

TOP STORY

NAGDCA Seeks Qualified Speakers for the 2012 Annual Conference

The National Association of Government Defined Contribution Administrators (NAGDCA) is now seeking moderators, facilitators and panelists for its 2012 Annual Conference in San Diego, CA on September 29 – October 3, 2012. This year's theme is Surf's Up for a Secure Retirement. Through the hard work of the 2012 annual conference committee, the conference is sure to be an educational experience, and will offer clarification on many ongoing issues. Knowing that our members want to be apprised on all issues, sessions at this year's conference will cover a wide range of topics including:

- DC 101 – RFP Selection Process
- DC 101 – Fiduciary Responsibility and the Investment Policy Statement
- Alternatives in Plan Administration Fee Assessment and Collection Models
- 403(b) Compliance
- Critical Questions for Fiduciaries about Guaranteed Income Products
- Challenges and Opportunities in Implementing the new DoL Participant Fee Disclosure Requirements
- Benchmarking Your Plan
- Investment Innovations
- The Impact of Social Media in Communicating with Participants
- Stable Value Funds

[Click Here](#) to access the speaker solicitation form. Forms must be submitted by May 4, 2012 for consideration. If you have questions regarding the speaker selection process, call Kari Emmons at 859-514-9218 or e-mail (kemmons@amrms.com).

Conference registration and hotel reservations will open soon. The room rate is \$217/night at the Sheraton San Diego Hotel & Marina. Visit the [NAGDCA website](#) for more information.

Government Defined Contribution Leaders Meet with Congressional and Federal Representatives

The National Association of Government Defined Contribution Administrators, Inc. (NAGDCA)'s Executive Board met with key congressional staff and treasury department officials on March 26 - 27, 2012.

During their meetings with key Senate and House offices, congressional tax committee staff, and the Department of the Treasury, the Board shared the DC plan survey summary report, discussed the NAGDCA legislative priorities letter and asked for continued support for the National Save for Retirement Week resolution.



The NAGDCA Board with Congresswoman Allyson Schwartz's (D-PA). Schwartz has been a great supporter of NAGDCA's National Save for Retirement Week (NS4RW) and spoke at the annual conference in 2010.



The NAGDCA Board during meeting with Department of Treasury staff.

Mark your Calendar:

Webcast: Adapting and Complying in the New 403(b) Environment Webcast

April 12, 2012

12:00pm – 1:30 EDT

Webcast: Legislative Update of Defined Contribution Plans

April 26, 2012

12:00pm – 1:30pm EDT

Industry Roundtable Meeting

April 26-27, 2012

The Liaison Capitol Hill

415 New Jersey Avenue, NW, Washington, DC 20001

Annual Conference

September 29 - October 3, 2012

Sheraton San Diego Hotel & Marina

San Diego, CA

PRESIDENT'S CORNER



Greetings NAGDCA Members:

Spring is in the air and we are already half way through the year. For many of you I am sure the entire winter felt like spring. The NAGDCA Board just returned from our annual visit to Capitol Hill. Upon my arrival, I decided to take the Metro train to the hotel. I stepped off the train in my Wool coat, only to find everyone else wearing shorts and sandals. I would never have guessed it to be warmer in DC than California, ever.

I am excited to share that NAGDCA collectively has been very busy this winter. The conference committee is putting the finishing touches on the conference agenda which includes Melody Hobson of Ariel investments as one of our Keynote speakers. We are again inviting Assistant Secretary of Labor Phyllis Borzi to speak at the conference and we have added a special Pre-conference workshop for 403(b) administrators.

During the Board's fall executive meeting, we reviewed our strategic plan, updated and prioritized existing goals and added a few more. One of the results of this Strategic Planning session was the creation of a 403(b) Task Force. It has been my goal as a Board member (which NAGDCA shares) to be as much a resource for 403(b) plans as NAGDCA has been for all our Defined Contribution plan members.

I encourage each of you to reach out to school administrators in your jurisdiction and invite them to participate in the 403(b) compliance update Webcast April 12, 2012.

http://www.nagdca.org/content.cfm/id/403b_resource_center

In addition to the Webcast, this year's annual conference will host a pre-conference workshop that will address many issues facing 403(b) plans. Additional information regarding the pre-conference workshop will be available in the coming months.

