

NAGDCA

The National Association of Government Defined
Contribution Administrators, Inc. (NAGDCA)

presents

2009 NAGDCAST #3:

***Saving and Surviving: Education
about the Current Market***

Program Introduction

Lori Doyle

**Investment Officer
CalPERS**

Many thanks to the following 2009 NAGDCAST series sponsors:

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Retirement Solutions

★ Prudential

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Continuing Education Credit

Credits: This NAGDCAST is worth 1.5 continuing education credits to InFRE CRA and CRC designees!

To Receive Credit:

- **InFRE designees must report attendance at a NAGDCAST when they submit continuing education with their annual certification renewal.**
- **NAGDCA will provide InFRE with a final participant list (not registrant list) so that those seeking certification credits can be verified. Individuals must be signed in separately to receive continuing education credits.**

**Don't forget the on-line NAGDCAST
evaluation – NAGDCA needs your
continued input about the
NAGDCAST series!**

**The evaluation takes
2 minutes to complete!**

THANK YOU!

Today's Speakers

Paul Torregrosa, Global Index Advisors

**Rick Rodgers, InSight Employee Benefit
Communications**

Lori Doyle, CalPERS

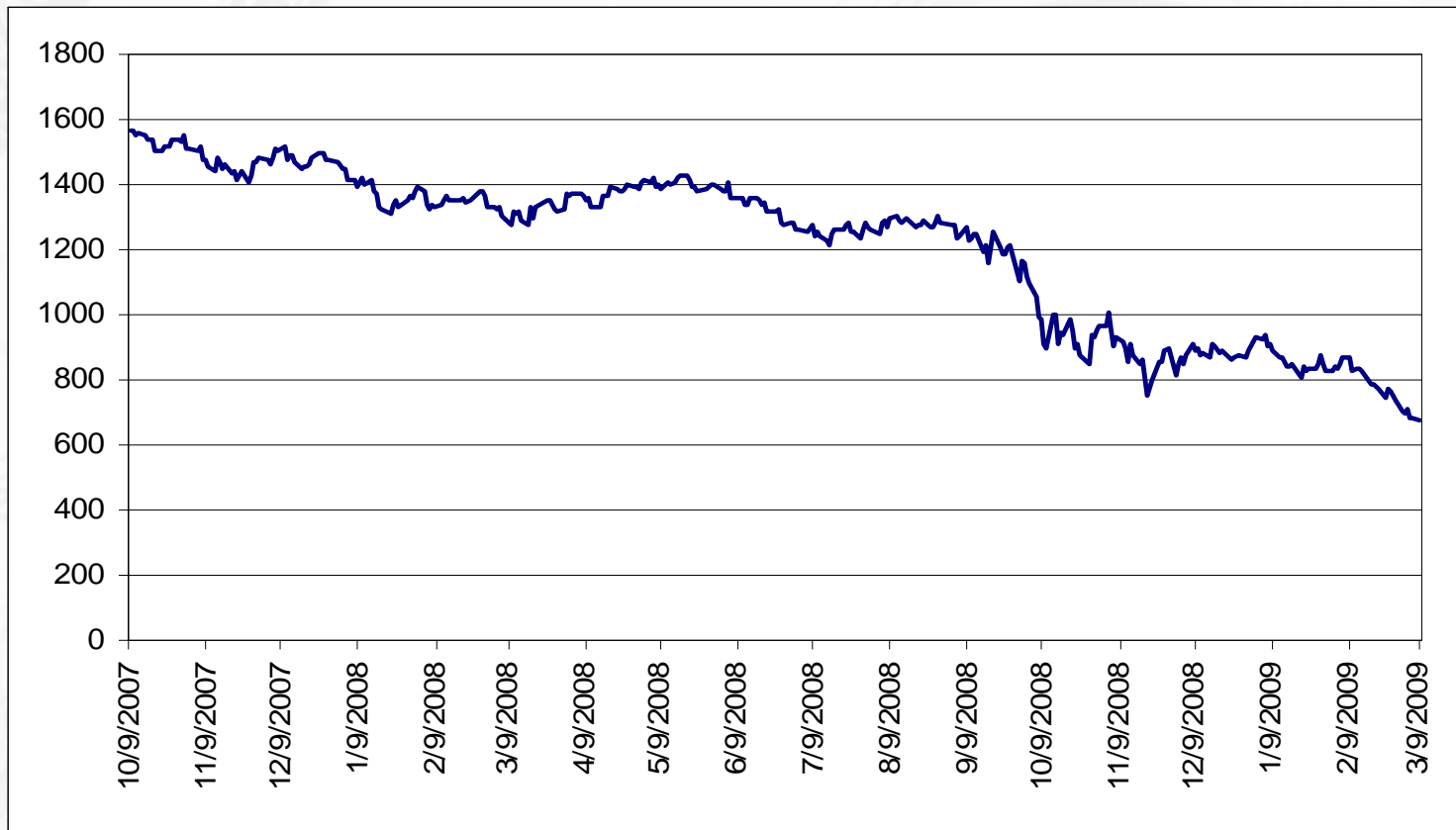
Bear Market Review

Paul Torregrosa | Director of Research
Global Index Advisors

S&P 500 Index

October 9, 2007 – March 9, 2009

57% Drop



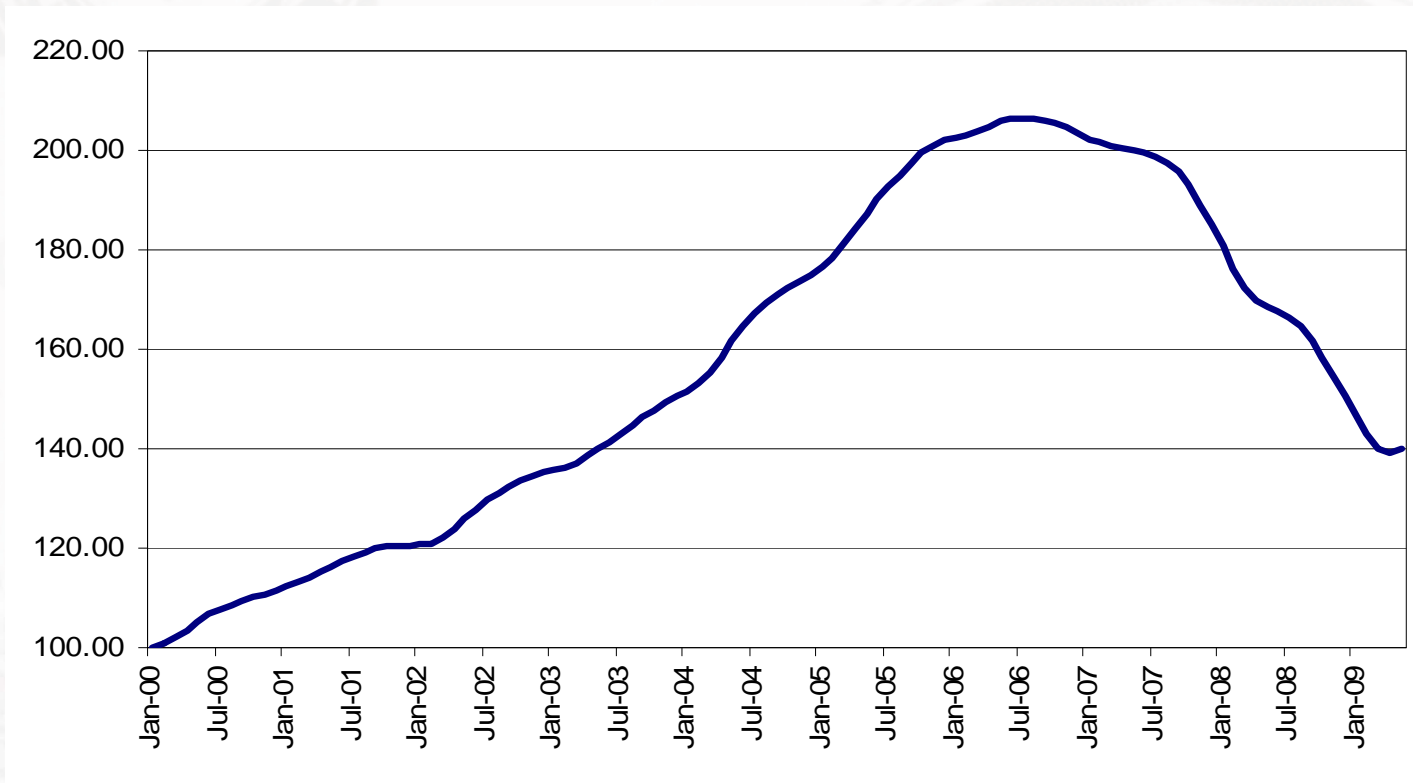
Why Did the Market Fall?

