employers who seek to offer savings plans that improve their employees’ financial retirement prospects. To be fair, though, five or ten years ago a deep understanding of “Behavioral Finance” wasn’t as critical as it is today, particularly for the government employer and worker. It is only in recent years, with economic upheavals, and increasing budget pressures on state and local governments, that understanding how and why individuals make retirement investment decisions and take action -- or fail to do so – has become increasingly important.

In response to these pressures, some governments have reduced expected benefits, changed formulae, introduced less-generous “tiers” for newer employees and – in a new trend – even replaced the defined benefit pension with a defined contribution plan for incoming workers. We see this trend continuing to grow in the public sector. This potential erosion of governmental defined benefit retirement programs only increases the importance of employer-sponsored retirement investment programs such as 457 deferred compensation and other defined contribution arrangements. It has never been more crucial for the government worker to take his or her retirement security more firmly into his or her own hands. Workplace investment programs, which offer the ease and convenience of payroll deduction, are a logical place for them to start – hence the new importance of understanding Behavioral Finance in the governmental workplace.

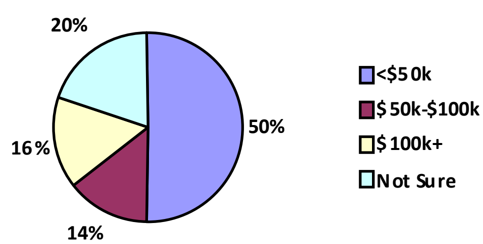
Behavioral Finance research tells us that retirement investing can be far from a rational and measured process. People act more upon their emotions, environments, inclinations, habits and mindsets – whether consciously or unconsciously – than they do on rational processes. In the past this field of study has focused on employees in the private sector. New research helps shed light on these dimensions as they apply to state and local government workers, how they view themselves and their financial situations, how they make decisions, who and what they trust.

It is by better understanding the government workforce that we can help government employees take the actions – especially within their employers' investment programs – that can help them achieve improved retirement results.

The Government Workforce

The study focused on state and local government workers. In general, 82% of this workforce is 35 or older, and 41% are in the critical savings years of age 51+. Yet fully half of the government workforce reports employer-plan retirement savings of less than $50,000.

Employer Retirement Plan Savings 1



Survey results demonstrate that the government workforce skews slightly higher female than the general population (54% vs. 50%[i]). 56% are married or report having a domestic partner; 34% have children younger than 18 in their households, and two thirds report household incomes of $75,000 or less.

Survey Results -- Attitude and Mindset

Government workers are personally and financially conservative, risk averse in both their personal lives and investment philosophies. Only 2% report that they are aggressive investors; only 26% say that they are risk-takers in their personal lives.

They feel that employment issues are the greatest challenge facing America today, but they are (if not actively optimistic), less pessimistic about our ability to address unemployment in the next 3-5 years than they are about healthcare costs and retirement security. Most (85%) are reasonably comfortable in their ability to put food on the table and pay their monthly bills (79%). But less than half (just 39%) think that they are saving enough for retirement.

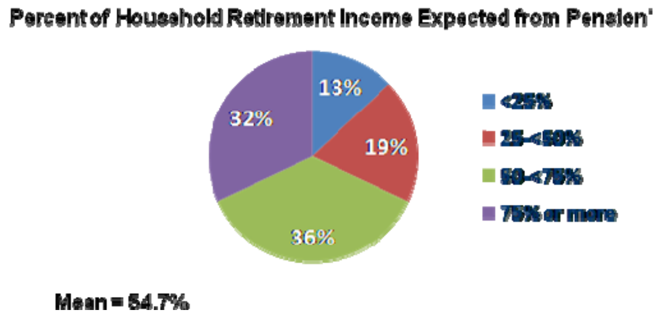
Government Workers and their Pensions

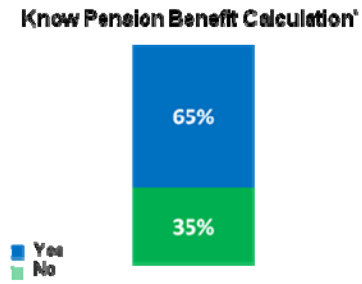
Most government workers expect pensions, but there is high uncertainty about the dependability of their pension income… and many do not understand the mechanics of how that income will be calculated.