As I mentioned earlier, the NAGDCA Board made its annual visit to Washington DC where we spoke with several lawmakers and presented NAGDCA's legislative priorities. Details of this visit may be found in the legislative update section of the contributor provided by our legislative counsel Susan White and during the legislative webcast scheduled for April 26th.

A heartfelt thank you to all who completed the 2012 DC Plan Survey. The information we receive from the responses is of interest to our legislators and provides them with information that will help support National Save for Retirement Week and our legislative priorities.

Please visit www.nagdca.org for a list of all upcoming events that includes the 403(b) Webcast, Legislative update, Call for Conference Speakers and registration for the Industry Round Table.

A final note, I would be remiss if I did not mention that ANC scholarship applications are available for any student interested in financial or retirement planning curriculums. As an added incentive, this year's Annual Conference will feature a Quiz Bowl where academic teams will compete in a debate style format. What better way to encourage students to enter the Financial Services Industry. We appreciate your continued support of the ANC Foundation Scholarship program.

INDUSTRY VIEWPOINT



Assessing the Value of Active Management

By Martin Coughlan, CFA, CAIA, Calamos Investments LLC

Defined contribution plans have long included passive and active investments as options in their investment line up. Both investment approaches have their share of adherents and detractors. For plan sponsors, one of the more frequently considered questions about active management, and one of the most inconsistently answered is “Do actively managed funds add enough value to compensate for their fees?” A relatively recent addition to portfolio analytics called active share may provide some clarity on the issue.

Introducing Active Share

First introduced by Yale finance professors K. J. Martijn Cremers and Antti Petajisto, active share is a measure of the percentage of stock holdings in a portfolio that differ from the makeup of the benchmark index. The findings from that initial paper concluded that managers with high active share—roughly defined as 80% or higher—generally outperformed their benchmarks.

In a summary of their findings, Cremers and Petajisto state:

*Active Share predicts fund performance: funds with the highest Active Share significantly outperform their benchmarks, both before and after expenses, and they exhibit strong performance persistence.*¹

¹ “How Active is Your Fund Manager? A New Measure That Predicts Performance,” by K.J. Martijn Cremers and Antti Petajisto of the International Center for Finance at the Yale School of Management, March 2009.

Active Share Versus Tracking Error

One of the most common means of quantifying how much a portfolio differs from an index is through tracking error, which measures the volatility of a fund’s returns in excess of index’s returns. In concept, if the returns of a given portfolio significantly deviate from the index returns over time, the portfolio makeup must, by extension, differ from that benchmark as well.

However, tracking error is return-based and does not consider specific holdings. Active share, on the other hand, is determined by comparing portfolio holdings against index holdings to quantify the size of active bets. The active share calculation is simple math and is illustrated in Figure 1. In the example, a theoretical portfolio holds four securities and its benchmark index holds three securities. The portfolio and benchmark have just two securities in common, suggesting significant active bets relative to its benchmark.

In the example, Security 1 has a 5% weighting in the portfolio and a 33% weighting in the benchmark. The absolute value of the difference is 28%. To determine the portfolio’s active share, add the absolute differences between the portfolio weights and the benchmark weights and divide by two. Enhanced and closet indexers will likely have lower active share, generally below 60%. Higher active share managers generally will have an active share of 80% or higher.

Figure 1: Calculating Active Share

	Weighting of Security in Portfolio	Weighting of Security in Benchmark	Absolute Value of Difference
Security 1	5%	33%	28%
Security 2	0	33	33
Security 3	10	34	24
Security 4	50	0	50
Security 5	35	0	35

Sum	100	100	170
Active Share (half of sum)	--	--	85%

How Active is Your “Active” Manager?

