

Supplemental Income Plans Update and Strategic Review

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Investment Office
Affiliate Investment Programs
Customer Service & Support
Customer Account Services Division

Supplemental Income Plan (SIP) Update and Strategic Review

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Supplemental Income Plans (SIP) Overview

Plan/ Program	Purpose	Assets (millions as of 12/31/12)	Number of Participants (as of 12/31/12)	Number of Employers (as of 12/31/12)	Growth Trend
457 Plan	Tax deferred employee savings	\$ 1,003.7	25,527	730	↑
Peace Officers and Firefighters (POFF) Plan	Employer contributions for tax deferred employee savings	\$ 481.5	37,010	1	↓*
Supplemental Contribution Plan (SCP)	After-tax employee savings with earnings tax deferred	\$ 19.0	567	1	↓**
Placer County 401 (k) Plan	Tax deferred employee savings	\$ 23.9	878	1	→

* Plan termination likely in 2013

**Research being conducted by the Center for Innovation

Strategic Review – Why necessary?

In a rapidly changing competitive environment with the need for scale, CalPERS needs larger asset size, organizational commitment, resources and focus to be competitive in the long-term.

Need to gauge value proposition of the Supplemental 457 Plan in the long-term

- Does the program add value to members and employers?
- Is the product competitive in price and quality?
- Who are the target customers?
- Is the investment line up:
 - Built for participant ease of successful savings outcomes?
 - Does it address behavior finance research?
 - Is the performance as expected?

Final analysis is that we want to identify the value added by the 457 plan and identify opportunities that could help the plan be successful.

Strategic Review – What was the process?

1. In December 2011, R.V. Kuhns and Associates (RVK) was hired to assist in the strategic review
2. CalPERS provided a list of plan sponsors from the pension plan
 - RVK set up interviews with all plan sponsors willing to participate between January/February 2012
 - 19 agencies were interviewed
3. CalPERS provided a list of CalPERS members for RVK to survey
 - Surveys were distributed via email in January/February 2012
 - 159,592 members were solicited, 19,006 responded
4. RVK conducted research on 4 providers focusing on:
 - Investment Menu Design
 - Fees
 - Distribution and Marketing

Strategic Review – Who are the 457 Plan’s competitors?

- CalPERS primarily competes in the small plan market

Plans by Asset Size Segment (Industry Standard)	CalPERS 457 Participating Agencies
Micro < \$1 Mill	544
Small \$1 Mill - < \$10 Mill	164
Mid \$10 Mill - < \$100 Mil	18
Large \$100 Mill - < \$500 Mill	0
Mega > \$500 Mill	0

- Top Competitors in the small plan market – ICMA, Nationwide, Lincoln, Valic, Great West
- Competitive Value Proposition: **Customer Service and Advice**
 - 6-12 Licensed Participant Service representatives
 - Certified Financial Planners
 - Dedicated New Agency Marketing Managers

- Costs range:

CalPERS	IMCA	Nationwide
35 - 98 bps	43 - 132 bps	42 - 145 bps

- The industry is consolidating, requiring larger scale to be competitive

Strategic Review – What are the findings?

CalPERS Supplemental 457 Plan Strengths

1. Institutional investment menu with custom Target Retirement Date Funds
2. Priced competitively in small employer market
3. Fee transparency uncommon in competitors
4. CalPERS brand is very strong
5. Education on pension and supplemental savings is highly valued by employers and members
6. CalPERS 457 Plan offers a competitive product that is valued by employers and members

CalPERS Supplemental 457 Plan Opportunities

1. Increasing frequency of customer service at employer sites relative to competitors
 - One-on-one appointments
 - Educational presentations
2. Providing advice services and financial planning
 - Highly valued by employers and members
 - Offered by competitors
3. Increasing dedicated resources to gather new employer business
4. Enhancing ING participant and employer website
5. Building CalPERS staff resources and expertise dedicated to the unique, complex features of DC plans
 - Compliance/legal
 - Plan administration
 - Competitive environment
 - Member educational expertise
6. Streamlining the Investment menu given recent behavioral finance research showing “less is better”

Strategic Review – What are key questions to ask?

