

TOP STORY

NAGDCA Seeks Qualified Speakers for the 2013 Annual Conference

The National Association of Government Defined Contribution Administrators (NAGDCA) is now seeking moderators, facilitators and panelists for its 2013 Annual Conference in Louisville, KY on September 8 – 11, 2013. This year's theme is Championing Your Retirement. Through the hard work of the 2013 Annual Conference Committee, the conference is sure to be an educational experience, and will offer clarification on many ongoing issues. Knowing that our members want to be apprised on all issues, sessions at this year's conference will cover a wide range of topics including:

- Coping with IRS 457 Plan Audits
- Talkin' Bout My Generation
- Increasing Participant RETirement Security by Incorporating Alternative Investment Strategies in The DC Line Up and Target Date Solutions
- Making Your List and Checking it Twice - A 457 Plan Sponsor's Year-End To-Do List to Keep the 457 Plan in Compliance
- Retirement Solutions for Challenging Times
- Fees
- Stable Value Funds
- Employee Communication Successes/Effective Communication Strategies
- How to Retain Participants/Assets in the Plan After Separation
- Roth 457/Roth Conversions
- The Yin and Yang of Retirement System Challenges

[Click Here](#) to access the speaker solicitation form. Forms must be submitted by April 9, 2013 for consideration. If you have questions regarding the speaker selection process, call Liz Fossett at 859-514-9218 or e-mail (lfossett@amrms.com).

Conference registration and hotel reservations have opened. [Register here](#). The room rate is \$154/night at the Marriott Downtown Louisville. Visit the [NAGDCA website](#) for more information.

Government Defined Contribution Leaders Meet with Congressional and Federal Representatives

The National Association of Government Defined Contribution Administrators, Inc. (NAGDCA)'s Executive Board met with key congressional staff and treasury department officials on March 18 - 19, 2013.

During their meetings with key Senate and House offices, congressional tax committee staff, and the Department of the Treasury, the Board shared the DC plan survey summary report, discussed the NAGDCA legislative priorities letter and asked for continued support for the National Save for Retirement Week resolution.

Mark your Calendar:

[Webcast: Legislative Update of Defined Contribution Plans](#)

April 28, 2013

12:00pm – 1:00pm EDT

[Industry Roundtable Meeting](#)

April 18-19, 2013

The Liaison Capitol Hill

Washington, DC

[Annual Conference](#)

September 8 - 11, 2013

Marriott Louisville Downtown

Louisville, KY

[403\(b\) Pre-Conference Workshop](#)

September 8, 2013

Marriott Louisville Downtown

Louisville, KY

PRESIDENT'S CORNER



Greetings NAGDCA Members:

The NAGDCA Board recently returned from its visit with senior and congressional staffers of Congress, as well as representatives from the Department of Treasury and the Securities and Exchange Commission. We also had the pleasure of meeting with Assistant Secretary of Labor Phyllis Borzi who has been a great supporter of NAGDCA.

During our meetings, we presented the 2013 NAGDCA Legislative Priorities which, in summary, are as follows:

- Pass the 2013 National Save for Retirement Week Senate Resolution;
- Eliminate the Required Minimum Distribution for Roth 457(b), Roth 401(k), and Roth 403(b) accounts;
- Allow for rollover of IRAs into Government Defined Contribution 457(b), Roth 401(k), and Roth 403(b) accounts;
- Permit non-spousal Beneficiaries to roll assets into 457(b), 401(k), and 403(b) plans;

-Eliminate the “First Day of the Month” requirement to contribute funds, which is unique only to 457(b) plans;

-Maintain the exemption from 10 percent penalty upon separation from service for 457(b) plans; and

-Increase eligibility for low-income savers tax credit.

The Hill meetings went very well and most were very interested in our new Government DC Best Practices Task Force that was created to reach out to other local governments. I can't express enough thanks to all who are participating on this Task Force as well as to the members on the Publications Committee and to the Membership Committee who are working in conjunction with this Task Force.

2013 NAGDCA Survey. The results of this survey are posted on the NAGDCA website and were used in our discussions during our meetings in Washington, DC. We appreciate your participation in this survey.

2013 NAGDCA Annual Conference. The conference theme is “Championing Your Retirement,” an appropriate title given the venue. The topics for the general and breakout sessions have been selected, and the request for speaker solicitation has been sent out. Also, we recently sent out a reminder of the NAGDCA conference explaining the differences as I outlined in my prior message. Registration is now open, and I encourage you all to sign up ASAP, as this shapes up to be an excellent conference.

Finally, thank you to all who have volunteered to serve on NAGDCA committees and task forces. Due to your efforts, NAGDCA will continue to be an excellent (and only) organization that represents 457(b), 403(b), and 401(k) governmental plans with an unbiased approach.

Thank you,

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

Washington Report

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

The State of Congress

Federal budget battles have kept the Administration and Congress busy over the last few months. Sequestration, a process of across the board budget cuts, began on March 1 and just completed work on legislation to keep the government open for the remainder of the fiscal year which ends on September 30. They are now debating how to fund the government for the next fiscal year that begins on October 1.

