TOP STORY

NAGDCA Executive Board Slated to Visit Capitol Hill

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 Senate to pass resolutions in recognition of National Save for Retirement Week.

2013 NAGDCASTs

The next NAGDCAST will be on Thursday, February 28 at 1:00pm ET on the Evolving Role of Defined Contribution Plans in the Public Sector. The webcast will highlight findings from the recent research paper published by NAGDCA, ANC Foundation, and SLGE. Registration will open soon.

Also, 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, Julia Durand.

In addition to enhancing your knowledge of defined contribution plans, NAGDCASTs are worth 1.5 continuing education credits for InFRE CRA and CRC designees as well as CFP and CPE designations.

NAGDCA would like to thank the sponsors of the 2012 NAGDCAST series. Without their support these events would not be able to take place. We need sponsors for the 2013 NAGDCAST series. If you are interested in sponsoring the 2013 NAGDCAST series please click here or contact Tracy Tucker at 859-519-9210 or ttucker@amrms.com.

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

PRESIDENT'S CORNER

Dear NAGDCA Members,

Happy New Year!

We are already off to a quick start this year. First, the NAGDCA Executive Board voted to change our annual conference to a new tiered sponsorship model (which is the norm at other conferences). This change was decided upon since an increasing number of government and even some industry members were encountering difficulties attending our conference or events that were not NAGDCA sponsored due to state ethics issues. This new model addresses those issues, and I must say that our industry partners have been very supportive of this change, for which I am deeply grateful.

Second, the NAGDCA Executive Board decided to shorten the annual conference. In summary, the Presidential reception (now NAGDCA sponsored) will continue on Sunday night and the Monday night reception will be eliminated. There will be new sessions offered Tuesday afternoon (along with the normal guest tour), and the Wednesday night final dinner has been moved up to Tuesday night. There will be two sessions offered Wednesday morning, but the conference will end prior to noon allowing delegates to fly home on Wednesday rather than on Thursday. These changes will result in additional sessions, more continuing education credits, and the ability to fly back one day sooner. We appreciate your feedback and we will continue to incorporate your feedback. My appreciation goes out to all the Board members for their ideas and support.

Third, we have created a new Government DC Best Practices Task Force that will address some of my goals as I spelled out in my last message and at the annual conference. The Task Force mission is "to increase the value and membership of NAGDCA by promoting defined contribution (DC) best practices to public sector municipalities to help them fulfill their fiduciary and public service duties." The fact is very few local governments are associated with NAGDCA and are in need of help. Therefore, in conjunction with the Publications Committee and the Membership Committee, the Task Force will reach out to those local governments to inform them (via documents, webcasts, and short videos) of their basic requirements as Plan Sponsors (e.g., fiduciary responsibilities, understanding of all plan fees). What better organization than NAGDCA to reach out to such entities?

On the legislative side, NAGDCA will closely follow federal tax reform efforts in light of the recently passed fiscal cliff legislation. The Chairs of the respective tax writing committees have said "all issues are on the table" which means this could affect government defined contribution plans. Also, we will continue to advocate for the introduction and passage of National Save for Retirement Week. NAGDCA will sponsor three webcasts in 2013, including a Legislative Update with Susan White, and we will continue to promote 403b plans under the direction of Julia Durand.

Finally, I can't express enough thanks to all those who have volunteered to serve on all of these committees and task forces in 2013. Due to your efforts, NAGDCA will continue to be an excellent (and only) organization that represents 457, 403b, and 401a governmental plans with an unbiased approach.

Thank you,
Tom Mueller, Sanitation Districts of Los Angeles County, California
NAGDCA President

WASHINGTON REPORT

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

The State of Congress

The November elections have both confirmed a status quo in the control of the White House and the House and Senate and a potential for significant change. While the essence of gridlock will likely continue, the dynamics have been altered somewhat as evident from the New Years' weekend Fiscal Cliff drama.

Congressional leaders and President Obama negotiated through the end of the year and a deal was reached between the President and Senate leaders right before Congress was set to adjourn. Republican leaders and many conservatives in the House were not comfortable with the agreement that was reached, but since the Senate had passed the bill with an overwhelming bipartisan majority there was pressure to bring the bill to a vote that was taken on January 1st.

