Introduction to Defined Contribution Plans

Achieving Successful Outcomes

Sunday, September 23, 2018
2:15 pm – 4:15 pm

Marla J. Kreindler
Partner
Morgan, Lewis & Bockius LLP
Marla.kreindler@morganlewis.com
(312) 324-1114

Steve Toole
Executive Director
NC Retirement Systems
9 Defined Benefit Systems
457, 401(k), 403(b)
ABLE Program
steve.toole@nctreasurer.com
(919) 854-4197
**What is a Defined Contribution Plan?**

- IRS - “a retirement plan in which the employee and/or the employer contribute to the employee’s individual account.”
- Defined by contributions and earnings
- Defined contribution vs. defined benefit plans
- 401(k)
- 457
- 403(b)
- 401(a)
- Thrift Savings Plan

**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
WINNING PRACTICES
& INNOVATIVE APPLICATIONS

- Defined Benefit
- Retirement Security
- Social Security
- Defined Contribution
- Outside Assets

WINNING PRACTICES
& INNOVATIVE APPLICATIONS

- Mission
- Governance
- Plan Design
- Service Providers
- Communications
- Participant Outcomes
1) Tools for refining a plan mission
2) Considerations for improving plan governance
3) Concepts for improving plan design
4) Tips for improving service provider relationships
5) Tips for improving communications
6) Concepts for using data to support participant outcomes

Goals for Participant Outcomes Shapes Plan Mission

1) Participation
2) Contributions (amount & tax vehicle)
3) Account Balance
4) Allocation
5) Retention
6) Distribution Success
7) Retirement Income Security
What is Success in Retirement Income Security?

1) How do we know it when we see it?
2) When should participants expect to have it?
3) What behaviors are required to achieve it?
4) What are the risks in acquiring it?
5) What are the risks in maintaining it?
Principles of a Well-Designed Mission

1) Captures broadest, grandest, and most fundamental objective
2) Answers question: “How do you know you’re successful?”
3) General but focused - implies accountability
4) Connected to outcomes-driven success framework (goals and objectives)

GROUP DISCUSSION:
WHAT IS THE MISSION OF A DEFINED CONTRIBUTION PLAN?
What is Success in Plan Governance?

- Merit Based Decision-Making
- Clear Roles/Rules
- Incorporates Plan Mission and Culture, Fiduciary Duties and Legal Requirements, Risk Management Principles and Best Practices
- Effective Communication (reports)
- Complete & Accurate Records
- Dedicated decision-makers/staff

GROUP DISCUSSION

WHAT WORKS BEST IN PLAN GOVERNANCE? WHAT AREAS CAN BE IMPROVED?
What is Success in Plan Design?

1) Simplicity (understandability)
2) Choice/Responsiveness (recognition of diverse needs and outcomes)
3) Efficient (operational and risk management)
4) Comprehensive/Equitable Searches (procurements/contracting)
5) Legal and Administrative Accountability (rules & services compliance/best practice discovery)

Plan Design Ideas

- Bundled versus Open Architecture
- Number of Vendors
- Glidepath Design
- Investment Design Options
  - Number of available options
  - Active Versus Passive
  - Mutual Funds, CIT’s, Separate Accounts
  - Target Date versus Managed Accounts
- Loans
- Communication Plan
  - Low Touch – Web
  - High Touch – Field Representatives
  - Advice versus Education
- Brokerage Account
- Employer Match
- Opt-In versus Opt-Out
  - Auto Enrollment
  - Auto Escalation
- Available Payout Options
Plan Design

**GROUP DISCUSSION:**
WHAT PLAN DESIGN COMPLEXITY PRODUCES THE MOST CONFUSION FOR YOUR PARTICIPANTS?

---

**WINNING PRACTICES & INNOVATIVE APPLICATIONS**

What is Success in Service Provider Relationships?

1) Organizational Strength & Commitment to industry
2) Focus on Participant Outcomes
3) Compliance and Coordination of Providers
4) Cost Balance
5) Broad Array of Services (Third-Party-Administrator, Investment Providers, Consultants, Auditors, Legal, etc.)
6) Partnership between plan sponsor/service providers
7) Execution of mutual obligations
8) Transparency of process/agreement/outcomes
Service Providers

GROUP DISCUSSION:

WHAT ARE THE BEST WAYS TO BUILD COMMON PURPOSE BETWEEN SERVICE PROVIDERS & PLAN SPONSORS?

NAGDCA 2018 ANNUAL CONFERENCE

WINNING PRACTICES & INNOVATIVE APPLICATIONS

1) “Forensics” (investigate before acting)
2) Communication options (consider paper, web, symposiums, etc.)
3) Strategy (design plan to achieve specific outcome)
4) Targeted - personalized
5) Engagement (pipeline to attention)
6) Education/Awareness (they interpret as intended)
7) Behavior (they take action)
8) Measure – (you can count the result)

What is Success in Participant Communications?

NAGDCA 2018 ANNUAL CONFERENCE
GROUP DISCUSSION:

DESIGN A COMMUNICATIONS CAMPAIGN TARGETED AT SPECIFIC CORE METRIC

CLOSING THOUGHTS

- Success is a journey, not a destination
- Success is a fine balance between repeating best practices & blazing your own trail
- Success results from “just right” process – not too much, not too little
- Complexity creates distortions; simplicity creates solutions
- Roll the ball forward – most progress comes incrementally
- Always do what’s in the best interests of the participants
Questions????
ESG – Environmental, Social and Governance Investment Criteria

- What is ESG?
- Is ESG just a buzz or a trend?
- How are managers different in their approaches/ Evolution of ESG
- Clarifying fiduciary obligations and due diligence of plan sponsors
  - DOL Field Assistance Bulletin No. 2018-01

**Environmental**
How a company uses and impacts the natural environment in its supply chain

**Social**
How a company manages relationships with its employees, suppliers, customers and the communities where it operates

**Governance**
Policies and practices related to a company’s leadership, executive pay, and shareholder rights
Different approaches to ESG

Varying degrees of ESG consideration in investing styles:

- Socially Responsible Investing ("SRI")
- Religion-based screening
- ESG best-in-class
- ESG integration
- Thematic
- Engagement
- Impact
- Mission-based investing

ESG best-in-class: including companies selected for positive ESG performance relative to industry peers and avoiding companies that do not meet certain ESG performance thresholds.
For Illustrative Purposes Only.

State of the Responsible Investment Industry

<table>
<thead>
<tr>
<th>400+ Sustainability Reporting Instruments globally</th>
<th>72% of Largest global companies by revenue issue CSR reports in 2017a</th>
</tr>
</thead>
<tbody>
<tr>
<td>65% of Sustainability Reporting Instruments are mandatory</td>
<td>15% of Board Seats are held by women globallyb</td>
</tr>
<tr>
<td>81% of Emerging Market countries with Government Imposed Corporate ESG Disclosure</td>
<td>1000+ ESG Indicators to consider its sustainability across multiple vendorsc</td>
</tr>
<tr>
<td>85% of S&amp;P 500 companies published CSR reports in 2017, representing growth of 325% since 2011d</td>
<td>18 of World’s Largest Economies have Corporate Disclosure Requirementse</td>
</tr>
<tr>
<td>46% of World’s Largest Economies have Pension fund regulationsf</td>
<td>150+ Providers of ESG researchg</td>
</tr>
<tr>
<td>38 Stock Exchanges have issued guidance to listed companies on ESG reportingh</td>
<td>26% of Total Managed Assets globally are classified as sustainablei</td>
</tr>
<tr>
<td>22 Stewardship Codes or initiatives globallyj</td>
<td>49% of Millennials in the U.S. with a net worth greater than $1 million chose social responsibility as a factor when choosing an investmentk</td>
</tr>
<tr>
<td>90 Delisted PRI signatoriesl</td>
<td>$89 Trillion+ in AUM by PRI signatoriesm</td>
</tr>
</tbody>
</table>

Notes:
1. PRI (UN Global Reporting Initiative) as of Aug 27, 2016
2. Carrot & Sticks Global Trends in Sustainability Reporting 2017
5. The Handbook: The Responsible Investment Handbook
6. Journal of Environmental Investing 8, No. 1 2017
7. Guide to ESG Data Providers and Relevant Trends
9. GSIA 2016 Global Sustainable Investment Review
10. Spectrem Group: High Net Millennials
11. Sustainable Stock Exchanges Initiative as of August 28, 2017
12. EY Q&A on Stewardship Codes August 2017
13. PRI Annual Report 2018

2018 ANNUAL CONFERENCE
Macro Thematic View of Responsible Investing

- Transparency & Regulatory Requirements
- Emerging Market Trends
- Fixed Income Sustainability Investing
- Gender Diversity
- Technology & AI
- Business Ethics
- Human Capital Development
- Inclusive Growth
- Corporate Disclosure
- Water Scarcity
- Data Privacy
- Corporate Governance Diversity
- Demographic shifts
- Climate Change
- Shift to the social
- Technology & AI
- Board Mobility Accessibility & Accountability
- Data Privacy
- Single use plastics

Fiduciary Duty and ESG

Whatever is worth doing is worth doing well.
- Lewis Carroll (famous writer and mathematician)

Active fund managers have always considered ESG risks as part of a robust investment process.
The discussion around ESG today is not about fundamentally changing what we do, but rather creating a framework around these risks that can be clearly articulated, measured, monitored and tracked.
The Road to ESG
Asset Managers face multiple challenges

Have we forgotten someone?

Asset Owners, Asset Managers  Industry  Destination ?
The UN Sustainable Development Goals (SDGs)

In September 2015, the SDGs were adopted unanimously by 193 heads of state and other leaders at a summit at the UN Headquarters in New York.

ESG: Trends among plan participants

Over the past several years there has been growing interest in investments that align with investor’s values:

- Today’s plan participants want investments that reflect their personal values:
  - 82% want their investments to reflect their personal values*
  - 62-72% of Millennials would contribute more if it advanced social good*
  - 74% want more socially responsible investments in their retirement plan*
- Today’s plan participants want to invest in companies that are doing the right thing:
  - 64% of all participants surveyed said they are concerned about the environmental, social and ethical records of the companies they invest in**
  - 73% believe companies that provide clean water and clean energy present significant growth opportunities for their investments**

*Natixis Investment Managers, 2016 Retirement Plan Participant Study compiled by CoreData Research, August 2016. Survey included 951 US workers, 651 being plan participants and 300 being non-participants. The age groups are broken up as follows: 285 Gen Y/Millennials (18-34 years old), 283 Gen X (35-50 years old) and 383 Baby Boomers (51 years and older).

**Natixis Investment Managers, Global Survey of Individual Investors conducted by CoreData Research, February 2016. Survey included 7,100 investors in 22 countries, of which 750 were in the US.
## Department of Labor guidance as a reference

**ERISA requires fiduciaries to:**
- act with the care, skill, prudence, and diligence a prudent person would use
- act “solely” in interest of a plan’s beneficiaries and for “exclusive purpose” of providing benefits and paying reasonable administrative expenses

**Collateral Benefits (CBs):**
- economic benefits created apart from investment return to the plan (CBs created by “Economically Targeted Investments” or “ETIs”)
- DOL’s longstanding position: fiduciaries may not sacrifice investment returns or assume greater investment risks as a means of promoting collateral social policy goals
- Interpretative Bulletins issued on ETIs:
  - **IB 1994-01**
    - “Everything being equal test” – risk/return must be at least in line with alternative available investments
  - **IB 2006-01**
    - More rigorous view of “everything else being equal test” Discouraged consideration of ESG
  - **IB 2015-01**
    - Rescinded 2008 guidance ESG “issues may have a direct relationship to the economic value of the plan’s investment” Encouraged consideration of ESG
  - **IB 2018-01**
    - Must “not too readily treat ESG factors as economically relevant” Doesn’t necessarily discourage consideration of ESG

Source: US Department of Labor

## Why does ESG Matter?

**Because a company’s environmental actions can impact:**
- Operational efficiency and costs
- Environmental liability
- Opportunities for low-carbon revenue sources

**Because a company’s social behaviors can impact:**
- Effective management of human capital
- Risks related to product/service safety
- Reputation and trust with customer base

**Because a company’s governance practices can impact:**
- Long-term strategy and capital allocation decisions
- Financial and operational performance
- Regulatory liability
Potential Benefits of ESG Investing

Recent aggregated academic evidence is largely supportive of the ESG investment thesis

- **Cost of Capital**: 90% of studies on cost capital show that high ESG scores lowers cost of capital
- **Operating Performance**: 80% of studies show that strong ESG performance yields better operating performance of firms (e.g., ROA, Tobin’s Q, etc.)
- **Stock Prices**: 80% of studies show positive correlation between high ESG and superior stock performance

Source: From the Stockholder to the Stakeholder: How Sustainability Can Drive Financial Outperformance, March 2015, University of Oxford and Arabesque Partners. Retrieved 20 January 2016. The authors reviewed 29 cost of capital studies, 51 operating performance studies, and 41 stock price studies, respectively.

