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**Defined Contribution Concepts for
New Members**

Doing it **Right**
from the **Start**

Speakers: Matt Gnabasik, Blue Prairie Group
Jim Link, PFM Group
Julian Regan, Marco Consulting Group

Moderator: Russell Nash, City of Austin



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Matt Gnabasik
Blue Prairie Group



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1. Trustee Framework
2. Plan Design
3. Fiduciary Responsibilities
4. Compliance
5. Investment decision making process & portfolio design principles
6. Operations & logistics
7. Employee financial education

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Trustee Framework

Key Retirement Plan Success Drivers

- ❖ Strong investment performance
- ❖ Low total cost
- ❖ Operational efficiency
- ❖ Compliance

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Strategic Goals

- ❖ Retirement readiness is increased.
- ❖ Employee appreciation is increased.
- ❖ The organization's culture and goals are supported and strengthened.

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Plan Design

ELIGIBILITY

Total eligible government employees	2008	Corporate participation for eligible employees	2008
Eligible	77.6%	Average	73.8%
Unknown	22.4%	Median	80.0%

Source: <http://www.planpartner.com>

Participation of government employees	2008
Active (current employees who made deferrals)	97.2%
Inactive (current employees who did not make deferrals)	80.2%
Terminated (former employees who maintained account balance)	79.2%

Source: NAGDCA DC Plan Survey published March 2009

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Plan Design (cont'd)

LOANS

Loans offered by state & local plans	2008	Loan/withdrawal provisions offered by corporate plans	2008
Yes	52.3%	Loan provision	78.4%
No	47.7%	Hardship withdrawal	74.4%
		Neither	6.8%

Percentage of government participants who took out loans in the past year	2008
>20%	0.0%
11-20%	24.1%
6-10%	16.7%
2-5%	35.2%
0-1%	24.1%

Source: <http://www.planponsor.com>
 Source: NAGDCA DC Plan Survey published March 2009




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Plan Design (cont'd)

TARGET DATE FUNDS

Percentage of government participants invested in target date funds	2008	Corporate participant balances in asset allocation/target date funds	2008
1-10%	45.3%	Average	24.3%
11-20%	20.3%	Median	15.0%
21-30%	7.8%		
31-40%	4.7%		
41-50%	9.4%		
> 50%	12.5%		

Source: <http://www.planponsor.com>
 Source: NAGDCA DC Plan Survey published March 2009




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Fiduciary Responsibilities

Basic Understanding:

- Act in the best interest of the participant
- Decision making is held to a much higher standard



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Compliance

- Implement a formal committee structure.
- Hire a fee-based investment consultant.
- Create and maintain governance documents.
- Hold regular internal investment committee meetings.

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Compliance (Cont'd)

- Benchmark and renegotiate fees.
- Create and maintain a digital due diligence file.
- Conduct fiduciary training.
- Conduct regular due diligence on all providers.

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SAND




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Investment Decision Making Process & Portfolio Design Principles

Investment decisions:

1. Asset allocation is the key decision. It is a dynamic process, not just a description.
2. The focus is on risk management, especially mitigating "tail risk."
3. Prudent, low-cost investments provide greater returns over time.

AUSTIN TEXAS
SAND





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Employee Financial Education

Three core issues plan sponsors face in a Defined Contribution plan:

Participation	⇒	Auto enrollment
Asset Allocation	⇒	Target date funds
Deferral Percentage	⇒	Auto escalation

- The role of Employee Financial Education is to help participants become more financial literate.

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Employee Financial Education (Cont'd)

AUTO ENROLLMENT

Which of the following descriptions of the auto-enrollment feature best describes how it is used in your government plan?	2008	Implementation of auto enrollment in corporate plans	2008
Auto enrollment is not used at this time	80.4%	To new employees only	60.0%
Auto enrollment alone - new employees only	10.8%	To all employees	40.0%
Auto enrollment alone - all employees	5.9%		
Other	2.9%		

Source: NAGDCA-RDC Plan Survey published in 2009

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Employee Financial Education (Cont'd)

AUTO ENROLLMENT

If your government plan uses auto enrollment, what was your reasoning for implementation?	2008	Corporate reasons for automatic enrollment	2008
The Pension Protection Act made the feature more attractive	20.8%	Meetings unsuccessful	5.4%
The desire to be more proactive in assisting employees meet their retirement needs	54.2%	To be proactive	57.9%
		To pass discrimination tests	15.2%
		The Pension Protection Act	13.1%
		Other	8.2%

Source: NAGDCA DC Plan Survey published March 2009
Source: <http://www.pensionspot.com>