The outcome of the year end compromise raises the question if the other large issues yet to be resolved will be similarly worked out through tortuous negotiations and compromises that can be supported by a sufficient number from both parties, or will many of these issues remain unresolved because the stalwarts succeed.

The agreement sustains the Bush tax rates for all but those with taxable incomes in excess of $400,000 for individuals and $450,000 for joint filers. The rate for dividends and capital gains is increased to 20% for taxpayers with these higher taxable incomes. For those with taxable incomes in excess of $200,000 for individuals and $300,000 for joint filers personal exemptions and itemized deductions will be trimmed back as they had they previously been. A permanent inflation adjusted fix for the alternative minimum tax was included. A number of provisions that were included in the stimulus package of 2009 and that have been perennially extended were also sustained. But, the payroll tax holiday has been ended.

The deal also postpones the sequester on spending for two months. This will hopefully allow the new Congress to work and find a longer term deal to keep the country from facing another fiscal cliff and possibly a recession as well.

Part of the offsets for delaying the sequester until the end of February is a provision to allow those with a deferral plan under section 401(k) (including the Thrift Savings Plan), 403(b) or 457(b) governmental plan allow in these non-Roth account to be converted to a Roth account in the same plan, whether or not the amount is distributable. The amount converted would be subject to regular income tax.

This legislation is just the first phase in what are expected to be protracted negotiations throughout the year that will include the debt ceiling, tax reform and further cuts to spending, including entitlements.

NAGDCA is pleased to announce that Representative Allyson Schwartz (D-PA) will be rejoining the House Committee on Ways & Means after a two year absence. Representative Schwartz has worked closely with NAGDCA for a number of years on retirement related legislation and we look forward to continuing to work with her and her staff in the years to come.

Tax Reform

As part of the process to avoid the fiscal cliff, Congress will begin to draft tax reform legislation late this winter or early in the spring. The Chairmen of the committees of jurisdiction have said that everything is on the table. Additionally, President Obama emphasized, over the past few days, that he views tax reform as the next “revenue raising effort” alongside cutting spending. It is very likely that the committees will be looking closely at all major tax expenditures in the Code including the retirement related provisions.

Both Senate Committee on Finance Chairman Max Baucus (D-MT) and House Committee on Ways & Means Chairman David Camp (R-MI) have held hearings on tax reform and will likely hold more hearings in the coming year in preparation for tax reform legislation.

National Save for Retirement Week

NAGDCA was pleased that S.Res.555 calling for a National Save for Retirement Week during the week of October 21st was passed by Senate at the end of September. The resolution was sponsored by Senators Kent Conrad (D-ND), Mike Enzi (R-WY) and Ben Cardin (D-MD). Senator Conrad has sponsored this resolution every year since it was first introduced in 2006 but this was his last year as he retired at the end of the 112th Congress. NAGDCA wishes him well and his retirement from the U. S. Senate be a loss—as a Senator he has worked on retirement related issues throughout his career and has served, with distinction, as a long standing member of the Senate Committee on Finance and as Chairman of the Senate Committee on the Budget.

INDUSTRY VIEWPOINT

Making the Investment Menu Work for Your Participants
By Jim Link, CEBS, PFM Asset Management LLC

The investment alternatives available to fund retirement income needs through retirement plans began with minimalist menus constructed of a few options like a stable value fund, a domestic equity fund and perhaps a bond fund in the 1970s and 1980s. Those narrow menus grew into multiple option lineups with a variety of equity, bond, and asset allocation funds, along with a stable value option. Over the last decade or so, the nature of the participant-directed retirement plan has evolved from a purely supplemental source of retirement income to, in some cases, the primary vehicle for retirement plan savings. In combination, these changes have made the participant-directed retirement plan more critical to participants' retirement savings while becoming more complicated for participants to manage.

