

A photograph of a city skyline at sunset, with tall buildings and a body of water in the foreground. The word "smart" is written in large, white, lowercase letters across the middle of the image.

smart

S A V E M O N E Y A N D R E T I R E T O M O R R O W

PARTICIPATE

EMPLOYER SPONSORED RETIREMENT PLANS FOR PUBLIC EMPLOYEES

Massachusetts Collectors & Treasurers Association



Office of the State Treasurer and Receiver General

April 11, 2018

Agenda

- Retirement Savings Plans Trends and General Provisions
- 457b Plan Best Practices
- Fiduciary Oversight & Plan Fees

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DC Plans Trends and 457(b) Provisions



Human Resources/Benefit Trends

The way employers engage with employees is evolving

Retirement plans are not simply attract-and-retain tools — they are workforce management tools

A greater focus on “wellness” initiatives in the workplace

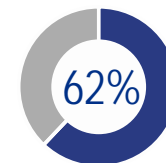
“Wellness” is going beyond simple education and putting tools in employees’ hands that allow them to take action

A continued move toward high-deductible healthcare plans

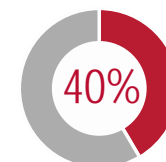
Sponsors are starting to view HSAs as long-term savings vehicles rather than short-term healthcare benefits

A heightened awareness of plan oversight and administration issues

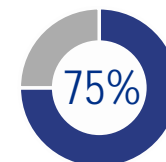
Everyone is looking for more efficiency — and better ways to do things faster, smarter and with fewer resources



62% believe their retirement plan is an effective retention tool¹



40% of employees are asking for help with paying for rising healthcare costs²



75% of plan sponsors view HSAs as part of their retirement benefits strategies³

¹ Deloitte Defined Contribution Benchmarking Survey, 2017 Edition.

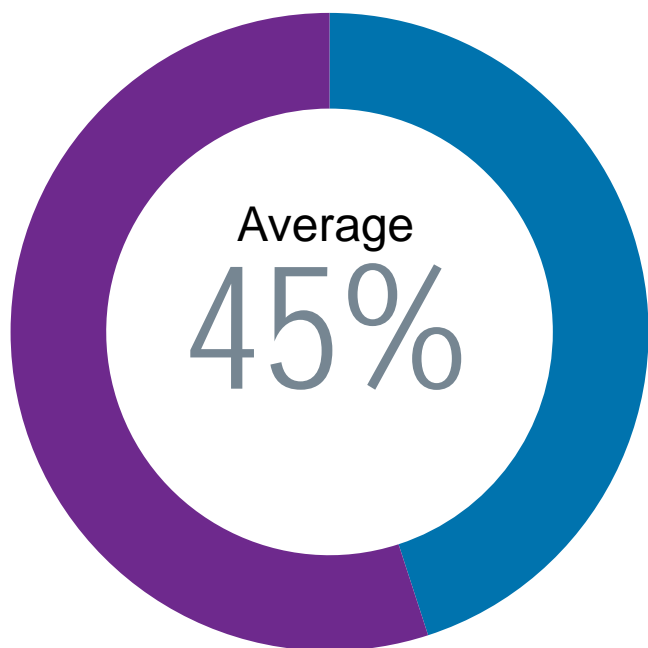
² Bank of America Merrill Lynch Workplace Benefits Report, 2015 Kaiser/HRET Survey, Individual Plan Costs 2013.

³ PSCA Survey 2017: Health Savings Accounts and Retirement Plans AM300400 11/17

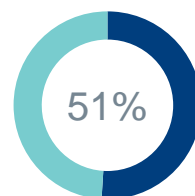
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Why is it Important?

