ASSOCIATION NEWS

2013 NAGDCA Annual Conference

The 2013 Annual Conference was a huge success again this year. The conference held September 8-11 in Louisville, KY focused on the theme "Championing Your Retirement”. Session topics centered on helping plan participants successfully reach their retirement goals.

More than 50 NAGDCA members served as speakers and nearly 50 guests joined us for the week for a total of 817. NAGDCA was honored to have David Crockett, former Director of Chattanooga, TN’s Office of Sustainability, and Dr. William Danko, co-author of The Millionaire Next Door. If you weren’t able to attend this year’s conference be sure to check out our presentations and David Crockett’s opening keynote.

David Crockett

Special Guest Speaker: Kathleen Floyd, SEC, spoke about Financial Literacy and Investor Resources from the SEC

Jon Sheiner, of Susan J. White & Associates, gave a Washington Update

Dr. William Danko, co-author of The Millionaire Next Door, closing speaker

Arthur N. Caple Scholarship and the Student Mentoring Program at the 2013 Annual Conference

NAGDCA and the ANC Foundation recognize the following 2013 Scholarship Recipients

Full Scholarship Winner – Nolan McClure (University of Georgia)

Nolan McClure was selected by the ANC Foundation Board based on his demonstrated knowledge on retirement planning and commitment to the industry. McClure received $5,000 to go towards graduate school at the University of Georgia. He also received all-expense paid travel to the 2013 NAGDCA Annual Conference and expenses covering the InFRE® Certified Retirement Counselor® (CRC®) certification materials and exam.

A travel stipend and conference registration was also awarded to the following students:

Kelsey Brooks (University of Georgia), Michael Cerone (William Paterson University), Daniel Divizio (William Paterson University), Jamie Engelken (Kansas State University), Kelly McNerney (William Paterson University), Andrew Milling (William Paterson University), Abed Rabbani (University of Georgia), Tyler Reames (Louisiana State University), Stephanie Shand (William Paterson University), Maria Tabanian (University of Texas at Dallas)

Applications for the 2014 Scholarship Program will be accepted in Spring 2014.

The ANC Foundation in partnership with the International Foundation for Retirement Education (InFRE) developed the criteria for the scholarship. To be considered, applicants must be enrolled as a full-time student at a university or college, be a junior or senior, be enrolled to continue university studies for the following semester, and be a U.S. citizen.

The scholarships commemorate the lifework of Arthur N. Caple, former Executive Director of the State of Maryland Supplemental Retirement Plans and NAGDCA Past President, who passed away in 2004.

For additional information about the scholarship program or to make a donation please visit the ANC Foundation website at www.caplefoundation.org.

The Arthur N. Caple Foundation was formed to advance knowledge in the field of public sector retirement security. The Foundation, established in 2006 as a supporting organization of the National Association of Government Defined Contribution Administrators (NAGDCA), supports both individual educational opportunities and research to expand knowledge related to the importance of retirement readiness.

Student Mentoring Program

Along with the presentation of the Arthur N. Caple Scholarship, 36 students from 10 different universities participated in the 2013 NAGDCA Student Mentoring Program. With the surge of financial planning programs found in universities throughout the United States, it has been a goal for NAGDCA to reach out to these individuals and introduce them, early on, to the benefits of NAGDCA and its membership. For the eighth year, NAGDCA has provided the Student Mentoring Program at the Annual Conference, and it was another great success. NAGDCA paired students with two mentors from both the industry and government sector of the defined contribution community.

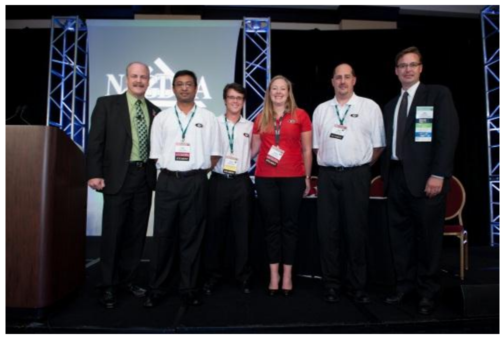
The students and their mentors attended a specially planned session that introduced the students to NAGDCA and its many benefits, while opening a channel of communication between the students and their mentors. Mentors were also encouraged to take some time out of their busy conference schedules and help students network with fellow attendees, offer themselves as future resources, and provide onsite support for the students while at the conference.

The students and mentors were both polled on their experience, and from the responses that were received, this program will continue to expand and develop in years and conferences to come.

