2022 NAGDCA Leadership Awards
Plan Design & Administration
Alameda County, CA

Income Replacement Study: *Using accurate individual-level participant income replacement projections to optimize plan design*

Plan Profile

Alameda County offers employees a 457(b) voluntary savings program to supplement their defined benefit plan. Certain employees are also eligible to participate in a 401(a) defined contribution plan.

The County partners with Empower (formerly Prudential) to provide plan recordkeeping and administration, as well as two local firms to provide to onsite participant services. Retirement Plan Advisors (RPA) serves as the County's plan consultant and investment advisor.

~$1 billion
in plan assets
9,400
active employees
5,379
actively contributing
8,505
total accounts

Background Information

The County has the aspirational goal of 100% of its long-term employees achieving a financially secure retirement, but no comprehensive study had been conducted combining the defined benefit and deferred compensation programs. Without actual data identifying potential income replacement gaps, the County was limited to educated guesses on optimal plan design and participant service delivery.

Goals

Alameda County set out to conduct a detailed income replacement study to gain a truly accurate picture of the retirement readiness of its active workforce. The County aimed to use the findings to match the 457(b) and 401(a) plans' investment offerings and participant services to actual employee circumstances, directly impacting and improving the financial health and retirement readiness of County employees.

In Their Own Words

Per Henry Levy, Alameda County Treasurer and Tax Collector:

> *We want to help every employee achieve a financially secure retirement, and we have the data to figure it out. By conducting a detailed retirement income replacement study, down to the individualized level, we were able to identify the most efficient way to positively impact our participants' future financial security!*

Premise

Alameda County, California covers much of the East Bay area, including the cities of Oakland and Berkeley. County employees participate in the Alameda County Employees' Retirement Association (ACERA) pension program. The County offers a voluntary 457(b) plan as a supplemental retirement savings option. Given the extremely high regional cost of living, the County is concerned about retirees' ability to maintain their standard of living throughout retirement. Does the combination of the ACERA pension and voluntary 457(b) savings achieve reasonable employee retirement outcomes? Are employees saving enough? Are they investing in a way that will help them achieve a timely, comfortable retirement?

Further, research confirms that plan participants do not manage their investments well on their own and benefit greatly from professional "do-it-for-me" solutions, such as Target Date Funds (TDFs) and Managed Accounts. But there are so many options in the marketplace. Which is best? And for whom? Under what circumstances?

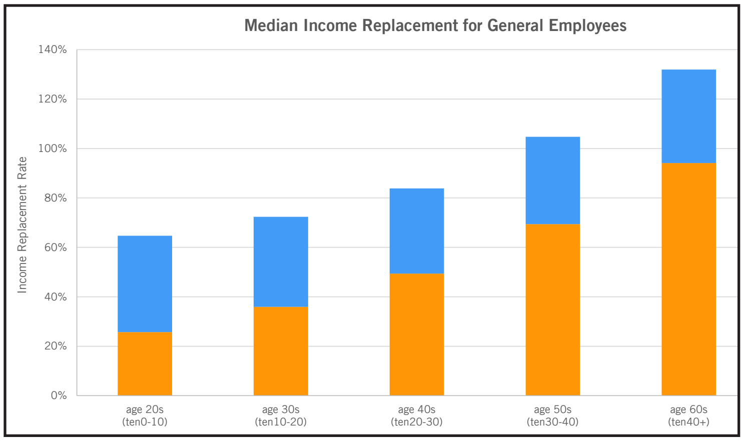
Without quantifying the actual employee income replacement gap, there is no way to answer these questions.

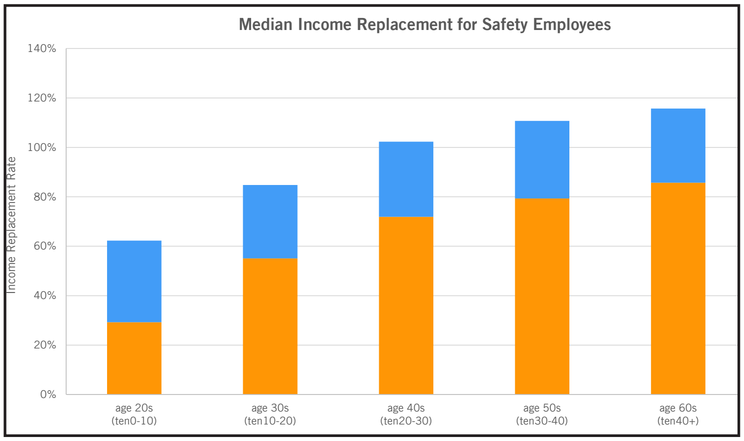
Income Replacement Study

Alameda County, in conjuction with plan consultant Retirement Plan Advisors (RPA), set out to conduct a detailed income replacement study of all active County employees to accurately identify the current state of their retirement readiness. The County's ultimate goal was to use the findings to implement effective solution(s) to **immediately and positively impact employee retirement outcomes**. Work began on the project in early 2021 and was completed in Fall 2021 (*see Project Design and Timeline, pg 5*).