- ▶ **Collapse of the Housing Market**
- ▶ **Resulting Credit Crises**
- ▶ **Slumping Economy and Profits**

S&P Case-Shiller 20 City Home Price Index

January 2000 – May 2009

32% Drop From Peak in July 2006



Impact of Falling Home Prices

- ▶ **Substantial Decline in Household Wealth**
 - 1.4 million borrowers lost their homes in 2008 and 1.8 million in 2009 (est)
 - Recession caused the value of equity in homes to drop by \$5 trillion
 - 22% of homeowners have a mortgage greater than value of their homes

- ▶ **Decline in Consumer Spending (70% of GDP)**
 - No longer able to use homes as ATMs
 - Delinquencies on home-equity loans hit record high of 3.53% in 1st quarter
 - Delinquencies on bank issued credit card debt hit record high of 6.6% in Q1
 - Consumer spending below 2008 levels

- ▶ **Near Collapse of the Financial System**

Casualties of the Crisis



LEHMAN BROTHERS



WACHOVIA



WaMu

BEAR STEARNS

National City.



Financial Crisis

▶ Rumbblings in 2007

- 2007 Foreclosure filings 75% higher than in 2006
- Home prices fell 9% in 2007
- Bear Sterns halts redemptions on one investment fund and closes two others
- Two major subprime mortgage companies declare Chapter 11

▶ Near Collapse in 2008

- Troubles continue in first eight months – Countrywide, Bear Sterns, Indy Mac
- Meltdown in September
 - Fannie Mae and Freddie Mac placed in government conservatorship
 - Lehman Holdings files for Chapter 11
 - Bank of America announces its intent to purchase Merrill Lynch for \$50 billion
 - Fed lends AIG \$85 billion
 - Treasury opens its Temporary Guarantee Program for money market funds
 - First draft of TARP submitted to Congress
 - Washington Mutual Bank closed and taken over by JPMorgan Chase
 - FDIC announces that Citigroup will buy Wachovia – loss sharing arrangement
 - First TARP proposal voted down by Congress

Financial Crisis (Cont.)

▶ **Government Opens Checkbook (Q4 2008)**

- \$700 Billion TARP signed into law (10/3/08)
- Fed provides \$38 billion in cash to AIG (10/8/08)
- Life Insurance and auto companies visit Washington, DC looking for cash
- Fed announces TALF
- Treasury loans up to \$13.4 billion to GM and \$4.0 billion to Chrysler

▶ **Corporate Profits Fall**

- S&P 500 profits fell to \$14.88 in 2008 versus \$81.51 in 2006
- Fannie Mae, Freddie Mac and AIG report combined losses of \$208 billion

2009 Rebuilding Process Begins

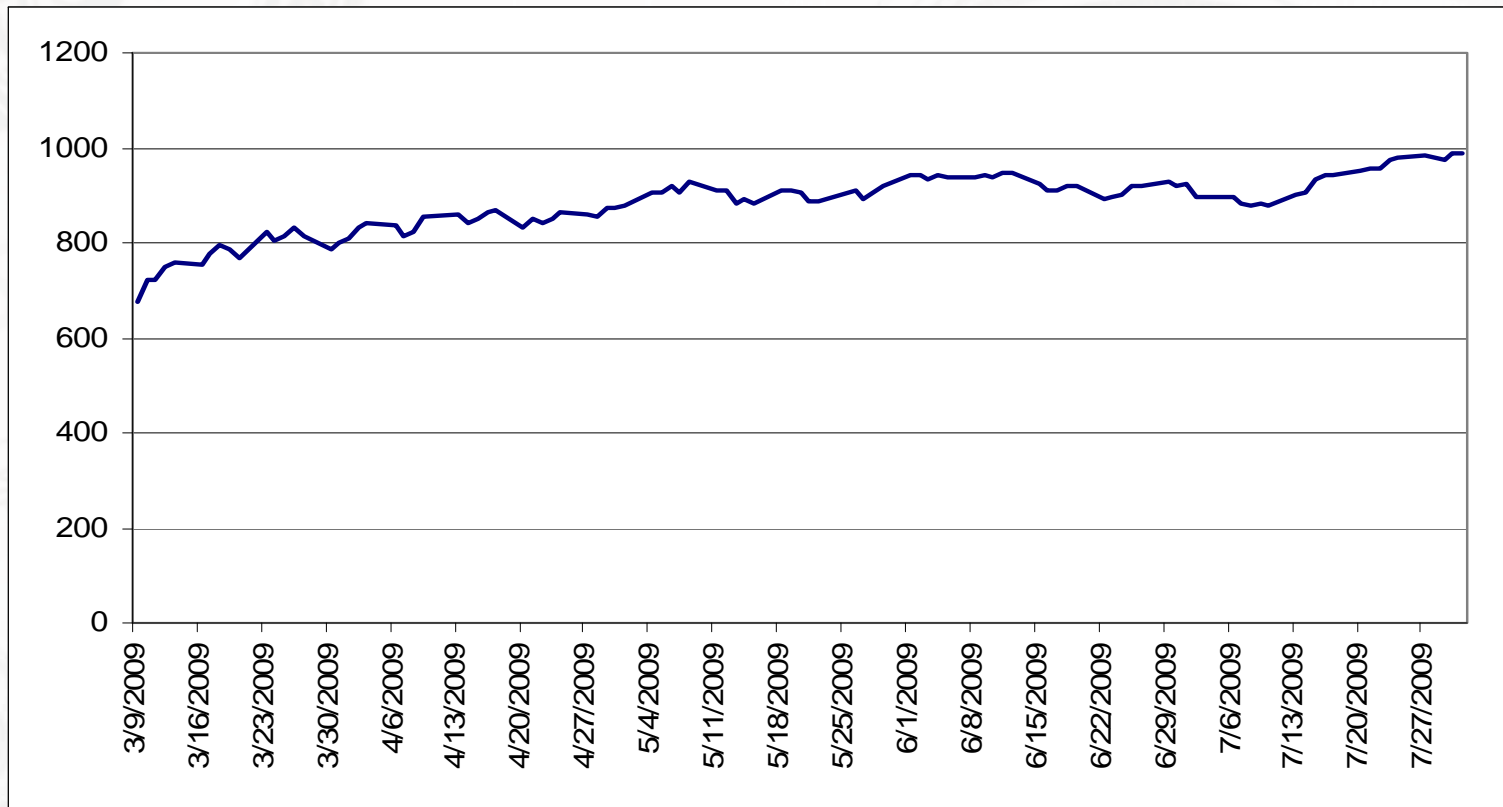
- ▶ **Government Intensifies Actions to Boost the Economy**
 - Fed funds rate set at 0.00% in December 2008
 - Fed begins buying Fannie Mae and Freddie Mac backed bonds
 - President Obama announces the Homeowner Affordability and Stability Plan
 - Treasury announces Auto Supplier Support Program of \$5 billion
 - Bankruptcies of GM and Chrysler go better than expected
 - GDP only down 1.0% in second quarter 2009

- ▶ **Corporations Post Better than Expected Earnings**
 - Profits still low, but not as bad as analysts had forecasted
 - High quality companies have better access to debt markets
 - Cost of debt has come down
 - S&P 500 firms expect 2009 profits of \$29.97 (vs \$14.88 in 2008)

S&P 500 Index

March 9, 2009 – July 31, 2009

46% Jump



Signs of Life

- ▶ Housing
 - Values increased for the first time in three years on a month-to-month basis in May
 - New home sales rose in 5 of the last 7 months as of July
 - Existing home sales up 7.2% in July
 - Historically low interest rates

- ▶ Financial System Getting Stronger
 - Banks posting better than expected profits