The majority of today's government workers do expect that they will receive a pension – 71% report that they are pension-eligible. They expect that they will receive just over half (55%) of their retirement income from this pension on average – but a third (32%) think that pension income will be 75% or more of their retirement income. Two-thirds (65%) say that they understand their pension benefit calculation, which means that fully one third (35%) do not.

And only half (51%) of government workers who expect a pension express confidence that this income will remain unchanged throughout their retirement.

Of those who report that they supplement their retirement savings though an employer-sponsored plan, half (51%) wish that they could save more. Interestingly, 10% of government employees are not sure whether they are saving in their employer's plan or not.





More to Understanding Government Workers
These insights are the key to understanding how government employees think, feel about themselves and make decisions. The methodology and results of the full study – and there is much more! – are available at INGRetirementResearch.com.

[1] 49% - 51% female for the general population, depending on the source

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INDUSTRY VIEWPOINT

Impact of Automatic Enrollment on Defined Contribution Plans, Lessons from the Private Sector

***By** Pamela Hess, CFA, Director of Retirement Research, Aon Hewitt and Valerie Kupferschmidt, JD, Benefits Counsel, Aon Hewitt*

Automatic enrollment (also known as negative election) is not currently a prevalent feature among governmental 457(b) plans; however, in the private sector, the use of automation has soared in recent years and become prominent. In light of the increasing importance of defined contribution plans on the future retirement income of employees, many corporate plan sponsors have leveraged automation to both default employees into the employer plan and increase their savings rates. This article summarizes employer trends related to automatic enrollment, as well as the impact on employees and their saving and investing behaviors.

Private Sector Employer Trends
While automatic enrollment had already begun to resonate with the private sector, the passage of the Pension Protection Act of 2006 (PPA) propelled it further. PPA contains provisions that have increased the appeal of this design feature for 401(k) plan sponsors. These provisions include a new safe harbor design option allowing those plans to bypass some nondiscrimination testing requirements and fiduciary protection for plans that use Qualified Default Investment Alternatives (QDIAs), which are target-date funds, target-risk funds and managed accounts. With the support from PPA, automatic enrollment has become a standard in 401(k) plans, employed by 57% of 401(k) plans in 2011, up from just 19% in 2005.3 Notably, the vast majority (81%) of employers only automatically enroll new hires, as opposed to also defaulting existing nonparticipating employees.

[1] Source: Aon Hewitt 2011 Hot Topics in Retirement and Trends and Experience in 401(k) Plan surveys.

Investment defaults under automatic enrollment have shifted to diversified investment options, largely due to the impact of QDIAs. Currently, 69% of plans default participants' funds into a target-date fund. Conversely, only 5% of plans default into money market or stable value funds, down from 56% in 2005. Default contribution rates have been slowly climbing, with 35% of employers defaulting participants at a 4% contribution rate or higher (up from only 17% in 2005). Further, 40% of plans with auto enrollment also combine it with automatic contribution escalation, where employees can have their contribution rates automatically increased over time without any additional action. Half of these employers are escalating employees to target rates between 8% and 15%.