Factors Impacting Adoption

Data limitations, terminology confusion and measurement issues are primary concerns

- **Data Challenges**:
  - Lack of standards for measuring ESG performance: 60%
  - Lack of ESG performance data reported by companies: 39%
  - Lack of ESG data from other sources: 38%

- **Types of Data Barriers Cited by Investors**
  - Institutional: 46%
  - Retail: 46%

The primary barrier to effective ESG integration is the lack of standardized, high-quality ESG data to incorporate into investment decision making processes

Clarifying ESG objectives and understanding terminology is essential for implementation. For example, “Sin stocks” may outperform but may not align with investor values, while high ESG scores may signal future outperformance and reduced volatility in the long-term

Maximum risk adjusted return may not be the ultimate or sole objective — some investors have an expanded definition of performance

1 Investing Enlightenment: How Principles and Pragmatism Can Create Sustainable Value Through ESG, Center For Applied Research, State Street Corporation. The study was conducted from November to December 2016. The findings are based on a global survey of 582 institutional investors across 29 countries and 750 individual investors across 24 countries, as well as more than 25 interviews with senior executives.

2 Sources: Simon, March and Staw (1991), Hong and Kacperczyk (2008), Blitz and Fabozzi (2017), Blitz and Fabozzi posit that outperformance is explained by quality factors rather than a risk premium from shunning by investors.
Why Does Asset Stewardship Matter?

Companies that are managed responsibly deliver better financial results to investors over the long-term.

Long-term stewards of capital responsible to engage with company to improve long term operational and financial performance.

The impact of investment activities can be managed for a positive contribution to society and future generations.

Performance | Stewardship | Impact
---|---|---

ESG Investment Styles and Terminology

**Exclusionary Screening**
- Excludes companies, sectors or countries involved in activities that do not align with global standards or investors' moral values.
- Align portfolios with moral and ethical values.
- Mitigate ESG risks.
- Influence companies to change business models or stop certain practices.
- Introduces tracking error and potentially impacts performance.

**Positive Screening**
- Tilts portfolio toward:
  - Best-in-class companies on ESG measures.
  - Companies with strong ESG momentum.
  - Companies solving specific ESG Themes.
- Mitigate ESG risks.
- Achieve higher returns.
- Support business models solving sustainability issues.
- Improve or maximize a portfolio’s ESG score.
- Sources ESG data, alongside traditional financial analysis, into the securities selection process.

**ESG Integration**
- Incorporates ESG data, alongside traditional financial analysis, into the securities selection process.
- Mitigate ESG Risks.
- Achieve higher returns.
- Align portfolios with moral and ethical values.

**Impact Investing**
- Targets a measurable positive social and/or environmental impact. Investments are generally project specific.
- Mitigate ESG Risks.
- Achieve higher returns.
- Generate and measure specific social and/or environmental benefits that align with purpose.

**Active Ownership/ Stewardship**
- Voting company shares and engaging with companies on a variety of ESG issues to effect changes in behavior or company practices and policies.
- Influence company strategy for long-term value creation.
- Help management capture value and reduce risk.
- Enhance ESG disclosure and practices.

Investments may be illiquid and investment returns could aim to be below or at/above the market rate.

A significant ownership stake is needed to exert influence. Resource intensive. Active ownership is crucial for index strategies.
ESG: Role of the Consultant

- Consultant’s role is to ask the question:
  - What are the assets/fund for?
  - Answer is not always to make more money or hit a number.
- Consultant’s role is to assure all material factors are considered and evaluated.
  - Factors considered within the “E” or the “S” may be material in assessing opportunities.
- Consultant’s view:
  - Constructive engagement of corporate management is a responsible and necessary act of fiduciaries.
  - Impact and return are not mutually exclusive concepts.

How Consultants Can Help Clients Implement ESG

<table>
<thead>
<tr>
<th>Investment Policy</th>
<th>Manager Selection</th>
<th>Proxy Voting</th>
<th>Corporate Governance</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Objectives</td>
<td>• Philosophy</td>
<td>• Proxy Policy</td>
<td>• Board of Directors</td>
</tr>
<tr>
<td>• Risk Management</td>
<td>• Process</td>
<td>• Annual Meetings</td>
<td>• Engagement</td>
</tr>
<tr>
<td>• Selection Criteria</td>
<td>• Security Selection</td>
<td>• Proposals</td>
<td>• Advocacy</td>
</tr>
<tr>
<td>• Required Reporting</td>
<td>• Risk Management</td>
<td>• Reporting</td>
<td>• Alliances</td>
</tr>
</tbody>
</table>

CFA Institute Survey (Modified)
Do you think analyzing ESG factors can boost returns?

- Somewhat: 37%
- Not on their own: 24%
- It depends on data: 16%
- No: 15%
- Of course: 7%

Source: CFA Institute Enterprising Investor, September 1, 2016

Asset Managers Considering ESG Criteria (Trillions)*

<table>
<thead>
<tr>
<th>Year</th>
<th>$0.00</th>
<th>$2.00</th>
<th>$4.00</th>
<th>$6.00</th>
<th>$8.00</th>
<th>$10.00</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$4.80</td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$8.10</td>
</tr>
</tbody>
</table>

Questions?

Bonnie Saynay  
Global Head of Responsible Investment  
Invesco  
Bonnie.Saynay@invesco.com

Francois Otieno  
Director of Fixed Income  
Segal Marco Advisors  
fotieno@segalmarco.com

Marla Skeffington  
Vice President-Retirement Strategies  
Natixis Investment Managers  
marla.skeffington@natixis.com

Nathalie Wallace  
ESG Investment Strategist  
State Street Global Advisors  
nathalie.wallace@ssga.com

2018 ANNUAL CONFERENCE
Identifying & Solving for Retirement Income

WINNING PRACTICES
INNOVATIVE APPLICATIONS

Identifying & Solving for Retirement Income – What to do with that retirement nest egg...

Lori Lucas, President and CEO of EBRI
Carol Bogosian, President of CAB Consulting
Kelli Hueler, President and CEO of Hueler Income Solutions®, LLC
Michael Finke, Chief Academic Officer, The American College

September 24, 2018

WINNING PRACTICES
INNOVATIVE APPLICATIONS

Agenda

• Spending in Retirement: the Dilemma
• Insights from the Society of Actuaries Research on Post-Retirement Risk, Retirees Age 85 and Older, and Retirement Income Solutions
• The Need for More and Better Communication to Help Retirees
• Getting Participants to Make the Right Retirement Income Choices
• Q&A
WINNING PRACTICES
& INNOVATIVE APPLICATIONS

Retirement?

WINNING PRACTICES
& INNOVATIVE APPLICATIONS

Or Retirement?

NAGDCA 2018 ANNUAL CONFERENCE

NAGDCA 2018 ANNUAL CONFERENCE
Typical Calculator’s Approach to Spending in Retirement

WINNING PRACTICES
INNOVATIVE APPLICATIONS

Identifying & Solving for Retirement Income – What to do with that retirement nest egg...

Carol A Bogosian, ASA
President of CAB Consulting
Background:
Society of Actuaries Post-Retirement Needs and Risks Committee
- Society of Actuaries post-retirement risk research
- Overall program goal: Understand and improve post-retirement risk management
- Risk and Process of Retirement Survey conducted biennially since 2001
- Late in Life research focuses on retirees
- Findings now cover pre-retirement and full retirement periods

Planning For Retirement
- Planning process based on short term and expected cash flows
- Planning for three top concerns (inflation, health and long-term care expenses) usually not being considered
- Pre-retirees expect to retire at median age 65
- Few prepare formal long-term planning
- Major methods of risk management – reduce spending, increase savings and pay off debt
- Housing often biggest asset and underutilized in planning
- Planning for help from family not fully considered
How Retirees Make Decisions

- Decision to retire often unplanned and not voluntary
- Manage regular expenses – being thrifty and frugal
- Live within regular income (annuities, Social Security benefits, investment income) and spend required minimum distributions
- Adjust to events as they occur – reduce spending to preserve assets

Deficiencies Retirees Are Facing

- Save too little pre-retirement – rely more on Social Security in retirement
- Underestimate how much money needed for their retirement before they retire – retire too early
- Underestimate how long they will live – plan for shorter than expected lifetime
- Do not insure for risks of outliving their money (annuities) nor needing living assistance or long-term care – self-insure risks
- Underestimate the cost of rising inflation on their basic needs
- Lack financial literacy/basic math skills to manage assets for income over long periods of time

Retirees managing in spite of these issues – until a major event occurs
Lessons Learned from Retirees

- Most adapt to their financial circumstances and are resilient
- Successful month-to-month balancing of income and expenses
- Health and vitality vary tremendously
- Importance of family support critical as health declines
- Cost of assisted living and major long-term care are major challenges

Other Observations

- Standard of living sustainable for most in the short run
- Most have successfully negotiated short-term cash flow
- Health and vitality is a big differentiator in the older years
- Assisted living/long-term care is a looming financial threat
- Families play a growing role when there are limitations
- 85+ interview findings are compatible with prior focus group findings

Unclear to what extent lack of formal planning hurts people
2017 Study: Optimizing Retirement Income by Integrating Retirement Plans, IRAs, and Home Equity

- Portfolio approach combining income from Social Security, retirement savings, and home equity
- Systematic comparison of retirement income strategies
- Viable solutions in today’s DC, IRA, reverse mortgage marketplaces
- Assess tradeoffs
- Address “what about” objections

Develop Eight Comparison Metrics to Address Tradeoffs

1. Amount of retirement income
2. Inflation protection
3. Amount of accessible wealth (liquidity)
4. Speed of wealth spend-down
5. Amount of bequest
6. Downside volatility
7. Probability of shortfall
8. Magnitude of shortfall
The Spend Safely in Retirement Strategy

Part 1: Optimize Social Security benefits
- Characterize as your retirement paycheck
- Delay start for primary wage earner as long as possible (up to age 70)
- Best way to implement: Work just enough to enable SS delay
- If retire before starting SS, may need retirement transition bucket
  - Invest in stable value, short-term bond, or money market fund
  - Can help transition from full-time to part-time to full retirement

The Spend Safely in Retirement Strategy

Part 2: Use IRS required minimum distribution to generate income from savings
- Characterize as variable retirement bonus
- Invest in QDIA, low-cost target date or balanced fund, or stock index fund
Conclusions from Optimizing Retirement Income Research

- Optimize SS before purchasing annuities or investing in fixed income.
- Social Security may be all the annuity income needed by middle-income retirees.
- Once achieve basic level of guaranteed income, our analyses justify using an easy-to-implement SWP with aggressive asset allocation for remaining assets.
- Reverse mortgages are a viable retirement to supplement Social Security and savings, provided:
  - Financial resources are not adequate by themselves.
  - You’ve exhausted all other possibilities.
  - You plan to stay in your home for many years.
  - You have a disciplined plan.
  - You shop for the lowest costs.

---

How to Find SOA Research Reports and More Information

All of the reports discussed are available on the Society of Actuaries website at:
https://www.soa.org/research/topics/research-post-retirement-needs-and-risks/

For more information about SOA Research – contact SOA Research Actuary
Steve Siegel at 847-706-3578 ssiegel@soa.org

For information about the Post-Retirement Needs and Risks Committee contact
Anna Rappaport, Chairman at anna@annarappaport.com or
Carol Bogosian at cbogosian@aol.com

---
WINNING PRACTICES
INNOVATIVE APPLICATIONS

Identifying & Solving for Retirement Income – What to do with that retirement nest egg...

Kelli Hueler
President & CEO of Hueler Income Solutions®, LLC

Accumulation vs. Decumulation

Three key risks GAO 2009:
Inflation
Market Volatility
Longevity
Take a “THINK Income” approach

- Lifetime income from traditional pensions will be either substantially reduced or eliminated for many Americans.

- Time to shift gears and take a new approach to communicating with participants about creating a paycheck for life – a “Personal Pension”

Institutional Framework critical to delivery of DC Retirement Income
- Choice Architecture
- Meaningful Competition
- Increase in monthly income ranges from 3-7%

Joint Life Only
65 Male & 60 Female

Quotes
Immediate Income Annuity Quotes with income payments beginning on 10/1/2018. If you have questions, please call an annuity specialist at 1-866-297-9835.

<table>
<thead>
<tr>
<th>Requested Quote for Joint &amp; Survivor</th>
<th>Comparative Quote for Joint &amp; Survivor</th>
<th>Insurance Company</th>
<th>Moody's</th>
<th>S&amp;P</th>
<th>A.M. Best</th>
<th>A.M. Best</th>
</tr>
</thead>
<tbody>
<tr>
<td>$459.27</td>
<td>$458.97</td>
<td>Issuer D</td>
<td>A1</td>
<td>AA-</td>
<td>A+</td>
<td>A-</td>
</tr>
<tr>
<td>$456.58</td>
<td>$456.22</td>
<td>Issuer A</td>
<td>A1</td>
<td>AA</td>
<td>A+</td>
<td>A+</td>
</tr>
<tr>
<td>$451.21</td>
<td>$451.87</td>
<td>Issuer F</td>
<td>AA3</td>
<td>AA</td>
<td>A+</td>
<td>A+</td>
</tr>
<tr>
<td>$450.28</td>
<td>$455.29</td>
<td>Issuer B</td>
<td>A1</td>
<td>AA</td>
<td>A+</td>
<td>A-</td>
</tr>
<tr>
<td>$440.14</td>
<td>$436.21</td>
<td>Issuer E</td>
<td>A1</td>
<td>A1</td>
<td>A+</td>
<td>A</td>
</tr>
<tr>
<td>$416.21</td>
<td>$415.85</td>
<td>Issuer C</td>
<td>A2</td>
<td>A+</td>
<td>A</td>
<td>A</td>
</tr>
</tbody>
</table>
**Joint Life Only**
70 Male & 65 Female

Immediate income Annuity Quotes with income payments beginning on 10/1/2018. If you have questions, please call an annuity specialist at 1-866-297-9835.

