NAGDCA 2016 – CONFERENCE HIGHLIGHTS

The annual conference for the National Association of Government Defined Contribution Administrators (NAGDCA) was recently held in Denver, CO. The conference provides an excellent opportunity to learn from key Washington personnel what is happening on the legislative, regulatory and IRS audit front and to also hear from industry experts and peers about their best practices. Each year SST Benefits Consulting (SST) sends to our clients a summary of the key conference issues and recommendations.

(*Conference presentations are currently on NAGDCA's website (www.nagdca.org). We encourage you to take time to view the presentations.*)

KEYNOTE SESSION

This year, the conference opened with a presentation on "Communications Success". The session recommended focusing on what is important in communication, effectively, clearly and concisely and most importantly positively (what we can do optimally).

Words matter but it is less critical what you "say" than what your recipients "hear". It is not the rational that impacts us but the emotional. In study after study, where individuals would "dial up" or "dial down" how positive they were about what they were hearing, 80% focused on how they feel, 20% on what they think.

From this experience, there are four "Ps" that count: people, plausibility, plain English and personal. Regarding people, most selling is based on fear which may be successful but is hardly desirable. "Don't manage investment inflation or market risk" but rather the potential opportunities for growth.

The audience was asked what study respondents disliked the most – fees, commissions, charges or costs. A total of 53% disliked the term "fees". Audience members were given nine cards offering two alternative ways to express an idea or recommend an action. Out of the NAGDCA audience of approximately 1,000 attendees, only five (5) individuals correctly identified sample audience preferences. It is important because of this research to "lead with what something does, not what something is".

This session closed with what communicators should seek. "It's easy to make investing look hard; it's hard to make investing look easy." In the challenging world of communication, the personal expression, in plain English, of what is plausible will most successfully move people.

GENERAL SESSIONS

There were a number of general sessions throughout the conference. Below is a summary of the key remarks and recommendations in these sessions.

Legislative Update / Advocacy

The Monday session featured the traditional **Legislative Update.** Susan White and Jon Sheiner from NAGDCA's Legislative Counsel, Susan White & Associates, discussed current and prospective legislative activity including:

1. Susan reported that the congressional resolution naming National Retirement Security Week would soon be introduced and passed.

2. Susan also identified NAGDCA's priorities to include continued preferred tax treatment of 457 plans rather than the equal treatment often sought by Congress, an equalization of Requirement Minimum Distribution (RMD) rules to either treat 457 plans like outside Roth IRAs or eliminate the special treatment of Roth IRAs which forces people out of plans in order to gain the preferred treatment. Congress did not address elimination of the "first day of the month" rule which would allow individuals to enroll at any time in the month prospectively. In an election year, neither the President's nor the Speaker's budget proposals are likely to gain much ground. Because there has been no Appropriation Legislation, Congress is likely to extend appropriations without change, possibly until late December.

3. Jon spoke to the new Fiduciary Rule which would require anyone offering investment services to "put the investor first" in rollovers or advice counseling or divesting. The rule would not cover investment advice within 457(b) plans nor rollovers from one 457(b) to another 457(b) plan. It would apply to anyone recommending rollouts from a 457(b) plan. This might reduce the number of individuals who pursue high-balance retirees with suggestions that a rollout of their funds might be preferable. ***(SST will be revising its Rollout Checklist Form to inform a retiree who is considering a rollout that the individual providing that recommendation is now a fiduciary who must act in their best interests. The timing of this new form will coincide with final approval of the DOL's Fiduciary Rule which is expected to be April 10, 2017.)*** Although it is expected that the SEC will also issue fiduciary rules, no timeframe has been communicated.

4. Susan and Jon also focused on a section regarding advocacy which was frankly largely irrelevant to the group since most public sector organizations refrain from political advocacy.

Regulatory Potpourri

The Regulatory Update this year was covered by two Hanson Bridgett legislative / regulatory attorneys from a private sector firm. There was no IRS or DOL presentation.