If plan sponsors and the retirement plan industry want to help participants better manage their retirement accounts, it is ever more important for plan sponsors and providers to help simplify and/or optimize the plans wherever possible. One key area for consideration is making plan offerings more user-friendly for participants by evaluating the construction of the investment menu and the associated communication/education process. Historically, plan sponsors and providers have built and/or recommended investment menus based on the investment principles espoused by investment professionals, then endeavored to educate participants in the risk and return profiles of various asset classes, and finally teaching participants how to make good decisions in mixing those asset classes. While some plans have been successful in providing sufficient information and structure for participants, these efforts have generally proven insufficient in helping participants construct asset allocations to meet their long term retirement savings needs. One indicative data point supporting this shortcoming comes from a 2011 Watson Wyatt survey[1] showing that defined contribution plan participant investment returns were lower by about +/- 1.00% on average annually from 1995-2008 than the returns of defined benefit plans. While these results do not explicitly point to asset allocation, there are asset allocation differences between the plan types and this does highlight the problem facing plan participants as it pertains to decision-making.

In order to help participants achieve sufficient retirement plan income based on their goals, plan sponsors and providers may want to consider a variety of alternatives, including the two options outlined below. Each of these options strives to change the communication/education paradigm by minimizing the need for participants to learn reasonably complex investment principles. Further, each option is designed to help maximize the use of appropriate asset allocation.

Simplify the Investment Menu. A more complex investment menu could be streamlined into a narrow series of options. The menu could be constructed of only asset allocation funds like target-date or risk-based funds, along with a stable value option. Where a slightly broader menu is desired, a small variety of index funds could be added. The index fund lineup could include broad domestic and international equity funds along with a bond index to provide the ability for participants to make broad, well-constructed asset allocations.

Lower Volatility	⟶	Higher Volatility
Stable Value Fund	Asset Allocation Funds	Index Funds

In this scenario, the need for detailed asset class and asset allocation education is reduced while the the burden on participants to construct an effective asset allocation is minimized.

Reorganize the Investment Menu. Reorganizing the investment menu would involve redefining the decision-making process instead of limiting the number of investment options. Rather than characterizing each investment option as an effectively "equivalent" option, the reorganized investment menu would strive to categorize investment options by where each fits in a decision-making tree. The tiered menu structure would characterize each option or set of options with similar uses within an asset allocation. The investment menu could be divided into as few as

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[1] "*DB vs. DC Investment Returns: The 2008-2009 Update",* Insider, Volume 21, Number 4, April 2011, http://www.towerswatson.com/assets/pdf/mailings/TW_20643-April-Insider.pdf

three tiers and as many as five tiers. Each tier would be designed to meet the investment needs of certain types of participants. While the tiers would be defined for decision-making ease, the options from multiple tiers could be mixed in a participant's portfolio. Below is an example of a tiered investment menu, but there are multiple ways to categorize and tier investment menus.

No Participant Involvement			Full Participant Involvement	
Tier 1	Tier 2	Tier 3	Tier 4	Tier 5
Managed Account	Asset Allocation Funds	Index Asset Class Funds	Actively Managed Asset Class Funds	Self-Directed Brokerage

In this scenario, the communication/education needs of participants are based on participant involvement. If the participant wishes to have little or no involvement in managing his or her account, then a managed account or an asset allocation fund may make the most sense. For these options, education requirements are not particularly onerous. Communication/education can be focused on informational topics rather than decision-making topics. By contrast, if a participant wishes to have very active involvement in managing his or her retirement account, then options from Tiers 3 to 5 could be the more logical options. In tiers 3 and 4, the traditional education service provided by most vendors is probably most appropriate. On the other hand, Tier 5 may borrow some of the asset allocation education services from tiers 3 and 4, but would require participants to educate themselves about the plethora of individual investment options.

Because it is unlikely that participant-directed plans will become less important to retirement income planning, it is critical that plan sponsors and providers help participants to make better investment decisions. Whether the decision-making improvement comes from investment menu simplification, investment menu reorganization, or some other improvement depends on a variety of issues that are undoubtedly plan specific. However, it is incumbent on the industry and plan sponsors to continue to innovate and find ways to help participants make effective investment decisions.

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 Tracy Tucker at ttucker@amrms.com or contact her at 859-514-9161 with any questions or comments.

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