

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;
- 2) Reduce participant fees;
- 3) Reduce duplicative investment options to diminish cost & risk;
- 4) Enable a simplified and consistent educational message in persistent fashion.

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

https://www.kentuckyplans.com/tcm/kentuckyplans/static/KDC_Newsletter_4Q20.pdf

Investment options enhancements coming First Quarter 2021

As shared in our Third Quarter 2020 quarterly newsletter (available at [kentuckyplans.com](https://www.kentuckyplans.com/tcm/kentuckyplans/static/KDC_Newsletter_3Q20.pdf)), enhancements to our available investment options will be made at the end of the First Quarter 2021. Our hope is that these changes continue to help you build a personalized investment portfolio that is most appropriate for your individual retirement goals.

Our ongoing investment review conducted as part of our responsibility to participants and the Commonwealth revealed an over-concentration in growth fund options, which can happen over time. The KDC Board of Trustees therefore decided to restructure the plan offerings to provide a more diverse investments menu with an enhanced structure.

Reduction in assessed investment fees

Combined, participants will save almost \$3.2 million per year

More of your contributions remain invested, working for you longer term

Less opportunity for investment risk

With fewer overlapping funds, your account has more potential to be diversified

Simplified lineup

We made it easier for you to select funds

What to expect

On or around March 16, 2021, several fund closures and the assets within these funds will be moved to different investment options. In addition, three new fund choices will be added to the Plans' investment lineup. A preview of the new fund lineup is featured below.

Closing funds include

- Vanguard Small-Cap Index Fund
- Fidelity Contrafund
- AMG GWM Small-Cap Core Fund (Class Z)
- Vanguard Mid-Cap Index (Inst)
- PMCO All Asset Fund (Inst)
- Vanguard Total International Stock Index Fund (Inst)
- DFA International Small Company Fund
- Vanguard Inflation Protected Securities Fund (Inst)
- Aberdeen Emerging Markets Fund (Inst)

No action on your part is required

If you have assets in or are making deferrals into a modified fund, the appropriate changes will automatically occur and can be viewed on your KDC online account ([kentuckyplans.com](https://www.kentuckyplans.com/tcm/kentuckyplans/static/KDC_Newsletter_4Q20.pdf)) or your First Quarter 2021 statement. And, as always, you have full control over your investment selections and can make changes at any time.

LARGE CAP		
Growth Fidelity Growth Company (FGFCX - change to share class K)	Core Vanguard Institutional Index (VIOGX)	Value NEW JPMorgan Equity Income (OIEJX)
SMALL-MID (SMID) CAP		
Growth T. Rowe Price Mid-Cap Equity (PMEDX)	Core NEW Vanguard Extended Market Index (VEMPX)	Value NEW Principal Small-MidCap Dividend Income Fund (R6) (PMIDHX)
INTERNATIONAL		
Growth American Funds EuroPacific (EROPX)	Value Dodge & Cox International Stock (DOOPX)	

VANGUARD TARGET RETIREMENT FUNDS

Retirement Income (VIRIX)	Retirement 2040 (VIRXK)
Target Date: 2030-2040 and prior years	Target Date: 2030-2040
Retirement 2015 (VITVX)	Retirement 2045 (VITLX)
Target Date: 2015-2016	Target Date: 2041-2045
Retirement 2020 (VITWV)	Retirement 2050 (VITRLX)
Target Date: 2016-2020	Target Date: 2046-2050
Retirement 2025 (VIRVX)	Retirement 2055 (VIVLX)
Target Date: 2021-2025	Target Date: 2051-2055
Retirement 2030 (VITWV)	Retirement 2060 (VIVLX)
Target Date: 2026-2030	Target Date: 2056-2060
Retirement 2035 (VITVX)	Retirement 2065 (VIVFX)
Target Date: 2031-2035	Target Date: 2061-2065

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

Investment Guide
Plan your path to financial wellness

Kentucky Deferred Comp makes it easy to select funds

We continually evaluate the options available through our funds lineup to find asset classes that are appropriately represented. That way, you can select funds based on your personal needs (diversification and exposure to diversification, as well as the level of market risk you're willing to accept).