<table>
<thead>
<tr>
<th>Insurance Company</th>
<th>Moody’s</th>
<th>S&amp;P</th>
<th>A.M. Best</th>
<th>Memo</th>
</tr>
</thead>
<tbody>
<tr>
<td>Issuer E</td>
<td>A1</td>
<td>A</td>
<td>A</td>
<td></td>
</tr>
<tr>
<td>Issuer A</td>
<td>A1</td>
<td>AA</td>
<td>A-</td>
<td></td>
</tr>
<tr>
<td>Issuer D</td>
<td>A1</td>
<td>AA-</td>
<td>A-</td>
<td></td>
</tr>
<tr>
<td>Issuer F</td>
<td>Aaa2</td>
<td>AA</td>
<td>A-</td>
<td>Money</td>
</tr>
<tr>
<td>Issuer B</td>
<td>A1</td>
<td>A+</td>
<td>A-</td>
<td></td>
</tr>
<tr>
<td>Issuer C</td>
<td>A2</td>
<td>A+</td>
<td>A</td>
<td></td>
</tr>
</tbody>
</table>

---

**Participant Research**

- 1 in 5 individuals who took a lump from either a DB or DC plan had depleted it, on average, in 5.5 years

- Many lump sum recipients regret their first year spending and gifting to family and friends (nearly 25% gave money away)

- 96% of annuitants were happy that they chose an annuity over a lump sum and had a predictable income stream
Rollover Behavior

- 11% of Rollover transactions went directly to insurers or a Top 10 Annuity distributor in the Independent Broker Dealer channel

- An additional 10% of Rollover transactions went to a single Independent Broker Dealer with significant Variable Annuity marketing efforts. Their VA costs average 85bps to 200 bps per year

- Another 40% of Rollover transactions went to Broker Dealer/Mutual Fund firms with active annuity marketing efforts, particularly to pre-retiree and retiree populations

Design a “Default-Like Path” for Voluntary Decision Making

- Offer lifetime income alternatives that dovetail with available investment options and natural decision making points
- Focus on 50+ age demographic
- Present lifetime income alternatives prior to and during existing election events
  - Age 50 catch up
  - Age 62 decisions about Social Security
  - Age 65 decisions about Medicare
  - Age 70.5 decisions about Required Minimum Distribution
  - Termination
  - Retirement
Practical Steps for a Plan Sponsor

- Encourage participants to consider the value of converting a portion of their savings into a Personal Pension
- Review detailed (demographics and destinations) "money out" report from your service provider to see what your participants are doing when they leave the plan
- Allow flexibility so action can be taken by participants based on personal financial circumstances
  - Allow partial and ad-hoc withdrawals
  - Promote keeping assets in the plan
  - Offer systematic, periodic partial payments

WINNING PRACTICES
INNOVATIVE APPLICATIONS

Identifying & Solving for Retirement Income – What to do with that retirement nest egg...

Retirement Income Planning in a Low-Return World

Michael Finke
The American College
Wealthier People Tend to Live Longer
Change in average additional life expectancy (in years) at age 55, by wealth, between cohorts born in 1920 and 1940.

- Poorest 10%
  - Male: -2.1, Female: -1.8
  - Male: -1, Female: -0.8
- 11%-20%
  - Male: -1.6, Female: -1.3
- 21%-30%
  - Male: -0.8, Female: -0.5
- 31%-40%
  - Male: -0.5, Female: -0.3
- 41%-50%
  - Male: 0.1, Female: 0.2
- 51%-60%
  - Male: 0.3, Female: 0.5
- 61%-70%
  - Male: 1.4, Female: 1.2
- 71%-80%
  - Male: 1.8, Female: 1.5
- 81%-90%
  - Male: 2.4, Female: 2.2
- Richest 10%
  - Male: 3.1, Female: 3.0
  - Male: 5.9, Female: 5.7

Source: Barry Bosworth, Brookings Institution

Increasing Longevity, Lower Bond Returns Have Doubled the Cost of $1 Real Retirement Income

The Cost of $1 of inflation-adjusted Income for a 65 Year Old

- Male
- Female

Yearly Increase

Month

Jan-82, Jun-87, Dec-92, Jun-98, Nov-03, May-09, Nov-14
Identifying & Solving for Retirement Income

How concerned are you that you will run out of retirement savings in old age?

- Not at all
- A little
- Somewhat
- Very concerned

Using Treasury Inflation-Protected Securities (TIPS) or Bonds to Buy Income (1% Real Return)

- Current Real Treasury Bond Rates
  - 5 Year = 0.40%
  - 10 Year = 0.81%
  - 20 Year = 0.70%
  - 30 Year = 0.82%

- $40,000 Inflation Adjusted

- $950,000
- $750,000
- $550,000
- $350,000
- $150,000
- $50,000
- -$50,000
- -$250,000

- Age

- Inheritance

- Bond Portfolio 0.5%
- Bond Portfolio 1%
- Spending

Real Return Determines When you Will Run Out

Source: Finke, 2016
Identifying & Solving for Retirement Income

**Cost of Bond Ladder Income vs. Annuity**

- Immediate Annuity with cash refund = $22.33
- Immediate Annuity = $18.87

**Using a bond ladder to create $44,623 of income from age 85 to 99**

Total bond ladder payments = $303,795
Or Buy a Deferred Income Annuity

- Cost of $44,623 starting at age 85 for a male?
- $125,000 at age 65, return of premium option
- Or pay $303,785 at age 65 to build a bond ladder to age 100
- 4% of men will still outlive their bond ladder!
- DIA protects against tail longevity risk
- And is much more efficient at funding later-life income

Making DIAs More Efficient: The QLAC

- Qualified Longevity Annuity Contract
- Use up to $130,000 (or 25%) of IRA assets to purchase a DIA
- Avoid RMDs on $130k, taxed on income when DIA begins
- Assets within DIA wrapper grow tax free between 70.5 and when the income begins
Winning Enrollment Techniques & Challenges

Moderator: Michele Martin, ICMA-RC
Panelists: Scott Boyd, Prudential
Brenda Griebert, SUNY
Tanja Fournier, Irvine Ranch Water District

Polling Question #1

1. Select Polling from the main navigation menu.
2. Select Winning Enrollment Techniques & Challenges | current time.
3. Scroll down to Live Polls.
4. Select the question, select your answer and tap finish to submit.
5. Exit poll.
Polling Question #2

1. Select Polling from the main navigation menu.
2. Select Winning Enrollment Techniques & Challenges | current time.
3. Scroll down to Live Polls.
4. Select the question, select your answer and tap finish to submit.
5. Exit poll.
Polling Questions #3 & #4

1. Select **Polling** from the main navigation menu.
2. Select **Winning Enrollment Techniques & Challenges | current time.**
3. Scroll down to **Live Polls**.
4. Select the question, select your answer and tap finish to submit.
5. Exit poll.
Winning Enrollment Techniques & Challenges

2018 ANNUAL CONFERENCE

Enrollment Type

- Auto Enrollment: 20%
- Traditional Enrollment: 80%

WINNING PRACTICES
INNOVATIVE APPLICATIONS

Winning Enrollment Techniques
How to Engage People Beyond their Retirement Plan

Scott Boyd, Senior Vice President,
National Platform Distribution and Relationships
Workplace Solutions

2018 ANNUAL CONFERENCE
**WINNING PRACTICES**

**INNOVATIVE APPLICATIONS**

**Budget Challenges in the Public Sector**

- **2008 financial crisis = pension fund crisis**
- **Lower benefit accruals and higher employee contributions**
- **$3.4 Trillion**
  - Payout shortfall of pension funds and competition with the private sector for talent


**Misplaced Confidence**

Most public workers surveyed believe they are knowledgeable enough to successfully manage their money over the long term but...

- These basic concepts are significant when considering big financial decisions
- This lack of understanding is cause for concern

Source: Data based on an Economist Intelligence Unit survey conducted in September 2016.
Financial Wellness Impact on Employers

**Productivity Impact**

- 1,000 EMPLOYEES AT WORK
- 280 EMPLOYEES SPENDING THREE OR MORE HOURS EACH WEEK DISTRACTED AT WORK
- 42,000 TOTAL WORK HOURS LOST ANNUALLY DUE TO FINANCIAL STRESS

Source: Prudential consumer financial wellness study. August 2016. Percentages represent number of respondents who selected these as one of their biggest money concerns.

Autos are Only the Start

We have to *fully embrace and truly weigh* the benefits versus the risks and complement those approaches by *going outside the traditional box*.
Disclosures
John Scott Boyd is a registered representative of Prudential Investment Management Services LLC (PIMS), Newark, N.J., a Prudential Financial company. Retirement products and services are provided by Prudential Retirement Insurance and Annuity Company (PRIAC), Hartford, CT, or its affiliates. PRIAC is a Prudential Financial company. © 2018 Prudential Financial, Inc. and its related entities. Prudential, the Prudential logo, the Rock symbol and Bring Your Challenges are service marks of Prudential Financial, Inc. and its related entities, registered in many jurisdictions worldwide.

IMPRESSING ENROLLMENT WITH MULTIPLE VENDORS AT SUNY

F. Brenda Griebert
Assistant Director Benefits SUNY University-wide Benefits
Map of SUNY Campuses

SUNY campuses are located across New York State in urban, suburban, and rural areas. From Long Island to Buffalo, from Pittsburgh to Binghamton and everywhere in between you'll find a SUNY campus.

Once you find a campus or campuses of interest, click on the campus name to visit a campus profile page and explore all that each campus offers.

WINNING PRACTICES & INNOVATIVE APPLICATIONS

It took some time....

Download from
Dreamstime.com
Download from
Dreamstime.com
All campuses using MVC as of November 2017

Improved Administration
Early results

Required use of online enrollment increased the accurate and successful enrollment process
more information was gained about employee
and auditing of individual campus process improved

At the community Colleges registration of existing employees to change or begin contributions by 10%
Results
For the last quarter 2,000 new enrolled in the retirement plan through MVC.

Increased voluntary contributions by 50% at most of the Community College since 2012 prior to MVC.

Make it Easy

Tanja Fournier
Irvine Ranch Water District
Polling Question #5

1. Select **Polling** from the main navigation menu.
2. Select **Winning Enrollment Techniques & Challenges | current time.**
3. Scroll down to **Live Polls**.
4. Select the question, select your answer and tap finish to submit.
5. Exit poll.

Ease The Enrollment Process

- One Plan Provider/Record-keeper
- Pre-populate record-keeper website with basic employee information including salary.
- Simplifying the fund lineup.....
**WINNING PRACTICES**

**INNOVATIVE APPLICATIONS**

**Keep it Simple – But Effective….**

<table>
<thead>
<tr>
<th>Active Mgmt</th>
<th>Passive Mgmt</th>
<th>Asset Allocation</th>
<th>Participant Controlled</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small Cap Growth</td>
<td>Small Cap Index</td>
<td>Profile Funds: Conservative, Moderate, Aggressive (Primarily Actively Managed Funds)</td>
<td>Brokerage</td>
</tr>
<tr>
<td>Mid Cap Growth</td>
<td>Mid Cap Index</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Large Cap Growth</td>
<td>Large Cap Index</td>
<td>Target Date Funds (Passively Managed Funds)</td>
<td></td>
</tr>
<tr>
<td>Bond Fund</td>
<td>Stable Value</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

---

**WINNING PRACTICES**

**INNOVATIVE APPLICATIONS**

**Gentle Nudge….**

Ongoing personal communication reminding employees to sign up/increase contributions

1. Personal communication to new employees – **Offer one-on-one meetings**

2. Email around the employee’s anniversary date reminding them it’s a good time to think about increasing their contributions

3. Email if the employee is becoming eligible for matching contributions.
Ongoing Education – Keep it interesting – maybe add some fun!

