TOP STORY

ANC Foundation Silent Auction

This year at the NAGDCA annual conference there will be a silent auction to raise money to support the Arthur N. Caple Foundation.

You can help by contributing an item or a monetary donation towards the silent auction. We would like to have all donations by August 31, 2012. All donations are tax deductible. Examples of items include gift baskets, gift cards from national retailers, Kindle, iPad, etc. Government members are encouraged to contribute an item representative of their state.
For more information contact Kari Emmons at kemmons@amrms.com or 859-514-9218.

The ANC Foundation provides scholarships to college students studying retirement and financial planning. In addition to the money the Foundation awards towards tuition, the scholarship winners are brought to our annual conference for them to participate and meet the government and industry leaders.

ANC Foundation Matching Donor Program
NAGDCA and the ANC Foundation invite you and your company to participate in the fifth annual matching donor program during this year's NAGDCA Annual Conference, September 29 – October 3, 2012, in San Diego, CA. All industry members are invited to participate.

During the NAGDCA Annual Conference we will be encouraging attendees to donate to the ANC Foundation. Companies who sign up to participate in the program agree to match, up to their pledged amount, the donations pledged/received by both public and private sector conference attendees from Saturday, September 29 through Wednesday, October 3. After the conference, we will notify each private-sector donor of its total match contribution. All donations are tax deductible. To sign up, please contact Tracy Tucker at ttucker@amrms.com or 859-514-9210.

PRESIDENT'S CORNER

Greetings NAGDCA Members:

Summer is here and brings longer days, shorter nights with warm enough weather to enjoy a good swim after work. However, summer also begins the countdown to our annual conference which as our new National Save for Retirement Week logo states…It's Closer Than You Think! Yes in three short months the Surf will be up in sunny San Diego California, where NAGDCA will host our 32nd Annual Conference.

If you have not registered for the conference the early bird special ends August 20 and the hotel block will remain open until August 31, however it is filling up quickly! Also, if you are interested in donating items for the silent auction that will take place at the conference this year, those items are due August 31, 2012.

A quick reminder that NAGDCA Executive Board elections opened on June 18th for two member at large positions. Voting will close July 20, 2012. Applications are still being accepted for the Secretary/Treasurer position. Serving on the NAGDCA and ANC Board is a very worthwhile opportunity to get involved in Defined Contribution Administration at the national level while learning more than you could ever imagine.

A huge thank you to the National Save for Retirement Week committee for inviting me to record a video promoting National Save for Retirement Week which can be viewed here. In addition, we also recorded a video promoting this year's conference! Please share these links with anyone who is considering attending the conference or participating in National Save for Retirement Week, after all, "It's Closer Than You Think".

It has been a pleasure serving as your President this year. I hope to see and speak to each of you personally at the conference September 29 – October 3, 2012.

INDUSTRY VIEWPOINT

Building Retirement Savings Plans to Last a Lifetime

Ronald J. Smith, FSA, Director, Actuarial Services, ICMA-RC

Introduction

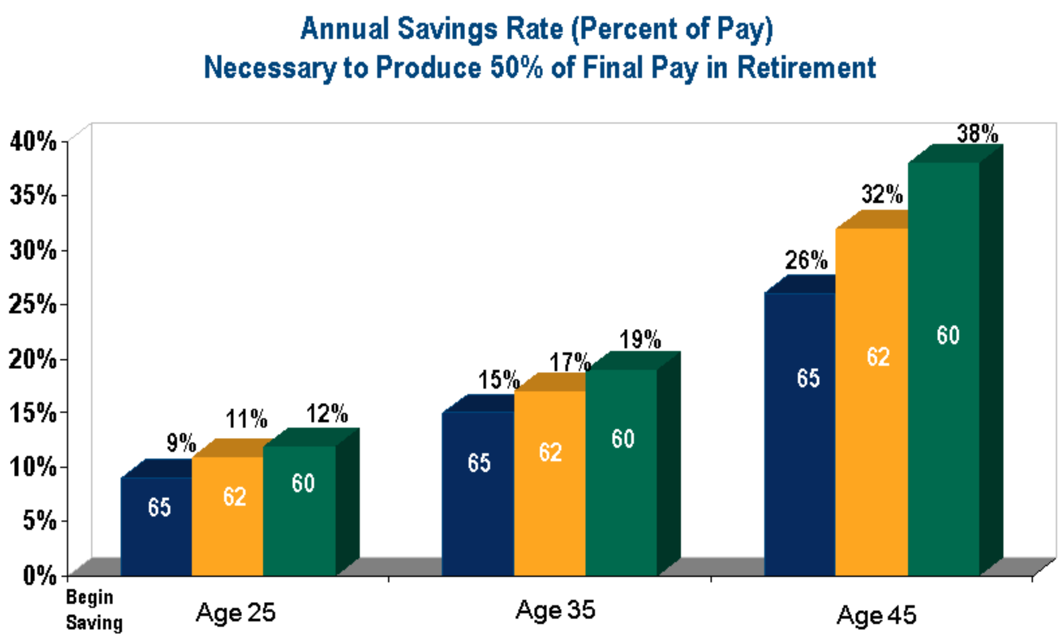
While recent economic and market conditions make retirement planning particularly challenging, they also reinforce the importance of the plan sponsor's role. How you design your plan and educate participants is more important than ever.