Three ways to invest:

- Help me do it:** Vanguard Target Retirement Funds
- Do it myself:** Your own strategy
- Do it for me:** Nationwide Professional

Call us if you have questions >

Help me do it

Vanguard Target Retirement Funds

- Vanguard Target Retirement Funds are designed for investors who want to make money grow over a retirement age of 40.
- The mix of stocks, bonds and cash equivalents in the portfolio are automatically adjusted over time.
- Investors can select an anticipated year of retirement and the funds will automatically adjust the asset allocation.
- For investors who want to consider a fund more appropriate to their specific anticipated retirement date or location.

Retirement Income	Retirement 2020	Retirement 2025	Retirement 2030	Retirement 2035	Retirement 2040	Retirement 2045	Retirement 2050	Retirement 2055	Retirement 2060	Retirement 2065
Target Date: 2015-2016	Target Date: 2016-2020	Target Date: 2021-2025	Target Date: 2026-2030	Target Date: 2031-2035	Target Date: 2036-2040	Target Date: 2041-2045	Target Date: 2046-2050	Target Date: 2051-2055	Target Date: 2056-2060	Target Date: 2061-2065

How Vanguard Target Retirement Funds work

As noted above, a Target Date Fund's portfolio gradually becomes more conservative as you approach the target date. This is called a glide path, depicted in the image below.

April 2021

Reminder of shift in Q1 2021 KDC newsletter

https://www.kentuckyplans.com/tcm/kentuckyplans/static/KDC_Newsletter_1Q21.pdf

Other related publications updates



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.

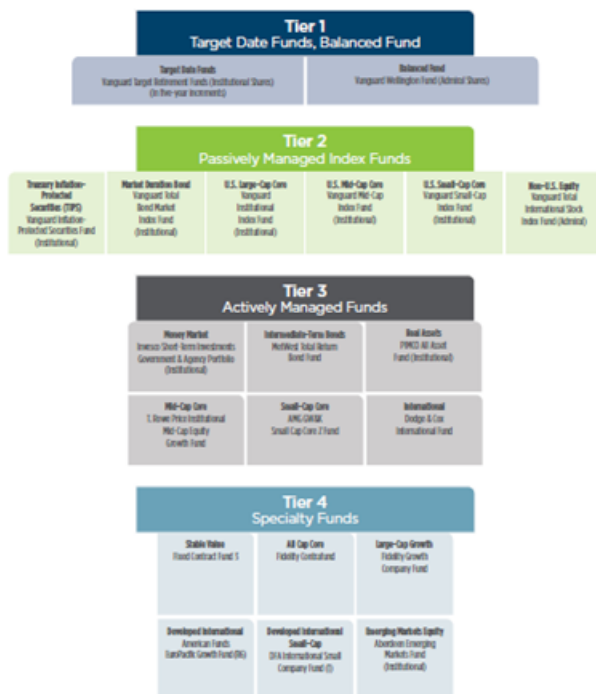
Application to other plans:

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 KDC 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.

INTERNATIONAL		
Growth American Funds EuroPacific Ticker: (RERGX) Operating expenses: 0.46%	Value Dodge & Cox International Stock Ticker: (DODFX) Operating expenses: 0.63%	
SMALL-MID (SMID) CAP		
Growth T. Rowe Price Mid-Cap Equity Ticker: (PMEGX) Operating expenses: 0.61%	Blend Vanguard Extended Market Index Ticker: (VEMPIX) Operating expenses: 0.04%	Value Principal Small-MidCap Dividend Income Fund (R6) Ticker: (PMDHX) Operating expenses: 0.79%
LARGE CAP		
Growth Fidelity Growth Company Ticker: (FDGRX) Operating expenses: 0.45%	Blend Vanguard Institutional Index Ticker: (VIMI) Operating expenses: 0.02%	Value JPMorgan Equity Income (R6) Ticker: (OIEJX) Operating expenses: 0.47%
STABLE VALUE	BONDS	BALANCED FUND
Fixed Contract Fund 3 Operating expenses: 0.35%	Vanguard Total Bond Market Index Ticker: (VBTLX) Operating expenses: 0.04% MetWest Total Return Ticker: (MWTSX) Operating expenses: 0.38% Invesco Gov't Short-Term Ticker: (AGPXX) Operating expenses: 0.16%	Vanguard Wellington Fund Ticker: (VWENX) Operating expenses: 0.17%

New Investment Guide (repeat link)

https://nationwidefinancial.com/media/pdf/NRM-19353M1-KY.pdf?_ga=2.42014437.1791593601.1618253155-1913658687.1571928967