

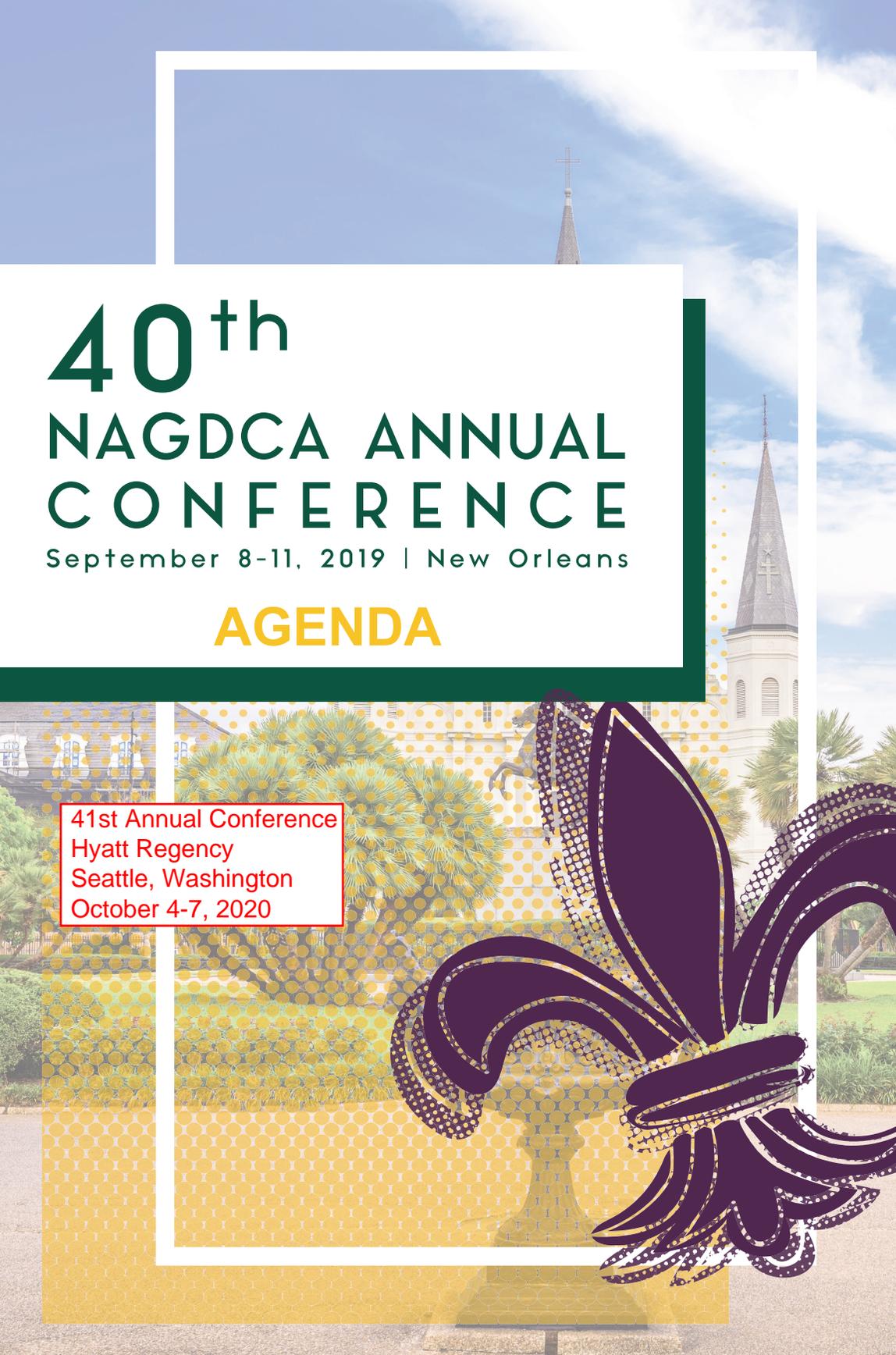
Information from the
2019 Annual Conference of the
National Association of Government Defined Contribution Administrators (NAGDCA)

Murray Levison
October 10, 2019

Attached you will find the agenda for the 2019 NAGDCA Annual Conference, as well as the slides for 17 sessions and a link to videos for two sessions.

If you only have time to look at the materials from a few sessions, I encourage you to review the following:

- 2. Introduction to Defined Contribution Plans – *page 55 of the materials*
- 13. Keynote - Shlomo Benartzi - The Digital Fiduciary: Online Behavior and Retirement Success – *page 197 of the materials*
- 14. Fiduciary Diligence, Best Practices, Lawsuits and Lessons Learned – *page 215 of the materials* (I recommend you watch the one hour video to gain the most knowledge)



40th NAGDCA ANNUAL CONFERENCE

September 8-11, 2019 | New Orleans

AGENDA



41st Annual Conference
Hyatt Regency
Seattle, Washington
October 4-7, 2020



AGENDA

September 8-11

Hyatt Regency New Orleans

Conference agenda is subject to change.

All activities held on Level 2 of the Hyatt Regency New Orleans unless otherwise noted.

SUNDAY, SEPTEMBER 8

9:00 a.m. – 11:00 a.m.
Strand 10

INFRE PRE-CONFERENCE WORKSHOP Managing Retirement Income: What your Employees, Family, Friends and Self Need to Know

Instructor: Kevin Seibert, CFP®, CEBS®, CRC®,
Managing Director, Foundation for
Retirement Education (InfRE)

Many of your employees are part of the 78 million baby boomers quickly approaching retirement. Will they be able to make informed decisions about when to retire and how to manage, protect and distribute the savings they have in your employer-sponsored retirement plan? Join us for this professional retirement income management education course attended by over 10,000 professionals nationwide that will help you understand why and how you need to help your pre-retirees transition from accumulating assets to one of the most important skills they will ever need to know: how to make their retirement savings last a lifetime.

In this session you will learn how to:

- Match types of monthly income with types of monthly expenses.
- Manage retirement savings so they are protected from retirement risks.
- Minimize taxes when taking distributions.
- Evaluate and prioritize options for closing retirement income gaps.
- Improve the length of time retirement savings can pay income.

9:00 a.m. – 12:00 p.m.
Strand 7

NAGDCA Board Meeting

11:00 a.m. – 6:00 p.m.
Empire Foyer

Registration Open

1:00 p.m. – 2:00 p.m.
Empire Ballroom C

Intro to DC Plans

Moderator: Matt Petersen, NAGDCA

Panelists: Meghan Jacobson, J.P. Morgan
Tom Mueller, Sanitation Districts of Los Angeles County - Retired

Learn about the primary concepts related to achieving successful outcomes in a defined contribution plan. This session may be particularly beneficial to government or industry professionals new to working with DC plans, or seasoned professionals interested in a fresh take on the building blocks of expanding participant success.

2:30 p.m. – 3:30 p.m.
Empire Ballroom C

Board/Committee Membership, Governance & Best Practices

Moderator: Rob Boehmer, State of Nevada

Panelists: Gay Lynn Bath, University of Oregon
Mike Golojuch, City and County of Honolulu
Julian Regan, Segal Marco Advisors

Proper plan oversight and operation is essential in maintaining governance on a governmental defined contribution plan. The most common form of plan governance involves the creation of a specialized board (or committee), usually appointed under the governing authority of the plan sponsor. This session is dedicated to assisting those that serve on or support a board or committee with their fiduciary and/or governance duties.

This session will explore the following:

- Committee membership and Board makeup
- Understanding fiduciary duty and responsibility
- Roles of the board versus roles of administrative staff
- Various board and sub-committee structures
- Investment management and plan design governance and oversight
- Analyze a plan sponsor who changed the roles of the governing board and the administrative staff and the lessons learned
- Utilizing board sub-committee structures
- Studying the best practice checklist to analyze the practices that strengthen and make plans grow and drive plan sponsor financial wellness



4:00 p.m. – 4:30 p.m.
Strand 5

Awards Committee Meeting

4:00 p.m. – 4:30 p.m.
Strand 6

Benchmarking Committee Meeting

4:30 p.m. – 5:00 p.m.
Strand 7

Legislative Committee Meeting

4:30 p.m. – 5:00 p.m.
Strand 8

Publications Committee Meeting

5:30 p.m. – 7:00 p.m.
Elite Hall, Level 1

President's Reception

MONDAY, SEPTEMBER 9

7:00 a.m. – 7:45 a.m.
Elite Hall, Level 1

Conversation Café

Join your colleagues for buffet breakfast, coffee, and informal networking.

7:00 a.m. – 4:00 p.m.
Empire Foyer

Registration Open

8:00 a.m. – 8:30 a.m.
Empire Ballroom A

Conference Opening and Welcome

8:30 a.m. – 9:30 a.m.
Empire Ballroom A

KEYNOTE SPEAKER



Matt Johnson, The Impossible Company

The Impossible Dream: How Storytelling Transforms Us

Technology, economics, politics, society: Every aspect of our world is changing faster than ever

before. And from multinational conglomerates to small boutiques, more organizations are at risk for failure than any point in history. We—companies, teams, and human beings—must change too. We know this. It's why we launch innovation programs, design change initiatives, and roll out new strategies. We all want to build a bridge to the future.

The good news: We know that we need to accelerate our ability to change. The bad news: Most of us are doing it wrong. Why? We've lost sight of the one thing that has consistently enabled humans to achieve the impossible. The thing that empowered us to build world wonders, land man on the moon, cure devastating

disease, and so much more. It's not technology, money, strategy, or any other external resource. To change our world, we need to change the stories we tell ourselves—the stories that shape who we are.

In this keynote, Matt reveals the transformative power of story. Leveraging his experience as a published author and corporate storyteller, Matt explains how storytelling can be your bridge to a brighter future. Whether you're an organization facing disruption, a team in conflict, or a person feeling lost in your career, Matt's case studies and exercises will introduce you to the tools you need to write (and live) your new story.

9:30 a.m. – 9:45 a.m.

Break

9:45 a.m. – 10:45 a.m.
Empire Ballroom A

Washington Update

Moderator: Cindy Rehmeier, MOSERS

Panelists: Paul Beddoe, NAGDCA
Marilyn Collister, Empower Retirement
Jeannine Markoe Raymond, NASRA

10:45 a.m. – 11:00 a.m.

Break

11:00 a.m. – 12:00 p.m.

CONCURRENT SESSIONS

Offered One Time Only

Empire Ballroom B

Equity Investment Options

Moderator: Mary Buonfiglio, State of North Carolina

Panelists: Timothy Kearney, Voya Financial
Shaun Murphy, LGIMA
Jed Petty, Wellington Management Co.
LLP

Equities can play a pivotal role in the long-term success of a retirement plan. This session will discuss what asset classes to include in a core lineup along with a review of available structures including mutual funds, collective investment trusts (CITs), and separate accounts.

This session will also include a review of current trends, best practices and other relevant topics including active versus passive investing, socially responsible screens such as ESG, alternative investments, private equity, and real estate.

Empire Ballroom C

Role of Fixed Income Investments in a Portfolio

Moderator: Jessica Sclafani, MFS Investment

Management

Panelists: Matthew Condos, Lincoln Financial Group
Charles Mansfield, ICMA-RC
Anmol Sinha, PIMCO

Fixed income investments can play several key roles in a portfolio from minimizing market volatility to creating income in retirement. The industry continues to focus on solving the decumulation phase of retirement savings.

This session will discuss various fixed investments including Money Market, Stable Value, Bonds, and Fixed Annuities along with the associated potential benefits, restrictions, and other things to consider. This session will also explore the active/passive debate, the benefits of diversifying your portfolio beyond core bonds, and how income from bonds can be leveraged in retirement.

Empire Ballroom D

Successful Communication Campaigns

Moderator: Una Morabito, MassMutual

Panelists: Lisa Kueng, Invesco
Shannon McCarthy, Nationwide
Brooke Rowden, MOSERS

The concept of retirement can be difficult for many participants to conceptualize because it is not a part of their immediate future. High competition for a participant's attention and the emerging focus on integrated experiences can make developing successful communications campaigns difficult.

In this session attendees will learn how to incorporate best practices in each of these spaces to enable successful campaigns that drive positive outcomes.

12:00 p.m. – 1:15 p.m.
Elite Hall, Level 1

Opening Luncheon

1:30 p.m. – 2:30 p.m.

CONCURRENT SESSIONS

Repeated on Tuesday afternoon

Empire Ballroom B

Fees and the RFP Process

Moderator: Nancy Hilu, Hanson Bridgett, LLP

Panelists: Raechell Dickinson, Gwinnett County
John Kendall, Nationwide
Andrew Ness, Mercer

The formal Request for Proposal (RFP) process can be a cumbersome and lengthy process that many plan sponsors dread, but it is an essential best practice

for plan fiduciaries to follow on a regular basis. Many aspects of the RFP process are crucial to successfully selecting a recordkeeper, attaining competitive value for services, and executing and maintaining a successful contract.

This session will explore the following considerations in developing and executing a successful RFP and resources that can be leveraged to assist in this process:

- Understanding procurement guidelines, laws, and processes, and leveraging in-house procurement professionals
- Reviewing contract terms and investment liquidity restrictions
- Hiring an outside plan consultant to assist with the process
- Understanding what recordkeepers are looking for and providing the necessary clarity to be able to drive a competitive and robust proposal
- Dissecting the RFP components and understanding valuable and essential data sets (e.g., project overview, scope of work, minimum qualifications, investment, administration, cost questionnaires)
- Developing a comprehensive RFP timeline
- Understanding the evaluation process and finalist interview presentations
- Understanding contract negotiations: What can be negotiated and fine-tuned
- Navigating through the transition process to a new recordkeeper from start to finish
- Developing an effective communication plan to trigger participant engagement
- Understanding the protest process and how to build processes to defend the outcome

Empire Ballroom C

How DB Plan Pressures Impact DC Plans

Moderator: Wendy Carter, Segal Consulting

Panelists: Keith Brainard, NASRA
Gary Schlimgen, University of California
Mike Welker, AndCo Consulting

For many, a key benefit of working in the public sector is the availability of a defined benefit plan that provides guaranteed monthly income in retirement. Across the country, many governmental plans are facing significant headwinds to sustain their defined benefit

plan, such as market volatility, inconsistent employer contributions, inappropriate benefit policies, etc.

This session will review:

- The current state of governmental defined benefit plans
- A case study on how effectively partnering a defined benefit plan and a defined contribution plan can provide an attractive employee recruiting and retention tool, and reduce retirement benefit costs
- The role defined contribution plans may play in the future including a review of the various types of hybrid plans

Empire Ballroom D

Leveraging Technology and Participant Tools

Moderator: Tina Gaither, Gwinnett County

Panelists: Amy Heyel, Voya Financial
Thomas Idzorek, Morningstar
Investment Management LLC
Heidi Munc, Nationwide

New technology continues to alter everything in our lives, including how participants track and manage their portfolios. As we age and the pace of our lives change, enhanced tools may become even more important in helping participants remain flexible and adaptive to change.

This session will explore:

- Trends in websites and mobile device tools and how they are being leveraged by participants
- How plans are leveraging data analytics efficiently to successfully improve participant outcomes
- How employers are leveraging technology to improve plan governance and oversight
- The role of cyber security as we leverage more sophisticated technologies

2:30 p.m. – 3:00 p.m.

Break

3:00 p.m. – 4:00 p.m.

GENERAL SESSION

Empire Ballroom A

Cyber Security

Moderator: Keith Overly, Ohio Deferred Compensation

Panelists: Kelvin Coleman, National Cyber Security Alliance
David Levine, Groom Law Group

Cyber security is simultaneously one of the most

pressing, and most confusing, topics in the defined contribution industry. Record keepers and asset managers must confront a global landscape of current and potential threats, while plans sponsors must understand how their industry partners are employing sound cyber security practices.

In this session, one of the nation's leading cyber security experts, Kelvin Coleman, Executive Director of the National Cyber Security Alliance, will give his assessment of the current state of this complex environment. He will be joined by one of the defined contribution industry's leading cyber security thinkers, David Levine of Groom Law Group, to distill the global picture down to what really matters to you. The result will be a session that bridges the gap between deep technical issues and practical solutions. It's something you certainly will not want to miss!

4:15 p.m. – 5:00 p.m.
Strand 4

Leadership Awards' Photos

TUESDAY, SEPTEMBER 10

6:00 a.m.
Hotel Lobby, Level 1

Theresa Cruz Myers 5K Run Participants Meet
Registered runners only

6:30 a.m.
Canal Place Riverfront

Theresa Cruz Myers 5K Run Begins
Registered runners only

7:30 a.m. – 4:00 p.m.
Empire Foyer

Registration Open

7:30 a.m. – 8:15 a.m.
Elite Hall, Level 1

Conversation Café
Join your colleagues for buffet breakfast, coffee, and informal networking.

8:15 a.m. – 9:15 a.m.
Empire Ballroom A

KEYNOTE SPEAKER



Dr. Shlomo Benartzi,
Professor and Co-chair of
the Behavioral Decision-
Making Group at UCLA
Anderson School of
Management, and Senior
Academic Advisor for
the Voya Behavioral Finance Institute for
Innovation

The Digital Fiduciary: Online Behavior and Retirement Success

In this talk, acclaimed behavioral economist Shlomo Benartzi will reveal how we can apply the latest behavioral economics research to help participants achieve a secure retirement. In the digital age, retirement security often depends more on fast decisions made on smartphones (and the designs that influence them) than on investment performance. Benartzi will outline a series of studies showing how improved digital design can dramatically enhance participant decision-making and boost financial security. For instance:

- Enhancing the design of an auto-enrollment screen can boost the share of workers who personalize their enrollment by 9 percentage points. Those who personalize have a savings rate that's twice as high as those who don't.
- Raising online suggested savings rates up to 10 percent doesn't decrease plan enrollment but does increase savings.
- Measures of online decision-making style are closely correlated with projected income replacement in retirement.
- Benartzi will conclude by offering seven actionable steps for plan sponsors and advisors. It's no longer enough to worry about investment oversight. We now have a duty to also focus on how our digital designs can shape the decisions of participants, and how better design can lead to better outcomes.

9:15 a.m. – 9:30 a.m.

Break

9:30 a.m. – 10:30 a.m.

SMALL GROUP DISCUSSIONS

Please check the bottom of your name badge for your group assignment.

Reflecting on the morning keynote presentation on behavioral economics, join your colleagues for a lively discuss on this and other hot topics. Don't miss out on this opportunity to connect with your peers, share best practices and learn from other's experiences.

Empire Ballroom C

Group 1

Moderator: Joe Carter, AndCo Consulting

Empire Ballroom D

Group 2

Moderator: Michael Consorte, SUNY

- Strand 10* **Group 3**
Moderator: Brayton Connard, County of Monroe
- Strand 11* **Group 4**
Moderator: Marty Flynn, Clark County Water Reclamation District
- Strand 12* **Group 5**
Moderator: Barbara Healy, NFP Retirement
- Bolden 6* **Group 6**
Moderator: Doug Miller, Suffolk County
- 10:30 a.m. – 10:45 a.m. **Break**
- 10:45 a.m. – 11:45 a.m. **GOVERNMENT BREAKOUT SESSIONS BY ASSET SIZE**
Government members only
- Bolden 5* **Session #1: \$100 million or less**
Moderator: Darlene Malaney, Palm Beach County Clerk and Comptroller
- Strand10B* **Session #2: \$101 million - \$250 million**
Moderator: Beverly Freeman, Public Utility District #1 of Chelan County
- Strand 10A* **Session #3: \$251 million - \$499 million**
Moderator: AJ Padilla, City of Austin, TX
- Bolden 6* **Session #4: \$500 million - \$999 million**
Moderator: Polly Scott, Wyoming Retirement System
- Strand 11* **Session #5: \$1 billion - \$3 billion**
Moderator: Beth Conradson Cleary, City of Milwaukee
- Strand 12* **Session #6: > \$3 billion**
Moderator: Thomas Stephens, Commonwealth of Kentucky
- 10:45 a.m. – 12:00 p.m. **Industry Members' Business Meeting**
Empire Ballroom B *Industry members only*
- 12:00 p.m. – 4:00 p.m. **GUEST PROGRAM**
City Tour & Cruise
Registered guests only
- 12:00 p.m. – 1:15 p.m. **Government Members' Lunch and Business Meeting**
Elite Hall, Level 1 *Government members only*

1:15 p.m. – 1:30 p.m.

Break

1:30 p.m. – 2:30 p.m.

Empire Ballroom A

GENERAL SESSION

Fiduciary Diligence, Best Practices, Lawsuits and Lessons Learned

Moderator: Melanie Walker, Segal Consulting

Panelists: Daniel Alexander, RetireAware
Marla Kreindler, Morgan Lewis

It is essential for plan sponsors to understand their fiduciary duties in the context of our industry's current landscape, including the potential for conflicts of interest, to achieve the best results for your plans and to anticipate concerns they may face in the future. Given the recent wave of litigation against ERISA defined contribution plan fiduciaries, lessons can be learned on how to scrutinize plan costs and provider services in order for their plans to remain competitive and attractive to their participants. This session is dedicated to educating attendees about the current state of fiduciary issues facing defined contribution plans.

Our panel of experts will discuss the following topics:

- Understanding fiduciary duties and responsibilities
- Best practices for public plan fiduciaries
- How litigation against ERISA-covered defined contribution plans is impacting our industry
- How to identify and address the potential for conflicts of interest
- How keeping plan costs down may be generating new risks for plan sponsors
- What fiduciaries can do to protect plan assets

2:30 p.m. – 3:00 p.m.

Break

3:00 p.m. – 4:00 p.m.

CONCURRENT SESSIONS

Repeated from Monday afternoon

Empire Ballroom B

Fees and the RFP Process

Moderator: Nancy Hilu, Hanson Bridgett, LLP

Panelists: Raechell Dickinson, Gwinnett County
John Kendall, Nationwide
Andrew Ness, Mercer

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Empire Ballroom C

How DB Plan Pressures Impact DC Plans

Moderator: Wendy Carter, Segal Consulting

Panelists: Keith Brainard, NASRA
Gary Schlimgen, University of California
Mike Welker, AndCo Consulting

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guaranteed monthly income in retirement. Across the country, many governmental plans are facing significant headwinds to sustain their defined benefit plan, such as market volatility, inconsistent employer contributions, inappropriate benefit policies, etc.

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Empire Ballroom D

Leveraging Technology and Participant Tools

Moderator: Tina Gaither, Gwinnett County

Panelists: Amy Heyel, Voya Financial
Thomas Idzorek, Morningstar
Investment Management
Heidi Munc, Nationwide

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6:00 p.m. – 9:00 p.m.
Generations Hall

OFF-SITE NETWORKING EVENT

NAGDCA in NOLA

Join your fellow NAGDCA members in the French Quarter for an authentic New Orleans experience! Enjoy dinner, drinks, and a live jazz band as you

network with your colleagues at Generations Hall, a venue offering a glimpse of an era long ago.

Originally built as a sugar mill in the 1820s, Generations Hall showcases artwork depicting the rich history of New Orleans jazz by prominent artists George Schmidt and Xavier de Callatay. You won't want to miss this truly unique NAGDCA event!

Buses will run on a continuous loop between Generations Hall and the Hyatt starting at 6:00 p.m. The last bus will depart the event venue at 9:00 p.m.

WEDNESDAY, SEPTEMBER 11

7:30 a.m. – 8:15 a.m.
Elite Hall, Level 1

Conversation Café

Join your colleagues for buffet breakfast, coffee, and informal networking.

7:30 a.m. – 10:30 a.m.
Empire Foyer

Registration Open

7:30 a.m. – 1:00 p.m.
Strand 3

Luggage Storage

7:30 a.m. – 8:15 a.m.
Strand 4

Annual Conference Focus Group

By invitation only

8:15 a.m. – 8:30 a.m.
Empire Ballroom A

Presentation of NAGDCA-Art Caple President's Award

8:30 a.m. – 9:30 a.m.
Empire Ballroom A

KEYNOTE SPEAKER



Captain AI Fuentes, Retired FDNY Soaring with Eagles

The story of 9/11 hero Captain AI Fuentes of the FDNY Marine Division. Captain Fuentes, now retired, was buried in the rubble of the World Trade Center for nearly two hours before being rescued by his fellow firefighters. Join us as Captain Fuentes shares his account of that fateful day in 2001. His story is one of sacrifice, survival and perseverance.

9:30 a.m. – 9:45 a.m.

Break

9:45 a.m. – 10:45 a.m.

CONCURRENT SESSIONS

Offered One Time Only

Empire Ballroom B

Asset Allocation Techniques during the Accumulation Phase

Moderator: Thomas Anichini, GuidedChoice

Panelists: Christopher Hamilton, Invesco
Jeremy Stempien, QMA, Prudential
Bridget Witzeman, Voya Financial

The first question most participants have once they elect to defer to their retirement via a defined contribution plan is, “Where should I put my money?” Studies have shown that over 90 percent of long-term investment returns are attributable to decisions about one’s asset allocation – NOT timing the market or stock picking. For many, this question is very daunting, and rightfully so. Asset allocation decisions can have nearly as much effect on the success of a plan as saving money in the first place. Taking on more risk requires some trade-offs but could be worth it.

This session will discuss the importance of:

- Adopting a core investment line-up that assists participants with making those decisions
- Establishing, measuring, and regularly evaluating a plan’s retirement glide path
- Evaluating fees versus performance
- Leveraging target date funds and/or asset allocation services to provide robust asset allocation for plan participants
- Managed Accounts and the rise of “Robo Advisors” and how they’re providing comprehensive financial planning tools for plan participants and their families

Empire Ballroom C

Financial Wellness

Moderator: Joe Saari, Financial Fitness Group

Panelists: Jennifer Harmer, Lincoln Financial Group
Kenje Mallot, Alight Solutions
Polly Scott, Wyoming Retirement System

Historically, wellness was comprised solely of physical health and plan sponsors focused on helping employees improve their physical numbers (i.e., blood

pressure, glucose and cholesterol). Today, a more holistic approach to wellness exists which includes financial health. For many, money is the biggest stress in their lives and impacts every part of their health – mind, body and spirit. Plan sponsors and recordkeepers are now striving to focus on employees' overall financial health through measures such as targeted communication campaigns and offering financial wellness scores.

This session will focus on:

- Plan level monitoring of plan health
- Incorporating financial wellness into overall wellness program
- Financial education for all stages of employee life (e.g. new regulations for student loan match option)

Empire Ballroom D

Retaining Retirees and Those Nearing Retirement

Moderator: Davetta Lee, State of Mississippi

Panelists: Kathryn Berkenpas, ICMA-RC
Andrea Needham, The Vanguard Group
Gordon Tewell, Innovest Portfolio Solutions

Participants have spent decades preparing for the much-anticipated day they can retire. As that day approaches, participants typically experience anxiety on how to navigate the decision-making process to ensure a successful retirement. As a plan sponsor, retiree assets may represent a significant portion of plan assets and retaining those assets generally helps the plan as well as the participant. This session will provide guidance on helping participants navigate this phase of their lives.

This session will address:

- How to holistically view defined contribution assets with pension benefits (if available) including draw down strategies, DROP strategies, retirement income products and service.
- How to create successful targeted marketing campaigns and how data analytics can play a valuable role in successful campaigns.
- Pre-retirement education via targeted campaigns and workshop.
- How Social Security benefits, claiming decisions and health care costs impact most retirees.

- How to keep retirees engaged after separation of service via retiree events.
- How fund houses and local brokers leverage their products and services to roll-over defined contribution assets to individual retirement accounts and other products.

10:45 a.m. – 11:00 a.m. **Break**

11:00 a.m. – 12:00 p.m. **CLOSING SESSION**

Empire Ballroom A

Industry Innovations

Moderator: Jeffrey Snyder, The Morning Pulse

Panelists: Josh Cohen, PGIM, The Investment Management Business of Prudential
David Ireland, State Street Global Advisors
Dan Morrison, Empower Retirement
Jake O’Shaughnessy, SageView Advisory Group

Where will the defined contribution industry be in 2025?
The closing session of the conference will feature a panel of leaders in the industry sharing their forecasts and discussing innovative technologies, communication strategies, products, investments and more.

No slides. View the 59-minute session video at <https://www.youtube.com/watch?v=4BaUCyCr4wU&list=PLpHjXGJ3C-mzRGhxVPVntFfX7czJ8G44I&index=3>

12:00 p.m. – 1:00 p.m.
Strand 4

2020 Annual Conference Committee Meeting

NAGDCA THANKS OUR 2019 ANNUAL CONFERENCE SPONSORS!

DIAMOND SPONSORS



PLATINUM SPONSORS



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BRONZE SPONSORS



This was an optional pre-conference session offered for an additional fee.

Managing Retirement Income:

What your Employees, Family, Friends and Self Need to Know

Developed by:
The International Foundation for Retirement Education (InFRE®)

by
Kevin Seibert



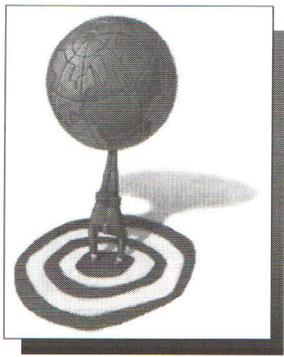

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1

Retirement Income Management is Different

- Different needs
- Different process
- Different products
- Different strategies
- Different type of retirement advisor



2

The New Retirement Environment Reality

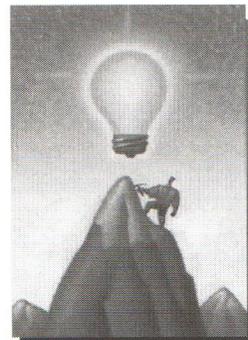


- Retirees need help creating a lifetime income stream
- Retirement assets must last over a longer period of time than in the past
- Pre-retirees and retirees need help managing retirement risks
- No “one size fits all” solution to retirement income management

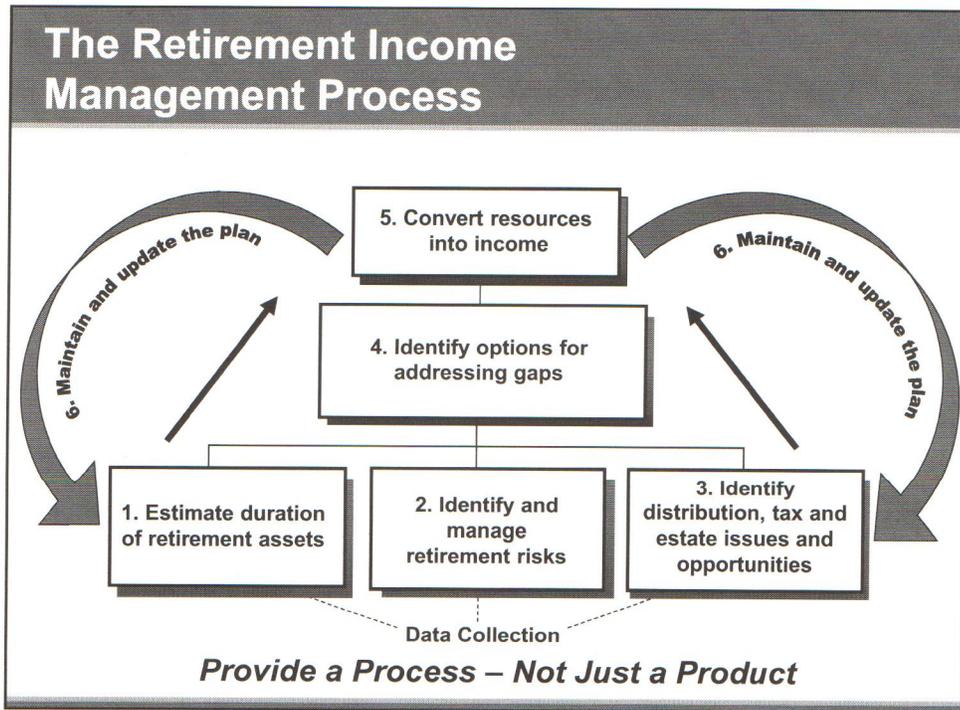
3

Helping Plan Participants Understand Retirement Income Planning Trade-offs

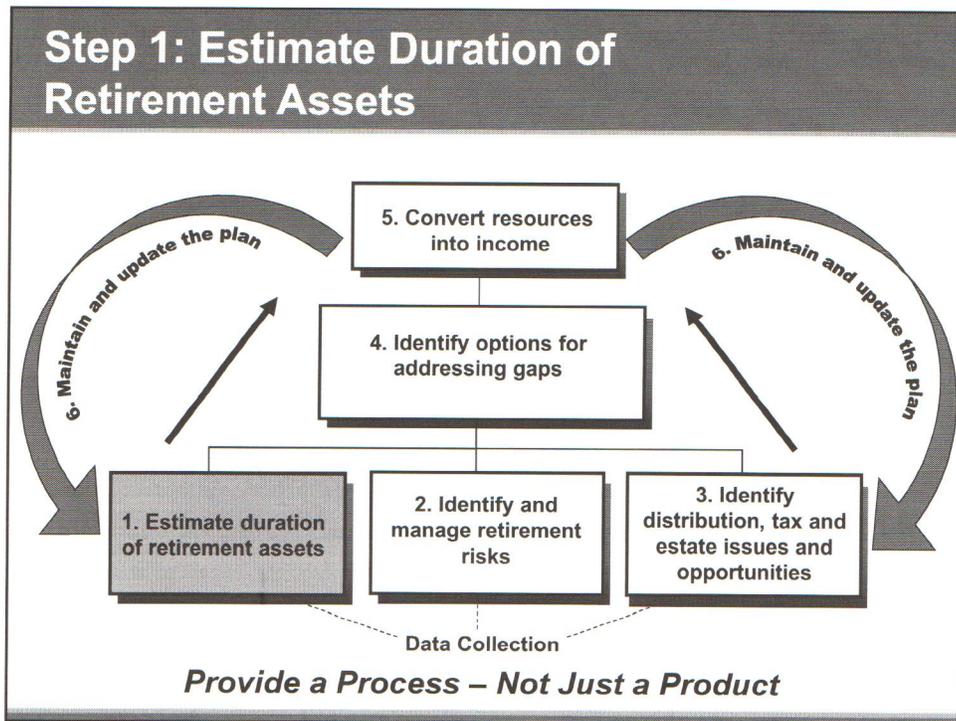
- Investing for preservation purchasing power - vs - conservation of capital
- Starting Social Security/pension/annuity earlier and taking less per month - vs - later and more per month
- Cost of health/long-term care insurance - vs - one illness that wipes out net worth
- Guaranteed lifetime income with associated product costs - vs - full control of retirement resources with risk of running out of money
- Working full-time for fewer years - vs - part-time for more years
- Planning on your own - vs - relying on expert advice



4



5



6

Estimate Duration of Retirement Assets 1 2 3 4 5 6

Lifetime and Managed Retirement Income Sources



1. Social Security
 - When to start?
2. Employer-sponsored retirement plans
 - How to take distributions?
 - When to begin pension?
 - Joint or single life?

3. Personal savings
 - Where to invest?
 - Home equity when needed?
4. Work (wage income)
 - Availability of work?
 - Ability to work?
 - Desire to work?



7

Estimate Duration of Retirement Assets 1 2 3 4 5 6

How Much Will You Need in Retirement?

Current Income	\$60,000
Replacement Ratio	<u>80%</u>
Retirement Income Need	48,000/Year

But this is based just on averages of large groups of people, so the best idea is to do an individual plan/budget.

How to have enough so you don't run out of money before you run out of breath.

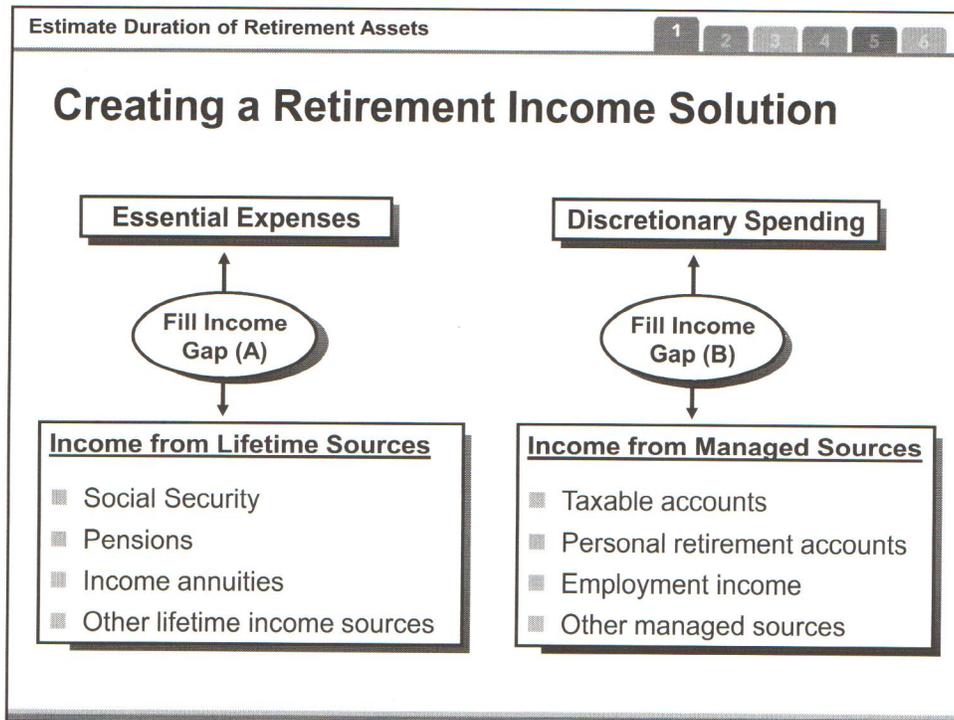
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Estimate Duration of Retirement Assets

1 2 3 4 5 6

Itemized Annual Disbursements	Now	In Retirement
Retirement Savings	\$ _____	\$ _____
Other Savings	\$ _____	\$ _____
Rent/Mortgage Payments	\$ _____	\$ _____
Food	\$ _____	\$ _____
Clothing	\$ _____	\$ _____
Utilities	\$ _____	\$ _____
Transportation	\$ _____	\$ _____
Loan Payments	\$ _____	\$ _____
Medical/Dental	\$ _____	\$ _____
House Repair	\$ _____	\$ _____
Gifts	\$ _____	\$ _____
Donations	\$ _____	\$ _____
Entertainment	\$ _____	\$ _____
Dues	\$ _____	\$ _____
Work Expenses	\$ _____	\$ _____
Insurance	\$ _____	\$ _____
Income Tax	\$ _____	\$ _____
Real Estate Taxes	\$ _____	\$ _____
Social Security Taxes	\$ _____	\$ _____
Other Items	\$ _____	\$ _____
TOTAL DISBURSEMENTS	\$ _____	\$ _____

9



It's the idea of retirement itself more or less important than how well you live during retirement.

10

Estimate Duration of Retirement Assets 1 2 3 4 5 6

Plan for Money Stages and Changing Priorities

Increased spending ("go go")

Slower spending ("slow go")

What spending? ('no go')

\$ - Spending in Retirement

Early retirement Mid retirement Late retirement

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Step 2: Identify and Manage Retirement Risks

6. Maintain and update the plan

5. Convert resources into income

4. Identify options for addressing gaps

6. Maintain and update the plan

1. Estimate duration of retirement assets

2. Identify and manage retirement risks

3. Identify distribution, tax and estate issues and opportunities

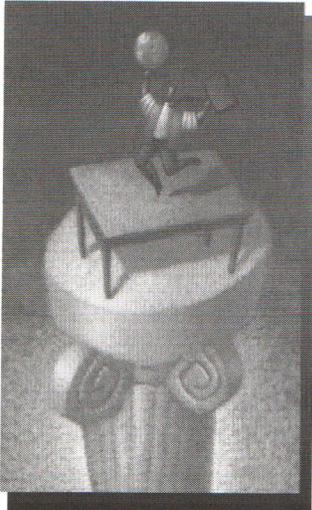
Data Collection

Provide a Process – Not Just a Product

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Identify and Manage Retirement Risks 1 2 3 4 5 6

Evaluate Retiree Risks



What's Different?

1. Longevity
2. Inflation
3. Healthcare and long-term care
4. Investing risks
 - a. Stock market reluctance
 - b. Declining interest income
 - c. Negative point-in-time

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Identify and Manage Retirement Risks 1 2 3 4 5 6

Risk #1: Ways to Manage Longevity Risk

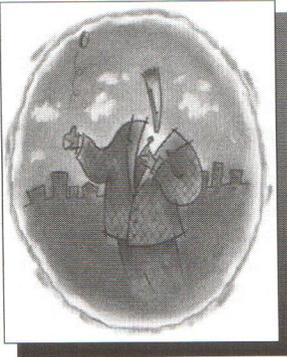
- Add 10 or more years to the average life expectancy
 - 50% will outlive the average
- Reposition assets
 - Longevity insurance (single premium deferred annuity)
 - i.e., purchase prior to age 60, payout age 85
 - Increase in equity exposure
 - Create lifetime income from current assets



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Identify and Manage Retirement Risks 1 2 3 4 5 6

Risk #2: Ways to Manage Inflation Risk



- Control spending as necessary; real income needs may vary
 - Go-go, slow-go, no-go stages
- Invest assets for growth
 - Move allocation toward more conservative posture in later years
- When needed, define asset allocation holistically

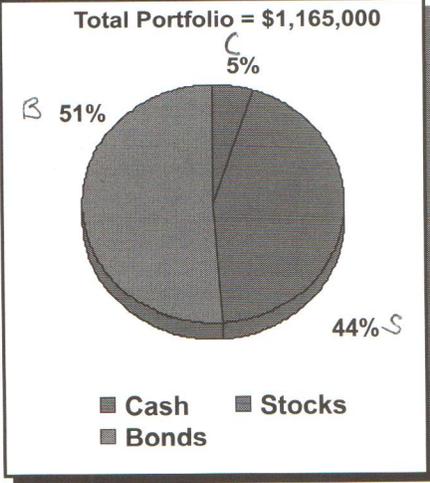
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Identify and Manage Retirement Risks 1 2 3 4 5 6

Another Asset Allocation Approach

Traditional

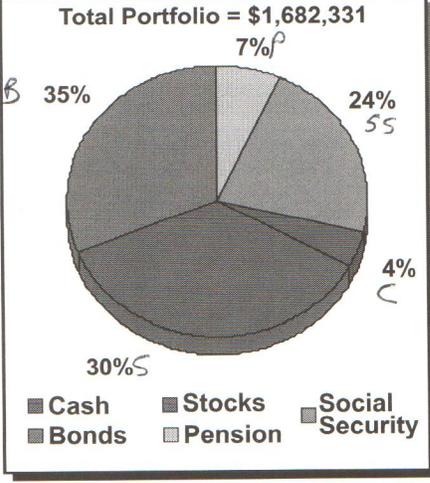
Total Portfolio = \$1,165,000



Asset Class	Percentage
Bonds (B)	51%
Stocks (S)	44%
Cash (C)	5%

Holistic

Total Portfolio = \$1,682,331



Asset Class	Percentage
Bonds (B)	35%
Stocks (S)	30%
Social Security (SS)	24%
Pension (P)	7%
Cash (C)	4%

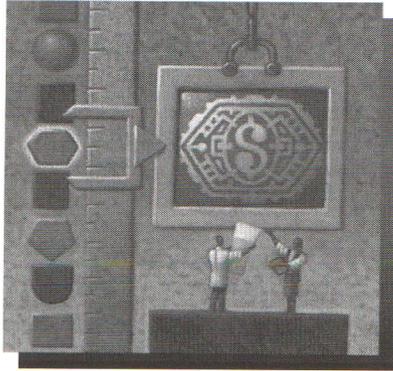
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Identify and Manage Retirement Risks

1 2 3 4 5 6

Example of Social Security as a Government Bond Position

- Social Security benefit = \$28,000 per year
- 20-year government bond yield = 4%*
- PV of the Social Security "bond" = \$395,750
- Discount rate = current yield of equivalent type of bond with same time horizon as life expectancy
- Recalculate regularly because the present value declines over time



**hypothetical rate*

Present Value
Calculation

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Identify and Manage Retirement Risks

1 2 3 4 5 6

Risk #3: Ways to Manage Healthcare Risks

- Health insurance
- Long-term care insurance
- Medigap policies
- Health savings account (HSA) contributions
 - Pre-tax contributions & tax-free distributions
- Reposition assets *Partnered w/ high-deductible plan*
 - Possibly increase equity exposure
 - Reverse mortgage

*Couple's lifetime estimated out-of-pocket expenses = \$280,000 for Medicare premiums, cost sharing & prescription drug expenses**

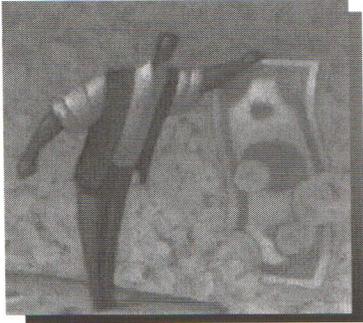


**Fidelity Consulting, 2018*

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Identify and Manage Retirement Risks 1 2 3 4 5 6

Risk #4: Investing Risks



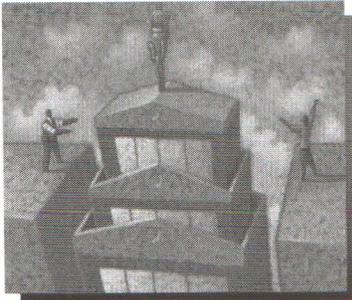
- A. Stock Market Reluctance
- B. Negative Point-in Time

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Identify and Manage Retirement Risks 1 2 3 4 5 6

A. Ways to Manage Stock Market Reluctance Risk

— reluctant to stay invested in the stock market to reduce investment losses/risk



- Stock market volatility is reduced over the long-term
- Asset allocation reduces short-term volatility
- Holistic asset allocation approach
- Retirement Income Buckets

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Identify and Manage Retirement Risks 1 2 3 4 5 6

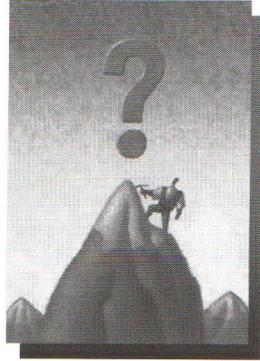
B. Point-in-Time Risk

When do increases or losses occur?

Q. If you invested \$100,000 averaging 6% return per year, and you withdrew 6% per year, what would your balance be at the end of 10 years?

A. Depends on two factors

1. Are there any years with negative returns?
2. When do the losses occur?



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Identify and Manage Retirement Risks 1 2 3 4 5 6

\$100,000 in Hypothetical Investment with Loss in Early Years

Year	Rate of Return	Withdrawal	Ending Balance
1	-15%	\$6,000	\$79,900
2	-10%	6,000	66,510
3	10.63%	6,000	66,942
4	10.63%	6,000	67,420
5	10.63%	6,000	67,949
6	10.63%	6,000	68,535
7	10.63%	6,000	69,182
8	10.63%	6,000	69,898
9	10.63%	6,000	70,691
10	10.63%	6,000	71,567
Average ROR	6%		

Be careful when looking at average returns.

First 5-10 years in retirement are the most critical to maintain value of assets over time.

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Identify and Manage Retirement Risks 1 2 3 4 5 6

\$100,000 in Hypothetical Investment with Loss in Early Years

Year	Rate of Return	Withdrawal	Ending Balance
1	10.63%	\$6,000	\$103,922
2	10.63%	6,000	108,409
3	10.63%	6,000	113,295
4	10.63%	6,000	118,770
5	10.63%	6,000	124,680
6	10.63%	6,000	131,296
7	10.63%	6,000	138,615
8	10.63%	6,000	146,712
9	-15%	6,000	119,605
10	-10%	6,000	102,245
Average ROR	6%		

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Identify and Manage Retirement Risks 1 2 3 4 5 6

Ways to Manage Point-in-Time Risk

- Increase in equity exposure might be necessary to make up for losses early in the distribution phase
- Liquidate assets with highest positive returns; do not liquidate equities following a year with negative returns*
- Lower withdrawal rates for a period of time, i.e., cut back on lifestyle expenses*
- Establish a base of lifetime income



Decision Rules and Maximum Initial Withdrawal Rates by Jonathan Guyton, CFP® and William Klinger, Journal of Financial Planning, March 2006.

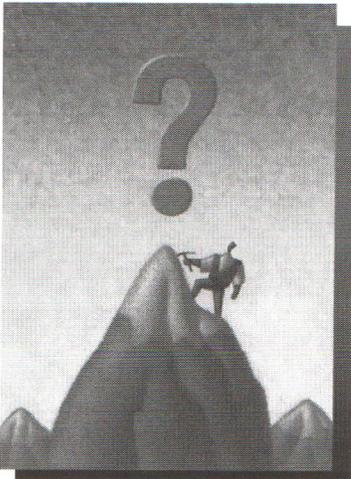
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Identify and Manage Retirement Risks

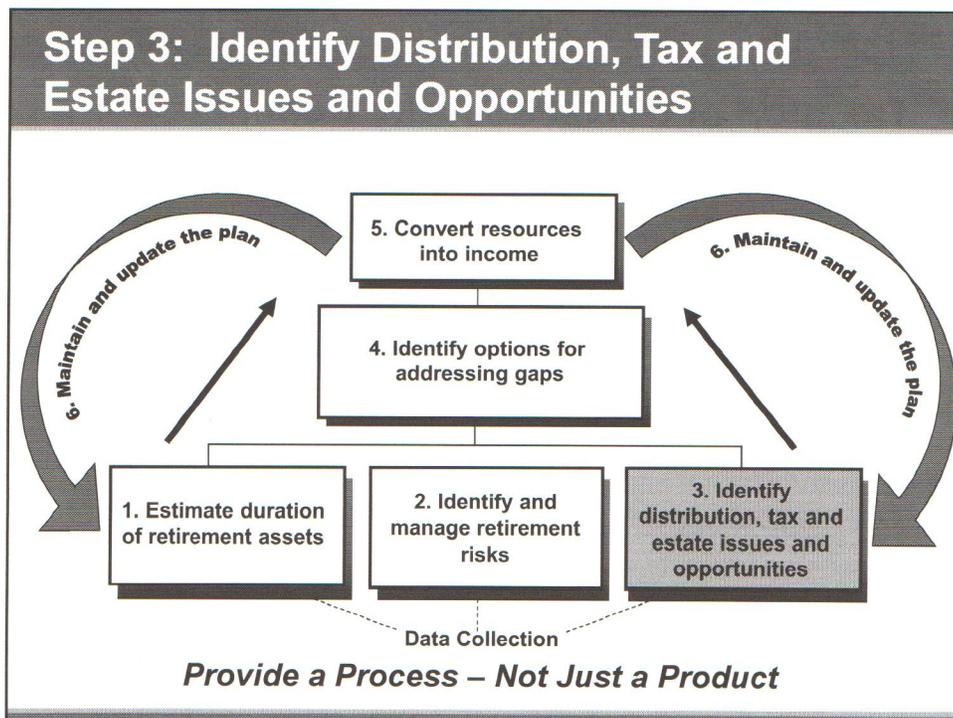
1 2 3 4 5 6

- Which risk reduction strategy can be used to address each of the four primary risks?
 1. Longevity
 2. Inflation
 3. Healthcare
 4. Investing

Reposition assets



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Identify Distribution, Tax and Estate Issues and Opportunities

Retirement Account Order of Liquidation (*conventional wisdom*)

First: Taxable

- Harvest tax losses (bonus: rebalancing benefits)
- Long-term capital gain treatment
- Hold stocks and other long-term capital-gain-type assets, high-dividend stocks

Second: Tax-deferred

- Employer retirement plans, IRAs, annuities
- Ordinary income, 35% max
- Hold income-generating investments, like bonds, CDs

Third: Roth IRAs

- Consider using if tax buckets are full

Q: What if the client thinks the kids won't "stretch" the IRA?