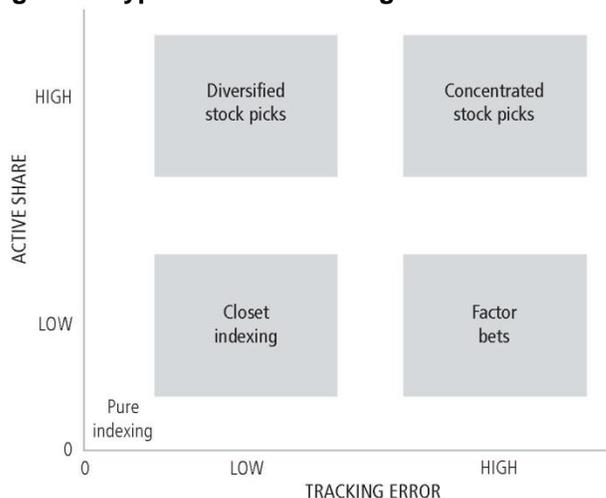
Considering active share when evaluating managers may help plan sponsors find truly active funds, which the active research indicates is predictive of managers adding value. It may also identify “closet indexers” that hew precipitously close to the benchmark.

Figure 2 segments the active fund management universe based on active share and tracking error. The resulting four broad categories are shown in Figure 3, which provides the average annual alpha each provided from 1990 through 2009. Funds with high active share and tracking error, on average, have seen four times the alpha of any of the other categories.

Despite the significant outperformance of highly active funds, the investment universe has grown increasingly less active. Figure 4 shows the wide range of styles that exists within the boundaries of “active” investing, with the numbers of pure index and closet index managers growing steadily in recent years.

Active share is but one analytical metric among a host of others that investors may consider when evaluating a potential fund manager. It may, however, offer new insight into the long-lingering question of whether an “active” management philosophy is practicing what it preaches and, in the end, whether it is really delivering on its potential for added value.

Figure 2: Types of Active Management

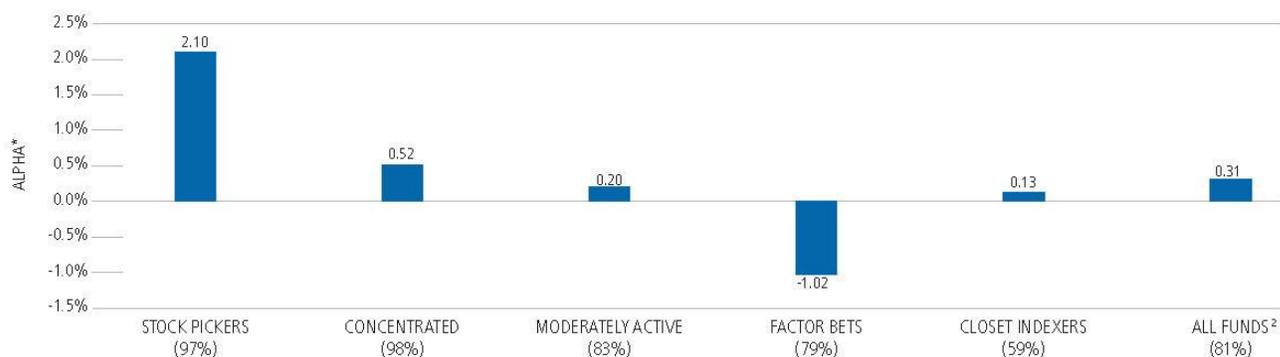


Source: Petajisto, Antti. “Active Share and Mutual Fund Performance.” Thesis. NYU Stern School of Business, 2010. 15 Dec. 2010. Web. Mar. 2011. <http://www.petajisto.net/research.html>.

Performance by Active Share Category

1990—2009

Active management has the potential to outperform: Over the period from 1990 to 2009, mutual fund managers with moderate to high active share (stock pickers) outperformed closet indexers and other categories over most time periods. Active share for each category is noted in parentheses.



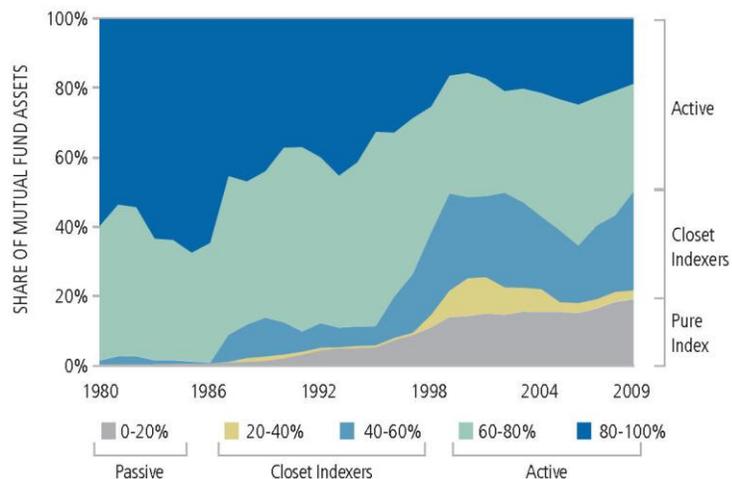
*The alpha used in Petajisto's paper is the Carhart four-factor alpha that controls for exposure to market, size, value or momentum factors.

