Pension & Health Benefits Committee

California Public Employees' Retirement System

Agenda Item 8

June 18, 2013

ITEM NAME: Supplemental Income Plans New Investment Fund Line-up Fees and Communication Transition Plan

PROGRAM: Supplemental Income Plans

ITEM TYPE: Information

EXECUTIVE SUMMARY

At the June 17, 2013, Investment Committee meeting, the Investment Committee was presented with the fund policies and asset allocations for the Supplemental Income Plans (SIP). This item is being presented to the Pension & Health Benefits Committee (PHBC) for information of the SIP fees changes and communication efforts that will be conducted to ensure our employers and participants are informed of the upcoming changes in the fund line-up.

STRATEGIC PLAN

This agenda item supports the California Public Employees' Retirement System (CalPERS) Strategic Plan goal to improve long-term pension and health benefit sustainability. Regular review of the SIP investment fund lineup is important to help ensure CalPERS meet participants' retirement savings needs while being competitive in the supplemental savings market place.

BACKGROUND

The SIP consists of the CalPERS 457 Plan, State Peace Officers and Firefighters' Supplemental Plan (SPOFF), Supplemental Contributions Plan (SCP), and Placer County 401(k) Plan. In early 2012, RV Kuhns surveyed employers and members about their supplemental savings preferences, and reviewed the competitive environment for supplemental savings plans and investment offerings including information on SIP plan strengths and opportunities for improvement. Based upon this information a new investment fund line-up design was developed. This design was presented and approved by the PHBC at the May 14, 2013, meeting. Based on the new fund line-up approval, the fees associated with the SIP investment line-up changes were determined and a communications plan was developed for the fund change transition date of October 7, 2013.

ANALYSIS

Fees

Fees are charged to participants in order to pay the costs to administer the funds. The new fees for the CalPERS 457 Plan, SPOFF, SCP, and Placer County 401(k) Plan are shown in the table on the following page.

New Lineup –fees in basis points (bps) [1]			
Fund	IRC457/Placer County 401 (k) Plan	SCP	SPOFF
Passive: Target Date Funds	43-45	55-57	30
Cash: Short-Term Investment	45	58	n/a
Passive: U.S. Equity Index	41	54	n/a
Passive: International Equity Index	46	59	n/a
Passive: Short-Term Bond	45	58	n/a
Passive: Intermediate Term Bond	40	53	n/a
Passive: Real Assets	55	68	n/a
Self-Managed Account (SWA) Broker Account Window[2]	38	51	n/a

[1] Other operating expenses may apply
[2] Administrative fee only. Other investment fees may apply

As part of the strategic review of the SIP, RV Kuhns also researched and analyzed fees from other 457 vendors in California.

The fund comparisons below indicate that the new SIP offering is quite competitive:

- Large Cap Index Funds – All in expenses from competitors range from 42 – 53 bps
- Active US Equity Funds – All in expenses from competitors range from 74 – 145 bps
- Target Date Funds – All in expenses from competitors range from 94 – 112 bps
- Core Bond Funds – All in expenses from competitors range from 46 – 89 bps
- International Equity – All in expenses from competitors range from 85 – 109 bps

We will be transparent in disclosing fees by following best practices and the new fees will be identified and communicated to participants and employers as part of the following communications plan.

Communications

The key to a successful transition of the new SIP investment fund line-up will be the communications outreach. Communications will be a collaborative effort between CalPERS and ING. An extensive communications plan has been developed to include three key areas: (1) Branding; (2) Messaging - including tiers, fund lineup changes, and pricing; and (3) targeted content to both employers and participants.

SIP will be working closely with the Public Affairs Office to ensure CalPERS recent branding initiative will be fully integrated into the project. CalPERS latest brand guidelines will be reflected in all visuals and media collateral. Messaging will focus on the three-tiered investment approach recommended by RV Kuhns (e.g., Tier I - Target Date Funds, Tier II - Core Funds, and Tier III - Self-Directed Brokerage Window (SDBA)).

The tiered approach allows the participant to choose the investment option that best suits their needs. Communications can be structured to address each tier type to make it specific and meaningful for the participant.

Two coordinated communication campaigns will be launched concurrently, one focusing on employers and one on participants. The emphasis will be on early and frequent communications to both groups. This will include a structured approach to consist of no less than five communications to employers and seven communications to participants.

Key messages for Employers and Participants:

- CalPERS will be offering a simplified investment line-up to make it easier to save for retirement and achieve their retirement goals.
- Investments will be organized into three tiers.
    - Tier I- Target Date Funds (Do it for me)
    - Tier II- Core Funds (Help me do it)
    - Tier III- Self-Directed Brokerage Window (SDBA) (Do it myself)
- New fund line-up and appropriate fees associated with the funds.
- Participants will be mapped to a similar asset class. If participants do not want to be mapped to a particular fund, they can change their investments before the transition date occurs.
- As part of the mapping process ING will need to transfer participant account balances. During this time participants will not be able to make changes to their account. Funds will remain invested during the transition time.

- Key dates will be identified.
- Special meetings and workshops will be held for participants.
- ING will be available to address any questions about the changes.
- Employers should consider promoting the Plan to non-participating employees, it's a valuable benefit.

The plan will utilize multiple media streams to help ensure participants are able to make investment choices that best fit their desired result. Communication methods will include: circular letters, press releases, direct mailings, email, transition packets, website updates, and in-person presentations. The communication plan will ensure the employer and participants are prepared with necessary and timely information to know when the change will occur, how the change will affect them and the actions they need to take to choose the investment option that best suits their needs.

Benefits/Risks

The new investment fund lineup offers a diverse range of alternatives with materially different risk and return characteristic with broad market exposures, avoiding and overly complex fund lineup. It also reduces operational complexity and risks.
The new investment fund lineup requires changing the existing fund lineup with new funds where participants will be given an opportunity to select a new fund. The communications and messaging plan as outlined will provide both employers and participants advance notice of the Supplemental Income Plans Fund Line-up Change. By providing detailed information to the affected stakeholders and effectively communicating the changes, participants in the plans will be able to make informed decisions regarding their investment choices. If an effective communication plan is not implemented, participants will not have the necessary information to take action if necessary.

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