Much of this session covered either the new proposed Regulatory rules or the DOL fiduciary requirements.

In June, new proposed regulatory rules were introduced to address issues that remain from the 2003 regulatory changes. Organizations have 90 days to respond and an open hearing is scheduled for October, 2016 after which final regulations will be issued. The rules cover what is included in income, what amount is includable and what ineligible severance pay structures are arranged. Though not mentioned in the presentation itself, but rather in response to a question from the audience, these rules do not impact 457(b) severance structures or issues. A future ***News and Views*** will clarify the final regulations as ultimately written.

Regarding the DOL rules on fiduciary duty, the speakers offered that ERISA rules vs. State rules create fiduciary duty but that the meaning is often different and would benefit from conformity and clarification. It appears that any advice about distribution from a 457(b) plan to an outside IRA plan would constitute a “recommendation” and would therefore be covered by the new rule. Plans should be prepared to notify their participants about these changes so they can confirm that outside parties recommending rollout acknowledge their new fiduciary status by virtue of their recommendation.

The speakers also indicated that a number of states have enacted legislation specifically to allow automatic enrollment despite garnishment rules (which normally prohibit automatic enrollment). They discussed the specific difficulties that multi-provider plans have in establishing automatic enrollment as it is not clear what process will be used to determine which of the providers will be the recipients of automatic enrollments or the process plan sponsors can follow to determine which provider is most appropriate.

This session re-enforced the earlier Legislative Update to confirm that the “first day of the month rule” would not be changed, that the 10% penalty / early distribution would not apply to safety personnel in their health premiums and that the preferential treatment of 457(b) plans (e.g. no expansion of 10% qualified plan to 457(b) plans) would be maintained without change.

This session also covered the Tribble vs. Edison case which established the principle that plan sponsors have an <u>ongoing</u> duty to monitor investments, distinct from the duty regarding <u>selection</u> of investments. Also, the recent lawsuits filed against several high-profile private universities because they had multiple providers are likely to portend greater support for sole provider plan designs.

Reimagining Investment Success

This session opened with a summary of seven major economic trends that are changing the environment in which we are investing:

1. Widespread liquid asset poverty. 42% of Americans do not have sufficient liquid assets to cover three month’s worth of expenses.
2. Rising income volatility which is more problematic for those in poverty who experience twice as much volatility as those above the poverty line.
3. Growing racial wealth gap where Caucasians and Orientals are gaining greater wealth compared to Hispanics and Blacks.
4. An expanding 1099 economy where 10% of population does not have traditional benefits covering health and retirement benefits.
5. Growing use of educational debt which particularly impacts 35-40 year olds.
6. Delaying household formation as an increasing number of younger individuals defer purchasing a house, marrying or having children.
7. Increased longevity with five generations of individuals in the workforce.

The presentation also identified the period from 1984 to 2014 as a period of growth far above the long term average, led by U.S. equities. At present, we have the longest bull market since 1942 at 7.1 years. The options, however, are significantly different. In 1990 fixed income was at 8%; today it is under 2%. Bonds and cash are equally ineffective which is likely to force investors into more aggressive options with higher volatility and lower returns.

There is a growing disparity between individuals and institutions in their financial behaviors specifically as it relates to the timing of increasing or decreasing allocations to equities. The chief threats to retirement security increasingly are coming from the health and long-term care arenas. Also, unrealistic expectations are prevalent: 64% of today's investors expect 9.5% returns in 2017!

The speakers recommended five strategies to combat the adverse impact of these trends.

1. Expand access to workplace savings to individuals who currently have no workplace access.
2. Create a "soon" savings vehicle to allow individual access in emergencies.
3. Provide assistance with financial wellness tradeoffs.
4. Expand auto enrollment and escalation.
5. Offer packaged institutional investments with longer horizons, more passive investments and diversified liquid alternatives.