²All Funds category represents a sample of 2,740 funds that invested primarily in U.S. stock holdings. Sector funds and funds with less than \$10 million in assets were excluded from the calculation. Past performance does not guarantee future results. Source: Petajisto, Antti. "Active Share and Mutual Fund Performance." Thesis. NYU Stern School of Business, 2010. 15 Dec. 2010. Web. Mar. 2011. <http://www.petajisto.net/research.html>.

Figure 3: Evolution of Active Share

1980—2009

Low active share managers—pure and closet indexers—have become increasingly prevalent in the U.S. all-equity fund space over the past nearly 30 years



Source: Petajisto, Antti. "Active Share and Mutual Fund Performance." Thesis. NYU Stern School of Business, 2010. 15 Dec. 2010. Web. Mar. 2011. <http://www.petajisto.net/research.html>.

WASHINGTON REPORT

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

The State of Congress

With Congressional approval ratings at all time lows and an election on the horizon in the fall, members of Congress are spending more time in their districts and less time in Washington. There are also members of Congress who are in no danger of being defeated in November but since members are running in new districts due to the census they are also meeting with

constituents to figure out what needs their district has. As a result, Congress does most likely will not want to tackle anything controversial until after the elections.

One proposal that has been released so far is the House Republican budget proposal that lays out a blueprint for Federal Fiscal Year 2013. It calls for simplifying taxes by only having two tax rates, 10% and 25%, and expanding the tax base. Because both of these proposals would substantially lower the marginal tax rates they could add significantly to the federal deficit; however, in order to avoid increasing the debt, House Committee on the Budget Chairman Paul Ryan (R-WI) has said that they would require elimination of many deductions. These could include popular deductions such as those related to for retirement plan contributions and others, including home mortgage interest, state and local taxes and charitable expenses.

Although the House blueprint will not pass in the Senate, it is an important “marker” in terms of the issues that could be pursued early next year, depending on the elections.

Another major development in Washington is the recent Supreme Court hearing on the federal health reform law—The Affordable Care Act. Policymakers and Congress will be watching closely, as a ruling is expected to be released sometime in June.

Tax Reform

Both the Senate Committee on Finance Chairman Baucus (D-MT) and House Committee on Ways & Means Chairman David Camp (R-MI) have indicated an interest in tax reform—and it appears that if tax reform moves forward, there is interest among all parties in reforming individual, as well as corporate rates.

The Senate Committee on Finance and the House Committee on Ways and Means have held hearings and will likely hold hearings at some point on retirement related issues. At this point, given the upcoming election it is unknown when or if tax reform will move forward in this Congress. The Executive Board, in their recent Washington visit, heard from Congressional staff and while neither side was sure what would happen, Republicans were more optimistic that tax reform would take place this year.

Again, House Committee on the Budget Chairman Paul Ryan, in producing his overall budget document, has provided some clues in terms of what the Republican approach to tax reform could like.

National Save for Retirement Week

Although the House of Representatives passed new rules last year banning commemorative resolutions, NAGDCA was pleased that the Senate passed [S. Res 266](#) calling for a National Save for Retirement Week (NS4RW). Both Senators Kent Conrad (D-ND) and Mike Enzi (R-WY) have indicated that they would cosponsor a resolution later this year and NAGDCA’s Executive Board met with their offices to express our thanks and support for this year’s resolution. We look forward to continuing to work with them over the summer to ensure passage of NS4RW.

IRS Rules Defining Governmental Plans

The IRS recently released an [Advanced Notice of Proposed Rulemaking \(APRM\)](#) to define a governmental plan for purposes of offering defined contribution and defined benefit plans to public employees. NAGDCA has been working with our national public interest partners in Washington, including the National Association of State Retirement Administrators (NASRA) and the National Council on Teacher Retirement (NCTR) to review the draft ruling. We also continue to analyze the APRM through our Legislative Committee and will be determining whether to

submit comments in this first very preliminary round. NAGDCA will base its decision on how to proceed, in large part, on a survey that went out to members on March 13.

