TOP STORY

ANC Foundation Raffle

Once again this year at the NAGDCA annual conference there will be various raffles to raise money to support the Arthur N. Caple Foundation. You can help by contributing an item or a monetary donation towards the raffle. We would like to have all donations by August 23, 2013. All donations are tax deductible. Examples of items include gift baskets, gift cards from national retailers, Nintendo Wii, etc. Government members are encouraged to contribute an item representative of their state. For more information contact Liz Fossett at lfossett@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 fourth annual matching donor program during this year's NAGDCA Annual Conference, September 8-11, 2013, in Louisville, KY. 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 Sunday, September 8 through Wednesday, September 11. In 2012, industry matching donors raised over $12,000 for the ANC Foundation. Your contributions directly support the mission of the Foundation. Last year, six scholarships were granted to students pursuing a career in financial planning and those in attendance at the conference had an opportunity to meet these bright students.

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.

Mark your Calendar:
InFRE Pre-Conference Workshop: Fundamentals of Investing
September 8, 2013
Marriott Louisville Downtown
Louisville, KY

403(b) Pre-Conference Workshop
September 8, 2013

Marriott Louisville Downtown
Louisville, KY

Annual Conference
September 8 - 11, 2013
Marriott Louisville Downtown
Louisville, KY

PRESIDENT'S CORNER

Greetings NAGDCA Members:

On April 25, 2013, I was honored to testify before the House Ways & Means Committee Task Force on tax reform on behalf of NAGDCA. There were four House Members (Tiberi R-Ohio, Kind D-Wisc., Paulsen R-Minn., and Neal D-Mass.) in this meeting as well as representatives from AON/Hewitt, AFL-CIO, AARP, ASPPA, UTC, American Benefits Council, and the Pension Rights Center.

One advisory firm presented an approach that recommended the "consolidation" of all defined contribution plans. A second investment firm subsequently presented an approach that proposed the use of a Lifetime Annuity. After much discussion, I saw my chance to participate and shared NAGDCA's opinion on these issues, as follows:

- I stated that NAGDCA represented all 50 states and many local governments with approximately $1 trillion in DC plan assets. I explained that that more than 98% of government employees are covered by retirement plans through DB, DC, and/or hybrid plans. The goal at NAGDCA is to encourage retirement savings and to make it as easy and as efficient as possible for local and state government employees to save for retirement.

- Next I went on to address the proposed consolidation approach. I mentioned that we really need to be careful not to confuse apples with oranges. The advisory firm made a point of saying that participants were confused over the many retirement plans available to participants. And the very next sentence mentioned that participants were confused over the many selections available to them. However, this was a quote from the Columbia Business School that was concerned with the many "investment" choices rather than the type of plans available to participants. Plan Sponsors must determine what type of plan they have authority to offer and then implement such plans. Participants really do not care what plans are offered but rather they want to understand the rules of their particular plan.

- NAGDCA is against any consolidation of DC plans since our government DC plans work very well. NAGDCA tries very hard to educate its member administrators; and its member administrators try very hard to educate employees about the value of saving for retirement. For example, my employer, the Sanitation Districts of Los Angeles County, has an 82% participation rate without a match. Further, we are reaching out to the remaining

18%, which are primarily Blue Collar employees. I referenced the paper prepared by Ariel Investments and AON/Hewitt titled "401(k) Plans in Living Color." The majority of our Blue Collar workers fit the minority groups referred to in the report that are typically less prepared for retirement. Finally, we are reaching out to those lower-income employees that may qualify for the Low-Income Savers Credit.

- NAGDCA does not believe, as the advisory firm suggested,that government DC plans are complex. I was at a NAGDCA Industry meeting last week, and they all agreed that the 457 plans were the easiest to administer. Further, the options for employers in choosing which plan they have the authority to offer are straightforward and based on guidelines that best fit the employee category.

