



Project Summary – Redesigning the Core Defined Contribution Plan

The State Universities Retirement System (“SURS”) has made tremendous efforts to revamp the retirement plan experience for their defined contribution plan members through several enhancements focused on retirement security and guaranteed lifetime income. SURS sponsors the SURS Retirement Savings Plan (“RSP”), a 401(a) Plan which requires employees contribute 8.0% while the state contributes 7.6% of eligible earnings. The RSP serves approximately 22,176 participants and holds approximately \$3.1 billion in assets (as of 2/28/2021). SURS also sponsors the SURS Deferred Compensation Plan (“DCP”), a voluntary 457(b) plan that was launched for new enrollments on 2/1/2021 and new contributions on 3/1/2021. Enrollment into the DCP is ongoing.

SURS recognized a few critical issues with the way their plan was structured before the redesign. First, because their members are not eligible for Social Security, the DC Plan would be their primary source of retirement income. Second, the plan had limited distribution options at retirement. Members could either use 100% of their account balance to purchase an annuity or they could take a lump-sum distribution and forfeit any earned retiree health care benefits. SURS sought to add greater flexibility to help members through both the wealth accumulation and decumulation phase.

With this in mind, SURS conducted both a recordkeeping RFP and investment manager RFP. This process culminated in the elimination of a multi-recordkeeper structure through the selection of a new recordkeeper, the implementation of a new default investment option, the development of a simplified investment array, and new planning and educational tools for members.

SURS partnered with AllianceBernstein L.P. to create a custom lifecycle solution named the SURS Lifetime Income Strategy (“LIS”) as the default option. The SURS LIS enables members to build retirement wealth and provides an opportunity to secure guaranteed lifetime income without giving up access to their account balance. With SURS’ goal to provide a solution to help members in retirement, SURS elected to re-enroll members’ current account balances and future contributions into the SURS LIS, a diversified all-in-one solution. Approximately 83% of assets remain in the SURS LIS, and approximately 86% of participants have their total balance in the SURS LIS (as of 2/28/21). In addition, SURS underwent a rigorous due diligence process to enhance the core investment menu by implementing a new simplified, white-labeled fund lineup. The core lineup was streamlined from 29 options to 16 to facilitate better decision making and avoid investment overlap. The core lineup was also leveraged within the construction of the SURS LIS asset allocation strategy.

Voya Financial was selected as the recordkeeper based on their ability to partner and support SURS’ vision of an income solution and provide customized statements and communications to participants that focused on retirement income. Through this process, SURS examined the multi-recordkeeper structure and identified significant benefits from adopting a sole recordkeeper structure.

With all these changes occurring, a significant amount of effort was put into launching a comprehensive communication campaign. Practical, user-friendly materials, a webpage, an interactive website and a retirement calculator were created – all using the theme of “Your Road to a Healthy Retirement.”

“Our staff worked incredibly hard to create an enhanced defined contribution plan that would better prepare members for a secure retirement. We took the initiative to address any shortcomings and correct the gaps within the retirement plan experience through this redesign.” said Interim Executive Director and Chief Benefits Officer Suzanne Mayer. “This award would be a much-appreciated acknowledgement of our work and dedication to our members.”

Project Justification – Redesigning the Core Defined Contribution Plan

Identifying Critical Issues Important to SURS Members

While interacting with their members and reviewing the Self-Managed Plan as designed, SURS recognized a few critical issues:

