



# Wyoming Retirement System

*Partnering to Build Financial Security for Members and their Families*

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Governor

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Executive Director

## **Project Summary**

The Wyoming Retirement System had known of the benefits of adding a deemed IRA to its 457 Plan for several years, and formally discussed it as early as 2013. There are significant administrative complexities and potential cost in administering a deemed IRA, as listed below:

- Unregistered investment products -- CITs and separate accounts – cannot be used in Deemed IRAs
- Custodian of Deemed IRA must either be a bank or have special IRS authorization
- not commonly available or understood

These have been barriers and although federal law was changed in 2002 to allow deemed IRAs, only a handful of deemed IRAs exist. WRS' 457 Committee and staff met in January 2018 and made a commitment to bring the research and analysis for the initiative to culmination in 2018. The goal was to either put together compelling information to achieve WRS Board support for approving a Deemed IRA, or retire the project having determined the cost and complexity would outweigh the benefits.

At its meeting in November 2018, the WRS Board passed a motion approving the deemed IRA in concept, and requesting staff to develop a go to market plan for launch. This show of support by the WRS Board indicates it is feasible and beneficial to launch a Deemed IRA. It was a dramatic culmination of the intensive efforts of staff, trustees, consultants and service providers. The administrative ground work having been laid, a future opening of the Deemed IRA is planned for January 1, 2020.

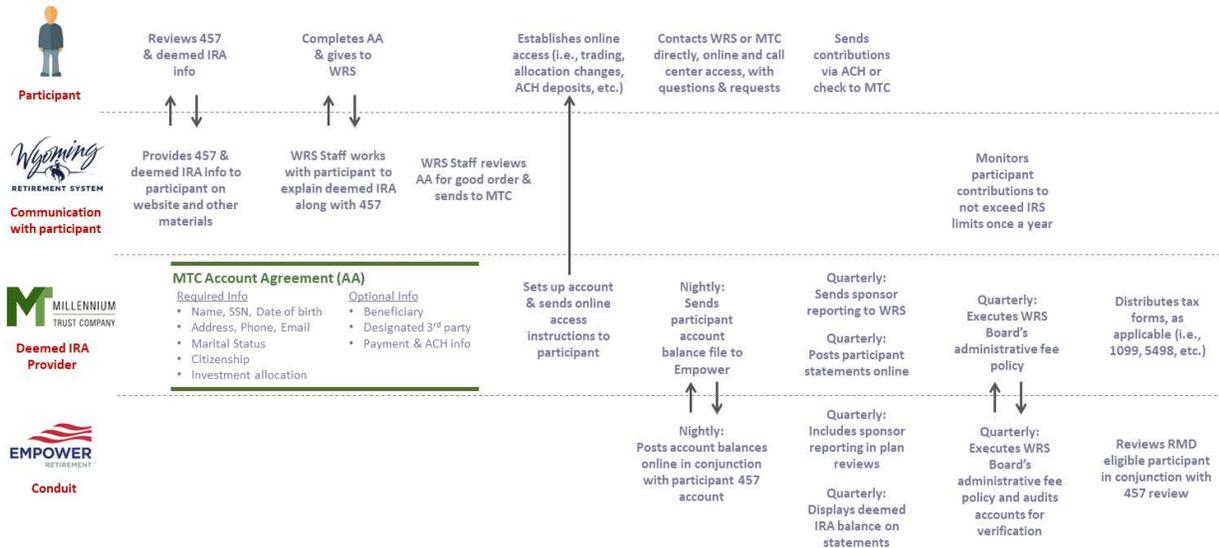
## **Project Description & Justification**

To determine the feasibility of a Deemed IRA, WRS intensively concentrated on four areas: 1) contract negotiation; 2) investment menu; 3) participant demand; and 4) due diligence on outsourced Deemed IRA provider in order to gain WRS Board approval for the Deemed IRA.

1. **Contract Negotiation:** Successful contract negotiations with WRS 457 Plan recordkeeper paved the way for establishing a Deemed IRA. In April 2018 as the result of an RFP, WRS executed a new contract for recordkeeping and custodial services. The RFP had included key questions regarding the addition of a Deemed IRA to the WRS plan. In conjunction with its consultant, WRS conducted comprehensive due diligence reviews of several industry providers. During the contract negotiations, WRS won a key service enhancement to provide a Deemed IRA implementation plan at no additional cost.

The following flow chart demonstrates the roles and responsibilities of the involved service providers. WRS was concerned about an additional workload for its staff with the development of a Deemed IRA. However, WRS was able to specify in the contract that all check and ACH clearing for the Deemed IRA will be done by the recordkeeper and its outsourced Deemed IRA provider. This was a significant breakthrough for the feasibility of the Deemed IRA.

# Roles & Responsibilities\*



\* Roles & Responsibilities to be finalized and agreed upon by WRS, MTC and Empower at later date.

2. Investment Menu: WRS developed the concept of a “parallel investment menu” for the Deemed IRA. It came to light that a Deemed IRA would not be able to have institutional investment offerings as part of its menu, because of the restriction on unregistered securities in IRAs. Having conveyed this limitation to NAGDCA, clarifications to SEC regulations for Deemed IRAs has been included in NAGDCA’s platform for federal policy changes.

WRS learned from the Plan Administrator of the Kentucky 457 Plan that he believes this restriction had been an ongoing disadvantage because it had limited the quality of its 457 Plan menu. Also early in 2018, WRS charged RVK with recommending an investment menu for the Deemed IRA that would parallel the offerings in the 457 Plan. However, there would not be a requirement for them to be the same.

RVK developed the parallel investment menu and it was accepted by the Chief Investment officer, with approval of the Executive Director as required by WRS policies. The menu meets expectations in terms of high quality and low-cost investment offerings.