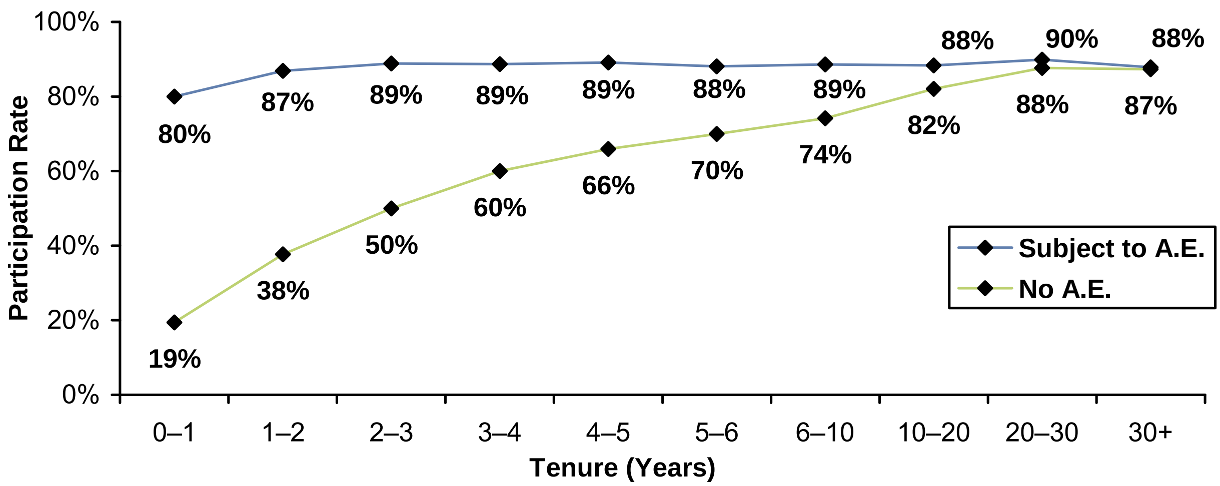
Impact on Employee Saving and Investing Behaviors

Aon Hewitt's 2010 Universe Benchmark report studied the behavior of 2.9 million eligible employees across approximately 120 large defined contribution plans, and assessed their savings and investing behaviors. Clearly, automatic enrollment has had a significant impact on behaviors, and plan sponsors can utilize this knowledge to improve and expand upon their current plan design and participant communication efforts.

Participation rates are dramatically impacted when automatic enrollment is utilized, and opt-outs are relatively low. On average, plans with automatic enrollment features had a participation rate of 86%, 21 percentage points higher than those without automatic enrollment. A significant benefit was witnessed across all demographics (by tenure, age, and salary) and especially among demographics where participation has been subpar.

Younger participants are greatly aided by automation. Among 20- to 29-year olds, participants subject to automatic enrollment had an average participation rate of 85%, dramatically higher than those not defaulted, which was just 43%. When viewed by tenure, participation rates among those who were subject to automatic enrollment are consistently high across all levels. As the chart below illustrates, each group had a participation rate in excess of 80%.

Participation Rates—by Tenure



Although automatic enrollment greatly enhances participation rates, the defaults that are used are extremely important given participant inertia. Current contribution rate defaults are often conservative. Thus, as a stand-alone solution, auto enrollment can still hinder savings rates as participants are prone to remain at the defaults for an extended period of time. The average contribution rate of participants subject to automatic enrollment is 6.9%, versus 7.7% for those enrolled on their own. Research supports that defaulting employees at higher savings rates does not lead to increased opt-outs (or lower participation rates). In order to further help employees reach their retirement savings goals, it is important for plan sponsors to choose a higher default contribution rate under automatic enrollment, and/or use contribution escalation in conjunction with automatic enrollment.

Just as important as "how much" employees save is the issue of "how they invest" or where their retirement nest egg is being invested. Recent employer adjustments to defaults have significantly aided participants in recent years, as most plans now default to diversified portfolios, mainly target-date portfolios where employees are defaulted by age. As a result of participant inertia, target portfolios are the primary investment holding for 69% of participants subject to automatic enrollment, versus only 45% of those not subject to automatic enrollment. Due to use of target-date funds, auto enrollees are more diversified than their counterparts, and also have a rebalancing strategy in place, both of which have significantly aided results in recent years.

Conclusions—Lessons from the Private Sector
Automatic enrollment is becoming increasingly prevalent in 401(k) and 403(b) plans, and it is likely to become an important feature within governmental 457(b) plans in the coming years. Experience so far indicates that automatic enrollment can dramatically improve employee behavior. Automation immediately defaults, and keeps, the vast majority of employees into the plan. It is also evident that, while participation may rise, the quality of participation is greatly influenced by participant inertia and the decisions that employers make as to defaults for contribution rates and investments.

As governmental 457(b) plans consider utilizing automatic enrollment, these findings suggest that plan sponsors should consider the following when adding or redesigning an automatic enrollment feature:

- Enroll all employees instead of just new hires;
- Choose a higher default contribution rate of 4% to 6%;
- Combine with automatic contribution escalation, and escalate to 10% or up to 15%;
- Use diversified default investment options, such as target-date portfolios that align age and risk; and
- Continue to use targeted communications to encourage participants to increase contributions, improve investment diversification, and discourage loans and early withdrawals.