There are several steps you can take now to help participants. To avoid overwhelming participants with too much information, plan sponsors should first concentrate on helping employees enroll in their retirement plan, save a reasonable amount and invest those savings prudently. Plan sponsors should also consider helping employees plan for future health care needs, as well as address their overall financial wellness.

Saving for Retirement

Focus on saving earlier and retiring later. Plan design becomes incredibly critical and challenging as you think about how participants can build sufficient assets to fund a 30- to 40-year retirement.

With continued increases in longevity, funding retirement savings into the 90s or even past age 100 becomes more affordable the earlier the worker begins saving and/or the later the worker retires. The chart below shows savings rates necessary to have 50% income in retirement and assumes the participant lives to 94, a 2.5% Consumer Price Index, 3.5% Annual Salary Increase, 6.5% Annual Portfolio Return and not adjusting benefit payments for inflation.



The message should be promoted heavily — workers need to be saving now, not tomorrow, in order to achieve retirement security; and they need to understand that *when* they retire will impact their income in retirement. This calls for an effective education campaign targeted to the different learning styles of participants — one that is continually reinforced, uses easy-to-understand examples and illustrations, and resonates with participants.

For example, unless an employee's job is particularly physically demanding, incentives to retire early (e.g., pre-Medicare retiree health coverage, subsidized early retirement in a defined benefit plan, etc.) may need to be reevaluated and discouraged. Plan sponsors may want to assess their ability to lengthen the careers of those in physically-demanding jobs by assigning them to less physically-demanding positions before they reach an age where they have to retire.

Mandatory employee contributions could be an important part of a retirement savings plan. One of the lessons we can take from public sector defined benefit plans is the value of mandatory contributions. Since experience shows that many employees do not save sufficiently for retirement unless the plan sponsor is funding the employees' retirement plan without requiring employee contributions, it may be necessary to consider some level of mandatory employee contributions.

Auto enrollment has proven effective if set at sufficient levels. Auto enrollment in the private sector is common and has been effective in helping participants save. However, the most common auto enrollment savings rate is 3%, which is rarely high enough to fund an adequate retirement.

In addition, employees often perceive that an employer's "stamp of approval" on the default savings rate means that the rate is all they need to save. For that reason, it is important to consider including an auto-escalation feature.

Consider modifying a matching benefit. Experience suggests that many employees stop saving once they have earned the full employer match. For example, if a plan matches dollar for dollar on the first 2% of employee contributions, many participants save only up to that level. Restructuring the match to $.50 on the dollar on the first 4% of pay may motivate many employees only saving 2% of pay to increase their savings rate to 4% in order to capture the full employer match. This could be achieved at no cost to the plan sponsor.

Diversification goes beyond investments. Consider making tax-diversified investments available to participants. Including a Roth feature and/or allowing after-tax contributions may mean no tax deduction today but potentially better tax treatment during retirement.

In addition to those paying lower taxes, late career or retired participants may also benefit from the extra flexibility Roth contributions and/or conversions can provide in helping them manage their overall tax bill in retirement.