## Deemed IRA – Participant Experience Proposed Deemed IRA Investment Menu

- Highlighted areas indicate possible fund substitutions or replacements

White Label Fund Line-Up	White Label Weight	IM Fees	Deemed IRA Fund Line-Up	IM Fees	Difference
BlackRock LifePath Index Suite - Q Shares	N/A	0.10%	BlackRock LifePath Index Suite - K Shares	0.11%	0.01%
Large Cap US Equity		0.015%	Large Cap US Equity	0.04%	0.025%
BlackRock Equity Index Fund H Lending	100.0%	0.015%	BlackRock:IS S&P 500;K (WFSPX)	0.04%	0.025%
Small/Mid Cap US Equity		0.56%	Small/Mid Cap US Equity	0.57%	0.01%
Diamond Hill S/Md Cp;Y (DHMYX)	37.5%	0.82%	Diamond Hill S/Md Cp;Y (DHMYX)	0.82%	
BlackRock Russell 2500 Index Fund M Lending	25.0%	0.03%	BlackRock:IS Rus SM;K (BSMKX)	0.08%	0.05%
T Rowe Price New Hzns;I (PRJIX)	37.5%	0.65%	T Rowe Price New Hzns;I (PRJIX)	0.65%	
International Equity		0.62%	International Equity	0.64%	0.02%
Dodge & Cox Intl Stock (DODFX)	32.5%	0.63%	Dodge & Cox Intl Stock (DODFX)	0.63%	
Vanguard Tot I Stk;Ins (VTSNX)	25.0%	0.09%	Vanguard Tot I Stk; Admiral (VTIAX)	0.11%	0.02%
Artisan International Growth Tier 1 (CIT)	32.5%	0.90%	Artisan:Intermat;Inst (APHIX)	0.96%	0.06%
Hartfd: Intl Sm Co;Y (HNSYX)	10.0%	1.00%	Hartfd: Intl Sm Co;Y (HNSYX)	1.00%	
Fixed Income		0.40%	Fixed Income	0.38%	-0.02%
Dodge & Cox Income (DODIX)	33.4%	0.43%	Dodge & Cox Income (DODIX)	0.43%	
DoubleLine:Cr Fxd In;I(DBLFX)	33.3%	0.42%	DoubleLine:Cr Fxd In;I(DBLFX)	0.42%	
JPMorgan:Core Bond;R6 (JCBUX)	33.3%	0.35%	Baird Agg Bond;Inst (BAGIX)	0.30%	-0.05%
Real Assets		0.51%	Real Assets	0.56%	0.04%
T Rowe Price New Era (PRNEX)	23.0%	0.69%	T Rowe Price New Era (PRNEX)	0.69%	
Vanguard Inf-Prot;Adm (VAIPX)	27.0%	0.10%	Vanguard Inf-Prot;Adm (VAIPX)	0.10%	
Crtd Suis Fit Rt Hi;Inst (CSHIX)	15.0%	0.70%	Crtd Suis Fit Rt Hi;Inst (CSHIX)	0.70%	
DFA GI RE Sec Portf (DFGEX)	10.0%	0.24%	DFA GI RE Sec Portf (DFGEX)	0.24%	
Nuveen Global Inf;R6 (FGIWX)	25.0%	0.80%	Nuveen Global Inf;I (FGIYX)	0.97%	0.17%
Capital Preservation		0.33%	Capital Preservation	0.15%	-0.18%
Great West Stable Value (SA)	100%	0.33%	Baird Ultra Short Bond (BUBIX)	0.15%	

Registered 40 Act funds replace CIT funds and R6 share classes.

3. **Participant Demand:** To address the concern that the demand for a Deemed IRA was unknown, questions were included in the annual survey of members. This yielded positive indications that members would use a Deemed IRA if it were available. The specifics are detailed below.

“WRS is evaluating adding an IRA to its Deferred Compensation 457. This would allow you to 1) continue to contribute even after ending employment, 2) contribute an additional contribution limit and 3) would also allow your spouse to have an IRA account with WRS. If available, do you think you would use this feature?”

- a. Yes – 45%
  - b. No – 14%
  - c. Not sure – 41%
4. **On-site Due Diligence Visit:** On February 20, 2019, WRS conducted an on-site due diligence visit to Empower’s outsourced Deemed IRA provider, Millennium Trust Company. This due diligence was requested by the WRS 457 Committee and the Chair of the Committee attended with staff, consultants and Empower representatives. The outcome was very positive and an implementation plan with a January 1, 2020 launch date was agreed upon by all parties.

### **Measurable Benefits and Results**

The advantages participants will have as a result of adding a Deemed IRA to the WRS 457 Plan have been the catalyst for the investment of staff and consultant time toward developing a delivery structure for a Deemed IRA. A Deemed IRA opens up possibilities that are not available without it. At the plan level, it will help with asset retention in the 457 Plan by reducing outgoing rollovers at retirement. Specifically, members will have an additional contribution limit of \$6,000 if under age 50 or \$7,000 if age 50+. Having a Deemed IRA will make the 457 Plan a consolidation tool because it makes it so:

- the 457 Plan can receive incoming rollovers of Roth IRAs,
- terminated employees can continue to contribute to Deemed IRA, and
- participants’ spouses can have a deemed IRA with WRS.

### **Feasibility of Use by Other Governments of Similar Size**

Since it was legislated, the Deemed IRA has been dramatically under-utilized. While the concept is a benefit for retirement plan participants, the administrative complexity and unique requirements for the custodian and investment menu have made it something most plans have not even considered. Empower has now added this to the services it can provide to plan sponsors. WRS believes its experience in developing a delivery model for the Deemed IRA will be tremendously helpful as a road map for other governmental plan sponsors. It will prevent others from having to reinvent the wheel.