2021 NAGDCA Leadership Recognition Award Submission

PLAN PROFILE
Plan: Kentucky Deferred Compensation Plan (KDC)
457(b) (pre-tax), 401(k) (pre-tax and Roth), IRA (Traditional and Roth)

Participants: 77,706* Assets: $3.84 billion* (*as of March 31, 2021)
Administrator: Nationwide Investment Consultant: Callan

Category: Plan Design & Administration Initiative: Investing in our Investors: KDC’s 2021 Investment Redesign

Overview/Background:
KDC had much pent up demand in the category of change for 2020. In the face of the pandemic, KDC took the opportunity of the shutdown to conduct a comprehensive review of the entirety of the program to determine what services were offered to participants, how that actually manifested in participant outcomes, and how best to improve those results; nothing was sacred and KDC was prepared to consider any idea in furtherance of increasing the benefit.

Heretofore, KDC had a set number of enrollments, increases, and other arbitrary marketing goals each year; these goals were not comprehensive. Results were arguably reaching a goodly population, but the effective rate simply wasn’t there in either participation or outcome. With the implementation and expansion of Auto-enroll, KDC quickly realized there was much to be gained with a different focus. KDC’s realigned goal was changed to that of effectuating a financial benefit to ALL eligible and active participants; effectively, for the first time, KDC set out to improve EACH participant’s financial wellness by ultimately providing an active financial plan. Financial planning was approved by the Commonwealth of Kentucky in the last legislative session; KDC is currently developing this program from an existing pilot with partners. For the purposes of this submission, we wanted to focus on how KDC set about meeting these goals by changing their plan design and administrative practices.

Primary Goal
Key goals:

1) Simplify the investment lineup to meet ALL participants’ needs;
2) Reduce participant fees;
3) Improve all participants’ Financial Wellness.

Quote(s) from Chris Biddle, Other Leader as Desired (Required)

First and foremost, our messaging needed to change in every way to include not just what we were communicating, but to who and how. Nowhere was that more needed than with KDC’s investment line-up. It was clear that through decades of good intentions our investment line-up was convoluted, confusing, and seemingly illogical. Moreover, cost saving opportunities existed across the board, chiefly in the form of aggregation of assets to achieve access to lower fee share classes. And finally, the end result was a simpler and more digestible pallet and user experience that sets the footing to for us to implement future financial planning services to all participants; plus, we saved over $3 million a year. – Chris Biddle, Executive Director

KDC understands the evolution of the retirement industry and the changing needs of their plan participants. In response, KDC has delivered several strategic plan enhancements to meet the growing need for individual financial wellness. This road map started with automatic enrollments into the plan. In continuing the focus on efficient, simple retirement planning, KDC addressed the investment lineup and transitioned to a modernized and simplified investment platform. In doing so, it directly improved the potential for greater financial wellness on the part of participants by making investing decisions easier.
To that end, KDC:
   a) Eliminated the Tiers approach;
   b) Removed duplicative investments, unutilized asset classes, and underperforming funds;
   c) Reduced participant fees;
   d) Diversified participant accounts; and
   e) Implemented a new, digital Investment Guide empowering participants to make informed investment decisions.

To reach this state of improved financial wellness, four key goals were established during the deliberation and execution process:

1) Simplify investment options
   The Tiered Investment approach that had been in effect for a decade was eliminated. While the Tiered approach was initially implemented to help participants differentiate and select funds by focusing on categories such as asset allocation, passively managed, actively managed, and specialty funds, the approach was not wholeheartedly embraced. Actions taken included:
   - Reduction of the number of available investment options;
   - Elimination of poorly utilized funds (<2%AUM);
   - Consolidation of the Small and Mid-Cap category to an extended SMID Cap category, which includes both value and growth options, thereby reducing risk of investments in funds with overlapping goals and objectives.

2) Reduce participant fees
   The new Investment options were designed to maximize the reduction of unnecessary fees by eliminating duplicative and/or cross purposed investment strategies. This realignment of the AUM afforded newly aggregated sums access to cheaper institutional class funds saving participants over $3 million; annually.