Keep it liquid for a long time

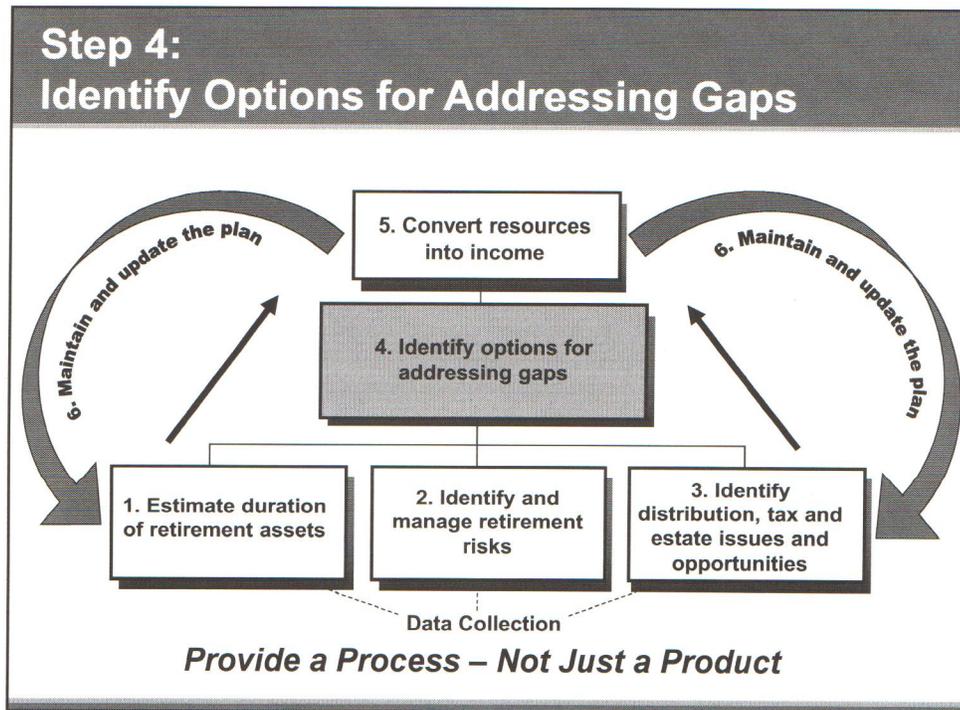
27

Identify Distribution, Tax and Estate Issues and Opportunities

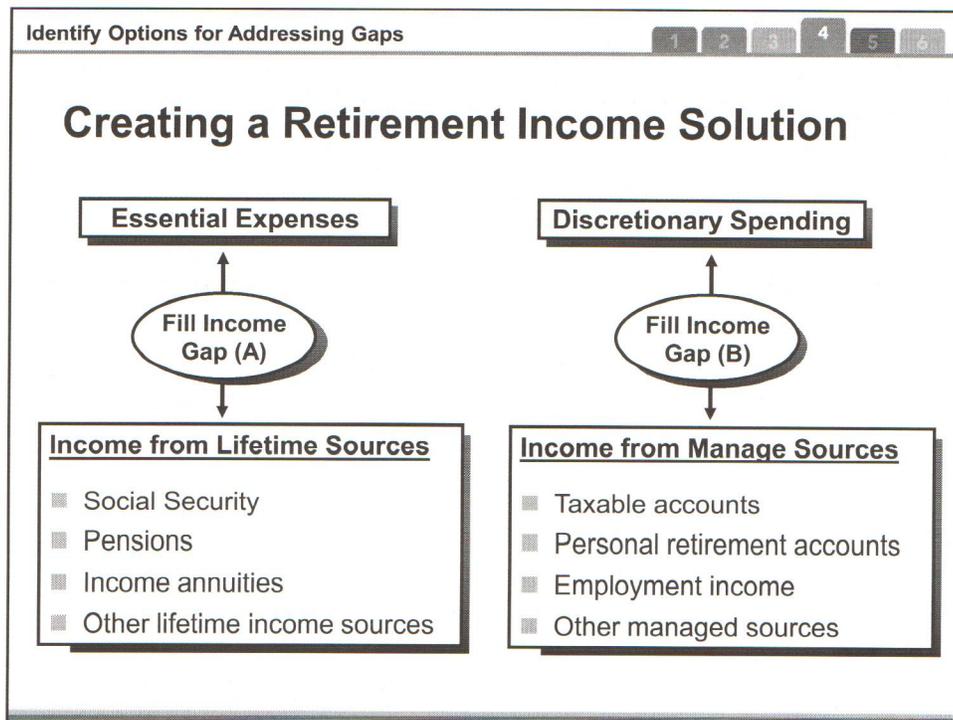
Taxation of Social Security Benefits

<u>Tax Filing Status</u>	<u>50% of SS benefit taxable after threshold of</u>	<u>85% of SS benefit taxable after threshold of</u>
Married couples filing jointly	\$32,000	\$44,000
Single taxpayers	\$25,000	\$34,000

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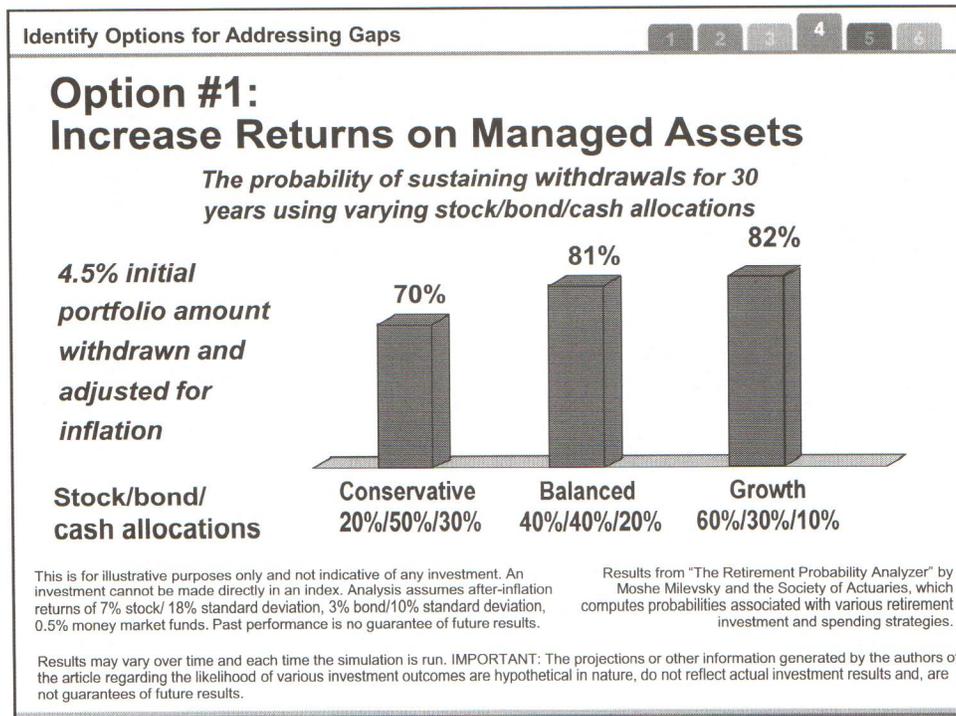
30

Identify Options for Addressing Gaps 1 2 3 4 5 6

Options for Addressing Essential and Discretionary Gaps

Priority	Options for Closing Gaps	Essential Gap	Discretionary Gap
<input type="checkbox"/>	1. Increase returns on managed assets	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	2. Create additional lifetime income	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	3. Spend less in retirement	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	4. Work full-time	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	5. Work part-time	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	6. Postpone Social Security and pension	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	7. Increase savings	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	8. Use home equity	<input type="checkbox"/>	<input type="checkbox"/>

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Identify Options for Addressing Gaps 1 2 3 4 5 6

Option #2: Create Additional Lifetime Income

- Long-term bond interest
- Laddered certificates of deposit interest
- Dividend income
- Rental income
- REITs
- Immediate and deferred annuities



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Identify Options for Addressing Gaps 1 2 3 4 5 6

Source #6: Postpone Social Security and Pension

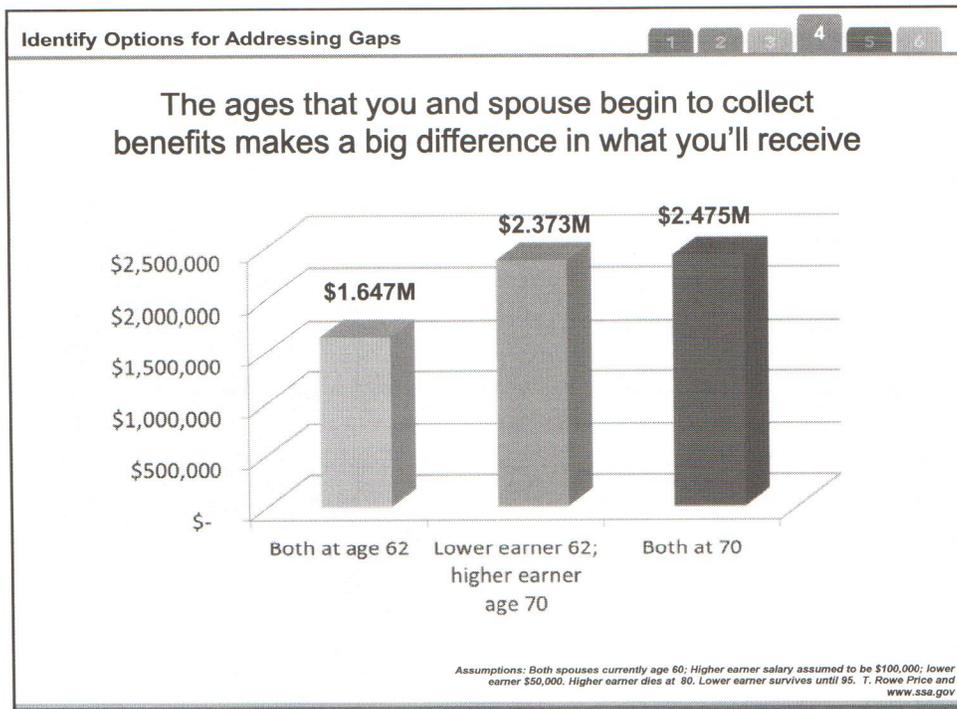
When to start:

- Key factors to consider are health and longevity risks.
- Breakeven for age 62 and Full Retirement Age (FRA) benefits occurs around age 78.
- For beneficiaries born after 1943, 8% increase for every year delay past FRA up until age 70.
- Potential reductions due to employment and taxation of benefits.
- Impact on surviving spouse benefits.

Age	Annual Benefit*	% of FRA Amt.
62	\$14,000	70%
64	\$16,000	80%
67	\$20,000	100%
70	\$24,800	124%

If live beyond 78, there's a huge benefit to delay

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Identify Options for Addressing Gaps

Option #8: Home Equity

- Four ways to tap equity
 - Selling the home and downsizing
 - Line of credit
 - Reverse mortgage

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Identify Options for Addressing Gaps 1 2 3 **4** 5 6

Combinations of Options May Be Necessary

One option may lead to another:

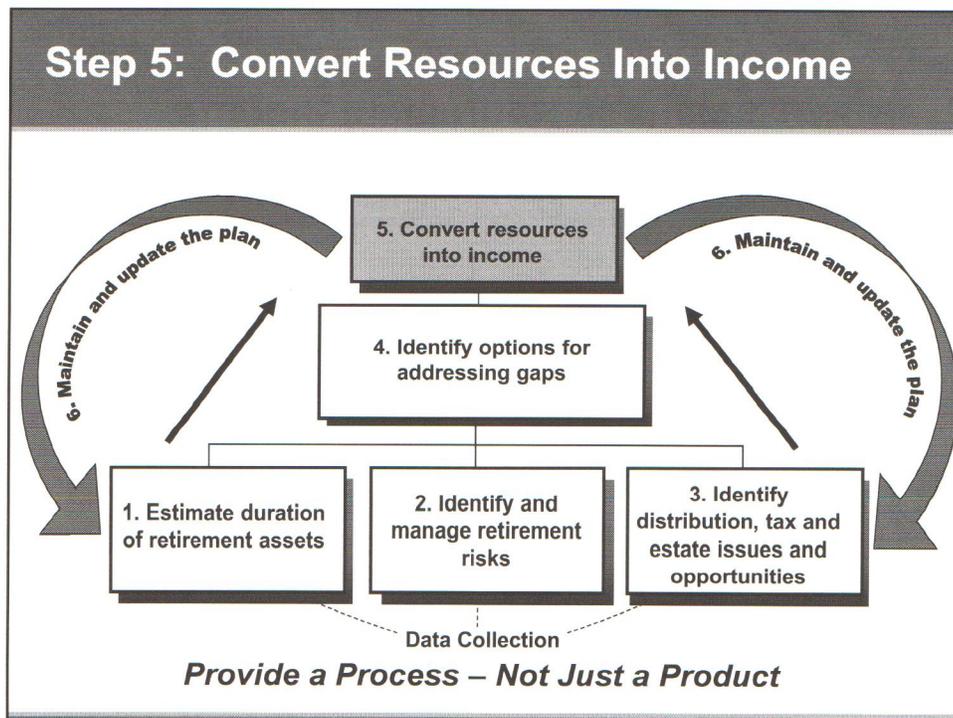
- Options #4 & #5 – Work full-time or part-time
- Option #6 – Postpone Social Security and pension
- Option #7 – Increase savings

Potential result:

- Reduced number of self-funded retirement years
- Increased Social Security and pension benefits
- Additional savings and time for investment returns

Run the numbers!

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Convert Resources into Income 1 2 3 4 **5** 6

What is the Ultimate Goal in Retirement Income Planning? Why?

To create an integrated asset and income allocation strategy that produces the desired quality of life

Asset Allocation

Income Allocation

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Convert Resources into Income 1 2 3 4 **5** 6

How To Manage Retirement Income

Essential Expenses

↑

Fill Income Gap (A)

↓

Discretionary Spending

↑

Fill Income Gap (B)

↓

Income from Lifetime Sources

- Social Security
- Pensions
- Income annuities
- Other lifetime income sources

Income from Managed Sources

- Taxable accounts
- Personal retirement accounts
- Employment income
- Other managed sources

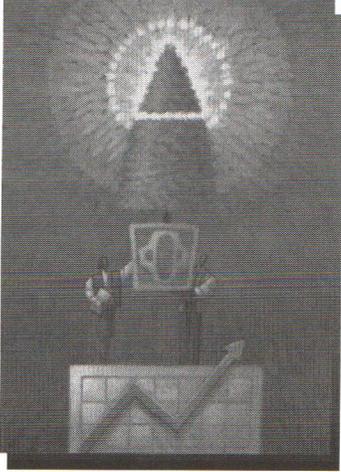
1 ← 2 ←

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Convert Resources into Income 1 2 3 4 **5** 6

Four Ways to Convert Retirement Assets into Income Sources

1. Income-only plan
2. Systematic/Partial Withdrawal Plans (SWP)
3. Annuitization
4. Combination of SWP and annuitization

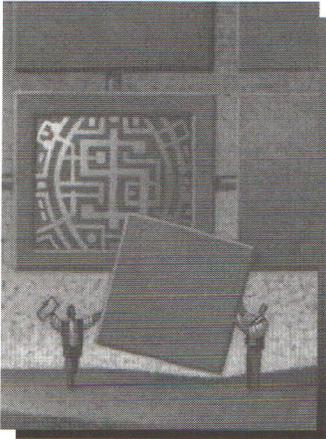


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Convert Resources into Income 1 2 3 4 **5** 6

1. Income-Only Plan

Live off the income, if int rates go down, income goes down.



- Long-term bond interest
- Laddered certificates of deposit interest
- Dividend income
 - Preferred vs. common
- Rental income
- REITs
- Income annuities

Q: What happens if stock dividends are cut in a down market?

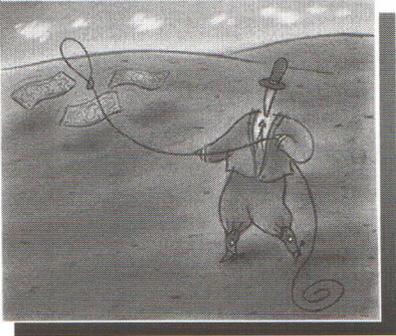
42

Convert Resources into Income 1 2 3 4 **5** 6

Systematic Withdrawal Plan

2. SWP Strategies

- A. Fixed-dollar amount adjusted for inflation
- B. RMD approach – increasing percentage SWP
- C. Retirement Income Buckets



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Convert Resources into Income 1 2 3 4 **5** 6

A. Fixed-Dollar Amount Adjusted for Inflation

- *How it works*
 - Distribution based on a percentage of assets in the first year; adjusted for inflation each year thereafter

Example:

First year: 4.5% on \$100,000 = \$4,500 in year 1

Second year: based on 4% inflation, 1.04% * \$4,500 = \$4,680 in year 2

- *Why it works*
 - Studies show a 4-5% initial withdrawal rate adjusted for inflation may be sustainable over a 30-40 year retirement, depending on equity allocation. *(The higher the initial withdrawal rate, the lower the chance of sustainable income.)**

*Source: "Making Retirement Income Last a Lifetime," John Ameriks, Robert Veres, Mark J Warshawsky, Journal of Financial Planning, December, 2001; "The Best of 25 Years Determining Withdrawal Rates Using Historical Data," William P. Bengen, Journal of Financial Planning, March, 2004; "Decision Rules and Maximum Initial Withdrawal Rates," Jonathan T. Guyton, William J. Klinger, Journal of Financial Planning, March, 2006.

– Determine the amount in the first year. Increase that amount by inflation each year.

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Convert Resources into Income

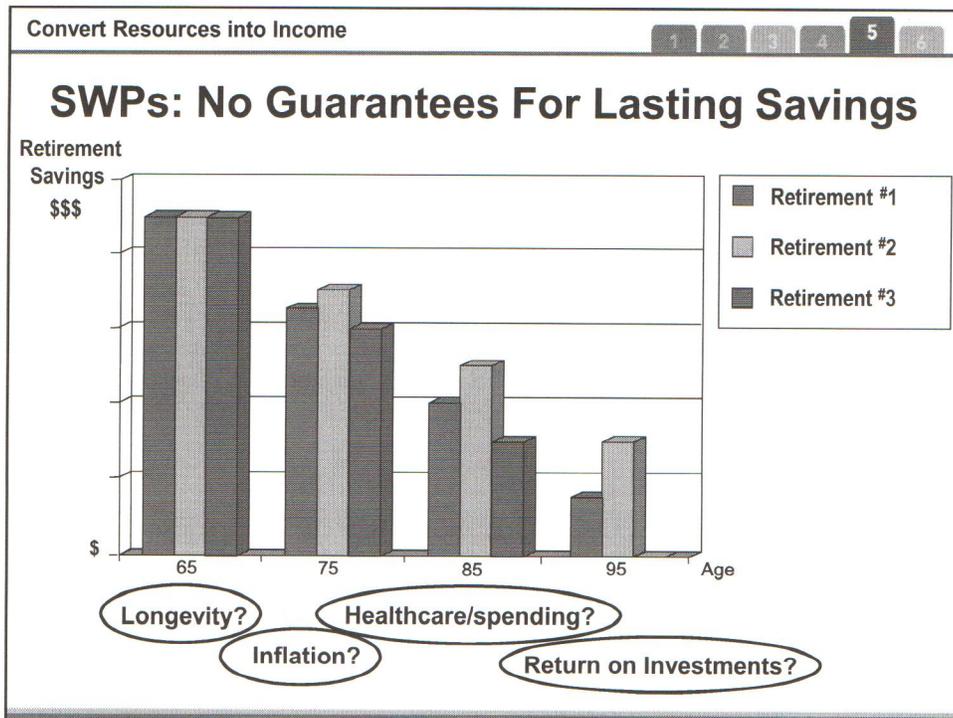
1 2 3 4 **5** 6

Capital Requirements: First-Year Annual Income Amount

Percentage Withdrawn in First Year of Retirement

Income Needed	2%	3%	4%	5%	6%
\$10,000	\$500,000	\$333,333	\$250,000	\$200,000	\$166,667
\$20,000	\$1,000,000	\$666,667	\$500,000	\$400,000	\$333,333
\$40,000	\$2,000,000	\$1,333,333	\$1,000,000	\$800,000	\$666,667
\$60,000	\$3,000,000	\$2,000,000	\$1,500,000	\$1,200,000	\$1,000,000
\$80,000	\$4,000,000	\$2,666,667	\$2,000,000	\$1,600,000	\$1,333,333
\$100,000	\$5,000,000	\$3,333,333	\$2,500,000	\$2,000,000	\$1,666,667

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Convert Resources into Income 1 2 3 4 **5** 6

B. Required Minimum Distributions (RMDs) – an Increasing Percentage SWP

- Perhaps a reasonable compromise
- Easy to implement
- Subject to point-in-time risk, so actual dollar income might not keep pace with inflation

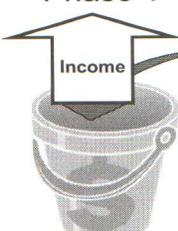


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Convert Resources into Income 1 2 3 4 **5** 6

C. Retirement Income Buckets

For Phase 1



Income

Retirement Income Investments
(i.e. money market, CDs, fixed income)

liquid, safe

For Phase 2



Income and Growth Investments
(i.e., bond mutual funds)

Conservative

For Phase 3



Growth Investments
(i.e. stock mutual funds)

higher risk

Arrows indicate a flow of money from Phase 3 to Phase 2, and from Phase 2 to Phase 1.

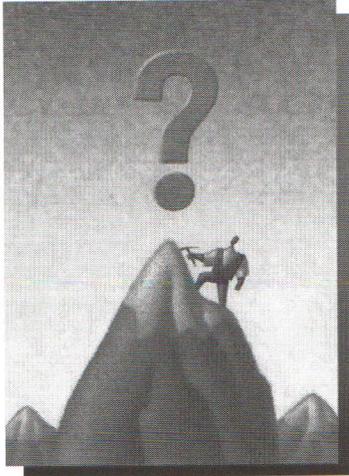
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Over time, move money from buckets 2 + 3 to 1 + 2, etc.

Convert Resources into Income 1 2 3 4 **5** 6

In General, SWPs Are Most Appropriate For Which Types of Clients?

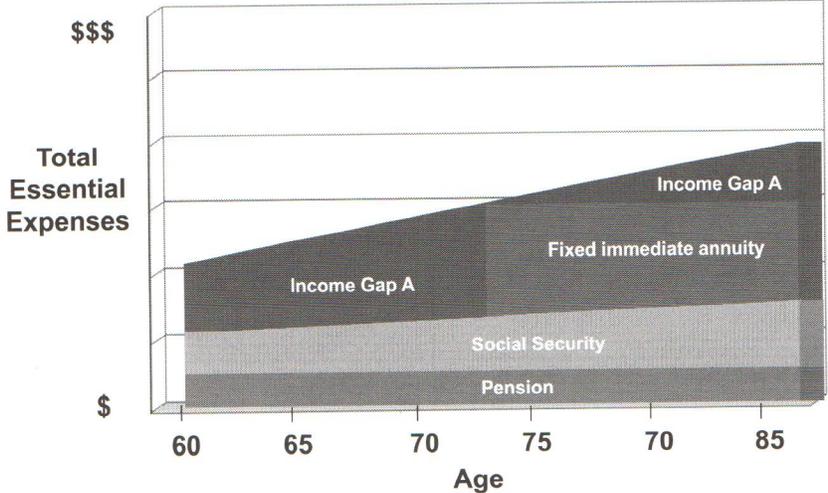
Those who have a higher risk tolerance and want full control of their assets



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Convert Resources into Income 1 2 3 4 **5** 6

3. Annuitization



Can often earn more for a \$1 annuitized than \$1 invested.

For those w/ generous, have a lesser need to consider annuities.

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Convert Resources into Income 1 2 3 4 **5** 6

Annuitization

What are the Pros?

- Guaranteed lifetime income
- Potential for greater IRR for older annuitants due to mortality credits*
- Allows more aggressive asset allocation with other investments
- Reduces risk of under-consumption

What are the Cons?*

- Reduces estate value
- Limited withdrawal flexibility
- Exposure to a lower IRR in the shorter-term
- Inflation exposure with fixed annuities
- Higher costs with variable annuities

*Grandma's Longevity Insurance, Moshe A. Milevsky, October, 2004. Value of Unisex Mortality Credits, IFID Center calculations. Assumes 40m/60f annuity; 2002 GATT table at 6% net interest.

**Certain annuities today offer provisions that reduce the impact of the cons. Additional expenses may apply.

Internal rate of return

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Convert Resources into Income 1 2 3 4 **5** 6

When to Annuitize: Earlier or Later?

Earlier

- Regular income starts right away
- Higher interest rate environment now (fixed)
- To put plan on automatic for needs of spouse/dependents
- Spender

Later

- Better sense of reality of retirement budget
- Higher payout due to mortality credits
- Lower interest rate environment now (fixed)
- Bequest plans
- Saver

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Convert Resources into Income

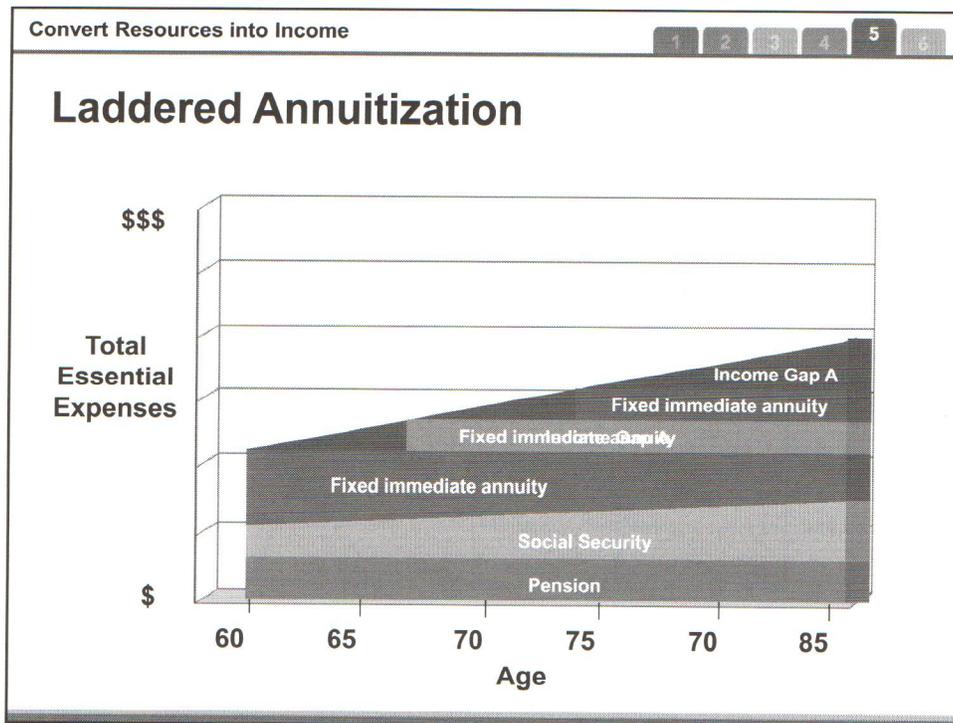
1 2 3 4 **5** 6

Delaying Annuitization Increases Income

Age	Single Life \$200,000 Immediate Annuity (annual income)
60	\$12,132
65	\$13,500
70	\$15,456
75	\$18,612
80	\$23,484

Source: "www.immediateannuities.com" Assumptions: \$200,000 immediate annuity for a single male Illinois resident. Rates as of August, 2018.

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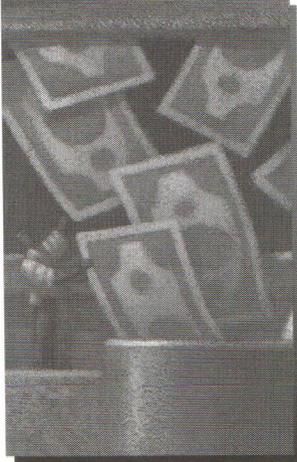


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Convert Resources into Income 1 2 3 4 **5** 6

Laddering Income Annuities

- Convert managed asset amounts over time
- Smooths out interest rate and market spikes and dips
- Flexibility to adjust future purchases as circumstances change
- Annuity purchases at older ages can result in higher payout amounts (mortality credits) and reduce income needed from managed assets



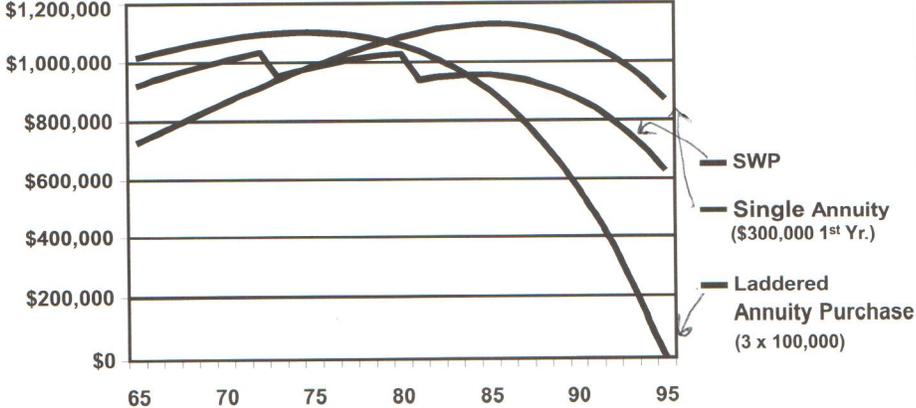
"Study of Retirement Income Account Allocations Among Equities, Bonds and Fixed Income Annuities," MassMutual Financial Group.

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Convert Resources into Income 1 2 3 4 **5** 6

A Tale of Three Outcomes

Non-annuitized assets



Age	SWP (Value)	Single Annuity (Value)	Laddered Annuity Purchase (Value)
65	\$1,000,000	\$900,000	\$700,000
70	\$1,050,000	\$950,000	\$800,000
75	\$1,100,000	\$1,000,000	\$900,000
80	\$1,150,000	\$1,050,000	\$1,000,000
85	\$1,100,000	\$950,000	\$1,100,000
90	\$900,000	\$700,000	\$1,000,000
95	\$600,000	\$400,000	\$800,000

Hypothetical illustration of a \$1 million portfolio with an initial allocation 60/40 stocks/bonds. \$45,000 income needed in first year adjusted for 4% inflation. 4.5% bond yield and stock portfolio earns a 7% annual compound rate of return over 30 years. Single immediate annuity \$300,000 at age 65. Laddered immediate annuities of \$100,000 each at ages 65, 73 and 81.

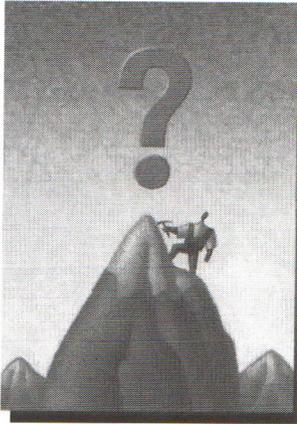
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Convert Resources into Income 1 2 3 4 **5** 6

In General, Immediate Annuities Are Most Appropriate For Which Type of Retirees?

Those who:

- have a lower risk tolerance
- need lifetime income
- have challenges controlling their spending



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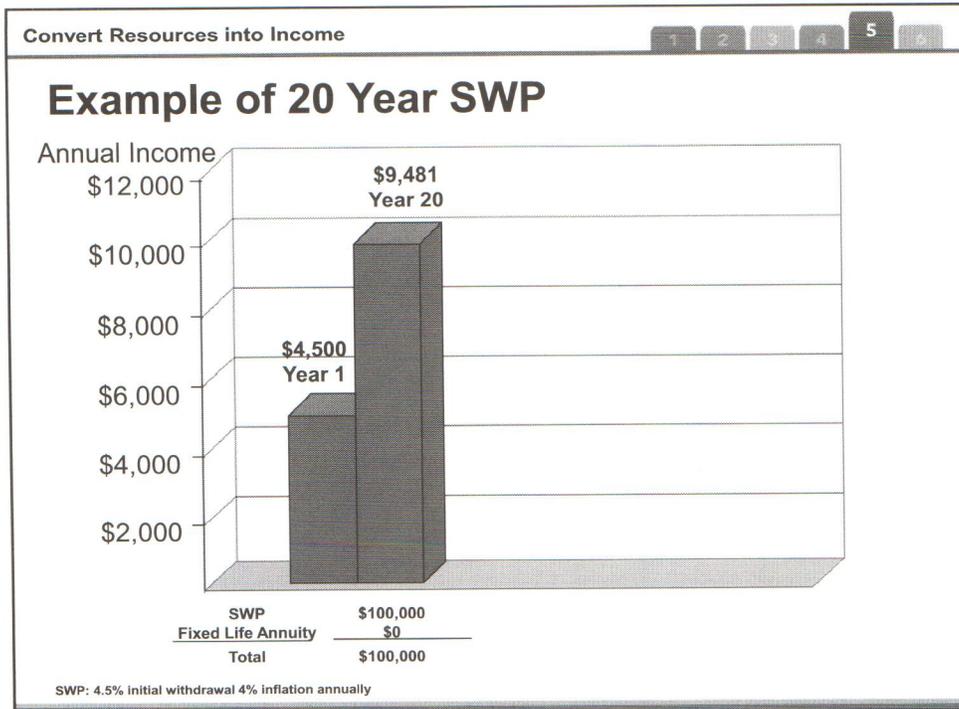
Convert Resources into Income 1 2 3 4 **5** 6

4. Combination of SWP and Annuitization

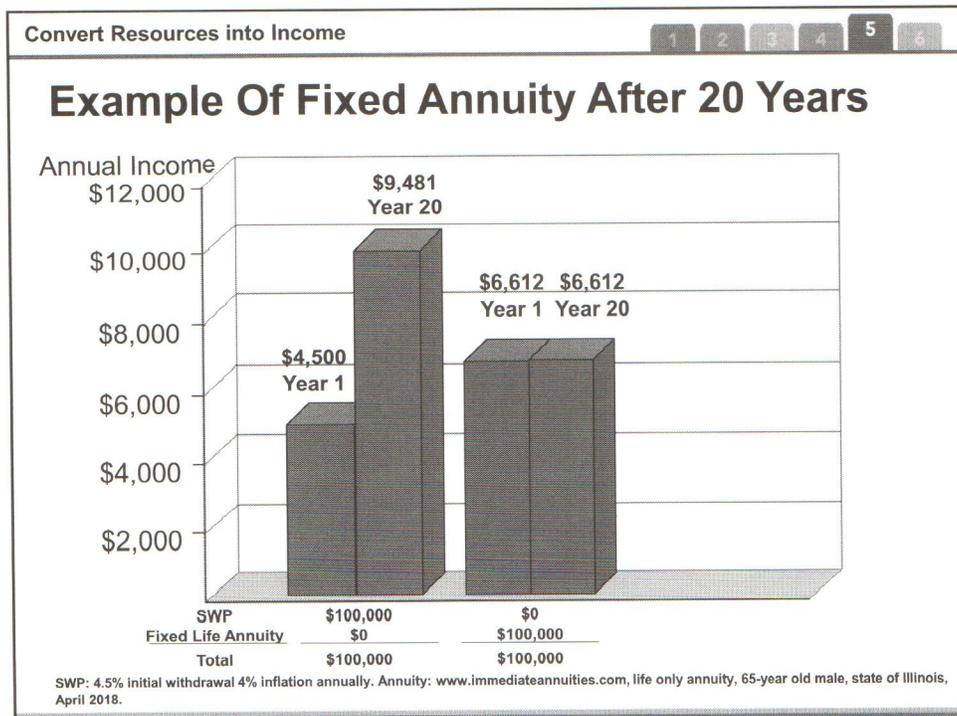
Comparing a SWP with Annuitized Income

<u>Diversification Characteristics</u>	<u>Fixed Dollar SWP</u>	<u>Fixed or Variable Immediate Annuity</u>
Lifetime Income	N	Y
Asset Ownership	Y	N
Potential Mortality Credits	N	Y
Fees	N	Y

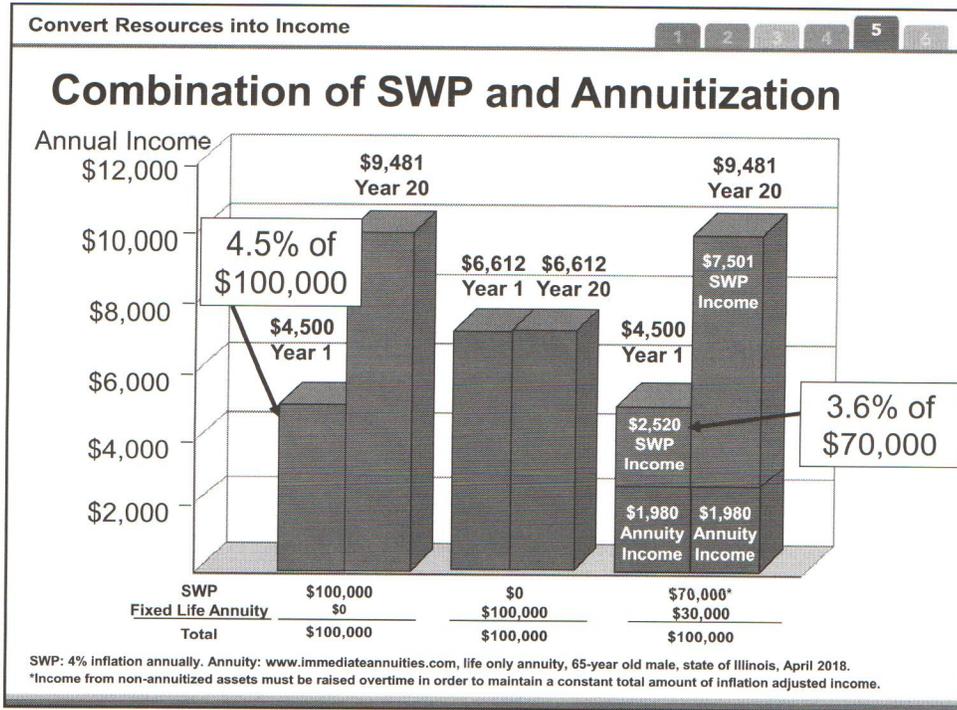
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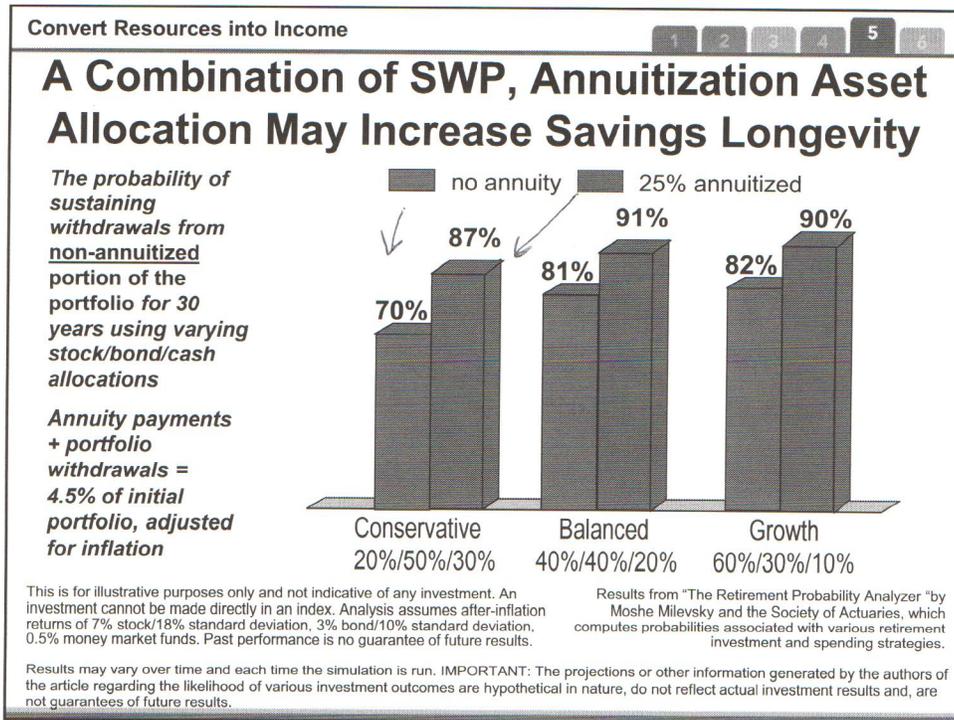
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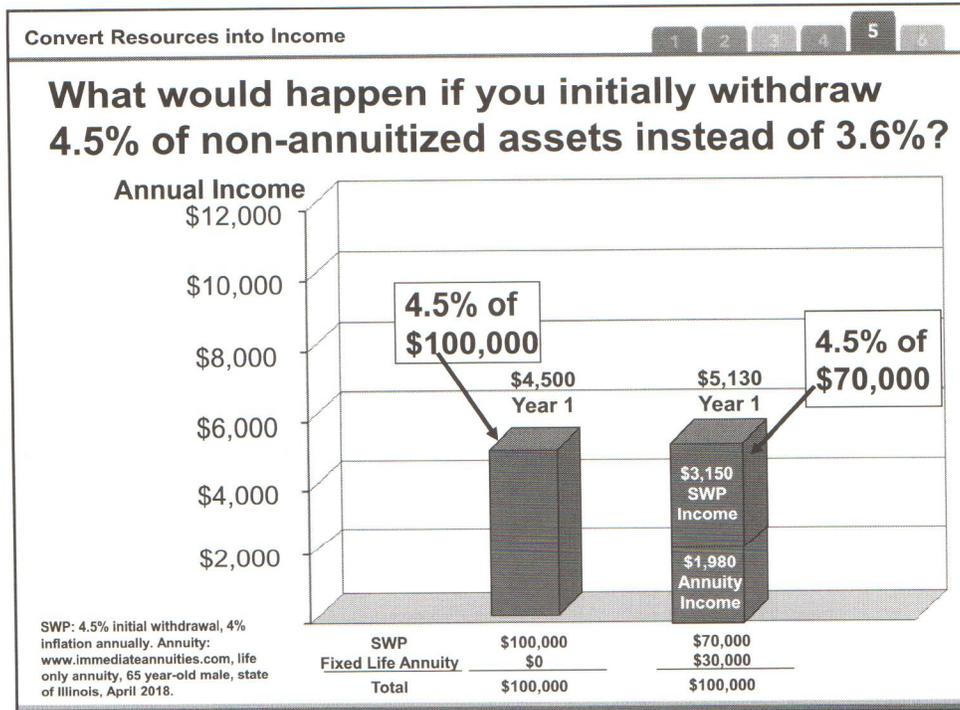
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62



63

Convert Resources into Income

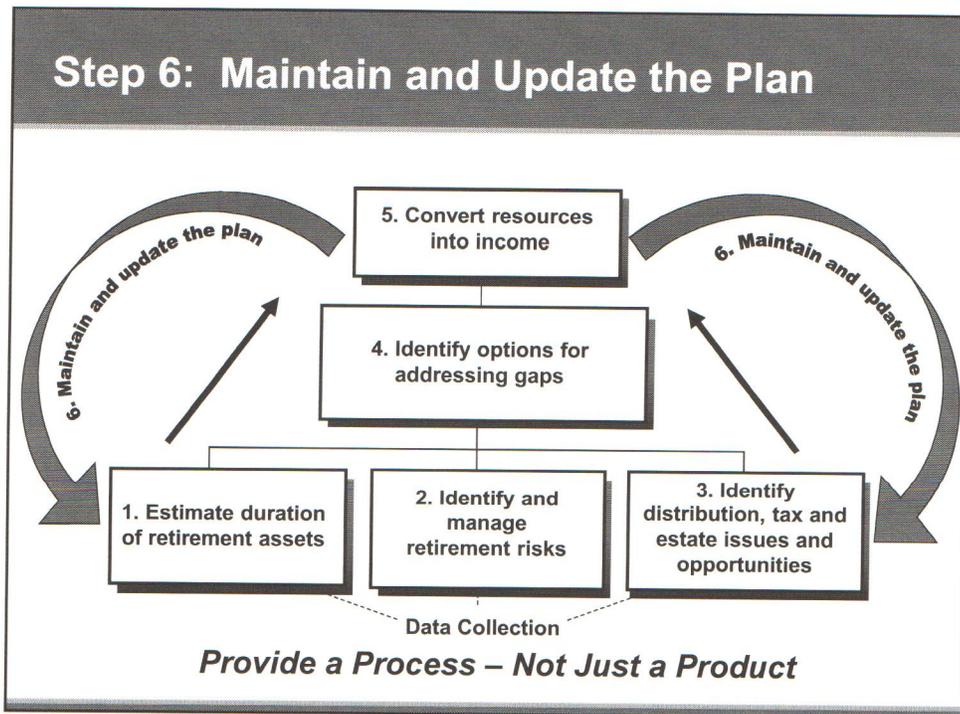
1 2 3 4 5 6

In general, a combination of a SWP with an annuity is most appropriate for which type of retirees?

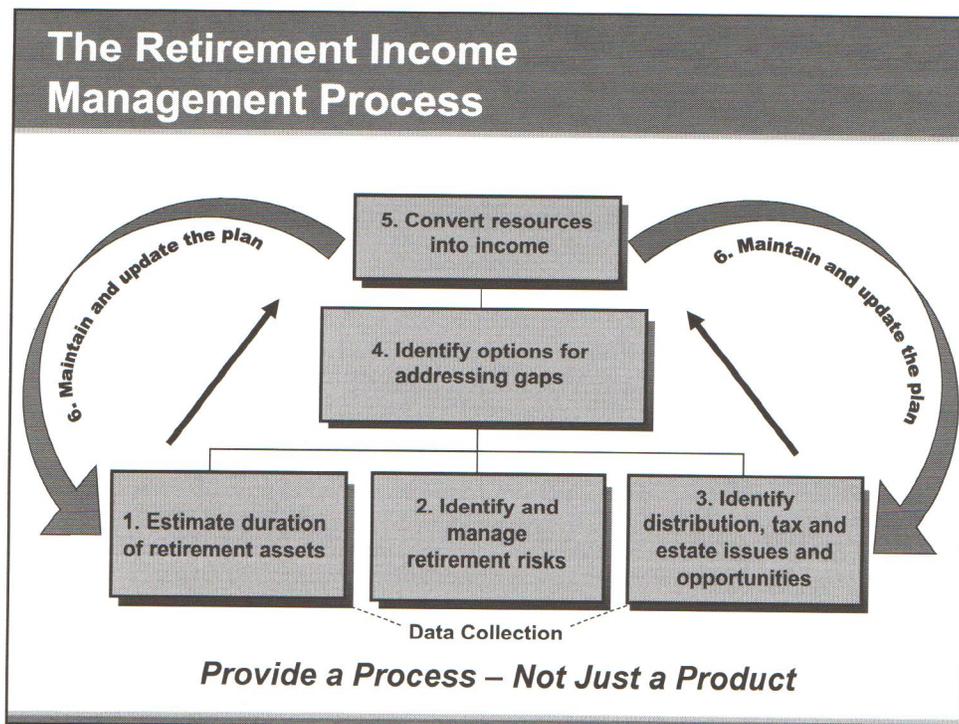
- Those who want to guarantee some income for life but also want to keep control of retirement assets
- Those who are at risk for running out of assets/income

less so for pensioners

64



65



66

Managing Retirement Income:

What your Employees, Family,
Friends and Self Need to Know

Developed by:

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CRF - Certified Retirement Counselor

Session Code - W11E

An Introduction to Government Defined Contribution Plans

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An Introduction to Government Defined Contribution Plans

40th NAGDCA Annual Conference

Matt Petersen, NAGDCA Executive Director
Tom Mueller, Former NAGDCA President, LA County Sanitation
Meghan Jacobson, CFA, Head of J.P. Morgan U.S. Insights Program

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Today's Presenters

<p>Moderator: Matt Petersen</p>  <p>Executive Director NAGDCA</p>	<p>Expert Panelist: Tom Mueller</p>  <p>Plan Administrator & Former NAGDCA President LA County Sanitation</p>	<p>Expert Panelist: Patrick Carter</p>  <p>Executive Director J.P. Morgan Asset Management</p>
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Brief Overview of Today's Session

1. What is a Defined Contribution Plan?
2. NAGDCA's Mission
3. Available Resources
4. Best Practices in Defined Contribution
5. Q&A

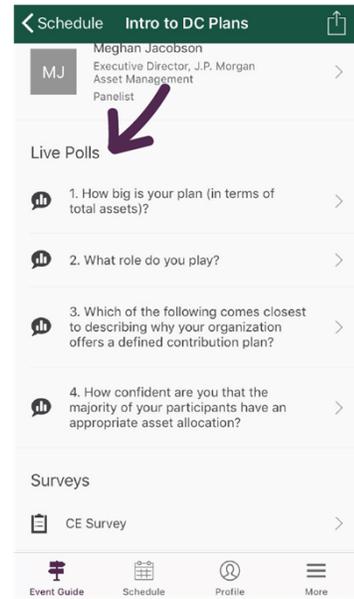


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Let's Take a Poll

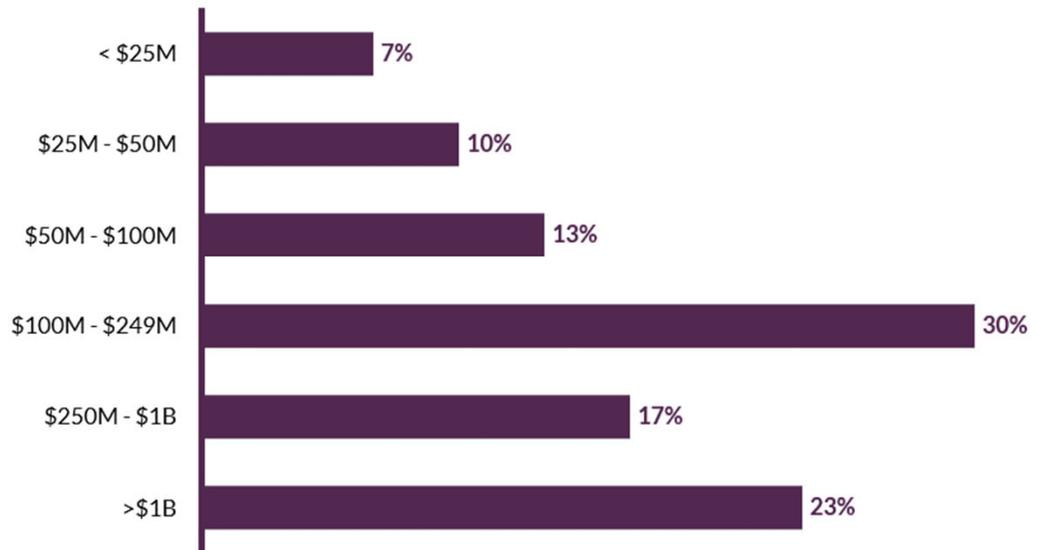
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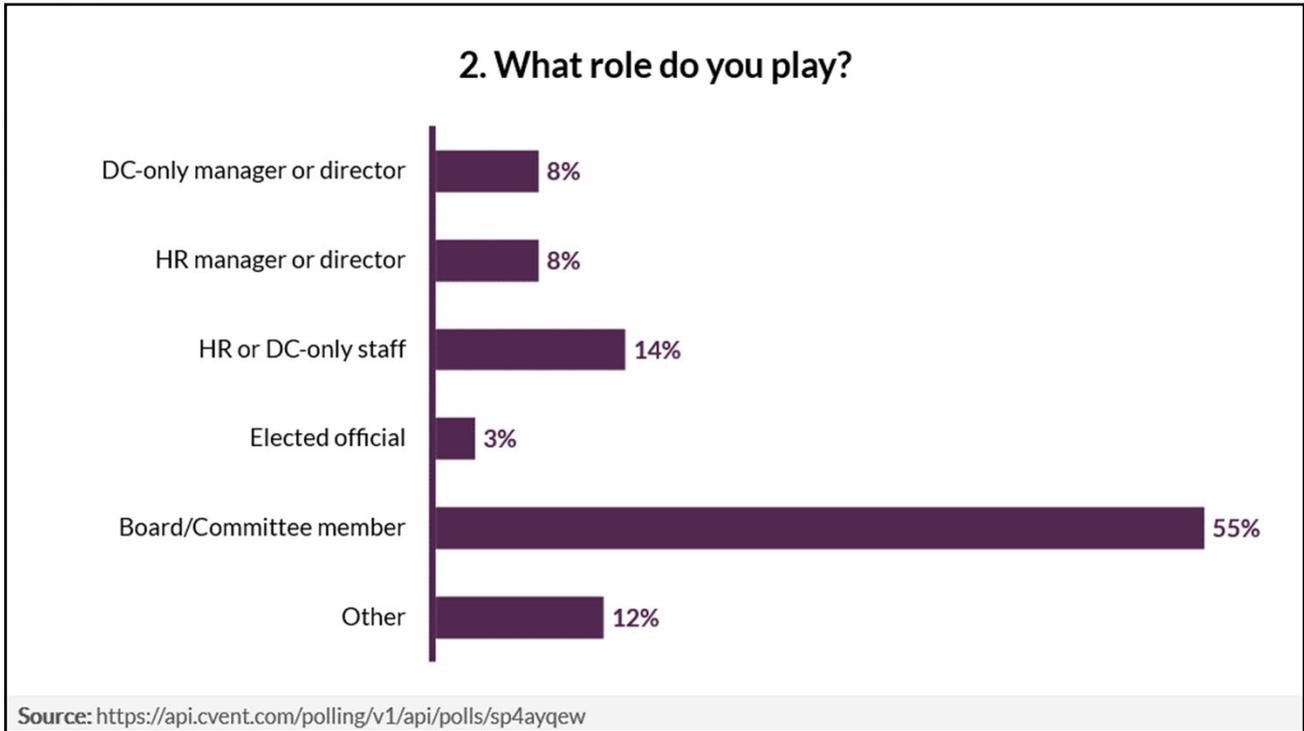
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1. How big is your plan (in terms of total assets)?



Source: <https://api.cvent.com/polling/v1/api/polls/spmq34ml>

6



7

What is a Defined Contribution Plan?

<p><u>Defined Benefit</u></p> <p>Centrally Managed Fund Mandatory Contributions Predictable Income Stream</p> <p>CalPERS</p>	<p><u>Defined Contribution</u></p> <p>Individual Accounts Mandatory or Voluntary Market-Based Returns</p> <p>457b, 401a</p>
--	---

Quick Fact: 93% of participants in NAGDCA plans have access to some form of defined benefit retirement plan

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Who are the parties typically involved?

- Participants/Beneficiaries – Who can enroll?
- Employer/Plan Sponsor
- Board of Trustees, including Sub-Committees
- Record Keeper, Marketing, Communications
- Investment Providers
- Investment Consultant
- Counsel
- Auditor



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10

NAGDCA's Mission

“ NAGDCA's mission is to be a premier provider of education, information, and training, to **support plan sponsors and service providers** of government-sponsored defined contribution retirement plans in creating **successful retirement security outcomes** for their plan participants.



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NAGDCA Resources

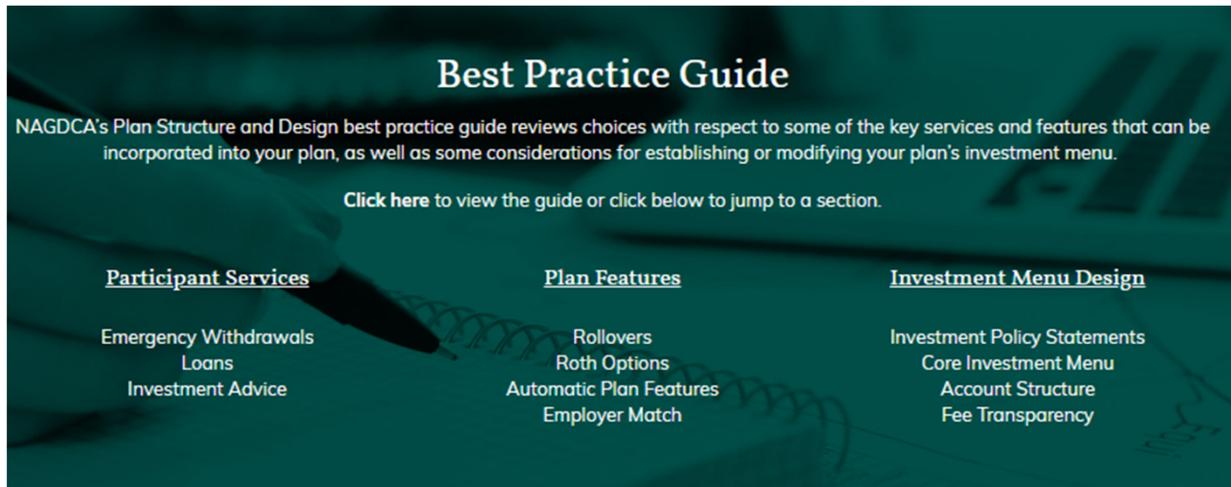
Annual Conference	
Online Resources	
Network and Online Forums	
Data	
Best Practices	



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Online Best Practice Resources



Best Practice Guide

NAGDCA's Plan Structure and Design best practice guide reviews choices with respect to some of the key services and features that can be incorporated into your plan, as well as some considerations for establishing or modifying your plan's investment menu.

[Click here](#) to view the guide or click below to jump to a section.

<u>Participant Services</u>	<u>Plan Features</u>	<u>Investment Menu Design</u>
Emergency Withdrawals Loans Investment Advice	Rollovers Roth Options Automatic Plan Features Employer Match	Investment Policy Statements Core Investment Menu Account Structure Fee Transparency



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Resources Library

- Publications
- Presentations
- Webinars
- Award winners
- Data



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Best Practices

Plan Administration Plan Governance

Plan Design Participant Engagement

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15

Plan Administration

Best Practices

Plan Administration Plan Governance

Plan Design Participant Engagement

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Plan Administration

- Bundled vs. Unbundled
- Consultants
- Tax & Legal Counsel



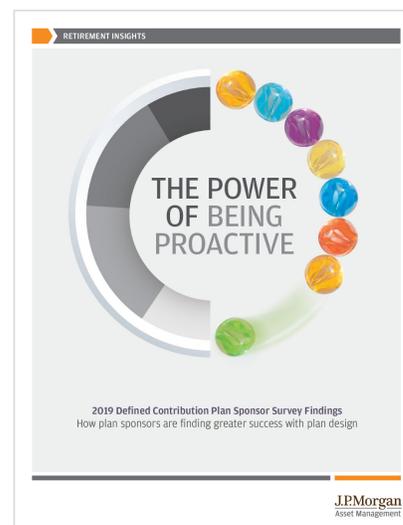
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J.P. Morgan Plan Sponsor Research

The 2019 study aims to answer...