The concept of diversifying tax savings vehicles is complicated with no single "best answer" and the topic of future tax rates is entirely speculative. However, for many participants it may make sense to have the option of making both pre-tax and Roth contributions, which will give them more a more flexible array of retirement savings alternatives.

Investing for Retirement

Look for opportunities to simplify or enhance your plan. Too many choices can lead participants to either not enroll or be under- or over-diversified. Plan sponsors should make a manageable number of funds available. For participants who may want additional choices, consider adding a brokerage window.

Plan sponsors may also explore adding products and services that solve challenges for specific audiences. For retirees, you may want to consider guaranteed and non-guaranteed methods to generate sustainable retirement income.

Health care costs are a critical part of retirement saving. A December 2010 EBRI study reported that a couple retiring today would need $271,000 in savings, supplemented by Medicare with Medigap and part D, for a 90% chance of funding retiree health care.

Assuming a 5.5% annual rise in health care costs[1] for projecting future health care costs, the $271,000 grows to nearly $1.35 million in 30 years. For example, a 35-year old employee making $45,000 with an annual 3.5% pay raise, unless covered by employer retiree medical coverage, would need to save an extra 21% of pay to accumulate these additional funds.

Funding retiree health care may not be quite as daunting as it sounds. For example, if a worker pays $100/month for health care and pays the same $100/month once retired, there is no impact on the household budget when the worker retires. However, if the worker pays $100 for health care while working but $500/month once retired, there is an additional $400/month impact on the retiree's budget, which will require additional savings unless other costs offset the increased cost of retiree health care.

Take the emotion out of investing. A portion of defined contribution plan underperformance as compared to defined benefit plans, stems from employee investment decisions. Some participants make decisions based on their emotions toward both positive and negative market events, which can lead to market timing and a significant reduction in accumulated retirement savings.

There are various methods available to help employees meet their investment objectives:

- Target-date funds[2] — By featuring diversification,[3] automatic rebalancing and an evolution toward a more conservative asset allocation over time within a single fund, target-date funds can provide participants with a suitable portfolio to meet their needs.

- Managed accounts and other advisory services — Studies have suggested that advisory assistance can lead to increased savings and more diversified investment. These services may entail participants turning over the decision-making to a third-party professional or following specific recommendations.
- Automatic rebalancing — For those investors who choose to build and manage their portfolio themselves, an automatic rebalancing service can help them maintain their desired allocation.
- Guaranteed lifetime income funds — These funds can help participants maintain a diversified portfolio with downside protection and upside potential, while reducing longevity risk by providing an income stream at or after retirement.

“Safe investments” involve risks as well. Consider the appropriate role of stable value funds, money market funds and insurance company general account investments in a long-term investment strategy. Investing in such “safe investments” can carry different but significant risks. For example, participants with a long time horizon who invest a significant portion of their assets in “safe investments” may increase the likelihood of not achieving rates of return in excess of inflation. The cost of long-term investment underperformance can be dramatic. Plan sponsors should make low-risk investments available to meet the needs of participants who have short time horizons or low risk tolerance, as part of a diversified investment portfolio.

Retirement Readiness

Focus on retirement decisions and planning before people reach retirement. The best way to position retirees for success is to educate them about the financial realities of retirement five to 10 years before they retire. One key element is establishing a *retiree* household budget and the first step in the process is to understand the *current worker’s* household budget. There are a multitude of budget planning tools available to support this. The goal is not to develop a precise retirement budget, but to monitor household costs while employed so that the employee can understand the budget they may face once retired.

Retirees’ participation in the plan may help both the retiree and plan economics. Your retirement plan may continue to be beneficial for your employees after they retire, as the plan will include your due diligence on the funds in the plan and access to lower fees.

If a decision is made to encourage retirees to remain in the plan, existing policies and procedures may need to be reviewed. For example, a plan sponsor may want to offer seminars of particular interest to retirees, such as estate planning, healthy habits during retirement, etc. You can work with your provider to offer this type of education. The key is to take into account the differences between retirees and employees when developing a comprehensive program, all of which can go a long way to building stronger retention rates for retirees.