Guided to Success

This session was an experiential attempt to get the audience to use more "right" brain activities to free up the mind from an excessive amount of "left" brain information overload which is nothing more than the "landfill of other peoples' ideas". Experience excels over information in its impact on our lives and its retention in memory. The speaker recommended that all the exercises that were offered represent "two feet in and playful out".

Saying any more about this session would violate its purpose. Those who were there know what this means.

Technology & Engagement

The speaker contended that the world is moving to a visual age where writing will diminish and we will reach people through visuals, including hieroglyphic imagines. Imagines are the new headlines, using Aristotle's belief that "we cannot think without images". Because of images' greater capacity to tell a story, words will ultimately be replaced. One suggestion was that authors reduce their words by 75% to achieve comparable understanding. (Reader: aren't you happy that we have already applied that standard to this NAGDCA Highlights summary?)

The speaker emphasized the importance of interactive educational material, the use of color, charts, layouts and multiple images to better describe our portfolio summaries.

CONCURRENT SESSIONS

SST covered all concurrent sessions that were open to Industry members and we have provided summaries below. A few breakout sessions were open only to government members, so we are unable to provide summaries for those sessions.

Retirement Readiness

This breakout session covered four areas: financial capability (literacy), big data (plan specific), behavioral economics and measuring the success of creating a secure retirement.

Regarding financial literacy, the speaker advocated starting early by training teachers to cover financial topics in school. Essential to success of improving financial literacy is having young children and adults alike learning terms like compounding, credit, savings, debt, dollar cost averaging, long-term vs. short-term investing, correlations, etc. There is a clear correlation between education and indebtedness and it is essential to assure that individuals build a strong base for financial assets. Plan sponsors can be most effective if they keep information short, simple and in small pieces that can be easily consumed and understood.

Regarding big data, we need to create a savings culture where our outreach is personalized and provides peer recognition and support. We need to combine data from all pension plan sources and all income. The purpose of the data should be to create a goal for individuals and use both knowledge and high touch to achieve success.

On behavioral economics it is important to understand how our participants make their decisions. We need to connect them to their “older self” (many mobile applications are available to “age an individual”). Simple “tricks” like organizing lists which start with what is most optimal to least optimal. We can influence behavior most effectively by establishing personal relevance, triggering emotional reactions, defining clear choices which create value and channeling individuals to the best resources.

In measuring success, the speaker advocated the use of active choice or auto enrollment / escalation to create an appropriate level of both participation and contribution. It is important to document the size of accounts, how they are different or similar to other accounts and how they impact our confidence in making sure we have sufficient retirement assets. We need to more effectively link these characteristics with employer recruitment and retention strategies and overall benefit to local economies. Plans need to target participants more carefully based on age, gender, income level and ethnicity.

In or Out

This session focused on strategies to minimize rollouts from plans. Studies indicate that most rollouts occur within the first year after retiring. There is a 92% retention rate if retirees have remained in the employer sponsored plan for two years. The City of Plano has used reports on balances and contributions to distinguish employees from retirees. Concerning retiree balances, their top 20 accounts represented 60% of all assets, so they concentrated on individuals with high balance accounts to focus on for service and support. They offer special retiree-only sessions where information is made “fun”.

The City of Anaheim attempted to minimize rollouts by raising awareness, educating participants on their choices and establishing relationships. If individuals are adamant about taking funds out, they are encouraged to leave some funds in the plan in case they want to return. They have a mandatory RHSA plan and use that requirement to put forth their voluntary 457 plan. They meet with every person who is leaving and every person contemplating a rollout. These strategies have provided them with 98% retention in their plan.

Wellness Parallels

Most employers have wellness programs that offer programs to encourage and support healthy lifestyles. This session described several successful programs that were built following an analysis of key health indicators of the employees. The employers looked at the workforce's body mass index, blood pressure, tobacco use and cholesterol and developed programs and strategies to make improvements in each area. They offered several incentives for employees to participate and the results were overwhelmingly positive after the first year and beyond.