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Employee Financial Education (Cont'd)

AUTO ESCALATION

How are your government plan's participant deferral elections structured?	2008	Corporate plan design feature utilization	2008
Participants elect to defer a specific dollar amount	32.7%	Auto-enrollment	45.0%
Participants elect to defer a specific percent of salary	21.2%	Auto step-up	25.0%
Individual participant may choose whether to elect a specific dollar amount or a specific percent of salary	31.7%	Managed accounts	18.0%
Varies by participating employer	1.0%	Company stock	34.0%
Other	13.5%		



Source: http://www.enr.com/energy/08_06_09/116_enr_study.pdf



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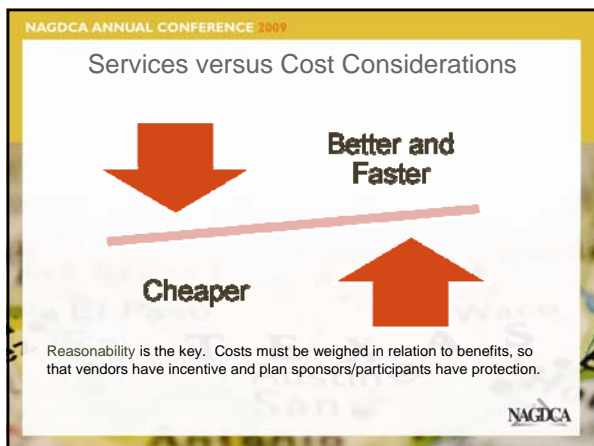
Due Diligence Process
Service Provider and Fund Selection

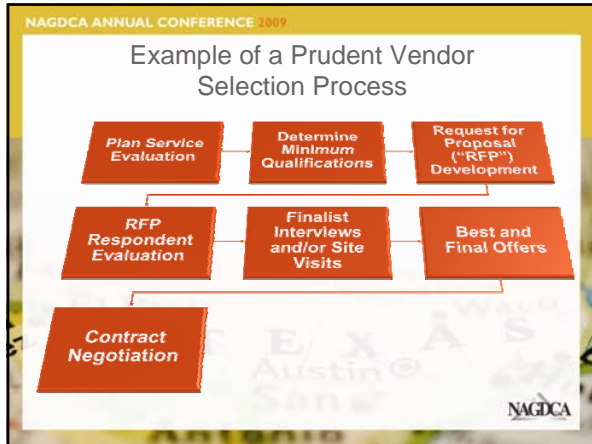
Jim Link, Managing Director
PFM Asset Management



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- ### What is the Goal of the Process?
- Check bid or price confirmation
 - Open competition
 - Replacement
- Periodic due diligence is prudent for any procured services, but be aware of the reason and goals when crafting the process.*
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- ### Fund Selection - Glossary
- **Mutual Fund** – An investment vehicle that pools money from many investors and invests the money in stocks, bonds, short-term money-market instruments, or other securities.
 - **Insurance Separate Account** – A segregated accounting and reporting account held by an insurance company not in or "separate" from its general account.
 - **General Account** – Combined or aggregate investments and other assets of an insurance company available to pay claims and benefits to which policyholders are entitled.
 - **Market Value Adjustment ("MVA")** – A positive or negative adjustment that is applied when an account is liquidated early.
 - **Benchmark (or index)** – A standard against which the performance of a security, mutual fund or investment manager can be measured.
 - **Peer Universe** – A group or subset of investment products that are managed according to similar asset class and style.
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- ### Fund Menu Goals
- Provide options that allow each participant
 - To affect real control over their account
 - Create their own asset allocation using the style of management they desire
 - Select funds that exhibit sound fundamentals
 - Manager tenure
 - Performance
 - Fees, including revenue sharing
-
- The slide includes an illustration of two menu cards, one slightly behind the other, with the word 'MENU' written on them. The NAGDCA logo is located in the bottom right corner.

Key Decisions

- How many asset classes to cover?
- Should risk-based or target date funds be offered (or both)
- What type of Fixed Account should be offered by the plan?
- Do you include a self-directed brokerage option?
- How should revenue sharing be handled



Public Sector Process Focus

- Open to the all bona fide vendors
- Information is readily accessible
- Judged on the merits of the proposal
- Free from improper contact
- Selection exhibits prudence, proper documentation, and appropriate controls
- Selected vendor costs and benefits are in reasonable equilibrium




Julian Regan, Consultant
Marco Consulting Group



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Content

- Fiduciary Objectives
- DC System Challenges
- DC Plan Decision Making for Fiduciaries
- DC Plan Costs & Expenses
- Compliance
- Investment Performance