Conclusion

The role of public sector defined contribution plans will likely continue to change in the years ahead. It's important that plan sponsors evolve to meet the changing needs of their participants.

There is no single solution. Overcoming the tendency of many participants to procrastinate and focus on short-term goals at the expense of the future will likely require a mix of approaches, from automated methods to enrollment and participation incentives to innovative education.

And while these approaches require extra resources and effort, avoiding or delaying change may lead plan sponsors to fall short in helping enhance participant outcomes.

[1] *Center for Medicare and Medicaid Services, Office of the Actuary, National Health Statistics Group, 1980-2010*

[2] *Target-date funds are not a complete solution for all of your retirement savings needs. An investment in the target-date funds includes the risk of loss, including near, at or after the target date of the fund. There is no guarantee that the fund will provide adequate income at and through an investor's retirement. Selecting the fund does not guarantee that you will have adequate savings for retirement.*
[3] *Diversification does not protect an investor from market risks and does not assure a profit. Investor must consider the risk associated with all mutual funds used to diversify assets.*

Around the Country

By Brad King, Washington State Department of Retirement Systems

At the 1968 Olympic Games, U.S. long jumper Bob Beamon shattered the world record by almost two feet. It was a record that stood for 23 years, and to this day, remains the Olympic Games record. Beamon's jump is considered by many to be the greatest individual achievement in Olympic history. It even coined a word: *Beamonesque*, which has come to mean any truly unbelievable performance.

When the State of Washington recently changed its Deferred Compensation Program (DCP) and Plan 3 investment fund lineup, industry experts advised that a five to seven percent response rate from customers was the norm. Following the combined efforts of the Department of Retirement Systems (DRS), the Washington State Investment Board (WSIB), record keepers ICMA-RC and Great-West Retirement Services®, and fund managers Alliance Bernstein and BlackRock, over 30 percent of impacted members took some type of action with their investments. That result was beyond impressive.

You might say it was Beamonesque.

"We knew early on that one of the key success measures of this project was people moving their money on their own – making a choice," says Shawn Merchant, Assistant Director of DRS's Policy & Strategic Initiatives Division, whose unit oversaw the project. "Our communications plan and subsequent actions were determined based on that goal."

"We tried to get information out early and frequently," adds DRS's Gayle McGee, the Fund Transition Manager, when asked the key reason for the high rate of customer response. "We wanted people to know what was coming."

The Fund Transition project formally began in February 2011, although a full year of research preceded that during which the WSIB reviewed the latest information on menu design, member behavior and various investment options. In total, six funds from the DCP lineup and three from the Plan 3 roster were discontinued (an additional fund also underwent a name change). Four new funds were added.

"My impression is that two main factors influenced customers to take action," says Phil Paroian, Senior Investment Officer with the WSIB. "One was that this was such a major change, especially on the DCP side; and two, the good communications plan. The communications pieces that came from DRS were as strong as I've seen."

The communications plan included a dedicated website; a transition guide specifically targeted to each of the three audiences impacted (members of the state's Plan 3 pension systems; DCP participants; and a combined guide for both Plan 3 and DCP members); articles in the Plan 3 and DCP quarterly newsletters; online video tutorials prepared by the Plan 3 and DCP record keepers; a postcard reminder that was mailed in the weeks just before the fund transition deadline; and a follow-up letter after the deadline. WSIB also held training sessions for DRS team members to help them prepare for member questions.

“Branding was a big part of the communications plan,” says Merchant, “The colors and graphics were fantastic.”

The combination of effective branding and multiple communication channels was a big key to success, says Brent Neese, Vice President of Great-West’s Government Markets.

“DRS created a successful communication strategy with multiple touch points, which resulted in a very high response rate from participants.”

All of the project’s branded communication materials, including the guides, postcards and mailing envelopes were designed at DRS by Graphic Designer Billie Jean Kam and former Communications Director Dawn Gothro. Keeping the design “in house” spared the costs that would have been associated with hiring an outside design firm.

“Every time there was an announcement either on the website or in the printed materials related to the transition, you knew right away what it was,” says ICMA-RC’s Vice-President, Client Services Rose Roberts.

Roberts adds that along with the branding, the postcard reminder and the dedicated website were instrumental in getting the word out and encouraging folks to take action.