- ▶ Long Road to Recovery
 - High unemployment – 9.4% in July
 - Banks reluctant to lend, lending shrank in Q2
 - Consumers reluctant to spend, still repairing balance sheets
 - Federal government spending must slow at some point (Up 10.9% in Q2)
 - State and local government likely to cut spending

Successful Participant Communication Programs

Rick Rodgers, CRC® | Principal
InSight Employee Benefit Communications

Overview

- ▶ The Modern American Retirement System
- ▶ Successful Communications Programs
 - Revisiting Investing Fundamentals
 - Understanding and Navigating Volatile Markets
- ▶ Use Current Vendors if Possible

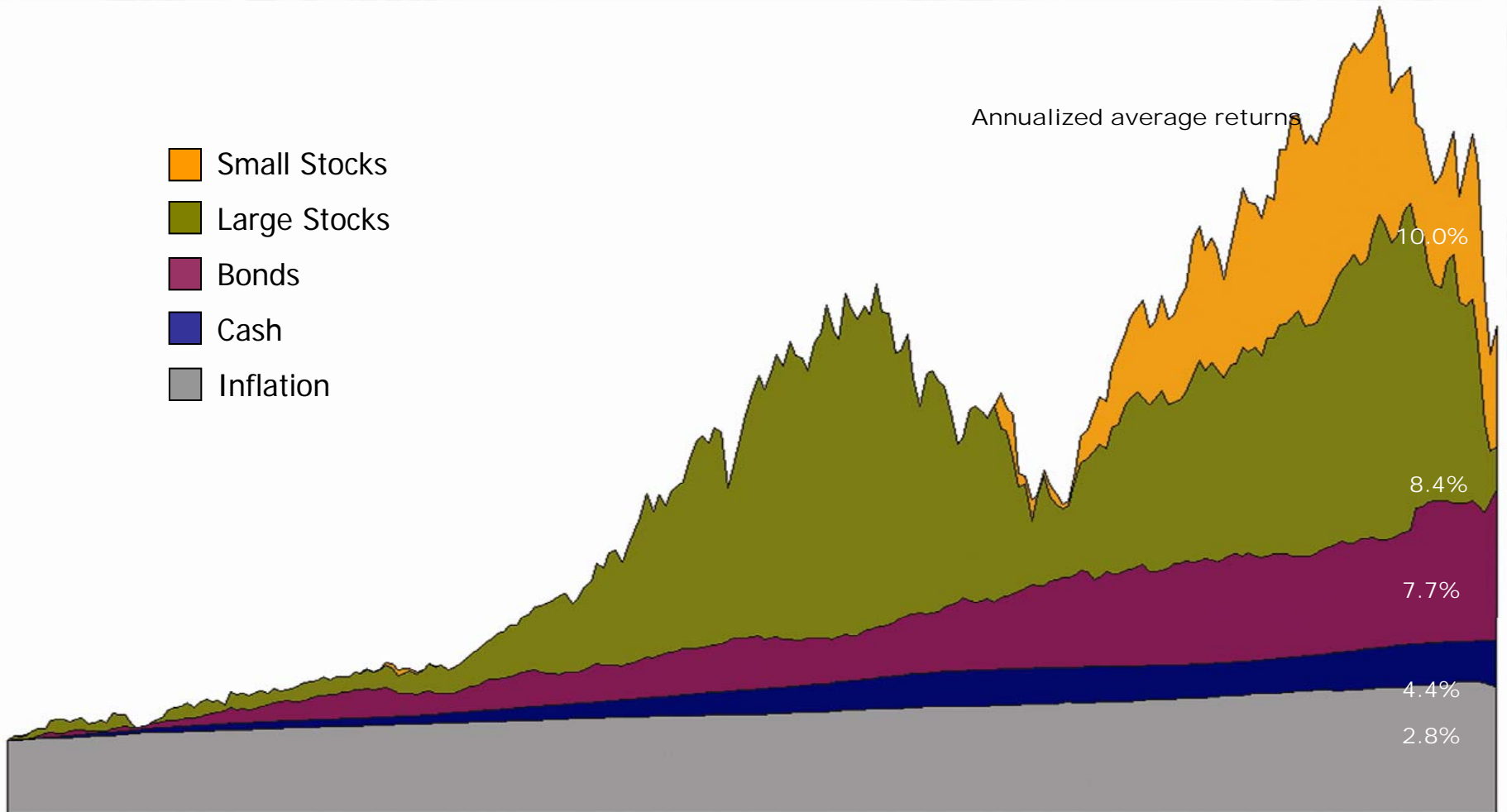
The Modern American Retirement System

- ▶ More mobile workforce
 - Average public-sector tenure 7.1 years
- ▶ Transition from DB to DC as primary Plan
- ▶ Greater flexibility & control **and** greater personal responsibility
 - Must establish retirement income objective, determine funding, and periodically calculate progress
 - Must select and manage investment portfolio
 - Should understand tax benefits to improve outcome

Successful Communications Programs

- ▶ On-site, face-to-face education from knowledgeable professionals
- ▶ Revisit investing fundamentals
- ▶ Provide historic information regarding volatility of stock market
- ▶ Explain most common mistakes of individual investors, including those that involve missing opportunities

Three Major Asset Classes and Inflation



January 1989

December 1999

December 2008

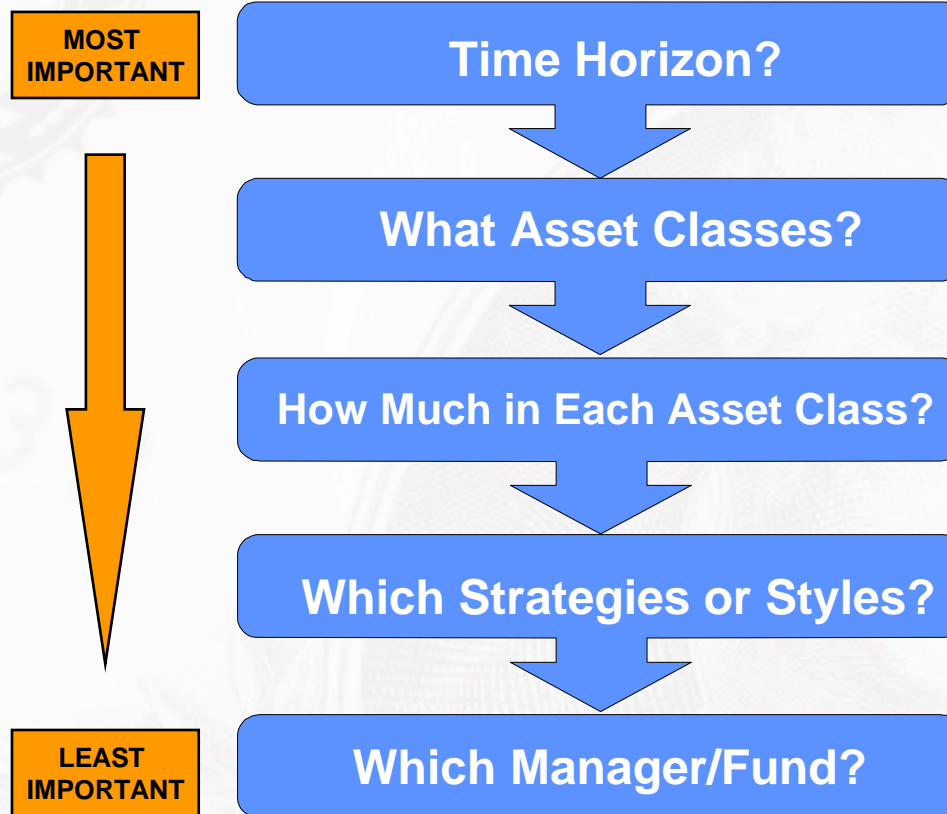
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Notes: 20-year historical performance of Stocks (S&P 500); Bonds (LB U.S. Aggregate); Cash(90-day U.S. Treasury Bill); and, Inflation (Consumer Price

Index). Past performance does not guarantee a similar result. Indicative of future results. Source: Morningstar Principia