- The Self-Managed Plan had a focus on wealth accumulation, similar to most private sector 401(k) plans. As designed, the SMP would not be expected to be any more successful in meeting the lifetime income needs of participants than a standard 401(k) plan.
- Under the Self-Managed Plan, members were required to take a distribution at retirement. Members could use 100% of the assets in their account to purchase an annuity from the available providers or they could take a lump-sum distribution and forfeit any earned retiree health care benefits. Both options were problematic for SURS members.
- Most members failed to annuitize. Academic research suggests that there are many reasons why they failed to do. People tend to overestimate the ability of their savings to meet their retirement needs. Annuities have earned a bad reputation. Many retirees are uncomfortable gambling on their own longevity. The 100% annuitization requirement likely dissuaded participants with limited supplemental or emergency savings.
- Historically low annuity payout rates since the global financial crisis have made annuities even less attractive to investors. While participant assets have grown substantially since the market decline, the amount of guaranteed lifetime income that can be generated from those assets has declined roughly 70% based on the decline of interest rates over the same time period. A difficult period in the financial market and a low annuity payout rate for those near or at retirement could be detrimental to their standard of living in retirement.
- Members taking a lump-sum distribution must either manage their own investments or find someone they can trust to provide them the assistance that they need. In either case, they are likely to pay significantly higher fees than they would pay if they remained in the plan. The risk of members outliving their savings is compounded by the forfeiture of retiree health benefits and the fact that SURS members do not contribute to Social Security.
- The mistakes that investors make in managing their own assets are well documented. In a MetLife study, 20% of retirees depleted their savings in the first five years of retirement. Other retirees fail to maintain their standard of living in retirement, or even live in poverty, in an effort to ensure they do not outlive their savings. SURS members could benefit from a default option that manages their account for them while providing the opportunity to secure lifetime income.

Addressing the Issues Through the Redesign

SURS redesigned the Self-Managed Plan to address these issues, renaming the plan the Retirement Savings Plan to make clear that participants are not required to manage their own investments. As part of their strategic review and with the help of their external investment consultant, CAPTRUST, SURS conducted a competitive Request for Proposal to seek a recordkeeper who will serve as a strong and flexible partner as well as an investment manager who will help create an innovative solution to meet the retirement needs of SURS members.

During this process, SURS recognized the industry trend towards consolidating recordkeepers and the multiple advantages of doing so, including a more cohesive experience for their members, improved

communication and education, efficiencies in administration and monitoring, and cost efficiencies. By combining plan assets to a single provider, SURS was able to leverage the plan's purchasing power to negotiate and realize a reduction in participant-paid recordkeeping fees.

Over the course of 6 months, SURS and CAPTRUST evaluated six recordkeeping proposals and twenty income solution proposals. Finalist presentations were held for four recordkeepers and three investment managers. Onsite visits were held at two recordkeepers' headquarters and one investment manager's Chicago office for full-day discussions on the scope, goals, capabilities, and expectations. Conference calls were held for Best and Final Offers to seek competitive pricing proposals and provide clarification on expectations. Ultimately, SURS decided to partner with AllianceBernstein L.P. to create a custom lifecycle solution named the SURS Lifetime Income Strategy ("LIS") and with Voya Financial as the new recordkeeper.

The SURS LIS which serves as the default option enables members to build retirement wealth and provides an opportunity to secure guaranteed lifetime income without surrendering access to their account balances. The SURS LIS addresses interest rate risks and market risks by providing members an option to secure retirement income over a period of 15 years prior to retirement. This gradual phase into guaranteed lifetime income is intended to mitigate the risk of point-in-time annuitization and help protect against short-term market volatility. The solution is also designed to capture market growth so members can benefit from gains in rising markets. In exchange for this benefit, members pay an asset-based premium on the secured assets.

Additionally, members in the SURS LIS who convert a portion (at least 50%) of their account balance into monthly lifetime at retirement are not forced to forfeit their earned retiree health benefits. As a result, the SURS LIS provides a guaranteed retirement income stream while going beyond that of a typical annuity by providing members with the flexibility to access and control their assets.

Alongside the SURS LIS, SURS also sought to enhance the core investment menu by implementing a new simplified, white-labeled fund lineup with access to high quality, cost effective investment options. The intent of white labeling the fund names was to help members make better investment decisions by moving away from thinking about the brands or manager names and instead, shift to focusing on the asset allocation strategy. The core investment options were also used as underlying options in the SURS LIS to create an asset allocation strategy that is unique to each member.

With the focus on SURS' goal to provide a solution to help members generate enough income to maintain their standard of living, SURS elected to re-enroll members' current account balances and future contributions into the SURS Lifetime Income Strategy. This was an outcome-focused strategy designed to improve retirement security and ensure members are properly allocated to an investment strategy customized to their retirement age and desired level of income protection.