3) Reduce duplicative investment options to diminish risk
   Several growth funds replicated in multiple categories were replaced with a growth, blended and value fund in all investing categories, thereby generating potential for improved portfolio diversification.

4) Enable a simplified and consistent educational message
   Many in the industry are aware of KDC’s long-standing Spectrum of Investment Options publication that detailed investment options available through KDC, as well as other fund and asset category related information. This publication was retired after almost two decades in existence (having been updated over the years) in favor of a new, streamlined digital Investment Guide.

The new Investment Guide simply and more effectively guides participants through the investment selection process. A print version is also available, however the digital edition allows participants an improved review and selection experience, including links to fund prospectuses and online planning tools. Participants can screen share the digital publication in the virtual environment with Retirement Specialists (or vice versa), as well as view the publication on the device of their choice. The message and format of this new content is consistently utilized by KDC representatives, marketing publications and the participant website.
Timeline and Communications

October – December 2020  Establishment of a coordinated operations and communications plan

January 2021  Full-page overview of changes in Q4 2020 KDC newsletter

February 2021  Mapping notifications distributed to all 77,000 participants

March 16 2021  Mapping concluded, launch of digital Investment Guide with 3 Ways to Invest approach, multiple updates to other existing Plan communications and web pages

April 2021  Reminder of shift in Q1 2021 KDC newsletter
https://www.kentuckylevels.com/tcm/kentuckylevels/static/KDC_Newsletter_1Q21.pdf
Outcomes/Measurement:
- Reduced the number of available investment options from 31 to 25
- Participant fees were reduced by an estimated $3.2 million per year, exceeding KDC’s initial cost-savings goal.
- The new, digital Investment Guide has been embraced by both Retirement Specialists and participants because of the simplified approach and layout.

Application to other plans:
Every Deferred Compensation Plan across the nation undergoes periodic fund review and mappings to strengthen fund lineups, provide participants cost-savings investment options, and drive participant account holders to overall improved financial wellness. KDC acknowledges that the fund mapping in and of itself is not unique. What is unique are the following components that can be easily replicated by other plans of any size:
- KDC leadership recognition that significant change was warranted, not just with fund selections but in how investing is explained to employees and participants to drive successful outcomes. KDC’s positive evolution toward innovative services such as Auto Enrollment, Financial Planning/PRC services, and a focus on providing comprehensive service now delivers an individualized goal planned outcome to each employee.
- The KDC Board of Trustees made the tough decision to eliminate funds popular with investors in order to create a more holistic and modernized fund lineup that would drive the most viable cost-savings to participants.
- In order to effectively communicate with participants, KDC developed a new digital Investment Guide. This communication is also available in hard-copy publication format or pdf. The new Investment Guide conveyed the simplified lineup in an innovative and compelling manner, and in a format conducive to delivering effective communications during the pandemic when most employees continue to work from home. More importantly, the decisions made enabled a more consistent and simple method to communicate investment offerings across the KDC website, Retirement Specialists and publications (digital and print).
Supporting Collateral: (included within submission sections)

BEFORE

AFTER

Design your own investment strategy

Use our low-cost investment options that HDC has selected for overall value and ability to work together to help you keep your account diversified. As always, we're available to further explain these options.

<table>
<thead>
<tr>
<th>Category</th>
<th>Fund Name</th>
<th>P&amp;L</th>
<th>Expense Ratio</th>
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<tr>
<td>International</td>
<td>Growth</td>
<td>American Funds EuroPacific</td>
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<tr>
<td>All-Cap</td>
<td>Value</td>
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<tr>
<td>Whole</td>
<td>Wells</td>
<td>Vanguard Wellesley Income Fund</td>
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New Investment Guide (repeat link)
https://nationwidefinancial.com/media/pdf/NRM-19353M1-KY.pdf?_ga=2.42014437.1791593601.1618253155-1913658687.1571928967