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Hierarchy of Decisions



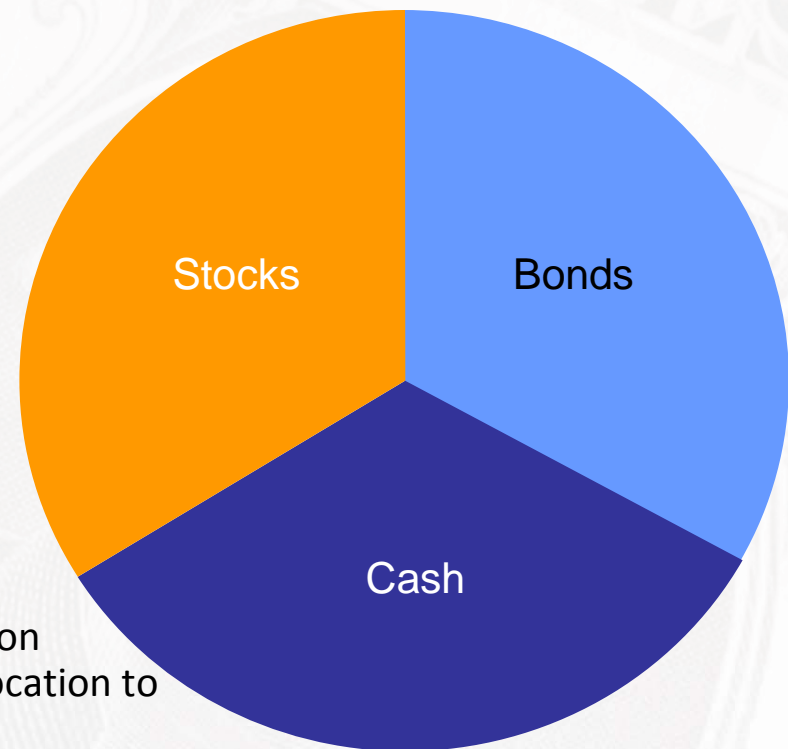
Source: Brinson, Hood and Beebower, "Determinant of Portfolio Performance," Financial Analysts Journal, May-June 1991

What is Asset Allocation?

Asset allocation is the process of combining the three major asset classes (stocks, bonds and cash) in a portfolio that is consistent with your current time horizon and tolerance for risk.

Your asset allocation should evolve over time:

- ▶ Investors with longer time horizons should have greater allocations to stocks, because short-term volatility is of little concern
- ▶ As investors get closer to retirement their allocation to stocks should gradually decrease, while the allocation to bonds increases
- ▶ An allocation to cash should be added for investors very near, and during, retirement



Mutual Funds

► What is a Mutual Fund?

- An Investment Company managing the pooled money of multiple investors
- Mutual Funds invest in a broad range of securities (stocks, bonds, cash)
- Investors purchase shares of the fund

► Benefits of Mutual Fund Investing

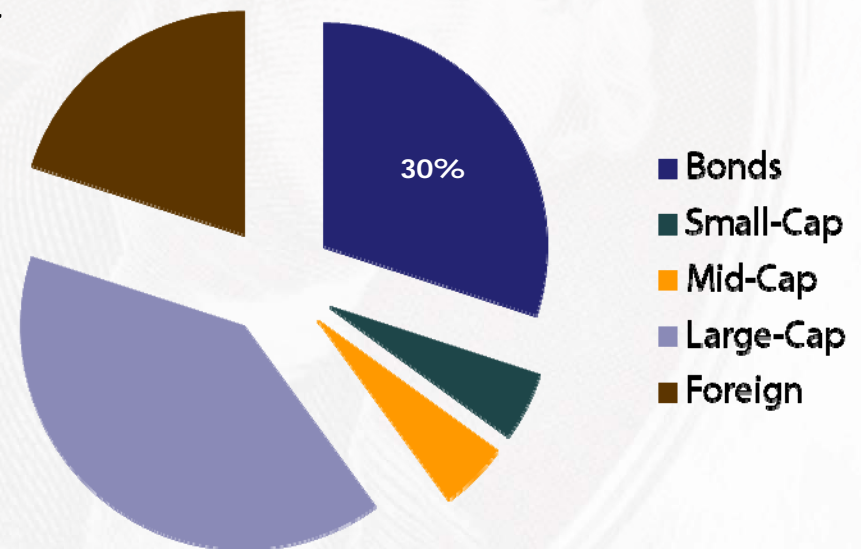
- Expertise & resources of professional money managers
- Immediate diversification
- Purchase high-priced stocks with small investments
- Investment expense shared by all investors

The image shows a newspaper page with the title "Mutual funds" in large, bold letters. Below the title is a table with multiple columns and rows of data. The table is organized into several sections, each with its own sub-header. The columns include "Fund", "NAV", "Dy Chg.", and "YTD %ret.". The rows list various mutual funds and their corresponding performance metrics. The text is somewhat blurry, but the structure of the table is clear.

Fund	NAV	Dy Chg.	YTD %ret.
Strong Fds Adviser			
SCapital p 28.22		-0.1	+4.2
SCFund p 28.26		-0.1	+4.2
US Index		-0.1	+4.2
Strong Fds Adviser			
SCapital p 28.22		-0.1	+4.2
SCFund p 28.26		-0.1	+4.2
US Index		-0.1	+4.2

Diversification

- ▶ Division of assets within the 3 major asset classes
- ▶ Stock fund sub-asset classes
 - Company Size: Small, Medium, Large
 - Domicile: Foreign, Domestic
 - Management Style: Active, Passive
 - Selection Style: Growth, Value, Blend
- ▶ Don't put all of your eggs in one basket



Market Capitalization

LARGE CAP

Over \$15 Billion



WAL*MART

Johnson & Johnson



MID CAP

\$3 TO \$15 Billion

Office DEPOT



D-R-HORTON
America's Builder



SMALL CAP

Under \$3 Billion



Market Cap = # of shares outstanding x market price

Growth Through Global Investing

Annual returns of top-performing developed global stock markets

2008

Japan -29%



Switzerland -30%



United States -37%



Spain -40%



United States -37%



2007

Finland 50%



Hong Kong 41%



Germany 36%



Greece 33%



United States 5%



2006

Spain 50%



Portugal 48%



Ireland 48%



Singapore 47%



United States 16%



2005

Canada 29%



Norway 26%



Japan 26%



Denmark 25%



United States 5%



Past performance is no guarantee of future results. Returns expressed in U.S. dollars. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. © 2009 Morningstar, Inc. All rights reserved. 3/1/2009

Management Style

▶ Passive Management

- Replicate holdings and performance of an index (i.e. S&P 500)
- Holdings limited to those in index

▶ Active Management

- Manager actively selects holdings
- Not limited to index holdings



Growth vs. Value

► Growth Companies

- Sales growth greater than competitors
- Above average earnings increases
- High earnings per share (Do not pay dividends)
- High Price/Earnings and Price/Book Ratios



► Value Companies

- Low or no sales growth
- High Dividends
- Low earnings per share
- Low Price/Earnings and Price/Book