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

Elections and Leadership

The recent elections led to a loss of sixty three House seats, and the majority, for the Democrats and six Senate seats leaving a split government it is unclear how much legislation will be passed in the next Congress. Many of these Republicans ran and won with few campaign promises except to cut the deficit and it is unclear at this time how this will be accomplished. Due to the animosity that has built up in recent Congresses between the two parties it remains to be seen if either party will be willing to compromise to pass significant legislation in the near future.

Leadership in the Senate will remain the same for both parties as Senator Harry Reid (D-NV) was re-elected and will remain Majority Leader and Senator Richard Durbin (D-IL) will remain as Majority Whip. For Republicans Senator Mitch McConnell (R-KY) will remain as Minority Leader and John Kyl (R-AZ) as Minority Whip. With the Republican takeover of the House of Representatives John Boehner (R-OH) became the Speaker of the House, Eric Cantor (R-VA) became the Majority Leader and Kevin McCarthy (R-CA) became Majority Whip. Democratic leadership in the House has returned to what it was before 2006 as Nancy Pelosi (D-CA) is returning to her role as Minority Leader and Steny Hoyer (D-MD) is becoming Minority Whip.

Committee leadership in the House changes as well as Dave Camp (R-MI) takes over as Chairman of the House Committee on Ways & Means and previous Chairman Sander Levin (D-MI) becomes Ranking Member. The House Committee on Financial Services, which has jurisdiction over financial reform legislation is being chaired by former Ranking Member Spencer Bachus (R-AL) and the Ranking Member is former Chairman Barney Frank (D-MA). The House Committee on Education and Labor Chairman and Ranking Member have also switched positions and John Kline (R-MN) is Chairman and George Miller (D-CA) has become Ranking Member.

In the Senate, Senator Max Baucus (D-MT) remains Chairman of the Senate Committee on Finance and Charles Grassley (R-IA) is still Ranking Member. The Committee on Health, Education, Labor and Pensions kept Tom Harkin (D-IA) as Chairman and Mike Enzi (R-WY) as Ranking Member.

The National Commission on Fiscal Responsibility and Reform

The National Commission on Fiscal Responsibility and Reform released their final report in December and although this report will not be sent to Congress, as the necessary fourteen of eighteen members did not vote for the final report, the proposals are public and it is possible they will be brought up in the next Congress as possible ways to raise or save money.

The majority of the Commission's report did not focus on retirement and pension related issues, however the report does contain a proposal to consolidate retirement accounts, cap tax-preferred contributions to the lower of $20,000 or 20% of income and expand the Saver's Credit.

In previous years NAGDCA has been on record in the past in opposition to consolidation of all defined contribution plans, given the potential unintended consequences, such as loss of the 457(b) exemption from the ten percent excise tax penalty for early withdrawals. The consolidation proposals, put forth in the Bush Administration, were ultimately defeated in Congress.

Financial Reform

NAGDCA advocated on behalf of governmental defined contribution plans during the development of the financial regulatory reform legislation last year-- Public Law 111-203 (The Dodd-Frank Wall Street Reform and Consumer Protection Act) to ensure that restrictions affecting stable value funds do not apply to investment wrap contracts.

The final measure was silent on whether such contracts would be defined as swaps and therefore subject to tighter restrictions or disallowed. Instead, the new law requires the Securities and Exchange Commission (SEC and the Commodity Futures Trading Commission (CFTC) to review the matter and issue a report to be released within fifteen months of the passage of the legislation last July.

NAGDCA is working with the newly appointed Legislative Committee to finalize a letter to both agencies outlining the concerns relating to governmental plans and wrap contracts and is working with other interested public employee and plan parties on the issue.