<table>
<thead>
<tr>
<th>Investment</th>
<th>Investment Risk</th>
<th>Deferred Comp Plan</th>
<th>Deferred Comp Advanced</th>
</tr>
</thead>
<tbody>
<tr>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>200</td>
<td>200</td>
<td>200</td>
<td>200</td>
</tr>
<tr>
<td>300</td>
<td>300</td>
<td>300</td>
<td>300</td>
</tr>
</tbody>
</table>

Resources:

- GFOA Best Practices
- NAGDCA
- Pension and Investments DC East, DC West
- 457 Answer Book

**Sign-up for daily/weekly emails:**
- Investopedia.com
- Themorningpulse.com (Jeffrey H. Snyder)
- Pension & Investment Daily Alerts
Resources Continued……

Themorningpulse.com (Jeffrey H. Snyder)

FOR ILLUSTRATION PURPOSES ONLY:

Financial crisis still haunts clients 10 years later
Why starting to save early and saving enough is the only way to achieve financial independence; The new roommates: Boomers and their adult children share homes
Making a plan for retirement now will pay off years down the road
The financial costs of not using your vacation days
3 Expenses That Will Probably Increase Once You Retire; 5 Ways Rising Interest Rates Can Affect Your Retirement
How the new tax law could impact donors’ philanthropic strategies

Why Alternative Investments in 401k Target Date Funds Make So Much Sense
401(k) Participants Regret Splurging on Clothes, Cars: Schwab
401(k)s still matter to employees
Patterns in Retirement Plan Participant Loan Activity

Q&A
According to the 2017 NAGDCA Benchmarking Survey, what percentage of eligible employees participate in their ER sponsored 457 plan?

- 32% 34%
- 43% 47%
- 56% 14%
- 68% 5%

11 AM Polling Results

Source: https://api.cvent.com/pollingv1/api/polls/v1/index

According to the same survey, what percentage of eligible employees participate in their ER-sponsored 457 plan when auto enrollment is added?

- 55% 5%
- 70% 32%
- 90% 63%
- 100% 1%

11 AM Polling Results

Source: https://api.cvent.com/pollingv1/api/polls/v1/index
Do you have auto enrollment in your 457 or supplemental plan?

Yes: 25%
No: 75%

How many governmental 457 plans have auto enrollment?

20%: 98%
80%: 2%
Does your Agency offer matching contributions?

- Yes: 21%
- No: 79%

11 AM Polling Results

According to the 2017 NAGDCA Survey, what percentage of eligible employees participate in their ER sponsored 457 plan?

- 32%: 35%
- 43%: 36%
- 56%: 15%
- 68%: 14%

1:30 PM Polling Results
According to the same survey, what percentage of eligible employees participate in their ER-sponsored 457 plan when auto enrollment is added?

- 55%: 0%
- 70%: 15%
- 90%: 76%
- 100%: 1%

1:30 PM Polling Results

Source: https://api.cvent.com/pollingv1/api/polls/qj0t7

Do you have auto enrollment in your 457 or supplemental plan?

- Yes: 26%
- No: 74%

1:30 PM Polling Results

Source: https://api.cvent.com/pollingv1/api/polls/qj0t7
How many governmental 457 plans have auto enrollment?

- 20%: 86%
- 50%: 14%

Source: https://api.cvent.com/pollingv1/api/poll/poll_results

1:30 PM Polling Results

Does your Agency offer matching contributions?

- Yes: 43%
- No: 57%

Source: https://api.cvent.com/pollingv1/api/poll/poll_results

1:30 PM Polling Results
The Emerging Cyber Threat: How Plan Sponsors Can Prepare for Tomorrow's Threats

Moderator/Panelist: Keith Overly, Ohio Deferred Compensation
Panelists: Peggy Haering, State of Connecticut
Melanie Kolp, Nationwide
Tim Rouse, SPARK Institute
Assunta Vivolo, SEC

Who’s behind the breaches?

- 73% perpetrated by outsiders
- 28% involved internal actors
- 2% involved partners
- 2% featured multiple parties
- 50% of breaches were carried out by organized criminal groups
- 12% of breaches involved actors identified as nation-state or state-affiliated

What are other commonalities?

- 49% of non-POS malware was installed via malicious email
- 76% of breaches were financially motivated
- 13% of breaches were motivated by the gain of strategic advantage (espionage)
- 68% of breaches took months or longer to discover

Who are the victims?

- 58% of victims are categorized as small businesses
What tactics are utilized?

• 48% of breaches featured hacking
• 30% included malware
• 17% of breaches had errors as causal events
• 17% were social attacks
• 12% involved privilege misuse
• 11% of breaches involved physical actions


Polling Questions #1-5

1. Select Polling from the main navigation menu.
2. Select The Emerging Cyber Threat.
3. Scroll down to Live Polls.
4. Select the question, select your answer and tap finish to submit.
5. Exit poll and repeat steps for all questions.
Security is a top of mind concern for my business.

- Yes: 87%
- No: 7%
- Not sure: 6%

Plan Sponsors only - Have any participants experienced an unauthorized distribution from your DC plan?

- Yes: 20%
- No: 64%
- Not sure: 16%
Has your record keeper modified plan distribution practices due to cyber threats or attempted fraud involving participant accounts?

- Yes: 56%
- No: 17%
- Not sure: 27%

Source: https://api.event.com/polling/v1/api/polls/20y6c0ki

We/I currently have the necessary expertise in-house to address cyber security concerns.

- Yes: 54%
- No: 32%
- Not sure: 14%

Source: https://api.event.com/polling/v1/api/polls/20y6c0ki
We/I currently have Cyber Security Insurance to protect our business in the event of a breach or fraud.

- Yes: 37%
- No: 27%
- Not sure: 36%

Source: [https://apj.event.com/polling/v1/aspect?api-key=6eqZ]
Words matter…
It’s not what you say; it’s what people hear.
ReDefined Contribution Plans

Financial freedom

Manage my risks

Target-date Funds

Low-cost

Payroll deductions

Glide path

Best-in-class

Large cap value

Financial wellness

Words shown are for illustrative purposes only.

Unique research for measuring the emotional responses to words
ReDefined Contribution Plans

Methodology

**In-depth interviews**
Get conventional language

**Dial-sessions**
Instantaneous, anonymous & simultaneous

**National survey**
Validate findings
Methodology

**In-depth interviews**
Get conventional language

**Dial-sessions**
Instantaneous, anonymous & simultaneous

**National survey**
Validate findings
The dimensions of successful plans

1. Plan design
2. Plan governance
3. Investment strategy
4. Participant engagement

Language
ReDefined Contribution Plans

Getting the voice of diverse participants

ReDefined Contribution Plans

Getting the voice of participants of large plans (5,000+)

ReDefined Contribution Plans

Getting the voice of | public, corporate and union employees

ReDefined Contribution Plans

Getting the voice of | participants like yours
ReDefined Contribution Plans

4 communication principles

Word cards

“Words to use” facing up

“Words to lose” facing down

Card images shown are for illustrative purposes only.
Testing conventional language
THE LANGUAGE

100=Very Favorable

80
70
60
50
40
30
20

0=Very Unfavorable

Total

mean

THE LANGUAGE

100=Very Favorable

80
70
60
50
40
30
20

0=Very Unfavorable

Total

mean

0:00:50

This video is shown for illustrative purposes only and does not constitute a recommendation of any investment strategy or product. Products referenced are not intended to represent any firm’s product. The scenario is fictional.
THE RESONATING LANGUAGE

100=Very Favorable

0=Very Unfavorable

Total 51

mean 0:00:03
THE RESONATING LANGUAGE

100=Very Favorable

0=Very Unfavorable

mean

Total

REDEFINED CONTRIBUTION PLANS

12

23

This video is shown for illustrative purposes only and does not constitute a recommendation of any investment strategy or product. Products referenced are not intended to represent any firm's product. The scenario is fictional.

24

THE RESONATING LANGUAGE

100=Very Favorable

0=Very Unfavorable

mean

Total 82

“Voluntary savings plan”

“You”

“Helping people grow their assets over time”

REDEFINED CONTRIBUTION PLANS

For illustrative purposes only
OUT: fear-based tactics
IN: positive, hopeful messages

1st universal communication principle

This video is shown for illustrative purposes only. The scenario is fictional.
We have found 2,743 peers in our company who have a similar age and income as you.

“your progress is in the 29th percentile compared to your peers”

“your balance is in the 32nd percentile compared to your peers”
**A partnership built for your retirement planning**

The common goal is to make your retirement planning easy, cost-efficient and satisfying so you have enough to live a comfortable lifestyle in retirement.

- **Your success:** Reaching your personal retirement goals
- **Your plan provider:** Appointed by our organization to provide the plan
- **Your employer:** Offers the plan and negotiates fees
- **Federal government:** Provides tax incentives for your contributions

Source: SW Infographics. Used with permission. For illustrative purposes only

---

**TARGET-DATE FUNDS**

Which do you most want your investments to become?

- **Less aggressive over time**  
  40%

- **More conservative over time**  
  60%

Card images shown are for illustrative purposes only.
**ReDefined Contribution Plans: Engaging Participants With Clarity**

**A portfolio built to adapt to your life stages and grow less aggressive over time**

<table>
<thead>
<tr>
<th>Your age</th>
<th>20</th>
<th>30</th>
<th>40</th>
<th>50</th>
<th>60</th>
<th>65</th>
</tr>
</thead>
<tbody>
<tr>
<td>More aggressive</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less aggressive</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: 5W Infographics. Used with permission. For illustrative purposes only

**A portfolio built to adapt to your life stages and grow more conservative over time**

<table>
<thead>
<tr>
<th>Your age</th>
<th>20</th>
<th>30</th>
<th>40</th>
<th>50</th>
<th>60</th>
<th>65</th>
</tr>
</thead>
<tbody>
<tr>
<td>More conservative</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less conservative</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: 5W Infographics. Used with permission. For illustrative purposes only
TREND ANALYSIS: Which of the following funds would you rather invest in? An investment that maximizes gains or minimizes losses?

- **2018**
  - Maximizes my gains: 77%
  - Minimizes my losses: 23%

- **2012**
  - Maximizes my gains: 69%
  - Minimizes my losses: 31%

- **2007**
  - Maximizes my gains: 63%
  - Minimizes my losses: 37%

Which of the following is most important to you? That my investments are...

- **2018 DC plan participants**
  - Cost-efficient: 51%
  - High-value: 38%
  - Low-cost: 11%

- **2017 Individual investors**
  - Cost-efficient: 42%
  - High-value: 40%
  - Low-cost: 18%

Card images shown are for illustrative purposes only.
### POSITIVE

**Which of the following do you LEAST like to pay as an investor?**

<table>
<thead>
<tr>
<th>Option</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commissions</td>
<td>26%</td>
</tr>
<tr>
<td>Fees</td>
<td>53%</td>
</tr>
<tr>
<td>Charges</td>
<td>15%</td>
</tr>
<tr>
<td>Costs</td>
<td>6%</td>
</tr>
</tbody>
</table>

Card images shown are for illustrative purposes only.

---

### POSITIVE

**Which of the following would you rather hear from your employer? Due to the large size of our plan...**

We’re able to offer **access to institutional investments** that would be difficult to obtain as an individual investor

<table>
<thead>
<tr>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>35%</td>
</tr>
</tbody>
</table>

We’re able to **negotiate lower fees**, so more of the money you contribute goes towards generating returns

<table>
<thead>
<tr>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>65%</td>
</tr>
</tbody>
</table>
**Review: Positive**

Low-cost: 11%  
Cost-efficient: 51%

**2nd universal communication principle**

OUT: unrealistic claims  
**IN:** plausible, credible benefits
When it comes to retirement, my top priority is....

<table>
<thead>
<tr>
<th>Year</th>
<th>Comfortable Retirement</th>
<th>Maintain my current lifestyle</th>
<th>Dream Retirement</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>59%</td>
<td>29%</td>
<td>12%</td>
</tr>
<tr>
<td>2009</td>
<td>61%</td>
<td>29%</td>
<td>10%</td>
</tr>
<tr>
<td>2007</td>
<td>51%</td>
<td>37%</td>
<td>12%</td>
</tr>
</tbody>
</table>

When it comes to retirement, I hope to achieve...

<table>
<thead>
<tr>
<th>Year</th>
<th>Financial Security</th>
<th>Financial Freedom</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>67%</td>
<td>33%</td>
</tr>
<tr>
<td>2009</td>
<td>73%</td>
<td>27%</td>
</tr>
<tr>
<td>2007</td>
<td>60%</td>
<td>40%</td>
</tr>
</tbody>
</table>

Card images shown are for illustrative purposes only.
Which investments are best?
Investments managed by...

- Institutions: 8.8%
- Wall Street: 2.3%
- MBAs and CFAs: 3.1%
- Experts: 43.4%
- Professionals: 42.4%

PLAUSIBLE

Card images shown are for illustrative purposes only.

REVIEW: PLAUSIBLE

Dream retirement: 12%
Comfortable retirement: 59%
ReDefined Contribution Plans: Engaging Participants With Clarity

3rd universal communication principle

OUT: jargon
IN: plain-spoken

How could this Benefits Administrator be more plain-spoken?
What is the best way to describe a defined contribution plan?

- Savings plan: 11%
- Retirement plan: 72%
- Investment plan: 17%

One unique feature of target-date funds is that as you get closer to retirement, your portfolio’s risk level automatically adjusts. What’s the best name to describe this change over time?

- Glide path: 4%
- Risk-reduction path: 43%
- Growth path: 14%
- Rebalancing strategy: 39%
Target-date fund: 17%  
Risk-adjusted retirement growth fund: 35%

Choose your international **words** carefully.
### Where do you allocate your money?