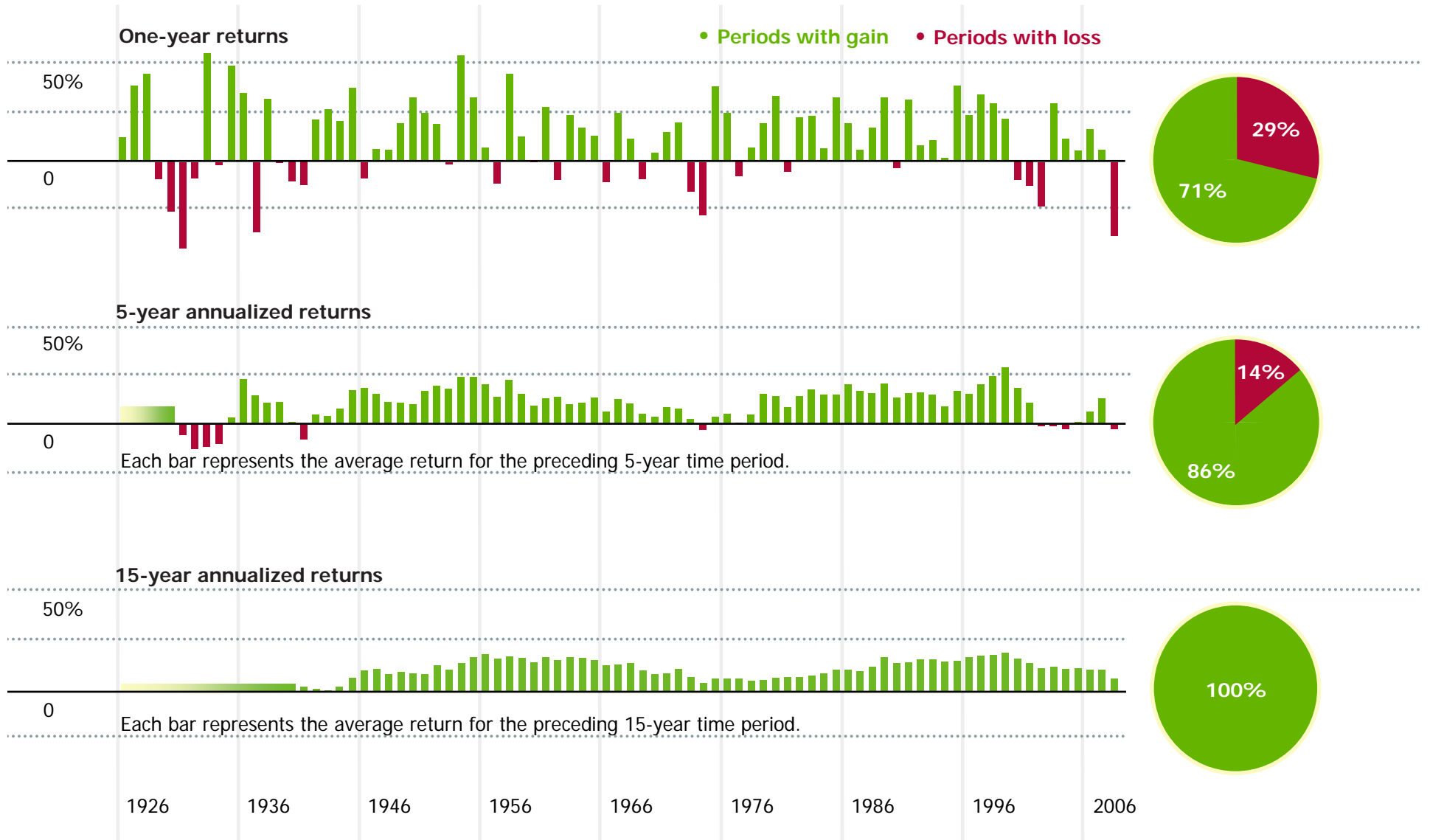
General Mills



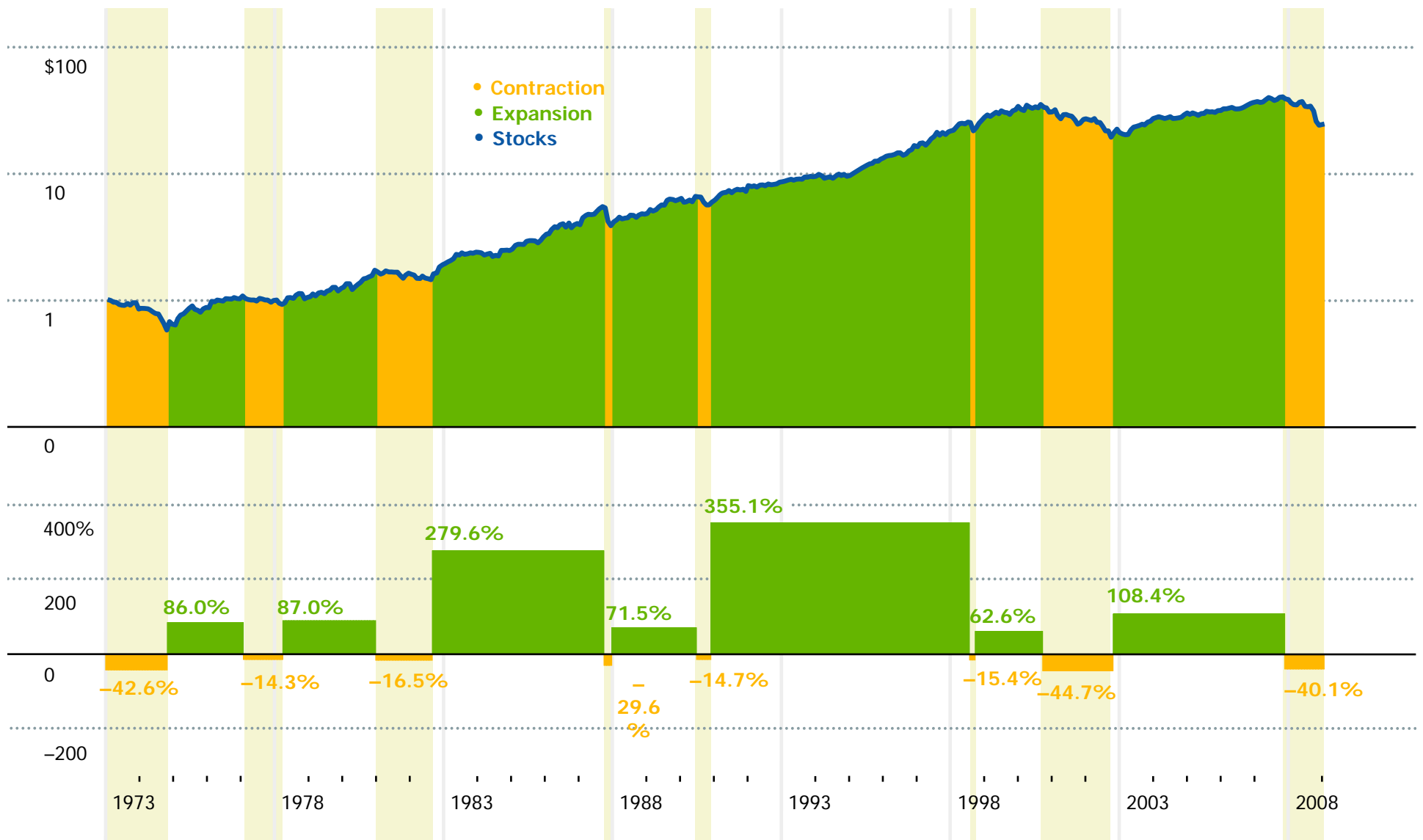
Understanding Stock Market Volatility

Risk of Stock Market Loss Over Time

1926–2008



Stock Market Contractions and Expansions 1973–2008

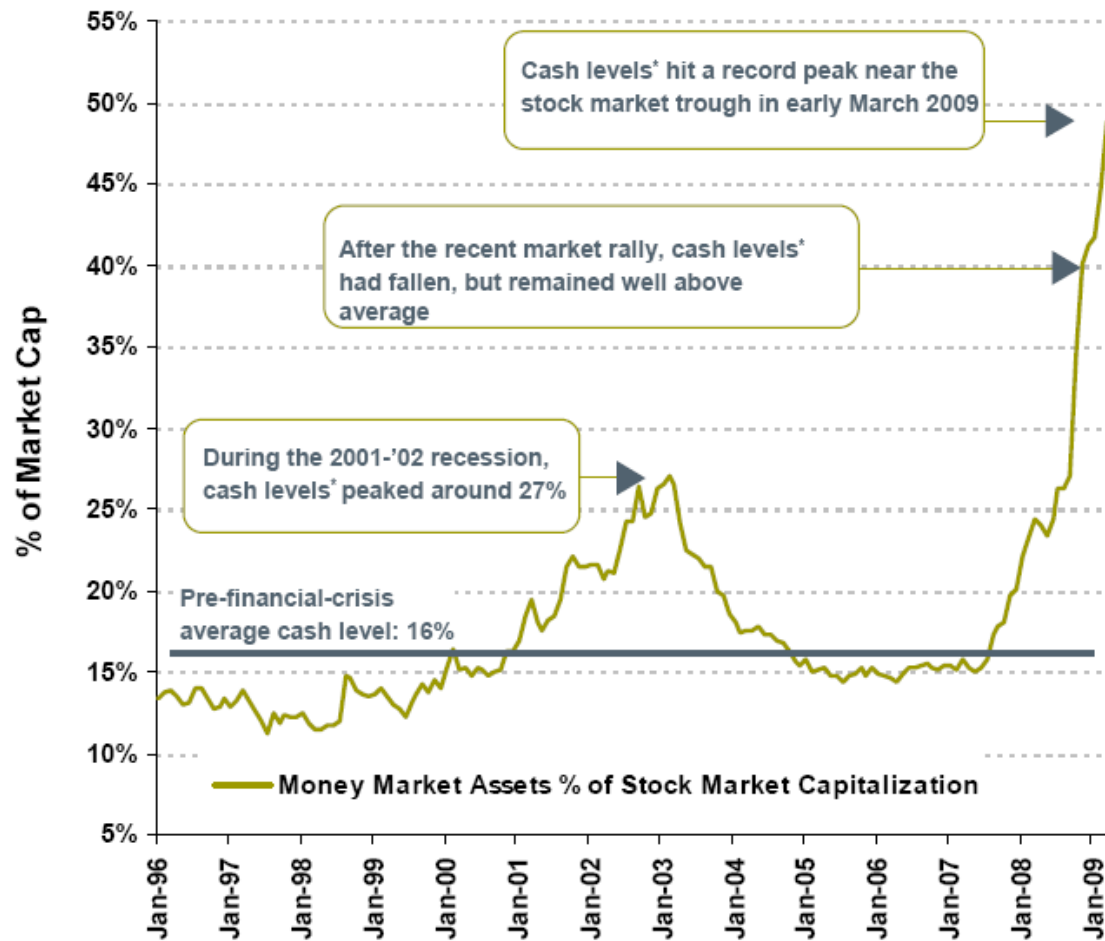


Supply and Demand Market

- ▶ Current value of stocks largely driven by supply and demand
- ▶ When supply is abundant, prices decline
 - When a massive number of investors sell stocks out of panic the market is flooded with supply and prices decline
- ▶ When demand is abundant, prices increase
 - When investors begin rapidly buying stocks prices begin to increase

Cash Levels are High

Money Market Assets (Cash) as % of U.S. Stock Market Capitalization (1996-2009)



Market Downturns and Recoveries 1926–2008

Downturn	% Loss		Recovery
34 months	-83.4%	Sep 1929–Jun 1932 Jul 1932–Jan 1945	151 months
6 months	-21.8%	Jun 1946–Nov 1946 Dec 1946–Oct 1949	35 months
7 months	-10.2%	Aug 1956–Feb 1957 Mar 1957–Jul 1957	5 months
5 months	-15.0%	Aug 1957–Dec 1957 Jan 1958–Jul 1958	7 months
6 months	-22.3%	Jan 1962–Jun 1962 Jul 1962–Apr 1963	10 months