- What plan sponsors hope to achieve with their plans
- Their goals and philosophies in providing retirement benefits
- The considerations driving their plan-related decisions
- The steps they are taking to help employees reach retirement with the income they will need
- How they view working with advisors and consultants

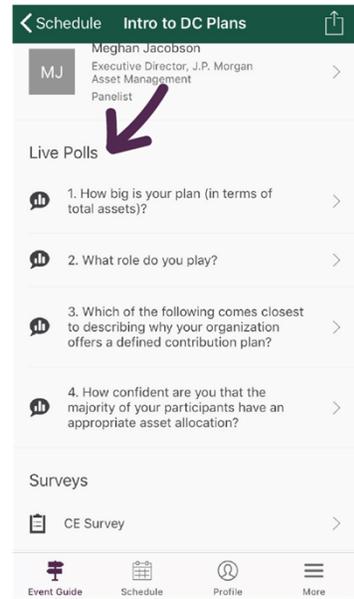


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Let's Take a Poll

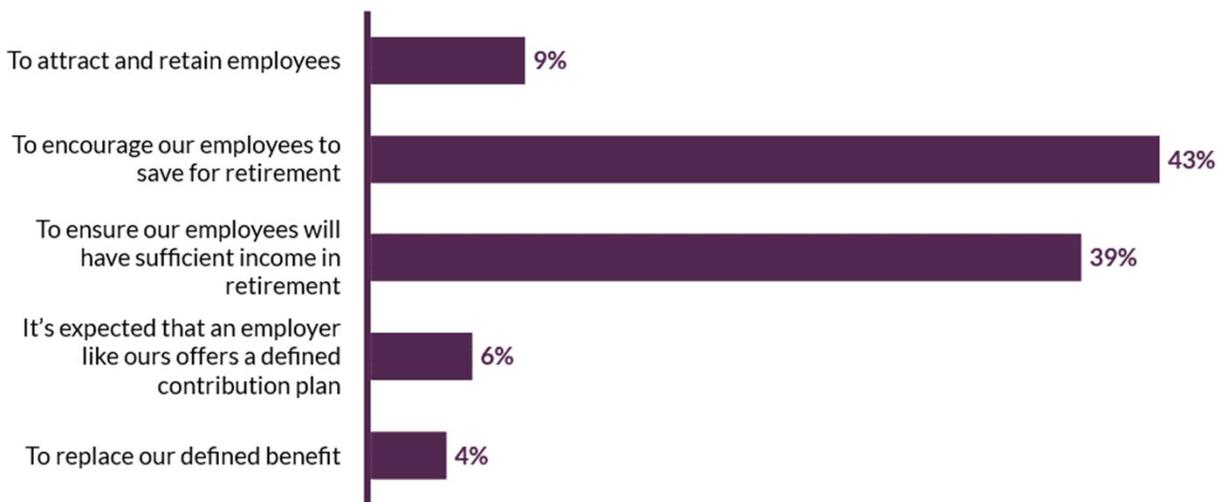
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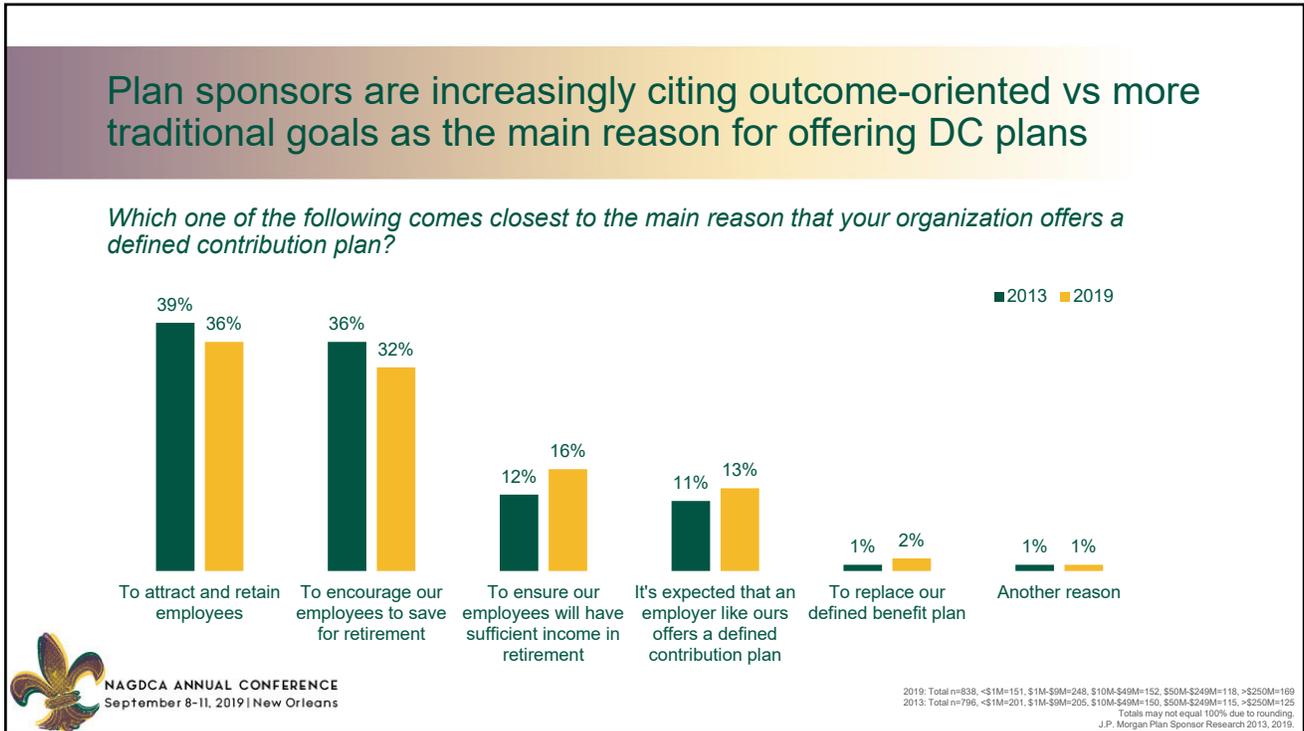
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3. Which of the following comes closest to describing why your organization offers a defined contribution plan?

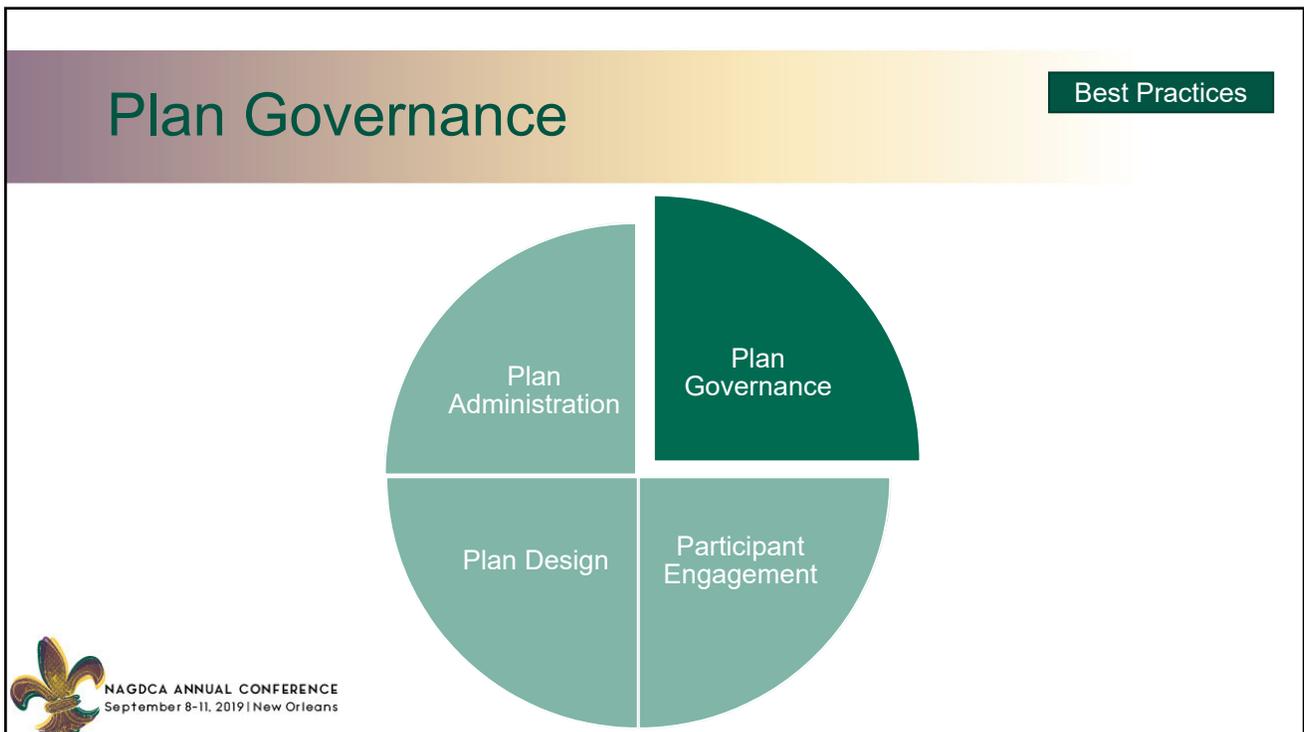


Source: <https://api.cvent.com/polling/v1/api/polls/sp3zgnpt>

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22

What works best in plan governance?

- Establish a **governance structure** and procedures
- Identify all fiduciaries and **assure** that they understand **their role** and **responsibilities**
- Establish and follow an **investment policy statement**
- Consistently use a **deliberate process** when making all decisions and document the reasons
- Regularly **monitor investments** and service providers
- **Hire experts** in areas where fiduciaries lack knowledge or expertise
- **Pay attention** to fees
- Consider purchasing **fiduciary liability insurance** and having plan sponsor indemnify individual fiduciaries



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Plan Governance – Sanitation Districts of LA

- Plan Board or Committee
- Investment Policy
- Plan Document
- Fiduciary Responsibilities



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Plan Governance

“

Plan sponsors are in a very bad position because they don't know exactly what is being paid in fees between record keepers and mutual-fund companies.”

- **Sherwin Kaplan**, *Department of Labor*

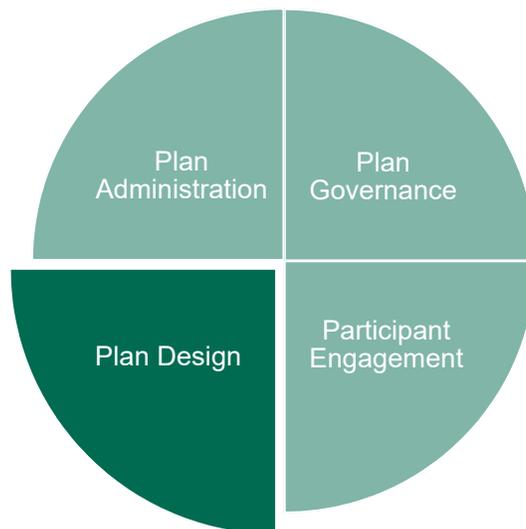


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Plan Design

Best Practices



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Plan Design

- Participant Services
- Plan Features
- Investment Menu



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Plan Design – Investment Menu

- Core Investments
- Managed Accounts
- Fee Transparency
- Watch List



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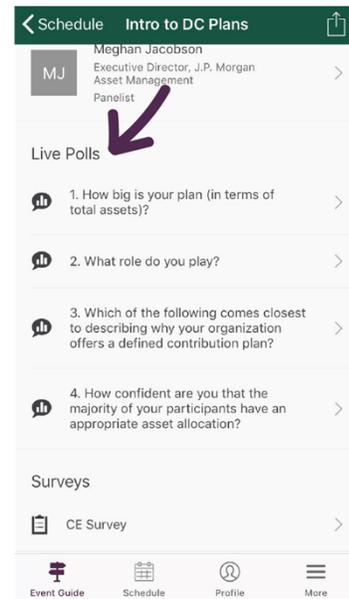
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Let's Take a Poll

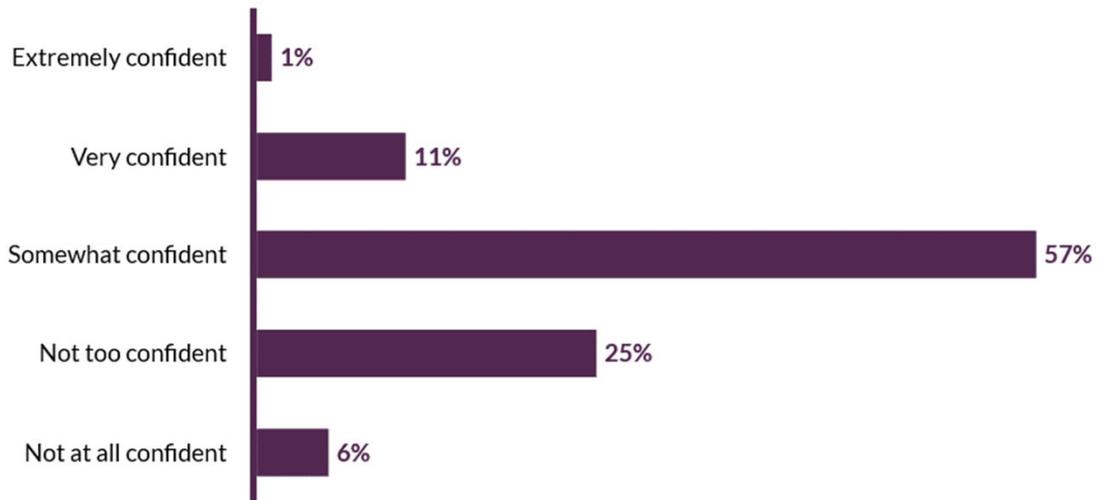
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4. How confident are you that the majority of your participants have an appropriate asset allocation?

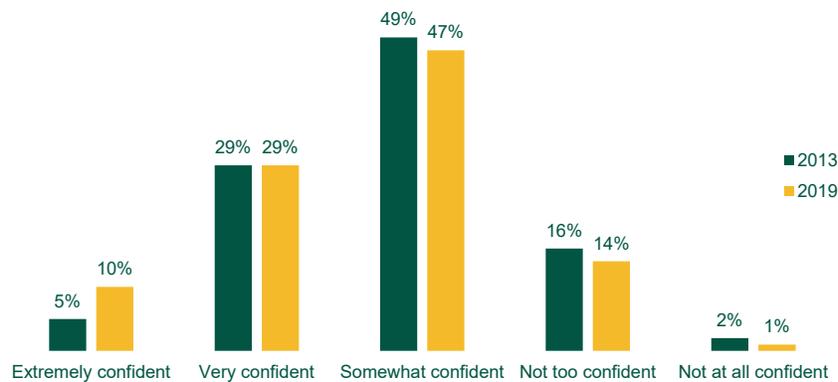


Source: <https://api.cvent.com/polling/v1/api/polls/sp-t1brwc>

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More than 40% of plan sponsors are not confident that their participants have an appropriate asset allocation

How confident are you that the majority of your participants have an appropriate asset allocation?



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2019: Total n=838, <\$1M=151, \$1M-\$9M=248, \$10M-\$49M=152, \$50M-\$249M=118, >\$250M=169
2013: Total n=796, <\$1M=201, \$1M-\$9M=205, \$10M-\$49M=150, \$50M-\$249M=115, >\$250M=125
Totals may not equal 100% due to rounding.
J.P. Morgan Plan Sponsor Research 2013, 2019.

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Participant Engagement

Best Practices

Plan Administration

Plan Governance

Plan Design

Participant Engagement

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Participant Engagement

- What to Communicate
- How to Communicate
- Measuring Success

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It's time we got smart about communicating to participants...

Over 1/2 of respondents **don't take the time to read** all of the investment information that is already provided



48% of participants say they are already **getting more information** than they can absorb



Nearly 2/3 of participants are not confident about which **401(k) options they should invest in**



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Source: J.P. Morgan Plan Participant Research 2018.

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Recap of Today's Session

1. What is a Defined Contribution Plan?
2. NAGDCA's Mission
3. Available Resources
4. Best Practices in Defined Contribution
5. Q&A



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Mobile App Q&A

1. Select **this session** from the agenda.
2. Under Live Q&A, select **Submit a question now**.
3. Ask away! Type your question and tap submit when you've finished. Questions can be up to 250 characters.

Now is your chance – don't be shy!

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Board/Committee Membership, Governance & Best Practices

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Board/Committee Membership, Governance & Best Practices

Moderator: Rob Boehmer – State of Nevada

Panel:

- Gay Lynn Bath – Oregon Public Universities Retirement Plans
- Julian Regan – Segal Marco Advisors
- Mike Golojuch – City and County of Honolulu

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3

City and County of Honolulu Committee Membership

- Four by Position
 - Director, Department of Budget and Fiscal Services (BFS) – Chair
 - Managing Director – delegated to alternate, Chief Internal Control Div.
 - Director, Corporation Counsel
 - Director, Department of Human Resources (DHR)
 - Each of these positions has an alternate
- Three Positions Elected – Four year terms
 - Two – Active Employees
 - One - Retiree
- Staff
 - BFS Administrative Services Officer
 - Chief, DHR Benefits, Research, and Transactions Branch
 - Deputy Corporation Counsel



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Fiduciary Duty and Responsibility

- Committee has ultimate authority for City and County of Honolulu Deferred Compensation
- Annual fiduciary education at our 457 University training
- Investment Policy Statement and Education Policy Statement
- Reserve Policy
- Annual Plan Provider Performance Review
- Periodic Compliance Audits
- Transitioned to Fee Equalization – all participants pay fair pro-rata share of record-keeping costs



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5

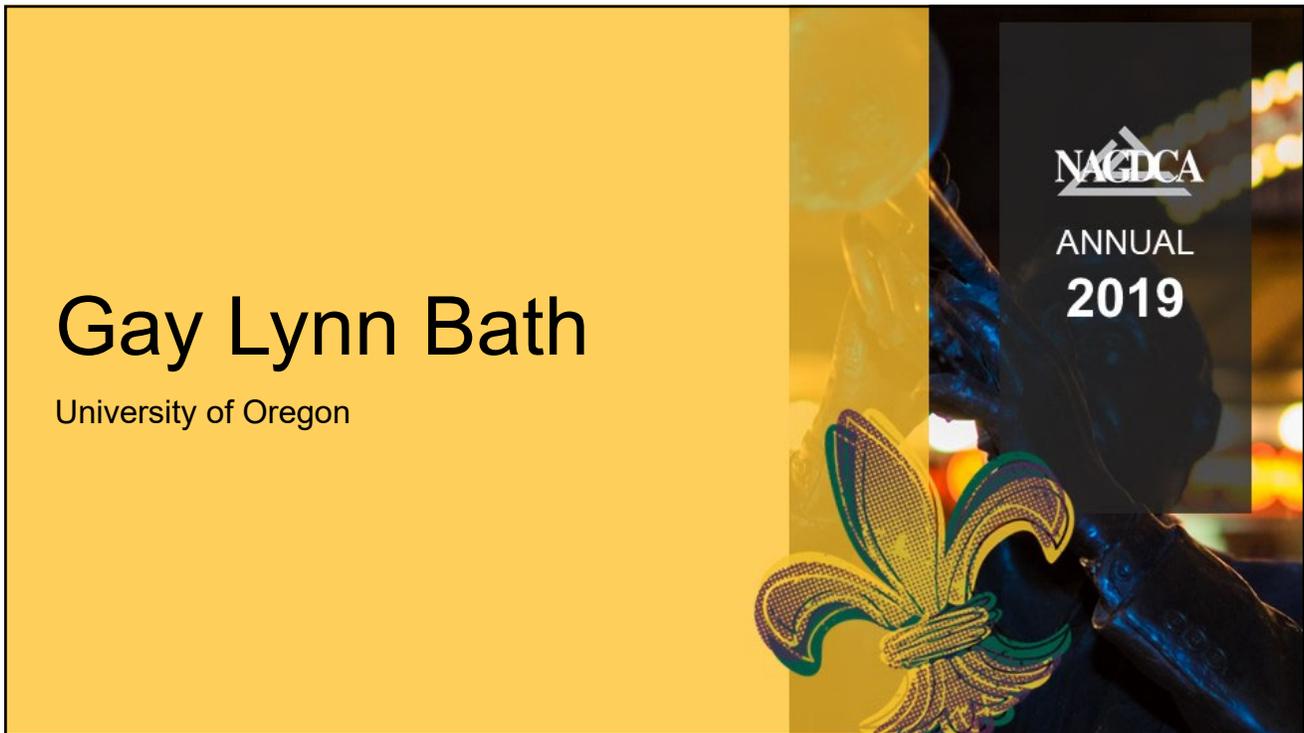
Role of Committee versus Staff

- Committee takes Action
 - What is best for the plan participants
 - Continue to review best practices
- Staff Provides Input to Committee and Day-to-Day Activities



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6



7

Oregon Public Universities Retirement Plans

- Plan stats
 - 401(a) and 403(b) plans for 7 Oregon universities
 - 14 discontinued 403(b) Plans
 - 3 record keepers; TIAA, Fidelity and AIG (frozen)
 - \$1.8 billion in assets
 - 7300 participants in 401(a); 8900 participants in 403(b); 1300 in discontinued plans
 - Optional Plan is offered in lieu of state pension plan to non-classified employees
 - 3 person staff
 - Investment Consultant
 - 2 Committees



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Oregon Public Universities Retirement Plans Committees

- Charter
 - Covers both Investment and Administration Committees
 - Appointed by Board or duly appointed delegate
 - No time limits
 - Criminal background check
 - Basic knowledge and understanding of the plan documents, investment policy statement, governing materials.
 - Quarterly meetings for each committee; annual joint meeting



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Administration Committee

- Administration Committee
 - 9 members; Director is chair; benefit managers from each campus and 1 from shared services payroll
 - No fiduciary duty; advisory role
 - Advise on:
 - interpretation of provisions of Plans;
 - service agreements with vendors
 - administration of plans for exclusive benefit of participants;
 - specific obligations, responsibilities and duties required by the Plans;
 - eligibility of participants,
 - resolution of disputes,
 - provide stewardship to the Board or its delegates



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Investment Committee

- Investment Committee
 - Fiduciaries
 - 7 members; no time limits
 - Faculty, Administration, Classified; UO
 - Quarterly meetings (2 in person); vendors and consultant attend
 - Responsibilities:
 - Investment Policy Statement
 - Selection of investment options
 - Advise on appointment/termination of custodians, investment managers, etc.
 - Responsible for oversight of non-participant assets (revenue share, forfeiture, participant fees)



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Julian Regan

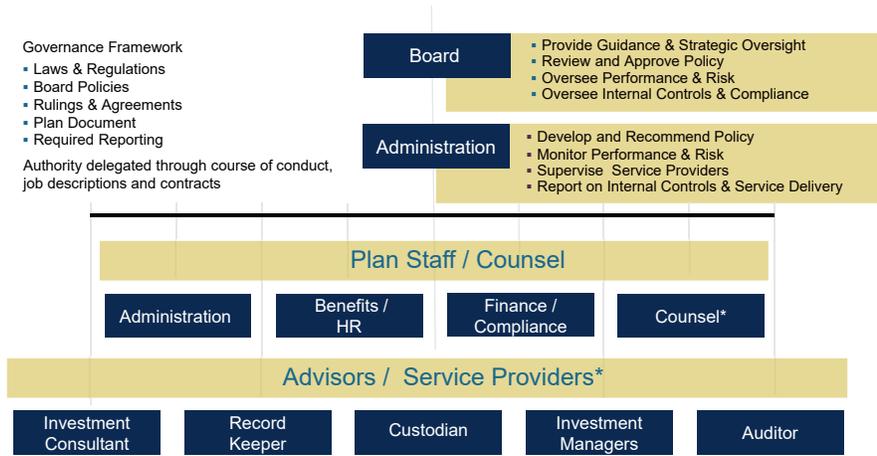
Segal Marco Advisors

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Best Practice: Governance Structure & Oversight Roles*



*Note: Sample for illustrative purposes. Organization Structure and roles will vary depending on the category, size and structure of the Plan

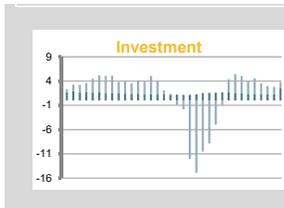
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Best Practice: Defining and Categorizing Risk

Investment Risk*

- Risk of loss in participant account balances due to adverse movement in market factors such as asset prices.



Longevity Risk

- The possibility that a DC Plan participant may outlive his or her account balance.



Operational Risk

- Risk resulting from inadequate or failed internal processes, people and systems or from external events.

Credit Risk

- Risk of loss due to failure of obligors (e.g. bond issuers) to honor their payments.



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Emerging DC Plan Risk: Operational Risk

DC Plan Risk Categories

Operational Risk, Market Risk, Reputation Risk, Longevity Risk, Credit Risk

Operational Risk Types

Legal and Compliance, Transaction Processing, Asset Valuations, Financial Reporting, Vendor Selection, Data Security, Physical Security, Information Technology, Business Continuity

"Compliance failures are the single biggest cause of reputational risk..." —*The Economist Intelligence Unit*

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Best Practice: Operational Risk Management Framework

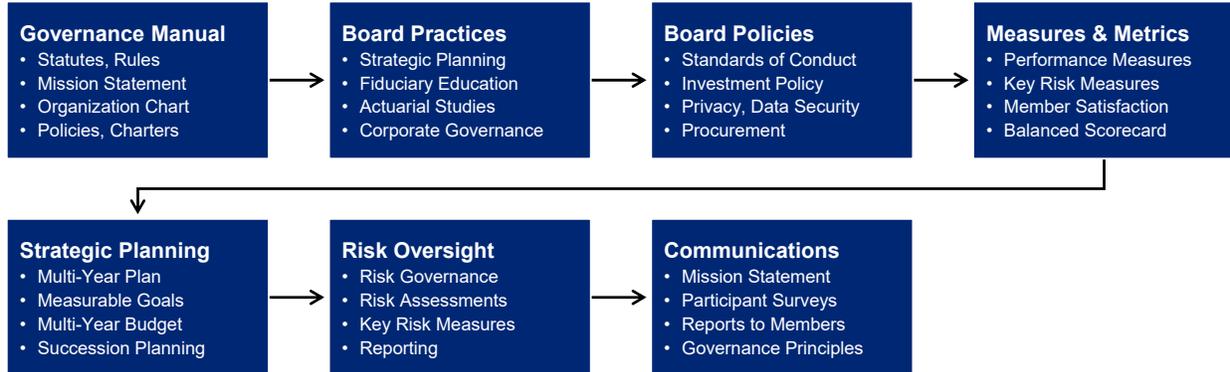
Governance	Assessments	Measures	Reporting
<ul style="list-style-type: none"> • Committees • Investment Policy • Guidelines • Contracts 	<ul style="list-style-type: none"> • Financial Audit • Control Reviews • Benchmarking • Vendor Reviews 	<ul style="list-style-type: none"> • Processing • Participation • Asset Diversification • Service Quality 	<ul style="list-style-type: none"> • Auditor • Administrator • Consultant • Investment Managers

- Managing operational risk effectively may lead to improved service quality, reduced costs, improved participant decision making, better compliance and strengthened stakeholder confidence

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NCPERS Best Practices: Industry Example*



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*Source: NCPERS Best Governance Practices. Applicable to Defined Benefit Plans. May be Modified to Defined Contribution Plan
https://www.ncpers.org/files/NCPERS_BEST%20GOVERNANCE%20PRACTICES_2019_Final.pdf

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3. Ask away! Type your question and tap submit when you've finished. Questions can be up to 250 characters.

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the
IMPOSSIBLE DREAM

How Storytelling Transforms Us

MATT JOHNSON

the **FRONTIER PROJECT** *

1



2



3



**Every great
human achievement
IS BORN FROM
A GREAT STORY.**



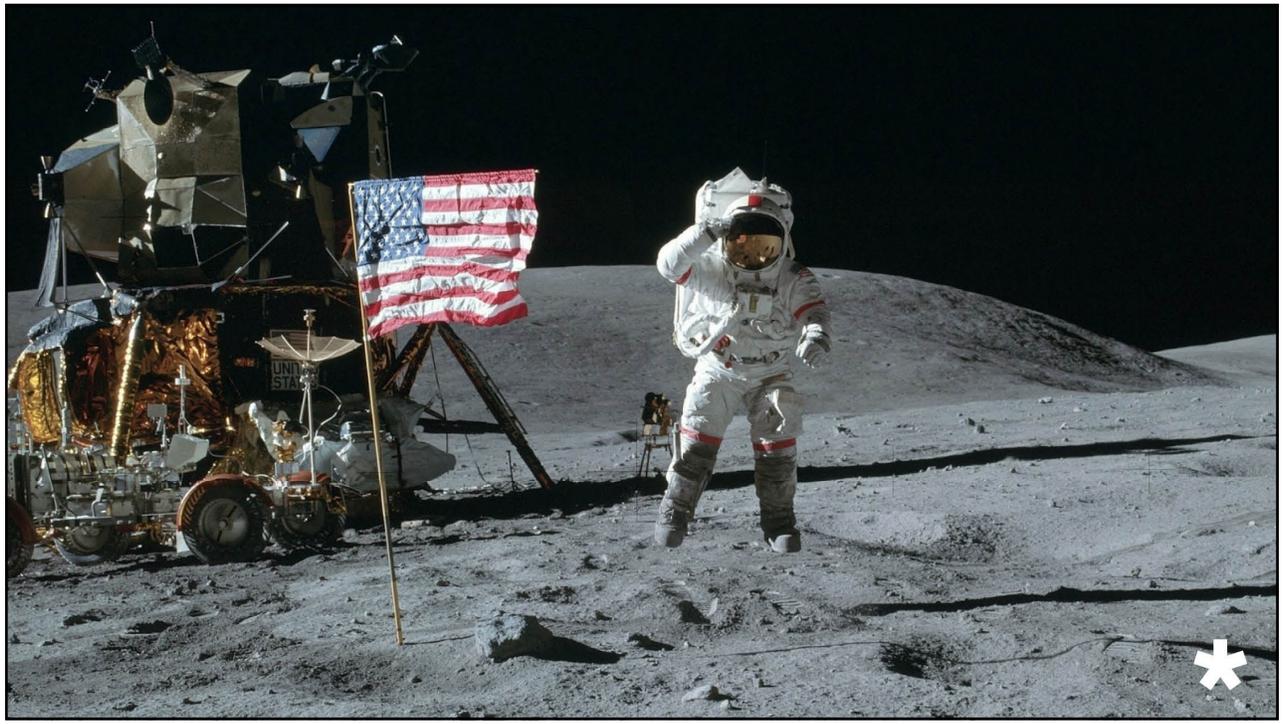
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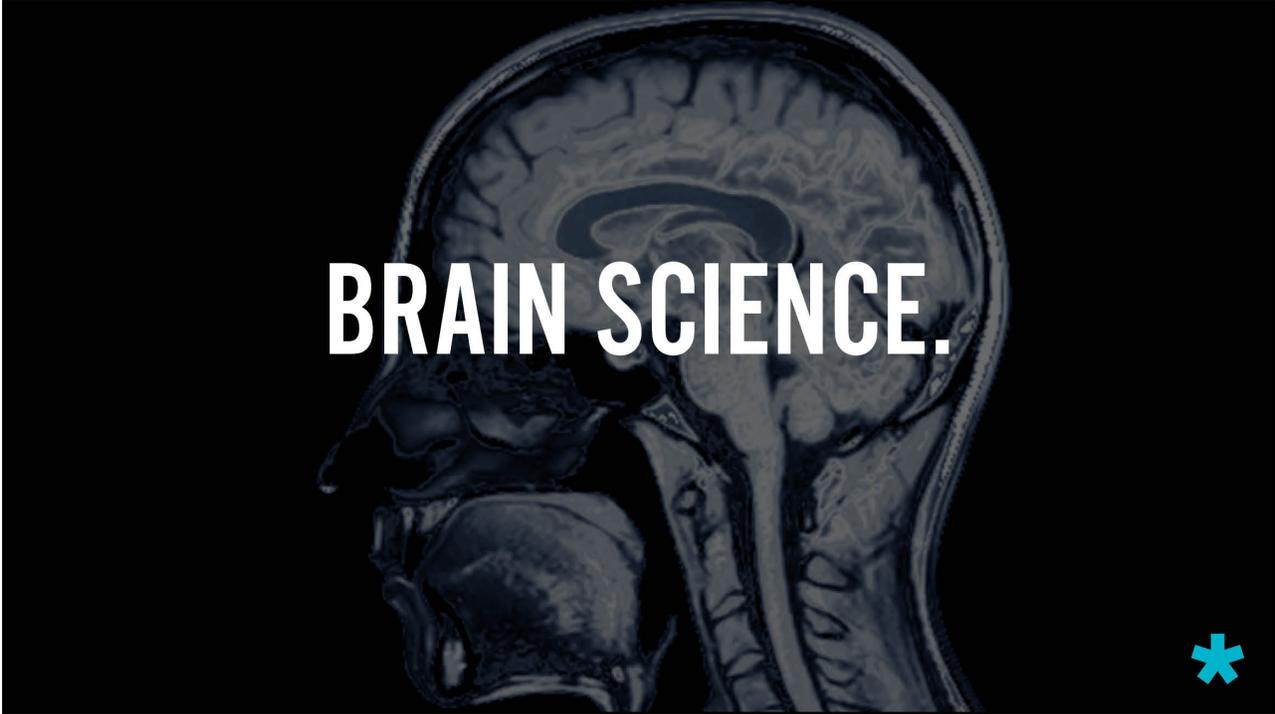


8

Why does **STORYTELLING WORK?**



9

A sagittal MRI scan of a human brain, showing the internal structures of the brain and the spine. The image is in grayscale and has a dark background.

BRAIN SCIENCE.

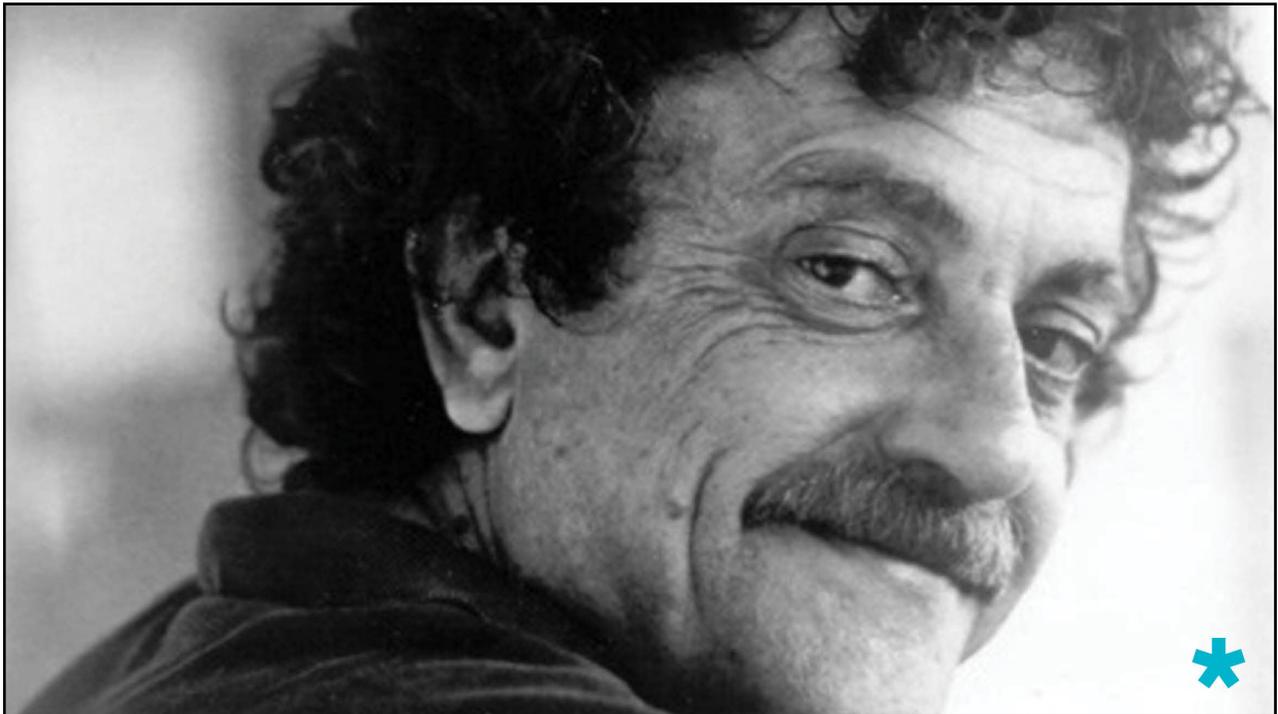


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How does **STORYTELLING WORK?**



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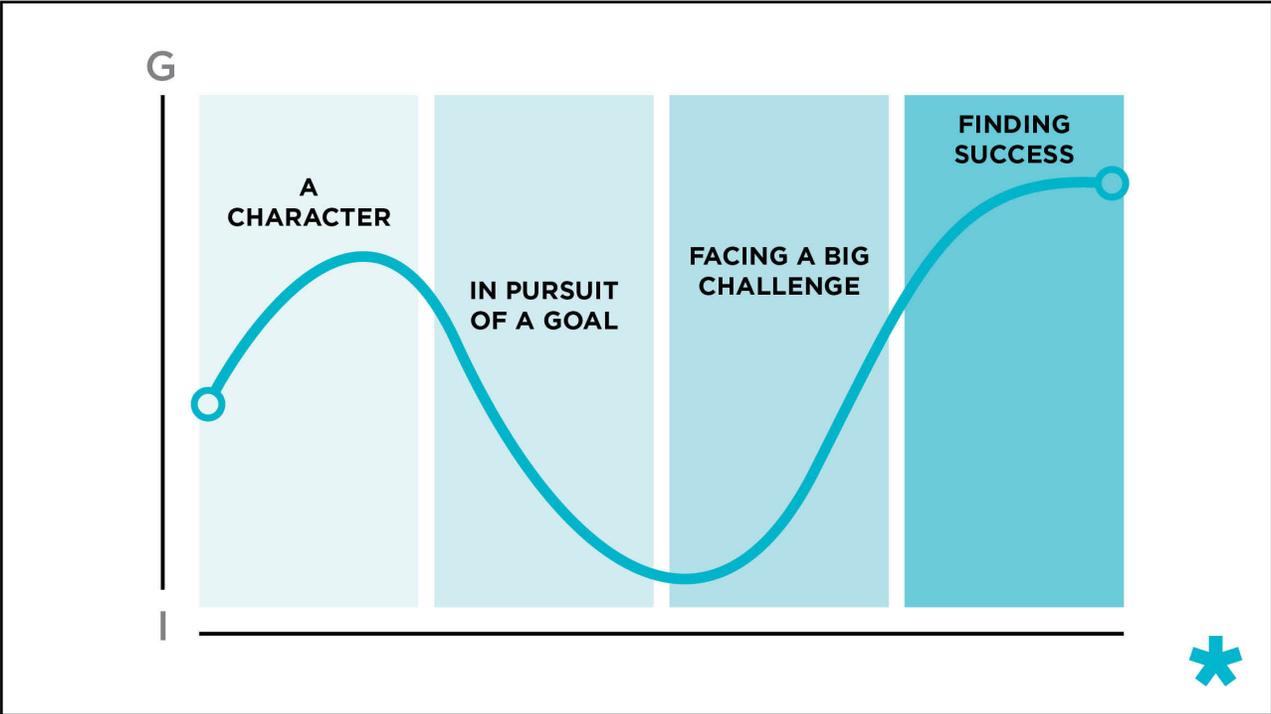


12

All great stories
HAVE A SIMILAR SHAPE.



13



14

What does this have to do with
DEFINED CONTRIBUTIONS,
again?



15

Story is your
SECRET WEAPON.



16

The four things you can do to **MASTER STORYSELLING:**



17

1
START WITH WHY.



18

A NEW ELEVATOR PITCH

We make great computers.

VS.

**In everything we do, we believe
in challenging the status quo.
We believe in thinking differently.**

**They're beautifully designed,
simple to use, and user-friendly.**

VS.

**The way we challenge the status
quo is by making our products
beautifully designed, simple
to use, and user-friendly.**

Want to buy one?

VS.

**We just happen to make great
computers. Want to buy one?**



19

2
LISTEN FOR THEIR STORY.



20

IT'S JUST THREE QUESTIONS:

1
Who is their
main character?

2
What goal are
they pursuing?

3
What challenges
are they facing?

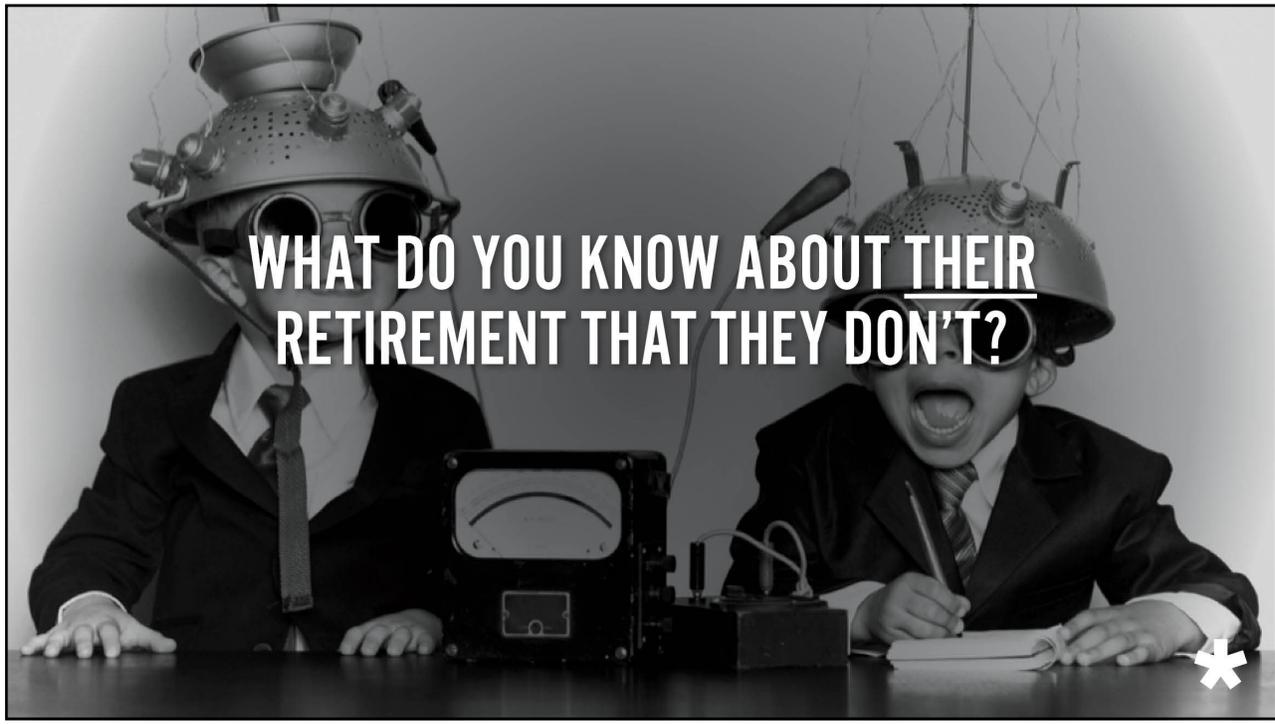


21

3
**FIND THE ENDING
THEY DON'T SEE.**



22



23



24



25



26

NAGDCA Affirmative Legislative Priorities

ROTH IMPROVEMENTS

- Allow Roth 457(b), 401(k), 401(a) and 403(b) plan participants to roll assets from Roth IRAs to these plans
- Exempt Roth contributions from RMD rules, as Roth IRA assets are presently exempt

ENHANCE ADMINISTRATIVE EFFICIENCY & PROMOTE SAVINGS

- Permit non-spousal beneficiaries to roll assets to 457(b), 401(k), 401(a) and 403(b) plans
- Eliminate the “first day of the month” requirement in 457(b) plans

ENHANCE DISTRIBUTION CHOICE

Allow QCDs from 457(b), 401(a), 401(k) and 403(b) plans, as is permitted from IRAs

ENHANCE INVESTMENT OPTIONS FOR 403(B) INVESTORS

Permit CITs and separate accounts as investment vehicles in 403(b) plans and deemed IRAs as in other governmental plans

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House Ways and Means Committee

Democratic Members

- Richard Neal, Chair (D-MA)
- John Lewis (D-GA)
- Lloyd Doggett (D-TX)
- Mike Thompson (D-CA)
- John Larson (D-CT)
- Earl Blumenauer (D-OR)
- Ron Kind (D-WI)
- Bill Pascrell (D-NJ)
- Danny Davis (D-IL)
- Linda Sanchez (D-CA)
- Brian Higgins (D-NY)
- Terri Sewell (D-AL)
- Suzan DelBene (D-WA)
- Judy Chu (D-CA)

- Gwen Moore (D-WI)
- Dan Kildee (D-MI)
- Brendan Boyle (D-PA)
- Don Beyer (D-VA)
- Dwight Evans (D-PA)
- Brad Schneider (D-IL)
- Tom Suozzi (D-NY)
- Jimmy Panetta (D-CA)
- Stephanie Murphy (D-FL)
- Jimmy Gomez (D-CA)
- Steven Horsford (D-NV)

Republican Members:

- Kevin Brady, Ranking Member (R-TX)

- Devin Nunes (R-CA)
- Vern Buchanan (R-FL)
- Adrian Smith (R-NE)
- Kenny Marchant (R-TX)
- Tom Reed (R-NY)
- Mike Kelly (R-PA)
- George Holding (R-NC)
- Jason Smith (R-MO)
- Tom Rice (R-SC)
- David Schweikert (R-AZ)
- Jackie Walorski (R-IN)
- Darin LaHood (R-IL)
- Brad Wenstrup (R-OH)

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Equity Investment Options

Mary Buonfiglio, CFA
Deputy Director
North Carolina Supplemental Retirement Plans

Timothy Kearney,
Asset Allocation Strategist
Voya Financial

Shaun Murphy, CFA
Head of US Index Funds, LGIMA

Jed Petty, CFA
Managing Director, Wellington Mgt. Co.

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Market Outlook

Timothy F. Kearney, PhD
Asset Allocation Strategist
Voya Investment Management

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Historical Market Statistics, 1979-2018

	Return	Volatility	Skewness	Kurtosis
S&P 500	5.8%	16.3%	-48.3%	101.0%
Russell 1000 Growth	5.7%	18.7%	-44.4%	65.3%
Russell 1000 Value	6.5%	15.9%	-52.1%	135.7%
MSCI U.S. Minimum Volatility	5.5%	11.6%	-62.1%	158.9%
Russell 3000	6.3%	16.8%	-54.3%	115.5%
Russell Midcap	7.6%	18.3%	-52.0%	109.7%
Russell 2000	5.5%	16.2%	-45.6%	93.7%
MSCI EAFE	4.3%	19.2%	-28.3%	16.6%
MSCI World	5.4%	16.1%	-57.9%	95.6%
MSCI EM	8.4%	27.3%	-46.4%	60.5%
MSCI ACWI	5.8%	16.8%	-60.1%	100.8%

Source: Voya IM, Bloomberg.



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Historical Market Correlations, 1979-2018

	S&P 500	Russell 1000 Growth	Russell 1000 Value	MSCI U.S. Minimum Volatility	Russell 3000	Russell Midcap	Russell 2000	MSCI EAFE	MSCI World	MSCI EM	MSCI ACWI	Bloomberg Commodity
S&P 500	1.00											
Russell 1000 Growth	0.96	1.00										
Russell 1000 Value	0.95	0.83	1.00									
MSCI U.S. Minimum Volatility	0.94	0.85	0.95	1.00								
Russell 3000	1.00	0.96	0.95	0.93	1.00							
Russell Midcap	0.95	0.92	0.92	0.90	0.97	1.00						
Russell 2000	0.83	0.83	0.80	0.77	0.88	0.92	1.00					
MSCI EAFE	0.67	0.64	0.65	0.63	0.68	0.66	0.60	1.00				
MSCI World	0.93	0.90	0.89	0.87	0.93	0.91	0.81	0.90	1.00			
MSCI EM	0.70	0.69	0.67	0.65	0.72	0.72	0.67	0.73	0.79	1.00		
MSCI ACWI	0.92	0.89	0.88	0.86	0.92	0.90	0.81	0.89	0.99	0.85	1.00	
Bloomberg Commodity	0.25	0.24	0.26	0.24	0.27	0.30	0.29	0.31	0.31	0.37	0.33	1.00



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Source: Voya IM, Bloomberg.

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Investment Themes

Summary of 2019 SAA Investment Themes

Late Cycle + Fed Tightening → Growth Uncertainty + Lower Visibility → Flexibility as Clarity Develops

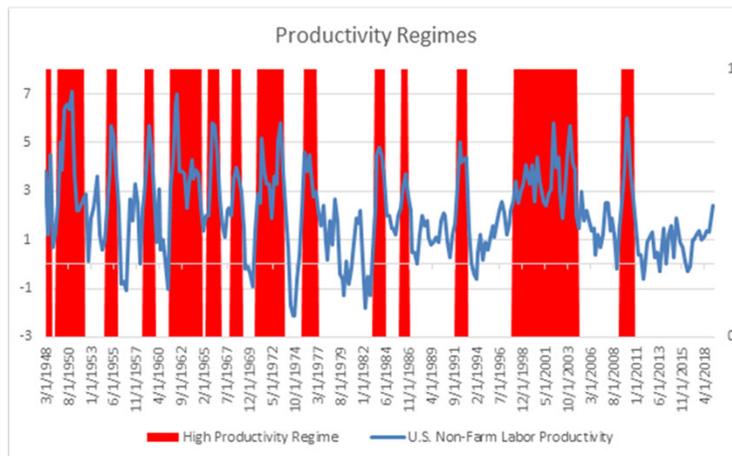
<p>Low Return World: Low or below average returns for most major asset classes.</p>	<p>Most of the strength of asset class returns has been extracted with strong post-GFC returns. Sustaining the past three years of robust profit growth as a percent of GDP is likely to be more challenging as late cycle pressures associated with higher financing and wage costs.</p>
<p>Less Visibility on Monetary Policy and Growth: Global ex US Economic slowdown persists with the US joining. US growth slows but remains above trend.</p>	<p>The Fed is trying to engineer a slowdown to trend growth from above trend. However, they do not have a good historical track record at doing so. Global earnings slowdown undermines the view on relative value in equity market multiples. US is slowing from a blistering pace, China is stimulating its economy but in a mild and controlled way and the ECB is withdrawing QE in spite of downside risks to growth. Equity markets may touch top and bottom of a wide trading range.</p>
<p>Credit Market Cycle Slowly Turning: Monetary policy rates are rising led by the US. Higher financing costs and interest expense exposes weaker corporate balance sheets.</p>	<p>Higher rates associated with tighter monetary policy are increasing corporate financing costs. However, the lag between credit cycle turning and a recession is long and varied; it can span years with several resets. Significant growth in IG debt outstanding and in covenant-lite issuance in the leverage loan market are potential areas of longer-term weakness.</p>
<p>Rate Cycle Peaking: US Monetary Policy has tightened over the past three years.</p>	<p>The Yield curve is flattening across all measures and real fed funds rates are now positive for the first time in the past decade. Probability of U.S. recession models are also rising from very low levels for the first time since 2015.</p>



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Productivity is the Key



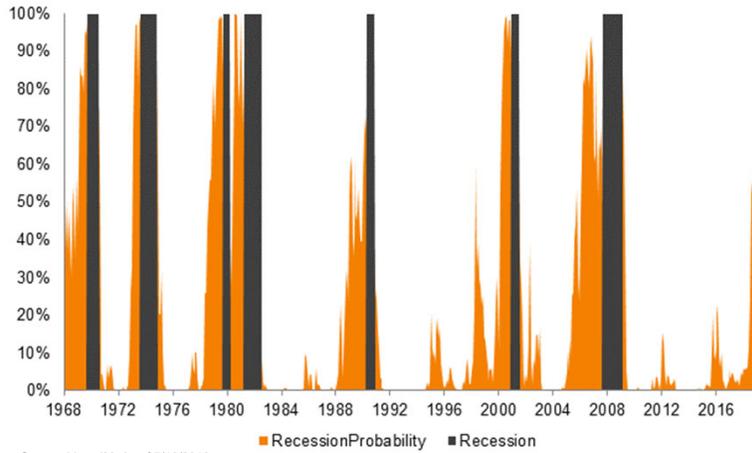
Source: Voya IM. As of 5/20/2019



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Probability of Recession Worries



Source: Voya IM. As of 7/10/2019



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The Wage Phillips Curve Works

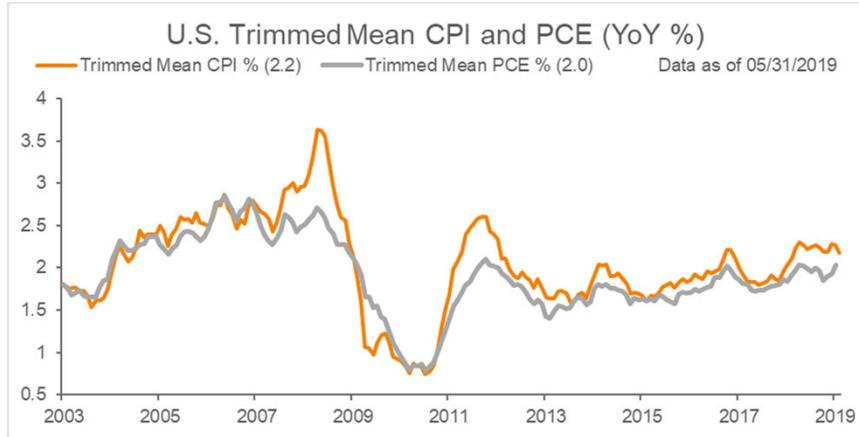


Source: Voya IM, Bloomberg. As of 6/30/2019

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CPI Inflation Quiescent

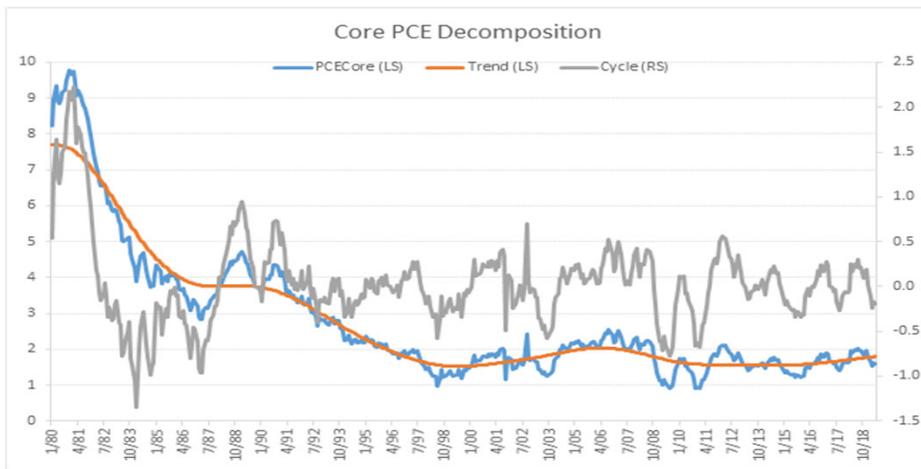


Source: Bloomberg, Voya IM. As of 5/31/2019

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PCE Deflator Shows Fed Difficulties

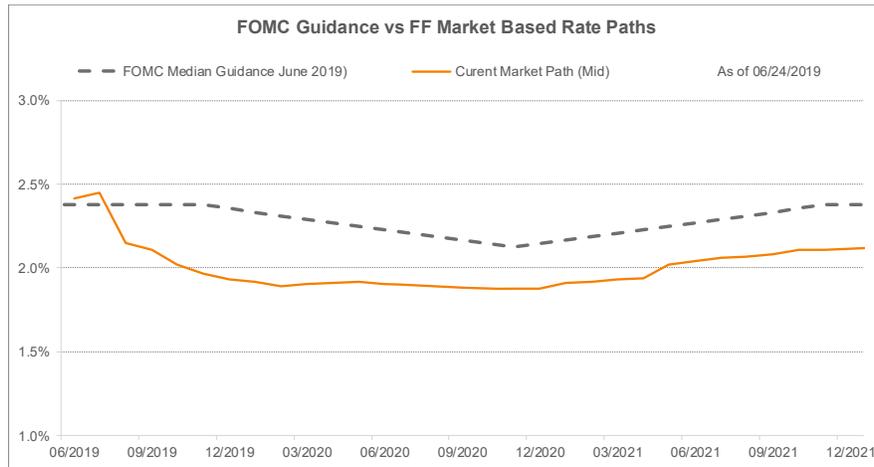


Source: Voya IM. As of 6/30/2019

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Whither the Fed?