<table>
<thead>
<tr>
<th>Location</th>
<th>Allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td>US investors</td>
<td>“BASKETS”</td>
</tr>
<tr>
<td>US institutions</td>
<td>“BUCKETS”</td>
</tr>
<tr>
<td>Japanese investors</td>
<td>“WALLETS”</td>
</tr>
<tr>
<td>UK participants</td>
<td>“POTS”</td>
</tr>
</tbody>
</table>

### From an airline in Copenhagen

- **Signage:**
  - International E-Ticket Check In
  - We take your bags and send them in all directions
From a menu at a Swiss restaurant

From an advertisement for donkey rides in Thailand
ReDefined Contribution Plans: Engaging Participants With Clarity

4th universal communication principle

OUT: mass communications

IN: personal communications

PERSONAL

100=Very Favorable

ACC 58

RET 55

0=Very Unfavorable

mean 0:00:15
If you come to me with a concern about something happening in the market or around the world, my job is to put it in the context of you. I believe we should take a step back and talk about where you are in your financial plan. Because it’s not about my opinion; it’s about your individual goals and how this risk could affect them. So the first thing I will do is work with you to determine your exposure to this risk, how it could or could not affect you personally. I will give a realistic assessment and have those tough conversations so you won’t be caught off-guard.

And lastly, I think it’s important to analyze and bring to life the potential benefits of any choice we make.

Which would you rather hear your employer communicate? Our retirement plan is...

- Constructed to be best-in-class: 38%
- Continuously improved with feedback from employees like you: 62%

Card images shown are for illustrative purposes only.
Which is most helpful to track your progress towards saving for retirement?

You are on track compared to...

- The national average: 18%
- Peers in your company: 6%
- The retirement goal you’ve set: 58%
- Peers across the country: 11%
- Peers in your industry: 7%

Compared to peers in your company: 6%

Compared to the retirement goal you’ve set: 58%
This video is shown for illustrative purposes only. The scenario is fictional.
4 communication principles

Positive  Plausible  Plain-spoken  Personal
ReDefined Contribution Plans

Engaging participants with clarity

This program is based on research conducted by Maslansky + Partners.

This material is for illustrative, informational and educational purposes only. If the illustrations herein are used outside of the designated audience, it is the respective user’s responsibility to ensure that such material complies with all applicable regulations and is filed with the appropriate regulatory bodies if so required. Words and phrases utilized should always be appropriate, applicable and provable.

This does not constitute a recommendation of any investment strategy or product for a particular investor. Investors should consult a financial professional before making any investment decisions.

This does not constitute tax advice. The tax information contained herein is general and is not exhaustive by nature. It is not intended or written to be used, and it cannot be used by any taxpayer, for the purpose of avoiding tax penalties that may be imposed on the taxpayer under US federal tax laws.

Federal and state tax laws are complex and constantly changing. Investors should always consult their own legal or tax professionals for information concerning their individual situations.

Diversification does not guarantee a profit or eliminate the risk of loss.

The opinions expressed are those of the author and are subject to change without notice.

NOT FDIC INSURED  |  MAY LOSE VALUE  |  NO BANK GUARANTEE

VKC-RDCNAG-PPT-1I  09/18

US9449

2018 ANNUAL CONFERENCE
Generational Education & Communication

**WINNING PRACTICES & INNOVATIVE APPLICATIONS**

**Generational Education & Communication**

**Moderator:**
Sharon Scanlon  Lincoln Financial Group

**Panelists:**
- Jake O’Shaughnessy  SageView Advisory Group
- Cindy Rehmeier  MOSERS
- Hyun Swanson  University of California

---

**WINNING PRACTICES & INNOVATIVE APPLICATIONS**

**Generational cohorts:**
Communication methods and misconceptions

---
Polling Questions #1-2

1. Select **Polling** from the main navigation menu.
2. Select **Generational Education & Communication**.
3. Scroll down to **Live Polls**.
4. Select the question, select your answer and tap finish to submit.
5. Exit poll and repeat steps for next question.
Millennials (Born in 80’s and 90’s)

Now the largest segment of the workforce

- This generation will increasingly become a primary focus for retirement plan sponsors
  - This generation understands that they alone are responsible for their retirement planning
  - Savings habits are very important to establish early!!

How to get them engaged in retirement savings?

- Aspects that may entice Millennials participation in retirement savings plans?
  - Provide access to information about the benefits of savings (small cost today, large benefit tomorrow)
  - Values-based investments such as Socially Responsible Investment Funds
  - Select default initial participation rates and investments
  - Check in periodically to make sure that they are on track

Investments are a Key Topic

- When it comes to their retirement plan, investments rise to the top of the list of things participants wish they understood better.
  - Millennials are more likely to select nearly all topics, with the exception of how plans are taxed.
  - Women are more likely than men to wish they better understood how much to save.

Employers and Plan Providers are Resources

- Nearly 6 in 10 cite their employer and/or plan provider as a source of information about financial topics.
- Interestingly, 4 in 10 say that they themselves are often a source of investment information amongst their family and friends.
- 4 in 10 currently work with a financial professional.
  - These professionals are most often investment advisors outside the plan, but 38% of those currently working with a financial professional say they are a representative of the workplace retirement plan or someone made available through the employer.
  - 38% of participants who work with a financial professional consult him/her all or most of the time when making decisions regarding their plan contribution (33% say they consult this person infrequently or never).

WINNING PRACTICES
INNOVATIVE APPLICATIONS

Generation X (Born in mid 60’s & 70’s)

In prime earnings portion of career
  • ‘Transition’ generation which will be first to move from primarily DB to heavy DC reliance
    • Many competing financial priorities
    • Should be a focus on getting savings rates to appropriate levels
    • Competition for income (e.g. raising children, debt, student loans)
    • 11% report providing financial support for an adult family member

Provide resources and education regarding how to manage income most efficiently
  • Eliminate the ‘competition’ for retirement savings
    • Provide education/tools for debt and student loan repayment
    • Show impacts of increases in savings rates on retirement savings
    • Make increasing easy (or reward it)
    • Create a ‘new’ third leg – Health Savings?

WINNING PRACTICES
INNOVATIVE APPLICATIONS

Competing Priorities – Will they change

  • Nearly 6 in 10 report debt as a ‘problem’ and 13% report debt payment as a ‘major problem’ *
  • 6 in 10 Millennials report that they save less for retirement because of student loans*
  • Americans now have an average of $38,000 in personal debt, excluding mortgages**
  • Fewer people carry ‘no debt’ compared to 2017 (23 percent vs. 27 percent)**
  • Those with a goal to pay down debt are also more likely to save at higher rates – 55% save 10+% versus only 39% that don’t have a goal to pay down debt*

**Source: Northwestern Mutual's 2018 Planning & Progress Study.
WINNING PRACTICES
& INNOVATIVE APPLICATIONS

Baby Boomers (Born before mid 1960’s)

Approaching (or in) Retirement

- Provide appropriate tools in multiple manners
  - Help participants assess adequate retirement savings and income distribution
  - Many participants do not feel confident that they understand what level of retirement savings is appropriate
  - Frequently overpay for this advice if outside of retirement Plan

Provide Information and Coaching

- Approach retirement readiness from multiple channels
  - Consider which environment participants may want to receive information for this personal decision (with a spouse?)
  - One-on-one interactions should be considered
  - Baby Boomers have iPads, text messaging, and email too

Polling Questions #3-4

1. Select **Polling** from the main navigation menu.
2. Select **Generational Education & Communication**.
3. Scroll down to **Live Polls**.
4. Select the question, select your answer and tap finish to submit.
5. Exit poll and repeat steps for next question.
Retirement plan communication preferences

Participants’ communication preferences vary across generations

<table>
<thead>
<tr>
<th>Method</th>
<th>Millennials</th>
<th>Gen Xers</th>
<th>Baby Boomers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Online communication</td>
<td>22%</td>
<td>12%</td>
<td>11%</td>
</tr>
<tr>
<td>Group meetings at work</td>
<td>28%</td>
<td>13%</td>
<td>12%</td>
</tr>
<tr>
<td>One-on-one in-person meetings</td>
<td>27%</td>
<td>16%</td>
<td>14%</td>
</tr>
<tr>
<td>Printed materials sent to you</td>
<td>27%</td>
<td>15%</td>
<td>13%</td>
</tr>
<tr>
<td>Communication by email</td>
<td>23%</td>
<td>10%</td>
<td>8%</td>
</tr>
<tr>
<td>Communication by phone</td>
<td>15%</td>
<td>6%</td>
<td>7%</td>
</tr>
</tbody>
</table>

Would like MORE of this
Satisfied with current amount
Would like LESS of this

* 2017 Lincoln Retirement Power® Participant Study

Plansponsor innovative applications

MO Deferred Comp case study
WINNING PRACTICES & INNOVATIVE APPLICATIONS

Plansponsor Innovative Applications for Generational Education
First: Ask our “Actual” Employees

Annual MO Retirement & Savings Surveys – by Age Cohort/Status

- Retirement Awareness (actives through age 35) 7.14% (1,040) response rate
- Retirement Readiness (actives 36 & older) 13.99% (5,540) response rate
- Retiree (term/retired 55 & older) 13.24% (1,628) response rate

“What is your preferred method of communication?”

<table>
<thead>
<tr>
<th>Method</th>
<th>Actives through age 35</th>
<th>Actives 36 &amp; Older</th>
<th>Term/Retired 55 &amp; Older</th>
</tr>
</thead>
<tbody>
<tr>
<td>Phone</td>
<td>11.3%</td>
<td>13.3%</td>
<td>16.4%</td>
</tr>
<tr>
<td>Face-to-Face</td>
<td>13.4%</td>
<td>16.8%</td>
<td>12.7%</td>
</tr>
<tr>
<td>Text Message</td>
<td>32.8%</td>
<td>16.6%</td>
<td>11.1%</td>
</tr>
<tr>
<td>Email</td>
<td>41.4%</td>
<td>52.9%</td>
<td>58.9%</td>
</tr>
<tr>
<td>Social Media</td>
<td>1.3%</td>
<td>0.4%</td>
<td>0.55%</td>
</tr>
</tbody>
</table>

Survey results drive future education and marketing efforts

- 49% Actives through age 35, 36% Actives 36 & Older, 20% Term/Retired 55 & Older: State that they do/did not have a retirement savings plan or strategy
- 15% Actives through age 35, 11% Actives 36 & Older, N/A Term/Retired 55 & Older: Not saving for retirement
- 7.3% Actives through age 35, 6.5% Actives 36 & Older, 34% Term/Retired 55 & Older: “Very” confident that they are saving/have saved enough money to live comfortably in retirement
- 62% Actives through age 35, 37% Actives 36 & Older, 13.5% Term/Retired 55 & Older: Do or did not know how much money that they will/would need to live comfortably in retirement
- 40% Actives through age 35, 53% Actives 36 & Older, N/A Term/Retired 55 & Older: Have an “emergency fund”
- 32% Actives through age 35, 24% Actives 36 & Older, N/A Term/Retired 55 & Older: Claim to have read benefit information provided at the outset of their employment
- 59% Actives through age 35, 60% Actives 36 & Older, 59% Term/Retired 55 & Older: Would like to retire or retired between age 55 & 65
- N/A Actives through age 35, N/A Actives 36 & Older, 60% Term/Retired 55 & Older: Began receiving Social Security at age 62

2018 ANNUAL CONFERENCE
WINNING PRACTICES
& INNOVATIVE APPLICATIONS

MO Education → Outreach → Engagement → Results

<table>
<thead>
<tr>
<th>Education Channel</th>
<th>Annual Engagement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Face-to-Face</td>
<td>Individual Consultations: 7,040</td>
</tr>
<tr>
<td></td>
<td>Seminars (9 types): 475 with 13,400 attendees</td>
</tr>
<tr>
<td>Print – publications, forms, newsletters, postcards</td>
<td>Quarterly newsletter, annual enrollment postcard, annual beneficiary update outreach</td>
</tr>
<tr>
<td>Online – web, email, text, app, social media (includes text and video content)</td>
<td>Web: 215,000 sessions, 2 minute duration</td>
</tr>
<tr>
<td></td>
<td>Email: 1.2 million, 20% avg. open rate, 6% click-through</td>
</tr>
<tr>
<td></td>
<td>Text: approx. 9K, 25% click rate</td>
</tr>
<tr>
<td></td>
<td>Video: 134 total, over 61K views, 113K minutes watched and 69% retention</td>
</tr>
</tbody>
</table>

Average Contribution

<table>
<thead>
<tr>
<th></th>
<th>35 &amp; under</th>
<th>36 to 49</th>
<th>50 &amp; over</th>
</tr>
</thead>
<tbody>
<tr>
<td>35 &amp; under</td>
<td>75% increase</td>
<td>64% increase</td>
<td>50 &amp; over</td>
</tr>
</tbody>
</table>

Median Contribution

<table>
<thead>
<tr>
<th></th>
<th>35 &amp; under</th>
<th>36 to 49</th>
<th>50 &amp; over</th>
</tr>
</thead>
<tbody>
<tr>
<td>35 &amp; under</td>
<td>68% increase</td>
<td>40% increase</td>
<td>50 &amp; over</td>
</tr>
</tbody>
</table>

Publication Examples
Polling Question #5

1. Select Polling from the main navigation menu.
2. Select Generational Education & Communication.
3. Scroll down to Live Polls.
4. Select the question, select your answer and tap finish to submit.
5. Exit poll.