- The complexity for the employer sponsoring a plan is typically in choosing an investment platform, especially when there are too many investments to choose from. I explained that while I worked over eight years for a large private company, I never saw a 401(k) representative and a seminar was never offered. However, NAGDCA members place great emphasis on educational seminars and having representatives available to plan participants.

- A consolidated approach would be more confusing to participants since there would be separate rules (old & new) to maintain. Additional materials would need to be distributed and the web site would need to reflect two types of plan rules. In addition, consolidation would be more confusing to Plan Sponsors who would need to learn both sets of rules and explain the differences to plan participants. Finally, this would require additional administrative costs, which would ultimately be passed on to plan participants.

- Another item that the advisory firm recommended was to expand the tax base (i.e., raising revenues) by forcing half of participant contributions into Roth accounts. Forcing Roth accounts on participants would surely result in less saving for retirement. I referenced the Ariel Funds-AON/Hewitt paper that explains the lower savings within minority groups. Forcing participants into a Roth would reduce savings particularly for such minority groups.

- Several government DC options have been developed for various reasons, such as the exemption from the 10% penalty. I explained the importance of this exclusion, as follows:
    1. NAGDCA surveys consistently reflect that the most important item for 457 plans is the exemption from the 10% penalty.
    2. This exemption from the penalty is one of the benefits used in order to secure and retain quality state and local government employees. As support, I provided two independent reports showing that government employees are paid less than private industry employees, even when benefits are taken into consideration.
    3. Finally, I mentioned how first responders typically start employment very young and by the time they have worked 30 years, their bodies have taken a toll both physically and mentally, as evidenced by what happened in Boston just in the prior week, and therefore, were entitled to an earlier retirement. The elimination of the 10% exclusion would certainly hinder retirement savings for governmental

participants.

Representative Tiberi (R- Ohio) commented about a constituent of his that lost his job at age 59, could not sell his house, and was forced to take his monies out of his 401(k) plan even though he incurred a 10% penalty. Representative Tiberi asked what could be done to prevent such a situation. I responded that government 457 plans allow for an employee to access their monies without a penalty and this is one of the selling points we use when signing people up for our DC plan.

Representative Tiberi asked about what can be done to prevent people from taking monies out of their DC plan to purchase a large item such as a boat when they really do not have enough saved for retirement. I reminded him that NAGDCA is dedicated to educating participants. For example, my government is starting to have all employees meet with a Certified Financial Planner prior to retirement to ensure they are prepared financially for retirement. Further, I mentioned that many advisors reach out to our employees nearing retirement with hopes of rolling such monies into an IRA. I pointed out the recent GAO report that concluded monies maintained in a DC plan are better off than those rolled into an IRA since the fees are lower. Also, having participants meet with our Certified Financial Planner helps to prevent leakage.

After the meeting concluded, Representative Tiberi thanked me for my attendance and thorough comments. He also indicated that he would like to meet with the NAGDCA Executive Board next year.

It was a great experience and an honor to represent NAGDCA in this capacity. I would like to thank the people that helped me prepare for the meeting (e.g., Susan White) as their contributions were insightful and significant.

I look forward to seeing you all at the NAGDCA annual conference in September!

Tom Mueller

NAGDCA President

WASHINGTON REPORT

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

The State of Congress

Congress has remained busy with immigration reform over the last few months and the Senate is currently working on a bill. Although there has been a bipartisan group of Senators working on a comprehensive immigration reform bill, it is unclear at this time if the bill has the votes necessary to pass. Republican leadership has indicated that they would not oppose bringing the bill up for debate but it is still unclear if that means only allowing debate on the bill or actually a final vote in support of the bill.

Leadership in the House of Representatives have indicated that they will wait for the Senate to pass a bill and then would work on that bill, but smaller groups of Representatives have been publishing proposals that the House may debate. House Committee on the Judiciary Chairman Bob Goodlatte (R-VA) has said that he would prefer a number of smaller targeted bills and not comprehensive reform. and as a result the Committee may pass these smaller proposals.