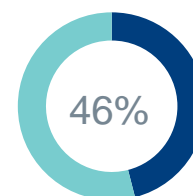
#1 life stressor: Financial / money matters



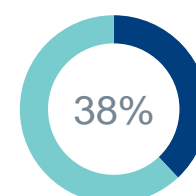
Millennials



Gen X



Baby Boomers



1 in 7

say they are distracted by their finances at work and that at work each week they spend **three hours or more** thinking about or dealing with issues related to personal finances.



Source: PWC Employee Financial Wellness Survey, 2016 Results

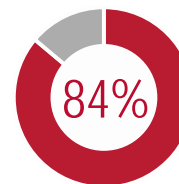
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Plan Governance and Retirement Savings Trends

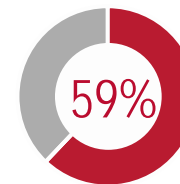
A focus on plan fiduciary responsibilities

- Sponsors are reevaluating and improving their governance process to help manage fiduciary risk
- 80% of sponsors use either an advisor, benefits consultant or third-party advisor¹
- Trend toward equalization of fees across participants continues
 - 53% of respondents say there is a direct fee charged by the recordkeeper²
 - Fee payment approach — flat dollar charge 58-71% across all market sizes³

Among the top five actions plan sponsors can take:



Benchmarking plan costs

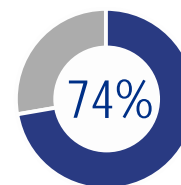


Conducting fiduciary training

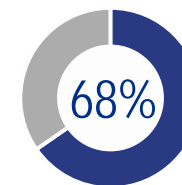
A continued interest in retirement income products

- Common questions include portability, cost and employee utilization

Primary considerations for sponsors who are considering in-plan insurance products (e.g. annuities):³



Cost



Portability

¹ Retirement Planscape®, Measuring the Impact of Brand and Loyalty in the DC Retirement Plan Sponsor Marketplace

² Deloitte Defined Contribution Benchmarking Survey, 2017 Edition

³ Pimco's 11th Annual Survey Highlights, Defined Contribution Consulting Support and Trends Survey AM300400 11/17

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Don't Underestimate Savings Needs

- We're living longer and healthier lives than ever before
- Consider inflation
- Most financial advisors say we'll need about 70% of pre-retirement earnings to comfortably maintain a pre-retirement standard of living*



* Source: Social Security Administration, <https://www.ssa.gov/planners/retire/r&m6.html>, May 2017
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Don't Underestimate Savings Needs

The average annual benefit for a retiree/beneficiary of State Employees' Retirement System (SERS) as of January 2017 is \$33,680*



* Source: Massachusetts State Retirement Board, January 2017

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Reality: People Are Living Longer