Source: Voya IM. As of 6/24/2019

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Modest Outlook

	Medium Term Forecast
GDP Growth	2.0%
Inflation (CPI-U)	2.2%
CPI ex Food and Energy	2.3%
Fed Funds Rate	3.0%
Ten-Year Treasury Yield	3.4%
S&P 500 Earnings Growth	5.5%
Savings Rate	8.1%

Source: Voya IM. As of 6/30/2019

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Expected Returns, Volatilities

Equity Index	Expected Returns					
	Geometric Mean Return (%)	Arithmetic Mean Return (%)	Volatility (%)	Skewness	Kurtosis	Sharpe Ratio
S&P 500	4.6	5.8	16.3	-0.48	1.0	0.18
Russell 1000 Growth	4.0	5.7	18.7	-0.44	0.7	0.15
Russell 1000 Value	5.4	6.5	15.9	-0.52	1.4	0.23
MSCI U.S. Minimum Volatility	4.9	5.5	11.6	-0.62	1.6	0.22
Russell 3000	5.0	6.3	16.8	-0.54	1.2	0.20
Russell Midcap	6.0	7.6	18.3	-0.52	1.1	0.25
Russell 2000	5.9	8.4	22.8	-0.55	1.2	0.24
MSCI EAFE	2.5	4.3	19.2	-0.28	0.2	0.08
MSCI World	4.2	5.4	16.1	-0.57	0.9	0.16
MSCI EM	4.7	8.4	27.3	-0.46	0.6	0.20
MSCI ACWI	4.4	5.8	16.9	-0.60	1.0	0.17
Bloomberg Commodity	2.6	3.8	15.6	-0.41	1.5	0.06

Source: Voya IM. As of 6/30/2019

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Equity Investment Options

Shaun Murphy, CFA, LGIMA

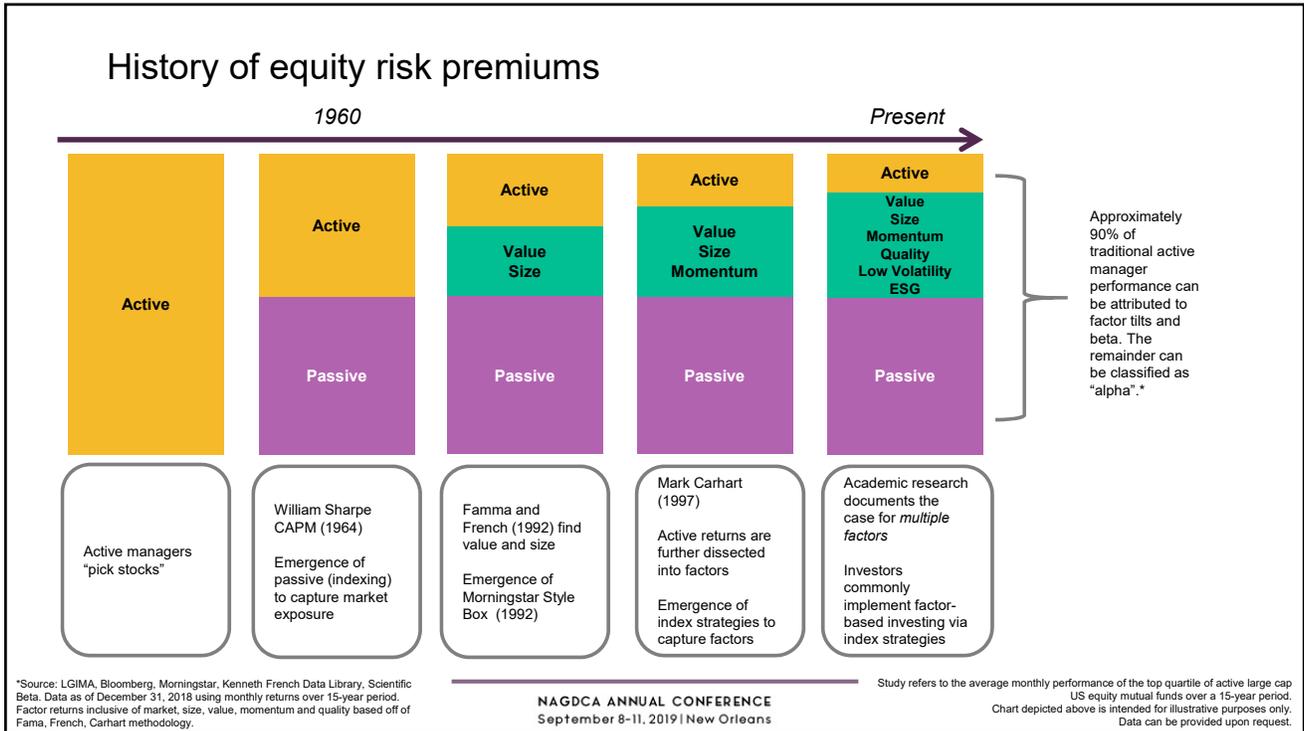
Case for Active vs. Passive & Investment Structures

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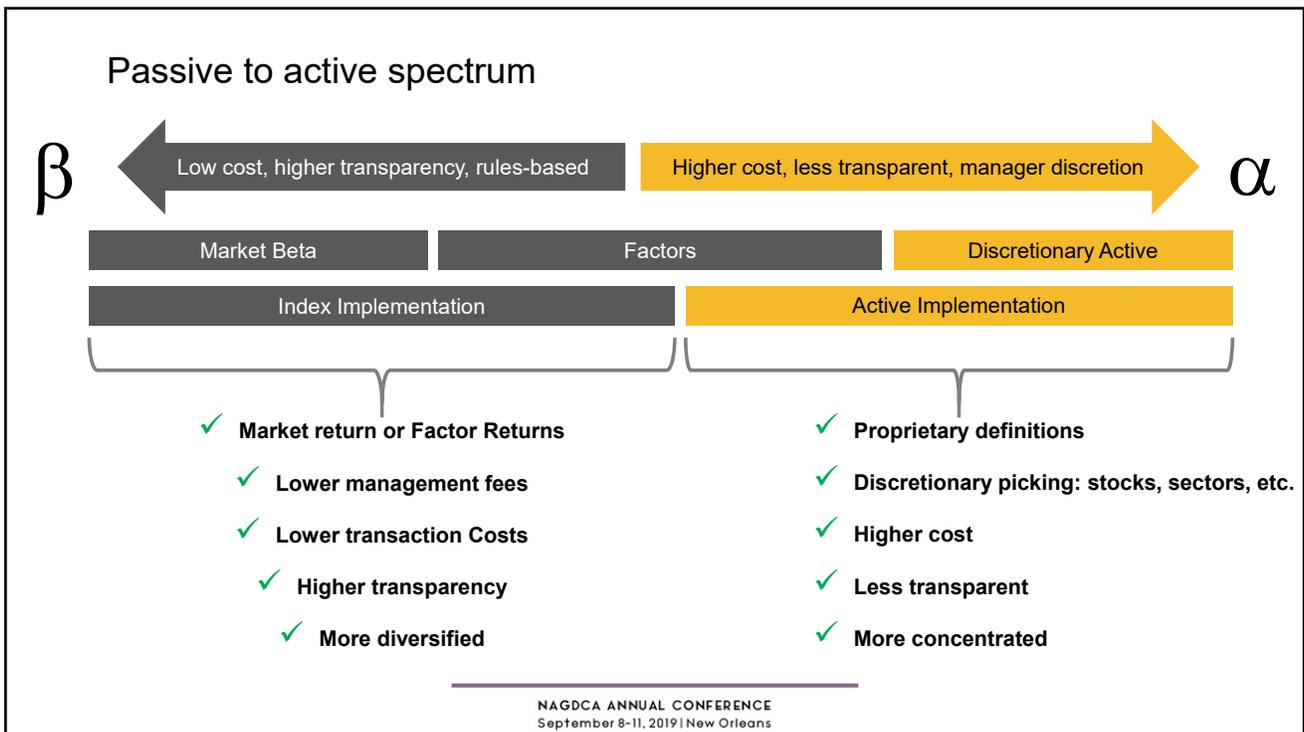
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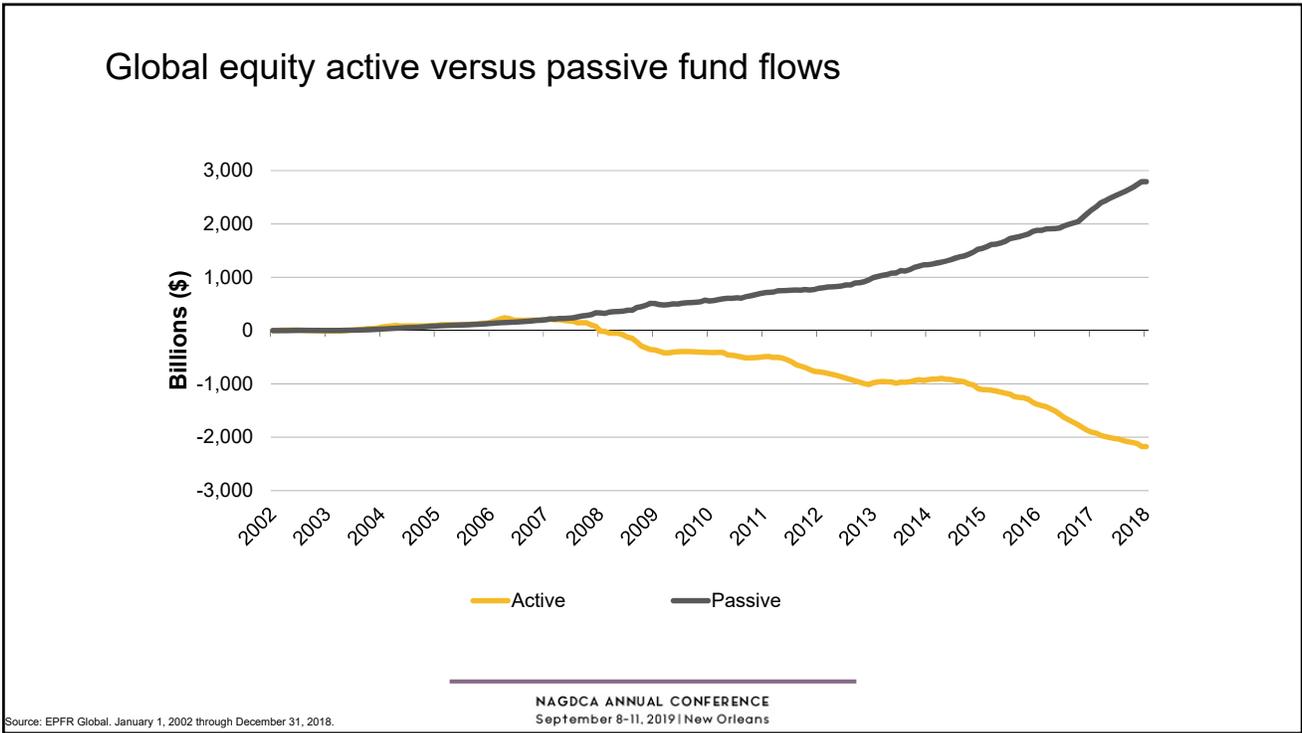
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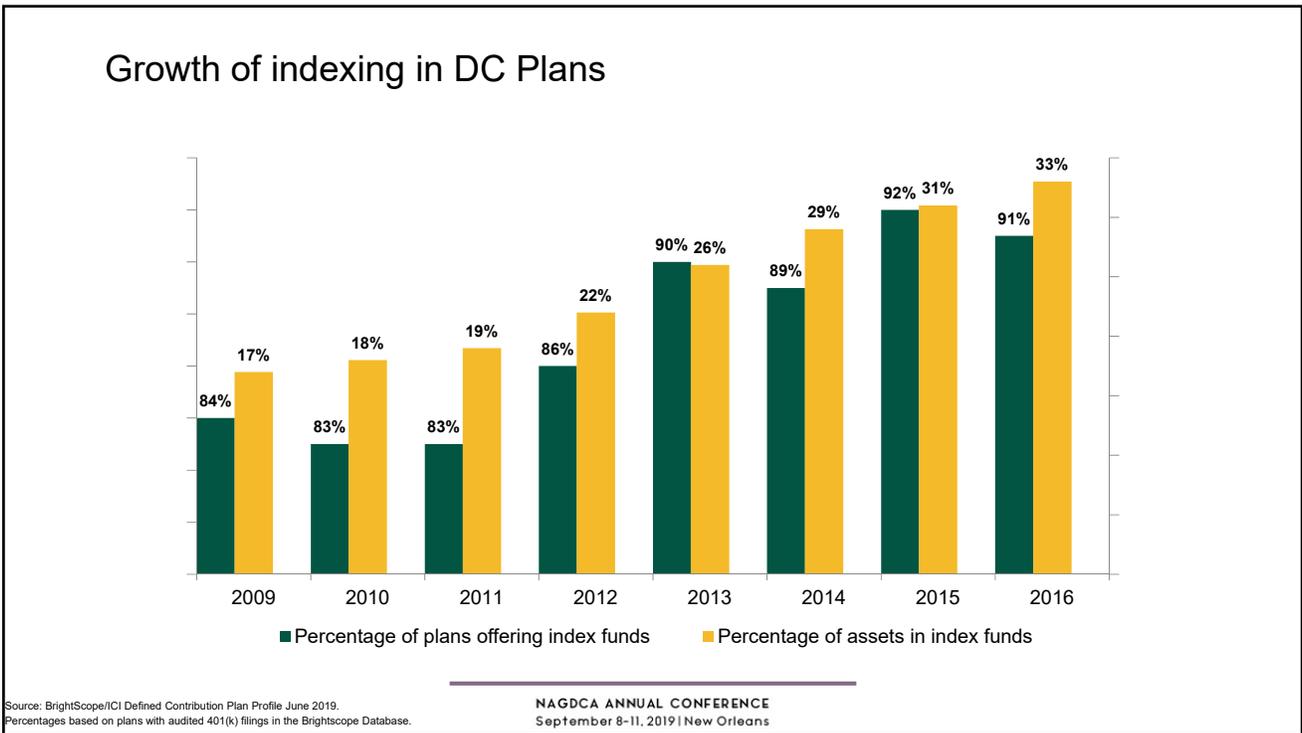
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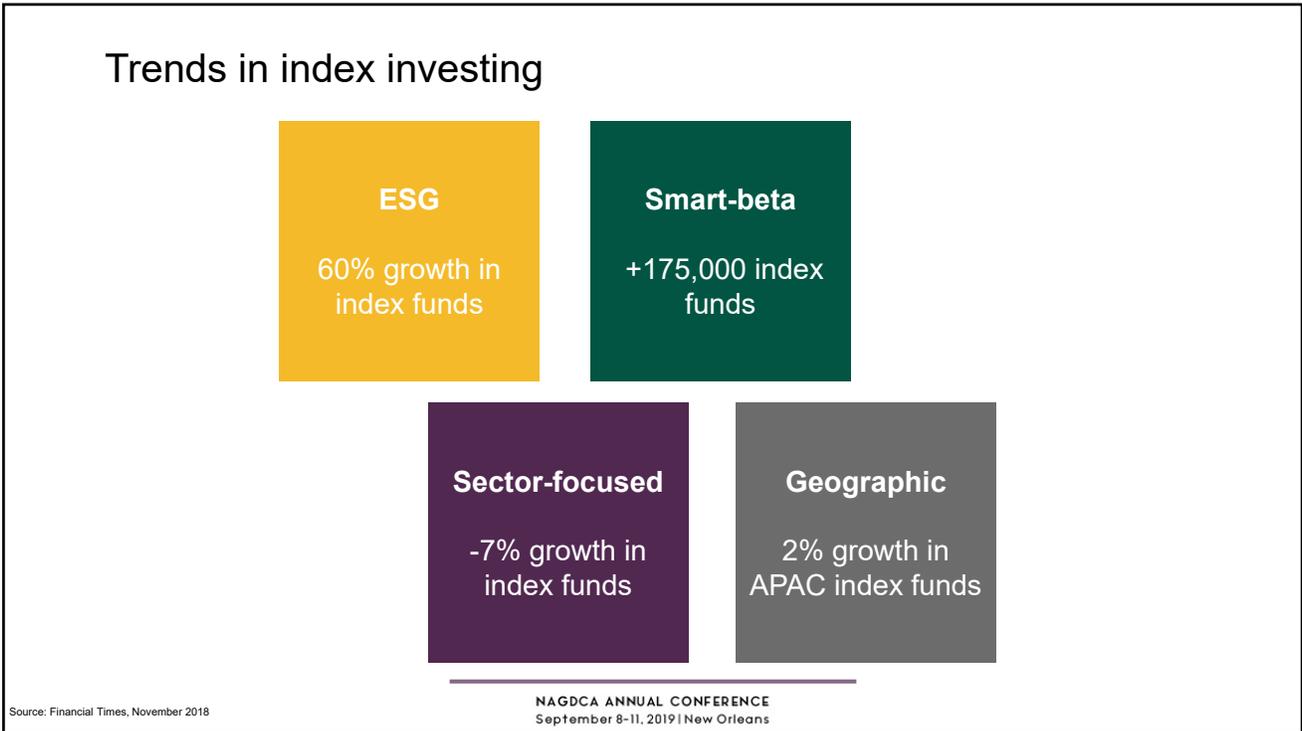
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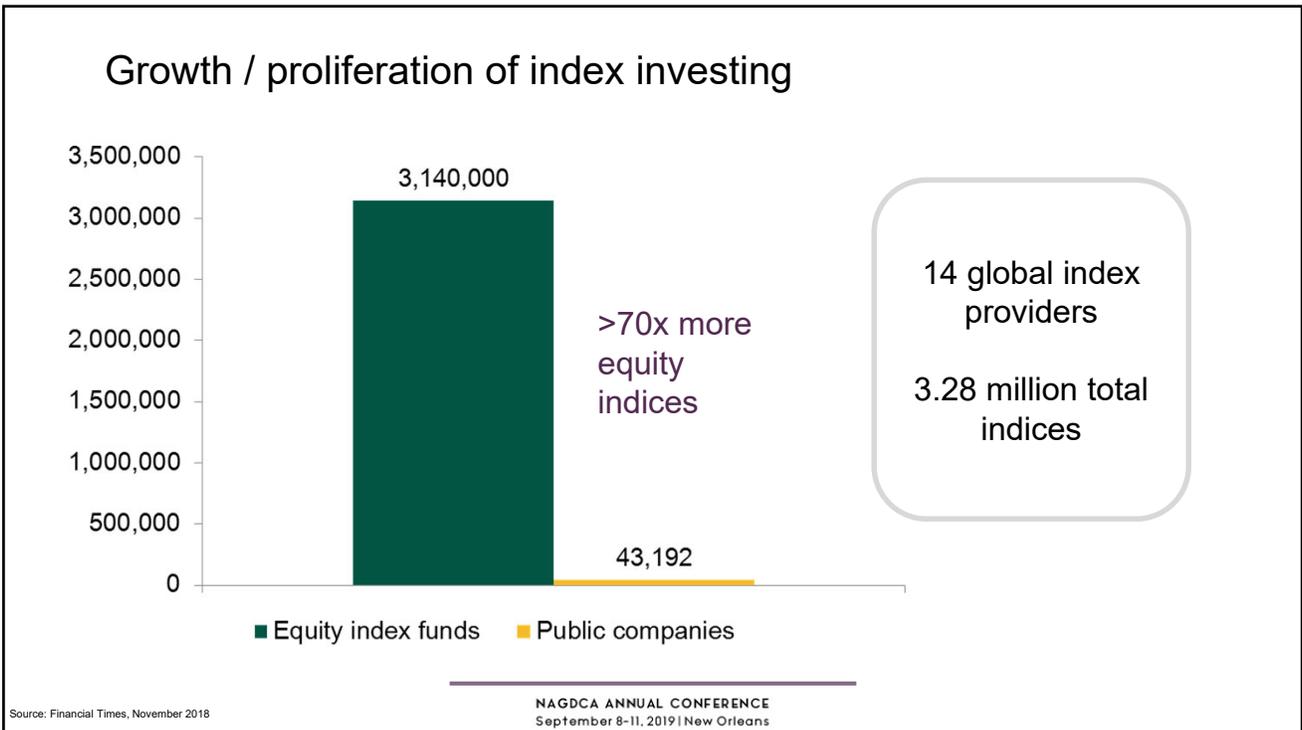
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Design matters – Russell 2000 vs. S&P 600

	Russell 2000	S&P 600
10-year correlation	99%	
Weighting	Market Cap	Market Cap
Construction	Rules based	Committee governed
Market cap range	\$180 million to \$4.3 billion	\$350 million to \$1.6 billion
Annual turnover	12-16%	12-16%
Rebalancing frequency	Annual	No annual/semi annual rebalance Quarterly share updates
Notable eligibility requirements	IPOs: Eligible initial public offerings (IPOs) are added to Russell indexes at the end of each calendar quarter	IPOs: Initial public offerings should be seasoned for six to 12 months before being considered for addition to an index. Financial Viability: The sum of the most recent four consecutive quarters' as-reported earnings should be positive as should the most recent quarter.

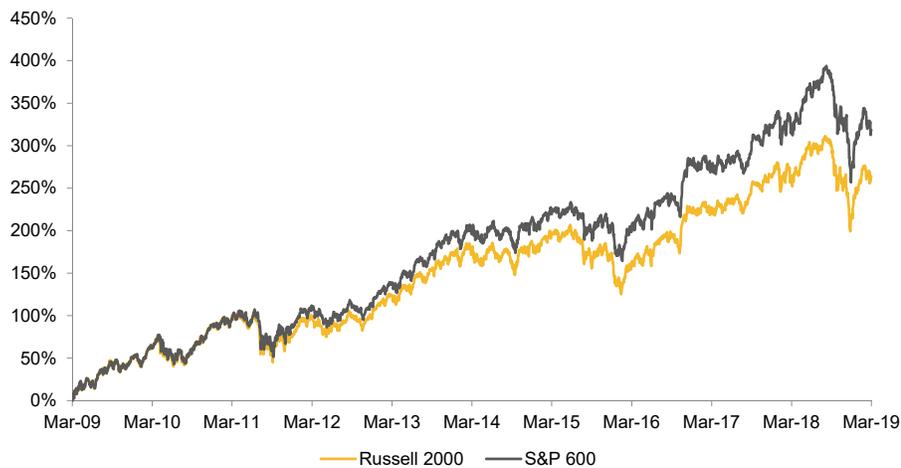
Source: LGIMA, Bloomberg
As of March 31, 2019.

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Design matters – Russell 2000 vs. S&P 600

10-year historical comparison: 3/31/2009 – 3/31/2019



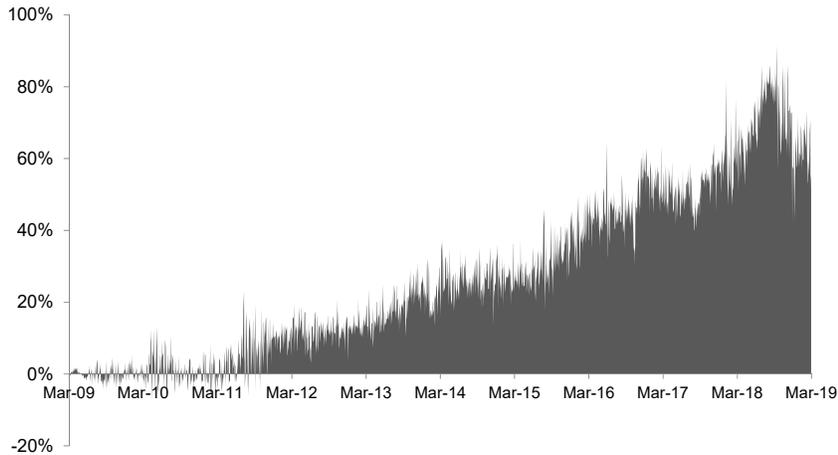
Source: LGIMA, Bloomberg

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Design matters – Russell 2000 vs. S&P 500

10-year historical comparison: 3/31/2009 – 3/31/2019



54% excess return for S&P 600

Based on \$1 billion small cap allocation, that's \$540 million loss by not having small cap exposure

Source: LGIMA, Bloomberg.

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Fund structures available to DC plan sponsors vary significantly

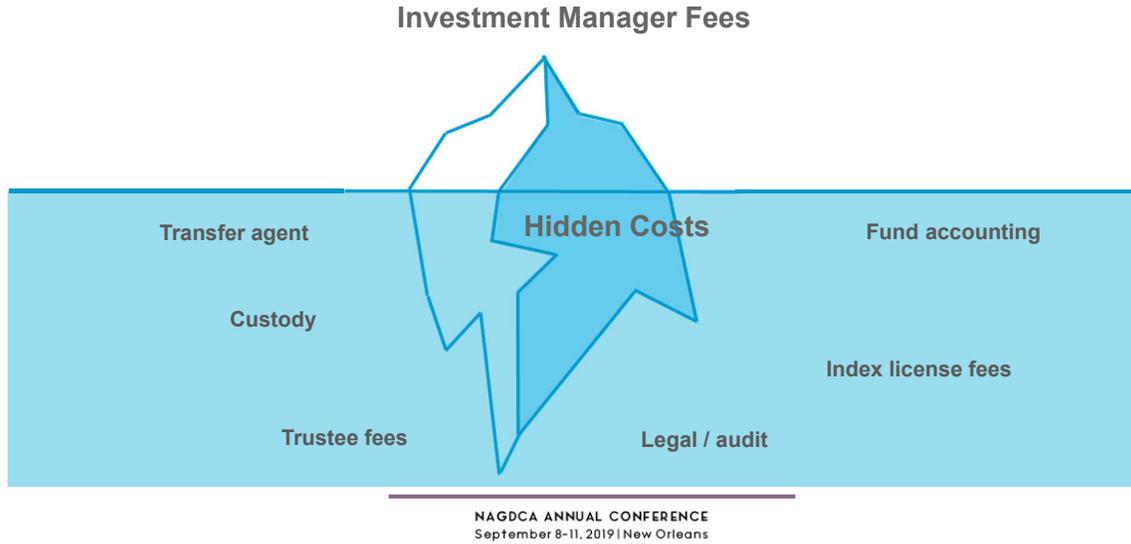
	MF	ETF	SMA	CIT
Governance	Board of Directors	Board of Directors	Plan sponsor	Trustees
Qualification of Investors	All investor types	All investor types	Qualified pension investors only	Qualified pension investors only
Taxability	Taxable	Taxable	Tax-exempt	Tax-exempt
Fee Disclosures	TER	TER	N/A	No TER provided
Securities Lending	Yes	Yes	Flexible	Flexible
Reporting	Public performance available	Public performance available	Available through record keeper, trustee; some CITs covered by Morningstar	Available through record keeper, trustee; some CITs covered by Morningstar



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Current index fund management fee structure



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No representation or warranty is made to the reasonableness of the assumptions made or that all assumptions used to construct the performance provided have been stated or fully considered.

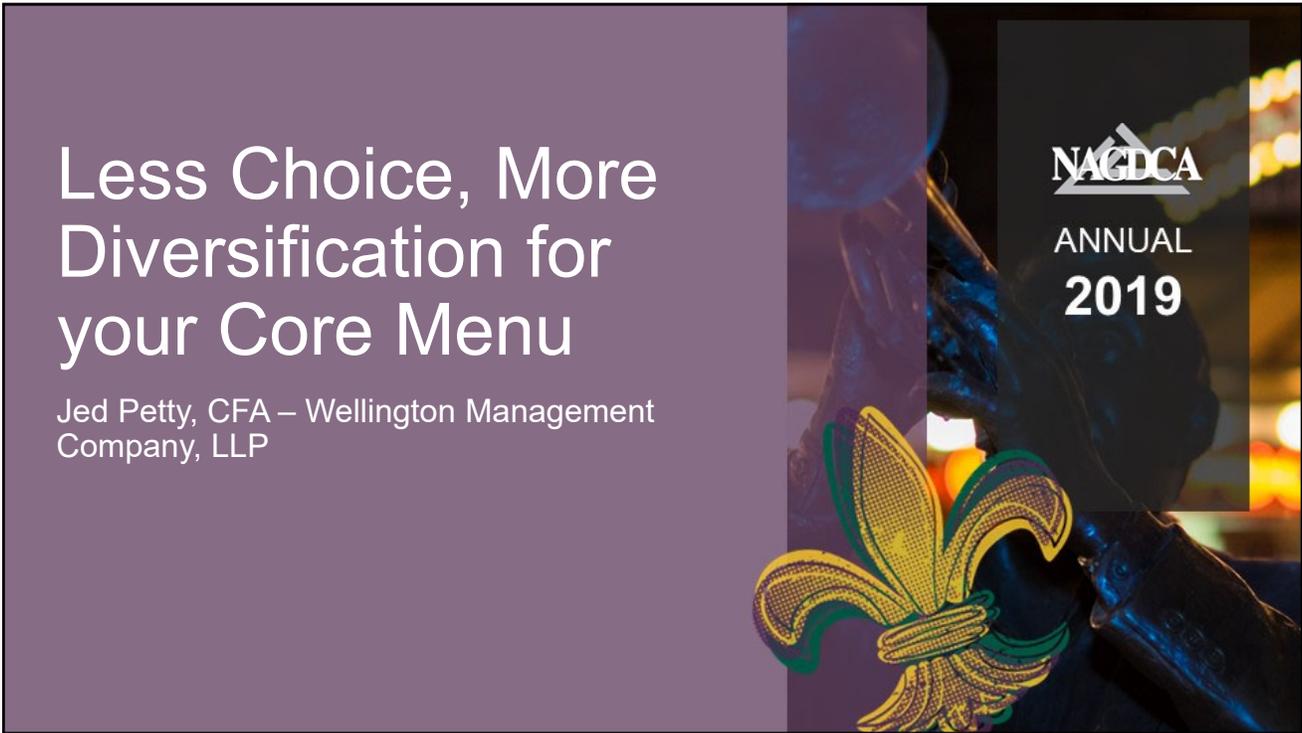
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Growth vs Value – Do you need all those equity choices?

- Median number of investment options in public DC plans: **26.5²**
- Average number of equity options in a standard 401(k) plan lineup: **13³**

Total return of equity styles (%)¹

Index	Style	Color
Russell 1000	Total Return	Blue
Russell 1000	Growth	Light Blue
Russell 1000	Value	Orange
Russell 2000	Total Return	Yellow
Russell 2000	Growth	Purple
Russell 2000	Value	Light Purple
Russell Mid Cap	Total Return	Brown
Russell Mid Cap	Growth	Green
Russell Mid Cap	Value	Dark Purple

²NAGDCA: 2018 Perspectives in Practice Survey Report

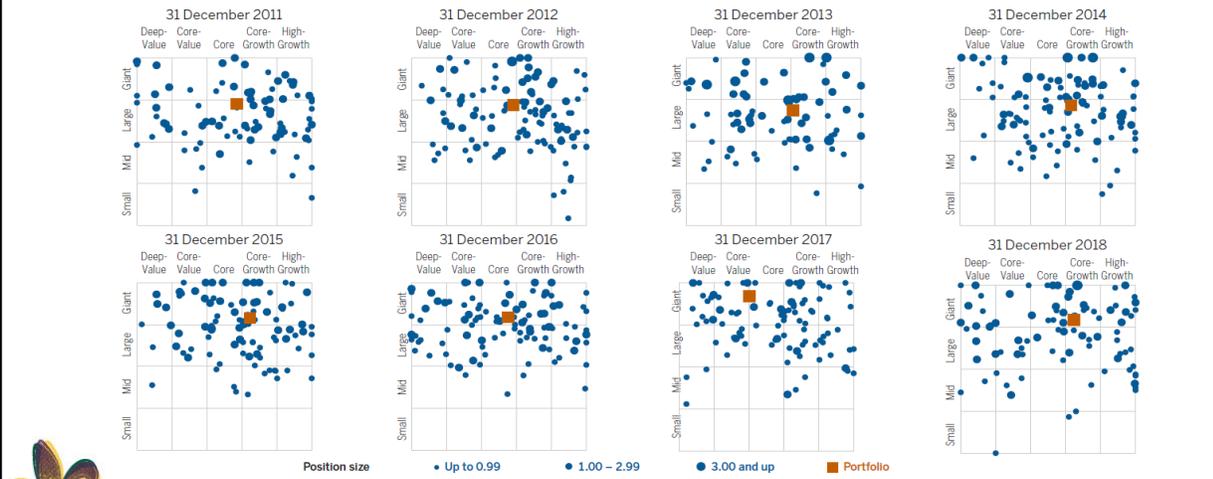
³Brightscope/ICI Defined Contribution Plan Profile: A Close Look at 401(k) Plans, 2016

¹One-year returns rolling quarterly, eInvestment. Rolling 12-month return, 3-month step. For illustrative purposes only. PAST RESULTS ARE NOT NECESSARILY INDICATIVE OF FUTURE RESULTS AND AN INVESTMENT CAN LOSE VALUE. As of 31 December 2018. Chart data: 31 January 1991 – 31 December 2018.

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Single Manager Consolidation Example – Int'l Equity

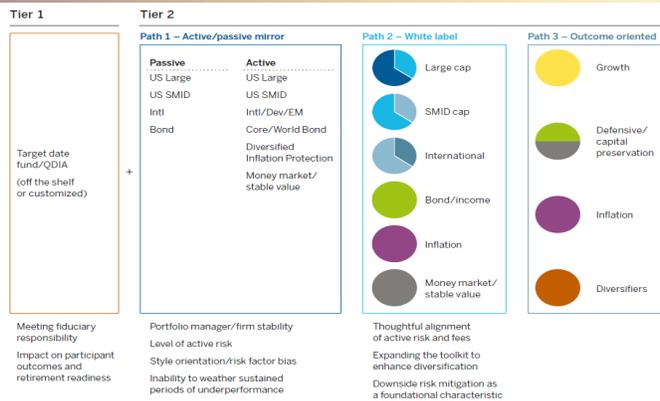


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Source: Morningstar | The data shown is limited by Morningstar style methodology and does not cover all ADRs. | The blue dots represent the style and size of individual positions, while the orange square reflects the aggregate style and size profile of the portfolio. | The data shown is of a representative account, is for informational purposes only, is subject to change, and is not indicative of future portfolio characteristics or returns. This is purely illustrative of a 'sample' international equity strategy and was chosen to display annual changes in the style spectrum of an actively managed strategy. This does not serve as advice, advertisement, or recommendation of any specific strategy.

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Consolidation Examples



There is no single right answer. Approaches will likely, and should, vary based on plan size, philosophy, and level of governance budget.



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Real Life Example: Objective-based menu

5 Pools (DB+DC Assets)

- Global Equity (GE)
- Spread FI (SFI)
- Inv. Grade FI (IGFI)
- Private RE (PRE)
- Inf. Protection (IP)

DC Core Menu

- **Growth Option**
➤ (GE + SFI)
- **Income Option**
➤ (IGFI + SFI + PRE)
- **Inflation Protection**
➤ (IP + PRE)



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Appendix

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The indices referenced herein are broad-based securities market indices and used for illustrative purposes only. Broad-based securities indices are unmanaged and are not subject to fees and expenses typically associated with managed accounts or investment funds. Investments cannot be made directly into an index.

Russell 1000 Index: The Index is a stock market index that tracks the highest-ranking 1,000 stocks in the Russell 3000 Index, which represent about 90% of the total market capitalization of that index.

Russell 2000 Index: The Index is a small-cap stock market index of the bottom 2,000 stocks in the Russell 3000 Index.

Russell Midcap Index: The Index measures performance of the 800 smallest companies (31% of total capitalization) in the Russell 1000 Index.

MSCI All Country World: The Index is a free float-adjusted market capitalization weighted index that captures large and mid cap representation across Developed and Emerging Markets countries.

MSCI EAFE: The Index is a free float-adjusted market capitalization Index that captures large and mid cap representation across Developed Markets countries around the world, excluding the US and Canada.

S&P 500: The Index is a capitalization-weighted Index of 500 stocks. The Index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

MSCI Emerging Markets: The Index is a free float-adjusted market capitalization index that captures large and mid cap representation across Emerging Markets countries.

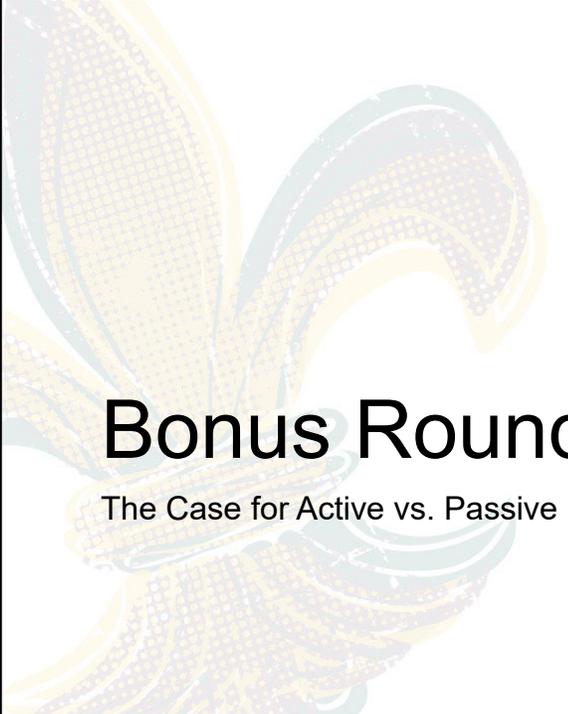
Bloomberg Barclays US Aggregate Bond: The Index measures the performance of the U.S. investment grade bond market.

The information presented represents examples of Wellington's potential investment process. No assurance or guarantee is made that any examples can or will be achieved. Actual experience may not reflect all of these examples. All investments are subject to risk of loss.



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Bonus Round

The Case for Active vs. Passive

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Active v. Passive in DC Lineups

- Two Potential Options for Plan Sponsors
 - Offer both active and passive in most/all asset classes
 - “Delegate” the choice to the participants
 - Decide which asset classes should be active and which passive
 - Help participants who may be confused about active and passive investing



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The Error of Plans that are all/mostly Passive

- In our view, they miss out on providing their participants a unique opportunity
 - Many plans have the scale to get active fees unavailable elsewhere
 - DC plans are long-term and active management does better the longer the time horizon
 - With consultant or in-house expertise, there is a better chance of picking winning managers
 - DC plans are tax-deferred – not hurt by potential greater trading
 - Modest alpha and the power of compounding can be significant
 - **Caveat: Plan's Investment Committee must be patient**
 - IC decisions can destroy more capital than participant decisions

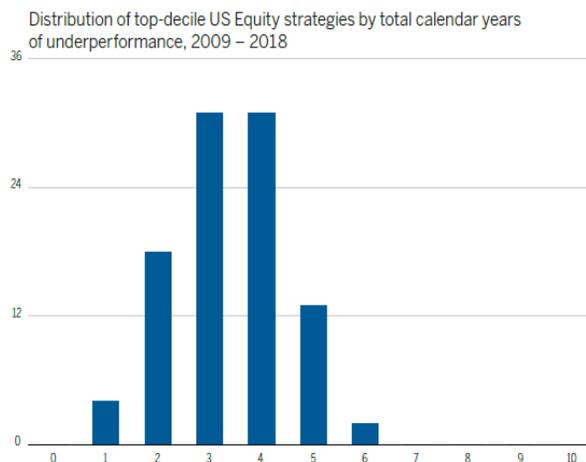


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US Equity – Outperformance is not always linear

- 78% underperformed the benchmark in 3 or more calendar years
- 15% underperformed in 5 or more years
- Median strategy produced excess returns averaging 4.12% per year



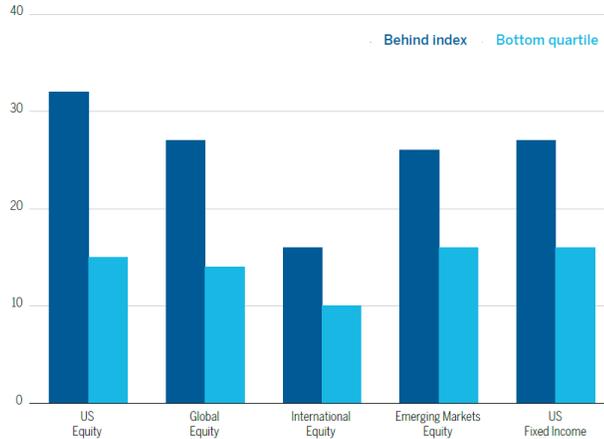
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Source: eVestment top-decile US Large Cap
Equity strategies | Benchmark used:
S&P 500 | Ten years ended 31 December 2018
For illustrative purposes only. PAST RESULTS
ARE NOT NECESSARILY INDICATIVE OF FUTURE
RESULTS

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Even top performing managers have periods of underperformance

Percent of rolling 1 year observations behind index and bottom quartile, top decile managers¹ over ten years ended 31 December 2018 (%)



Source: eInvestment | ¹Benchmarks used: S&P 500 for US Equity, MSCI ACWI for Global Equity, MSCI EAFE for International Equity, MSCI EM for Emerging Markets Equity, and Bloomberg Barclays US Aggregate for US Fixed Income. Managers universes correspond to managers identifying with above benchmarks.
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Active funds' success rates (%) by category SPIVA: S&P Dow Jones Indices

- Active success rates are extremely low across asset classes and regions.

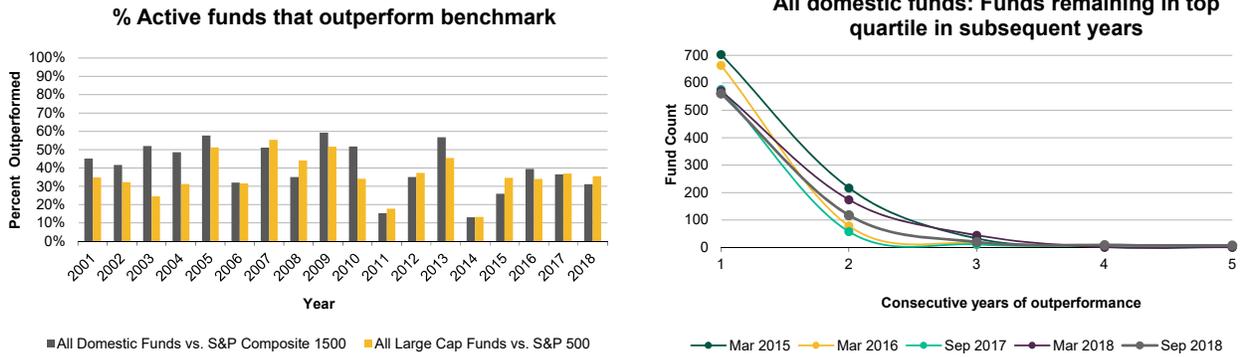
Category	10-Year (%)
All U.S. Large-Cap Funds	10.85
All U.S. Mid-Cap Funds	7.32
All U.S. Small-Cap Funds	6.64
International Funds	23.25
Emerging Markets Funds	13.75

Source: S&P Dow Jones Indices LLC. Data as of June 30, 2018. Returns shown are annualized. Fees and costs are included in numbers.

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US active performance versus index benchmark



Source: SPIVA Year End 2018, Persistence Scorecards 2015-2018

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Questions?

- Mary Buonfiglio, NC Supplemental Plans
- Timothy Kearney, Voya Financial
- Shaun Murphy, LGIMA
- Jed Petty, Wellington Management Company, LLP



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1

Role of Fixed Income Investments in a Portfolio

3 Key Themes

1. The **role of fixed income** in a DC participant portfolio
2. **Structuring fixed income** in a DC participant portfolio
 - (a) Core Menu
 - (b) Component of a multi-asset class or bundled solution
3. Fixed income considerations in the **decumulation phase**



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The Role of Fixed Income in a DC Participant Portfolio

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Structuring Fixed Income in DC Participant Portfolio

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Fixed Income in the Decumulation Phase

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Role of Fixed Income Investments in a Portfolio

Parting Thoughts for Plan Sponsor Consideration

- Most of our lifetimes have seen a secular drop in rates, with minimal intervention from the Fed. If rates are now rising long-term and the Fed is more actively trying to anticipate economic cycles, bond stability may not be what it once was.
- Keep in mind the tendency of participants to reach exclusively for yield and ignore risk profiles. This represents a potential risk to plan sponsors and advisors as they construct plan lineups.
- For participant populations that will primarily depend on their DC plan savings, annuities and other guaranteed products should be considered for inclusion in the retirement investing tool set.



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Successful Communications Campaigns

PANEL DISCUSSION
SEPTEMBER 9, 2019 • 11 a.m. – 12 p.m.
Moderated by **Una Morabito** - Head of Client Management,
MassMutual Workplace Solutions

Lisa Kueng - Director of Creative Campaigns, *Invesco*
Brooke Rowden - Defined Contribution Plans Education & Marketing
Coordinator, *Missouri State Employees Retirement System*
Shannon McCarthy - Brand Leader, *Nationwide Retirement Plans*

1



Why communications matter

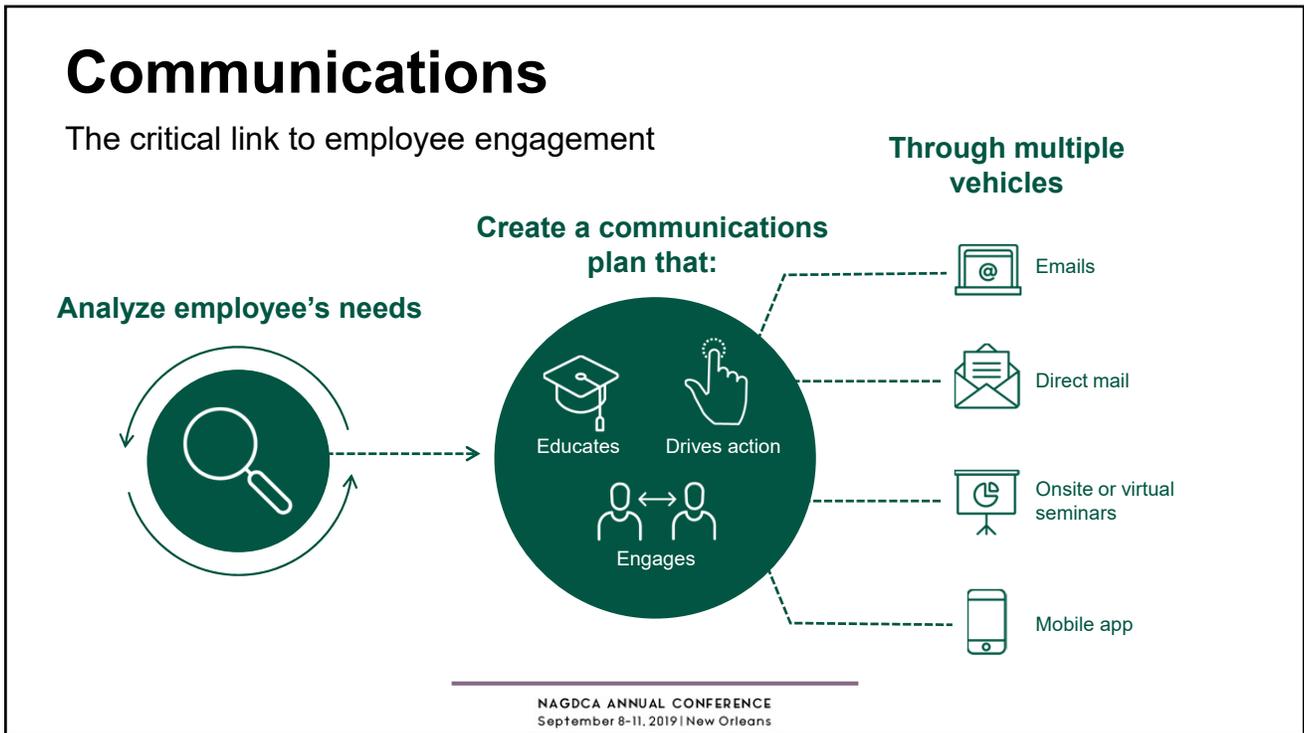
The struggle is real – participants need our help more than ever.

- 48%** of middle-income workers worry about money at least once a week¹
- 23%** of those who earn less than \$45k worry about money every day
- 42%** Have less than \$10k saved for retirement²

¹MassMutual Middle America Financial Security Study, June 2017, <https://www.massmutual.com/~media/files/MM-Financial-Security-Study-GEN-POP-617>
²Survey Finds 42% of Americans Will Retire Broke, January 15, 2019. GOBankingRates. <https://www.gobankingrates.com/retirement/planning/why-americans-will-retire-broke/>
³2019 Hot Topics in Retirement and Financial Wellbeing, Alight Solutions. <https://ideas.alight.com/wealth/2019-hot-topics-report>

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“The New Retirementality”

Lisa Kueng – *Director of Creative Campaigns*
Invesco

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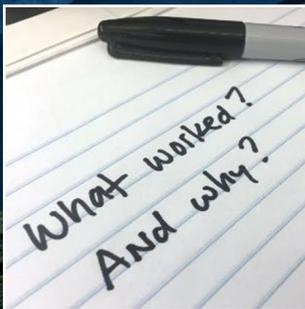
The New Retirementality: Exit or change lanes?



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Methodology



Qualitative Research

300 Retirees: Open-ended Exploration



Quantitative Validation

500 Retirees: Statistical findings



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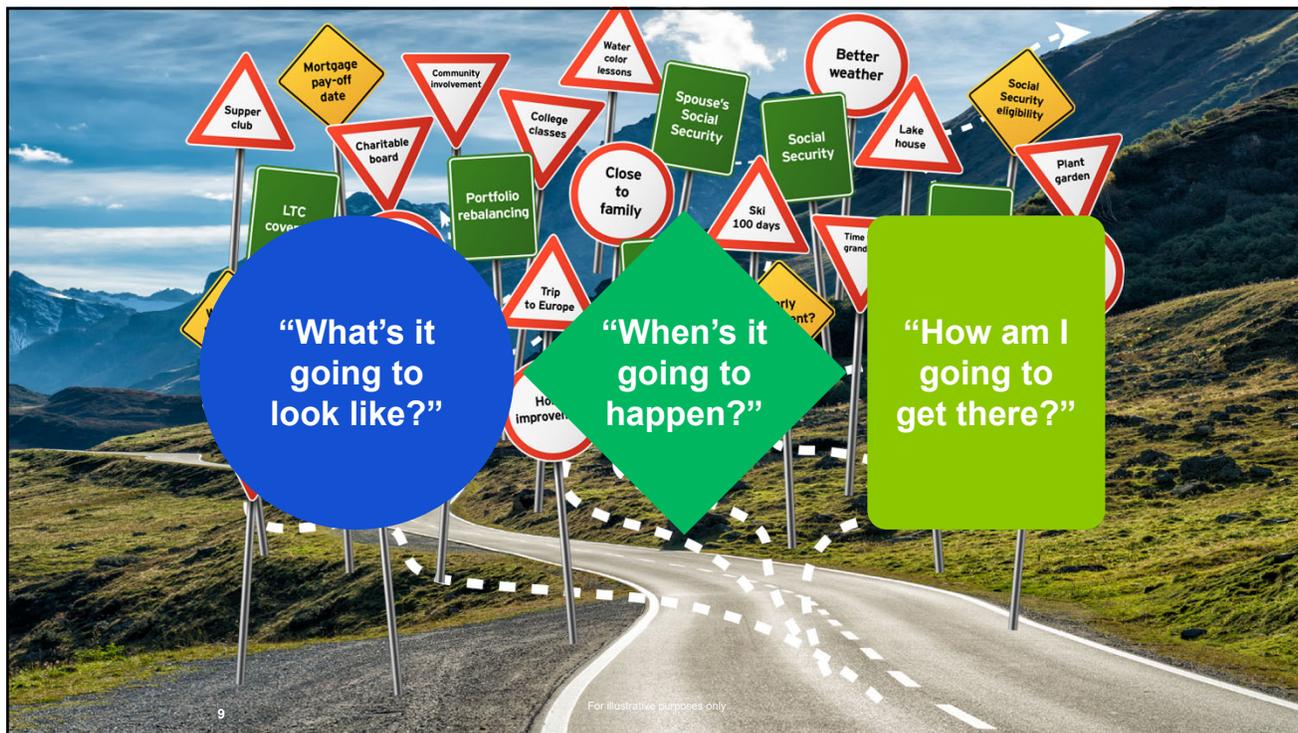
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9

The "New Retirement" Solution

A photograph of a winding asphalt road through a mountainous landscape, similar to the one above. A single large blue circle is overlaid on the road with the text "What's it going to look like?". A dashed white line follows the curve of the road. At the bottom center, it says "For illustrative purposes only".

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Exercise

Divide photos into their three categories. Then, working within one category at a time:



1. Decide what each photo means to you.
2. Prioritize the photos by category, arranging them in order, with the most important photo on top.
3. Find a partner and explain what each photo means to you and why you prioritized them the way you did.
4. Discuss the financial implications of these ideas and what bearing they may have on your retirement planning.



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Card images shown are for illustrative purposes only.

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"The New Retirementality" is based on Invesco Consulting's work with Maslansky + Partners and Mitch Anthony and on the book, *The New Retirementality: Planning Your Life and Living Your Dreams... At Any Age You Want* (2nd ed.), by Mitch Anthony, published by Kaplan Business (2006). Used with permission. Invesco Distributors, Inc. is affiliated with neither Maslansky + Partners, Mitch Anthony nor Advisor Insights Inc.

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The Challenge
is to create campaigns that:

- Help participants visualize their future needs
- Gain trust & create rapport
- Capture interest
- Stand out against competing messaging
- Make an impact in 60 or less

An illustration of a person sitting at a desk with a computer monitor. The monitor displays a pie chart and social media icons for "LIKE", "SHARE", and "FOLLOW". Surrounding the person are various icons: a megaphone, a shield with a checkmark, a smartphone with a dollar sign, a clock, and a trophy. The person is wearing an orange shirt and is viewed from behind.