In the meantime, the President and Congress continue to negotiate a larger budget deal that could include tax reform and reforms to federal entitlement programs, including Medicare and Medicaid. To formally begin this effort, the House passed a dramatic budget proposal offered by Congressman Paul Ryan (R-WI), Chairman of the House Budget Committee.

The House budget plan would balance the budget in 10 years through severe budget cuts and a revenue neutral tax reform measure. The Senate budget proposal offered by Senator Patty Murray (D-WI) reduces the deficit less dramatically and calls for tax reform by closing tax preferences to reduce the deficit. As of March 22, the full Senate was still considering the proposal. Both of these budget proposals set a “blueprint” for a budget debate going forward.

In addition to all of the budgetary issues, Congress has been focusing on immigration reform. Both the House and the Senate committees of jurisdiction have held hearings on the issue and much work is being done to enable draft bills to be introduced within the coming weeks.

Tax Reform

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

The Ways and Means Committee—at the direction of its Chair, Representative David Camp (R-MICH) has put together task forces on tax reform. The task force focusing on pensions is being chaired by Representatives Pat Tiberi (R-OH) and Ron Kind (D-WI). NAGDCA will submit a statement to the Task Force outlining its priorities for 2013 (a copy of this year’s priorities letter, can be found at nagdca.com).

NAGDCA Executive Board Visit

The NAGDCA Executive Board recently conducted its annual Washington visit and met with the Departments of Treasury, Labor and the SEC, as well as with Congressional tax committees and other key policymakers.

In all meetings, the Executive Board discussed NAGDCA’s legislative priorities which include the National Save for Retirement Week Resolution, elimination of the required minimum distributions on Roth 457s, elimination of 457 plans’ first day of the month requirement, rollover from Roth IRAs’ into governmental defined contribution accounts, permitting non-spousal beneficiaries to roll assets into plans, maintaining penalty free benefit eligibility upon separation from service and the enhancing the Saver’s Credit.

Industry Viewpoint

Using Alternatives to Fill in the Gaps

By Kamila Kowalke, Calamos Investments LLC

As government defined contribution (DC) plans are being called on to supplement an increasingly larger portion of the total retirement savings, plan fiduciaries are challenged to provide outcome-oriented investment solutions that increase the overall retirement security of their participants. To accomplish this, many are seeking solutions providing higher returns and lower volatility.

To increase returns and manage volatility, many non-DC plan sponsors have increased their emphasis on alternatives, often by paring traditional stock and fixed income investments. For example, Harvard University's policy portfolio for 2013 includes a 40% allocation to alternatives, up from 13% in 1995. DB-ization of DC plans and increasing focus on providing retirement security, coupled with raising perception of global equity risks, higher asset correlations and low fixed income rates, forces DC sponsors to look for creative ways to adjust investment line-ups and target date fund glide paths to accomplish those objectives. Alternative strategies, which are increasingly offered in open-end mutual fund vehicles, providing daily liquidity, attractive pricing, and transparency, may offer a solution.

Alternatives can provide diversification benefits through income and portfolio characteristics that are distinct from traditional asset classes. The term typically covers both:

1. asset classes outside of stocks and bonds (such as real estate, private equity, infrastructure, commodities)
2. investment strategies going beyond long-only approaches (such as long/short equity, arbitrage)

In either case they are different from long-only stock and bond funds and often require specialized investment professionals.

Some of those strategies may be used to increase returns, though also potentially increasing volatility. Derivatives such as futures, options or interest-rate swaps may be used to manage risk. The distinct nature of the investments, and how those investments can be combined, is what can make some alternatives a beneficial part of target date funds and potentially a DC investment line up.

Alternatives as a Part of the Target Date Glide Path

Target date funds allocate portfolios among asset classes and typically use fixed income and equity as the largest components of the glide path. Fixed income allocations are often heavily weighted toward investment-grade bonds such as Treasury, mortgage and corporate bonds.

Close-to-retirement and in-retirement funds typically carry a heavy fixed income allocation. The longer-term glide paths incorporate bonds to provide asset class diversification and decrease rising volatility. If rates increase, the bond values fall with rising yields. A bond portfolio with duration of 5 years theoretically would have a capital loss of 5% with a 1% rise in rates. A higher allocation to traditional equities is unlikely to be the answer to compensate for this 'risk' effect as it may increase the overall volatility of a fund that is likely to already have a significant equity allocation.

Real estate, TIPS, and commodities are often already included in many target date fund families. However, market neutral and long/short strategies, which may reduce volatility while generating market-like alpha, are not as widely used since they have traditionally been offered in a hedge fund/LP vehicle. The use of such vehicles in DC plans has been limited due to lack of liquidity, transparency, and daily pricing paired with relatively high fees.

While hedge funds are difficult to incorporate into DC platforms for those reasons, the number of alternatives representing strategies utilized by hedge funds yet available in mutual fund format is rapidly increasing. There are currently 982 alternative mutual funds in addition to real estate and commodities funds in the Morningstar's alternative category (see Table 1). 85 of them have 10 year track records.