Email Examples

New Employee Email:
- 35% Open Rate, 6% Click-through
- 30% increase contributions above 1% auto-enrollment

Retiree/Term Email:
- Retiree Results:
  - Open Rate: 54.68%
  - Click-thru: 12.83%
- Term Results:
  - Open Rate: 31.58%
  - Click-thru: 6.43%
DC Update/Campaign Videos – A Preferred Medium
Innovative applications – Amateur video produced in-house

Early Career
Mid-Career
Late Career/Retired

Plansponsor innovative applications

University of California case studies
Polling Question #6

1. Select Polling from the main navigation menu.
2. Select Generational Education & Communication.
3. Scroll down to Live Polls.
4. Select the question, select your answer and tap finish to submit.
5. Exit poll.

When it comes to retirement messages: Millennials are the toughest sell

Engage millennials with messaging about next steps and relatable images.

Results
Highest ever # log-ins to view Retirement Review (25% increase over last year).
WINNING PRACTICES & INNOVATIVE APPLICATIONS

Experience grouping action steps and financial education resources

Creating generational/career stage profiles and streamlining the experience by only showing most relevant resources.

WINNING PRACTICES & INNOVATIVE APPLICATIONS

NEW TO UC?
Welcome! We're glad you chose UC. Now's the time to choose your primary retirement benefit.

HERE ARE THE NEXT STEPS TO CONSIDER.

Choose Pension Choice or Savings Choice
The sooner you enroll, the sooner you start receiving UC, contributions and/or service credits.

Consolidate your workplace savings plans
Have a retirement account in a previous employer's plan? Consider rolling it into UC's annuity.

Consider saving in the UC 403b, too
If you don't think you'll work for UC for 5 years or longer, you may want to save in the UC 403b.

HERE ARE THE RESOURCES TO HELP YOU MAKE YOUR CHOICE

I Want To

Enroll in the Retirement Choice Program
Enroll in the 403B
Enroll in the 403B (Which Should You Choose?)
Enroll in the 403B (Which Should You Choose?)
Designate Beneficiary - 403B (Which Should You Choose?)
Designate Beneficiary - Pension Choice
Designate Beneficiary - Pension Choice

Related Courses, Videos, and Tools
Understanding the UC Retirement Choice Program
The UC Retirement Choice Program
Getting Started for the UC Retirement Savings Program
Your UC Retirement Savings Program
Need Help with Student Taxes?
WINNING PRACTICES
& INNOVATIVE APPLICATIONS

How to apply at your own organizations
1. Survey your employees
2. Try new ideas – amateur video example
3. Serve up messages and images targeted to each demographic

Have you sent generationally-targeted retirement savings communications in the past year?

Yes 44%
No 56%

Source: https://app.biely.com/poo9/nv/1/app/poo/14ewg/v
Do you send different communications to different age cohorts (e.g. do only those 50+ receive a campaign regarding retirement readiness)?

- Yes: 46%
- No: 54%

What type of participant communications do you currently send (select all that apply)?

- Hard copy mailers: 34%
- Emails: 38%
- Web messages: 25%
- Text messages: 3%
Can your employees elect which manner they prefer to receive communications (e.g. text, email, regular mail, etc.)?

- Yes: 55%
- No: 45%

Have you surveyed your own employees/participants by age group to determine communication preferences?

- Yes: 18%
- No: 82%
What generational group have you found the most difficult to “call to action” with respect to retirement savings?

- Millennials: 55%
- Generation X: 28%
- Boomers: 6%
- Retirees: 11%

Source: https://apc.events/composing/v1/aps/posts/379-issues?
Best Practices & Lessons Learned from Private Sector Defined Contribution Plans

Moderator/Panelist: Judith Boyette, Hanson Bridgett LLP
Jeffrey Cable, Colorado PERA
Sherrie Grabot, Guided Choice
Mark Kordonsky, SageView Advisory Group

Presentations: Tuesday, Sept. 25, 2018 2:45-3:45 pm
Wednesday, Sept. 26, 2018 9:45-10:45 am

Best Practices and Lessons Learned

What We Will Cover Today
• Introduction—Why you need to listen to this presentation
• ERISA Standards That May Serve As Best Practices
• ERISA Standards That May Prove Problematic As Best Practices
• Lessons Learned--Recent Trends in Investment Structures
• Lessons Learned--ERISA Lawsuits Involving DC Plan Fiduciaries
• Key Takeaways
Why Should You Care About This Presentation?

• Be aware of best practices to better serve participants
• See which private sector/ERISA standards can serve as best practices
• See which private sector/ERISA standards could create problems
• Avoid litigation ---avoid type of lawsuits brought against ERISA plans
• You don’t want to rely on sovereign immunity protecting you in all cases

States generally apply prudence rules to fiduciaries of governmental plans

  • The prudent person rule- looks at each investment in isolation
  • The prudent investor rule (ERISA standard)—looks at entire portfolio and risk/reward (26 states have adopted)
  • Some variation of the prudence standard
WINNING PRACTICES & INNOVATIVE APPLICATIONS

Why Should You Care About This Presentation?

Common Law Fiduciary Requirements

• Duty of loyalty
• Duty of prudent investment
• Duty to follow terms of trust

2018 ANNUAL CONFERENCE

ERISA Standards That May Serve As Best Practices

1. Who is a fiduciary?

☐ Fiduciary is based on functions performed not a title

2018 ANNUAL CONFERENCE
ERISA Standards That May Serve As Best Practices

2. Fiduciary Responsibility

- Loyal to the Plan
- Diversify plan investments
- Pay only reasonable plan expenses
- Provide participants needed information to make informed decisions

3. Statement of Fiduciary Responsibilities

- Purpose is to reduce fiduciary liability
- Document processes used for each fiduciary responsibility
- Demonstrate that they have followed the documented process
- Follow Section 404c
- If defaulting, use one of the four investments types outlined by the DOL
ERISA Standards That May Serve As Best Practices

4. Process for selection of investments

- Investment Policy Statement
- Prudent Expert

5. Claims and Appeals Procedures

- Documented and provided to participants, usually in SPD
- No filing fees or costs for filing claims and appeals
- Waiting period for decision is 90 days (180 days if extension applies)
- If claim is denied, the Plan must send a written notice
- Describe Plan’s procedures and deadlines for submitting an appeal
ERISA Standards That May Serve As Best Practices

6. Communications

- Summary of Material Modification (SMM)
- Summary Plan Description (SPD)
- Individual Benefit Statement (IBS)
- Summary Annual Report (SAR)
- If automatic enrollment, Automatic Enrollment Notice
- If change requires, Blackout Period Notice

7. Communications – Plan Related

- General Plan Information
- Administrative Expense Information
- Individual Expenses Information
ERISA Standards That May Serve As Best Practices

8. Communications– Investment Related
- Benchmark information
- Historical performance data
- Fee & expense information
- Website with investment specific information
- General glossary of investment terms
- Comparative format

9. Standard ERISA Contract provisions
- Basics
- Standard of care– best is “expert”
- Confidentiality and HIPAA
- Investment Contracts
- “Reasonable” termination provisions
- Fee disclosure
- Signature line
ERISA Standards That May Serve As Best Practices

10. Standard ERISA Contract provisions
   - Other provisions
   - Provisions for problems

ERISA Standards That May Prove Problematic

1. Claims and Appeals Procedures
   - Specific time to respond (i.e. 90 days or 180 if extension applies)
   - Specific content for claim denial
   - Consider using as standards in vendor agreements
ERISA Standards That May Prove Problematic

2. Communications-Investment Related

- Example: Meet requirements “similar to those prescribed in [Code section 404(c)] for private sector employers”
- Don’t always have to be identical

3. Beneficiary Designations

- Rules differ from ERISA rules
- State law requirements may apply (i.e. automatic revocation upon divorce)
- Don’t have to be identical
ERISA Standards That May Prove Problematic

4. Statement of Fiduciary Duties

- State law may not be identical to ERISA rules
- If you commit to a particular standard, can be held to that standard contractually
- And—also held to state law standard


- Avoid any higher standards than State law for fiduciary
- If commit, can be held to that standard contractually in addition to any State law requirements that may apply
- Consider service standard with penalties for vendor rather than expressly adopting the “ERISA” standard
Lessons Learned: Colorado PERA
In 2011, PERA adopted white label structure for investments

- PERAdvantage funds have three tiers:
  - TRD's (QDIA)
  - Asset Class funds: Stable Value, Fixed Income, Real Return, Small/Mid Cap, Large Cap, International Stock, Socially Responsible Investing fund
  - TD Ameritrade Self-Directed Brokerage
- Limited investment choices based on asset classes to achieve better diversification
Lessons Learned: Colorado PERA

- Unbundled Investment Structure
  - No investments with recordkeeper, so participant advice is completely conflict free
  - Online Advice at no additional cost
  - Professional Management for a fee

- Investment Advisory Committee with RVK Investment Advisors
  - Quarterly meetings to review investment performance and PERAdvantage fund composition

Lessons Learned: Private Sector 401(k) Plans:

A Look at a Smaller Plan Experience
Lessons Learned: Private Sector 401(k) Plans:

- Fee sharing arrangements
  - Home Depot
- Investment selection
  - Home Depot, Philips, Lowe’s, FirstGroup America

Key Take-Aways

- Stay Informed—Investment Trends and Fiduciary Challenges
  - Fiduciary standards under State law are similar
  - Plaintiffs’ counsel looking at big $$ targets---public plans are big $$ targets
  - May involve similar issues (e.g. investment and recordkeeping fees/selection and monitoring )
- Pursue Best Practices---But...
  - Take care in formally adopting standards
  - Watch for state law conflicts
Questions????
“Top 5 Retirement Statistics that will Scare the **** Out of You”

1. **Nothing Saved**
   More than half of Americans have less than $10,000 saved for retirement.

Source: Adopted from 15 Retirement Statistics that will Scare the Crip out of You by Eric McWinnie, Money and Career Cheat Sheet, April 2018. www.gobankingrates.com
Top 5 Retirement Statistics that will Scare the **** Out of You

2. **A Forced Retirement Doesn’t Just Happen to Professional Athletes.**
   
   55% of retirees actually retire earlier than expected. **Health** is cited as the number 1 reason.

Source: Adopted from 15 Retirement Statistics that will Scare the Crap out of You by Eric McWinnie, Money and Career Cheat Sheet, April 2018. Gallup

---

Top 5 Retirement Statistics that will Scare the **** Out of You

3. **Health = Wealth**
   
   A 65-year-old couple that retired in 2015 will spend $245,000 on healthcare in retirement.

Source: Adopted from 15 Retirement Statistics that will Scare the Crap out of You by Eric McWinnie, Money and Career Cheat Sheet, April 2018. Fidelity
Top 5 Retirement Statistics that will Scare the **** Out of You

4. **Women Save Less**
   The gap between men and women’s retirement savings is as much as **26%**.

Source: Adopted from 15 Retirement Statistics that will Scare the Crap out of You by Eric McWinnie, Money and Career Cheat Sheet, April 2018. [www.gobankingrates.com](http://www.gobankingrates.com)

---

Top 5 Retirement Statistics that will Scare the **** Out of You

5. **Financial Wellness is Sick**
   S&P Interviewed 150,000 adults in 140 countries. Only **33%** worldwide could answer **3 out of 4** financial concept questions correctly. These concepts included inflation, compound interest, risk, and diversification.

Source: Adopted from 15 Retirement Statistics that will Scare the Crap out of You by Eric McWinnie, Money and Career Cheat Sheet, April 2018. [Standard & Poors](http://www.standardandpoors.com)
Holistic Retirement: Money, Purpose, Health

Panelists:
Jonathan Viscounte – Prudential – Achieving Financial Security can Improve Well-Being
Andrea Cockrell – City of Plano, Texas – Early Retirement and Retiree Education and Engagement
Brayton Connard – Monroe County, New York – Asset Retention, Phased Retirement and Retiree Engagement
Carl Steinhilber – Taking Care of Your Money, and Mental and Physical Health
Financial Wellness in the Public Sector

Current public sector workers account for almost 1 in 5 employed persons in the U.S.

Source: Gallup, 2010

Financial Wellness Impacts Overall Wellness

47% fear not being ready for retirement

Source: Prudential consumer financial wellness study, August 2016. Percentage represents the number of respondents who selected this as one of their biggest money concerns.
Financial Wellness Impacts Overall Wellness

44% fear not having enough money for daily living expenses
38% fear not being able to cover unexpected expenses
29% fear a lack of life and career opportunities
29% fear not being able to treat family and friends

Source: Prudential consumer financial wellness study, August 2016. Percentages represent the number of respondents who selected these as one of their biggest money concerns.

Employers Have an Opportunity to Help

Financial education programs explain benefits and promote behaviors that improve well-being. Employers are rewarded with workers who are less stressed and less distracted.

Personal financial troubles result in distractions at work:
Only 37% of millennials are comfortable with their progress toward their financial retirement goals.
62% of millennials say their loyalty to employers is influenced by how much they care for their financial well-being.

