



## Agenda Item 7

September 16, 2014

**ITEM NAME:** Supplemental Income Plans Program Update

**PROGRAM:** Supplemental Income Plans

**ITEM TYPE:** Information

### **EXECUTIVE SUMMARY**

The Customer Accounts Services Division's (CASD) Supplemental Income Plans (SIP) Program, oversees four deferred compensation plans comprised of the California Public Employees' Retirement System (CalPERS) 457 Plan, Supplemental Contributions Plan (SCP), State Peace Officers' and Firefighters' Defined Contribution Plan (POFF) and the Placer 401(k) Plan. Today's information item is to provide an update on the status of the SIP Program.

### **STRATEGIC PLAN**

This agenda item supports the CalPERS Strategic Plan goal to improve long-term pension and health benefit sustainability. Regular review of the SIP Program 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, the SCP, the POFF and the Placer 401(k) Plan. Assets in each plan as of July 31, 2014 are:

CalPERS 457 Plan	\$ 1.24	billion
SCP	\$ 20.3	million
POFF	\$ 507	million
Placer 401k	\$ 29.0	million

Further plan statistics are included in Attachment 1.

### **PROGRAM UPDATE**

#### CalPERS 457 Plan

In October 2013, SIP completed the SIP investment fund lineup change and the associated participant communication plan as outlined and presented in Agenda Item 8 from the June 18, 2013, Pension and Health Benefits Committee (PHBC). The fund change design was presented and approved by the PHBC at the May 14, 2013, meeting. Based on the new investment fund lineup, the fees associated with the change were determined and an extensive communication plan to employers and participants was implemented. The fund lineup change

affected all plans under the SIP and included 741 employers and 62,000 participant accounts.

Another change to the 457 Plan includes a transition to a new service provider for the Self-Directed Brokerage Option (SDBO). This change is being implemented due to the recent decision by State Street Global Market (SSgM) to exit the self-directed marketplace. Accordingly, SIP researched options in collaboration with CalPERS Operations Support Services Division (OSSD) to replace SSgM with another self-directed brokerage service provider that would be acceptable to the plan and satisfy the requirements to conduct business with CalPERS.

Charles Schwab was selected and the transition to the new provider will be complete by September 30, 2014. This transition also includes a comprehensive communication plan to participants and employers in accordance with industry practice and regulatory requirements, including information about the new provider and enhanced user services.

#### POFF

Senate Bill (SB) 277 (Beall, Chapter 744, Stats. 2013), requires the termination of the POFF, upon receiving the appropriate approvals from the Internal Revenue Service (IRS). The bill was authored by Senator Jim Beall at the request of the California Correctional Peace Officers' Association (CCPOA) and signed into law by the Governor on October 11, 2013.

SB 277 provides for termination of the POFF on the later of January 1, 2014, or upon obtaining the appropriate approvals from the IRS, including a favorable determination letter on plan termination from the IRS. In December 2013, CalPERS filed an application for a determination letter on plan termination with the IRS and is currently working to obtain the necessary approval. The timeframe for the IRS to respond to the request is not known at this time. In addition, certain technical amendments to the POFF plan provisions are necessary before the termination may be implemented. To accomplish such plan amendments, CCPOA sponsored urgency legislation, Assembly Bill (AB) 611 (Bonta) that was recently enrolled and waiting for the Governor's signature.

As part of the termination planning process, SIP program staff used an assumptive termination date of March 31, 2014, to be prepared for termination initiation. Accordingly, SIP is prepared to immediately implement the POFF termination upon receipt of the appropriate IRS approval and enactment of AB 611.

SIP has coordinated efforts with both internal and external stakeholders. The discussions included operational and informative topics in order for all stakeholders to understand the process and status of the pending termination. SIP has invited CCPOA, the California Department of Human Resources (CalHR) and the State Controller's Office to the external stakeholder meetings. All parties

have been supportive of the termination plan and have provided valuable input to the POFF termination strategy. SIP will continue to meet with internal and external stakeholders throughout the duration of the plan termination process.