Findings

- ACERA pension benefit alone delivers income replacement goal for ***career employees at retirement age*** (65 for General, 55 for Safety)

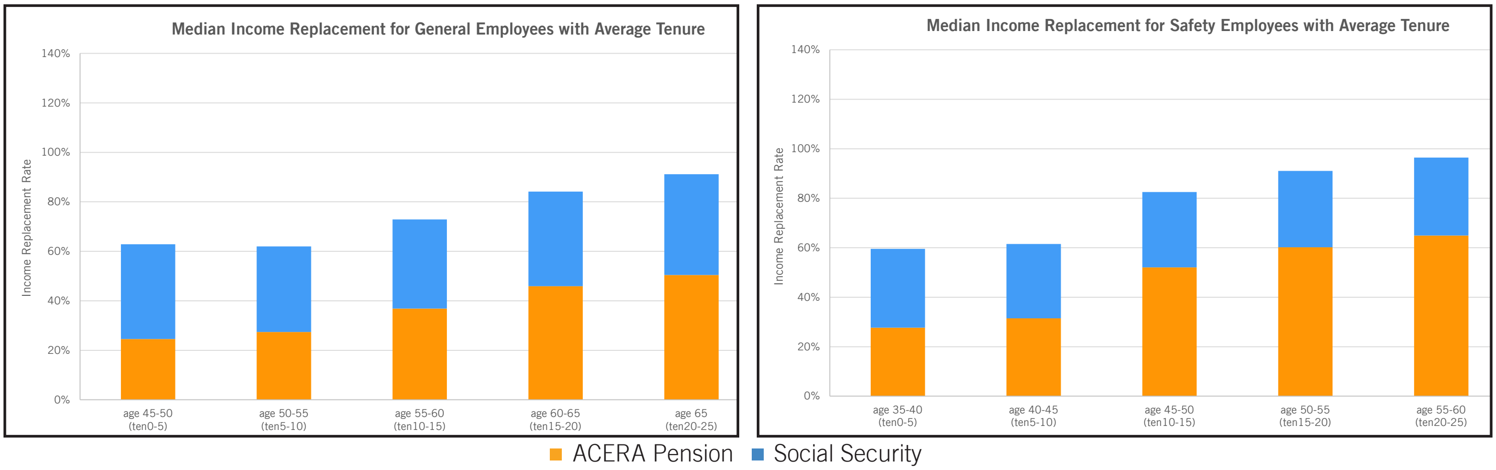




ACERA Pension   Social Security

Source: Allspring Global Investments analysis of ACERA demographic data

- ACERA pension benefit plus Social Security delivers income replacement goal for ***average employees with 20 years tenure at retirement***



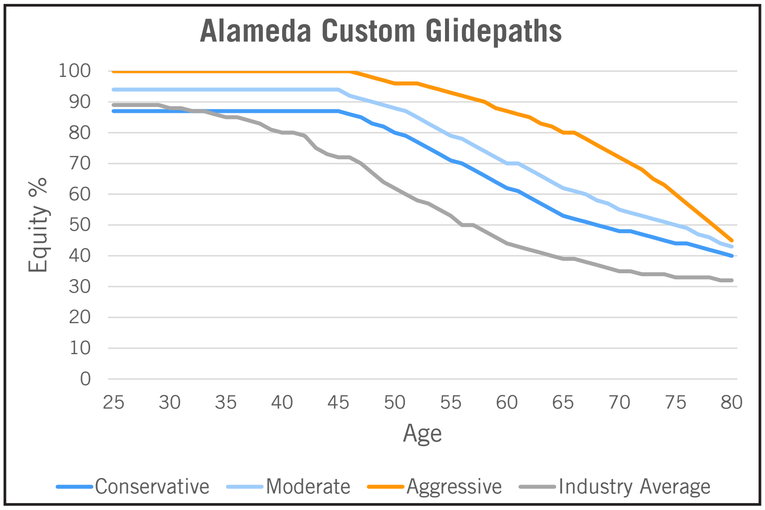
Source: Allspring Global Investments analysis of ACERA demographic data

Given the established income floor provided by ACERA pension and Social Security, our focus switched to identifying the maximum utility for the 457(b) compensation benefit.

Plan Enhancements

Currently, **the plans' "do-it-for-me" solution has $236 million in assets with 51% of active participants and 92% of new enrollments.** Participants' established income floor allows for higher equity allocations throughout the glidepath with little additional risk to core employee retirement security. And, the higher equity allocations create the opportunity for greater wealth accumulation and retirement income.

Off-the-shelf TDF series glidepaths simply do not account for the established income floor County employees enjoy. As a result, they don't sufficiently help employees maximize the utility of their voluntary retirement savings. Therefore, together with existing partners, the County developed and implemented a custom "do-it-for-me" solution at no additional cost to plan participants. The new allocations and glidepaths immediately impact all participants in the "do-it-for-me" solution, significantly raising their projected retirement assets and income.