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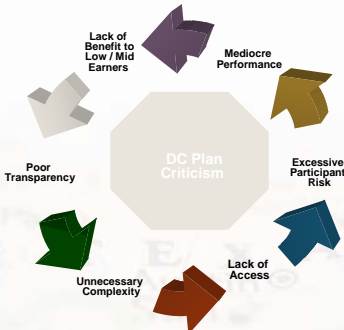
Fiduciary Objectives

- Participation and savings
- Service quality
- Regulatory compliance
- Asset diversification
- Cost effectiveness
- Risk-adjusted investment returns
- Transparency




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DC System Challenges



DC Plan Criticism

- Lack of Benefit to Low / Mid Earners
- Mediocre Performance
- Excessive Participant Risk
- Lack of Access
- Unnecessary Complexity
- Poor Transparency



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DC Plan Decision Making For Fiduciaries

- Critical decision phases: Strategic planning, Implementation and Monitoring
- Decisions in all phases impact performance, fees and compliance

Strategic Planning

- Retirement plan design
- Investment structure design
- Plan governance
- Risk management

Implementation

- Plan administration
- Manager search and selection
- Participant communications
- Transition planning

Monitoring

- Fiduciary assessment
- Performance measurement
- Fee transparency
- Benchmarking

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DC Plan Decision Making For Fiduciaries

- DC investment program objectives:
 - **Diversification:** The ability to build well-diversified portfolios through a single option, such as a lifecycle fund, or through allocating assets across a broad array of options
 - **Simplicity:** Investment options that are easily understood and supported by communications that lead to sound investment decision making
 - **Cost-effectiveness:** As measured by modest asset-weighted expenses and the availability of low cost investment vehicles and strategies
 - **Investment quality:** Investment options that employ proven strategies and managers who utilize and adhere to their stated discipline through market and business cycles
 - **Risk management:** The inclusion of investment alternatives that maximize participants' ability to preserve capital
 - **Transparency:** Clear, concise communications that give participants the ability to easily understand the risks, costs and objectives associated with their plan's investment options

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DC Plan Decision Making For Fiduciaries

Effective decision making on key factors will assist the plan in meeting its objectives in the areas of cost, participation, diversification, transparency, risk and compliance:

DC Investment Structure

Decision Points

- Asset categories
- Investment vehicles
- Number of options
- Default options
- Active/passive
- In-retirement
- Self-directed option
- Asset allocation funds

Impacts

- Participation
- Fee transparency
- Cost structure
- Compliance
- Diversification
- Participant service
- Risk-adjusted performance
- Simplicity

Metrics

- Participation risk
- Asset-weighted expenses
- Audit findings
- Participant diversification
- Risk-adjusted returns
- Cash flow/ deferrals
- Asset retention
- Retirement readiness

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Compliance

- Regulatory compliance
 - State and local statutes and regulations (e.g. enabling statutes)
 - Internal Revenue Code (IRC) 457(b), 401(a), 401(k), 403(b)
 - Financial Industry Regulatory Authority (FINRA)
 - Securities and Exchange Commission (SEC)
 - Department of Labor (DOL), ERISA
 - Other Federal agencies and statutes (e.g. Anti-Money Laundering)
- Contract administration
- Legislative monitoring
- Plan governance documents
 - Plan document
 - Investment policy statement
 - Procurement procedures
 - Administrative guidelines
 - Other policies and procedures



DC Plan Costs and Expenses

- Administrative costs
 - Contracted service providers; board/committee expenses
- Plan Financing
 - Participant fees; contractual reimbursements; interest
- Investment expenses
 - Expense ratios; separate account/commingled fund fees
 - Hypothetical low cost portfolio
 - Asset-weighted investment expenses
 - Portfolio trading costs; implicit fees; etc.



Investment Performance

- Investment Policy Statement
 - Integrated framework for investment decision making
 - Sets forth roles, accountabilities and reporting requirements
 - Governs strategic, tactical and administrative decisions
 - Designed to drive disciplined, risk-adjusted decision making for the benefit of plan participants
 - Includes investment option selection and monitoring criteria
 - Reviewed and updated annually as appropriate



Investment Performance

- Investment monitoring criteria
 - Fees
 - Performance relative to peers and benchmark indices
 - Risk controls
 - Quality of investment process
 - Organizational stability
 - Portfolio management team tenure and stability
 - Adherence to stated discipline through market cycles
 - Portfolio diversification
 - Soundness of investment process and product design
 - Ability to complement the Plan's other investment managers
 - Capabilities in the context of new DC strategies



Questions?