Tax reform is still a possibility in both the House and the Senate and it would include pension reform (see below) but the timeframe for any tax reform is unclear right now. it is unclear at this time what the timeframe for any tax reform would be.

Tax Reform: NAGDCA Presents Priorities to House Committee on Ways and Means

Both congressional committees that have jurisdiction over tax reform, the Senate Committee on Finance and House Committee on Ways & Means, have held hearings on tax reform and will likely hold more hearings in the coming year in preparation for tax reform legislation. It is currently unknown what the timeline is for tax reform but committee staff is extremely busy preparing for reform, and legislation will probably be introduced this year.

The Ways and Means Committee, at the direction of its Chair, Representative David Camp (R-MI), has put together task forces on tax reform. The task force focusing on pensions is being chaired by Representatives Pat Tiberi (R-OH) and Ron Kind (D-WI). NAGDCA not only submitted a statement for the record, but was extremely pleased that President Tom Mueller was invited to testify before the task force regarding governmental defined contribution plans and NAGDCA's concerns and priorities related to tax. The statement, as submitted for the record, is available on www.nagdca.org, in addition to the 2013 federal priorities letter. We have received feedback from task force and Committee staff that the testimony was well received, and members followed up with questions about state and local government plans. Specifically, President Mueller spoke about NAGDCA's opposition to a proposal that would consolidate all defined contribution plans. He emphasized that participant confusion is not due to the various plans (i.e., 457(b), 401(k), 403(b), etc.), but that employees are confused about investment options and fees. He outlined NAGDCA's leadership in furthering education for plan administrators and support for National Save for Retirement Week (NS4RW) as examples of the organization's push for education.

Retirement Plan Simplification and Enhancement Act of 2013 (HR 2117)

NAGDCA is pleased to announce that we worked closely with Representative Richard Neal (D-MA), a senior member of the House Committee on Ways & Means, on HR 2117, which was recently introduced in the House.

The legislation contains a number of NAGDCA priorities, including removal of RMD requirements when there is under $100,000 in savings, strengthening the Saver's Credit, permit non-spousal beneficiaries to roll assets to 457, 401(k) and 403(b) plans and elimination the "first day of the month" requirement. NAGDCA looks forward to continuing to work with Representative Neal's staff on this bill.

Annual Conference

NAGDCA is honored that Kathleen Floyd, Deputy Director, Investor Education, Office of Investor Education and Advocacy, SEC has agreed to take part in the Annual Conference in Louisville, Kentucky. Ms. Floyd's presentation will be in follow up to the NAGDCA Board of Director's March meeting with her and other SEC policymakers to discuss NAGDCA priorities and investor education, including Mueller's Presidential Government DC Best Practices Task Force.

Industry Roundtable

On April 18-19, NAGDCA held it's 9th 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 Minority, and Tax Counsel for Representative Richard Neal (D-MA).

Panel members discussed tax reform, all indicating that they were preparing for reform. NAGDCA will continue to work with Congress and with the Administration on tax reform related issues that affect NAGDCA members.

INDUSTRY VIEWPOINT

An Overlooked Solution to Better Retirement Outcomes

By Brent P. Neese, Vice President, Government Markets, Great-West Financial

Auto enroll, auto increase, and in-plan guaranteed income have become popular strategies in public plans over the past few years. These solutions make a big difference in the retirement readiness of ***new*** public employees. However, we need to do a better job of reaching ***current*** long-term participants who remain in overly conservative, non-diversified portfolios.

Better diversification may lead to better retirement readiness. An often overlooked solution to improved diversification is to reset or re-enroll all plan assets into a diversified qualified default investment alternative (QDIA).

Henry Markowitz and William Sharpe won the Nobel Prize in Economics in 1990 for their work on Modern Portfolio Theory. This theory pointed out the importance of selecting investments as part of an ***overall*** portfolio – rather than solely on the investment's own individual strengths. As a result of this important work, all public DC plans promote diversification in their materials and through education forums.