Parallels between wellness and retirement programs can be easily drawn. For example, when looking at a retirement savings program, one might quantify participation in terms of total employees actively contributing, average contribution amounts, average account balance, and diversification of investments. If, for example, there were low contribution rates, strategies to encourage employees to increase their contributions could be developed. Perhaps an education program that helps employees determine their retirement income needs, and therefore, how much they should be contributing, could be implemented. In this example, it would be important to measure average contribution rates after the program was in place to determine whether contribution rates had increased.

Cyber Security Success

The State of Colorado uses technology to minimize security threats. It is essential to start with a clear plan and objectives, to focus on all policies and procedures and to gain complete support from senior personnel. People still represent the most significant threat to security. Even the most effective systems will be less successful if all personnel do not fully adhere to policies and procedures. Ideally, a single person is responsible for security and one of the first tasks is to tier individuals based on their access and what they absolutely need to know. Then an organization may assess its administrative, technical, physical and personnel risks.

Microsoft and Coal Fire Security were used as examples of how to approach security by establishing a goal for the business and assessing the threat landscape. Microsoft identified types of attacks (ransomware, identity thief, etc.). For NAGDCA members, the greatest threat is probably money. It is no less important to detect and contain threats that have already occurred and not focus exclusively on avoidance. In most organizations which seriously tackle security threats, an average of 7-10% of the budget is allocated to the task.

The SPARK Institute is an association of record-keepers including all major providers who are trying to find a uniform, united approach to security. Currently, industry RFPs often contain questions about how providers are securing their information. Provider responses in RFPs are problematic as these are often public documents which can provide potential hackers with information on how these systems can be compromised. The Institute has created a Board and oversight committee to focus on a process where providers can obtain certification of the effectiveness of their systems without having to identify them in public documents. The Institute hopes to bring this certification to the industry in the near future.

Game On

Game On was a session about measuring the success of communications and outreach to plan participants. Having a record-keeping system that can identify employees/retirees by gender and age can have targeted campaigns in an attempt to generate appropriate actions. For instance non-participants can be targeted with enrollment material; under contributing participants can be targeted to increase contributions; and those with inappropriate asset allocation can be targeted with asset allocation models or managed account solutions. While these campaigns might be more expensive, they work.

Drawing in millennials can be brought on by education through gaming or "gamification". Another feature that can be available is aging tools on the website whereby individuals can actually picture themselves at an older age, something hard for younger folks to do. Using electronic enrollment through iPads is effective and according to presenters received an 81% response rate and average deferral rates of 4.8%. Targeting individuals on social media like Facebook can also be very effective. While over 65% public sector employees don't have a desktop computer, almost all have a device that can engage with mobile apps.

Interpreting Investments

The State of Tennessee elected a Treasurer who developed the vision of educating all citizens (not just those in DC plans) on retirement security. The State created a Division of Financial Empowerment to develop videos and training programs for retirement, such as 529 programs, specifically the State's own DC plan and the expansion of education to teachers, almost 6,000 of whom have been trained in the K-8 classes to provide information on finance. The State has 329,000 employees and 139,000 retirees. Their DC plan covers 500 local government entities, The State's DB plan offers approximately 55% replacement of salary. In their DC plan they offer a 2% automatic enrollment and have 94% participation.

A hybrid DB plan which was implemented July 1, 2014 has a 5% mandatory employee and 4% employer contribution and a five-year vesting period. A maximum of 5% match is offered in the DC plan which has immediate vesting. Believing with Benjamin Franklin that "an investment in knowledge pays the best interest", the State has met with every stakeholder (Commissioners, School Administrators, General Assembly members, Executive Leadership and Department Heads) to assure the broadest expansion of this financial education of its citizenry.

Admin Hacks

The term Admin Hacks refers to simplifying plan administration and balancing planning, oversight, long term projects, daily tasks, communication and education. Presenters listed the Top 10 Admin Hacks (and one bonus):

#10 – *Engage Board/Committee* – maintain consistent and open communication. Follow best practices with regular meetings and detailed reports.