Source: Data based on an Economist Intelligence Unit survey conducted in September 2016.
What Do Public Sector Employees Identify As Top Financial Goals?

Note: Data based on an Economist Intelligence Unit survey conducted in March 2017. The research, sponsored by Prudential, surveyed 1,877 U.S. public sector employees.

How Can Employees Address These Challenges?

• Put goals on paper
• Automate a savings plan
• Cut back on social media

Disclosures

Jonathan Viscounte offers financial planning and investment advisory services through Pruko Securities, LLC (Pruko), doing business as Prudential Financial Planning Services (PFPS), pursuant to separate client agreement. Offering insurance and securities products and services as a registered representative of Pruko, and an agent of issuing insurance companies. Viscounte Financial LLC is not affiliated with The Prudential Insurance Company of America and its affiliates, including Pruko. Other products and services may be offered through a non-Prudential entity. I am licensed in the following states: [PA, AL, CO, IN, MA, NY, NJ, VA, FL, DC, CA, DE, ME, MD, NC, SC, AZ, MI, WA, TN, IA, LA], and will only respond to inquiries in those states. Please do not request information from us if you do not live in one of those states.

CA Insurance license #0521477

Retirement products and services are provided by Prudential Retirement Insurance and Annuity Company (PRIAC), Hartford, CT, or its affiliates. PRIAC is a Prudential Financial company.

© 2018 Prudential Financial, Inc. and its related entities. Prudential, the Prudential logo, the Rock symbol and Bring Your Challenges are service marks of Prudential Financial, Inc. and its related entities, registered in many jurisdictions worldwide.

1007863-00001-00

Andrea Cockrell
Administrative Services Manager
City of Plano, Texas
Holistic Retirement – More than Just Financial

Steps to Holistic Retirement

1. Analyze data
2. Determine areas of risk/focus
3. Develop a communication strategy based upon your outcomes
4. Take action!
5. Hands on approach
6. What do you want your retirement to look like?
Poor Health Impacts All Areas, Including Retirement

Total Cost of Risk per Employee

Employee A - Police
Employee B - Public Works

Health Claims Workers’ Comp Disability Paid Leave

Taking Action – Microtargeting Messages

Example for those employees needing a scheduled orthopedic procedures email template:

Hello,

Hospital bills from surgery can be financially burdensome. And, the cost of procedures can vary widely even within the same city. Therefore, if your doctor told you that you need surgery, please know that I can find you blue-ribbon facilities that can perform the surgery for less. Please contact me for a cost estimate so you know what you can expect and make the choice that works best for you. For your convenience, my email address and phone number are listed below.

Kind regards,
Jordan

Jordan White, your dedicated Health Pro
855-777-0533
jordan.white@compassphs.com
Taking Action – What is Your Purpose?

Citywide campaign to engage employees
• Every person matters
• Every job has a purpose
• Together we make a difference

Training for the Whole Person
• Include more than technical and policy driven trainings
• Personal enrichment series – offered on Friday afternoons
  • Gardening
  • Meditation
  • Personal finance
  • Cooking classes
  • Personal safety
Keep Retirees Engaged and Prevent Isolation

- Social isolation is associated with defective immune functioning and higher blood pressure
- Loneliness and social isolation is a growing epidemic
  - Linkage to Alzheimer’s
  - Worse with those under 65
- City hosts a quarterly retiree luncheon at a recreation center and there is an educational topic (personal safety, skin health, dealing with the death of a loved one, etc.)
- City has two retiree places on its 457 deferred compensation committee
3 Examples of Holistic Retirement

- Remain financially fit by staying invested in your plan.
- Purchase health insurance on the Medicare individual market
- Consider phased retirement to stay engaged with a purpose
WINNING PRACTICES & INNOVATIVE APPLICATIONS

VIP Retiree Dinner

WINNING PRACTICES & INNOVATIVE APPLICATIONS

Medicare Individual Market with Retiree HRA

- Individual market better than group market
- HRA gives flexibility to retirees
- Partner with a broker
- Have a Change Management plan
Phased Retirement

- Lock-in benefits
- Recharge batteries
- Preserve knowledge
- Improve financial condition

Carl Steinhilber
How Not To Run Out Of Money In Retirement

4% Rule

Calculate
$500,000 in savings; inflation rate 3%
$500,000 X 4% - $20,000 year 1
$20,000 X 1.03% - $20,600 year 2, etc.

Also can use the 4% Rule to estimate the amount of savings needed
Need $60,000 annually
Expect $40,000 annually from Pension and/or Social Security
Gap = $20,000
$20,000 X 25 = $500,000 in estimated savings at retirement (1 divided by 4%, equals 25)

* Flaws with the 4% Rule – Just a guideline

How Not To Run Out Of Money In Retirement

- Start planning and stop stressing
- Choose the right time to start Social Security and/or pension payments
- Annuities (including in plan retirement income and annuity solutions)
- If early enough, purchase of long-term care insurance
- Working in Retirement

WINNING PRACTICES & INNOVATIVE APPLICATIONS

31

32
Maintaining Mental and Physical Health In Retirement

- Visualize your future thinking long-term and big picture
- Take care of your finances
- Make sure that your retirement plan is both financial as well as a holistic lifestyle plan
- Find meaning and purpose

“Happiness cannot be pursued, it must ensue. One must have a reason to be happy.”

“Man’s Search for Meaning” - Viktor Frankl

Maintaining Mental and Physical Health In Retirement

- Exercise - Just 15 minutes – 45 optimum
- Engage in games – cards, Bingo, Bunco
- Furry Friendship
- Be Social
- Keep a schedule and structure
- Vacations
- Growing technology
- Learn a new skill
Lessons of Healthy 90-year olds

- Exercise
- Non-physical activities – clubs, friends, crosswords
- 1-3 cups of coffee a day
- Up to 2 alcoholic drinks a day
- Gain a little weight

Want to Have a Good Retirement? 50 Tips for a Healthy, Wealthy and Happy Retirement
– Kathleen Coxwell – Apr 4, 2018

Questions?
Holistic Retirement:
• Health and wellness
• Emotional
• Financial

Can’t focus on just one

https://youtu.be/2kCxmVgDUug
Success by Design: Innovation in Investment Lineups and Plan Design

Moderator: Barbara Healy, CFP NFP Retirement

Panelists: Polly Scott, Wyoming Retirement System
Mary Buonfiglio, CFA North Carolina Supplemental Retirement Plans
Brian Moore, Arizona Public Safety Personnel Retirement System Defined Contribution Committee

Approaches To The Tiered Investment Menu

Polly Scott, Wyoming Retirement System
Polling Questions #1-5

1. Select Polling from the main navigation menu.
2. Select Success by Design | current day.
3. Scroll down to Live Polls.
4. Select the question, select your answer and tap finish to submit.
5. Exit poll and repeat steps for questions 2-5.

2011 Snapshot: Before

This is how our equity allocation looked in 2011: We were offering 15 mix your own funds, but there was no correlation between age and equity exposure.
2018 Snapshot: After

In 2018, 59% of participants have appropriate equity exposure.

Reflection

- What is WRS’ role in the overall retirement outcomes of members?
- What is the objective of the 457 Plan?
- What investments should be offered in the 457 Plan?
- What is our philosophy about plan design?
Automatic Enrollment Brings Success

- Auto Enroll Results – after 3 years
- 94% stick rate
- Less than 60 opt outs
- 1,100 new employees saving for retirement
Transitioned to a Three-Level Investment Menu in 2016

**Do It For Me**
Choose the one pre-mixed target date fund that best matches the approximate year you will reach age 65.

**Do It Myself**
Choose your own mix of custom fund-of-funds developed by WRS to help participants achieve their retirement goals.

**Self Directed Brokerage**
For experienced investors, offering a wide array of mutual funds.

---

**Q: How important is active management in the following strategies?*** *(n=70)*

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Very important</th>
<th>Important</th>
<th>Somewhat important</th>
<th>Not important</th>
</tr>
</thead>
<tbody>
<tr>
<td>Emerging market equity</td>
<td>54%</td>
<td>41%</td>
<td>4%</td>
<td>1%</td>
</tr>
<tr>
<td>Non-U.S. bonds</td>
<td>51%</td>
<td>36%</td>
<td>7%</td>
<td>6%</td>
</tr>
<tr>
<td>U.S. bonds</td>
<td>46%</td>
<td>41%</td>
<td>7%</td>
<td>4%</td>
</tr>
<tr>
<td>Infrastructure/REITs</td>
<td>26%</td>
<td>49%</td>
<td>13%</td>
<td>3%</td>
</tr>
<tr>
<td>Non-U.S. equity (developed markets)</td>
<td>26%</td>
<td>50%</td>
<td>16%</td>
<td>6%</td>
</tr>
<tr>
<td>GTAA</td>
<td>53%</td>
<td>22%</td>
<td>15%</td>
<td>7%</td>
</tr>
<tr>
<td>U.S. equity (small-cap)</td>
<td>30%</td>
<td>41%</td>
<td>24%</td>
<td>2%</td>
</tr>
<tr>
<td>Commodities</td>
<td>20%</td>
<td>35%</td>
<td>26%</td>
<td>8%</td>
</tr>
<tr>
<td>Balanced</td>
<td>10%</td>
<td>41%</td>
<td>23%</td>
<td>9%</td>
</tr>
<tr>
<td>REITs</td>
<td>18%</td>
<td>37%</td>
<td>21%</td>
<td>15%</td>
</tr>
<tr>
<td>TIPS</td>
<td>16%</td>
<td>37%</td>
<td>33%</td>
<td>3%</td>
</tr>
<tr>
<td>U.S. equity (large cap)</td>
<td>4%</td>
<td>16%</td>
<td>51%</td>
<td>24%</td>
</tr>
</tbody>
</table>

Source: 2018 PIMCO DC Consultant Survey
Positive Results

With auto enroll and a streamlined investment menu, we’ve used our plan design to establish successful decision-making for all of our participants to move toward retirement.

Success by Design: Innovation in Investment Lineups and Plan Design

Investment Lineup May Help Address The Risk That Participants Face

Mary Buonfiglio, CFA
North Carolina Supplemental Retirement Plans
There’s a Lot of Risk in the World…

Financial Risk….

The probability that an actual return on an investment will be lower than the expected return.
Root Causes of Negative Retirement-Related Outcomes

- Asset Allocation
  - Poor initial alignment with participant’s time horizon / risk profile
  - Remaining static through time
- Human Behavior
  - Poor entry / exit points – market timing, style tilt
- Fees
  - Paying “too much” for a portfolio’s realized return

Asset Allocation is responsible for approximately 90% of the variance in investment returns.
New Cash Flow to Equity Funds is Related to World Equity Returns

(Monthly, 2000 – 2017)


EQUITY MARKETS: ACTIVE MANAGER RELATIVE PERFORMANCE, GROSS OF FEES

<table>
<thead>
<tr>
<th>ASSET CLASS</th>
<th>MEDIAN VERSUS INDEX (GROSS OF FEES)</th>
<th>TYPICAL FEE HURDLE</th>
<th>ALPHA RANKING</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1 YEAR</td>
<td>3 YEARS</td>
<td>6 YEARS</td>
</tr>
<tr>
<td>Global Equity</td>
<td>0.40</td>
<td>-0.17</td>
<td>-0.50</td>
</tr>
<tr>
<td>Global ex-US Equity</td>
<td>0.60</td>
<td>0.32</td>
<td>0.46</td>
</tr>
<tr>
<td>US Large Cap Equity</td>
<td>0.30</td>
<td>0.19</td>
<td>0.04</td>
</tr>
<tr>
<td>Global ex-US Small Cap Equity</td>
<td>4.40</td>
<td>3.18</td>
<td>2.95</td>
</tr>
<tr>
<td>US Small Cap Equity</td>
<td>2.30</td>
<td>1.82</td>
<td>2.00</td>
</tr>
<tr>
<td>Emerging Markets Equity</td>
<td>1.00</td>
<td>1.36</td>
<td>1.02</td>
</tr>
</tbody>
</table>

1 ‘Chain linked’ median manager annual return versus index in $US to 31 December 2015. Indices used are provided in the Appendix
2 Evidence of skill grading (“alpha ranking”) based on rolling 10 year median of universe and index returns
3 Based on Mercer’s Global Asset Management Fee Survey 2014 for a $100m mandate. $US Segregated vehicles have been used where available

* Source: Mercer Investment Consulting
Total Plan Net Value

- Positive net value – when investment options are outperforming their benchmark indices after fees.
- Indexed options – slightly less than zero, they seek to replicate benchmark returns before costs.
- Monitoring total plan value serves a very different fiduciary purpose than monitoring the value added from individual investment options.
- Total plan value added reflects whether your process for changing investment options is effective.