“The postcard was probably the most effective,” she says. “Not a lot of people like to read a thick piece of mail. The postcard was a quick reminder that could be read and digested easily.”

Merchant agrees with Roberts regarding the postcard reminder.

“The postcard was branded with the look and feel of all the project communications items; it was inexpensive and it boiled down all the details to the essential message that the funds were changing,” he says.

The postcard was mailed after the transition guides had been mailed. It was sent to members who were invested in any of the funds that were changing.

“This really helped,” says McGee, “because people are more inclined to quickly pick up and read a postcard than a book-style publication.”

McGee says the variety of information and the timing of mailings were intentional.

“We tried to continually get information in front of people in as many ways as possible.”

Fund transition communications began with the Transition Guide that was mailed to members. A guide was created for each of the three populations affected by the transition:

- DCP members
- Plan 3 members
- Members of both Plan 3 and DCP

A section of the DRS website dedicated to the fund transition was launched early on in the process as well. At the same time, care was taken to get information out internally to DRS, Great-West and ICMA-RC staff so that member questions could be answered.

Also early on in the process, representatives with Alliance-Bernstein came to DRS and made presentations on “investor behavior” which included why having an almost unlimited number of fund choices is not always the best option for investors. History shows that for many investors, having an unlimited number of choices can be overwhelming; and being overwhelmed can often lead to inaction.

“We owe the folks at Alliance-Bernstein a big ‘thank you’,” Merchant says. “They were great partners in helping educate us as to the best lineup of funds to offer. They showed us data that indicated having a diversified, but not unlimited, range of choice was best for the vast majority of our membership."

State Investment Board members also provided education on the fund lineup for DRS team members.

"State Investment Board team members came over and met with our front line teams for a high level review of why the funds were changing and what the new fund options were," says McGee. "Our Education and Outreach Unit (team members who present DCP retirement planning and investment seminars around the state) were getting lots of questions very early on in the process. We were able to address these questions through a 'talking points' document the project team provided to front line teams and in the communication materials we put together."

Both DCP and Plan 3 have newsletters that are included in quarterly statement mailings. Articles detailing the fund transition were included in each of these quarterly newsletters.

From DRS to the WSIB to the record keepers and fund managers, all agree that early, often and careful planning and communication are the keys to the success of a complex project.

"If you're contemplating a complex fund transition, make sure that everybody is on board," says David Thatcher, WSIB's Investment Officer for Public Equity. "A lot of parties need to get involved to make sure the communications going out are timely."

"Planning, planning, planning," echoes Paroian, "and then more planning. In fact, over plan because these are major changes we're talking about. We had weekly conference calls starting early on, and then even more frequently as we got closer to the implementation date."

Paroian adds that he hopes the necessity of this level of planning, the enormity of the changes and the possibility of negative reaction doesn't discourage other organizations from making changes that are in the best interest of their customers.

"A lot of organizations shy away from making improvements because they fear negative reactions," he says. "While it's true that with a change like this, some will react negatively. Out of the thousands impacted, we had only 15 to 20 that were very upset. In some cases, I completely understood their concern, but we explained that these changes were in the best interest of the vast majority of our customers. By the time we were done, some may have disagreed with us, but we hope everyone understood the reasons for the change."

In addition to the planning, the collaboration of all the parties involved was the key, says Neese.

"The cooperation and coordination among all the partnering organizations resulted in a seamless transition – across the board."

"In the end, thanks to the team's hard work, the planning and the communication, the fund transition was a 'non-event'", says Merchant, with respect to the dedicated call center established by DRS in anticipation of an extraordinary increase in calls. "Call volumes did go up, but overall things went very smoothly. Thanks to the regular meetings, and the ongoing status reports, everyone was aware of issues. When anomalies came up we were able to respond right away and keep everyone informed."

Beamonesque. Whether it applies to a brilliant leap that shatters a world record, or to the combined efforts of many organizations to achieve an unheard of response rate from customers, it's just the right word.

WASHINGTON REPORT

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

The State of Congress

With elections approaching, members of Congress will be spending less and less time in Washington and more time in their districts. Redistricting has forced many members to spend considerable time in areas that they have not previously represented. Therefore, Congress will likely resolve anything controversial until after the elections.