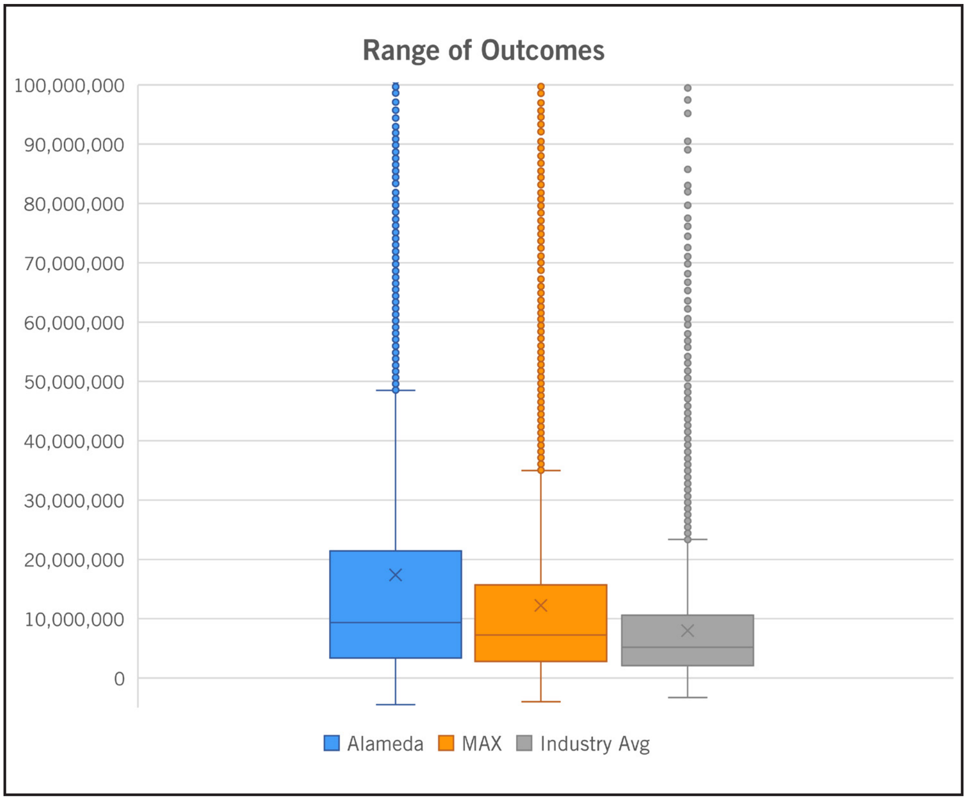


Source: Retirement Plan Advisors, LLC

Box and Whisker Plot (*right*): To confirm the validity of the higher equity allocation glidepaths, RPA ran 10,000 Monte Carlo simulations.

50% of simulated outcomes occur within the boxed area, with the lines above and below each showing the distribution of the remaining half: 25% above and 25% below.

Simulation assumptions: $5,000 contributed per year starting at age 24 until age 62, then withdrawing $3,500 per month.



Source: Retirement Plan Advisors, LLC

Conclusions

- Median account balance at life expectancy is 80% higher with Alameda County glidepaths vs. industry average
- Likelihood of running out of money:
  - At age 80: 4.2% County glidepath vs. 3.5% industry average glidepath
  - At age 90: 6.3% County glidepath vs. 6.5% industry average glidepath

Other Governmental Plan Feasibility

- Alameda County pension benefits and employee demographics are not that different from those of other governmental employers – even much smaller plans with less than $100 million in assets.
- Governmental plans with similar pension formulas can use our results to better choose their plan's "do-it-for-me" solution without allocating the resources to fund an income replacement study.

Project Design and Timeline

First Quarter 2021 - Project Design, Data Collection, and Integration

Starting premise: Employee retirement outcomes are a function of an individual's voluntary savings rate and their underlying investments combined with their employer-funded benefits and Social Security.

- Pulled key data from payroll for all active employees (salary, DOH, DOB, etc.)
- Individual pension calculations from ACERA, the County's Defined Benefit plan
- Participant 457(b) and 401(a) account data from Prudential
- Combined data into a single anonymous data set

Second Quarter 2021 - Income Replacement Study

The County leveraged its relationship with several asset managers – *Allspring, BlackRock, Capital Group, Morningstar,* and *PIMCO* – to calculate the individual income replacement ratio for all active employees using the following assumptions:

- Assumed rate of return while working: 6%
- Assumed rate of return in retirement: 5%
- Assumed inflation rate: 2.75%
- Salary growth rate: 0.50%
- Life expectancy: ACERA mortality tables

Third Quarter 2021 - Alameda's Custom "Do-It-For-Me" Solution

- Based on asset levels and participation rates, the County identified its current "do-it-for-me" solution as the most impactful plan feature to re-evaluate based on the income replacement study's findings.
- We undertook a detailed study of available "do-it-for-me" investment solutions to confirm the optimal solution for County employees.
- Off-the-shelf solutions are designed for the average American worker with no defined benefit plan – not a good match for County employees.
- Custom asset allocation models with glidepath features (36 separate vintages) and three separate risk tolerances provide personalization at no additional cost to participants.