Retirement Knowledge Quiz Bowl

NAGDCA held its second annual Retirement Knowledge quiz bowl. Six teams competed - William Paterson University, the University of Georgia, Western Kentucky University, Utah Valley University, University of Missouri, and the University of Texas, Dallas. They were asked questions from the InFRE Certified Retirement Counselor exam. This year, the University of Georgia and Utah Valley University tied for first place! The two teams received first place trophies and all eight winners received $250

Congratulations to University of Georgia and Utah Valley University!



The University of Georgia Quiz Bowl Team with NAGDCA Past President Tom Mueller and Industry Observer Alex Hannah

Utah Valley University Quiz Bowl team with NAGDCA Past President Tom Mueller and former NAGDCA President Julia Durand

National Save for Retirement Week

This month, NAGDCA and its members are celebrating National Save for Retirement Week (October 20 - 26, 2013).

NAGDCA would like to hear what your plan has done to promote this very important week. Please send your information and sample materials to Liz Fossett (lfossett@amrms.com).

Please visit the National Save for Retirement Week page on the NAGDCA website for information and materials which can be downloaded and personalized.

PRESIDENT’S CORNER

Dear NAGDCA Members,

Thank you to everyone who participated in the NAGDCA annual conference in Louisville, Kentucky! The 2013 conference had high attendance, with 817 total registrations. We even reached an all-time high of student participation, with 36 students attending the conference this year. Thank you to all the speakers, in particular the keynote speakers such as David Crockett, Kathleen Floyd, Jon Sheiner, and Dr. William Danko.

I’d like to say a special thank you to Julia Durand, San Francisco Employees’ Retirement System; Rod Crane, TIAA-CREF; and Eric Sanderson, Great West, for their service and contributions to the association. I’d also like to welcome to the NAGDCA Board Ed Rutherford, Larimer County, CO; Keith Overly, Ohio Deferred Compensation; and Julie Klassen, Prudential Retirement.

At the NAGDCA Annual Conference, the government members voted to amend Article 3 – Membership, Sections 1, 2, and 3 of the NAGDCA Constitution. This amendment was meant to clarify membership categories, and should you have any questions about how this may affect your organization, please reach out to Tracy Tucker, Association Director, at ttucker@amrms.com.

I am honored to be the first to serve twice as NAGDCA’s President. NAGDCA will continue to be a leader in these challenging times, and will continue to promote DC plans as a supplemental, yet vital, component of retirement savings plans for public employees. Goals for the 2013-2014 year are as follows:

- Continue outreach to small and medium size government plans
- Encourage more decision-makers in the 403(b) community to participate in NAGDCA’s educational programs and adopt best practices for their plans
- Advocate for financial education literacy in schools and colleges
- Promote development of retirement benefits policies by plan sponsors
- Work with lawmakers to promote retirement adequacy for the American workforce

I look forward to working with NAGDCA’s membership this year and serving the association.

Sincerely,

Ralph Marsh
City of Houston, TX

WASHINGTON REPORT

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

National Save for Retirement Week

On September 11 the United States Senate unanimously passed S. Res. 222 calling for a National Save for Retirement Week (NS4RW) to be held during the week of October 20 of this year. Senator Ben Cardin (D-MD), member of the Senate Committee on Finance, and Senator Mike Enzi (R-WY), member of the Senate Committees on Finance and the Committee on Health, Education, Labor and Pensions took the lead in co-sponsoring the Resolution. NAGDCA applauds the leadership of Senator Cardin and Senator Enzi and we look forward to continuing to work with them in continued support of NS4RW and on other critical matters affecting savings and retirement.

Federal Budget Outlook

Congress and the Administration remain deadlocked, as the government shutdown continues, on budget and debt limit negotiations. However, there are now significant discussions about re-opening the government that would include long term budget negotiations as part of the deal. It is highly likely that these negotiations would include consideration of tax reform proposals. Regardless, the first item of business—still unresolved— is funding for basic government functions for Federal Fiscal Year 2014—not including Social Security, Medicare and Medicaid.

Not only have the budget disagreements led to a shutdown of the government, but to a possible default on federal debt unless members can agree to raise the debt limit ceiling in the coming days.

In recent days a proposal has emerged to form "supercommittee" to look at the debt and budget issues. The proposal was offered by the House of Representative Leadership as a way to agree to short term funding to re-open the government and raise the nation's debt ceiling.

A supercommittee was put into place in 2011 to negotiate a bi-partisan approach to cutting the budget. Although a government shutdown was averted and the debt ceiling was raised, the supercommittee never reached a budget deal and major cuts, called "sequestration" went into effect—forcing major across-the-board cuts across all federal agencies—the same funding—yet unresolved for 2014--that is now forcing the federal shutdown.

Therefore, it is unclear, at this point, whether the Senate and the White House will agree to this approach. The President's position is that there are enough bi-partisan votes in the U.S. House of Representatives to pass legislation (already passed in the Senate) to fund the government. The Administrations has stated that, once that happens, they will negotiate on longer term aspects of the government, including entitlement spending.