8 months	-15.6%	Feb 1966–Sep 1966 Oct 1966–Mar 1967	6 months
19 months	-29.3%	Dec 1968–Jun 1970 Jul 1970–Mar 1971	9 months
21 months	-42.6%	Jan 1973–Sep 1974 Oct 1974–Jun 1976	21 months
14 months	-14.3%	Jan 1977–Feb 1978 Mar 1978–Jul 1978	5 months
20 months	-16.5%	Dec 1980–Jul 1982 Aug 1982–Oct 1982	3 months
3 months	-29.6%	Sep 1987–Nov 1987 Dec 1987–May 1989	18 months
5 months	-14.7%	Jun 1990–Oct 1990 Nov 1990–Feb 1991	4 months
2 months	-15.4%	Jul 1998–Aug 1998 Sep 1998–Nov 1998	3 months
25 months	-44.7%	Sep 2000–Sep 2002 Oct 2002–Oct 2006	49 months
14 months	-40.1%	*Nov 2007–Dec 2008 TBD	TBD

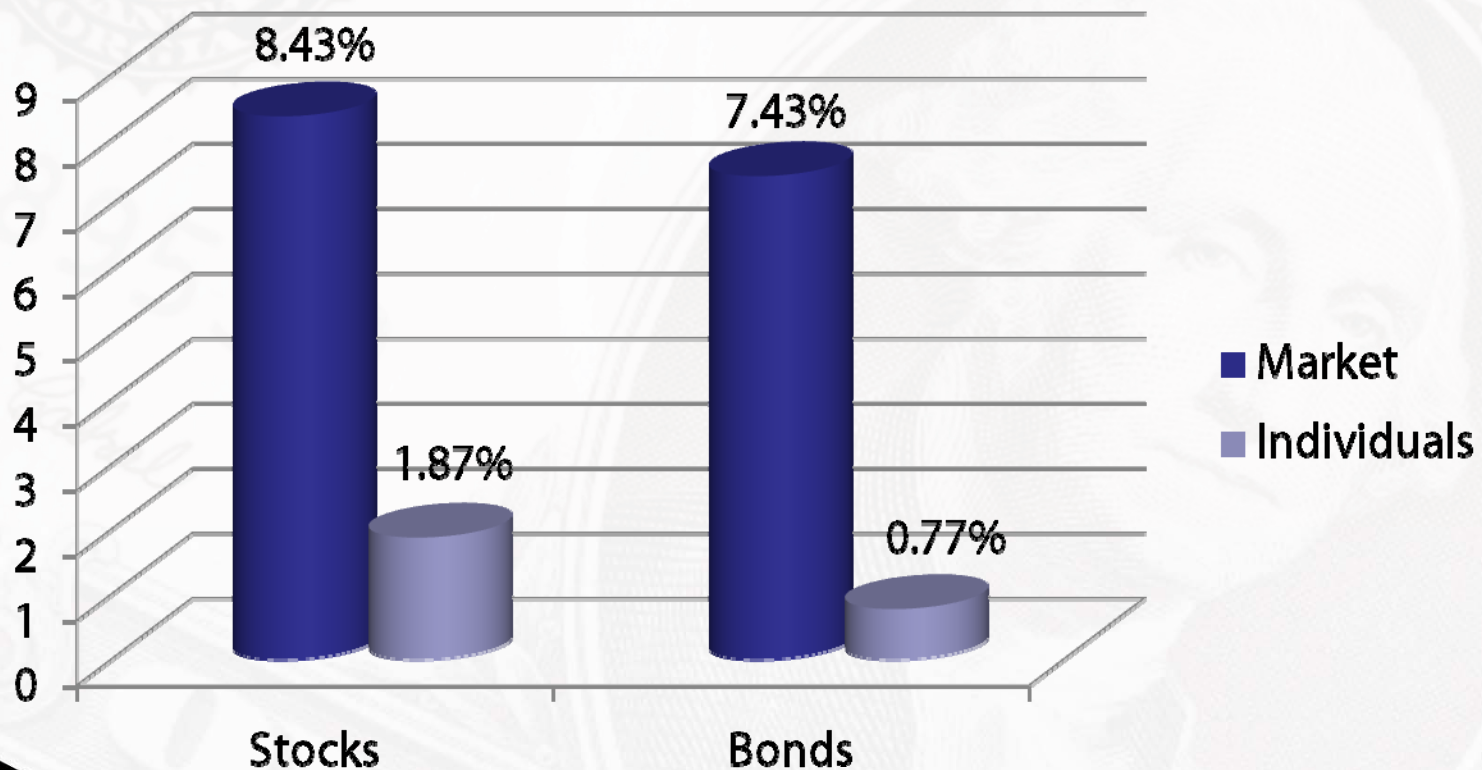
Past performance is no guarantee of future results. This is for illustrative purposes only and not indicative of any investment. *The exact length of the downturn has yet to be determined. An investment cannot be made directly in an index. © 2009 Morningstar, Inc. All rights reserved. 3/1/2009

Efficient Markets

- ▶ Stock prices incorporate public information and reflect their true value at all times
- ▶ Asset allocation relies on market efficiency and rationale investor behavior