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MO Deferred Comp's Go-To Strategies for Creating Successful Campaigns
#1: Get to Know Your Participants

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MO Deferred Comp's Go-To Strategies for Creating Successful Campaigns
#1: Get to Know Your Participants

MO Deferred Comp's Retirement Savings Strategy

- **3 Targeted Audiences**
 1. Active/Eligible Younger
 2. Active/Eligible 50 & Older
 3. Terminated 55 & Older
- **Survey Sections**
 - Demographic
 - Communication Preferences
 - Financial Literacy
 - Financial Knowledge

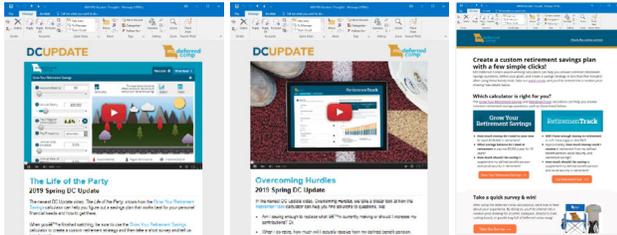
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MO Deferred Comp's Go-To Strategies for Creating Successful Campaigns

#1: Get to Know Your Participants





15K
Opens

20%
Click Rate

27%
Click Rate

Have you done the math? Use MO Deferred Comp's robust and easy-to-use calculators to tackle your financial hurdles! Check them out now: slk.io/IFL



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MO Deferred Comp's Go-To Strategies for Creating Successful Campaigns

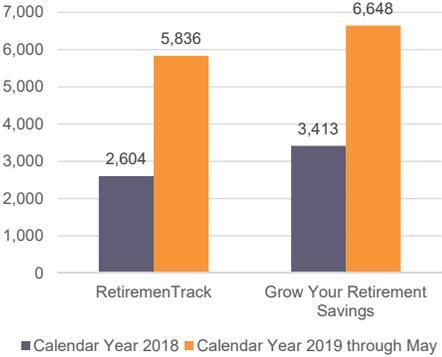
#1: Get to Know Your Participants

2019 Calculator Usage



Month	RetirementTrack	Grow Your Retirement Savings
January	500	1,017
February	364	447
March	505	549
April	682	740
May	1,858	1,515

Calculator Usage Per Year



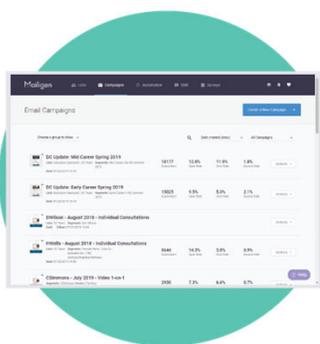
Calculator	Calendar Year 2018	Calendar Year 2019 through May
RetirementTrack	2,604	5,836
Grow Your Retirement Savings	3,413	6,648



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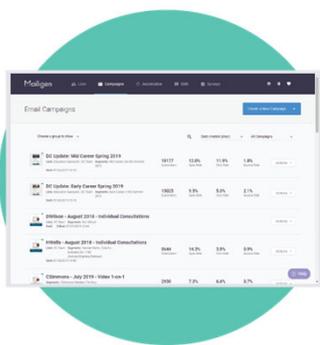
MO Deferred Comp's Go-To Strategies for Creating Successful Campaigns #2: Technology is Your Friend



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MO Deferred Comp's Go-To Strategies for Creating Successful Campaigns #2: Technology is Your Friend



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MO Deferred Comp's Go-To Strategies for Creating Successful Campaigns #3: Keep It Short, Simple, & Real

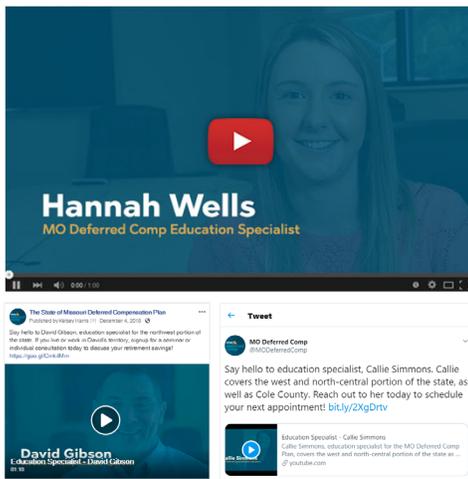
Tactics to Apply to Your Campaign

- Simplify your messaging
- Break down big concepts into easy-to-understand pieces
- Use storytelling and interesting facts
- Be less formal with your content, more of a conversation



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MO Deferred Comp's Go-To Strategies for Creating Successful Campaigns #3: Keep It Short, Simple, & Real



15,205
Email Opens

21%
Average Email
Click Rate

2,441
Video Views



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MO Deferred Comp's Go-To Strategies for Creating Successful Campaigns
#4: Don't Be Afraid to Have Fun!



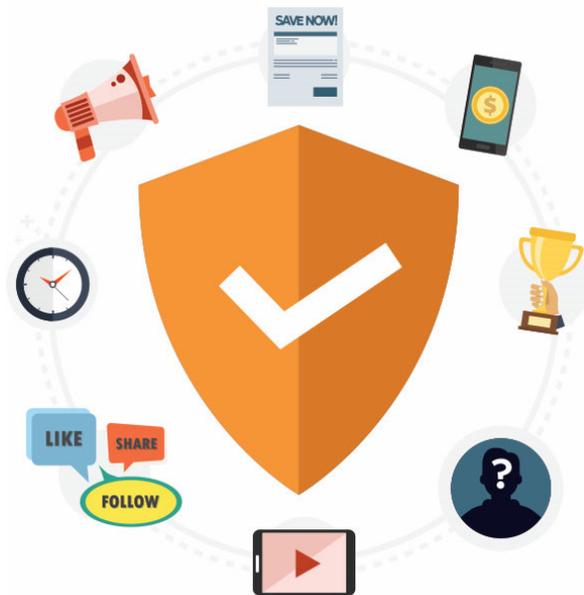
"The best **marketing** doesn't feel like **marketing**."
- Tom Fishburne

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MO Deferred Comp's
**Go-To Strategies for
Creating Successful
Campaigns**

1. Get to know your participants.
2. Technology is your friend.
3. Keep it short, simple, and real.
4. Don't be afraid to have fun.



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Importance of an integrated participant experience

- Customer knowledge + journey = personalized integrated experiences

amazon Target Zappos! NETFLIX

statements Call center Click to chat website
webinar emails In person meetings app
ads fliers Password reset tools
Account availability



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Harnessing the power of data, technology, and advanced analytics

- Real time visibility into customer's needs and preferences requires a more closely managed relationship.
- Trade off for the consumer: reward > risk



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New skill sets every marketer should have

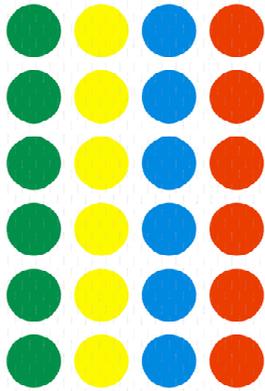
- Information Security and technology
- Data analytics
- Empathy
- Storytelling
- Innovative thinking



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Innovative approach to experience and mediums



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Thank you!

Q&A



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Fees and the RFP Process

Moderator: Nancy Hilu, Hanson Bridgett LLP
Panelists: Raechell Dickinson, Gwinnett County
John Kendall, Nationwide
Andrew Ness, Mercer

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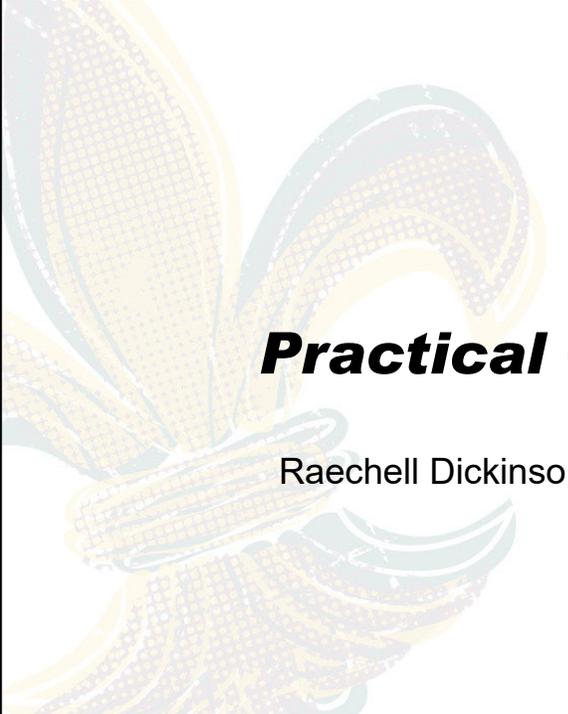
Agenda

- Introduction
- Plan Sponsor Practical Considerations
- Provider Response Considerations
- Proposal Evaluation and Vendor Selection
- Administrative Items



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Practical Considerations

Raechell Dickinson, Gwinnett County, Georgia

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Procurement Considerations

- Procurement policies and guidelines
 - Know the rules
 - Build partnerships w/ procurement department
- Legal restrictions
 - Indemnification
 - Multiyear contracts
- RFP consultant assistance



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RFP Components Considerations

- Why?
 - Is it requirement?
 - Issues with current vendor?
 - Looking for enhancements?
- Scope of work
 - Summarize project overview
 - Provide plan details, e.g. plan variations, number of participants, unique plan features
 - Include selection criteria
- Service Model
 - On-site representative
 - Additional services, e.g. audit, actuarial, investment management



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RFP Components Considerations

- Investment strategies
 - Managed accounts
 - White label
- Performance guarantees
 - Call center metrics
 - Implementation
- References
 - Current and former
 - Size and complexity
 - Public sector
- Costs/Fee structure



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Timeline Considerations

- Procurement guidelines
- Pre-proposal conference
- Finalist meetings
- Contract negotiation
- Legal review
- Board approval
- Implementation



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Provider Response Considerations

John Kendall, Nationwide

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Overview

“RFP Best Practices” for Plan Sponsors and Consultants to consider when creating and scoring Provider RFP responses.

1. Service model considerations
2. Provider investment solutions
3. Other considerations



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Service Model Considerations

- “Be specific” — take the pulse of your employee demographics
 - # FTE vs. Heads & Dedicated vs. Shared
 - # Service days, hours, # of consultations, # of workshops
 - Office space
 - High-touch + High-tech + Virtual
- “What else?” — evaluate additional tools and services
 - Financial planning and literacy programs
 - Online tools
 - Integration with over benefits, like pension and health savings
 - E-delivery programs
- Value equilibrium: features/benefits vs. price



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Provider Investment Solutions

Considerations:

- Recordkeeping revenue compressed to \$0
- Open architecture pricing is challenging
- Provider investment solutions can dramatically reduce pricing
- Investment Consultants will help you find the right fit for your Plan

Typical Solutions Include:

- Stable Value
- Managed Accounts
- Mutual Funds



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Other Important Considerations

- Contract Term
- M/DBE and SLEB requirements
(Minority Disadvantaged Business Enterprises or Small Local Emerging Businesses)
- Plan reimbursements
- Cyber Security



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Proposal Evaluation and Vendor Selection

Andrew Ness, Mercer Investments LLC

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Evaluating Proposals

- Evaluation committee
- Proposal review methodology
- Evaluation criteria
- Scoring proposals
- Evaluation meeting

Weighting Key:				
Company Qualifications	20%	200		
Recordkeeping & Administrative Capabilities	25%	250		
Participant Services	25%	250		
Investments	15%	150		
Costs	15%	150		
	100%	1,000		

Section	Wt%	Wt	Vendor One	
			Rating (1-5)	Score
Company Qualifications				
Organizational Structure and Background	60%	120		
Company Experience				
Contract Terms	40%	80		
Total	100%	200		
Recordkeeping and Administrative Capabilities				
Implementation Plans	10%	25		
Processing	25%	62.5		
Systems and Technology	10%	25		
Security and Privacy	15%	37.5		
Regulatory Services	10%	25		
Trustee/Custodial Services	10%	25		
Management Reporting	10%	25		
Staffing	10%	25		
Total	100%	250		
Participant Services				
Access Channels	10%	25		
Call Center Representatives	10%	25		
Participant Intranet	20%	50		
Mobile Application	15%	37.5		
Voice Response System	5%	12.5		
Communication Materials	10%	25		
On-Site Staff	20%	50		
Advice and Managed Accounts	10%	25		
Total	100%	250		
Investments				
Proposed Investments	60%	90		
Investment Flexibility	30%	45		
Self-Directed Option	10%	15		
Total	100%	150		
Costs				
Total Revenue Requirement	80%	120		
Other Costs	20%	30		
Total	100%	150		
		1000		

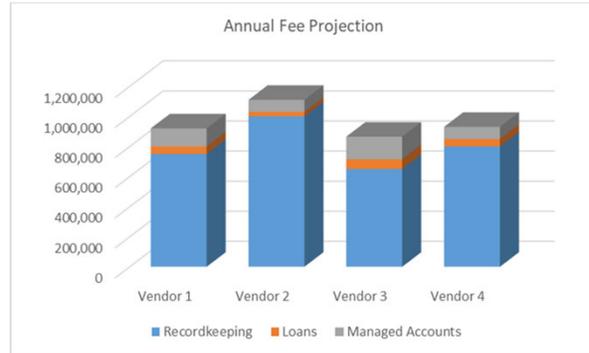
Scoring Methodology	
1	Inadequate response
2	Some component of service does not meet need or industry standard
3	Adequate response; services provided are adequate
4	Good response; services modestly exceed needs or other responses
5	Superior response; services significantly exceed needs or other responses



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Fees

- Evaluating fees can be complex
 - Recordkeeping fees
 - Revenue sharing
 - Loan fees
 - Managed account fees
 - Proprietary investment options (opportunity cost)
- RFPs often request both asset based fees and flat dollar fee options for consideration



Different Fee Structures:

- Asset based fees
- Flat dollar fees
- Hybrid combinations



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Interviews

- Invite firms that have a legitimate chance of winning
- Prepare an agenda in advance
 - Identify topics you want to hear about
 - Ask about areas of weakness in each proposal
 - Give vendors a chance to improve/refine proposals
- Get enhancements in writing

Sample Agenda Topics:

- Company experience
- Participant education
- Website demonstration
- Investments
- Price



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Selection and Contract Negotiation

- Update scores based on finalist interviews
- Site visits?
- Contract negotiations
 - Was there a detailed statement of work in your RFP?
 - Were contract exceptions identified in proposals?
 - Did you document enhancements from finalist interviews?
 - If the answer is yes, a lot of the work is done

These will serve you well in the event of a protest



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Implementation

- Implementation is key to a successful RFP
 - Partner with the selected firm
 - Get the deal you were offered
 - Vendor will manage the implementation, but stay involved with the process and provide direction when needed
- Promote any enhancements that were gained from RFP

Elevator Discussion:

- Website tools
- Participant servicing
- Price

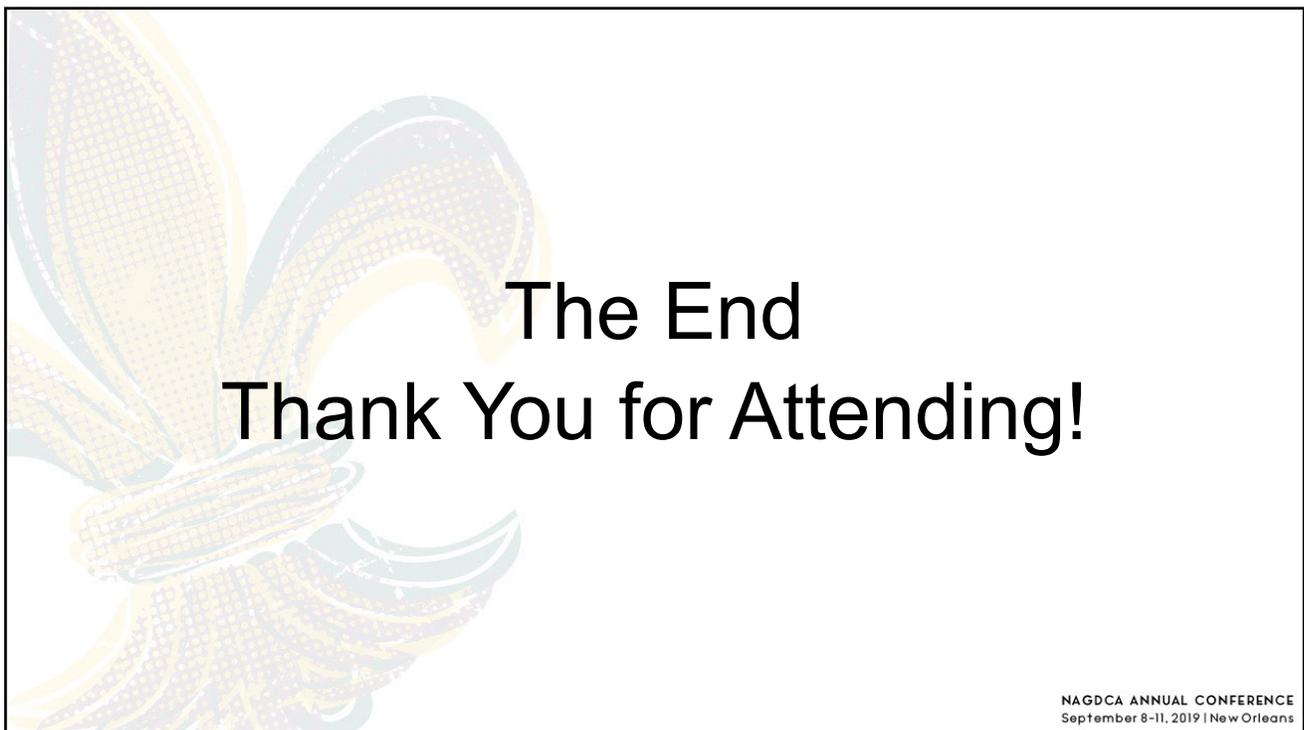


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How DB Plan Pressures Affect DC Plans

Moderator, Wendy Carter

Vice President and DC Director, Public Sector
Segal Consulting


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1

Mike Welker, CFA

President/CEO
AndCo


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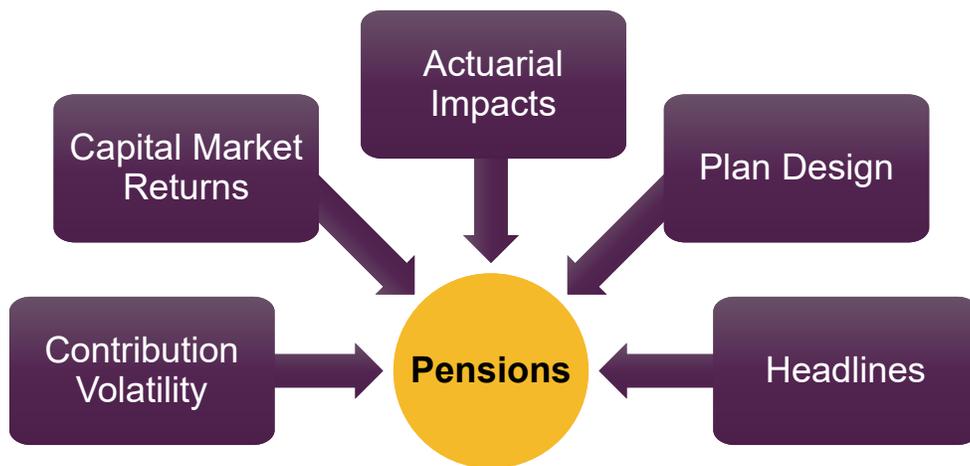
Retirement Landscape

	Pension ¹	DC ¹	Labor ²
Private Sector	\$3.02T	\$6.25T	126M
State/Local	\$4.20T	\$0.49T	20M
Federal	\$1.67T	\$0.57T	3M
Total	\$8.89T	\$7.31T	149M

¹ Financial Accounts of the United States, U.S. Federal Reserve, June 2018
² Department of Labor; Bureau of Labor Statistics

3

Pension Pressures



4

Sample GASB 68 Analysis

The table below contains the projection of long-term real returns for the Trust's Target Policy Allocation as required by GASB 67 & 68.

Asset Group	Long-Term Real Return ¹	Target Policy	Asset Group Contribution
Domestic Equity	7.50%	42.5%	3.19%
International Equity	8.50%	14.0%	1.19%
Domestic Bonds	2.50%	22%	0.55%
International Bonds	3.50%	2%	0.07%
Real Estate	4.50%	5%	0.23%
Alternative Assets ²	6.11%	14.5%	0.88%
Total Real Return			6.11%

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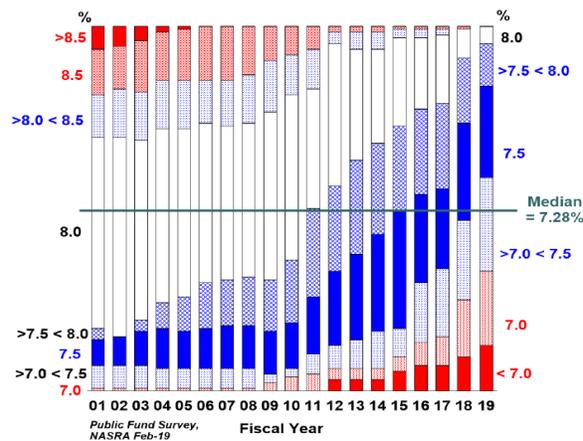
¹ The long-term real return expectations remove the 2.5% inflation rate embedded in each nominal return assumptions.

² The 14.5% Alternative Assets long-term real return assumption represents a relational combination of the remaining 85.5% of the policy target.

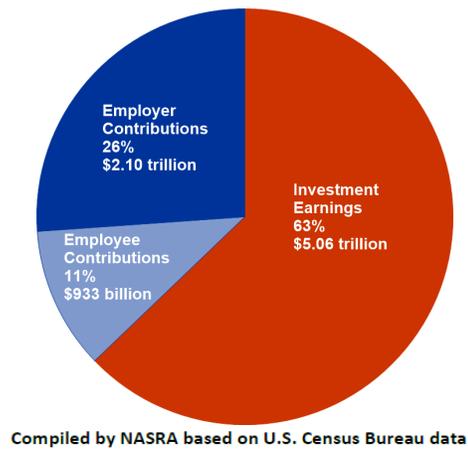
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Change in Distribution of Public Pension Invest Return Assumptions FY 01 to FY 19



Public Pension Sources of Revenue 1989 – 2018



Compiled by NASRA based on U.S. Census Bureau data

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Case Study: Municipal Plan

Plan	Coverage	EE Cont	ER Cont	Vesting	ERA/ NRA	Multiplier	Penalties
A	Hired pre 2003	11.13%	19.75%	10 yrs.	50 / 60	Y1-25: 3% Y25+: 1%	Age 50 – 55 1.7% Age 55 – 60 0.25%
B	Hired after 2003	11.13%	19.75%	10 yrs.	52 / 62	Y1-10: 2% Y10-30: 3% Y30+: 1%	5% per year
C	Hired after 2012	6.39%	19.75% + 5% Match	5 yrs.	52 / 62	2.41%	5% per year

For illustrative purposes only. There is no guarantee that other clients will experience similar results as various factors can cause actual outcomes to differ materially.

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Success Factors

- Employer & Employee both contributing to retirement outcomes – sharing risk
- The new structure has increased 457 contributions by employer and employees to supplement define benefit retirement. Analysis was done that with increasing 457 balances and moderate returns benefit from hybrid plan were similar to previous DB plan only.
- Increased funding level of the pension by 2.5% per year. Now close to 85% with sustained, constant contributions from the City.
- Portability of DC plan to meet the needs of today's workforce
- Employee group representation throughout process to ensure transparency, communication and overall involvement

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Future for DC Plans

- Holistic approach: DB **and** DC
- DC Plans need to be considered and utilized for sustainable retirements with Public plans
- Embrace automatic plan design features to overcome inertia
- Utilize education and tools to foster engagement and combat financial illiteracy
- Further leverage technology to provide participants a comprehensive retirement perspective

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Retirement Plan Objectives: Public Employers

Public employers use retirement benefits to promote important human resources objectives:

- To attract and retain qualified employees who are needed to perform essential public services
- To promote an orderly turnover of workers

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Retirement Plan Objectives: Public Employers

- Most public sector jobs are long-term in nature, or career-oriented
- Educators, public safety personnel, and other professional roles require a college degree and/or significant training
- Orderly turnover means employees are able to retire at an appropriate age and juncture in their career, which is an essential human resources objective

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Retirement Plan Objectives: Public Employees

Public employees seek a competitive compensation package, including a decent retirement benefit

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Retirement Plan Objectives: Taxpayers and Recipients of Public Services

Those who help fund the cost of retirement benefits for public employees, and those who rely on their services, expect those services to be provided in a cost-effective manner and at an annual cost that is reasonably stable and predictable.

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Retirement Plan Designs for Employees of State and Local Government

- A defined benefit plan traditionally has been the centerpiece of retirement benefits for employees of state and local government
- DB plans historically placed most or all risk on employers
- DB plans are changing
- More hybrid plans and more risk-sharing

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Retirement Plan Designs for Employees of State and Local Government

- With some exceptions, defined contribution plans traditionally have served as supplemental retirement savings plans for public employees
- Such as through 403(b) and 457 plans
- DC plans serve as the primary retirement benefit for around 15 percent of public employees

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Retirement Plan Designs for Employees of State and Local Government

- Hybrid plans traditionally have accounted for a very small portion of retirement benefits for public employees
- DB-DC and cash balance plans
- The use of hybrid plans has risen sharply in recent years

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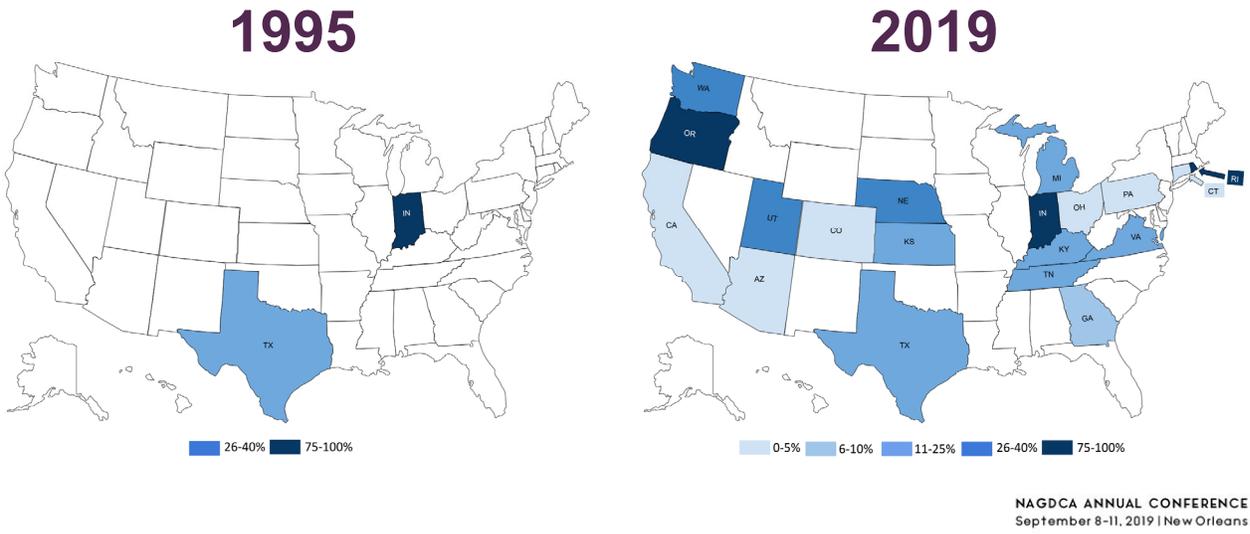
Examples of Risk-Sharing

- Hybrid retirement plans
 - DB-DC
 - Cash balance
- Contingent or limited cost-of-living adjustments
- Flexible employee contribution rates
- Adjustable benefit levels

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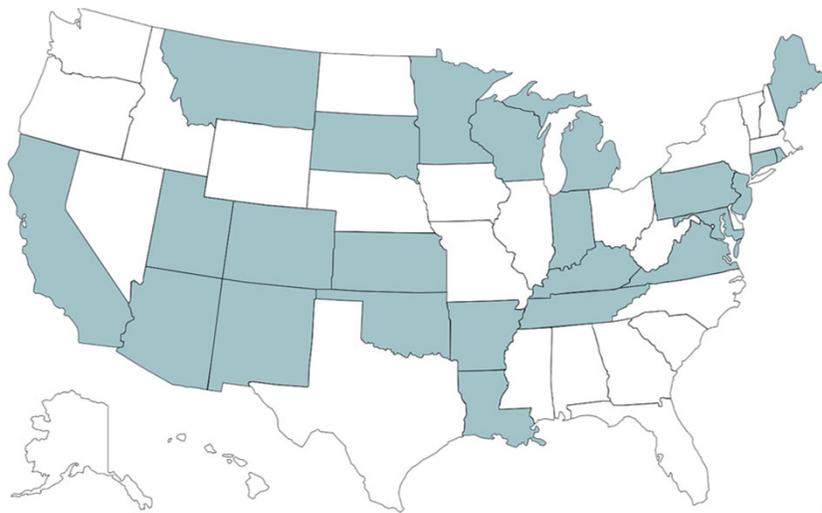
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Statewide Hybrid Plans



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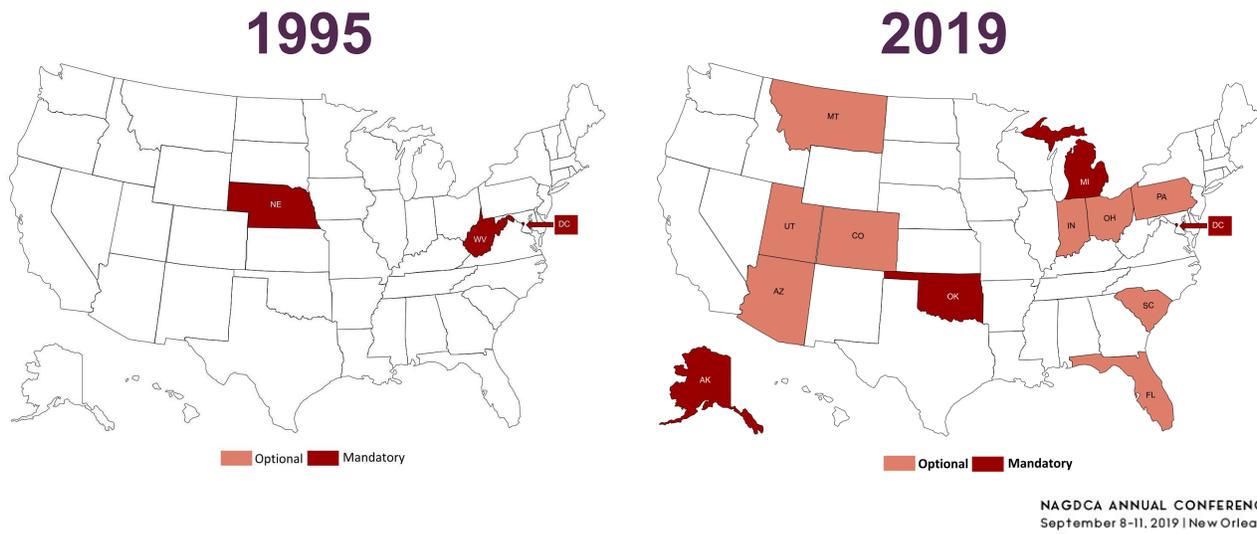
States That Implemented Automatic Risk-sharing Plan Design, 2009–2018



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Statewide Defined Contribution Plans as the Primary Retirement Benefit



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Concluding Thoughts

- The public employee retirement benefit discussion has migrated from defined benefit vs. defined contribution, to one that seeks the optimal blend of both plan types to accommodate stakeholder interests.
- Risk-sharing has become a central theme in retirement plan design.

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The University of California Retirement Choice Program

Partnering a defined benefit plan and a defined contribution plan can provide an attractive employee recruiting and retention tool, and reduce retirement benefit costs.

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UCRS Before Retirement Choice

- DB Plan (UCRP)
 - primary retirement benefit
 - participation mandatory
- DC plans: 403(b), 457(b), 401(a)
 - participation generally voluntary

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PEPRA Cap

- **2013:** CA Public Employees' Pension Reform Act (PEPRA)
 - mandates cap on pensionable earnings
 - adjusted annually: \$124,480 as of July 1, 2019
- **2015:** UC voluntarily adopted PEPRA cap, effective 7/1/16 for new employees

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Retirement Options Task Force

Appointed to address:

- impact of the PEPRA cap on competitiveness of UCRP and total remuneration
- recruiting and retention issues, especially for faculty
- retirement plan costs and long-term financial stability

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Consultation and Approval Process

- **January 2016:** Task Force submitted recommendations to the President
- Input solicited from UC community
- **March 2016:** Regents approved the Retirement Choice Program

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Retirement Choice Program

New and rehired employees choose either:

- **Pension Choice:** DB plan plus a DC plan
Supplemental Savings Benefit if new employee
subject to cap

OR

- **Savings Choice:** a DC Plan only

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Pension Choice: DB Plan

- UCRP 2016 Tier benefit formula
- Covered pay subject to cap if new employee
- UC contribution = 8% + 6% to fund UCRP UAAL
- Employee contribution = 7%
- Benefits vested after 5 years; payable as early as age 55

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Pension Choice: Supplemental Savings Benefit

- UC contribution
 - for designated faculty = 5% of all pay
 - for staff / other academics = 3% of pay over cap
- Employee contribution = 7% of pay over cap
- Benefits vested after 5 years; payable at separation

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Savings Choice

- UC contribution = 8% to employee accounts
+ 6% to fund UCRP UAAL
- Employee contribution = 7% of pay
- Benefits vested after 1 year; payable upon separation
- Second Choice Window

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Pension Choice vs. Savings Choice

- Pension Choice for employees who
 - plan to stay at UC long-term
 - want predictable retirement income
- Savings Choice for employees who
 - plan to stay at UC short-term and want faster vesting and portability
 - want to manage their retirement investments

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Employee Elections

- Election window: 90 days following hire
- Default: Pension Choice
- Election results:
 - Elected Pension Choice: 35%
 - Defaulted to Pension Choice: 28%
 - Elected Savings Choice: 37%

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Thank you!



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Appendix Retirement Choice Program Illustration

New hires on/after 7/1/16 - Subject to PEPR cap ¹				EEs NOT subject to PEPR cap ²		
Choice window - 90 days	Option 1		OR	Option 2		
	UCRP	+ DC Supplement		UCRP	DC Choice	
Benefit type	Guaranteed lifetime monthly income	Individual account		Guaranteed lifetime monthly income	Individual account	
Investments	Pooled, managed by UC OCIO	Participant-directed (Fidelity Fund Menu)		Pooled, managed by UC OCIO	Participant-directed (Fidelity Fund Menu)	
Vesting	5 years UCRP Service Credit (SC)	ER : 5 years UCRP SC EE : immediate		5 years UCRP Service Credit (SC)	ER : 100% after 1 year EE: immediate	
Employee Contributions	7% EE	7% EE		7% EE	7% EE	
Eligible Pay <small>2019 amounts, subject to cost of living indexing</small>	\$0-\$124K	\$124K-\$280K	\$0-\$280K	\$0-\$280K	\$0-\$280K	
Employer (UC) Contributions*	8% UC	3% UC for Staff	5% UC for Faculty ³	8% UC	8% UC	
<small>*UC Ctb to UCRP UAAL; LBNL Ctb to UAAL = 4.2%; Total UC Ctb Rate</small>	6% UC			6% UC	6% UC	
	14% UC			14% UC		

¹ Subject to PEPR cap:
 - Hired as Eligible Employee on/after 7/1/16;
 - Former Safe Harbor EE hired on/after 7/1/16 who becomes an Eligible Employee on/after 7/1/16
 - Former student EE hired before 7/1/16 who becomes an Eligible Employee on/after 7/1/16
² Not subject to PEPR cap:
 - Rehired Eligible Employee with original UCRP entry date prior to 7/1/16;
 - Former Safe Harbor hired before 7/1/16 who becomes Eligible Employee on/after 7/1/16;
 - New hires on/after 7/1/16 who are eligible for CalPERS reciprocity (several criteria apply)



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Leveraging Technology & Participant Tools

Heidi Munc, Nationwide
Amy Heyel, Voya Financial
Tom Idzorek, Morningstar Investment Management

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Participants

Tools to promote engagement

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Engaging with Retirement Plans

- Understanding what participants need from their plan
- Questions we can help them answer
- Supporting participants in their financial wellness journey



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3

Simple Tasks

Online accounts are used to manage their non-transactional tasks

- Change beneficiary
- Update their contact information
- Review their account balance
- Look at the growth/decline of any investments

When it comes to making financial decisions, participants trust financial representatives to make them on their behalf.

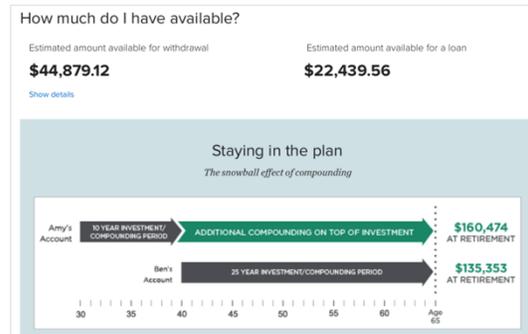
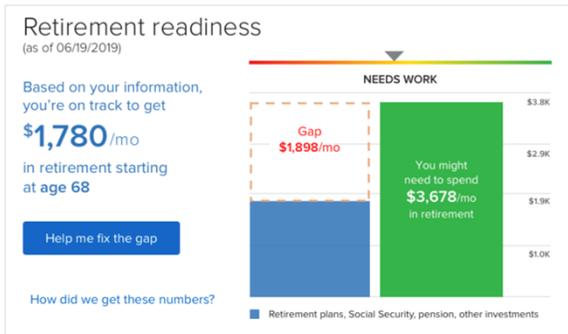
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Snackable Education

Education needs to be...

- Relevant
- In-Context
- Gradually revealed



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Big Picture View

Participants have difficulty understanding how investments work together

A full view helps answer questions such as:

- Where are they now?
- Where are they going?
- What are their goals?
- How do they get there?



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Questions They Have

- “How much do I need to retire?”
- “What steps need to be taken to reach my goal?”



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Supporting Participants on Their Financial Wellness Journey



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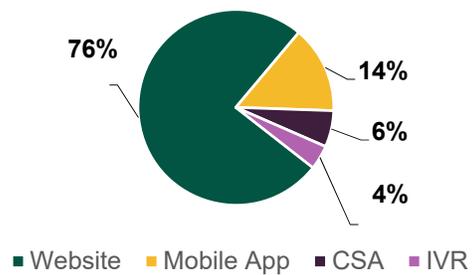
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Participants increasingly engage through digital tools

207 million smartphone users in the US¹

74% use online banking services²

Voya Retirement Plan Participants Full Year 2018



¹ <https://www.statista.com/topics/2711/us-smartphone-market/>
² Federal Reserve, "Consumers and Mobile Financial Services. (2015)"

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Leveraging technology for employer oversight

Plan success metrics – point in time

- Participation
- Savings rate
- Diversification

Plan success metrics – assessing plan health

- Income replacement measures
- Reporting by sub-group to identify who is not on track
- Include all sources of retirement income

Tracking to plan's unique goals

- Set benchmarks
- Develop strategic plan
- Measure outcome to goals over time
- Reports
- Dashboards

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Comprehensive plan reporting requires data

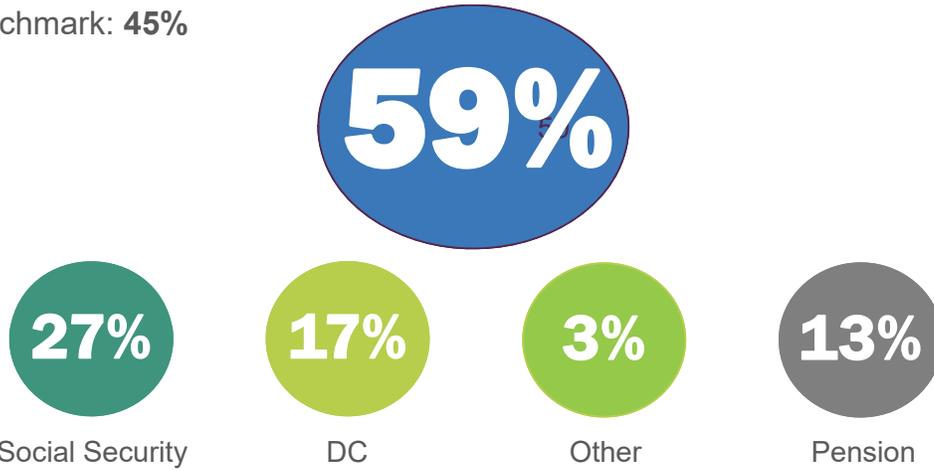
Data Requirement	Required for Metric	Plan Health Potential
Eligible population	Participation rate	Increase participation
Salary	Savings rate, Income replacement	Identify those not on track
Contribution rate change	Savings rate	Automation of increased savings
Email	Personalized messaging	Identify specific need per participant
Defined benefit	Holistic planning	Income replacement
Termination dates	Retention	Retiree strategy/spend down guidance

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Income replacement by source

Benchmark: 45%

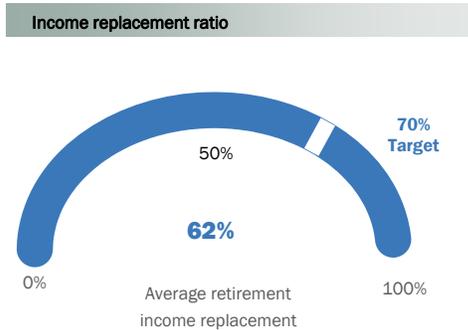


Voya internal data

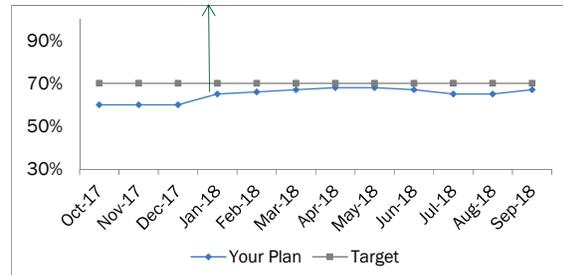
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Income replacement over time



Point in time when r/k took over as record for deferrals



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Web tools to identify underperformers

RELATIONSHIP SUMMARY



Voya internal data
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Case study – participant rate increase

3030 eligible participants

- Eligible file received monthly
- Discretionary matching contributions

Email file provided

- 2 emails sent to eligible non-participating in two subsequent quarters after hire

3 part-time financial advisors

- 30 group meetings 2018
- 544 individual meetings 2018

Participation Rate = **70%**

Voya internal data

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Case study – savings rate increase

Opt out re-enrollment

- Target audience: contributing <3%

Process

- Active choice election/must elect to stay same
- 3 emails over 4 weeks
- Seminars
- Voice over presentation
- 1:1 meetings

Results	Employee
Audience	664
Default to 3%	331
Opted out	211
Changed election	64
Increased later	2
Stayed same	50
Removed from process	16

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Case study – plan health reporting

Plan design

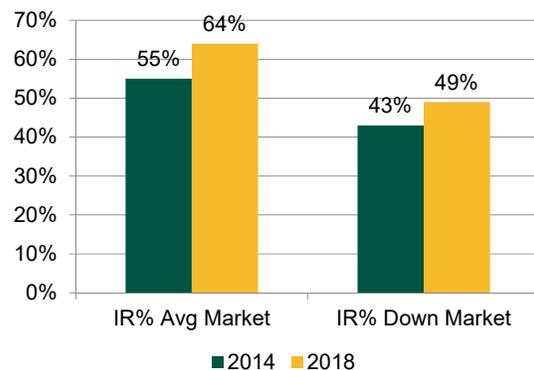
- Auto enrollment at 4% since 1997
- Employer match since 2012
- 92% increased contributions to meet match

Plan fee reduction of 28%

- Investment and administration

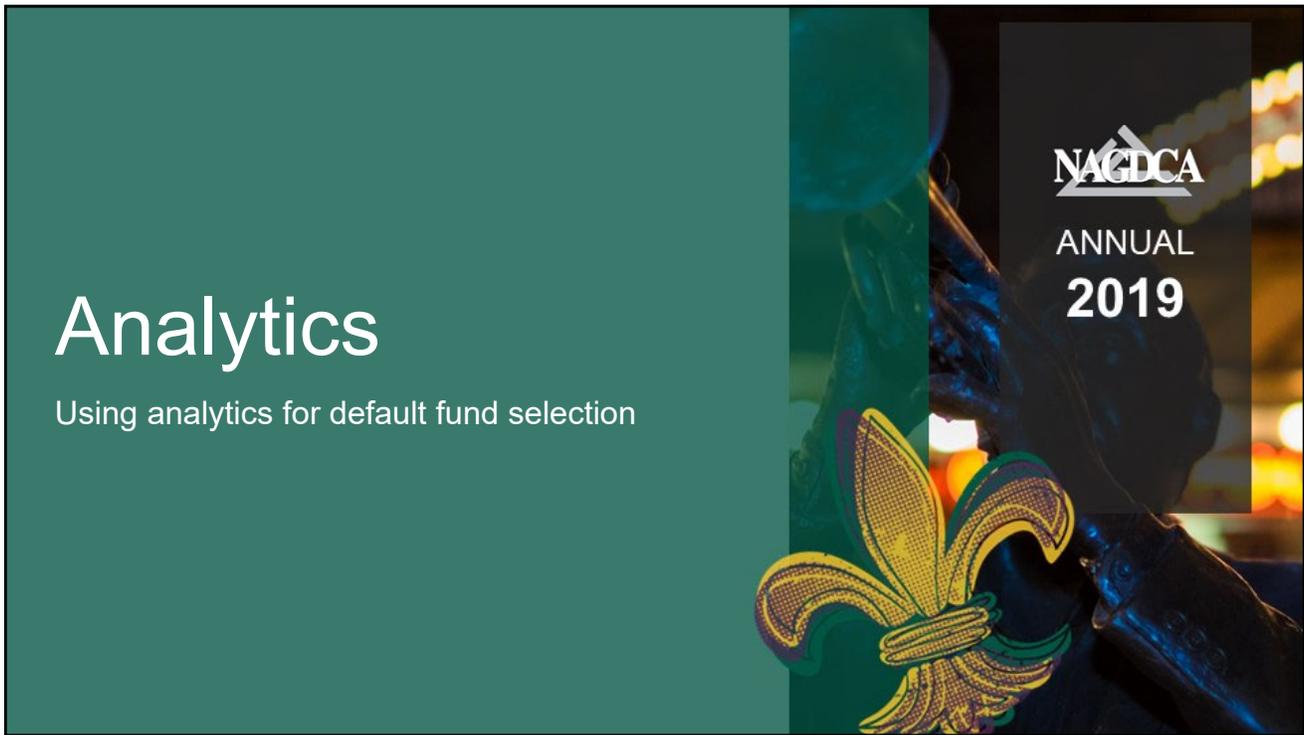
Participant communication (2015-present):

- Elective window to auto escalate
- Multiple campaigns on plan features
- Focus groups to understand needs



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The Optimal QDIA



Stop Guessing

Using Participant Data to Select the Optimal QDIA

Executive Summary

To receive safe harbor regulatory protections, defined contribution plan sponsors must, among other things, follow a prudent process for selecting a qualified default investment alternative. This includes considering the specific demographics of the participants when a plan sponsor is making its QDIA selection - balance/target-risk, target-date (including custom), retirement managed accounts, or a hybrid-QDIA. Unfortunately, the regulations do not provide much of a blueprint on how plan sponsors could and should consider plan demographics within a prudent process. Recent technological advancements, along with increased data availability and quality, enable plan sponsors to stop guessing and move beyond heuristics to use detailed data on individual participants to make a robust, data-driven selection of an appropriate QDIA. This paper presents a framework for using participant data to help determine which type of QDIA is most appropriate for a plan, including which glide path best fits the demographics of the plan participants, when a custom glide path makes sense, what the "pivot" age

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January 30, 2018

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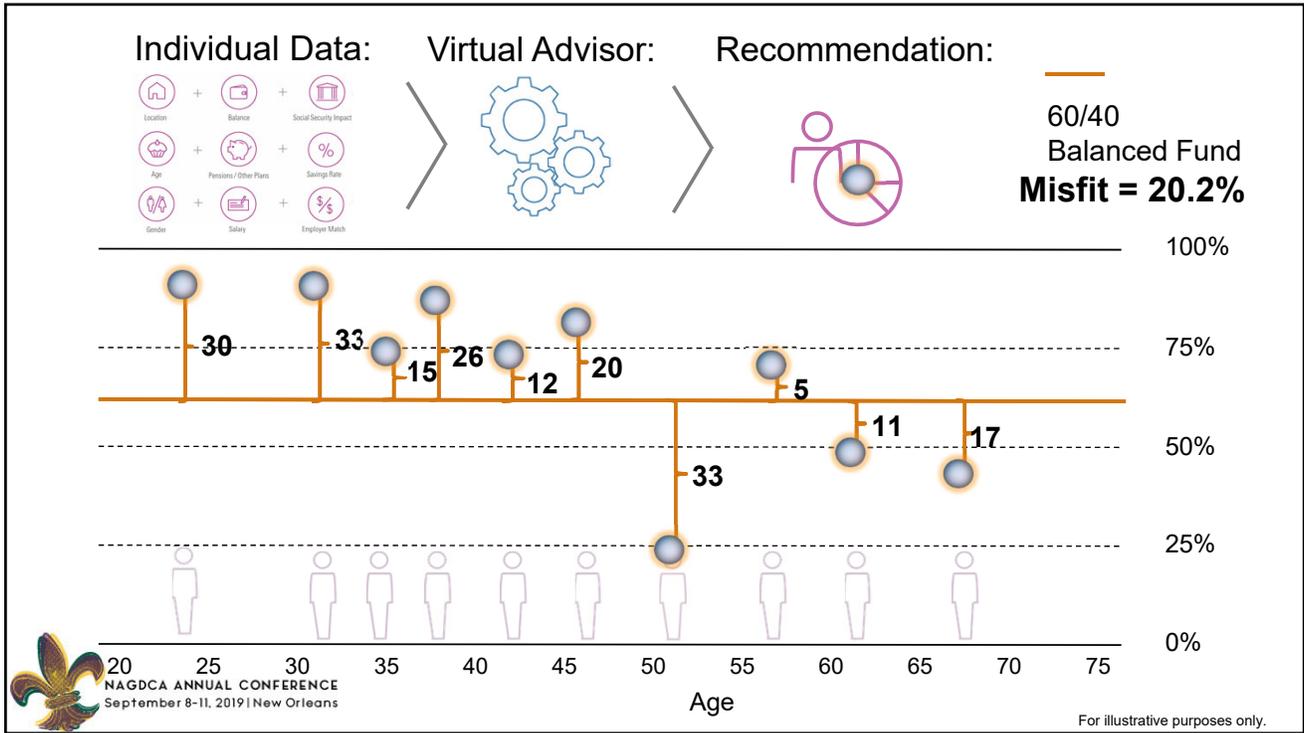
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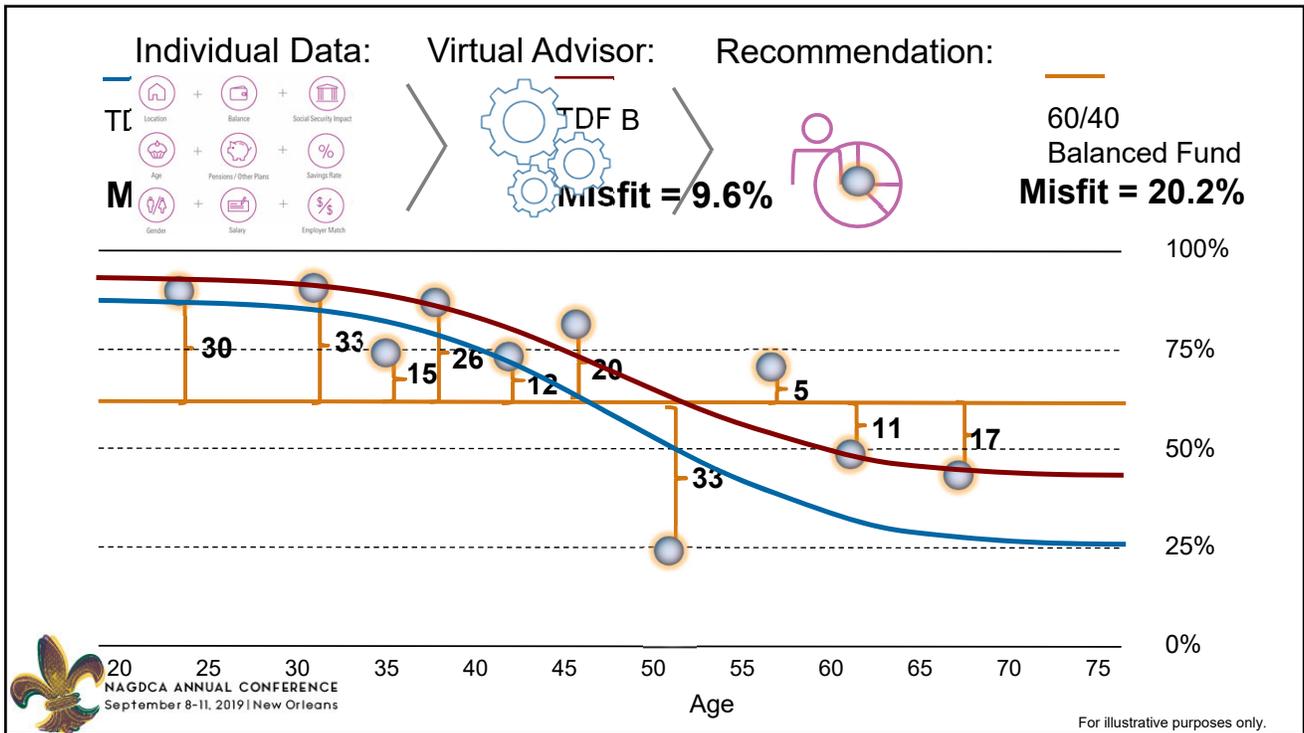
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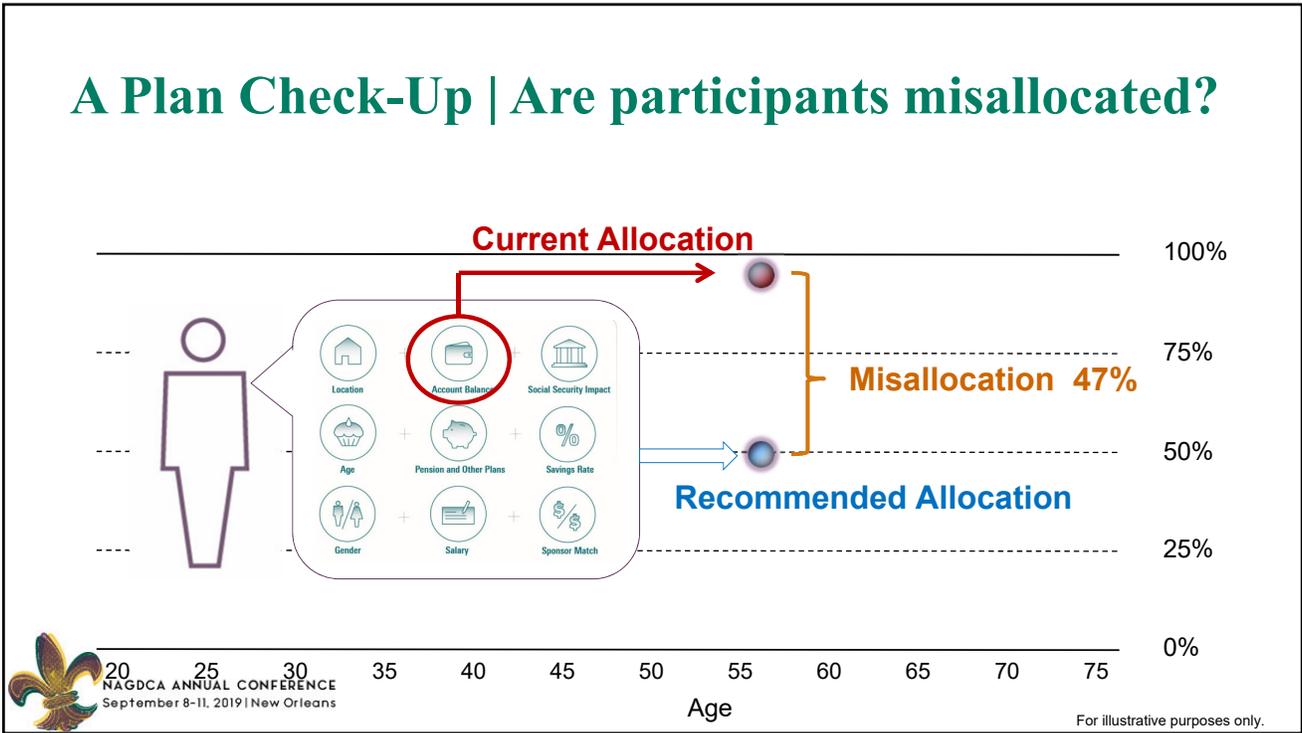


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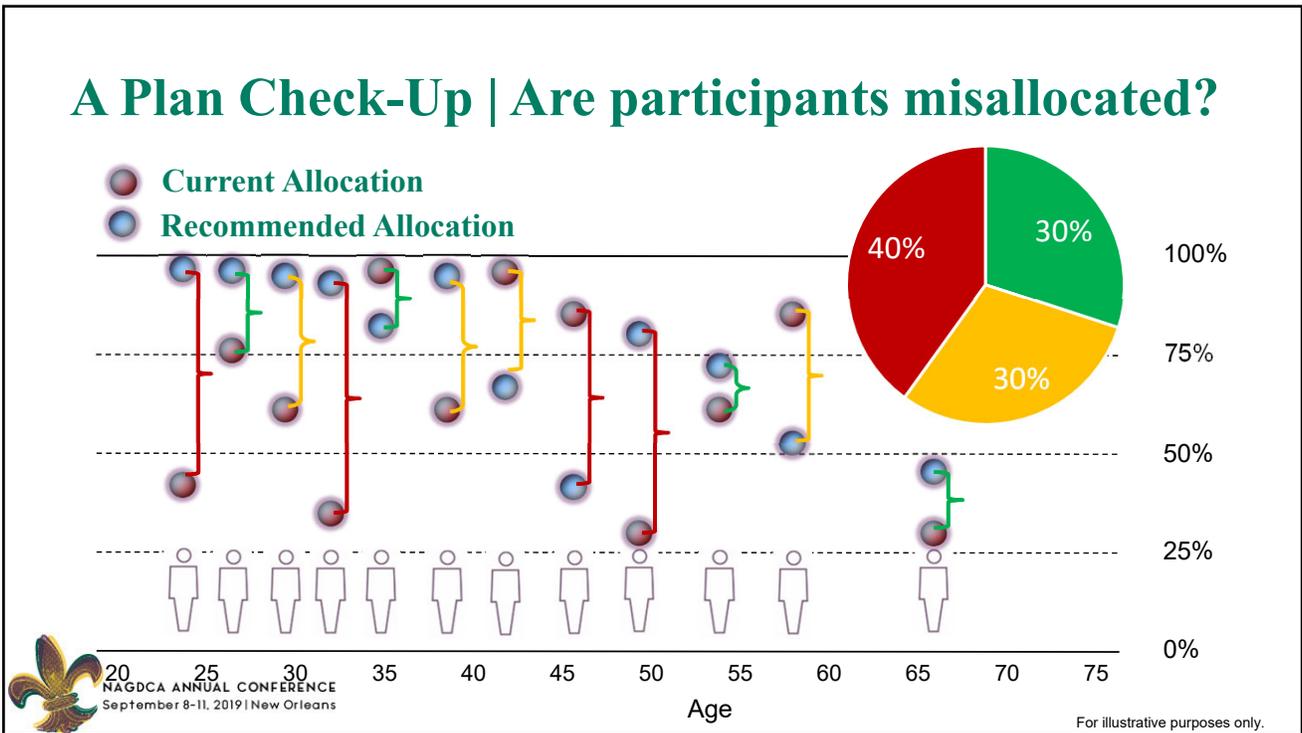
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A Plan Check-Up | Are participants misallocated?