1. Is the product good?

- Survey says it is a high quality, institutional product with low costs in small employer market
- Employers and members think positively of product
- Custom Target Date Funds are uniquely customized for public employees
- Yes, the product is good.

2. Is there a need?

- Small/mid size employers have poor options with competitors (high cost, proprietary investments)
- Younger participants need savings alternatives given pressure on pension benefit formulas
- With recent pension reform, CalPERS may offer supplemental plan for capped pension benefits
- Yes, there is a need.

3. Can CalPERS be a competitive provider?

- Survey shows CalPERS has limited marketing and customer service compared with competitors
- Competitive environment is changing with the need to build scale to keep cost down
- Must aggressively market program to keep up with environment or loose assets and scale
- Regulatory environment appears to be getting more complex with increasing expectations on plan sponsors/administrators
- Maybe, dependent on the resources and ability to keep cost low

Strategic Review – What actions have been taken?

- **Moved SIP customer service to Customer Service and Support**
 - Leverage CalPERS customer service activities
 - Support for SIP MyCalPERS implementation

- **Enhanced participant customer service with ING**
 - Directed ING to hire FINRA licensed representatives with defined contribution expertise (Completed)
 - Developed and began implementing marketing plan for participant customer service and asset retention (Completed)
 - Measurable goals:
 - Increase enrollment and assets
 - Asset retention
 - ING Marketing Plan Goals monitored Quarterly and Annually

- **Initiated fund lineup review**
 - Created an informal committee to provide input
 - Hired RV Kuhns
 - Provide industry fund lineup best practices
 - Refresh the Target Date Funds investment policy
 - Drafted fund lineup guiding principles

- **Developed SIP oversight plan**
 - Identified oversight responsibilities
 - Identified key contributors

SIP Oversight Responsibilities

Category	Item	Oversight Owner	Contributors/Reviewers
Compliance	<ul style="list-style-type: none"> • Disclosure to participants and employers, • Define contribution laws and regulations 	<ul style="list-style-type: none"> • CASD 	<ul style="list-style-type: none"> • OERM/ LEGO
Financial Management	<ul style="list-style-type: none"> • Budget and Trust Reserve Oversight • Paying expenses • Product Pricing/Participant fees 	<ul style="list-style-type: none"> • CASD 	<ul style="list-style-type: none"> • FINO
Contribution Processing	<ul style="list-style-type: none"> • my CalPERS interface with ING 	<ul style="list-style-type: none"> • CASD 	<ul style="list-style-type: none"> • OERM/ FINO
ING Contract Oversight	<ul style="list-style-type: none"> • Administration/Recordkeeping • Customer Service, Education and Communication • Employer/Participant Websites, Forms and Documents 	<ul style="list-style-type: none"> • CASD 	<ul style="list-style-type: none"> • OERM/ LEGO
Investment Fund Lineup	<ul style="list-style-type: none"> • Define guiding principles and investment menu design (e.g., # of funds and type) • Manage investment governing body 	<ul style="list-style-type: none"> • CASD 	<ul style="list-style-type: none"> • INVO
Investment Implementation	<ul style="list-style-type: none"> • Fund selection and monitoring • Performance evaluation and reporting • Fund Fact Sheets for participants 	<ul style="list-style-type: none"> • INVO 	<ul style="list-style-type: none"> • CASD/ OERM/ LEGO
Employer Contracts	<ul style="list-style-type: none"> • Plan Adoptions/Agreements • Client Relations/Marketing • Employer meetings/presentations 	<ul style="list-style-type: none"> • CASD 	<ul style="list-style-type: none"> • LEGO/ INVO/ ING



Next Steps

Investment Fund lineup – reporting to Investment Committee

- Recommend SIP and Target Retirement Date funds investment policy changes
- Develop asset transition plan with CASD and ING

Strategic Review – reporting to the Pension and Health Benefits Committee

- Provide information on the Investment Fund Line-up Guiding Principles and proposed fund line-up
- Oversight of ING marketing plan
- Consider cost benefit of additional resources
- Evaluate current processes and governance given regulatory changes
- Research advice services