Agenda Item 7

March 17, 2015

ITEM NAME: Supplemental Income Plans Program Update

PROGRAM: Supplemental Income Plans

ITEM TYPE: Information

EXECUTIVE SUMMARY

The Customer Account 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 A to improve long-term pension and health benefit sustainability. Regular review of the SIP Program is important to assist participants with their 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 January 31, 2015, are:

CalPERS 457 Plan	$ 1.3	billion
SCP	$ 20	million
POFF	$ 191	million
Placer 401k	$ 30	million

Further plan statistics are included in Attachment 1.

PROGRAM UPDATE
<u>CalPERS 457 Plan</u>

Agency Retention

The SIP staff instituted a pro-active agency retention program that utilizes both internal communication methods and in-person outreach meetings to ensure quality customer service at the agency level.

Based on assets size and potential growth of the contracting agency, SIP has tiered "Service Level Goals" that ensures all contracting agencies are being serviced appropriately.

In addition, SIP's Third Party Administrator (Voya) provides participant education and field services to all SIP contracting agencies. This ensures that at the participant level all active and prospective participants have a venue to learn about the 457 Plan and have their questions answered. Voya conducts daily field activities including in person one-on-one meetings, group presentations, webinars and scheduled phone meetings.

POFF

Senate Bill (SB) 277 (Beall, Chapter 744, Stats. 2013) allowed for the termination of the POFF upon receipt of 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 provided for termination of the POFF on the latter 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 received approval and favorable determination.

Certain technical amendments to the POFF plan provisions were necessary before the termination could be implemented. To accomplish the plan amendments, the CCPOA sponsored urgency legislation, Assembly Bill (AB) 611 (Bonta). The amendments were approved and signed by the Governor on September 29, 2014.

SIP coordinated efforts with both internal and external stakeholders to prepare for the termination. The coordinated stakeholders included the CCPOA, the California Department of Human Resources (CalHR) and the State Controller's Office. All parties were supportive of the termination plan and provided valuable input to the POFF termination strategy.

As part of the termination plan, SIP facilitated an extensive communication plan to make participants aware of their options. The effort included 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.

SIP staff and Investment Office (INVO) staff collaborated with State Street Global Advisors (investment manager), State Street Bank (master custodian), and Voya (plan record keeper) to plan and execute the transition of remaining assets into SCP.

As of March 16, 2015, all POFF accounts have been closed. The below statistics outline the participant asset flow which took place during and at the conclusion of the "Participant Affirmative Election" period from December 1, 2014, through March 2, 2015. Participants who did not take an election were defaulted into the SCP as directed by statute.

Distribution Type	# of Distributions	$ Amount
Lump Sum Cash	20,351	$292 MM
Rollovers to Another Plan	3,996	$75 MM
Remaining Value Defaulted to SCP	8,677	$133 MM
Totals	33,024	$500 MM

<u>SCP</u>
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 established a pre-tax identification source code to accept rolled over pre-tax POFF assets that are defaulted.
The SCP allows for after-tax contributions only. Voya will facilitate the transfer of the accounts and maintain record-keeping services for the defaulted funds from the POFF.

INVESTMENT UPDATE
Highlights are listed below and additional details by fund are included in Attachment 1.

- The annual glide-path update to the CalPERS Target Retirement Date Funds was made on October 2, 2014.

- The CalPERS Target Retirement Date Funds earned between 3.3 percent and 3.8 percent before fees for the 12 months ending December 31, 2014, and all outperformed their respective benchmarks by between one and eight basis points on a gross basis.

- The Moderate Asset Allocation (POFF) Fund earned 3.5 percent before fees for the 12 months ending December 31, 2014, and outperformed its benchmark by four basis points on a gross basis.

- The Core Funds one year performance for calendar year 2014 before fees as compared to their relative benchmark is shown in the table below:

Fund	Gross Return	Benchmark	Excess
US Equity Index Fund	12.66%	12.56%	+.10%
International Equity Index Fund	-4.15%	-3.89%	-.26%
Real Assets Fund	-.89%	-.85%	-.04%
Intermediate-Term Bond Index Fund	6.16%	5.97%	+.19%
Short-Term Bond Index Fund	.69%	.77%	-.08%
Short-Term Investment Fund	.03%	.03%	0%

BUDGET AND FISCAL IMPACTS

There is no current budget or financial impacts to SIP. However, with the termination of the POFF Plan, SIP along with INVO and Investment Accounting will be conducting a comprehensive review of associated participant fund fees to ensure they meet the necessary requirements to fund and sustain plan administration and oversight.

BENEFITS/RISKS

Not Applicable

ATTACHMENTS

Attachment 1: Supplemental Income Plans Overview

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