Source: CEM Benchmarking

How North Carolina addressed Retirement-Related Risk

- June 2018 introduced significant enhancements to the GoalMaker Glidepath:
  - Expanded number of age cohorts from 4 to 9
  - Shifted from “to retire” to “thru retirement”
  - Age Adjustment for all GoalMaker participants (opt out)
  - “Smoothed” transition points
  - Maintained 3 risk tiers
How North Carolina addressed Retirement-Related Risk

- GoalMaker is the Plans’ QDIA
  - Within GoalMaker thoughtful use of active / passive strategies
    - Large Cap – passive
    - Fixed Income – active
    - SMID – active
    - Mapped global to int’l equity – active and domestic equity – passive
- Added TIPS – Treasury Inflation-Protected Securities
Key “Take-Aways”

- Identify your plan’s key retirement-related risks (project scope)
- Decide if 1) investment menu changes or 2) glidepath work comes first “use the building blocks in place” vs. “clean slate”
- Understand pros / cons of customized glidepath
- Utilize participant “opt out” approach when possible

Disclosures:

* Source: Mercer Investment Consulting LLC. This contains confidential and proprietary information of Mercer and is intended for the exclusive use of the parties to whom it was provided by Mercer. Its content may not be modified, sold or otherwise provided, in whole or in part, to any other person or entity, without Mercer’s prior written permission. This does not contain investment advice or constitute individualized investment advice relating to your particular circumstances. No investment decision should be made based on this information without first obtaining appropriate professional advice and considering your circumstances. Information contained herein has been obtained from a range of third party sources. While the information is believed to be reliable, Mercer has not sought to verify it independently. As such, Mercer makes no representations or warranties as to the accuracy of the information presented and takes no responsibility or liability (including for indirect, consequential or incidental damages), for any error, omission or inaccuracy in the data supplied by any third party. © 2018 Mercer LLC. All rights reserved.
Success by Design:
Innovation in Investment Lineups and Plan Design

Starting From a Blank Slate

Brian Moore, Arizona Public Safety Personnel Retirement System Defined Contribution Committee

Arizona Public Safety Personnel Retirement System (PSPRS) 401(a) Plan Creation
AZ PSPRS 401(a) Plan Creation

- DC only component or
- DC/DB Hybrid
- Tier 2 employees eligible for DC/DB Hybrid
- Auto Enrollment
- Very compressed time frame to design and fully implement properly

Board of Trustees appointed 7 member committee

Committee members chosen based on involvement with their existing employer 457/401(a) plan

Previous NAGDCA Conference attendance by members

Learned about best practices in plan design
Best Practices in Plan Design

- RFP for Consultant
- RFP for Recordkeeper
- Investment Policy Statement
- Select Recordkeeper
- Establish Investment Menu

Comprehensive Education and Investment Advice Component Desired by Committee

- 90 day deadline for Tier 3 employees to decide between DC or DB Hybrid
- 230 separate employers, great disparity in new employee education
- Pre and post retiree education program desired
- RFP developed for RIA and comprehensive education program
- Selected vendor agreed to become fiduciary to plan
Implementation Date 7/1/17- Challenges

- Aligning 230 separate employers with required contributions
- Tier 2 member education needed due to opt out date
- Website with investment line up and historical returns not available
- Additional legislation for minor technical corrections
- Extensive core investment line up with Self-Directed Brokerage Option
- Annuity product available for retirees (Reason Foundation)

Key Features of Plan

- Comprehensive education on DC and DB plan differences at time of hire
- Robust pre and post retirement education (reduce plan leakage)
- Optional investment advice available to new hires as well as pre and post retirees
**WINNING PRACTICES**

**INNOVATIVE APPLICATIONS**

- **Tier 3 Default:**
  - Other Key Features/Changes
  - Tier 3 Qualified Default Investment Alternative is Target
  - Date Fund
  - Effective 8/3/18 PSPRS retirees statewide can transfer assets from their employer plan to the AZ 401(a) Plan
  - Benefits retirees in poorly performing, poorly administered and poorly governed plans as well as those with limited investment choices and high fee structures

**Deferred Retirement Option Plan**

- Tier 1 DROP Assets default into new plan
- Previously 30 day time limit to Rollover DROP Assets
- AZ PSPRS Data indicated an average of 4 retirees a month did not make a decision
- Qualified Default Investment Alternative for DROP is Guaranteed Interest Account
- Post retiree education regarding DROP assets emphasized
AZ PSPRS 401(a) Plan Creation

Successful plan conception, design and implementation in the highly compressed time frame

Polling Questions #6-8

1. Select Polling from the main navigation menu.
2. Select Success by Design | current day.
3. Scroll down to Live Polls.
4. Select the question, select your answer and tap finish to submit.
5. Exit poll and repeat steps for questions 7-8.
WINNING PRACTICES

&

INNOVATIVE APPLICATIONS

Thank You

2018 ANNUAL CONFERENCE
**Tuesday Polling Results**

**What's your plan’s investment menu structure?**

- Choice: 45%
- Morningstar Stylebox: 22%
- White label: 26%
- Something else: 1%
- Don’t know: 6%

Source: [https://apc.event.com/polling/v1/poll/14844?hash](https://apc.event.com/polling/v1/poll/14844?hash)

---

**Do your participants know the different between large cap and small cap investments?**

- Yes: 27%
- No: 49%
- Don’t know: 23%

Source: [https://apc.event.com/polling/v1/poll/14844?hash](https://apc.event.com/polling/v1/poll/14844?hash)
Do participants know the difference between growth-style investing and value-style investing?

- Yes: 14%
- No: 75%
- Don't know: 11%

Source: https://blue.green.com/survey/v1/app/poll/sv/32/total

Are your participants rebalancing at least annually?

- Yes: 20%
- No: 66%
- Don't know: 14%

Source: https://blue.green.com/survey/v1/app/poll/sv/32/total
Have you looked at data to see how your participants are allocated?

- Yes: 78%
- No: 14%
- Don't know: 8%

Source: [Link to image](https://apc.event.com/polling/v1/apc/polls/17402/)

Have you taken steps to identify participant demographics before making plan investment or design changes?

- Yes: 72%
- No: 28%

Source: [Link to image](https://apc.event.com/polling/v1/apc/polls/17402/)
Have you used benchmarking analysis of your plan?

- Yes: 88%
- No: 12%

Source: [https://app.onvent.com/polling/v1/app/post/to-dyhe](https://app.onvent.com/polling/v1/app/post/to-dyhe)

If you have benchmarked your plan and identified participant demographics, which resources have you used? Select all that apply.

- NAGDCA Surveys: 26%
- Consultant: 54%
- Internal Studies: 20%

Wednesday Polling Results

What's your plan's investment menu structure?

- Choice: 77%
- Morningstar Stylebox: 6%
- White label: 10%
- Something else: 0%
- Don't know: 6%

Source: https://api.cvent.com/polling/v1/apipoll/tab019/9

Do your participants know the different between large cap and small cap investments?

- Yes: 17%
- No: 50%
- Don't know: 33%

Source: https://api.cvent.com/polling/v1/apipoll/tab019/9
Do participants know the difference between growth-style investing and value-style investing?

- Yes: 3%
- No: 60%
- Don’t know: 37%

Source: https://api.polling.red/3ap/poll/3api_poll/3a017a25

Are your participants rebalancing at least annually?

- Yes: 10%
- No: 57%
- Don’t know: 33%

Source: https://api.polling.red/3ap/poll/3api_poll/3a017a25
Have you looked at data to see how your participants are allocated?

- Yes: 88%
- No: 8%
- Don't know: 4%

Source: [Link](https://apc.event.com/polling/v1/apc/polls/pollipmp3c)

Have you taken steps to identify participant demographics before making plan investment or design changes?

- Yes: 56%
- No: 44%

Source: [Link](https://apc.event.com/polling/v1/apc/polls/pollipmp3c)
Have you used benchmarking analysis of your plan?

- Yes: 93%
- No: 7%

If you have benchmarked your plan and identified participant demographics, which resources have you used? Select all that apply.

- NAGDCA Surveys: 24%
- Consultant: 48%
- Internal Studies: 29%

Source: https://apc.event.com/polling/v1/apc/pollid/sol2200
Feelings and Choice

Presented by: Punam A. Keller

Cognitions and Emotions

► How we think and feel are related

► Centers in the brain responsible for cognition and emotions are in constant communication

► Relationship is bi-directional
My Approach...

- Health and financial decision-making
- Role of emotions on enhancing individual responsibility
- Financial incentives + emotions > Financial incentives or emotions

Health and wealth decisions evoke counteractive self-control mechanisms

Current nudges do not manage emotions

Emotions impact uncertain choices

- Happiness
- Anxiety/Fear
- Sadness/Hopelessness
- Regret
  - Post-decision
  - Anticipatory
What is anticipatory regret? Regret aversion? How does it work?

- Anticipatory *regret* is the feeling of negative consequences of a decision prior to the choice made.
- The theory of *regret* aversion or anticipated *regret* proposes that when facing a decision, individuals might anticipate *regret* and thus incorporate in their choice their desire to eliminate or reduce this possibility.
- Anticipated *regret* forces participants towards the safe option, showing *risk-aversion*.

Goal: Connect to future self by enhancing anticipatory regret minimization
Enhanced Active Choice (EAC) can enhance participation in saving behaviours by increasing motivation to minimize anticipatory regret.


Four ways to ask audiences to participate in a savings plan:

| OPT-IN | Check the box if you choose to enroll in the firm’s 401k plan. |
| AUTOMATIC ENROLLMENT | Check the box if you do **not** choose to enroll in the firm’s 401k plan. |
| ACTIVE CHOICE | **Check one box.**
  - I will enroll in the firm’s 401k plan.
  - I will **not** enroll in the firm’s 401k plan. |
| ENHANCED ACTIVE CHOICE | **Check one box.**
  - Yes, I want to enroll in the firm’s 401k plan to ensure I will enjoy a comfortable lifestyle for the rest of my life, even after I stop working.
  - No, I don’t want to enroll in the firm’s 401k plan even if this step will help me avoid a poorer lifestyle knowing someday I will have to stop working. |
The ABC of Enhanced Active Choice

Active
- No Default
- Compulsory Choice

Bundle
- Ought Behaviors
- Certain Outcomes

Communication
- Feasibility/Desirability of New Option
- Cost of Old Option

Developing Behavior Changing Communications with EAC

- Case Study:
  - In partnership with a large state (457) plan NARPP implemented EAC
  - In just six months:
    - Increased plan participation by 25%
    - Increased use of auto-escalation by 600%
Putting principles into practice:

- Yes, I would like to increase my contribution to my retirement account so that I can have a more comfortable retirement
- No thanks, I do not want to increase my contribution to my retirement account with the corresponding tax advantages
EAC-ISE improves outcomes
By redefining the communication materials with a scientifically-proven, people-centric design strategy, we effected a 25% increase in voluntary enrollment in the Sponsor’s 457 plan, as well as a 600% increase in the use of SMarT.


EAC is persuasive because:

- Simple choice task
- No default required
- Highlights desirability of new option
- Increases salience of status quo costs
- Reduces procrastination

- And it makes the audience feel:
  - more accountable
  - more in control
  - more committed
  - more regretful if they do not act
  - more satisfied with the decision
  - more sponsor trust
Key Take-Aways

1. Emotion management is a key factor in retirement financial preparedness.
2. Current communications and nudges are not designed to manage emotions.
3. Effective communications relies on interdisciplinary strategies from behavioral finance, communications theory, and human-centered design.
4. EAC has several important features - no defaults, highlights benefits, increases engagement, and reduces procrastination.
5. EAC increases regret aversion, self-control, engagement, and enrollment.
6. EAC be used with other communication tools and different hard and soft nudges.
Selected Citations


Declining Financial Incentives and Enhanced Active Choice - New Nudges to Increase Regret Aversion and Engagement

Thank you!
Q&A

EAC Examples
Additional slides
Application: EAC to increase non-automatic 401k enrollment

- Yes, I want to re-enroll in my 401k plan to increase my options to retire when I want.
- No, I don’t want to re-enroll in my 401k plan even if this step may force me to keep working because I cannot afford to retire.

Application: EAC can be used to increase participation in auto-escalation plans

- I would like to join the auto-escalation plan because I like the no-hassle automatic increases in my retirement account.
- I don’t want to join the auto-escalation plan even if I end up with more anxiety and hassle to manage the sporadic boosts in my retirement plan.
- I choose not to decide whether to join or not to join the auto-escalation plan.
Application: EAC can be used to increase participation in 401k accounts

- Increase Participation
  - I prefer to increase my participation because the minimum level will not cover my retirement needs.
  - I want to remain at the lowest level because I will get more money from somewhere to cover my retirement needs.

Application: EAC to increase participation?

- Yes, I want to increase my retirement options including retiring early by saving more than what comes out of my paycheck
- No, I am willing to forgo my state’s tax deferred compensation even if it means I reduce my retirement options and have to work longer
Application: EAC can be used to increase participation in auto-escalation plans

- I would like to join the auto-escalation plan because I like the no-hassle automatic increases in my retirement account.
- I don’t want to join the auto-escalation plan even if I end up with more anxiety and hassle to manage the sporadic boosts in my retirement plan.

Application: EAC to prevent leakage for those cashing out or rolling over

- I want to stay in my employer plan because it provides continuity and I would avoid paying extra fees when I transfer my savings to another plan.
- I want to switch to another employer sponsored plan or an IRA even if this causes disruptions and increases my fees.