In fact, the Republican leadership of the House has indicated they will move no policy issues until the election and instead focus on campaign issues. Thus, legislatively, at the federal level, the only bills that may are appropriations measures--the basic funding bills for the various federal departments and programs. However, there is "behind the scenes" wrangling.

This "state of affairs" does not mean that no substantive work is being done on Capitol Hill. In fact, key staff recognizes that the Lame Duck session that will begin about November 13, post-elections-- will be extremely busy. Congress will have to address the expiration of the Bush tax cuts and the payroll tax cuts, as well as the spending sequesters (across the board cuts in domestic and defense programs) that Congress imposed upon itself to resolve the last budget crisis, including the wrangling over extending the debt ceiling—which has now emerged again as a major looming matter.

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. If tax reform moves forward, both individual and corporate tax policy will be on the table.

The Senate Committee on Finance and the House Committee on Ways and Means have held hearings and will likely hold more hearings at some point on retirement related issues.

Chairman Baucus recently gave a speech at the Bipartisan Policy Center where he outlined a number of goals that he intends to pursue in any possible tax reform legislation. These include jobs based growth, competitiveness, innovation and opportunity. He believes one way these goals can be achieved is through simplification of the tax code. What remains unclear and unsaid is how simplification and lower rates can be achieved and which preferences will be targeted to achieve these goals.

The indications from both Chairmen Baucus and Camp is that everything is on the table and that they want to hear from as many interests as possible before moving forward. Clearly, with tax issues under serious review, there are always the possibilities of retirement/pension related policy and provisions being revised, "reformed" and changed. NAGDCA has developed its legislative priorities and has communicated those to key members of Congress, tax committees and the Department of the Treasury—no matter who wins the Presidential election, it is expected that the Administration would also move forward in negotiations with Congress regarding tax reform.

IRS Rules Defining Governmental Plans

The IRS 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 have worked on a comment letter to the IRS that will be signed by NAGDCA, NASRA, NCTR and others. NAGDCA has based its review and comments, in large part, on a survey that went out to members on March 13 on this issue.

Comments were due to the IRS by 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. This will be the first round of comments and if the IRS wishes to move forward they will then propose a rule which will have an additional comment period.

We recently listened in on an IRS phone forum on the APRM and it was in that call that the IRS went through a number of factors that they are looking at to determine if plans would meet the definition of government plans. It was also stressed that these factors were preliminary and that was one of the reason they were looking for comments. Factors being used for the facts and circumstances test included: does it assist in a government function, who has control, is it exempt from taxes, was it created by an enabling statute, where the financing comes from- does it get federal dollars, do other government agencies treat it as a government and are employees treated the same way as federal employees would be treated.

Legislative Webcast

NAGDCA held its annual Legislative Webcast in April and this year we were pleased that Leigh Snell, Federal Relations Director, National Council on Teacher Retirement was able to join and answer NAGDCA member questions on the IRS APRM and how it may affect NAGDCA members. The discussion also focused on NAGDCA's legislative priorities for 2012 and included a legislative update as well with a review of congressional and administrative activities.

Industry Roundtable

On April 26-27, NAGDCA held its eighth Industry Roundtable. Speakers that participated on the Legislative Panel included the Department of the Treasury, Deputy Assistant Secretary for Retirement and Health Policy, Pension Counsel for Senate Committee on Finance Majority and Minority, and Tax Counsel, House Committee on Ways & Means Majority. Panel members discussed tax reform—all indicating that they were preparing for reform, looking toward the Lame Duck session of Congress. NAGDCA will continue to work with Congress and with the Administration on tax reform related issues that affect NAGDCA members.

Around the Country

Call for NAGDCA's 2012 Media Recognition Award Nominations

Nominations are still being accepted for the Media Recognition Awards. Please take this opportunity to acknowledge outstanding colleagues and outstanding work.

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 29, 2012**.

All nominations must be submitted online. 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!!!

Local Government
City of South San Francisco

Primary Industry
Fiduciary Benchmarks
CEM Benchmarking
UBS Global Asset Management
Ameritas Retirement Plan
Russell Investments
Wealth Management Systems
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 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. 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.

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