



Agenda Item 11

March 19, 2013

ITEM NAME: Supplemental Income Plans Update and Strategic Review

PROGRAM: Supplemental Income Plans

ITEM TYPE: Information

EXECUTIVE SUMMARY

The Supplemental Income Plans (SIP) Update and Strategic Review (Attachment 1) presents an overview, summarizes the SIP strategic review process with findings, and provides next steps to implement plan enhancements.

STRATEGIC PLAN

The agenda item supports the California Public Employees' Retirement System (CalPERS) Strategic Plan to improve long-term pension and health benefit sustainability. The implementation of a strategic review with the resulting program and fund line-up changes will enhance the participant customer service experience and support retirement savings.

BACKGROUND

The SIP consists of the CalPERS 457 Plan, Peace Officers and Firefighters' (POFF) Plan, Supplemental Contributions Plan (SCP), and Placer County 401(k) Plan. Previously, the SIP Program reported directly to the Investment Office. On July 2, 2012, the SIP Program administration moved to the CalPERS Customer Services and Support branch, under the Customer Account Services Division, to better align employer and member customer service. The investment management remains in the Investment Office. The separation of duties enables SIP Program and the Investment Office to focus on their core responsibilities and expertise. However, the SIP Program and the Investment Office continue to collaborate on the administration of the plan and for program enhancements such as the fund line-up changes.

The SIP Program reports to the Pension and Health Benefits Committee, and is responsible for:

- Program design
- Knowledge of and implementation of laws/regulations for defined contribution plans
- Quality program services to the contracting agencies
- Designation of fund line-up
- SIP financial management: set participant fees to cover expenses
- Selection of Third Party Administrator (TPA)
- Oversight of participant services and administration/recordkeeping by TPA, currently provided by ING

- Process agency contribution files and participant contributions payment through my|CalPERS to ING

The Investment Office reports to the Investment Committee, and is responsible for:

- Implementing the fund line-up
- Investment management of internally managed funds
- Selection and monitoring of external investment managers
- Investment fund performance reporting to employers and participants

ANALYSIS

In early 2012, the Investment Office began a strategic review of the SIP Program design and fund line-up to gauge the value proposition and competitiveness of the CalPERS 457 Plan. RV Kuhns was hired to survey employers and members about their supplemental savings preferences, and to review the competitive environment for 457 plans. RV Kuhns summarized plan strengths and opportunities for recommended plan enhancements.

Plan strengths include:

- Institutional investment menu with custom Target Retirement Date Funds
- Priced competitively in the small employer market
- Fee transparency uncommon in competitors
- CalPERS brand is strong
- Education on pension and supplemental savings is highly valued by employers and members
- CalPERS 457 Plan offers a competitive product and is valued by employers and members

Plan opportunities include:

- Increasing frequency of customer service at employer sites relative to competitors
- Providing advice services and individual financial planning
- Increasing dedicated resources to gather new employer business
- Enhancing ING participant and employer websites
- Building staff resources and expertise in the unique, complex supplemental savings market
- Streamlining the Investment menu given recent behavioral finance research showing “Less is Better”

To address plan opportunities, the Investment Office and Customer Service and Support Branch implemented improvements to customer service and marketing, which consisted of:

1. ING providing all participant customer service with FINRA licensed representatives and developing a marketing plan for asset retention and growth.

2. Established an informal committee to review and revise the fund line-up.

Additional next steps include:

1. Update the fund line-up to a simpler menu and present investment policy changes at the April Investment Committee meeting with implementation in summer 2013.
2. Provide information on the Investment Fund Line-up Guiding Principles and proposed fund line-up at the April Pension and Health Benefits Committee meeting.
3. Continue to focus on improving employer and participant customer service in collaboration with ING.
4. Research legal considerations and advice services providers then return with recommendations to the Pension and Health Benefits Committee.

ATTACHMENTS

Attachment 1 – Supplemental Income Plans Update and Strategic Review

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