Too Much Allocated to Fixed Investments

Most public plans offer a conservative fixed account or stable value fund. Conservative investments like these are an important part of any portfolio. However, many DC participants use only these options during both their accumulation and distribution years. In the late 1970s and early 1980s, fixed accounts yielded double-digit returns. Not surprisingly, many DC participants enrolled 100% of their contribution into fixed accounts. Unfortunately, despite declines in interest rates over time, they never reallocated their assets. As a result, many participants lost out on market returns that outpaced fixed investments. These individuals may have a difficult time keeping up with inflation in retirement.

Additionally, defined benefit (DB) plans provide a guaranteed income stream at retirement. Therefore, over-allocating to conservative fixed investments has a pronounced effect for public employees who have a DB plan. While most DC participants understand the value of diversification, many do not take an active role in managing their investment portfolio.

What is A QDIA?

The Pension Protection Act (PPA) President George W. Bush signed into law in 2006 removed barriers to employers adopting automatic enrollment. The PPA also directed the Department of Labor to issue a regulation to help employers select default investments that best serve the retirement needs of DC participants who do not direct their own investments. The regulation provides for four types of QDIAs:

1. A product with a mix of investments that takes into account the individual’s age or retirement date. For example, a life-cycle or targeted-retirement-date fund (TDF);

2. A managed account investment service that allocates contributions among plan options to provide an asset mix that takes into account the individual’s age or retirement date. For example, a professionally managed account. This service gives participants access to advisors so they can discuss contribution strategy, desired retirement incomes, and planned retirement age;

3. A product with a mix of investments that takes into account the traits of the group of employees as a whole, rather than each individual. For example, a balanced fund;

4. A capital preservation product for the first 120 days of participation. This option may appeal to plan sponsors who want to simplify administration if employees incur an investment loss before opting out of participation.

Consider your DB Plan When Selecting A QDIA

When contemplating which QDIA to consider, public plan sponsors should not overlook the impact a DB plan has on a participant’s total portfolio. TDFs use a glide path that gradually increases the portfolio’s fixed income holdings and decreases its equity holdings as the participant nears retirement. Keep in mind the glide path can vary widely between fund providers. Most glide paths also do not account for participants who have access to a DB plan in addition to a DC plan. It is also important to choose a TDF based on the overall characteristics of the plan's employee demographics. A few TDF providers can adjust the glide path from conservative to aggressive based on an analysis of the DB plan and employee demographics.

A managed account takes customization of the glide path to the participant level. Managed accounts can also aggregate DB plan assets as well as other retirement assets, such as IRA and spousal assets. In addition to asset allocation assistance, managed account services provide participants with access to advisors and the ability to discuss contribution strategy, desired retirement incomes, and planned retirement age.

Both TDFs and managed accounts may be good options for public plan sponsors who want to take a holistic perspective on their QDIA.

Plan reset into a QDIA May Lead to Better Retirement Readiness

Plan reset into a QDIA has been a common practice in private sector DC plans since 2006. It is becoming popular in the governmental market as well. Although many states have impediments to auto enrollment, I am unaware of any that restrict plan reset into a QDIA. However, it's a good idea for plan sponsors to confirm that their plan document and applicable laws, rules and regulations allow a reset.

Many government plan sponsors have reset their plan in recent years. The process has become streamlined and can be accomplished with minimal resources from the plan sponsor. The service provider simply gives participants ample notice that the plan will be reset into the QDIA. Participants may opt out of the process if they choose. Recent experience among our company's clients has shown that most plan participants choose to be re-enrolled in the QDIA.

The result could be a healthier plan and participants who are age appropriately diversified. The future of public sector retirement security is a challenge. Plan reset into a QDIA could lead participants to better retirement readiness.

Brent Neese is a registered representative of GWFS Equities, Inc. (GWFS), wholly owned subsidiary of Great-West Life & Annuity Insurance Company. GWFS registered representatives are not registered investment advisors, and cannot offer financial, legal or tax advice. Please consult with your financial planner, attorney and/or tax advisor as needed.