Individual Investors vs. The Markets

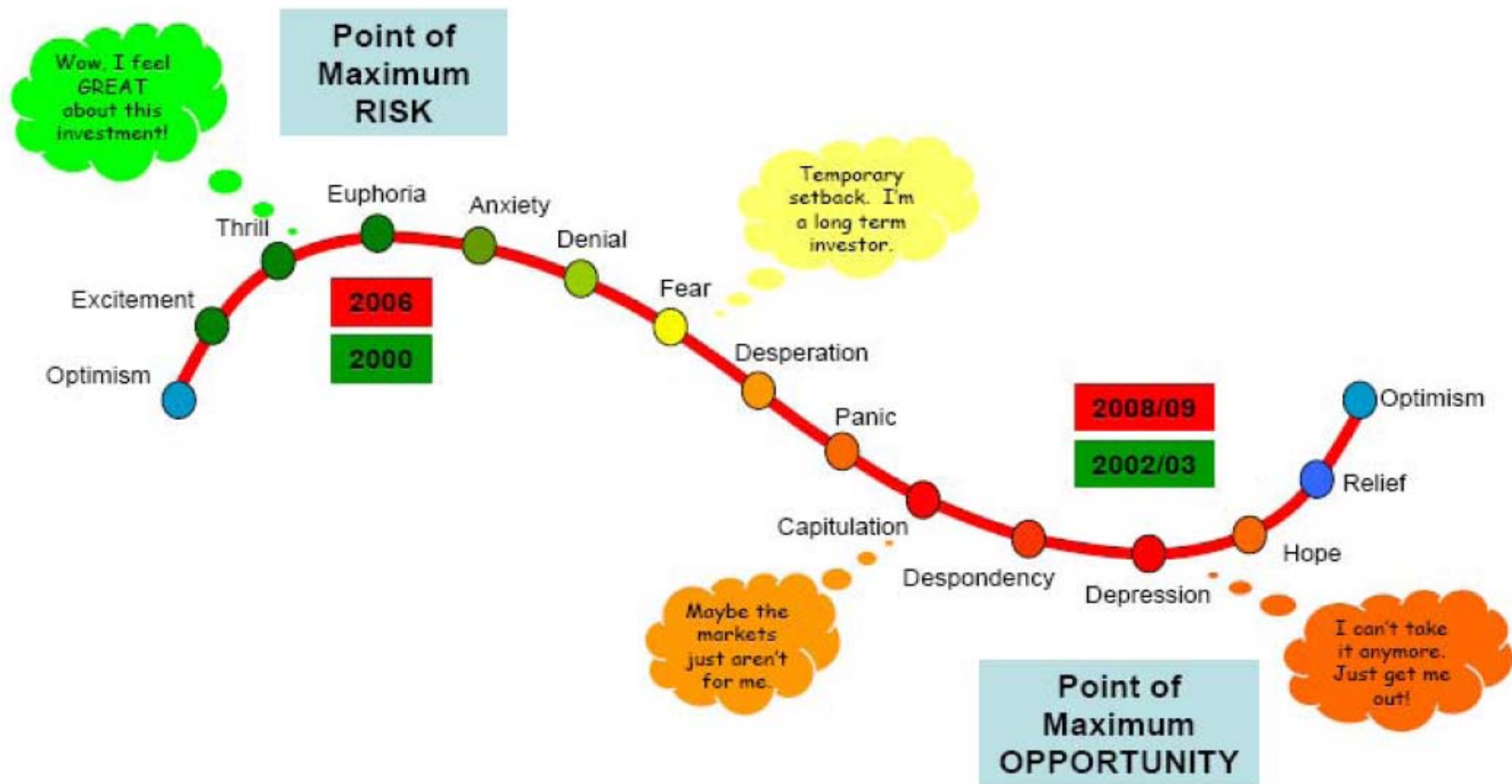
20-Year Historical Average Annualized Performance



Source: DALBAR, Inc. Market performance of Stocks based upon S&P 500 Stock Index; Bonds based upon BC Aggregate Bond Index for 20-year period ending 12/31/08.

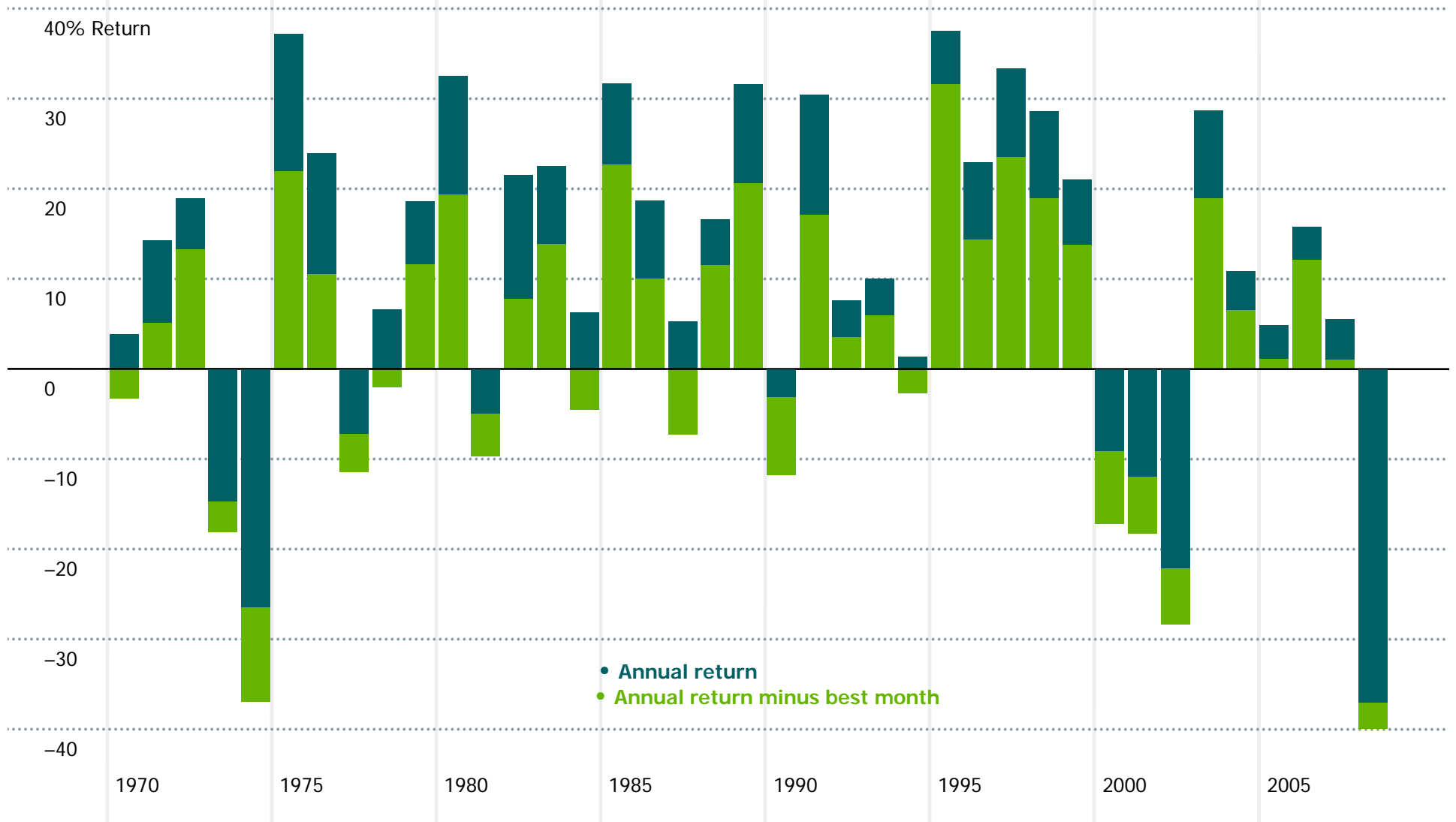
The Danger of Acting on Emotions

The Point of Maximum Opportunity has historically been the time when investors are most depressed.