Communicating the Changes

With these major enhancements, SURS recognized that any change can be daunting or unsettling for their members, so they sought to create a robust communication and education program. Webinars covering the recordkeeper transition and asset mapping were held during July 2020 to help communicate the changes and present a forum for members to ask questions. Members received introductory announcements via email and mail, and materials were created using the theme of "Your Road to a Healthy Retirement."

A detailed FAQ was posted on the website to help improve customer service by answering common questions. A SURS LIS website was developed to provide members the real-time ability to see their projected income amount and allow them to adjust features such as contributions, retirement age, and their secure income level. Members can go to the website for a personalized projection of the income they are on track to replace in retirement. Content specifically focused on explaining the SURS LIS was created, including brochures, videos, website content, training materials, and mailers, in order to educate members on the benefits and flexibility of the product.

Members were encouraged to set up appointments with SURS staff or contact the SURS call center with questions or concerns.

In 2020, the field team completed 703 appointments with members spanning across 51 SURS employer locations. 29 webinars were held, of which 27 were open to all members and 2 were location-specific. The 27 webinars open to all members had a total of 2,052 unique attendees. The 2 location-specific webinars were open Q&A sessions where members had an opportunity to ask plan-related questions.

Sample Communication Materials:



Dedicated SURS LIS website where members can adjust certain features and view their projected income amount.



Transition Guide that outlines the new enhancements, key dates, and resources available to members.

Additional Enhancements

To further their members’ ability to save for retirement, SURS also launched a new 457(b) plan, called the SURS Deferred Compensation Plan (“DCP”), that will be open to over 80,000 eligible members. The objective of the new plan is to provide members with an additional retirement savings vehicle to enable them to save more and help close their retirement readiness gap. SURS elected to use the same



investment options across both the SURS Retirement Savings Plan and the SURS Deferred Compensation Plan in order to facilitate better investment selection, education, and engagement among members.

The DCP was launched for new enrollments on 2/1/2021 and new contributions on 3/1/2021. Currently, the DCP serves approximately 8,967 eligible members, of which 13 members are participating and holds approximately \$3.2K in assets (as of 3/31/2021).

Benefits of the Redesign:

As a result of these efforts, SURS experienced many benefits including:

- A decrease in recordkeeping fees due to the RFP process and consolidation to one recordkeeper. The recordkeeping fees were reduced from \$47 per member at the previous lead recordkeeper and approximately \$72 per member at the previous secondary recordkeeper to \$30 per member at the new recordkeeper, or approximately a 36% and 58% reduction in recordkeeping fees, respectively.
- A decrease in investment expenses due to the revamped investment lineup and negotiated investment fees. The weighted average expense ratio of the investments was reduced from approximately 0.26% at the previous recordkeepers to approximately 0.24% (excluding the SURS Fixed Account). The 24 basis points weighted average expense ratio may understate the fee reduction as it includes the Secure Income Portfolio within the Lifetime Income Strategy. Excluding assets in the Secure Income Portfolio, the weighted average expense ratio of the investment options available at Voya is 0.11%.
- Reduction in the number of investment options offered to simplify decision making and limit investment overlap. The number of investment options was reduced from 29 to 16.
- The majority of members and plan assets were defaulted to the LIS and these members are on the path to secure retirement income.

Feasibility of Use

While SURS sought to address issues critical to their members, the enhancements made as part of their redesign can be universally used across other governmental plan sponsors – specifically, the focus on retirement income and building retirement security for their member base. Within the governmental space, more DC Plans are becoming the primary source of retirement income for participants. With this in mind, it is important for plan sponsors to think of ways to enhance their plans and focus on helping their participants not only through the accumulation phase, but also the decumulation phase. This can be achieved by implementing a retirement income solution or even through other ways such as creating a personalized projection of a participant's retirement income based on their account data. This income projection can help participants better gauge their savings and effectively manage their income in retirement, rather than simply measuring their retirement readiness through their account balance. Longevity risk is a major concern across plan sponsors and plan participants and having a strong plan design to help participants maintain their standard of living in retirement is becoming an increasingly important focus. As DC plans continue to be an important component of retirement savings, governmental plan sponsors should focus on offering their members a robust defined contribution or deferred compensation plan to help supplement their members' needs for income in retirement.