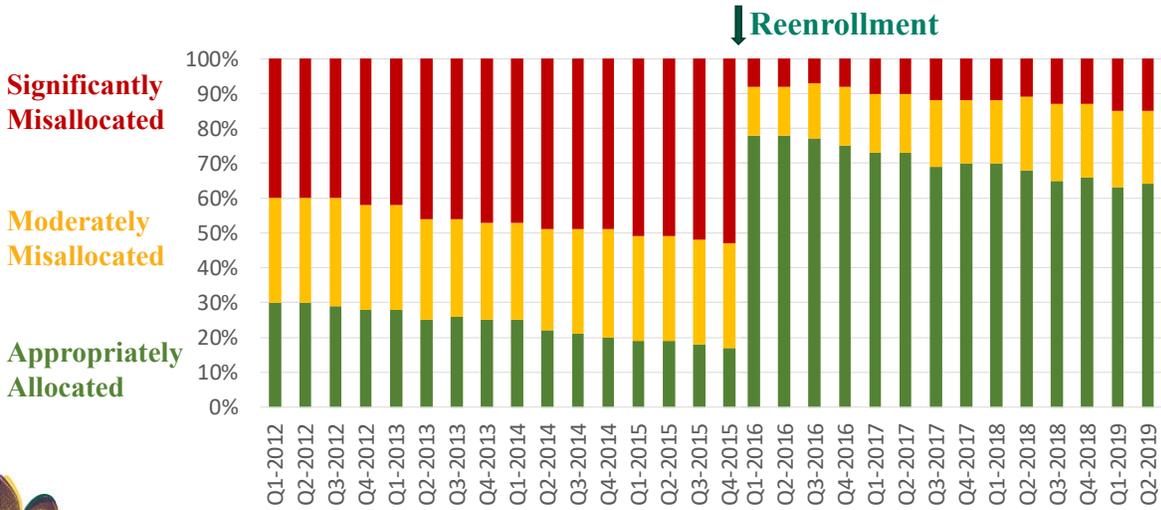
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A Plan Check-Up | Are participants misallocated?



24

A Plan Check-Up | Are participants misallocated?



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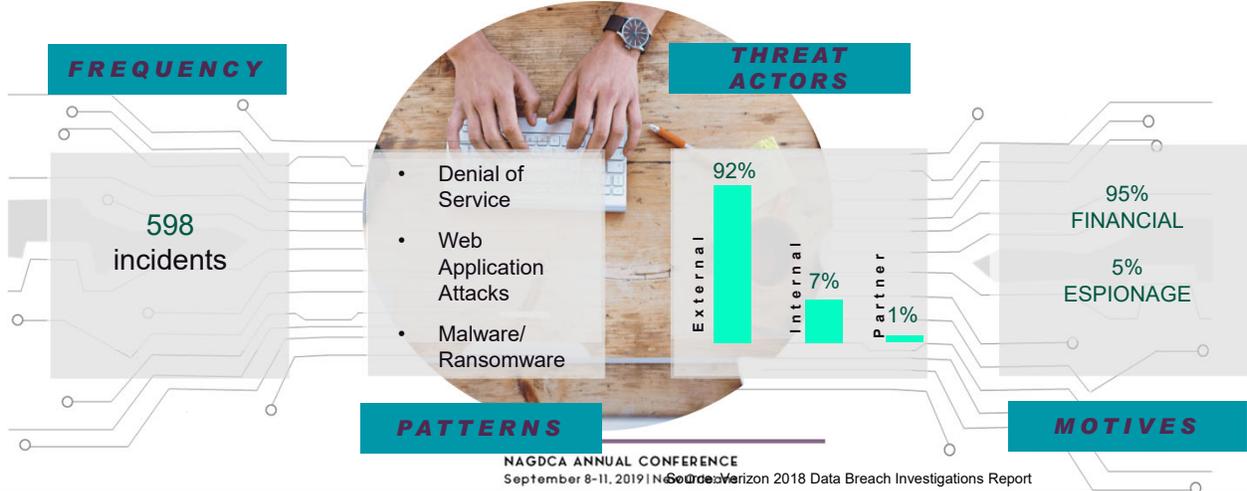
Cyber Security

Considerations and oversight

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Industry-wide cyber security trends in 2018

Cyber risks, trends and data across the financial services industry

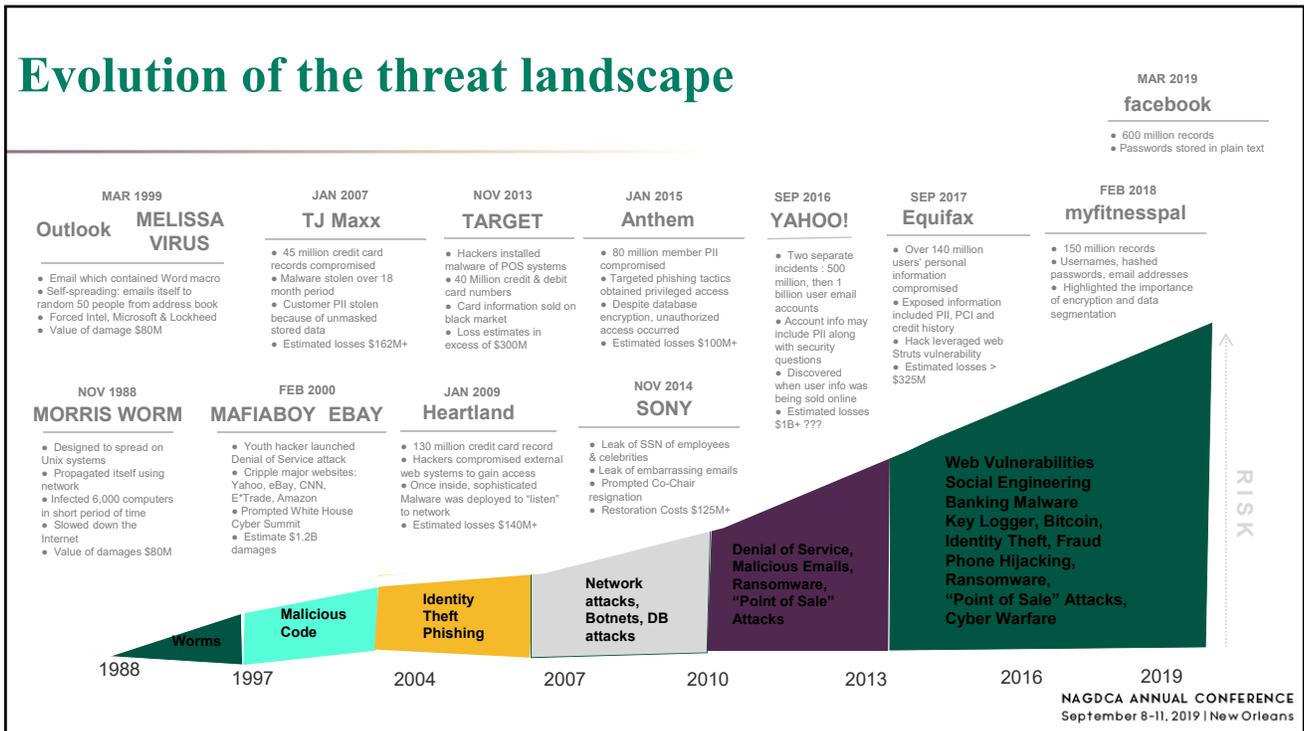


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THANK YOU

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Questions to ask regarding security controls

- Does provider have SOC 1 and SOC 2?
- Does provider have fraud policy, security guarantee?
- Does plan have cyber security policy?
 - Federal Commerce group (missed framework)
 - <https://www.ftc.gov/tips-advice/business-center/small-businesses/cybersecurity/nist-framework>
- Does contract contain service level agreements?
 - Do you report and monitor them annually?

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Cyber Security

Moderator: Keith Overly, Ohio Deferred Compensation

Panelists: Kelvin Coleman, National Cyber Security Alliance
David Levine, Groom Law Group



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Today's Presentation

- Cybersecurity: The 5th Domain
- Emerging Trends and Threats
 - Artificial Intelligence
 - Internet of Things
 - Conversational Platforms
- Where To Go From Here



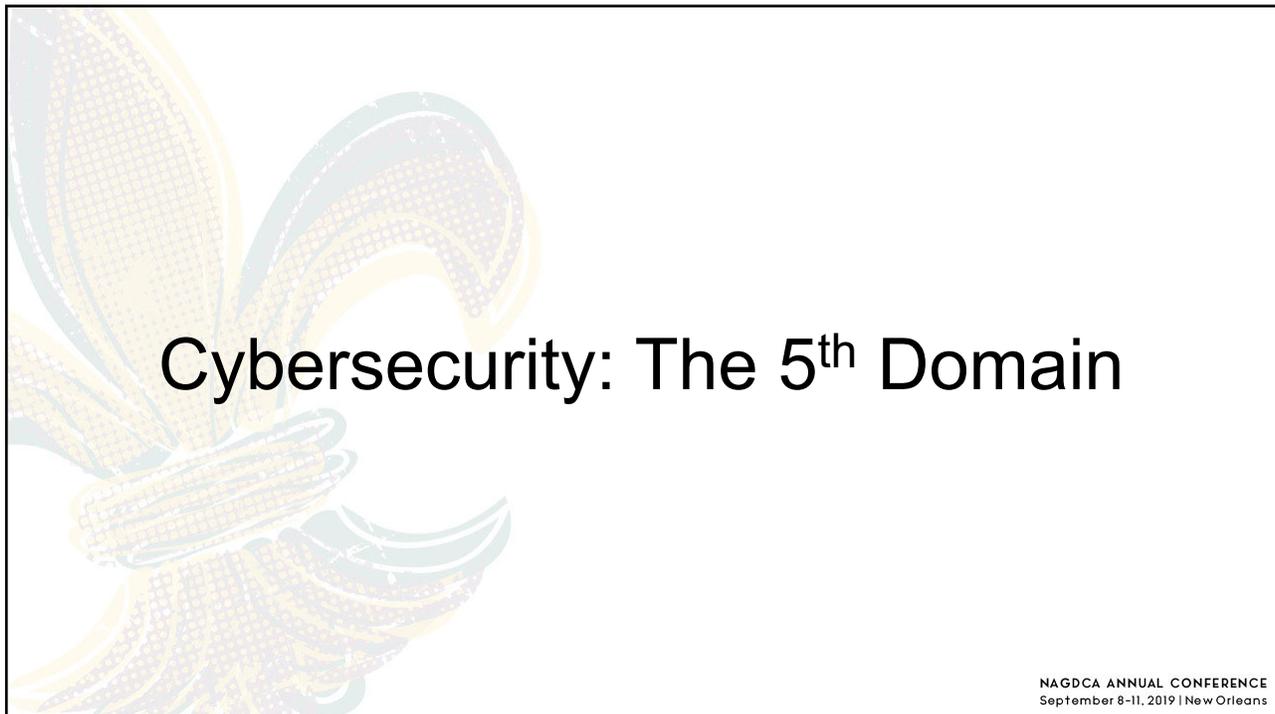
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Traditional
Battle
Domains

5



Cybersecurity: The 5th Domain

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Who Is Covered By The 5th Domain?

- Plan Sponsors and Fiduciaries
- Employers
- Participants and Beneficiaries
 - Families and Outside Advisors
- Service Providers
 - Recordkeepers
 - Advisors/Consultants
 - Other Service Providers



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Emerging Trends That Impact DC Plans

- Artificial Intelligence
- Internet of Things
- Conversational Platforms



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Artificial Intelligence

Technology that appears to emulate human performance typically by learning, coming to its own conclusions, appearing to understand complex content, engaging in natural dialogs with people, enhancing human cognitive performance (also known as cognitive computing) or replacing people on execution of nonroutine tasks.



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Artificial Intelligence

Every aspect of our lives will be transformed by AI and it could be the biggest event in the history of our civilization.

- Stephen Hawking



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Artificial Intelligence

Calista_Flockhart_0002.jpg
Detection & Localization

Frontalization
152x152x3

C1: 32x32x16 @142x142

M2: 32x32x32 @71x71

C3: 16x16x32 @35x35

I4: 16x16x16 @55x55

I5: 16x7x16 @25x25

I6: 16x5x16 @21x21

REPRESENTATION: 4096d

SFC labels: 4030

Facebook



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Artificial Intelligence

42% Portrait of Baba Ovganov, Artist
Durdy Bayramov

Durdy Bayramov
Art Fondation
Google Arts & Culture



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Artificial Intelligence

52% Portret van de dichteres Juliana C...
Ludwig Gottlieb Portman



Rijksmuseum
Google Arts & Culture



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Artificial Intelligence

Challenges and Risks

- Traditional Phishing Scams Get A Steroid Boost
- Hackers Use AI
- Fake News and Propaganda



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Examples of Impact on Defined Contribution Plans

- Phishing Scams
 - Data Scraping From Public Databases and Integration
 - Automated Phone Call Systems
 - Leveraging Data Breach and Integration of Data
 - "Integration Into" Service Provider Databases
- Social Media
 - Deceptive Links
 - AI Driven "Copycat" Twitter Accounts
 - "Learning" From Prior Success

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Internet of Things (IoT)

The network of physical objects that contain embedded technology to communicate and sense or interact with their internal states or the external environment.



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Internet of Things (IoT)

[T]he Internet will disappear. There will be so many IP addresses, so many devices, sensors, things that you are wearing, things that you are interacting with, that you won't even sense it. It will be part of your presence all the time. Imagine you walk into a room, and the room is dynamic. And with your permission and all of that, you are interacting with the things going on in the room.

- Eric Schmidt, Google chairman



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Internet of Things (IoT)

Challenges and Risks

- More devices connected so more risk from viruses, malicious attacks and other nefarious activity
- Public sector at the mercy of cybersecurity/connection
- Density of IoT is a blessing and curse



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Example of Impact on Defined Contribution Plans

- Diverse Access Methods
 - IOT Is Often In The Middle Of Wifi And Other Networks
 - With Push To Tech Access, These Devices Often Not Secured
 - Key Credentials – Including Two Factor Security Solutions – Can Be Intercepted By Corrupted IOT Devices
 - Impacts All Stakeholders

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Conversational Platforms

Conversational Platforms allow people to communicate with applications, websites and devices in everyday, humanlike natural language via voice, text, touch or gesture input.



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Conversational Platforms

- Constitutes/Customers
- Devices
- Suppliers
- Employees
- Vendors



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Conversational Platforms

Challenges and Risks

- Potential ease of manipulation through social engineering attacks
- Loss of context
- Real world emergencies difficult to manage



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Example of Impact on Defined Contribution Plans

- Voice Devices
 - Recent Scandals Involving Recordings On Major Devices
 - Intentional App Usage And “Mistaken” Recordings
 - Humans Hearing Information
- Increased Use Of Chatbots For Human Resources And Retirement Services
 - Crossover With AI Abilities In Chatbots
 - Integration With Leaked Data
 - “Fake” Chatbots

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Where To Go From Here

- Contracting With Vendors
 - RFP Terms
 - Contract Terms
 - Defining Personally Identifiable Information
 - Cybersecurity (and Privacy) Items
 - Defining Breach
 - Who “Owns” A Breach
 - Providing SOC-2 Reports and Other Documents
 - Encryption At Rest and In Transit
 - Looking to the SPARK Data Security Standards
 - Testing
 - SOC-2
 - Other Penetration Testing?
 - Periodic Reporting and Notification
 - Remediation and Other Protections



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Where To Go From Here

- **Understanding New Technologies And Solutions**
 - Collaboration Between Tech and Non-Tech Teams (And Outside Consultants)
 - Knowing “Who” Is Providing The New Technology / Solution
 - Onshore/Offshore
 - Subcontracting
 - Where Does Source Code Come From?
 - Use Of Data – And Protection In Sale, Bankruptcy, And Other
 - Being Aware Of Technology Vulnerabilities
 - AI Exposure – Cloud Based Computing and Controls
 - IOT – Unpatched Vulnerability
 - Conversational Platforms – Spoofing and Manipulation Through Social Media



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Where To Go From Here

- **Internal Controls At The Plan And Employers**
 - Service Providers And Products Are Not The Only Vulnerability
 - The Human Element Is Key
 - Security Processes
 - Patched Software and Devices – Including IOT
 - Limited Access To Data
 - Control Of Personally Identifiable Information
 - Credential Controls and Two Factor Processes
 - Education Action Steps
 - The Analogy To HIPAA Training



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Where To Go From Here

- Participants, Beneficiaries, Their Representatives and Outside Advisors
 - Education And Training On Security Items
 - Ensuring Security As A Default With Vendors – Opt Out Not Opt In
 - Considering Emerging Cyber Security Themes
 - Artificial Intelligence – Warning And Educating About Spoofing and “Knowledgeable” Parties
 - Internet of Things – Maintaining Security To Prevent Man In The Middle And Other Attacks
 - Conversational Platforms – Is It Real . . . Or Is It Memorex (For Those From the 1980s)



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Where To Go From Here

- Insurance
 - Indemnification Versus Insurance: The Relationship Between The Two
 - Scope of Coverage
 - What Is A “Breach” And What Is Not
 - Limitations On Liability
 - “Faultless” Breaches – Recent Trends In The Industry
 - Coverage Levels



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Q&A

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The Digital Fiduciary: Online Behavior and Retirement Success



*UCLA Anderson School of Management
Senior Academic Advisor at The Voya Behavioral
Finance Institute for Innovation*

1

1

Digital design and
retirement outcomes

2

2

How digital design might dictate retirement success

- Richard Thaler and I conducted an experiment on Morningstar.com
- There were two groups of Morningstar subscribers
- Each group could allocate their retirement savings among eight different funds
- One of the groups needed one extra click to add more than four funds

Based on Benartzi, Shlomo, and Richard H. Thaler. "Heuristics and biases in retirement savings behavior." *The Journal of Economic Perspectives* (2007): 81-104.

3

3

Screen 1

Please indicate how you would allocate your retirement contributions. You may choose up to four funds. If you would like to elect more than four funds, please click [here](#).

	Fund Name	% Allocation
Fund 1	<input type="text"/>	<input type="text"/>
Fund 2	<input type="text"/>	<input type="text"/>
Fund 3	<input type="text"/>	<input type="text"/>
Fund 4	<input type="text"/>	<input type="text"/>
Allocations must equal 100%		0%

Based on Benartzi, Shlomo, and Richard H. Thaler. "Heuristics and biases in retirement savings behavior." *The Journal of Economic Perspectives* (2007): 81-104.

4

4

Screen 2

Please indicate how you would allocate your retirement contributions.

	Fund Name	% Allocation
Fund 1	<input type="text"/>	<input type="text"/>
Fund 2	<input type="text"/>	<input type="text"/>
Fund 3	<input type="text"/>	<input type="text"/>
Fund 4	<input type="text"/>	<input type="text"/>
Fund 5	<input type="text"/>	<input type="text"/>
Fund 6	<input type="text"/>	<input type="text"/>
Fund 7	<input type="text"/>	<input type="text"/>
Fund 8	<input type="text"/>	<input type="text"/>
Allocations must equal 100%		0%

Based on Benartzi, Shlomo, and Richard H. Thaler. "Heuristics and biases in retirement savings behavior." *The Journal of Economic Perspectives* (2007): 81-104.

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Digital design dramatically affects diversification

- Only 10 percent of people shown four lines selected more than four funds
- That number quadrupled among subjects shown eight lines
- Portfolio diversification was highly affected by digital design
- The implications of the digital age mean that many people in this room have now become "digital fiduciaries"

Based on Benartzi, Shlomo, and Richard H. Thaler. "Heuristics and biases in retirement savings behavior." *The Journal of Economic Perspectives* (2007): 81-104.

6

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“The Digital Fiduciary”

7

7

The Digital Fiduciary

- Are you one of the following?
 - Plan fiduciary helping participants in the digital age
 - Service provider supporting a plan sponsor (e.g., advisor, recordkeeper)

- What should you do?
 - Help people achieve a successful retirement in the 21st century
 - Bring the same oversight and diligence to our digital platforms that we currently bring to investment selection and monitoring
 - This deck includes 7 action items for The Digital Fiduciary

Source: Voya Financial whitepaper, “The Digital Fiduciary: Overseeing Retirement Plans in the Digital Age” by Shlomo Benartzi (2018)

8

8

Actionable steps for plan sponsors and advisors

- ✓ 1. Digital policy statement
- ✓ 2. Incorporate digital design knowledge on the plan committee
3. Test, test, retest
4. Evidence based innovation
5. Follow the science
6. Make the right thing easy
7. Think of 21st century risks

9

9

Experimenting with
digital nudging:
Example #1

10

10

Online Enrollment Architecture

- To what extent does variation in the design of an online 401(k) enrollment interface affect savings?
- To study the potential impact of design, we varied the use of colors, language used to describe each option, and the presence of additional information about plan details.
- We looked at the choices of employees across several hundred auto-enroll plans to either personalize plan elections, accept auto-enroll defaults, or decline enrollment.

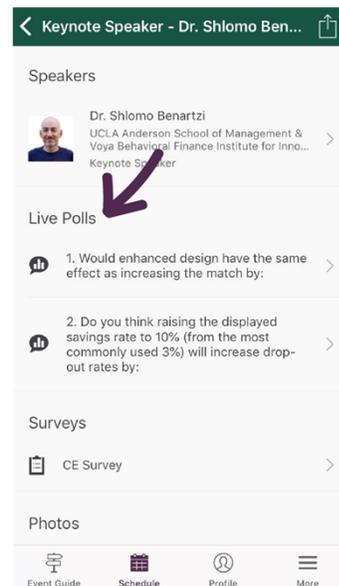
Source: Bhargava, Conell-Price, Mason, Benartzi. "Save(d) by Design" Working Paper (August 2018).

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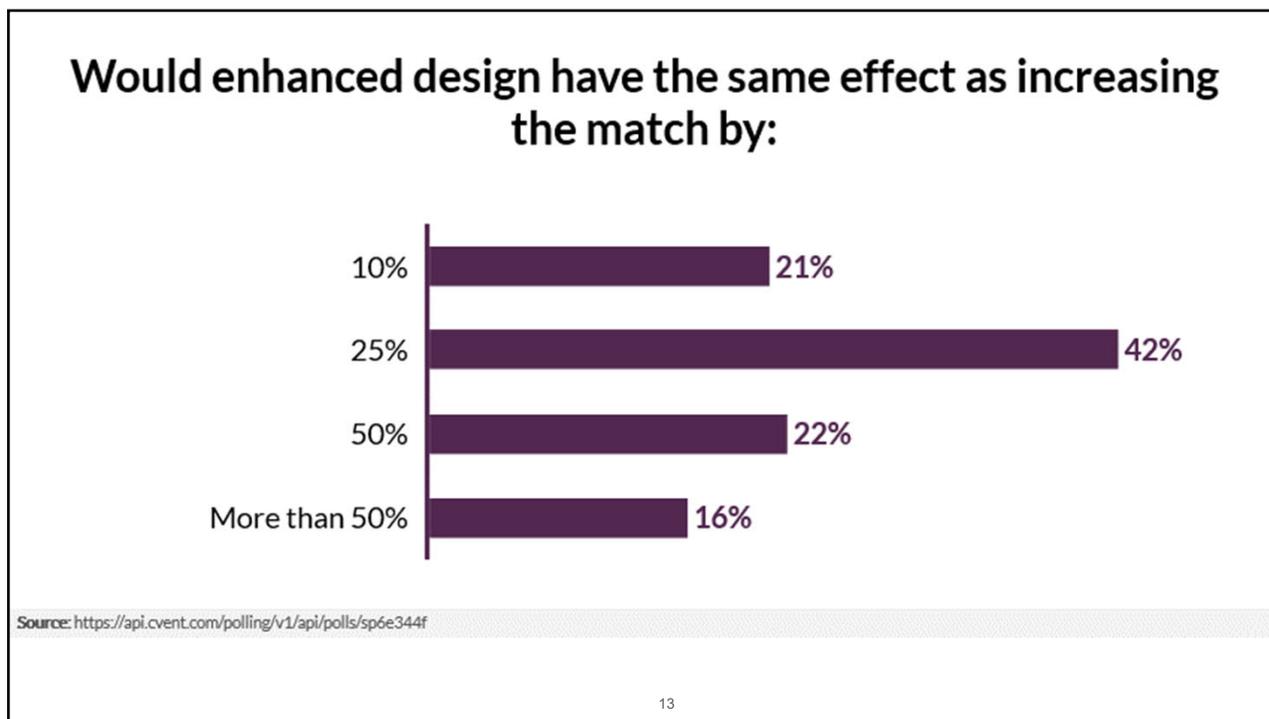
Let's take a poll

1. Select this session from the agenda.
2. Scroll down to Live Polls.
3. Select the question, select your answer, and tap finish to submit.
4. Exit poll.

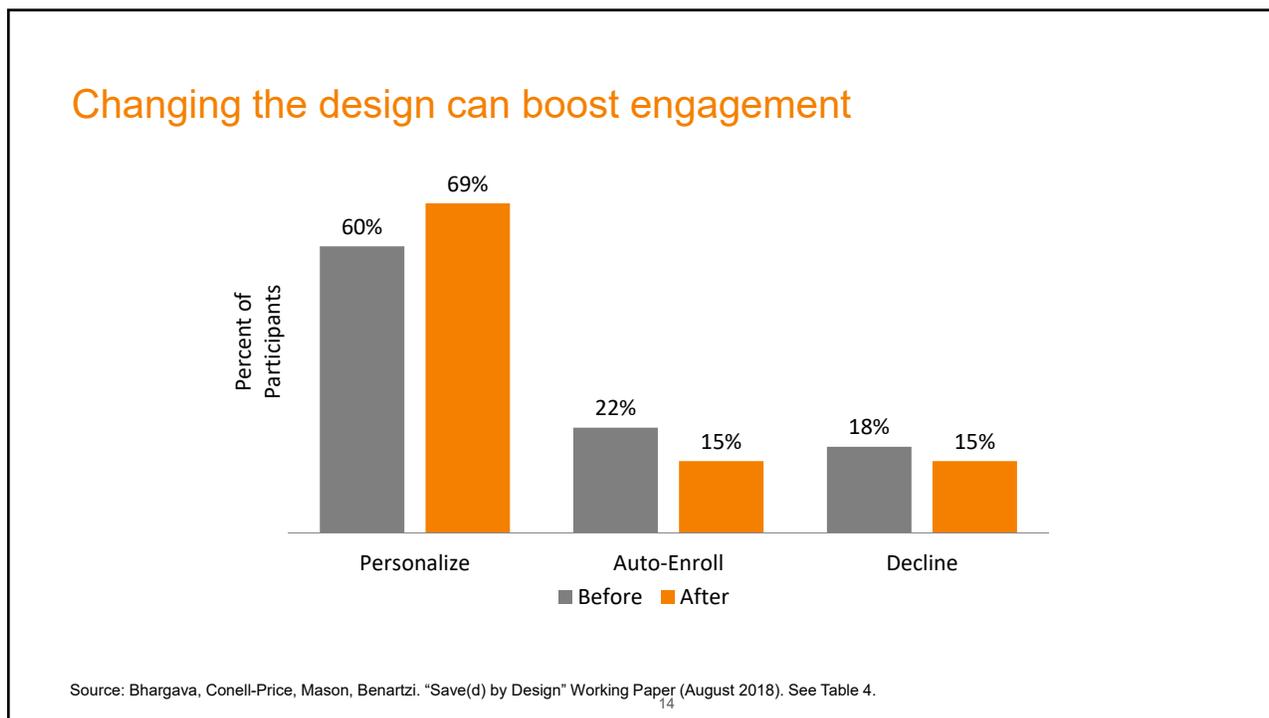


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Enhanced design also boosts savings

- Enhanced design leads to a 9 percentage point increase in people shifting to personalize.
- The average savings rate for personalizers is 7.8%, auto-enrollers is 3.4%, and decliners is 0.0%.
- Most plan administrators, fiduciaries and HR executives didn't predict how changes to the design of the enrollment screen would affect savings.

Source: Bhargava, Conell-Price, Mason, Benartzi. "Save(d) by Design" Working Paper (August 2018).
15

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Actionable steps for plan sponsors and advisors

- ✓ 1. Digital policy statement
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- ✓ 3. Test, test, retest
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5. Follow the science
6. Make the right thing easy
7. Think of 21st century risks

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Experimenting with digital nudging: Example #2

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What Are the Effects of Displayed Defaults?

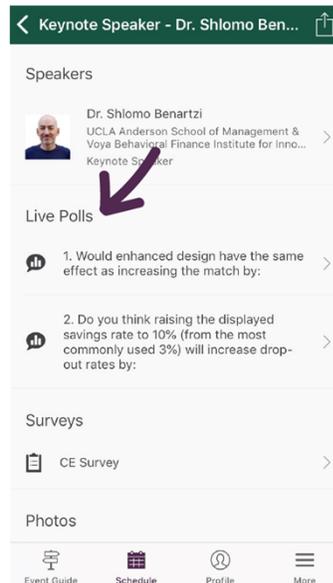
- Are people influenced by the savings rate displayed on the landing page?
- Will higher displayed rates lead to increased savings?
- Suppose we vary the displayed rates between 6% and 11%.
- What would happen to both dropout and savings rates?

18

18

Let's take a poll

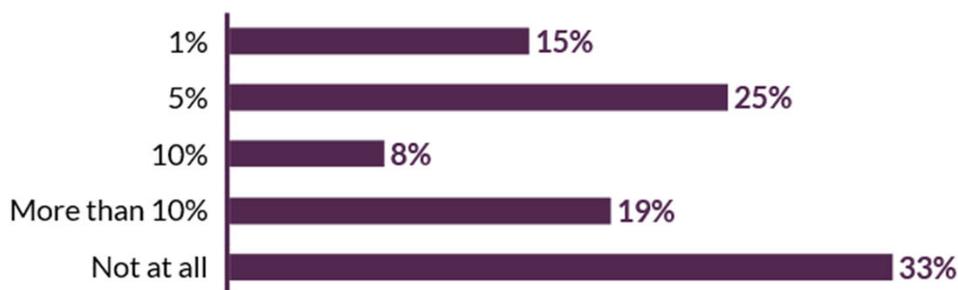
1. Select this session from the agenda.
2. Scroll down to Live Polls.
3. Select the question, select your answer, and tap finish to submit.
4. Exit poll.



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Do you think raising the displayed savings rate to 10% (from the most commonly used 3%) will increase drop-out rates by:



Source: <https://api.cvent.com/polling/v1/api/polls/sp-4u9t2y>

20

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Example Screen 1

Need Help? | Necesitas Ayuda? | Steps to Save | About My Plan | Important Information

ABOUT ME | SET A GOAL | **ENROLLMENT CHOICES** | REVIEW & CONFIRM

Here's what your monthly income in retirement could look like.
Your estimate is based on your goals and the savings amount selected below.

	You may have \$2,634 Include Social Security Retirement Income	You may need \$2,917	You might be short \$283 How do we come up with your number? Change my retirement goals
--	--	---------------------------------------	--

You can keep these numbers and enroll now, or adjust them below to get closer to your goal.

Select an amount from your paycheck:

People like you on track for retirement save 10%

6%

While \$125 in PRETAX dollars goes into your account per pay period, only \$94 comes out of your take-home pay after taxes!

Select an investment option:

A single investment that's professionally managed and aligns with a retirement age of around 65.

Solution 2055 Portfolio Adv

21

21

Example Screen 2

Need Help? | Necesitas Ayuda? | Steps to Save | About My Plan | Important Information

ABOUT ME | SET A GOAL | **ENROLLMENT CHOICES** | REVIEW & CONFIRM

Here's what your monthly income in retirement could look like.
Your estimate is based on your goals and the savings amount selected below.

	You may have \$2,901 Include Social Security Retirement Income	You may need \$2,917	You might be short \$15 How do we come up with your number? Change my retirement goals
--	--	---------------------------------------	---

You can keep these numbers and enroll now, or adjust them below to get closer to your goal.

Select an amount from your paycheck:

People like you on track for retirement save 10%

8%

While \$167 in PRETAX dollars goes into your account per pay period, only \$125 comes out of your take-home pay after taxes!

Select an investment option:

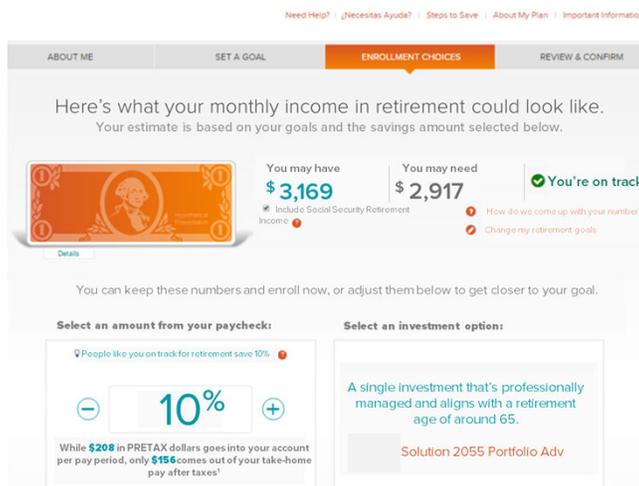
A single investment that's professionally managed and aligns with a retirement age of around 65.

Solution 2055 Portfolio Adv

22

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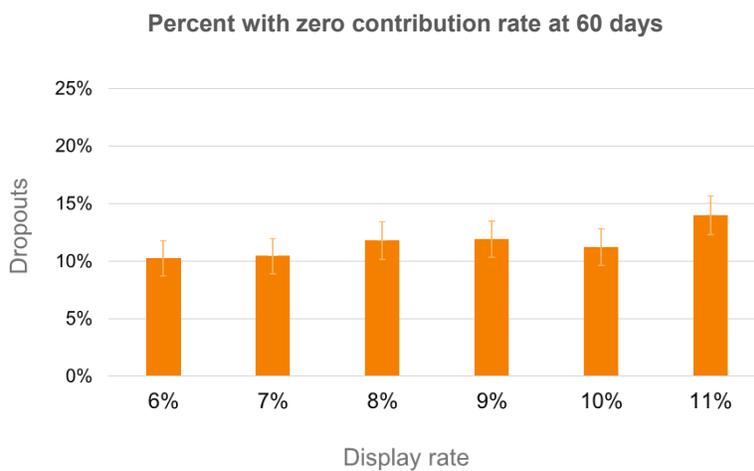
Example Screen 3



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Dropout rates look nearly flat across display rates

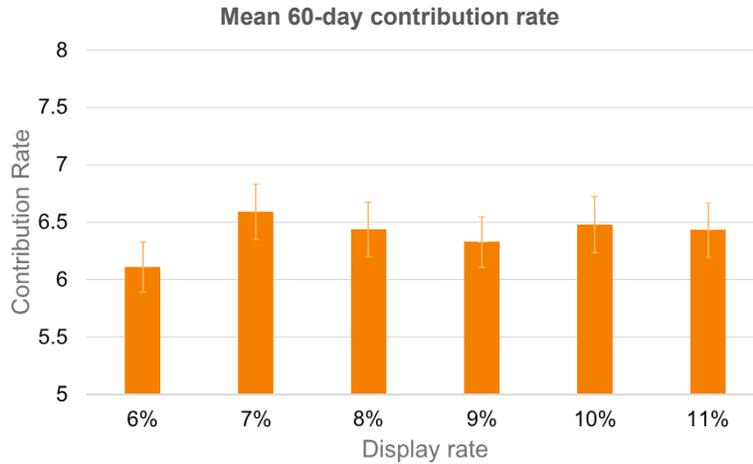


Source: Beshears, Benartzi, Mason, and Milkman. "How Do Consumers Respond When Default Options Push the Envelope?" Working Paper (October 7, 2017).

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24

Savings rates look like they plateau at display rate of 7%



Source: Beshears, Benartzi, Mason, and Milkman. "How Do Consumers Respond When Default Options Push the Envelope?" Working Paper (October 7, 2017).

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7% display rate was implemented at the end of 2017

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Actionable steps for plan sponsors and advisors

- ✓ 1. Digital policy statement
- ✓ 2. Incorporate digital design knowledge on the plan committee
- ✓ 3. Test, test, retest
- ✓ 4. Evidence based innovation
- ✓ 5. Follow the science
- 6. Make the right thing easy
- 7. Think of 21st century risks

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Digital nudging and
big data

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But, first a question ...

If it takes 5 machines 5 minutes to make 5 widgets,
how long would it take 100 machines to make 100 widgets?

5 minutes

Source: Frederick (2005)

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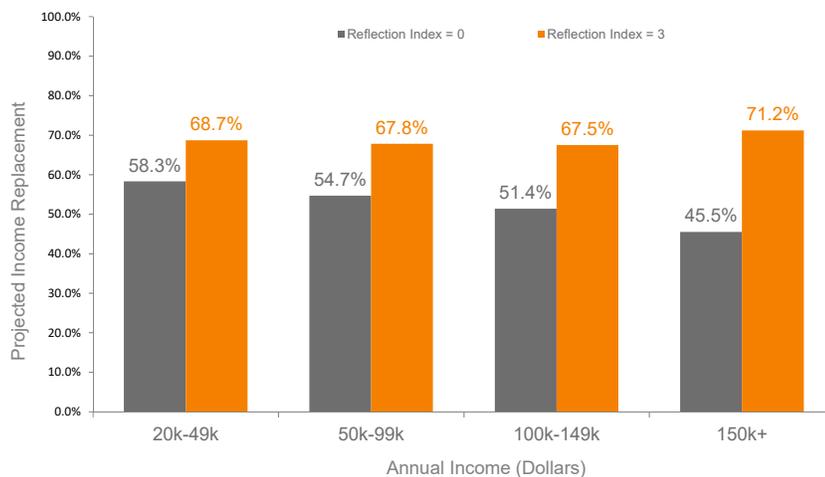
The Reflection Index

- 1 Attention**
Logged onto website or mobile app within past year
- 2 Information Gathering**
Clicked on projected retirement income to learn more
- 3 Making Tradeoffs**
Explored different savings rates, retirement age, or rates of return

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Reflection Index and projected income replacement



Source: Voya Financial whitepaper, "Using Decision Styles to Improve Financial Outcomes" by Shlomo Benartzi (2016)

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Reflection Index and retirement outcomes by plan

- 90.2% of plans are characterized by instinctive decisions (i.e., Reflection Index below 2.0) and poor retirement outcomes (i.e., below 70% income replacement)
- Make the right choice the easy choice
- Consider re-enrollment

Source: Voya Financial whitepaper, "Using Decision Styles to Improve Financial Outcomes" by Shlomo Benartzi (2016)

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Seven actionable steps for plan sponsors and advisors

- ✓ 1. Digital policy statement
- ✓ 2. Incorporate digital design knowledge on the plan committee
- ✓ 3. Test, test, retest
- ✓ 4. Evidence based innovation
- ✓ 5. Follow the science
- ✓ 6. Make the right thing easy
- ✓ 7. Think of 21st century risks

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On ERISA 1974 Versus 2018

- While ERISA went into effect before the digital age, legislation contained a crucial provision that fiduciaries must act **“with the care, skill, prudence, and diligence under the circumstances then prevailing.”**
- “Accordingly, even though no fiduciary in 1974 would have needed to consider the digital design of the plan’s web portal, the fact that a substantial percentage of participant interactions are online is a circumstance that is now prevailing.”

- Michael Hadley at Davis & Harman

Source: Voya Financial whitepaper, “Fiduciary Concerns and Digital Design” by Michael Hadley at Davis & Harman (2018)
Note: Government plans are not covered by ERISA

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How to interpret ERISA

“Appropriate for a fiduciary to take into account “whether the digital design of a plan’s service provider’s electronic portal properly seeks to encourage and facilitate good decision-making by plan participants and beneficiaries.”

- Michael Hadley at Davis & Harman

Source: Voya Financial whitepaper, "Fiduciary Concerns and Digital Design" by Michael Hadley at Davis & Harman (2018)
Note: Government plans are not covered by ERISA

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Let's not let the
digital revolution go
to waste!

THANK YOU.

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Fiduciary Diligence, Best Practices, Lawsuits and Lessons Learned

Moderator: Melanie Walker, Segal Consulting
Panelists:
Daniel Alexander, RetireAware
Marla Kreindler, Morgan, Lewis &
Bockius, LLP

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Melanie Walker

Senior Vice President, National Compliance
Practice
Segal Consulting

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Fiduciary Best Practices

- Sources of Fiduciary Responsibilities in Governmental Plans
 - United States Constitution contracts clause (“No state shall ...pass any ... law impairing the obligation of contracts ...”)
 - Internal Revenue Code §401(a)(2) and §457(g)(1) exclusive benefit rules
 - State statutes and municipal codes on plan authorization, ethics and conflicts of interest
 - Common law of trusts and applicable court decisions
- ERISA codifies part of the common law of trusts
 - Governmental plans often use ERISA as guidance even though not subject to its specific rules



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Fiduciary Best Practices

Under ERISA §404(a)(1), affirmative fiduciary duties are:

- Act prudently with respect to plan assets and expenses
- Diversify assets (investment options) to minimize risk of losses
- Loyalty to the beneficiaries of the trust
- Act solely in the interest of such beneficiaries for the exclusive purpose of providing plan benefits and paying reasonable expenses
- Comply with plan provisions and applicable laws



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Fiduciary Best Practices

Examples of ERISA rules that provide guidance to public plans:

- ERISA §408(b)(2) provider compensation disclosure rules require that plan sponsors obtain from service providers:
 - Written description of services to be provided
 - Information on whether such services are provided in a fiduciary capacity
 - Description of all direct and indirect compensation received by the provider



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Fiduciary Best Practices

Examples of ERISA rules that provide guidance to public plans:

- ERISA §404(c) participant fee disclosure regulations require sponsors to provide specific information about:
 - How to select investments and any limitations on investing
 - Each investment alternative offered, including type or category, historical performance, benchmarks, and website address for more information
 - Fees for investment management, plan administration and individual transactions



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Fiduciary Best Practices

Fiduciary duties under the common law of trusts:

- 1) Prudence
 - Prudent expert rule
 - Modern portfolio theory
- 2) Loyalty
 - Requires trustees act solely for the benefit of beneficiaries of a trust in all decisions
 - Avoiding conflicts of interest can be difficult for trustees balancing multiple interests when making policy decisions
 - Conflicts can be mitigated by governance policies and diligent oversight



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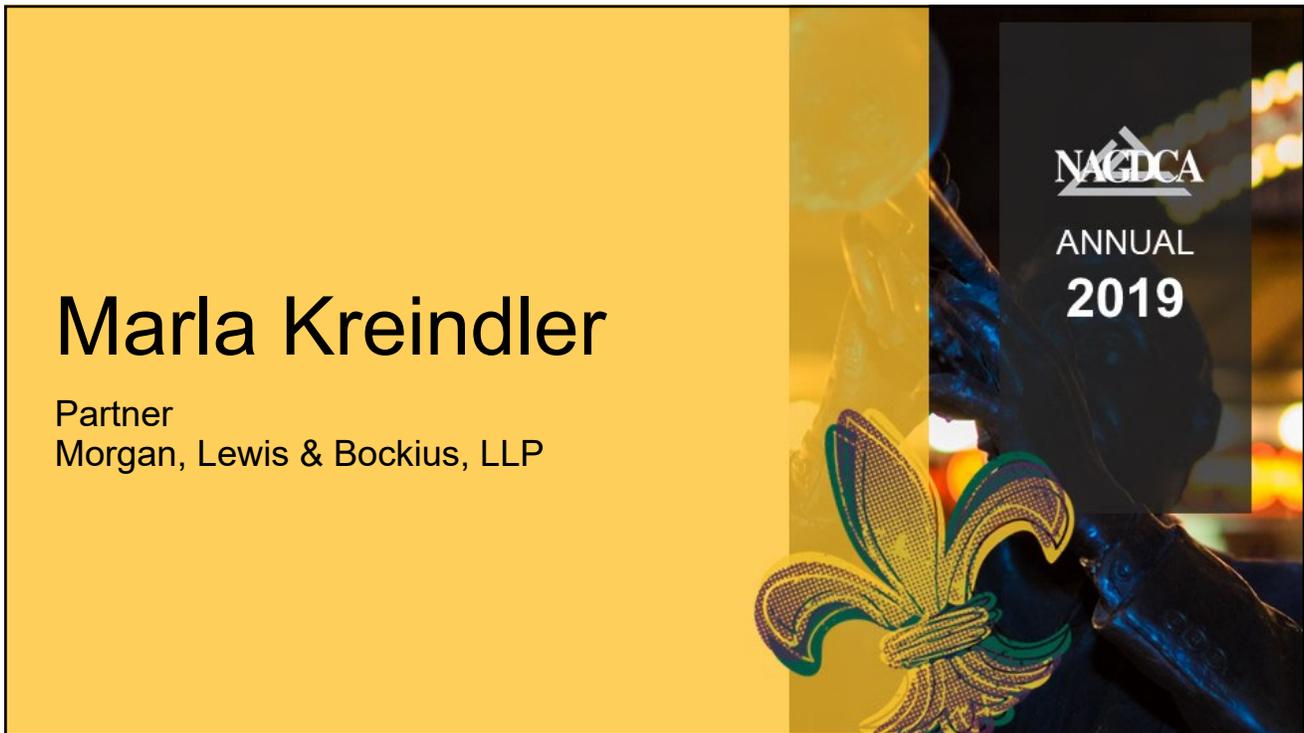
Fiduciary Best Practices

- Good governance can mitigate conflicts of interest and risk to the plan, including financial, reputational and operational risks
- Common plan policies that address fiduciary duties include:
 - Governance policies that define the roles and responsibilities of fiduciaries, administrators and advisors
 - Investment policies that address investments, fees and other critical information to participants
 - Ethics policies and conflicts of interest rules that are consistent with applicable law
 - Procurement rules for selecting, monitoring and compensating providers



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Fiduciary Diligence 1 – 2 – 3

1. Get educated
2. Consider your options
3. Apply what you have learned to achieve the best results for your participants

Make no assumptions!



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Step 1: Get educated!

- Know your plan's "fiduciary governance" structure
 - Plan provisions and fiduciary governance structures vary from one plan to another
 - Some plans and trusts are set out in "enabling statutes", others have plan and trust documents
 - Some plans adopt rules and regulations, policies and procedures, authorizing resolutions and/or by-laws or committee charters that apply
 - Familiarize yourself with how your governance structure may dictate what you can do
 - Know if, how and when you can make changes
- Know your plan's "applicable laws"
 - State and local fiduciary and conflicts laws also vary widely
 - Some conflicts laws broadly prohibit conflict of interest transactions, gifts and entertainment (even a cup of coffee!)
 - Often your applicable laws will be in the plan's "enabling statutes" or in the state constitution or in state or local contracting laws or laws applicable to public officials



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11

Get educated!

- ✓ Use "Procedural Prudence" as a way to learn
 - This doctrine asks plan fiduciaries to give "appropriate consideration" to the specific facts and circumstances in the same manner as a prudent expert
 - This is another way of saying: Get educated or get expert advice (or both!)
 - Your current providers and prospects – and other industry resources - can offer educational programs, white papers and information on plan features, investments and industry trends and practices
 - Talk to your peers
- ✓ Fiduciary training is accepted practice, even for those already in the know



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Stay educated!

- Keep up on legislative, regulatory and litigation trends for opportunities and potential risk exposures
 - Recent focus of ERISA litigation includes:
 - Fees and expenses
 - Revenue sharing, “hidden fees” and “float” income
 - Stable value vs. money market funds
 - Conflicts of interest
 - Participant disclosures
 - Failure to conduct RFPs
 - Failure to follow plan governance structure
 - Regulatory proposals are ongoing
 - SEC regulation BI, state fiduciary definitions, DOL fiduciary regulation
 - Legislative initiatives that seek to improve plan design and participant outcomes are on the horizon
 - NAGDCA is active in this area



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Consider your options

- Different record keepers – and even the same record keeper - can offer different options for what you might consider the same type of products and services
 - Recordkeeping platforms might be group annuity or insurance contract and/or administrative service and “mutual fund” platforms
 - Record keepers offer bundled vs. unbundled/“open architecture” options
 - “Proprietary” and “non-proprietary” products are also available
- Participant advice and education is offered in many different ways
 - Investment education vs. individualized advice
 - Seminars, webinars, call center or on line education and advance
 - Managed portfolios vs. managed accounts
 - Opt-in (non-discretionary) vs. discretionary (aka fiduciary vs. non-fiduciary)

Experts can help you navigate across different provider products and services

- RFPs are a tool to help your better understand (and leverage) your options



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Consider your options (more examples):

- Contracts can help create better standards
 - When needed to even the playing field, providers can agree to treat you “as though” ERISA applies
 - Institutional plans often use their own “standard” investment management agreements
- The same investment strategy may be offered by the same provider in different ways.
 - Examples may include: An insurance contract, a mutual fund, a collective investment trust and/or a separately managed account.
 - Each product type can offer pros and cons
 - Key terms can vary from one provider to the next
 - Revenue sharing may be “optional” & different share “classes” may be available
 - Custom solutions may also be available



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What else can I ask?

- Ask for disclosure of all direct and indirect compensation that is paid to your contractors and their “agents” or “subcontractors”
 - Follow the money: Understanding provider compensation structures can highlight potential conflicts
 - Is the provider incented to offer managed accounts, proprietary rollover IRAs or other products and services...and is that OK?
- Always review conflicts disclosures
 - Ask for disclosures of conflicts
 - Just because a conflict is disclosed may not mean you have to accept it “as is”
- Understand what standards apply to your contractors
 - Are they a fiduciary or “agent”
 - *Know what it means to be a consultant, broker, advisor, record keeper, directed trustee, custodian or securities lending agent?*
 - What is a “gross” negligence standard of care and how does it compare to a fiduciary standard of care?



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Apply what you have learned to achieve the best results for your participants

- Use the RFP process to help achieve your goals
 - Don't be afraid to include new questions
 - For best results: Ask the hard questions and negotiate contract terms before making your final selection.
- Be prudent and look for value and quality of service
- Conduct a gap analysis to ensure objectives are met (including risk management considerations) and all bases are covered
- Review contract terms for consistency with your RFP and what you were sold
 - Look for "exculpations" or "excluded" services and "limitations of liability"
 - When are you required to provide direction or approval?
 - Who takes responsibility for participant communications?



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Make no assumptions!

- Don't assume you can't make changes.
 - Strong governance structures purposefully allow for change over time
 - Most providers proudly offer different options to meet their clients priorities and objectives
 - Legal contracts are often negotiated
- Don't assume nothing changes.
 - Have a process to ask what new products and features are available
- Don't assume you can judge a book by its cover
 - Providers may look similar, but variations in different service offerings can be significant
- Don't assume conflicts can't be addressed
 - For ERISA plans, the U.S. DOL has issued many exemptions after being fully satisfied that conflicts have been addressed following a public comment process



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Do you know?

- 457 plans can choose their funding vehicles
 - Insurance group annuity contract, trust or custody accounts are all options.
 - Would you rather have a trust or custody relationship?
- What is an expense reimbursement account and are other options available for my plan?
- What is “float income”?
- What happens when we can’t locate a participant or they don’t cash a check?
- What is an independent fiduciary or a co-fiduciary?



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Daniel Alexander

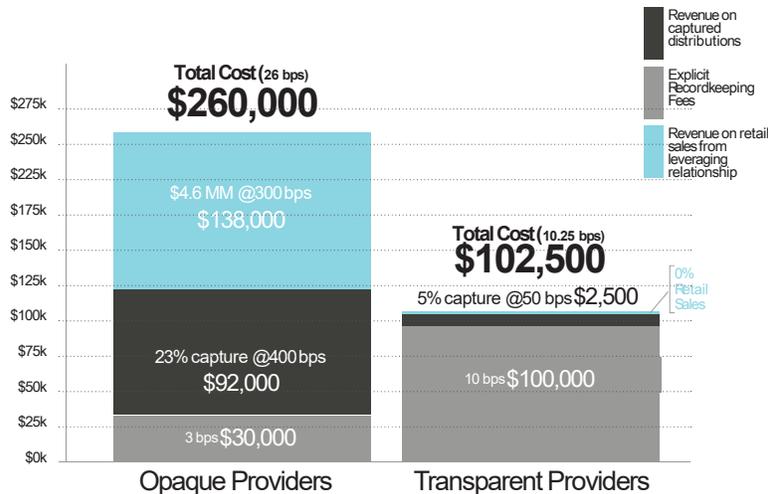
CEO & Managing Director
RetireAware

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Illustration of Recordkeeper Revenue Strategies



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Top Questions to Ask Recordkeepers

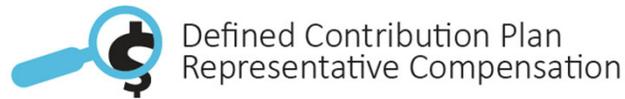
1. How are plan representatives paid? How are they really paid?
2. How's your data being used? Is it shared with affiliates for purposes unrelated to plan administration?
3. Who's talking to your people?
4. What else are they selling?
5. Reasonable compensation: 2 sides to that coin.