Tax Reform

A major outstanding question looming over the federal budget stalemate is whether tax reform is still viable as part of the elusive "grand bargain" budget deal. Any such package, if agreed to, is likely to contain reforms on both spending and revenue.

What is known is that both of the congressional tax writing committees—the House Committee on Ways and Means and the Senate Committee on Finance—have had a deep interest in tackling tax reform and there is bi-partisan interest to pass comprehensive legislation. Committees and their staffs have been preparing for such measure.

Both the chambers' committees have held hearings on tax reform over the last couple of years and may hold additional hearings in the coming year in preparation for tax reform legislation. Additionally, the Committee on Ways and Means Chairman, Representative David Camp (R-MI) appointed a Task Force on Pensions and Retirement that held Committee meetings at which NAGDCA's President testified on the issue of consolidating defined contribution plans. NAGDCA's presentation can be found here.

Annual Conference

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

INDUSTRY VIEWPOINT

Julie Klassen, Prudential Retirement, NAGDCA Industry President

To help measure the impact that lifetime guaranteed income features in defined contribution (DC) plans have had on participant outcomes, Prudential Retirement conducted to two proprietary studies: Book of Business Analysis (examined more than 20,000 participants in mid-2011) and Prudential Retirement Plan Survey (with more than 2,300 participant responses in December 2011).

This article provides a summary of some of these research-based findings. For a more comprehensive discussion of this topic, you can access the thought leadership white paper "Better Participant Outcomes through In-Plan Guaranteed Retirement Income" at incomechallenges.com.

Americans' View on Retirement Readiness and Guaranteed Lifetime Income

Plan participants are less prepared and more anxious about their ability to retire than ever before:

- Three out of five participants say they're behind schedule or don't know where they are in relation to their retirement goal.[1]
- Only one in five participants is "extremely or very" confident that their money will last through retirement.[2]

Unfortunately, this expectation could leave many Americans with a false sense of security about their retirement prospects. A recent study by the Employee Benefit Research Institute (EBRI) found that one out of every two retirees left the workforce earlier than planned. Poor health or disability, changes at their employer (such as downsizing or closure), or having to care for a spouse or other family member were primary reasons why individuals left the workforce early. Only 8% of retirees said they retired early because they thought they could afford it.[3]

A guaranteed income feature in a DC plan, referred to in this article as an "in-plan guaranteed retirement income option," is one potential solution that can help participants address their retirement readiness and confidence challenges, as well as assist them in managing an earlier than expected retirement. Participants tend to agree. Our research found that three out of four participants felt it was important that their workplace retirement plan include a guaranteed income feature.[4]

Main Risks to a Successful Retirement

Retirement security risks that worry plan participants most include:

- Market volatility may jeopardize their ability to retire as planned.
- Their current retirement investments won't provide the growth potential they need.
- Increased longevity means increased costs.
- A protracted illness or disability could deplete their retirement account.
- Social Security benefits may be reduced.
- Even mild inflation will erode a retirement account's buying power.

In looking further, age was not a factor. Those under 55 years of age listed the same concerns, with the same priority, as all the participants who responded to the survey. And, whether or not a participant was close to retiring, market volatility stood out as the greatest concern. Those participants invested in an in-plan guaranteed retirement income option reported that they were extremely satisfied, citing such features as upside market potential, retirement income protection during down markets, flexibility, and providing lifetime guaranteed income. One observation that can be made is that investor confidence rises, as three out of five of those surveyed said they were more confident.

"Average Investors" Often Make Poor Choices

From 1991 to 2011, the S&P 500 Index has averaged 9.14%. In contrast, the average investor in equity mutual funds earned 3.83%, and the average investor in asset allocation mutual funds earned 2.56%. The same is true for bond investors. During the same period, the Barclays Capital U.S. Aggregate Bond Index returned an average 6.89% per year, while the average investor in fixed-income mutual funds only realized 1.01%. According to Dalbar, the Boston-based research group that has analyzed investor behavior over two decades, this is largely because average investors tend to sell securities after a market decline, and then wait until the market recovers before reinvesting. By trying to time the market, investors, in effect, sell low and buy high."The psychological factors of behavioral finance help explain why investors often make buy and sell decisions that contradict the best investment practice," Dalbar asserts. "In order to correct the behaviors, advisors and others need to apply antidotes to the factors that drive the poor choices investors make."[5]

Over the many years that Dalbar has analyzed investor behavior, "… at no point in time have average investors remained invested long enough to derive the benefits of a long-term investment strategy." However, Prudential's research showed that participants were more likely to "stay the course" when in-plan guaranteed retirement income options were introduced.