Table 1

Name	Category Description	Number of Investments in Category as of 2/28/13
Market Neutral	Attempt to reduce systematic risk created by sector, market cap, investment style, currency, and/or country exposures. Often managed as beta-neutral, dollar-neutral, or sector-neutral. Typically have low beta (0.3 in absolute value) as compared to market indexes.	127
Long/Short Equity	Hold sizable stakes in both long and short positions in equities and related derivatives. May shift their exposure to long and short positions depending on their macro outlook or the opportunities they uncover through bottom-up research.	259
Currency	Invest in multiple currencies through the use of short-term money market instruments and derivative instruments.	84
Managed Futures	Trade liquid global futures, options, swaps, and foreign exchange contracts, both listed and over-the-counter.	154
Multi-Alternative	Offer exposure to several different alternative investment tactics.	276
Bear Market	Dedicate a majority of the fund's assets to equities. Most of the portfolio is dedicated to short stock positions in an attempt to take advantage of anticipated market or stock declines producing a net exposure to equities of less than or equal to negative 20%.	82
		982

Source: Morningstar, US OE

These funds attempt to deliver returns with little or no correlation to the equity and bond markets, and therefore, may offer diversification from those asset classes.

Certain types of alternatives may offer a way to diversify the glide path from both fixed income and equity exposure while lowering volatility of the fund. As different funds of the target date family correspond to different retirement time horizons, and hence, desired risk and return characteristics, more aggressive alternatives may be appropriate for the long time horizon, while those with lower beta may work for funds with shorter horizons.

For example, as compared to a portfolio consisting of 80% MSCI ACWI and 20% Barclays Global Agg (e.g. comparable to some 2025-2035 target date glide paths) , a portfolio incorporating a market neutral strategy may provide reduction in volatility that compensates for the reduction of return provided by the fund (see Table 2).

Table 2

	Base Case ... (80% MSCI ACWI Index and 20% Barclays Global Agg)	...With Market Neutral (70% MSCI ACWI, 20% Barclays Global Agg, and 10% Market Neutral)	Change in Return and Volatility (%)
<i>(Annualized)</i>			

5-yr	Return	2.83	3.01	6%
	Std Dev	17.80	16.34	-8%
10-yr	Return	9.14	8.58	-6%
	Std Dev	13.94	12.78	-8%
15-yr	Return	5.27	5.42	3%
	Std Dev	13.93	12.66	-9%

Source: Calamos Investments

Fund providers and DC plan sponsors need to consider alternatives in the context of probability of achieving retirement goals for their specific participant group and weigh the benefits and risks involved in including such strategies in target date solutions and DC line-ups. However, availability of alternative funds with longer track records in a mutual fund vehicle that address issues of daily pricing, transparency and fees may provide a way to enhance the existing retirement solutions to improve participant retirement security.

Disclosure

The opinions referenced are as of the date of publication and are subject to change due to changes in the market or economic conditions and may not necessarily come to pass. Information contained herein is for informational purposes only and should not be considered investment advice. Some of the risks associated with investing in alternatives may include hedging risk, derivatives risk, short sale risk, interest rate risk, credit risk, liquidity risk, non-US government obligation risk and portfolio selection risk. Alternative investments may not be suitable for all investors

Standard deviation represents volatility. Correlation refers to a measure of the interdependence of two random variables that ranges in value from -1 to +1, indicating perfect negative correlation at -1, absence of correlation at zero, and perfect positive correlation at +1. Beta is an historic measure of a fund's relative volatility, which is one of the measures of risk; a beta of 0.5 reflects 1/2 the market's volatility as represented by the Fund's primary benchmark, while a beta of 2.0 reflects twice the volatility.

Member Benefit Spotlight

NAGDCA Member Benefit Spotlight

To remind members of benefits they receive throughout the year, NAGDCA spotlights a benefit of membership in each edition of The Contributor. For more information on this or any benefits of membership, please visit our website at <http://www.nagdca.org/> or contact NAGDCA staff at (859) 514-9161.

Information

- Career Center - Post job openings and review resumes
- The Contributor, NAGDCA's quarterly newsletter that provides the latest information on association issues, members and legislative matters
- Free or discounted participation in NAGDCASTs. NAGDCA's interactive, web-based educational programs.
- An interactive Website at www.nagdca.org that provides current information on federal activities, meetings, members, RFPs, presentations and more!

- An electronic clearinghouse with resources that offer answers and perspectives on various issues by showing actual practices used by members across the country
 - Legislative representation in Washington, DC
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New Members

Please visit the NAGDCA on-line directory for member's full contact information. You will need a username and password to access the information. Join me in welcoming our new members!!!

Burnham & Flower Agency, Inc.

Fiduciary Capital Management, Inc.

Morgan Stanley

New York City Health & Hospitals Corporation

Omaha Public Power District

Summit Strategies Group

The Bogdahn Group