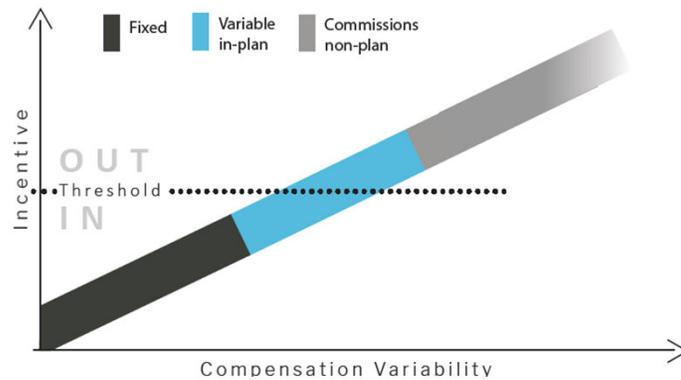
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Understanding Plan Provider Representative Compensation



Defined Contribution Plan
Representative Compensation



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Top Questions to Ask Yourself/Plan Advisors

1. What price are my participants “paying” for low recordkeeping fees?
2. How much is my plan data worth to providers? Why are we giving this away for the benefit of plan providers?
3. Do I know how much indirect revenue is being generated, by my participants, for my plan recordkeeper(s)?
4. Do my participants believe that we have “endorsed” non-plan products sold by my recordkeeper(s)?
5. Does participant “education” from my recordkeeper(s) provide education or is it a means to an undisclosed end?



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Be mindful of these 3 behaviors...

1. Activities and communications that imply an endorsement of your plan provider(s) services that are unrelated to the contracted services in your recordkeeping agreement.
2. Serving on a recordkeeper's retirement plan council, committee or similar arrangement. Whether it is your current plan provider or a prospective provider, participation in such arrangements may be perceived as a conflict in the provider selection or retention process.
3. Accepting verbal responses or commitments to plan protocols. Likewise, ensure your understanding of written communications with your plan provider.



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Q&A

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Asset Allocation Techniques during the Accumulation Phase

Panelists:

Christopher Hamilton, Invesco

Jeremy Stempien, QMA, Prudential

Bridget Witzeman, Voya Financial

Moderator: Tom Anichini, GuidedChoice

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What we will cover today

Introduction to panel and why this topic matters

How lineup construction can assist with asset allocation decisions

Types of asset allocation

Asset allocation solutions

Establishing, evaluating, and measuring asset allocation solutions

Key takeaways



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Introduction: panelists and moderator

Panelists

Christopher W. Hamilton, CFA, CAIA

Head of Portfolio Advisory, Invesco

Jeremy Stempien

Principal, Portfolio Manager & Strategist, QMA, Prudential

Bridget Witzeman

Vice President, Advisory Services, Voya Financial

Moderator

Thomas M. Anichini, CFA

Chief Investment Strategist, GuidedChoice

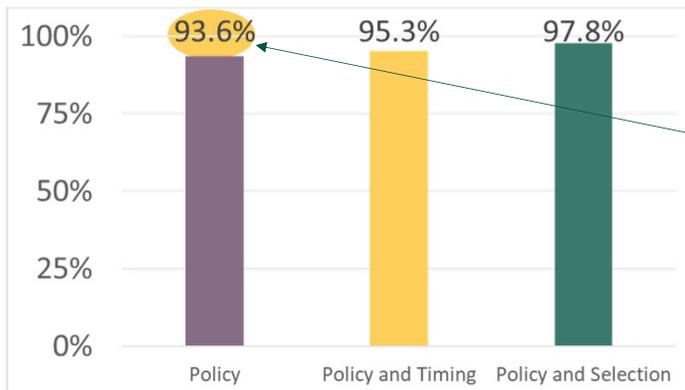


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Introduction: Why this topic matters

Average Percentage of Total Return Variation Explained by Investment Activity



Asset allocation (policy) explains most of the return variability of portfolios' performance

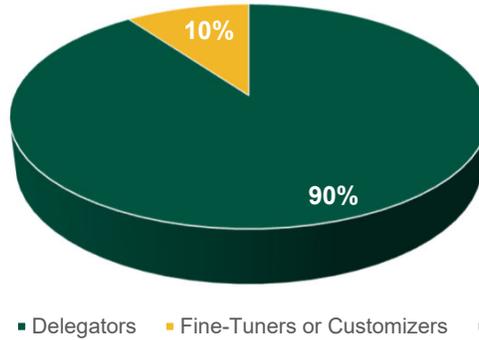
Source: Determinants of Portfolio Performance II: An Update, *Financial Analysts Journal* (May-June 1991), pp. 40 - 48. Table VII



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How pre-packaged asset allocation solutions fit into a plan menu



Source: Shlomo Benartzi with Roger Lewin, *Save More Tomorrow: Practical Behavioral Finance Solutions to Improve 401(k) Plans* (London: Penguin: 2012) p.187



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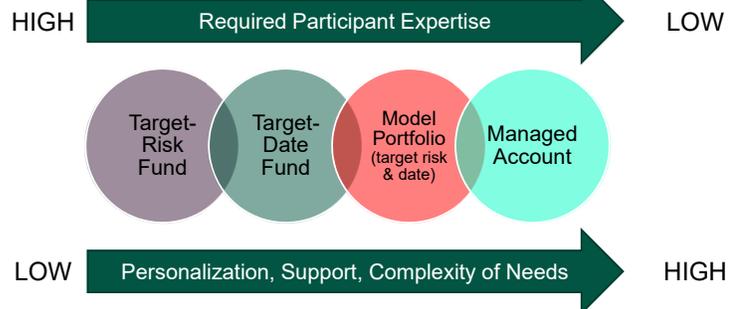
5

Why the topic matters – behavioral finance

Do-it-Myself
(Customizer)



Help Me or Do-it-for-Me
(Delegator or Fine Tuner)



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How lineup construction can assist with asset allocation decisions

What's available for core lineups

Additional investment options available for asset allocation solutions

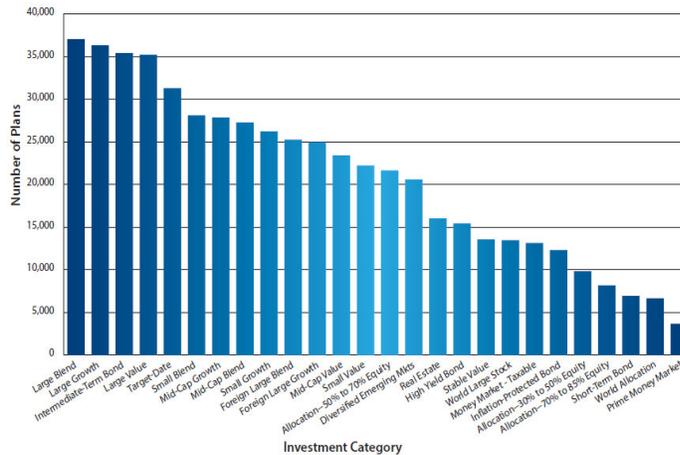
Evaluating plan menus

Balancing robustness with keeping complexity manageable



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What's available for core lineups

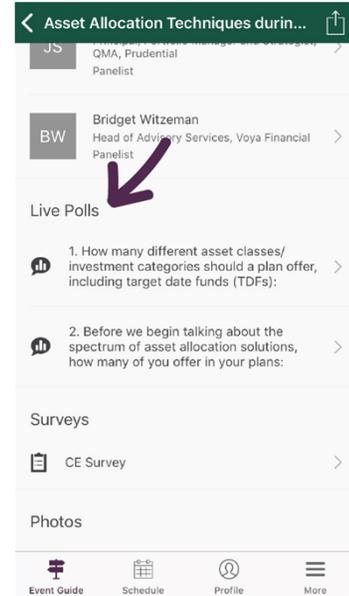


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ERISApedia.com: 401(k) Portfolio Study of Investment Categories, January 2019

Let's Take a Poll

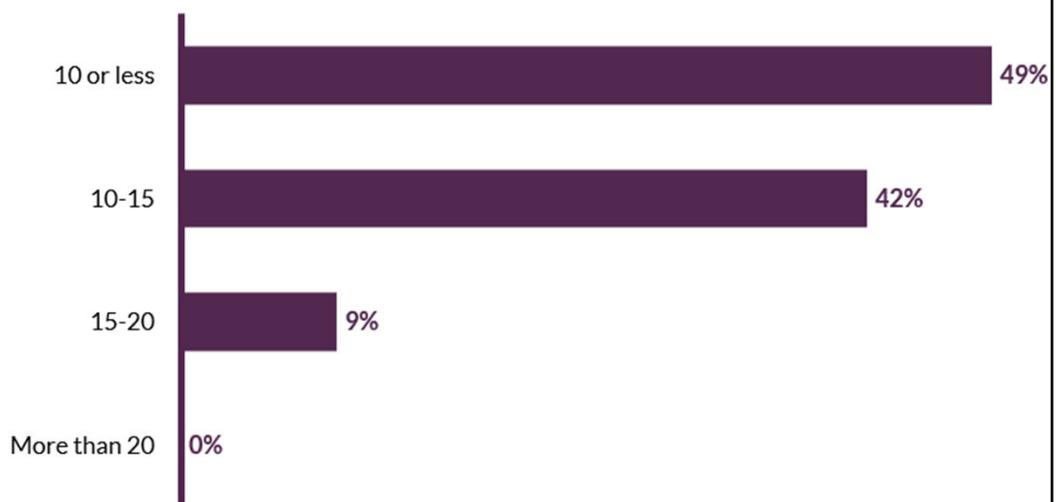
1. Select this session from the agenda.
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4. Exit poll.



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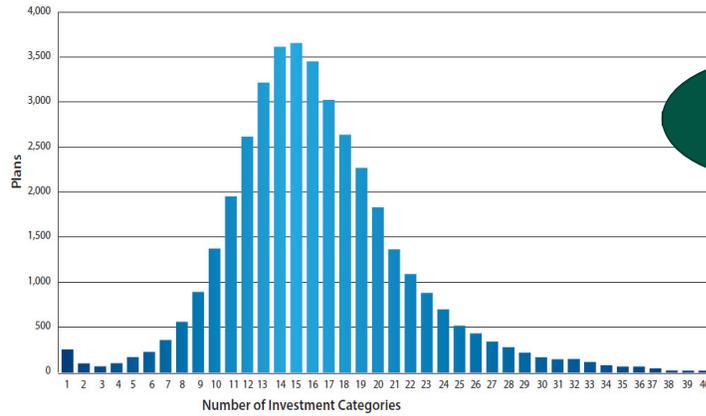
1. How many different asset classes/investment categories should a plan offer, including target date funds (TDFs):



Source: <https://api.cvent.com/polling/v1/api/polls/spnmq96k>

10

Average number of asset classes available



Average of 16.2

ERISApedia.com: 401(k) Portfolio Study of Investment Categories, January 2019



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Additional investment options available for asset allocation solutions

Inflation Sensitive

- TIPS
- Real Estate
- Global REITS
- Commodities
- Real Assets

Income Generation

- In-plan Annuities
- Absolute Return Fixed Income
- Long duration bonds fund

Diversifiers

- Bank Loans
- GTAA
- Preferred Stock
- Hedge Funds
- U.S. Balanced

Environmental, Social and Governance (ESG)

- Single focus
- Blended Focus



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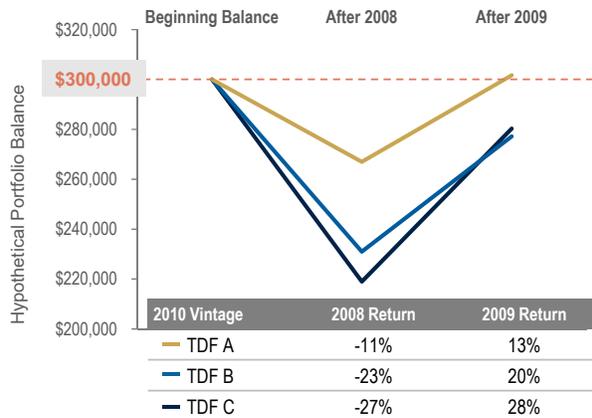
Non-traditional asset classes can lead to better preservation of capital

83%

of participants near retirement indicated that they are willing to give up returns on the upside, in order to protect on the downside¹

CASE STUDY: 2008-2009 NEAR-RETIREMENT

Hypothetical Portfolio Balances of 2010 Vintages



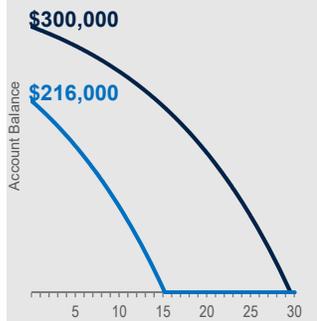
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Source: Morningstar, Inc.; Assuming No Cash Flows. For illustrative purposes only. Data represents past performance and is no guarantee of future results. ¹ 401(k) Specialist, "401(k) Participants Want Investment Protection Over Growth," 6/28/17; Cerulli research shows 83% of TDF participants age 60 to 69 and 86% of those 70 and older support their TDF managers protecting their portfolios from market losses, even if that means the TDF underperforms in certain market environments.

Non-traditional asset classes can lead to better preservation of capital

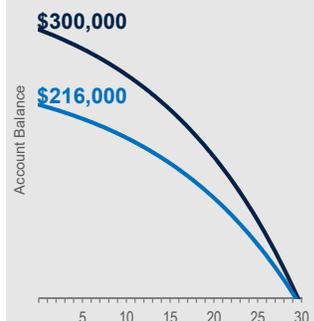
RUN OUT OF MONEY SOONER

- Maintain lifestyle with \$1,800 monthly income, but run out of savings early



LIVE ON LESS

- Reduce lifestyle with \$500 less in monthly income to make savings last 30 years



WORK LONGER

- Undesirable for the participant, and comes at a cost to the employer



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Source: PGIM. This investment scenario is for illustrative purposes only. A participant set to retire with a balance of \$300,000 may expect to receive \$1,800 per month (\$21,600 annually) assuming 6% annual return for 30 years after retirement. Should the participant experience a drawdown of 28% (the average 2010 TDF return during the Financial Crisis, Source: Morningstar 10/9/07-3/9/09), the beginning balance would decline to \$216,000. ¹ Source: "Why Employers Should Care About the Cost of Delayed Retirements," Prudential Financial 2017.

Evaluating plan menus

- Plan diversification should be the top priority of participants.
- Historically, advisors suggested a 60/40 equity to fixed income allocation
- Most now agree investors should consider increased diversification for the reasons below¹:
 - Increasing longevity shifts the focus to growth.
 - Option 1: Diversification is critical for long term investing
 - Option 2: Traditional 60/40 asset mix limits diversification
 - The market is evolving.
 - Investors' needs aren't static.



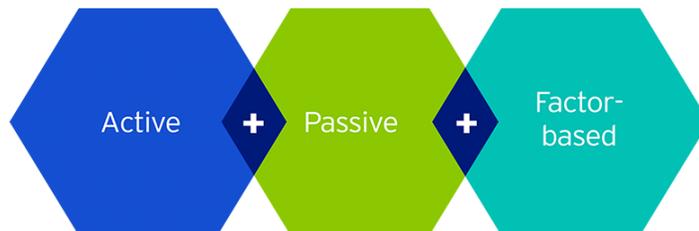
1. <https://money.usnews.com/investing/investing-101/articles/why-the-60-40-portfolio-is-dead-for-retirement-planning>

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Balancing robustness with keeping complexity manageable

- Strategic allocations should be broadly diversified to meet client long-term investment objectives.
- Rather than solely focusing on traditional asset classes, allocations may also include alternatives to enhance diversification
- Diversification may also be improved, by blending active, passive and factor-based strategies.
- Factors are characteristics of securities such as value and quality that may help enhance returns.



For illustrative purposes only.



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Types of asset allocation

Strategic and Tactical Asset Allocation

Glidepaths



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Types of asset allocation

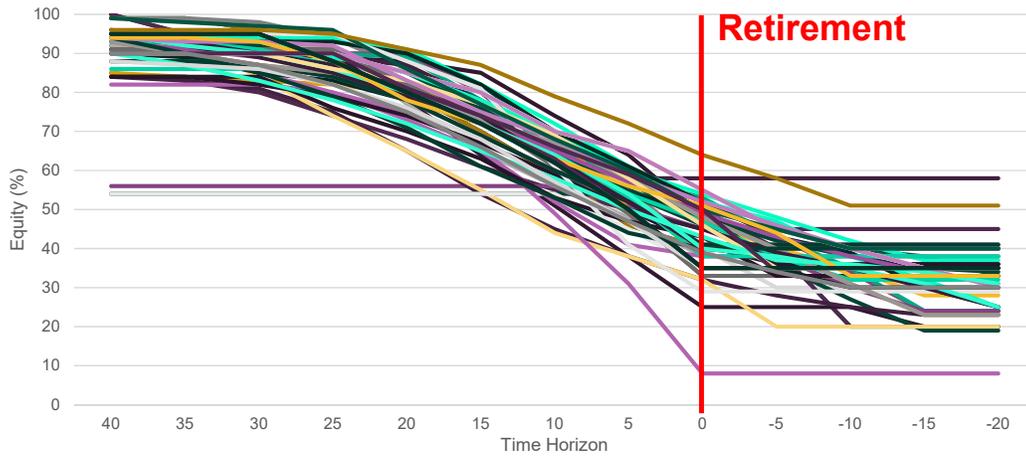
	Strategic Asset Allocation	Tactical Asset Allocation
Time Horizon	Long-term (ex: 10 years – indefinite)	Short-term (ex: days, weeks, months)
Policy Driver	Focus on long-term expectations with low emphasis on current market conditions	Focus strongly on current market conditions
Beliefs	Beta drivers and mean reversion	Alpha drivers with an ability to add incremental return through predicted shifts in market fundamentals
Opportunities	Long-term consistent relative performance	Market timing adds ability to add alpha (up/down markets)
Risks	Missing short-term alpha opportunities	Adversely adjusting risk characteristics at inopportune times



NAGDCA ANNUAL CONFERENCE Source: QMA.
September 8-11, 2019 | New Orleans Shown for illustrative purposes only. Please see 'Notes to Disclosure' page for Important Information including risk factors and disclosures.

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Target date glidepaths: addressing key risks



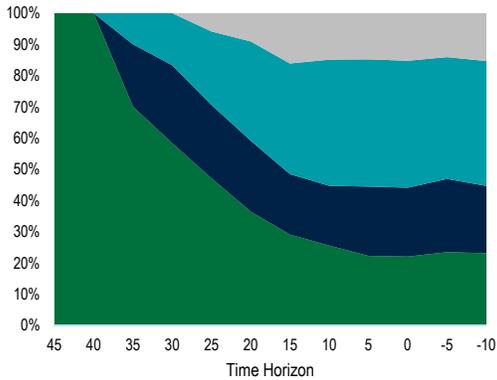
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Source: Morningstar, QMA.
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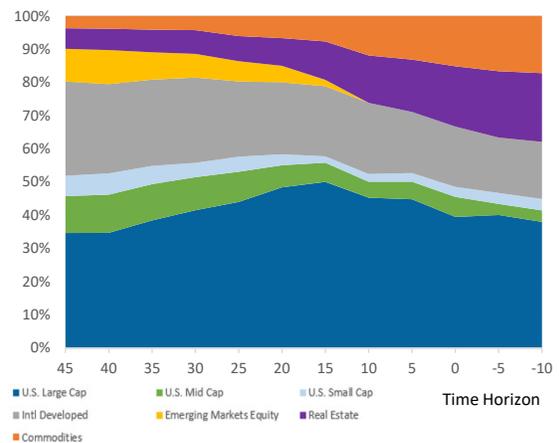
Asset allocation glidepaths within the glidepath

Fixed Income Glidepath



■ Core Plus ■ Core Bond ■ TIPS ■ Money Market

Equity Glidepath



■ U.S. Large Cap ■ U.S. Mid Cap ■ U.S. Small Cap
■ Intl Developed ■ Emerging Markets Equity ■ Real Estate
■ Commodities



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Source: Morningstar, QMA.
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Spectrum of asset allocation solutions

Model portfolios, target date funds (TDFs) and asset allocation services

Managed account providers and robo-advisors

Personalization

Blended solutions

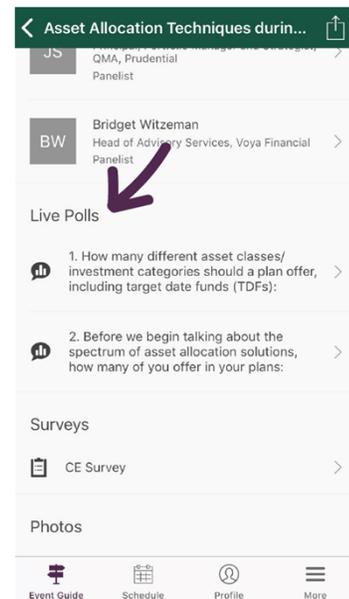


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Let's Take a Poll

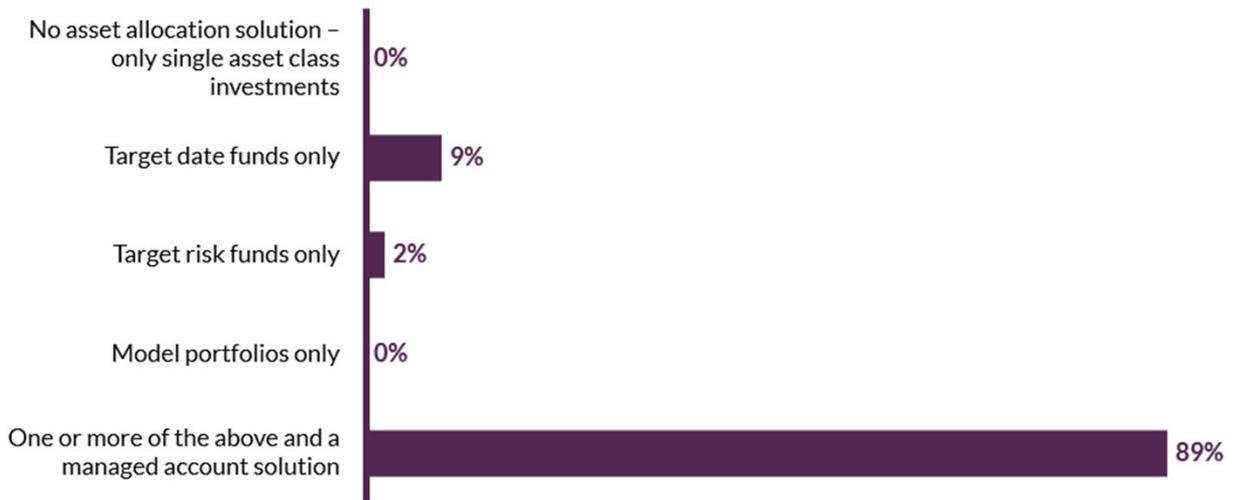
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4. Exit poll.



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2. Before we begin talking about the spectrum of asset allocation solutions, how many of you offer in your plans:

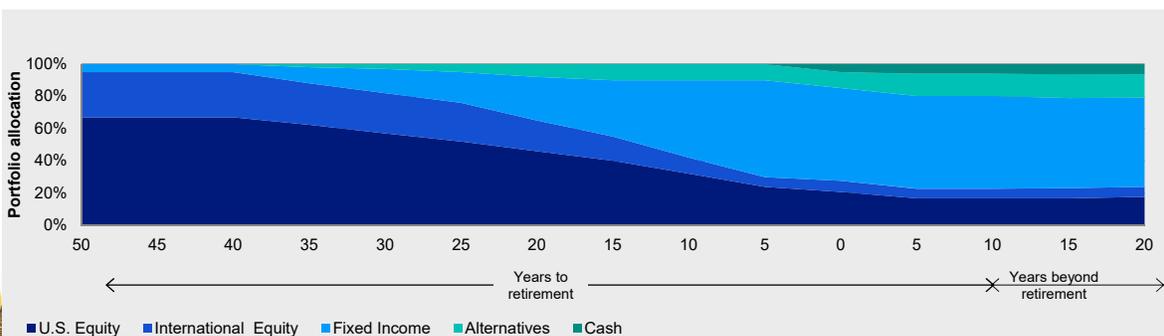


Source: <https://api.cvent.com/polling/v1/api/polls/spc7k8dc>

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Model portfolios, TDFs and asset allocation services

- We take a unique hybrid approach to our strategic allocation which:
 - Blends active, passive, and factor-based investing
 - Thoughtful and balanced approach to risk and return
 - Strategic alternative exposures, increasing diversification potential
 - Designed to minimize risk in periods of high market volatility
 - Engineered to carry investor through their retirement data



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Managed account providers and robo-advisors

	Robo Advisor	Managed Account
Automatic rebalancing	✓	✓
Digital tools	✓	✓
Personalization – sponsor provided data (including DB provided data)		✓
Participant customization	Often limited	✓
Integration with Plan web site		✓
Drawdown planning and execution		✓
Phone or in person support		✓
Financial planning		✓



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Personalization

Target Date Funds



Custom Target Date Funds



Managed Account Service

Data Driven Personalization



Additional Personalization

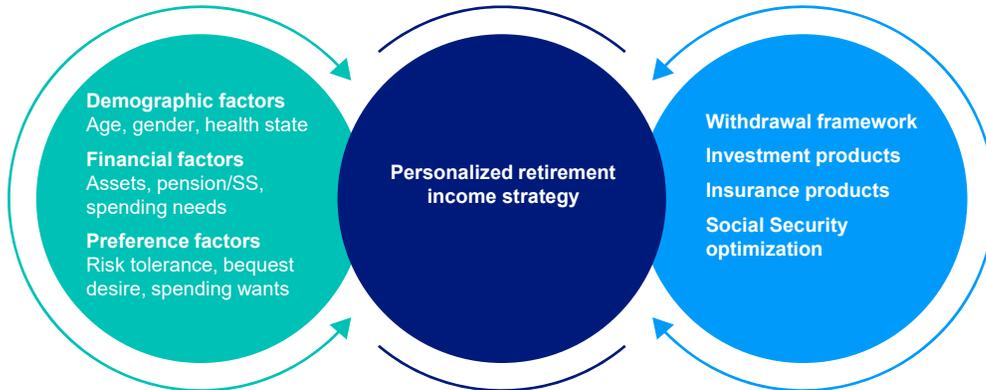


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Retirement income

Many factors affect decumulation, making the creation of a one-size-fits-all approach much less effective



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Establishing, measuring and evaluating an asset allocation solution

How effective is the solution in achieving its goal?

Sensitivity to the plan's defined benefit plan, if any

What is an appropriate fee structure based on value of the solution?



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Defining the goal and measuring success toward achieving it

- Think about establishing objectives for different ages, or areas of a glidepath, including market value protection near retirement.
- Propose specific metrics and incorporating them in plan IPS.

	Younger Investors	Investors Near Retirement	Retirees
Performance Evaluation Metrics	<ul style="list-style-type: none"> • Long-term peer-relative results • Standard deviation • Sharpe ratio • Performance vs. custom Bench 	<ul style="list-style-type: none"> • Peer-relative results in time periods in which the market has declined by 10% or more • Standard deviation • Sharpe ratio • Max drawdown • Down-market capture ratio • Performance vs. custom Bench 	<ul style="list-style-type: none"> • Fund net returns vs CPI • Peer-relative results in time periods in which the market has declined by 10% or more • Standard deviation • Sharpe ratio • Max drawdown • Down-market capture ratio • Performance vs. custom Bench



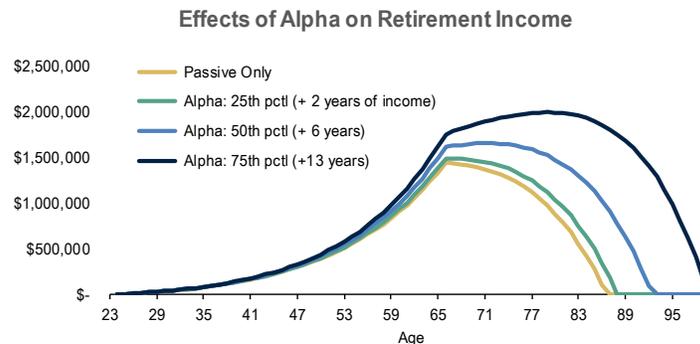
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Source: QMA.
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Ultimate goal is to help participants retire securely

- “Alpha” can dramatically impact retirement outcomes.
- Just 35 basis points of additional return annually over a lifetime of savings and spending can provide an additional six years in retirement.



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Total retirement savings over an individual's lifetime. Participant assumptions: initial age of 23, initial salary of \$40,000 with 3% annual salary growth, 10% savings rate, and withdrawal rate of 71% of final salary with subsequent 3% annual cost-of-living adjustments beginning at age 66. Investment assumptions (arithmetic): annual portfolio return of 7%, passive investment fee of 0.10%, active investment fee of 0.60%, and 1.0% gross of fee alpha assumption with a tracking error of 3% normally distributed. Alpha percentiles net of fees (geometric): 0.03% at 25th percentile, 0.35% at 50th percentile, and 0.68% at 75th percentile.

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Polling question

Before we begin talking about the impact of Pension Plans on Asset Allocation solutions, how many of you offer a DB plan:

1. Yes, and available to all employees
2. Yes, but there are different formulas for different employee groups
3. Yes, but frozen and not available to new employees
4. No



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Sensitivity to the plan's defined benefit plan

- Does the solution's allocation take into consideration the relative size of any defined benefit and, if so, to what degree?
- Does it treat a cash balance pension in the same way it does a traditional pension?
- Can your defined benefit plan be automatically integrated for consideration in the solution?



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What is an appropriate fee structure based on value of the solution?

No “one-size-fits-all” approach to pricing. Pricing schedules are generally negotiable and depend on many variables

- Complexity of solution
- Competitiveness in the market place
- Vehicle type
- Desired exposures
- Hedging and use of derivatives
- The average annual net expense ratio for target date plans is around 0.54%; average management fees fall around 0.21% per the Morningstar 50%-70% equity target date allocation category¹
- In fund-of-fund structures, average acquired fund expenses are 0.41%¹



¹ Source: Invesco Product & Market Research Group. Data as of May 31, 2019

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Conclusions: Key Takeaways

Asset allocation is an essential decision for DC participants

Most appropriate allocation varies by time horizon and personal details

Viable solutions abound, including blended solutions, no need for DIY asset allocation



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Conclusions and Questions



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The slide features a purple background on the left with white text. On the right, there is a dark vertical strip with the NAGDCA logo and 'ANNUAL 2019' in white. Below the text is a decorative graphic of a fleur-de-lis in gold and green, set against a background of a person's hands holding a pen over a document.

Financial Wellness

Moderator: Joe Saari, Financial Fitness Group
Panelists: Kenje Mallot, Alight Solutions
Jen Harmer, Lincoln Financial Group
Polly Scott, Wyoming Retirement Systems

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The slide is enclosed in a double-line border. It features a large title 'Meet our Panel' and three sections, each with a panelist's name and a bulleted list of their roles and experience. A small fleur-de-lis logo and conference details are in the bottom left corner.

Meet our Panel

Kenje Mallot, Alight Solutions

- Financial Solutions Product Director
- 22 years workplace financial benefits experience

Jen Harmer, Lincoln Financial Group

- Assistant Vice President of RPS Customer Experience Strategy & Development
- Jen joined Lincoln in 2014, and has 20 years industry experience

Polly Scott, Wyoming Retirement Systems

- Communication & Deferred Compensation Plan Manager
- 18 years experience in retirement plan administration

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The Stats are Startling



More than half of workers are stressed about their finances

> **75** PERCENT

More than 75% of employees live paycheck to paycheck

89%

OF EMPLOYEES ARE LOOKING FOR ADDITIONAL DIGITAL FINANCIAL WELLNESS TOOLS

Student loan debt is in excess of

1,000,000,000,000

and far exceeds credit card debt

FINANCIAL SICKNESS RELATING TO HEALTHCARE ABSENTEEISM & HIGH TURNOVER COSTS EMPLOYERS **BILLIONS**

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*Source: PwC's 2018 Employee Financial Wellness Survey

3

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Schedule Financial Wellness

KM

Financial Solutions Director, Health & Wealth Solutions, Alight Solutions
Panelist

>

PS

Polly Scott
Manager, Working Retirement System
Panelist

>

Live Polls

🗣️

1. Are you currently implementing a Financial Wellness plan at your organization?

>

🗣️

2. The most important thing in your life today is your overall....

>

Surveys

📄

CE Survey

>

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Defining Financial Wellbeing & Current State

Kenje Mallot

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Financial Wellbeing Defined

Confidently managing financial life today while preparing for the future and anything unexpected along the way

	Stage 1: Security	Stage 2: Foundation	Stage 3: Growth	Stage 4: Freedom
Traits	Living paycheck-to-paycheck Focused on daily needs	Understand daily needs Want to save for future goals, but not sure how	Established financial goals Doing all they can to reach goals	Meeting financial goals Transitioning from paycheck to paying themselves
Areas of Focus	Understand income & expenses Debt management	Establishing savings goals Prioritizing goals Understanding investments and insurance	Understanding of investment vehicles Maximizing asset growth Reprioritization of goals	Retirement income Estate planning Understanding social security



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Who Are Employers Focused Most On?

Stage	Security	Foundation	Growth	Freedom
Percentage of workers ¹	31%	21%	37%	11%
Percentage of employers focused on this stage ²	35%	56%	8%	1%

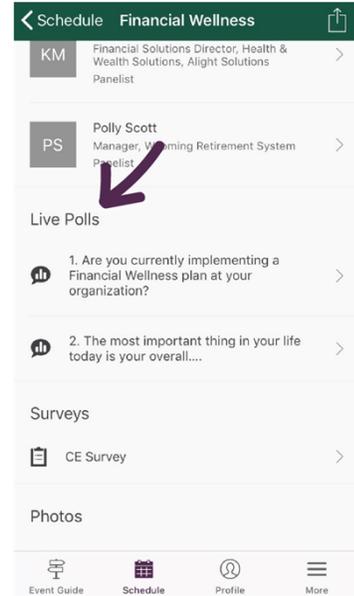
1: Aight Solutions, *Financial Mindset*® Study, 2017 2: Aight Solutions, 2019 *Hot Topics in Retirement and Financial Wellbeing*

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Let's Take a Poll

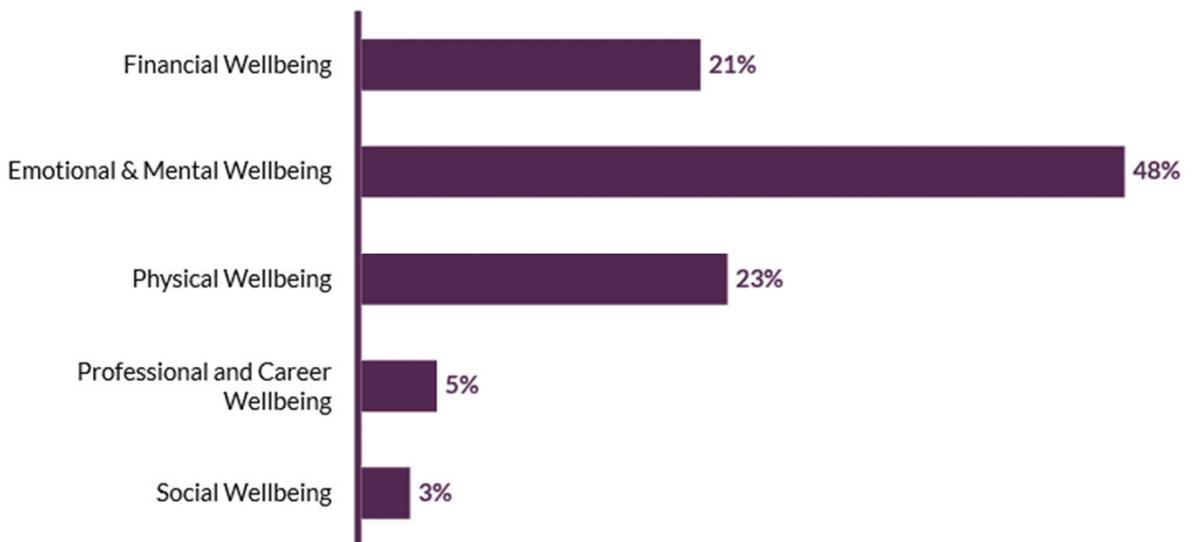
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The most important thing in your life today is your overall....



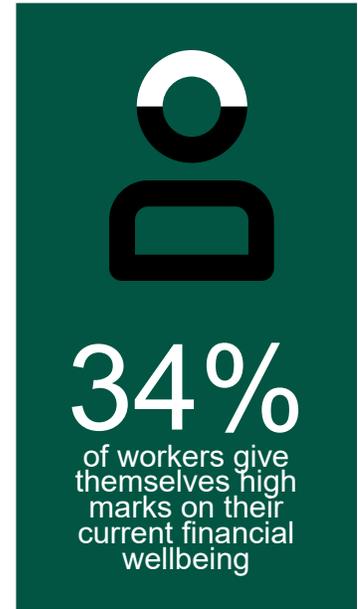
Source: <https://api.cvent.com/polling/v1/api/polls/splcukt3>

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Financial Wellbeing: Worker Perspectives

“For each of the following attributes, please indicate how important it is in your personal life today?”

	Overall	Centennials	Millennials	Gen X	Boomers
Financial wellbeing	75%	58%	74%	75%	77%
Emotional & mental wellbeing	74%	68%	72%	77%	74%
Physical wellbeing	71%	73%	67%	74%	76%
Professional and career wellbeing	55%	60%	61%	56%	44%
Social wellbeing	47%	44%	50%	47%	43%



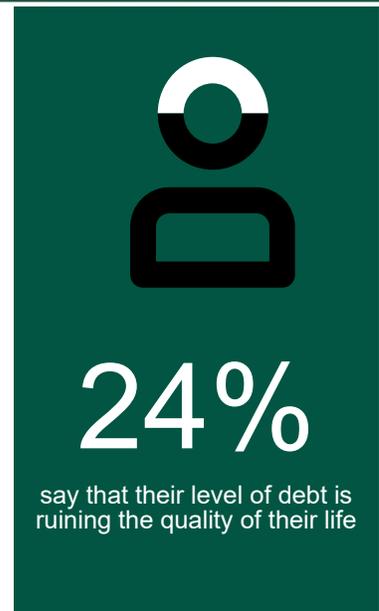
Source: Aight Solutions, 2019 Health and Financial Wellbeing Mindset

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Worker Perspectives on Financial State

“How would you describe your current financial situation?”



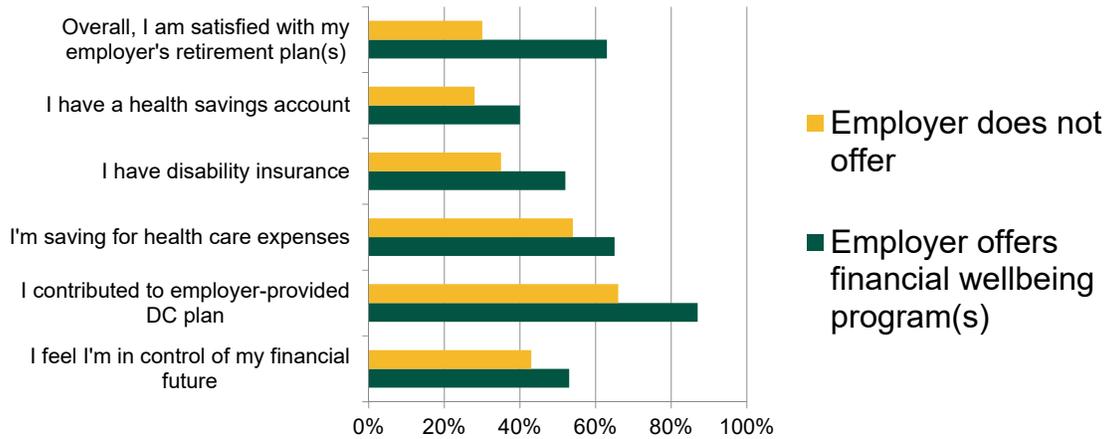
Source: Aight Solutions, 2019 Health and Financial Wellbeing Mindset



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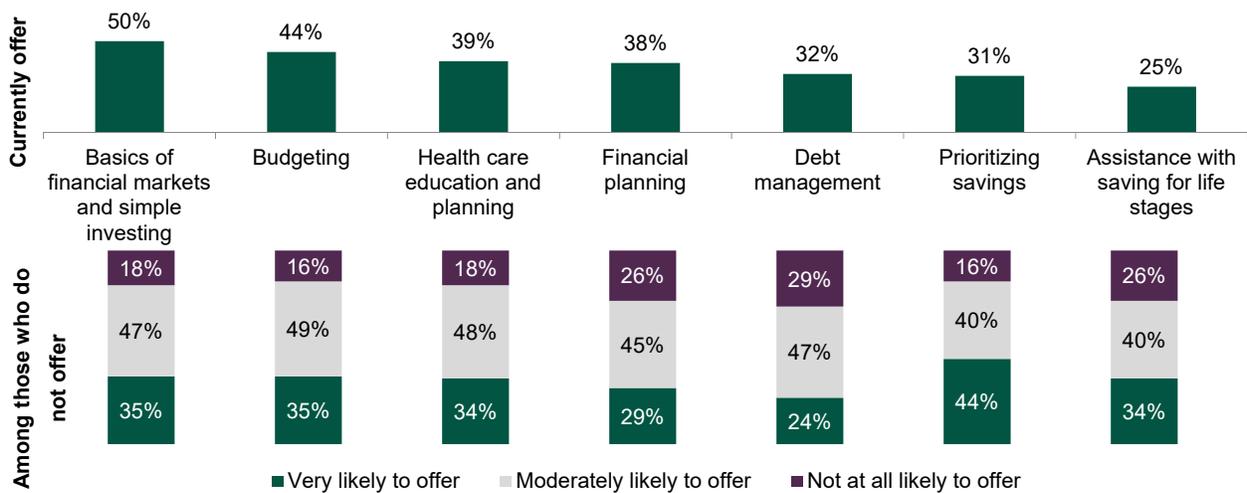
When employers help employees navigate the financial wellbeing journey, both benefit



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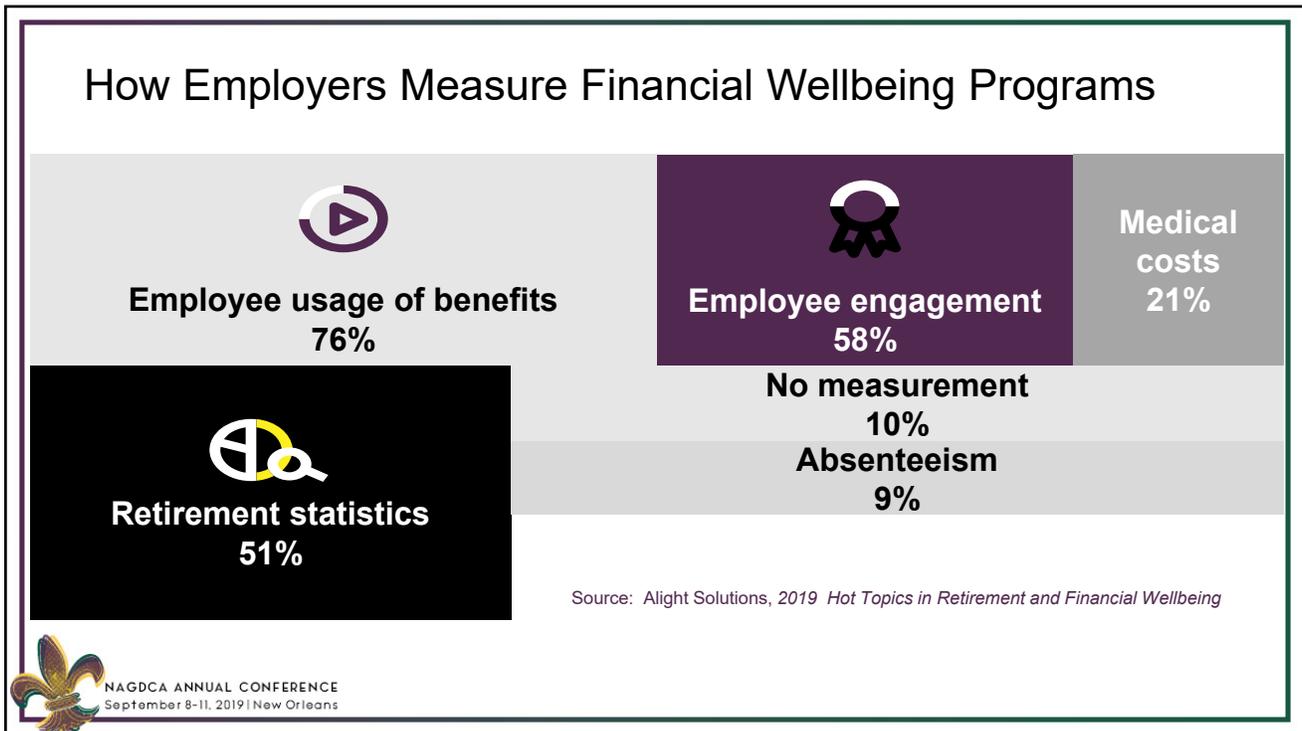
What Financial Wellbeing Programs are Employers Offering?



Source: Aight Solutions, 2019 Hot Topics in Retirement and Financial Wellbeing

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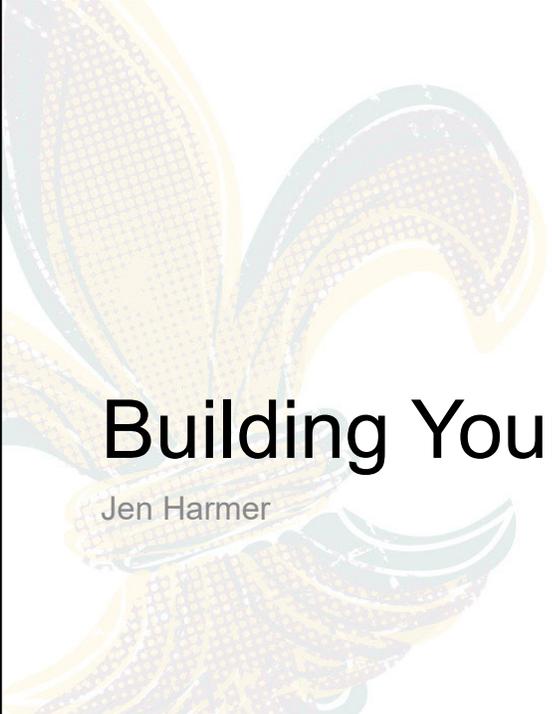


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Questions & Answers

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Building Your Program

Jen Harmer

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Why Financial Wellness? Why Now?

			
<p>Underserved Market large segment of employees cannot get enough help and are looking towards their employer for assistance</p>	<p>Rising Cost of Benefits continuing cost increases to employees for benefits like health care causing employee satisfaction to decrease, resulting in employers looking at other areas to add value</p>	<p>Data and Research increasing amounts of research and data to demonstrate employer benefits by having a more financially healthy employee base</p>	<p>Back to Basics in a competitive, low unemployment environment, increasing need to attract and retain talent</p>

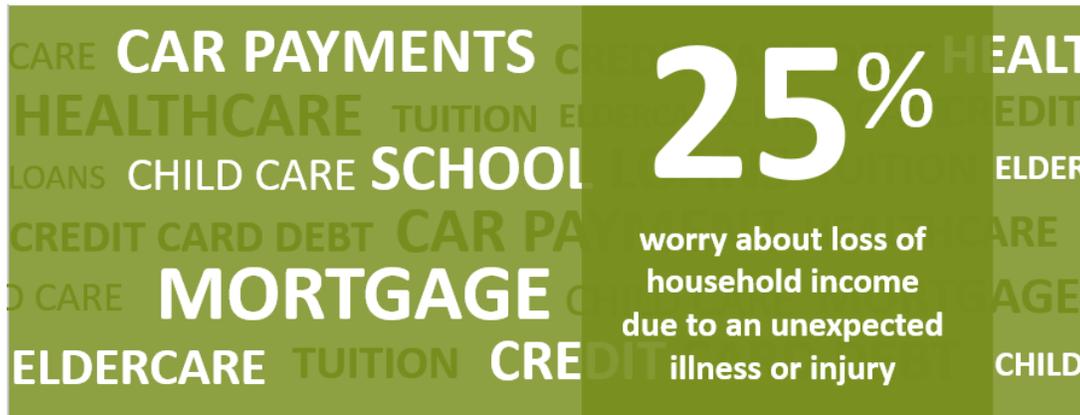


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Competing Priorities

In a world of competing priorities, how do you effectively engage employees?

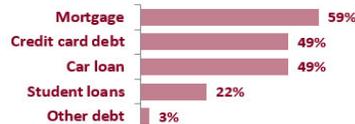


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What Financial Hurdles are Employees Facing



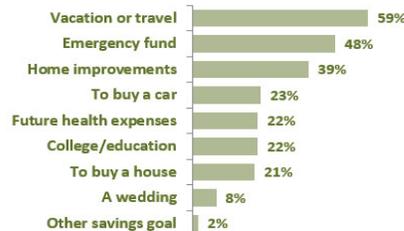
COMPETING PRIORITIES are vying for participant dollars, and even drive some participants to take loans.



81% of participants are working toward 3 or more financial priorities beyond retirement, and 45% are working toward 5 or more.



58% of participants with debt see their debt as a problem, including 13% who say it is a major problem.



59% of participants with student loan debt say they are saving less for retirement than they want to because of their student loans.



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*2017 Lincoln Retirement Power Study

Preparation and Planning

- 1 Understand What's available
- 2 Define Success
- 3 Prioritize
- 4 Identify Champions
- 5 Feedback



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Participant Adoption & Engagement

- 1 Communication
- 2 Consistency
- 3 Encourage Participation
- 4 Incentives
- 5 Feedback



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Financial wellness voice of the customer (VOC)

Voice of the employer

- 43% of employers that offer wellness say it increased engagement and morale
- 36% of employers report that wellness programs have alleviated stress
- 40% of employers say their wellness offering improved employee productivity

Voice of the employee

- 58% of consumers say that debt is a problem
- 51% of consumers want to learn to budget effectively
- Top concerns are emergency savings, retirement and monthly expenses

Voice of the market

- Wellness programs are offered throughout the marketplace
- Common capabilities:
 - Personalization
 - Education and literacy
 - Tools and calculators
- Differentiators:
 - Action and accountability
 - Services and products
 - Marketing and branding



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Source: PWC 2018 Financial Wellness Survey
Source: Lincoln Retirement Power® 2017 Participant Study

Measuring the Results

REDUCE MONEY STRESS

- Plan for today and retirement
- Prepare for emergencies
- Learn the finances of benefits
- Increase paycheck power
- Improve financial health

GET BETTER EMPLOYEES

- Better 401(k) usage and adoption
- Reduce 401(k) loans
- Increase benefits adoption
- Increase loyalty, reduce turnover
- Reduce absenteeism & presenteeism



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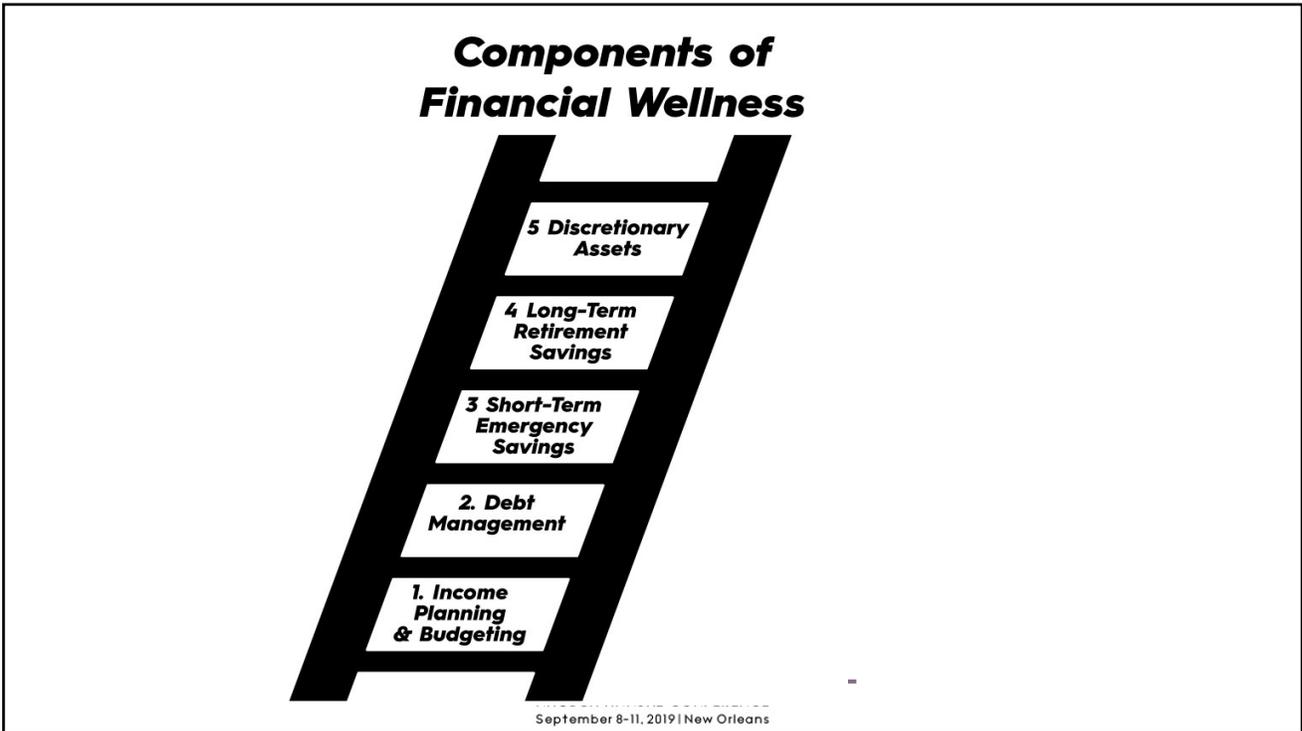


Real World Application

Polly Scott & Joe Saari

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Case Example from Wyoming



NATRONA COUNTY SCHOOLS

Natrona County Schools District #1

- Financial Wellness initiative kicked off June 2019
- This initiative was championed as a result of a collective bargaining committee
- Lump sum of money was available due to closure of some schools
- Eligible to approximately 2,000 employees

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What Was the Incentive?

Each employee had the opportunity to receive up to \$4,200

- Received a one time contribution of \$1,500 with WRS 457 Plan account
- Eligible for additional \$1,500 one time contribution to WRS 457 Plan account for participating in 2 financial literacy courses
- If employee contributes up to \$100 per month, NCSD #1 matches to WRS 457 Plan account



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FinLit Course

- HR Manager and high school teachers developed 2-part financial literacy course
- Course covers employer benefits and provides 5.5 hours of education on budgeting, debt, insurance and investing
- Can get college credit or CEUs for taking the course
- Results data available in late August; expecting nearly 100% participation



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Financial Fitness Impact: State of Wisconsin Results

- Overall impact based sample size of ~20,000 employees at 12 employers
- State of Wisconsin Employee Trust Funds engaged ~10,000 employees
- Impact Δ compares pre- and post-program Financial Fitness SCORE™ (“SCORE”)
- Economic impact analysis based on approach suggested by Personal Finance Employee Education Fund (“PFEED”) with the following variables:

Input Variable #1: Employees with a LOW SCORE cost \$3000 PEPY

Input Variable #2: Employees with MODERATE SCORE cost \$1500 PEPY

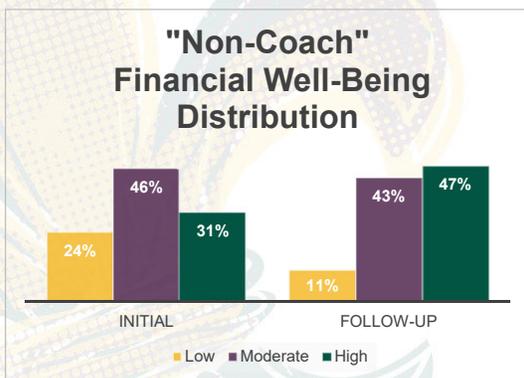
Input Variable #3: Employees with HIGH SCORE have NO negative cost impact



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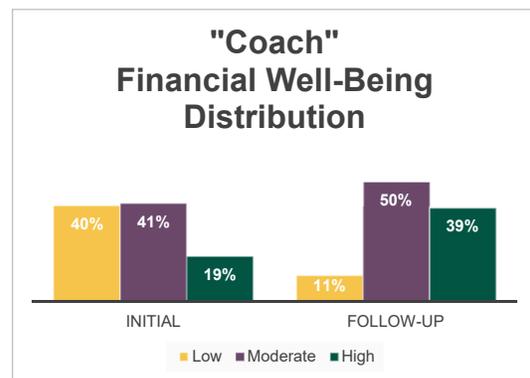
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Financial Fitness COACH™ - Program Results All Employers Combined



Non-Coach population average additional cost per Employee per year of...