Comments were originally due by February 6, 2012, however, due to the complexity of the rule, this deadline was extended to June 18, 2012. A public hearing is also scheduled for July 9 at the Internal Revenue Building. Discussion topics are due to the IRS at the same time as comments on the APRM.

Congressional Resolution

NAGDCA provided its support to a resolution, [H.Con.Res.101](#), sponsored on a bipartisan basis and introduced by Representatives Jim Gerlach (R-PA) and Richard Neal (D-MA). The draft Resolution currently has 115 cosponsors including Representatives Allyson Schwartz (D-PA) and Sam Johnson (R-TX) who have sponsored the National Save for Retirement Resolution in the House in the past.

The number of bipartisan sponsors show that there is significant support for defined contribution plans and it is the sponsors' hope that this will provide a foundation of support for the upcoming tax reform debate where tax deferral arrangements are sure to be scrutinized.

Executive Board Visit

NAGDCA recently held its annual Executive Board visit to Washington. Over the course of two days, the board met with officials from the Department of the Treasury, Department of Labor, Representative Allyson Schwartz (D-PA)—the original sponsor of NS4RW in the House--Senate Committee on Finance majority and minority tax counsel, House Committee on Ways & Means majority and minority tax counsel, majority staff of the Senate Committee on the Budget, minority staff from the Senate Committee on Health, Education, Labor and Pensions, the Joint Committee on Taxation and counsel to Senator Ben Cardin (D-MD) and member of the Senate Committee on Finance, as well as counsel to Representative Richard Neal (D-MA) and senior member of the House Committee on Ways and Means.

In all meetings, the Executive Board discussed [NAGDCA's legislative priorities](#) which include the National Save for Retirement Week Resolution, elimination of the required minimum distributions on Roth 457s, elimination of 457 plans' first day of the month requirement, the Saver's Credit and the IRS APRM on the definition of governmental plans.

Industry Roundtable

At the end of April NAGDCA will be holding its annual Industry Roundtable and we are pleased to announce that the legislative panel will consist of representatives from the Department of the Treasury, majority and minority staff from the Senate Committee on Finance, majority staff from the House Committee on Ways & Means and staff from Representative Richard Neal. We look forward to a lively discussion on the prospects for tax reform and federal issues affecting governmental defined contribution plans.

Around the Country

Call for NAGDCA 2012 Leadership Recognition and Media Recognition Award Nominations

Nominations are now being accepted for the [Leadership Recognition](#) and [Media Recognition](#) Awards. Please take this opportunity to acknowledge outstanding colleagues and outstanding work!

The Leadership Recognition Awards program recognizes Best in Class in the following three categories:

- Communications
- Plan Design & Administration
- National Save for Retirement Week activities

Starting in 2012, awards will be limited to only five winners in each category. This enhancement will ensure that future awards are a testament to offering the best retirement savings plans. Submissions will be judged on originality and measurable results that led to a sound improvement in the plan.

NAGDCA welcomes submissions from 457, 401(a), 401(k), and 403(b) plans. Submissions must be unique and governmental staff must have played a significant role in developing the program, project, or activity. Templates or similar submissions from other government entities will not be considered. The program, project, or activity must have been implemented since January 1, 2011.

Please visit the [website](#) for complete details on the new NAGDCA Leadership Recognition Awards program. Submissions must be submitted online by June 11, 2012.

The Media Recognition Award recognizes a member of the media for outstanding coverage of pension and retirement issues in newspapers, magazines, newsletters or research reports. [Click here](#) to submit your Media Recognition Award nomination. The deadline for submissions is June 30, 2012.

Awards will be presented to government and industry partners at NAGDCA's Annual Conference in San Diego, CA on October 1, 2012. Winners will be recognized in a printed publication at the conference.

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!!!

Primary Industry

Fiduciary Benchmarks
UBS Global Asset Management
Ameritas Retirement Plan
Illinois Public Pension Plan Association

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 NAGDCASTs. 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 June 15, 2012. 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 Program Manager

Tracy Tucker
NAGDCA Association Director