Market-Timing Risk

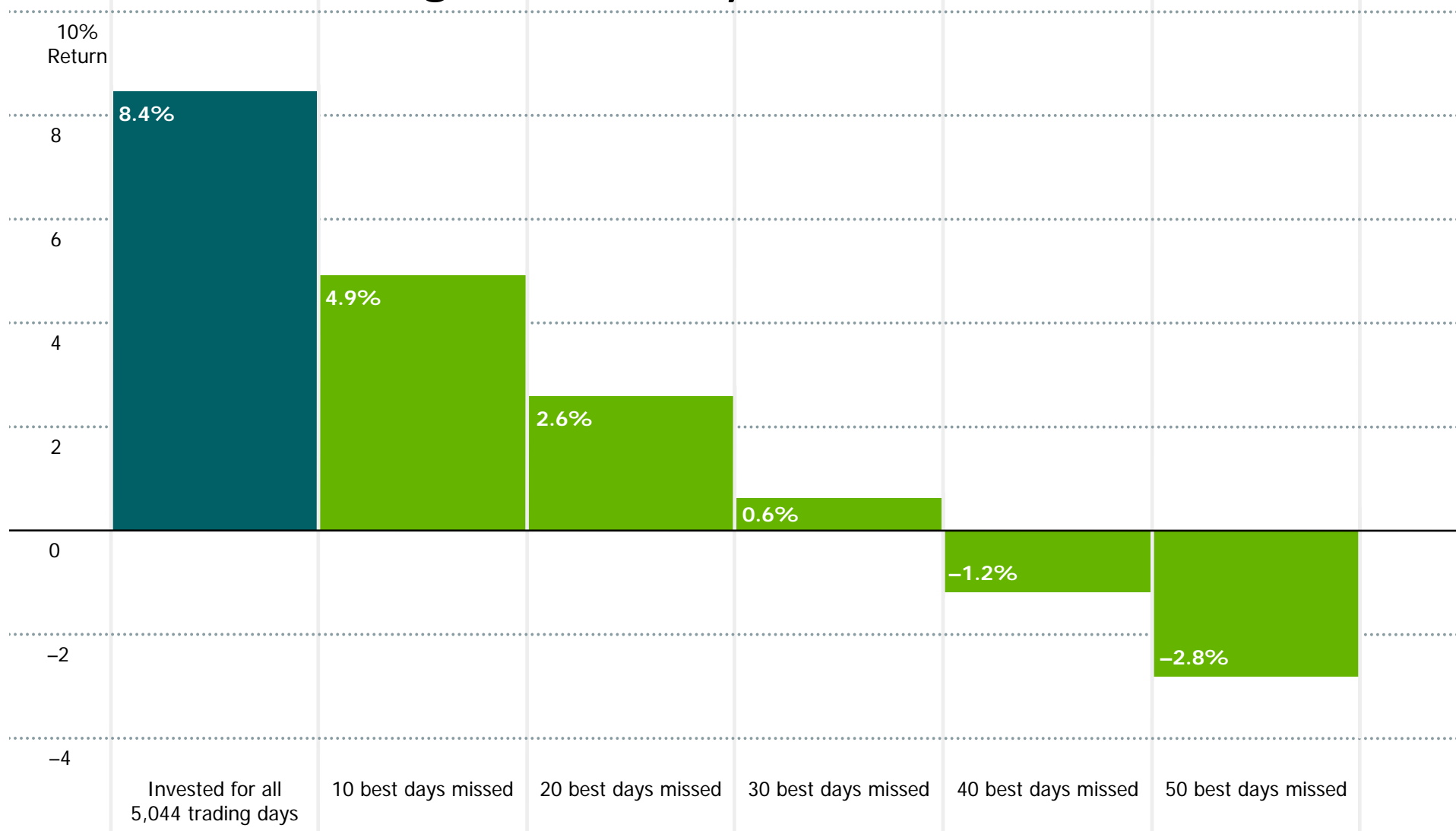
The effects of missing the best month of annual returns 1970–2008



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The Cost of Market Timing

Risk of missing the best days in the market 1989–2008



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Summary

- ▶ Historically, stocks have been much more volatile over the short-term and far less volatile over the long-term
- ▶ Statistically, stocks have been quite attractive over the long-term
- ▶ The stock market is cyclical
- ▶ Stocks have historically rebounded from significant downturns
- ▶ Resist making emotion-based decisions
- ▶ Avoid short-term thinking with long-term asset classes
- ▶ Approach long-term investing rationally and with deliberation

What You Can Do to Assist Employees in Making Informed Decisions About Their Retirement Income

Lori Doyle | Investment Officer
CalPERS

Things To Do

- Offer diversified investment options
- Develop an Investment Policy
- Provide employees with education/information
- Determine if you would like to hire investment advisors
- Utilize free resources for information

Investment Options

- Broad range of investment options
 - Varying risk and return characteristics
- Give employees access to move in and out of options frequently
- Information – sufficient information about options
 - SEC authorized use of “Fund Profiles” in lieu of prospectus

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National Association of Govern



Investment Policy

- Create and follow an Investment Policy
- Establish a Monitoring Policy for funds
- Elect a Deferred Compensation Committee

HR/Benefits Administrator

- Provide Basic Plan Information
 - Eligibility
 - Contributions (limits, mandatory, matching)
 - Other documented Plan provisions
- Make available general investment information
 - Importance of asset allocation
 - Identify risks of investing
- Recommend a third-party advisor or advisory service
 - ONLY if one has been approved

HR/Benefits Administrator (cont.)

- Explain the Qualified Default Investment Alternative (QDIA)
 - Target Date or Lifestyle Portfolios
 - Balanced Fund
 - Managed Account

HR/Benefits Administrator (cont.)

- Refer participants to representatives of the Plan's vendors
 - Customer Service Reps of Record-keepers and Administrators
 - Investment consultant
 - Education provider
 - Investment experts
- Direct participants to educational material available on Plan vendor web sites

Avoid Offering Direct Advice

- Providing **any form** of investment advice
- Answering employee-specific questions
 - When should I start contributing?
 - How much should I save?
 - Someone said avoid ABC Fund, which is in our Plan, is it OK?
- Answering questions from personal experience
 - I had the same question and read/heard/was told...
 - Testimonials
- Recommending a third-party resource with a vested interest (receives any form of compensation)

ERISA: Investment Education¹

- Employers may hire a service provider to provide:
 - General financial and investment education
 - Interactive investment materials
 - Info based on asset allocation models
- Providers should offer information and education as long as it is general in nature

¹U.S. Department of Labor, Meeting Your Fiduciary Responsibilities, May 2004

Education Options

- On-site group presentations and workshops
 - Retirement Savings
 - Investing Fundamentals
 - Volatile Markets
 - Pre-Retirement Workshops
- Delivered by current vendors, sometimes at no additional cost
- Delivered by independent communications firms or investment consultants

ERISA: Investment Advice¹

- Employers may hire investment advisers to offer specific investment advice to participants.
- Must be carried out in same manner as hiring, monitoring and evaluating any other service provider

¹U.S. Department of Labor, EBSA Advisory Opinion 2005-23A

Advice Options

- Advice
 - Fiduciary advisors pursuant to PPA 2006
 - Delivered by third-party representatives or computer-generated

Free Information Resources

- **For Employees:**

- US Dept. of Labor-EBSA

- www.dol.gov/ebsa or 1-866-444-EBSA (3272)

- “Savings Fitness: Guide to your Money and Financial Future”

- “Worksheets for the Future”

- American Savings Education Council

- www.choosetosave.org

- Brochures for savings tips

- Smart Money University

- www.smartmoney.com

- Specialized articles based on current events

Free Information Resources

- **For HR/Benefits Administrator**
 - Employee Benefit Research Institute
 - www.ebri.org
 - Issue briefs and employee survey results
 - Benefits Link
 - www.benefitslink.com
 - Focus on compliance and plan administration

Free Information Resources

- **For Plan Sponsor**

- U.S. Dept. of Labor

- www.dol.gov/ebsa

- “Meeting your Fiduciary Responsibility”

- Reporting and Disclosure Guide for Employee

- Plan Sponsor

- www.plansponsor.com

- Webcasts and newsletters

- National Association of Governmental Defined Contribution Administrators, Inc.

- www.nagdca.org

Summary

- ▶ Offer appropriate investments to employees
- ▶ Monitor the investment performance
- ▶ Use your current vendors
 - Development, strategy, delivery, monitor
 - Education provider, investment managers
- ▶ Hire professionals
- ▶ Avoid hiring any person or firm whose objective is to sell products or services
- ▶ Utilize websites for free publications

Speaker Contact Information

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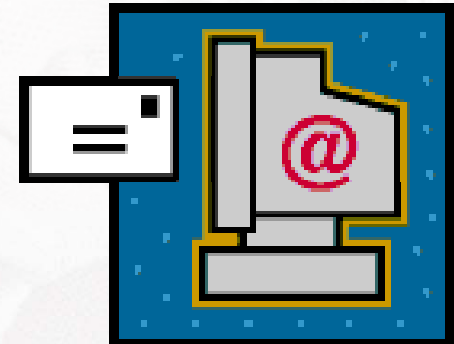
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Questions From Audience



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**Upon exiting the webcast, please
complete the quick evaluation
of today's event.**