In-Plan Guaranteed Retirement Income Helps Participants Stay the Course

More than half of those polled said investing in an in-plan guaranteed retirement income option made them more prone to weather market volatility, and more than three out of five said investing in an in-plan guaranteed retirement income option made them more confident in general about their retirement security. In examining our book of business, we found that during the down market from 1Q/08–2Q/09, plan participants invested in in-plan guaranteed retirement income were 2.5 times more likely to stay invested in equities than participants without an in-plan guaranteed retirement income option.[6]

One reason may be because guaranteed income would not decline with market volatility. This was underscored when, from July 31 to August 8, 2011, the S&P 500 Index lost over 13%[7] following the downgrade of U.S. debt, yet not one participant invested in in-plan guaranteed retirement income experienced a loss in their Income Base. (The Income Base is a value that is only used to determine a participant's guaranteed annual lifetime income. It is not an amount that can be withdrawn. Market Value, meanwhile, is similar to an account balance. It fluctuates daily due to market performance, contributions and transfers and therefore is not guaranteed.)

Diversification

It is generally agreed that a comprehensive diversification strategy can help manage risk. But participants often struggle with how to build such a portfolio tailored to their specific goals. A study by The Wharton School concurred, finding that, "[R]etirement wealth over a 35-year work life might be reduced by as much as one-fifth due to participant diversification errors."

We found similar results within our own book of business:

- Nearly 40% of Prudential Retirement defined contribution plan participants age 50 and older not enrolled in an in-plan guaranteed retirement income option were invested entirely in either equity or fixed-income funds.
- In contrast, those enrolled in an in-plan guaranteed income product were invested in an asset allocation-style fund that was diversified among a variety of asset classes.

Deferral Rates

Our book of business also showed that providing an in-plan guaranteed retirement income option results in participants contributing more—38% more—than average plan participants contribute. In addition to the presence of an in-plan guaranteed retirement income option, we found that providing information about retirement income has influenced participant behavior and outcomes.

This cause-and-effect relationship is also borne out by Prudential's Retirement Income Calculator (RIC). The Retirement Income Calculator is an interactive, online planning tool that helps participants estimate whether they can reach their retirement income goal based on their specific time horizon, rate of deferral and tolerance for risk.

Often, participants discover that they have an income shortfall. When a shortfall is projected, the RIC also identifies actions to help close the gap. Our research found that when there was a shortfall, nearly one in five participants increased their savings rate, by an average of almost 5.0 percentage points.

Securing Lifetime Income

When the time comes for participants to begin living in retirement, we found that those not invested in an in-plan guaranteed retirement income option withdraw an average of 7% to 15% of their market value from their Prudential Retirement plan each year. To determine the effect such a withdrawal rate could have on their retirement strategy, we ran 2,000 market return scenarios using a hypothetical 55-year-old investor with $100,000 in a retirement account. We assumed annual contributions of $7,200 until retiring at age 65, followed by a 30-year retirement. Based on what many in the financial services industry consider to be a “safe withdrawal rate” of 4%, our analysis found that 17% will run out of money by age 95, and another 29% will need to scale back their spending to avoid running out.

In other words, nearly half of the hypothetical scenarios will either run out of money in retirement, or need to scale back their retirement lifestyle by spending less. However, in-plan guaranteed retirement income options eliminate the need to wrestle with how much to withdraw. Even if their balances fell to zero, participants would not need to worry about living longer than their income payments.

Summary

Confidence in Retirement Readiness - Participants are neither confident about nor adequately prepared for retirement. They are particularly concerned about running out of money, and protecting the money they do have from future market volatility.

Concerned with a Variety of Retirement Risks - Chief among their concerns are the risks associated with market volatility, followed by investment performance, longevity risk, healthcare costs, inflation and the challenges facing Social Security.

Guarantees Produce Better Outcomes - When in-plan guaranteed retirement income options are added to defined contribution plans:

- satisfaction increases.
- confidence increases.
- outcomes improve due to better long-term investing behaviors.

Our research found that plan participants with in-plan guaranteed retirement income options were more inclined to stay invested during market turmoil, were better diversified and contributed more than participants without guaranteed retirement income.

1. Prudential Retirement Plan Participant Survey, 2012.
2. Ibid.
3. 2012 Retirement Confidence Survey, Employee Benefit Research Institute.
4. Prudential Retirement Plan Participant Survey, 2012.
5. Quantitative Analysis of Investor Behavior, Advisor Edition, Dalbar, Inc. 2011.
6. Study of nearly 20,000 Prudential Retirement full-service Defined Contribution participants age 50 and older, researched during the period Q1/2008 through Q2/2009.
7. Bloomberg Finance Report, 10/11/2011.

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