Communication efforts to date include an extensive participant awareness campaign that encompasses direct mail, web-based communication and updates via the participant annual statement and newsletter. In addition, news articles drafted by CalPERS Office of Public Affairs were included in the CCPOA "Peacekeeper Magazine" and the CalHR website banner links related to the POFF termination. Once the IRS provides the appropriate approvals, CalPERS will continue to communicate timelines and distribution options to participants and beneficiaries.

### SCP

The SCP provides an after-tax supplemental savings option to State employees. The SCP continues to provide such services as designed. As part of the POFF termination legislation (SB 277), the SCP was designated as the default plan for participants and beneficiaries who do not make an affirmative election to either take a distribution of POFF funds or roll their funds to another eligible retirement plan before plan termination. To implement this, the SCP will establish a pre-tax identification source code to accept rolled over pre-tax POFF assets that are defaulted. The current SCP source code allows for after-tax contributions only. SIP's Third-Party Administer (ING) will facilitate the source code addition and maintain record-keeping services for the defaulted funds from the POFF.

## **INVESTMENT UPDATE**

### Fund Lineup Implementation

In October 2013, the Investment Office implemented the new investment fund lineup for the SIP. The new lineup offers participants broad market exposure across a diverse range of investment alternatives with materially different risk and return characteristics. The new lineup has been streamlined and structured in such a way as to 1) avoid unnecessary complexity that might confuse the average participant, 2) reduce operational complexity, and 3) reduce risk. The investment fund types in the new lineup are below:

- Target Date Funds
- U.S. Equity Index Fund
- International Equity Index Fund
- Real Assets Fund
- Intermediate-Term Bond Index Fund
- Short-Term Bond Index Fund
- Short-Term Investment Fund

Specific components of the fund lineup implementation included the following:

- Updated and received approval from the Investment Committee in June 2013 for the “Statement of Investment Policy for Supplemental Income Plans (SIP)” and the “Statement of Investment Policy for Supplemental Income Plans CalPERS Target Retirement Date and POFF (State Peace Officers’ and Firefighters’ Defined Contribution Plan, i.e. the “POFF”) Funds”
- Collaborated with internal CalPERS teams, State Street Global Advisors, State Street Bank, State Street Global Markets, ING, and prior investment fund managers to plan the \$1.7 billion asset transition
- Successfully transitioned all fund assets to new investment funds
- Adjusted the asset allocation for the CalPERS Target Retirement Date Funds to increase capital preservation throughout the investment strategy

Fund Performance and Asset Allocation

Investment fund performance highlights are below and details by fund are included within Attachment 1.

- The CalPERS Target Retirement Date Funds earned between 7.6 percent and 20.6 percent before fees for FY13/14 and all outperformed their respective benchmarks by between 9 and 38 basis points on a gross basis.
- The Moderate Asset Allocation (POFF) Fund earned 15.11 percent before fees for FY13/14 and outperformed its benchmark by 16 bps on a gross basis.
- The Core Funds inception-to-date performance before fees as compared to their relative benchmark is shown in the table below:

Fund	Gross Return	Benchmark
US Equity Index Fund	17.03%	17.02%
International Equity Index Fund	10.38%	10.43%
Real Assets Fund	10.05%	9.96%
Intermediate-Term Bond Index Fund	3.99%	3.84%
Short-Term Bond Index Fund	.62%	.74%
Short-Term Investment Fund	.07%	.09%

**BUDGET AND FISCAL IMPACTS**

With the change to the SDBO provider, there is no direct financial impact to CalPERS. The transition costs will be absorbed by the new self-directed brokerage service provider. In addition, the POFF termination (SB 277), including implementation of rolled over POFF accounts to the SCP, will be paid for through plan administration fees.

**ATTACHMENTS**

Supplemental Income Plans, Attachment 1

---

DONNA RAMEL LUM  
Deputy Executive Officer  
Customer Services and Support

---

ANN BOYNTON  
Deputy Executive Officer  
Benefit Programs Policy and Planning