#9 – *Utilize industry vendor* – maximize consultants, record-keepers and third party administrators.

#8 – *Know your plan* – become your plan's expert and cheerleader.

#7 – *Prioritize strategy & outcomes* – annual planning meeting addressing contribution rates, participation rates and plan leakage.

#6 – *Good staffing is critical* – staffing plays a key role with good hiring and cross-training.

#5 – *Develop system efficiencies* – utilize online auto enrollment and auto escalation.

#4 – *Keep it simple stupid* – KISS, develop summary plan descriptions, encourage % vs. $ contributions and don't use jargon.

#3 – *Stay organized* – create an administrative guide and follow the plan document.

#2 – *Small steps, big projects* – work incrementally

#1 – *Educate yourself* – know the regulations, follow industry news (NAGDCA), best practices and networking with others.

And the bonus – *"Have wine at home"*

Creating a DC Plan

This interactive workshop allowed participants to respond to a series of questions in an effort to create the perfect DC plan design. Participant responses were recorded and then compared to NAGDCA's recent 2016 survey of DC plans. A total of 68 individuals participated in the workshops.

Respondents felt that plans should have an outside consultant, although the survey indicated that 17% of respondents do not use a consultant. A total of 93% of session respondents preferred a single to multiple provider although 58% of 2016 survey respondents indicated they had multiple providers! 77% of room respondents preferred fees to revenue sharing. The 2016 survey was close with 75%. Loans were preferred by 80% in the room but only 56% in the survey. 67% of room respondents thought auto-enrollment + auto escalation were preferable to auto-enrollment only or no automatic feature. 92% of room respondents preferred a match; the question was not posed in the survey. 63% of room participants preferred 15 or fewer investments (where TDFs are counted as one). The survey showed that 26% preferred 15 or fewer, 55% preferred 16-30 and 20% preferred 31+. A total of 87 room participants preferred TDFs as the default option; two thirds of respondents in the survey preferred that choice.

Slow and Steady Wins the Race

The presentor presented the components of expenses most retirees incur after they retire. 83% of income is spent on essential elements including housing, healthcare, food, and transportation while only 17% is used for non-essential items such as travel and entertainment. He reviewed the typical sources of income in retirement and emphasized that trends reveal a greater percentage of income will come from supplemental savings.

Financial planning switches gears in retirement to managing asset income streams which is a very different objective from accumulating assets.

A review of all the media preferences identified by participants for financial advice sources was provided. Pre-retirement employees and retired employees need a comprehensive resource that can provide a totally holistic approach to develop a personalized income plan. Today's retirement income can come from multiple sources; Social Security, defined benefit, defined contribution and personal savings. It can be difficult for participants to make sense of it all. By taking a holistic approach to retirement planning, you can help simplify the planning process from multiple moving pieces into one consolidated source. This session encouraged using tools to provide a coordinated retirement income projection from multiple sources into one easy to understand number for participants.

The key risk factors facing retirement plan were addressed. He pointed out that two additional risk factors – conversion risk and longevity risk – need to be considered when evaluating retirement plans' effectiveness in providing income replacement solutions. Conversion risk addresses how a retiree approaches utilizing savings accumulated in all their plans into appropriate income streams. Longevity risk addresses modeling those income streams in such a fashion to ensure sufficient retirement income throughout an increasingly long period of time in the retirement phase. New institutional retirement plan income options include a Guaranteed Minimum Withdrawal Benefit (GMWB) that feature access to funds at any time and lifetime income protection to participants.

2016 Survey Results

NAGDCA released a one-page summary of some of its 2016 survey findings. The full survey response is available on NAGDCA's website www.NAGDCA.org.

Contact Us

SST Benefits Consulting representatives will be available to clients and non-clients to discuss any of NAGDCA's conference sessions in more detail and the potential strategic opportunities they represent for public sector employers. Please contact us at (866) 443-1557 for more information.