Fee Disclosure

The House Committee on Education and Labor, led by Chairman George Miller (D-CA) passed H.R. 2989, the 401 (k) Fair Disclosure for Retirement Act of 2009. No movement had occurred on that bill since the bill was successfully reported by the Committee. However, parts of it were added to a tax extender/jobs legislation bill that passed the House over the summer but these provisions were ultimately removed by the Senate and never became part of a bill that passed both chambers of Congress.

These sections would have required additional disclosure to both plan administrators and participants. In particular these provisions would require a written statement to the plan administrator describing the services to be provided and the total annual revenue to be collected by the service provider. For plan participants this would require the plan administrator to provide employees with a notice describing the plan and characteristics of each investment option. Included in this notice would be a plan fee comparison chart. Plan administrators must also provide employees with a quarterly benefit statement that includes information on each investment option that the employee is invested in. Small plans are only required to provide annual statements.

Given the changes in Congress, it appears likely that no further legislation on fee disclosure will advance during the next year.

Around the Country

The Need for On-going Fiduciary Education and Training

By Mary Willett, CRA®, CRC®, Willett Consulting

The start of a New Year is a perfect time to evaluate training needs of staff as well as members of committees and boards. Retirement plans are becoming more complicated and workforce needs are changing rapidly. All parties with responsibility for the retirement plan need to understand their fiduciary role and what they must do to meet their responsibilities. They also should have a basic knowledge of the federal tax laws and regulations that govern the retirement plan. What this means to public sector employers is that there are many more difficult issues that plan fiduciaries must understand and take into consideration when making decisions.

State and local government deferred compensation plans are often governed by boards and/or committees whose members are plan fiduciaries, along with benefits directors and staff, who have ultimate responsibility for the plan. Turnover may be frequent, as new political appointments are made, terms expire, or individuals retire or terminate their employment. Generally, the deferred compensation plan is not the primary job of the fiduciary and time spent in the deferred compensation role may take up only a fraction of the individuals' day or week. As a result, there may be little opportunity to gain knowledge about the plan, governing laws and regulations, and best practices within the field.

Although outside expertise can be brought in to help fiduciaries with decisions, education to ensure responsibilities are adequately understood is an absolute necessity. This is because plan fiduciaries will always be ultimately responsible for any decisions that are made, even when delegated to third parties. Not knowing what is required or expected is not a defense for violating fiduciary responsibilities. In fact, just the announcement that "I don't know" brings with it a certain amount of liability, even if the wrong decision was not made.

The increased legislative and regulatory environment, focusing on retirement related issues and employer-sponsored plans, also places even more emphasis on the need for on-going fiduciary education, often as frequently as annually. General topics that should be covered in on-going fiduciary education include:

- Identifying all individuals and contractors that have (and don't have) a fiduciary responsibility to the plan.
- Understanding the basic fiduciary duties as set forth in federal, state and local laws and potential liabilities for failure to meet these responsibilities.
- Recognizing the mandatory and permissive features of the plan as required in federal laws and regulations and any state statutes and ordinances that may also apply.

- Determining how can fiduciaries ensure can meet their responsibilities to the plan and its participants and the best practices that should be followed.
- Identifying when to outsource and what should be considered when awarding contracts.
- Recognizing and avoiding conflicts of interest.
- Understanding current industry trends and legislative/regulatory activities that could impact the plan and its participants.

The good news is that you don't have to handle fiduciary training on your own. There are a number of national organizations that provide periodic educational opportunities either in-person or through Web casts including NAGDCA and the International Foundation for Retirement Education (InFRE).

In fact, InFRE is updating their Retirement Administrator curriculum to focus on the unique needs of the retirement benefits of state and local government employers. Throughout 2011, InFRE will be reintroducing its educational program as e-learning and in-person training opportunities. Watch for frequent updates from InFRE on their Web site at http://www.infre.org/RetirementAdministratorTraining.shtml for more information about their education and training programs for public sector plan administrators and members of boards and committees.

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!!!

Local Government Member
San Diego Convention Center Corporation

Primary Industry Member
Callan Associates Inc.
Bidart & Ross, Inc.

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 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 or contact her at 859-514-9161 with any questions or comments.

Editors:

Kari Emmons
NAGDCA Project Coordinator

Tracy Tucker
NAGDCA Association Director

Chris Walls
Senior Publications & Website Coordinator