Initial = \$1,410
Follow-up = \$975
Savings = \$435

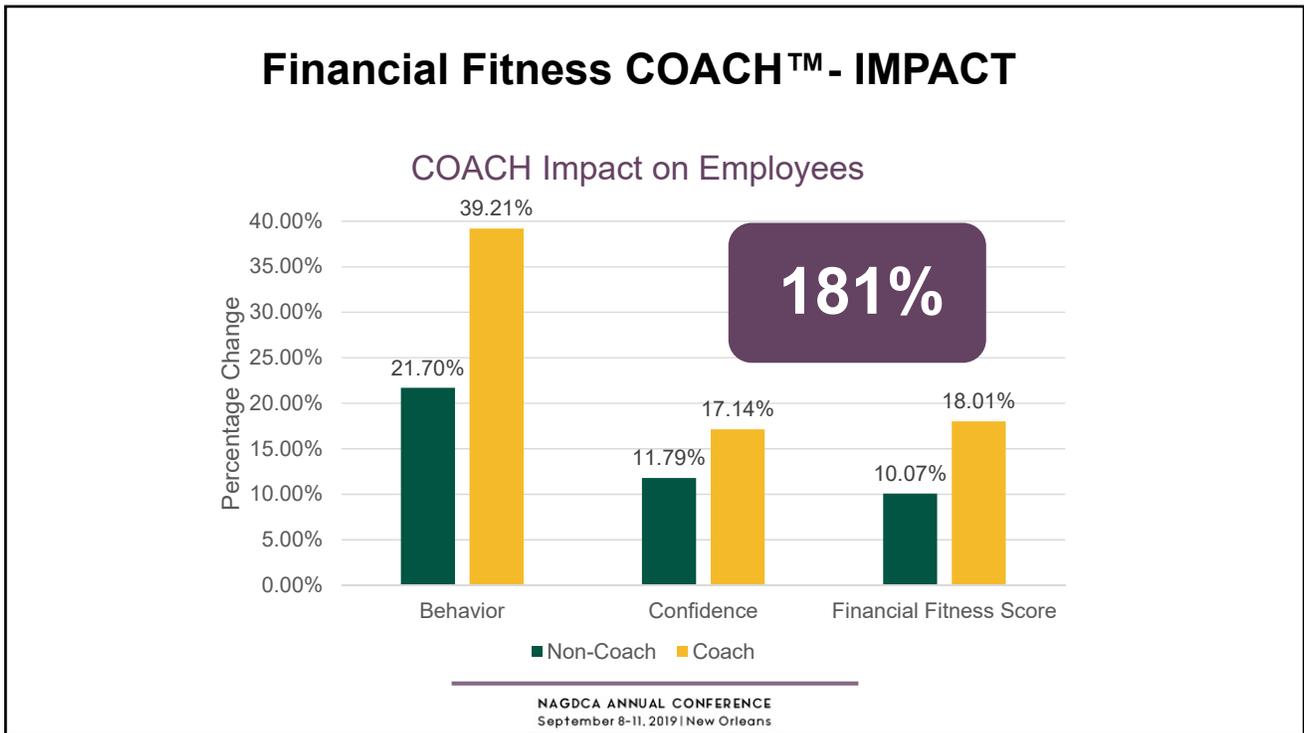


Coach population average additional cost per Employee per year of...

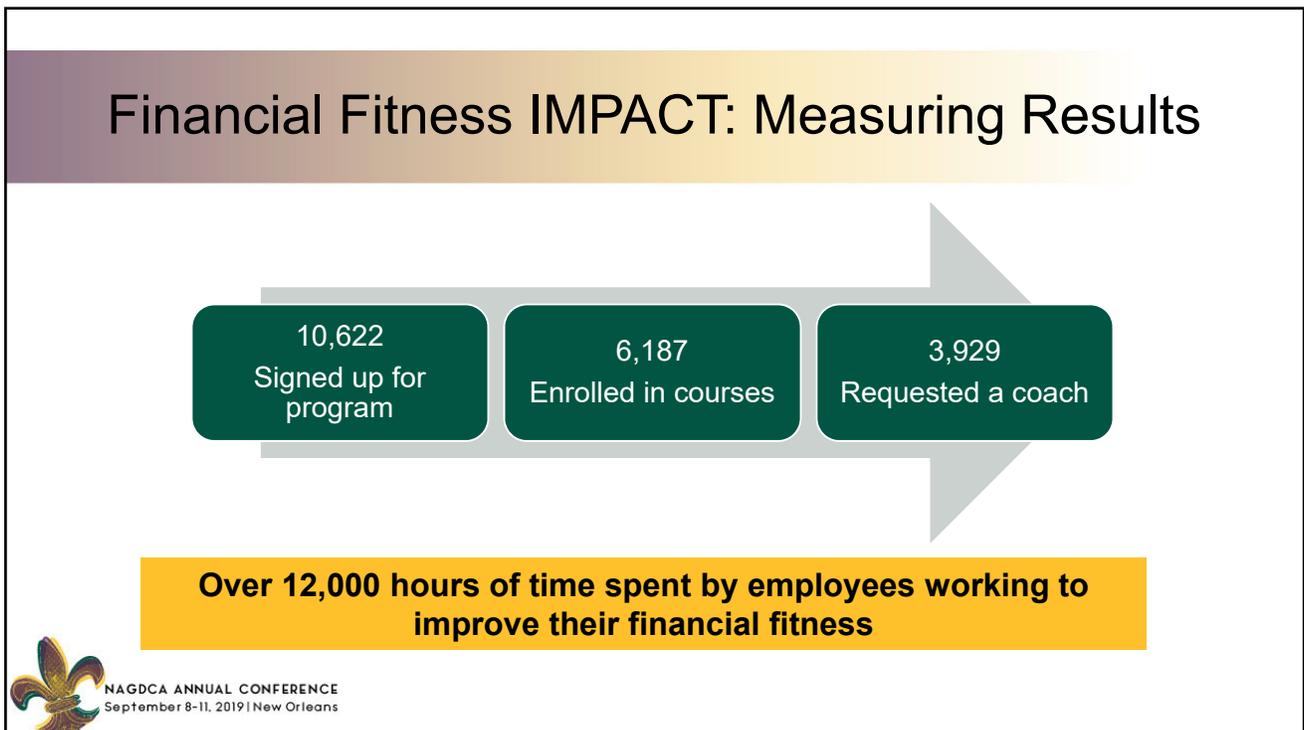
Initial = \$1,815
Follow-up = \$1,080
Savings = \$735

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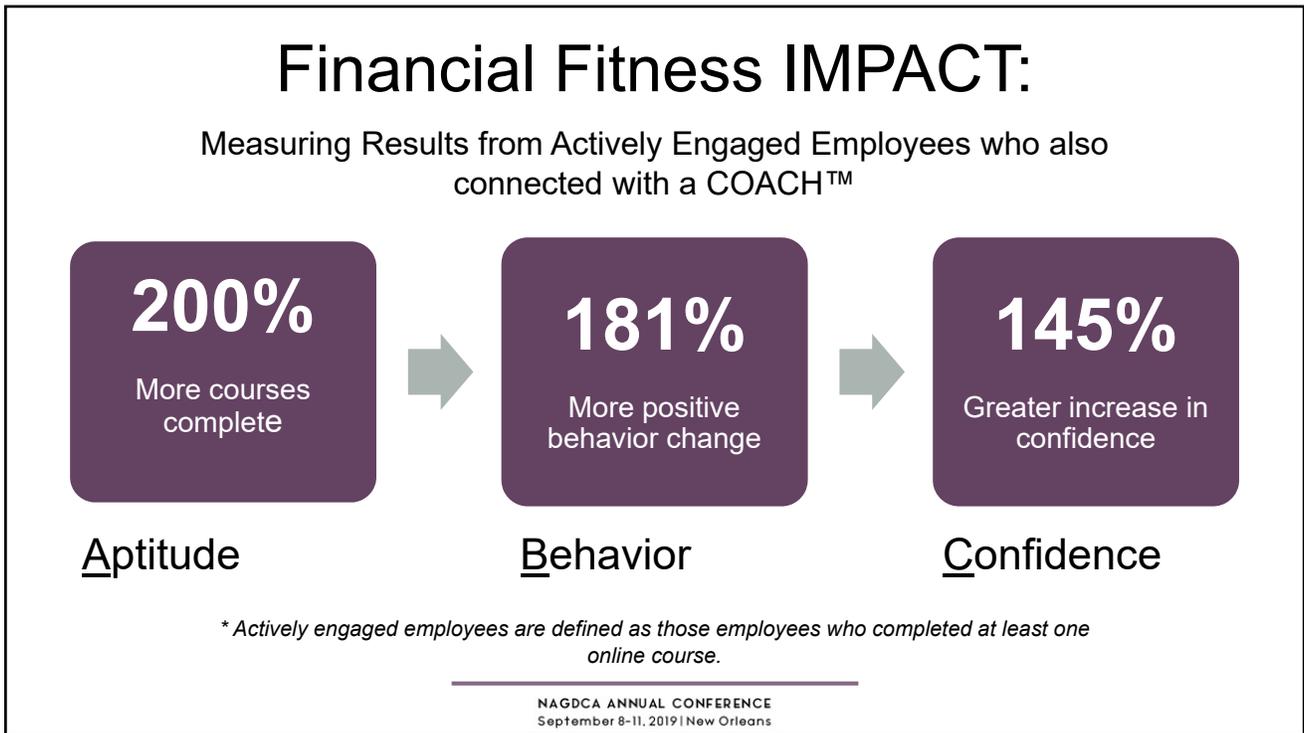
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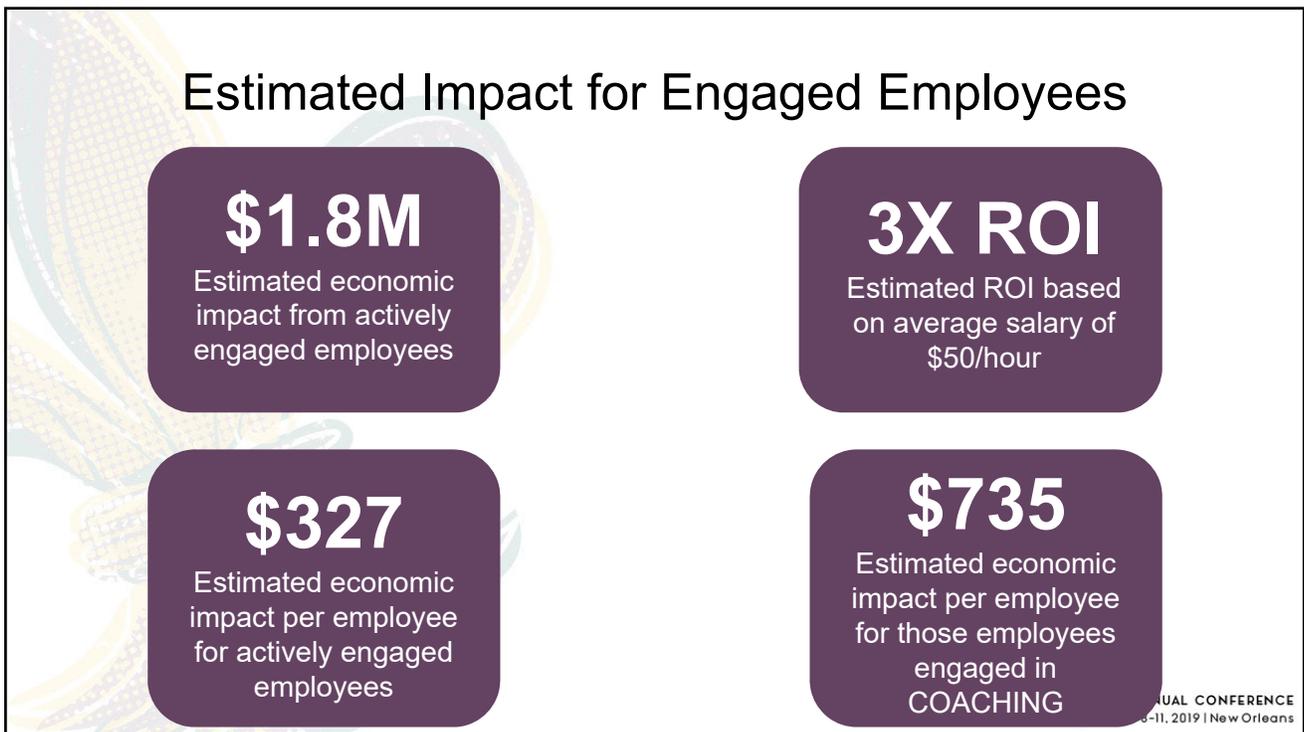
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Thank You

Questions & Answers



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Retaining Retirees and Those Nearing Retirement

Moderator:

Davetta Lee, State of Mississippi

Panelists:

- Kathryn Berkenpas, ICMA-RC
- Andrea Needham, Vanguard
- Gordon Tewell, Innovest



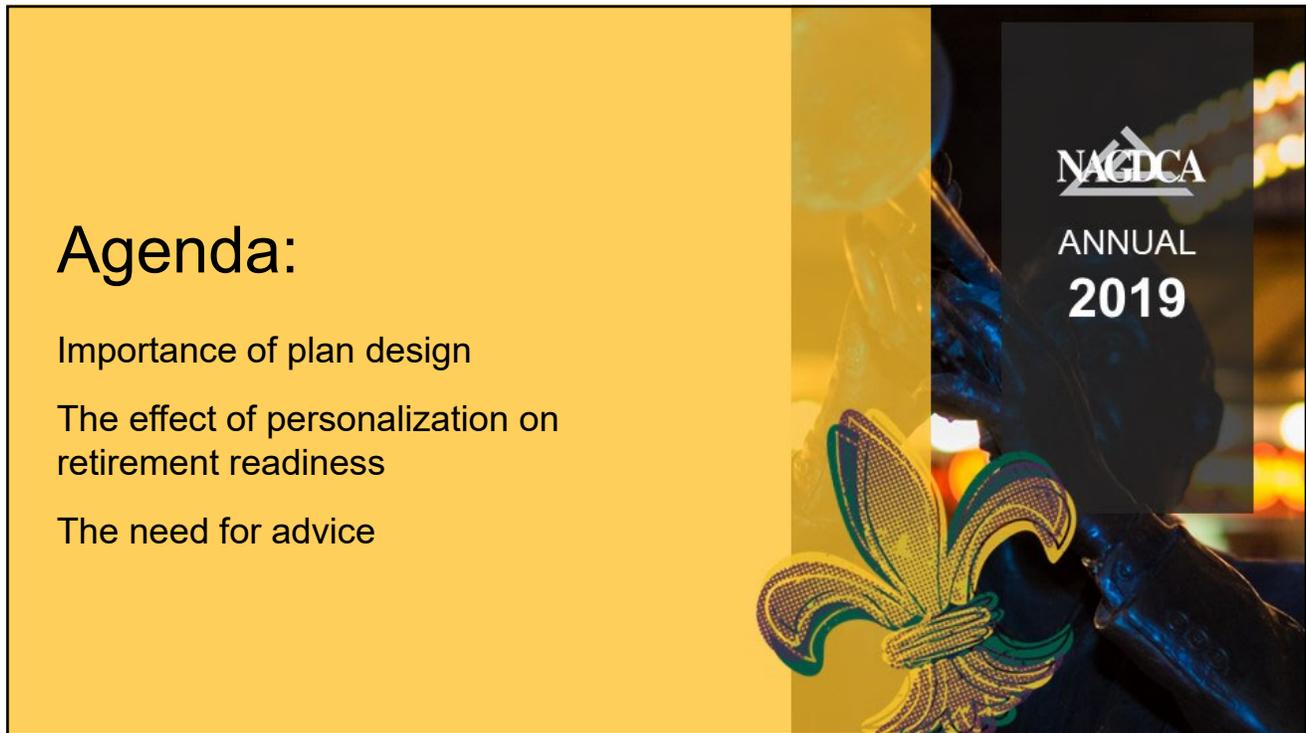
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Andrea Needham

Head of Participant Intelligence,
Vanguard participant Strategy and
Development



2



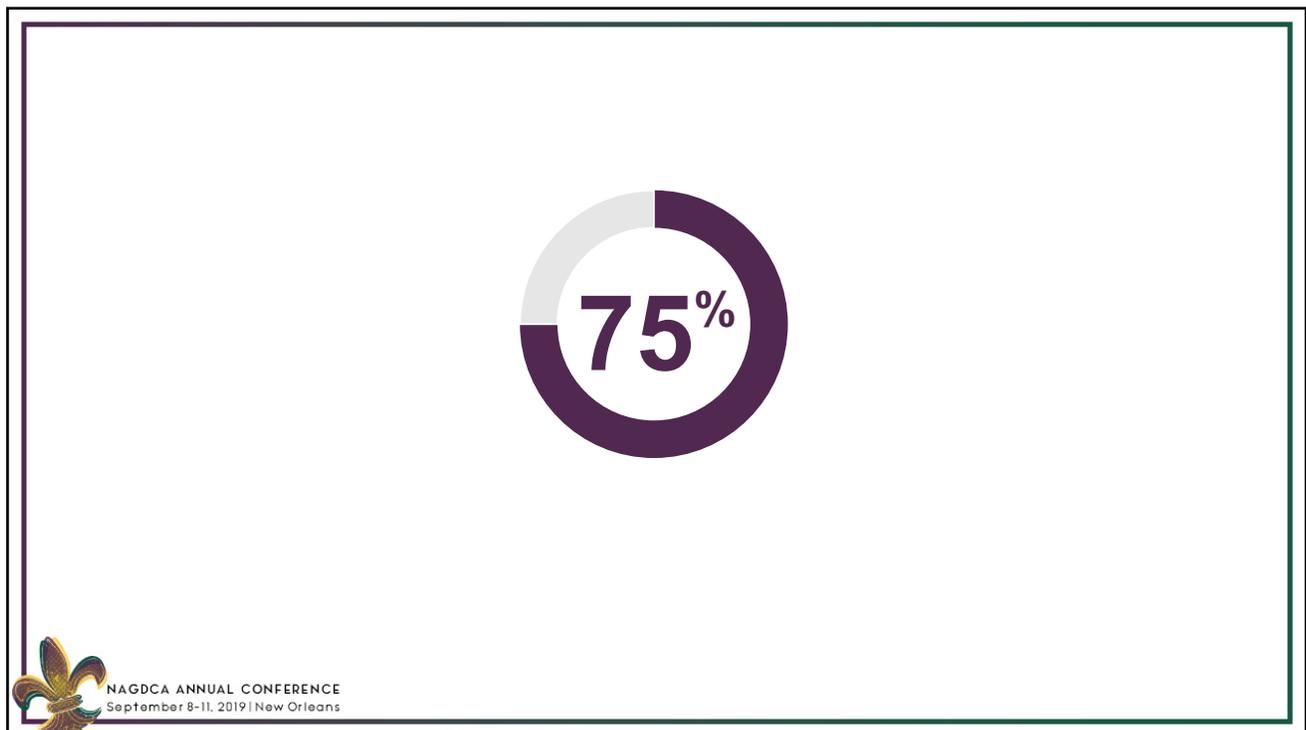
Agenda:

- Importance of plan design
- The effect of personalization on retirement readiness
- The need for advice

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The banner features a yellow background on the left with the agenda text, and a dark blue background on the right with the NAGDCA logo and the year 2019. A large, colorful fleur-de-lis is positioned in the lower right corner of the banner.

3

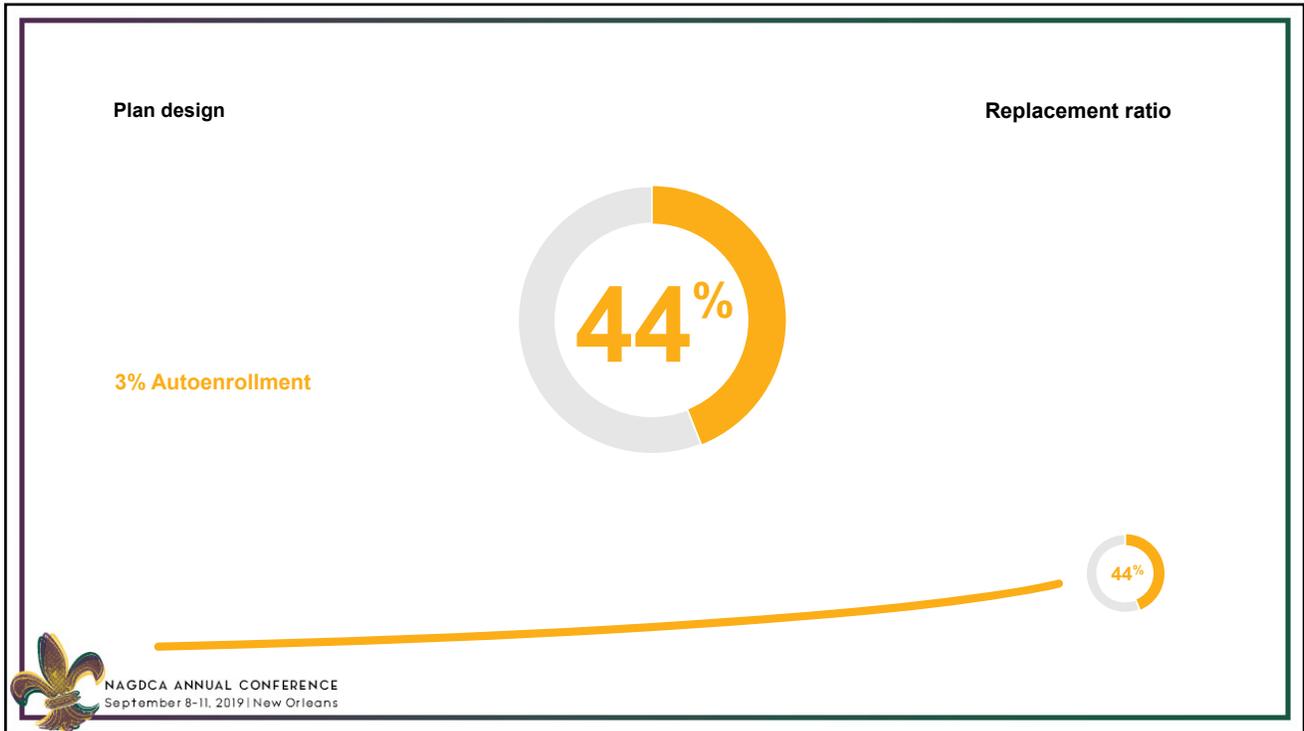


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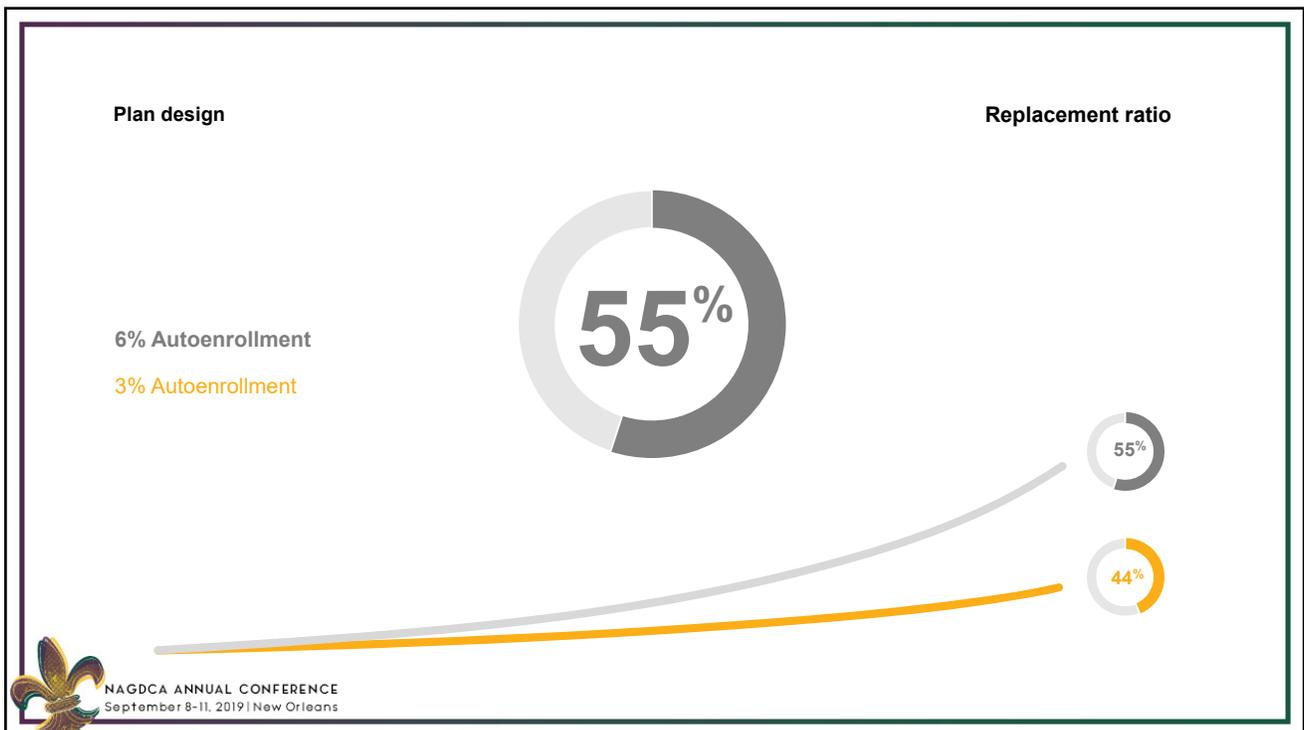
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The slide features a large donut chart in the center, with 75% of the circle filled in a dark purple color and the remaining 25% in a light grey color. The number '75%' is prominently displayed in the center of the chart. In the bottom left corner, there is a small fleur-de-lis logo followed by the text 'NAGDCA ANNUAL CONFERENCE' and 'September 8-11, 2019 | New Orleans'.

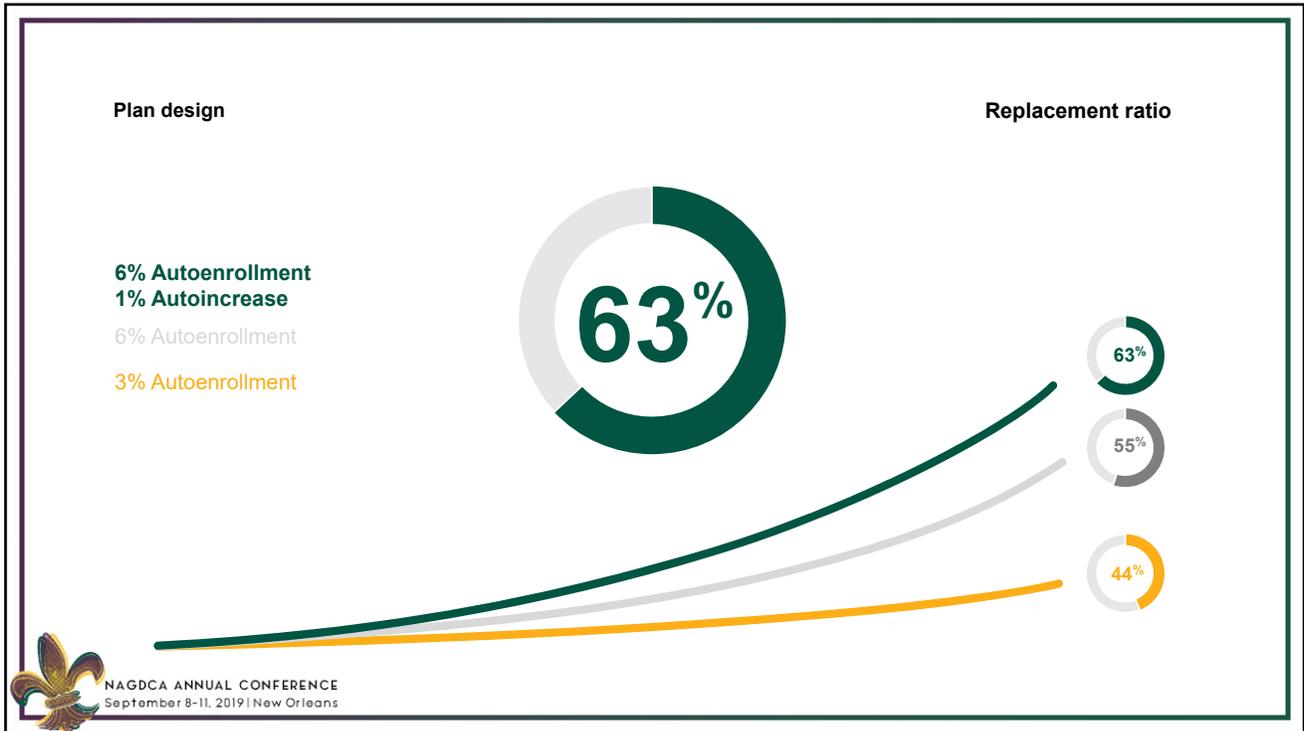
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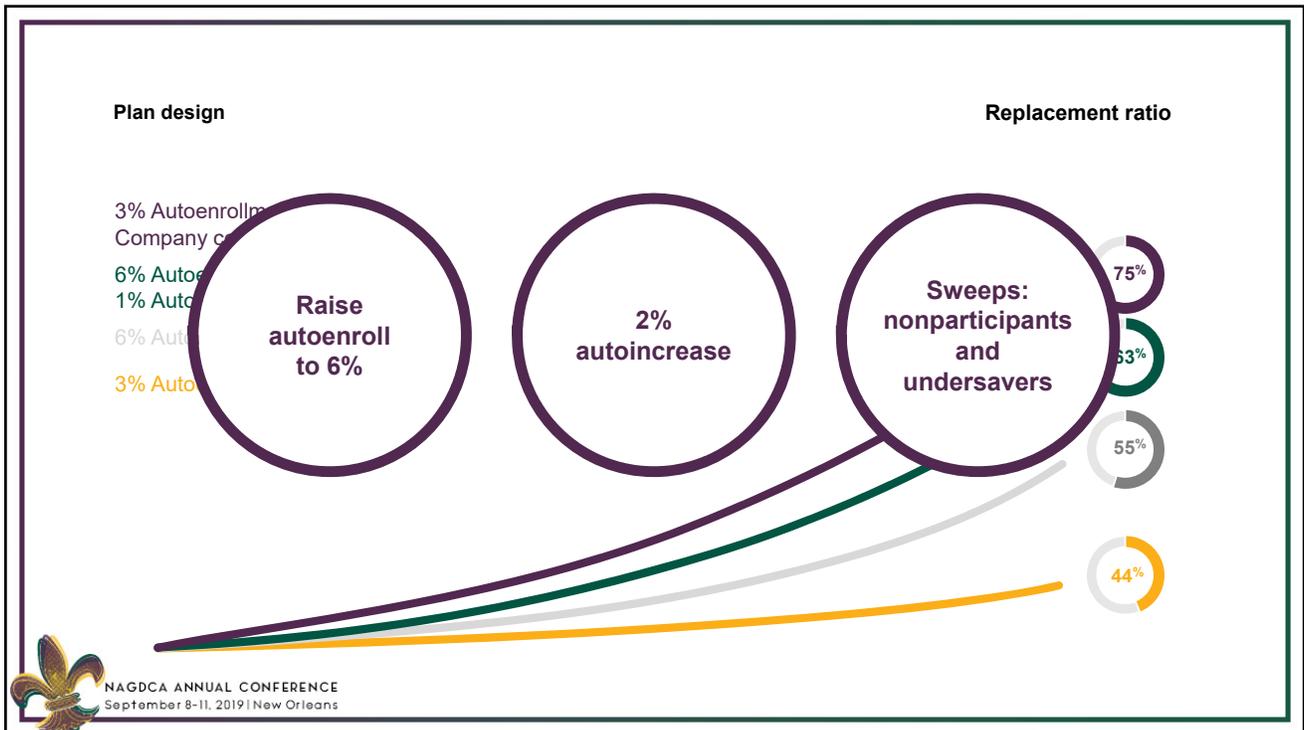
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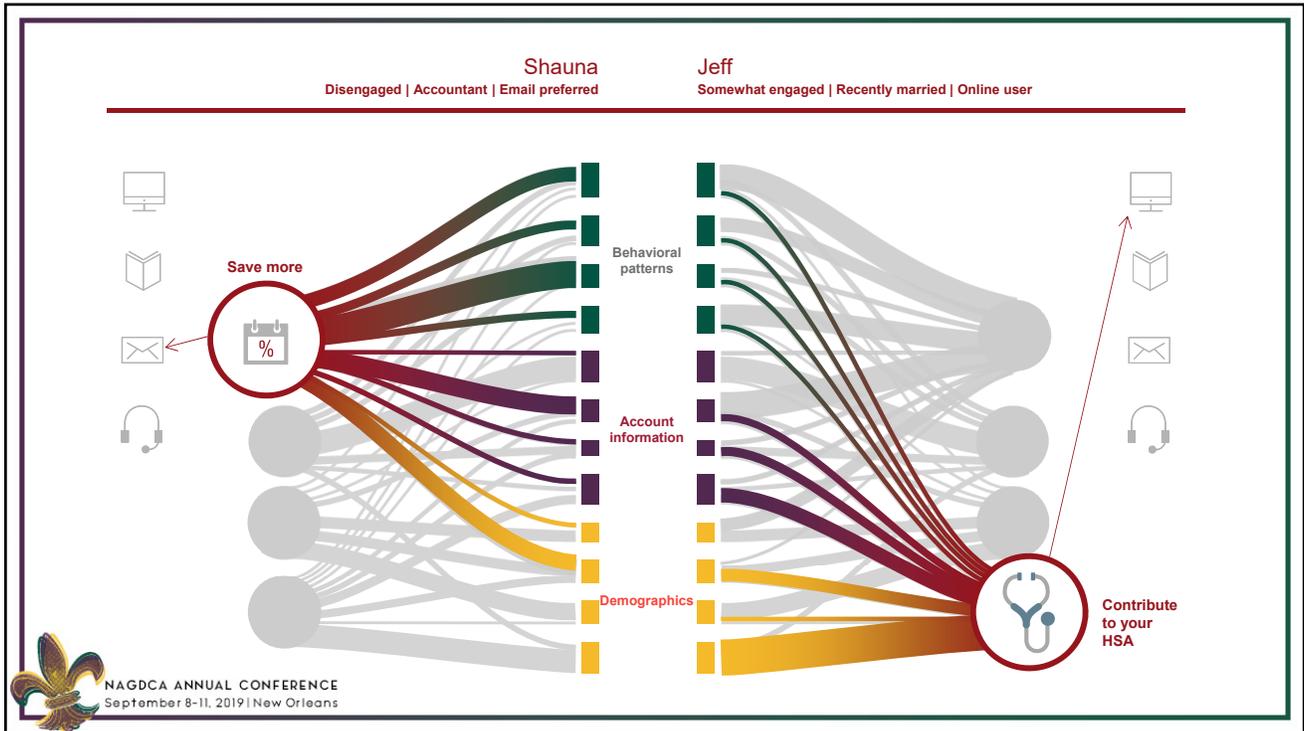
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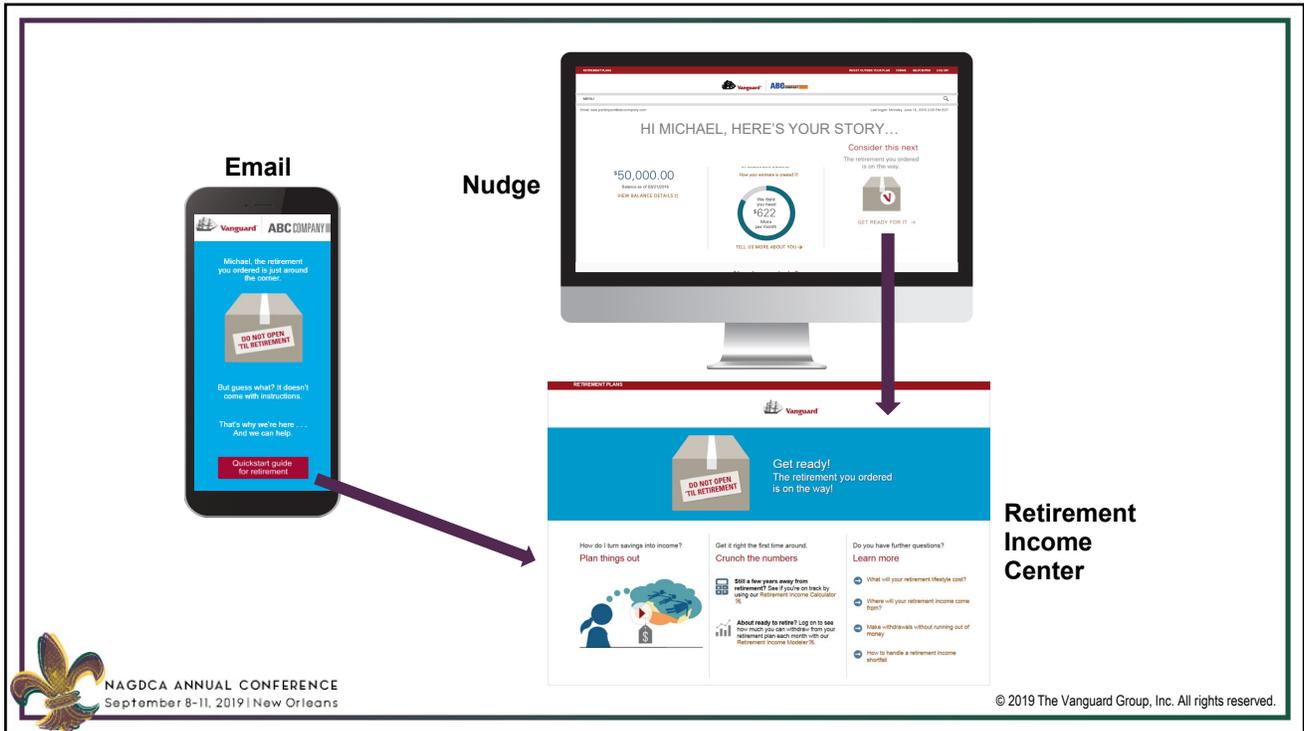
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6 in 10 workers find preparing for retirement stressful



Source: Employee Benefit Research Institute as of April 23, 2019.

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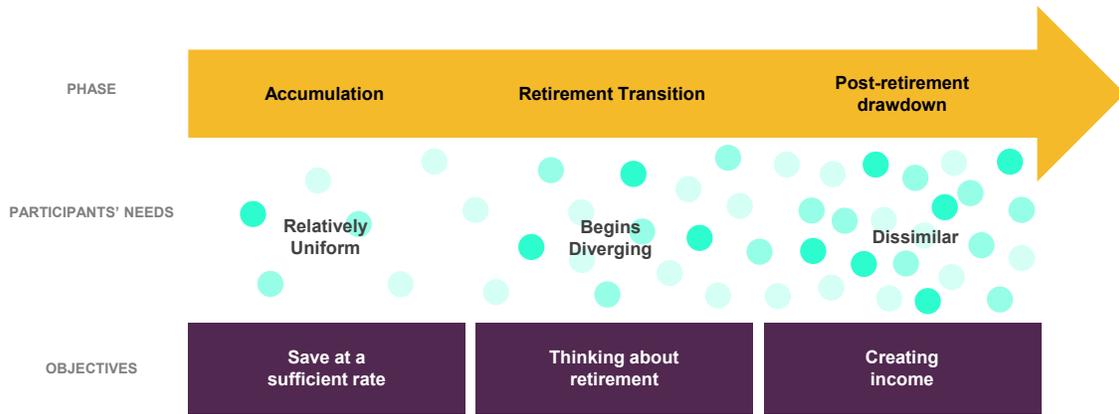
Gordon Tewell, CFA, CPC, ERPA

Principal
Innovest

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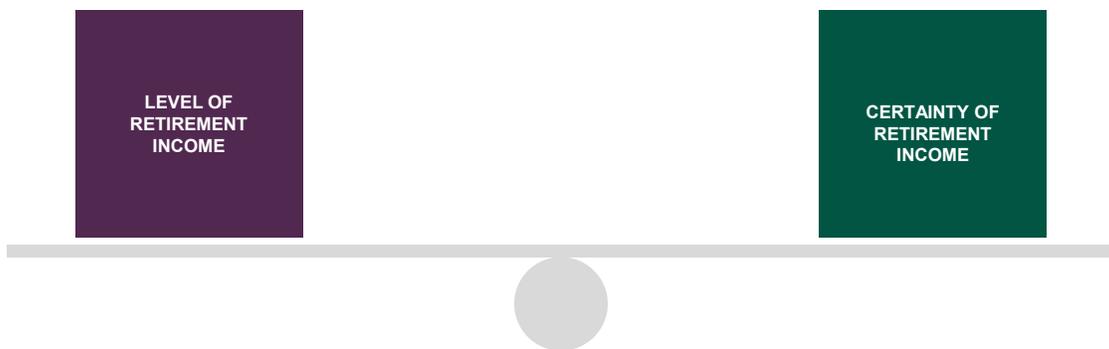
Participant Objectives Evolve



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Retirees struggle with the balance between level of retirement income and certainty of retirement income



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Complex and associated decisions retirees face



Asset Allocation

KEY QUESTION

How much should I allocate between stocks and bonds?



Withdrawal Rates

KEY QUESTION

How much can I withdraw in a given year?



Annuities

KEY QUESTION

How much should I allocate to a deferred annuity?



Social Security

KEY QUESTION

Should I take social security immediately or defer?

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Evolving the plan to accommodate retirees

- 1 Shape your philosophy on retiree retention
- 2 Evolve plan to allow withdrawal flexibility
- 3 Influence improved decisions making through communication, tools, and advice
- 4 Add retirement investment options suited to meet a variety of participant needs

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Ensure “Retiree friendly” withdrawal options are available

COMMON DC PLAN DISTRIBUTION OPTIONS	PREVALENCE	OBJECTIVE
Single Lump-Sum (entire balance) Types of single lump-sums: Cash-out Direct rollover to another employer’s DC plan Direct rollover to an IRA or rollover annuity	High	Aligns with forcing separated participants to exit the plan
Installment Payment Program A “systematic withdrawal plan” (SWP); also known as a “systematic withdrawal also known as a “systematic withdrawal investment plan” (SWIP)	Medium	“Retiree-friendly” (i.e., aligns with plan sponsor who desire to retain separated participants in plan)
Partial Withdrawals	Medium	“Retiree-friendly”
Annuity or Guaranteed Minimum Withdrawal Product	Low	“Retiree-friendly”

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Inspire and guide participants toward better decision-making



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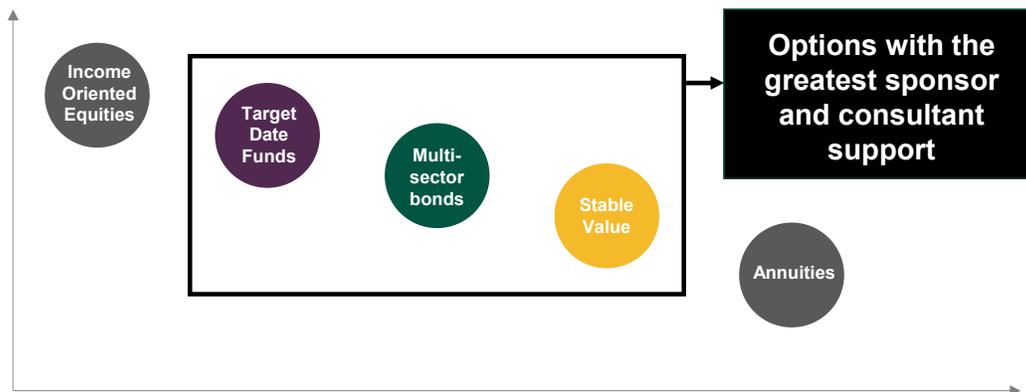
Evolving the plan to accommodate retirees



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A range of retirement investment options may be needed to meet participant needs



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Start early in crafting the right message to the right individuals at the right time using the multiple delivery channels

Your 457(b) Deferred Compensation Plan

Learn More:

- [Get to Know Your 457 Plan](#)
- [Easy Ways to Manage Your 457](#)
- [Your 457 Benefits Continue Through Retirement](#)
- [Great Reasons to Stay with Your 457 Plan](#)
- [We're with You for Life: A Brochure for Retirees](#)
- [You Can Keep Your Money in the Plan!](#)
- [Turn Your Savings Into a Retirement Paycheck](#)

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Retaining assets and limiting plan leakage

Asset Retention Strategies

- Issue: A large public safety plan wanted participants to keep their assets in the plan.
- Solution: Implemented a distribution/rollover checklist, developed pre-retirement marketing and custom workshops for those nearing retirement, and built a presentation about the understanding the perils of rolling assets out of the plan. Partnered with Defined Benefit Plan to attend workshops for pre-retirees
- End result: Maintained asset retention in excess of 90%.

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Social Security claiming strategies

If You Start ...	Impact on Payments	Example of Monthly Benefit
AGE 62 or before Full Retirement Age (FRA) ¹	Up to 25-30% less ²	\$1,000
AGE 66-67 (FRA) ¹	Unreduced benefit	\$1,333
After FRA UP TO AGE 70	About 8% more each year you delay up to age 70	\$1,760

¹ Based on year of birth. FRA is age 66 for individuals born 1943-1954. Gradually higher for individuals born later.
² Also receive less if you start after age 62 but before your FRA. Reduction is based on year of birth.

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Reduction in social security benefits

WEP

WINDFALL ELIMINATION PROVISION

what you/spouse/child get based on *your* earnings

GPO

GOVERNMENT PENSION OFFSET

what you get based on your spouse's earnings

Can reduce benefits if you:

1. Earn pension in job, Social Security taxes not paid
2. Qualify for Social Security through other work



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WEP – How it Works

WEP

Reduction **up to 1/2 pension or \$448**, whichever is *less*¹

Your estimated age 66 monthly benefit

\$1,448

Your pension benefit

\$1,000

Your Social Security benefit is reduced to

\$1,000



¹ 2019 figures. Refers to monthly benefits

² Defined as \$24,675 per year (2019)

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WEP – A Detailed Example

AIME*	SOCIAL SECURITY BENEFIT WITHOUT WEP	SOCIAL SECURITY BENEFIT REDUCED BY WEP
Up to \$895	\$806 (90% of \$895)	\$358 (40% of \$895)
\$895 - \$5,397	+\$1,441 (32% of \$4,502)	+\$1,441 (32% of \$4,502)
Over \$5,397	+\$0	+\$0
MONTHLY BENEFIT	= \$2,247	= \$1,799



WEP Impact:
\$448 less
 Social Security benefits per month

*Average Indexed Monthly Earnings (AIME) refers to the monthly average of your 35 highest years of earnings on which you paid Social Security taxes and is indexed for inflation. It is used to calculate your benefit amount.

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GPO – How it Works

GPO Reduction of **2/3 of your pension** amount. No limit – can completely eliminate benefit.

You get government pension of **\$600 /month**

You're eligible for \$500 **\$500** in spouse/survivor benefits

You get **\$100** instead



Plan ahead –
 your benefit statement won't reflect WEP or GPO. Check statement for \$0 earning years.

*No reduction if you did pay into Social Security during last 5 years of government service and government pension is based on work for which you did not pay into Social Security.

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Healthcare costs through retirement

65-year old Couple Retiring 2019

Couple \$285,000

For Single Retirees

Female \$150,000

Male \$135,000



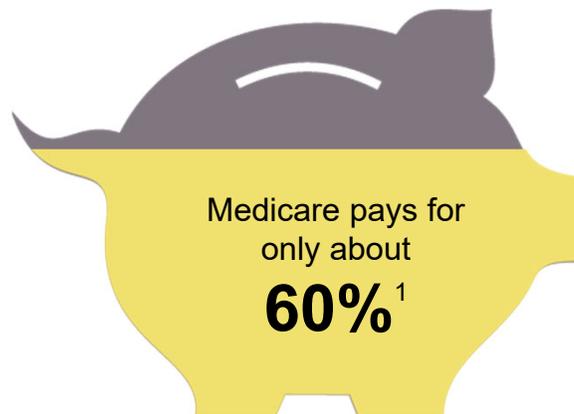
Fidelity Investments, *Health Care Price Check: A Couple Retiring Today Needs \$285,000 as Medical Expenses in Retirement Remain Relatively Steady*. April 2, 2019.

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What about Medicare?

TOTAL COSTS

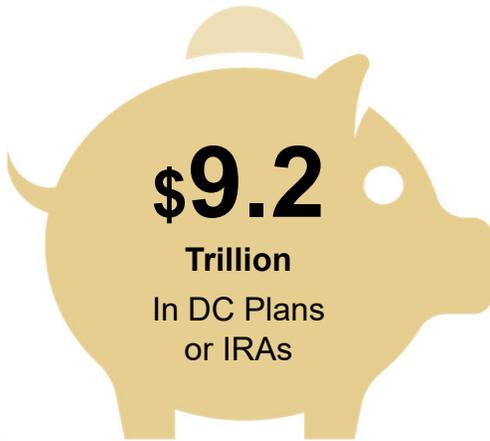


¹ Source: "Amount of Savings Needed for Health Expenses for People Eligible for Medicare", Employee Benefits Research Institute (Oct. 2015). References 2012 data for Medicare beneficiaries age 65 and older.

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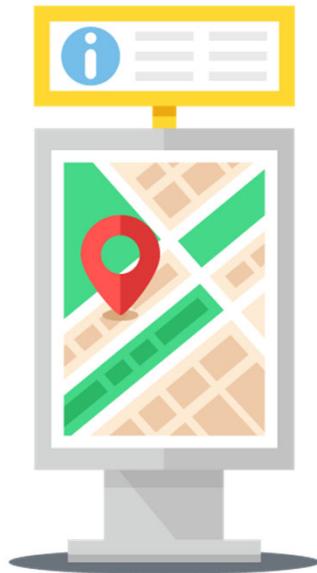
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Decumulation Challenge



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Retirement
savings:
**You are
here.**

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Psychology in Decumulation Decision-making

- Self-control
- Temporal discounting
- Loss aversion
- Fairness
- Psychological ownership



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Decumulation Decision-Making Social Security: Case Study



Dave, age 58
Occupation: Finance Director
Status: Nearing Retirement



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Year	Dave	Early			Primary			Difference
		Dave (PIA=1500.0)	Annual Benefits	Cumulative Benefits	Dave (PIA=1500.0)	Annual Benefits	Cumulative Benefits	
2019	55	\$0	\$0	\$0	\$0	\$0	\$0	\$0
2020	56	\$0	\$0	\$0	\$0	\$0	\$0	\$0
2021	57	\$0	\$0	\$0	\$0	\$0	\$0	\$0
2022	58	\$0	\$0	\$0	\$0	\$0	\$0	\$0
2023	59	\$0	\$0	\$0	\$0	\$0	\$0	\$0
2024	60	\$0	\$0	\$0	\$0	\$0	\$0	\$0
2025	61	\$0	\$0	\$0	\$0	\$0	\$0	\$0
2026	62	\$1,056	\$6,337	\$6,337	\$0	\$0	\$0	(\$6,337)
2027	63	\$1,056	\$12,674	\$19,012	\$0	\$0	\$0	(\$19,012)
2028	64	\$1,056	\$12,674	\$31,686	\$0	\$0	\$0	(\$31,686)
2029	65	\$1,056	\$12,674	\$44,360	\$0	\$0	\$0	(\$44,360)
2030	66	\$1,056	\$12,674	\$57,035	\$0	\$0	\$0	(\$57,035)
2031	67	\$1,056	\$12,674	\$69,709	\$0	\$0	\$0	(\$69,709)
2032	68	\$1,056	\$12,674	\$82,383	\$0	\$0	\$0	(\$82,383)
2033	69	\$1,056	\$12,674	\$95,058	\$1,690	\$20,280	\$20,280	(\$74,778)
2034	70	\$1,056	\$12,674	\$107,732	\$1,690	\$20,280	\$40,560	(\$67,172)
2035	71	\$1,056	\$12,674	\$120,407	\$1,690	\$20,280	\$60,840	(\$59,567)
2036	72	\$1,056	\$12,674	\$133,081	\$1,690	\$20,280	\$81,120	(\$51,961)
2037	73	\$1,056	\$12,674	\$145,755	\$1,690	\$20,280	\$101,400	(\$44,355)
2038	74	\$1,056	\$12,674	\$158,430	\$1,690	\$20,280	\$121,680	(\$36,750)
2039	75	\$1,056	\$12,674	\$171,104	\$1,690	\$20,280	\$141,960	(\$29,144)
2040	76	\$1,056	\$12,674	\$183,779	\$1,690	\$20,280	\$162,240	(\$21,539)
2041	77	\$1,056	\$12,674	\$196,453	\$1,690	\$20,280	\$182,520	(\$13,933)
2042	78	\$1,056	\$12,674	\$209,127	\$1,690	\$20,280	\$202,800	(\$6,327)
Break Even Point								
2043	79	\$1,056	\$12,674	\$221,802	\$1,690	\$20,280	\$223,080	\$1,278
2044	80	\$1,056	\$12,674	\$234,476	\$1,690	\$20,280	\$243,360	\$8,884
2045	81	\$1,056	\$12,674	\$247,151	\$1,690	\$20,280	\$263,640	\$16,489
2046	82	\$1,056	\$12,674	\$259,825	\$1,690	\$20,280	\$283,920	\$24,095
2047	83	\$1,056	\$5,281	\$265,106	\$1,690	\$8,450	\$292,370	\$27,264

Comparing Social Security Strategies

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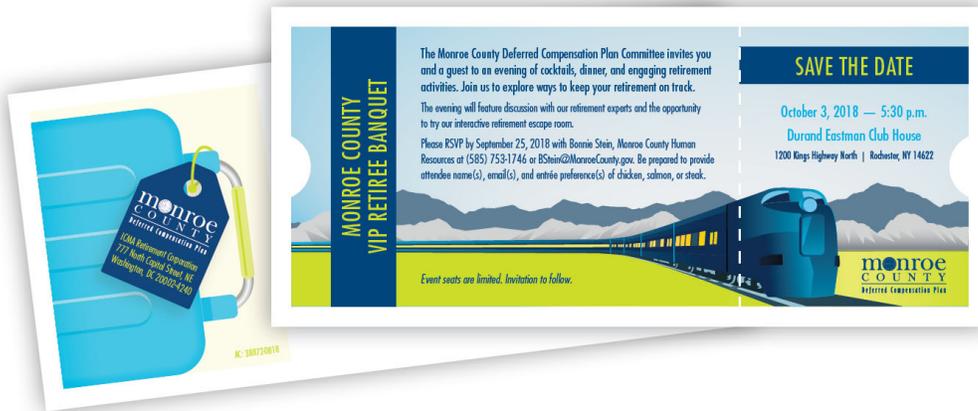
Retiree Events & Communications



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Monroe County *VIP Retirement Banquet*



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Retiree Communications

Matthew, it's time to choose your future. And we can help.

Retirement offers the freedom and flexibility to do what you want. We're here to help you review all your options so you can enjoy your lifestyle of choice, for years to come.

[Yes, book my appointment](#)



You've helped so many. Now it's your turn.



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