65

Expected retirement age¹

average
life expectancy²



after age 65

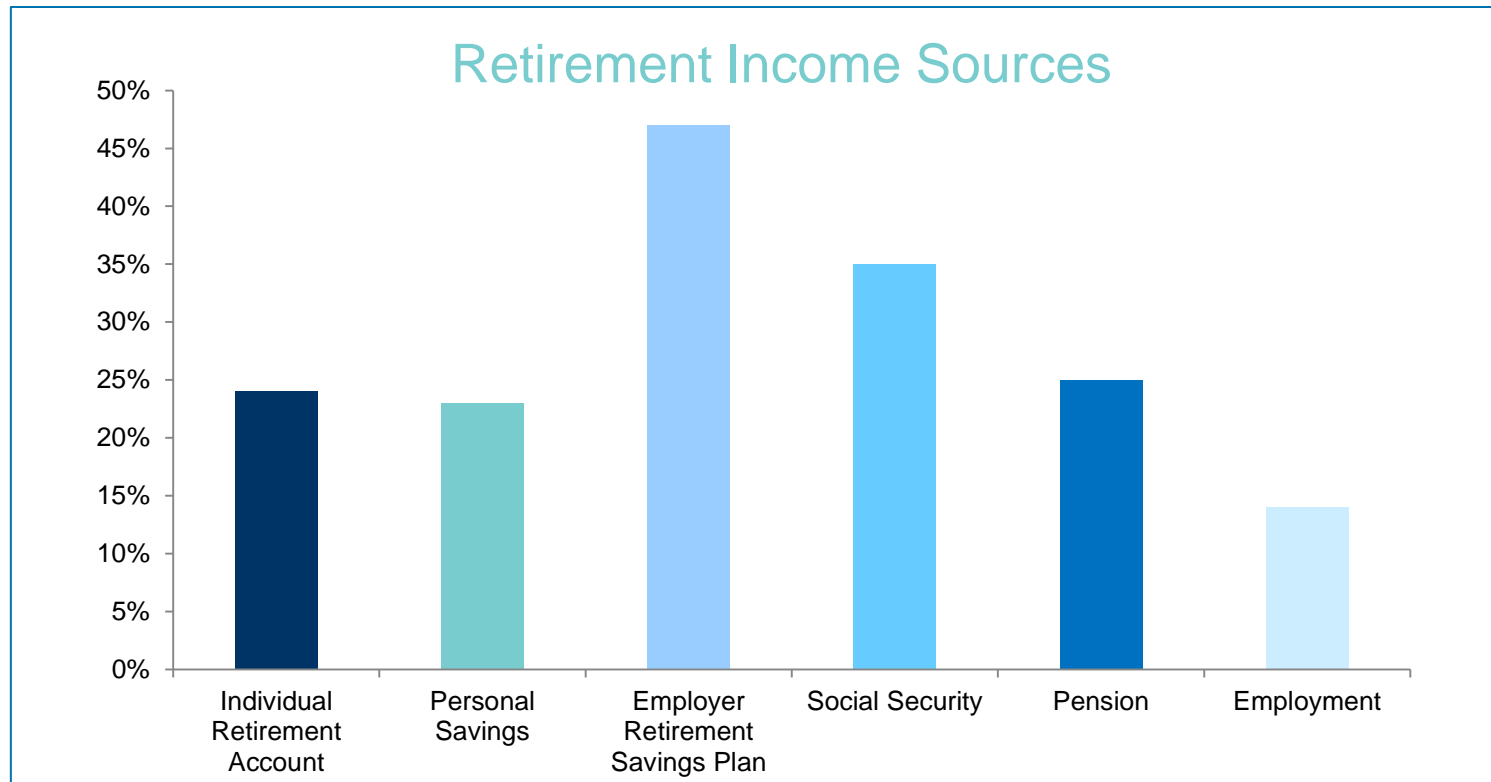
¹ https://www.ebri.org/pdf/surveys/rcs/2017/RCS_17.FS-2_Expectations.Final.pdf, March 2017

² <https://www.ssa.gov/planners/lifeexpectancy.html>, 2018

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Where Will Retirement Income Come From?

Today's retirees have an increased responsibility to create their own retirement income through personal savings and investments.



FOR ILLUSTRATIVE PURPOSES ONLY. This chart shows the percentage of workers surveyed that expect these sources of retirement income.

Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 2017 Retirement Confidence Survey.

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Transforming Employer-Sponsored DC Plans: From Balances to Income Replacement

- Focus on monthly income
- Primary purpose of a retirement plan
- Most plans have retirement income calculators

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Create Income Through Savings

- Today's retirees have greater responsibility for creating their own retirement income through personal savings and investments.
- Where is one of the first places to consider putting money away for retirement?
An employer-sponsored DC plan.

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457(b) Plan Overview



457(b) Plan Overview

- A tax-deferred retirement savings program for public employees
- Operates in accordance with Section 457 of the Internal Revenue Code
- OBRA mandatory participation may affect pension/ Social Security benefits
- Voluntary participation does *not* reduce pension/ Social Security benefits



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What are the Contribution Limits?

- Minimum contribution amount: Varies by plan
- Maximum contribution amount¹:

| | Annual Limit ¹ | Age 50+ Catch-Up ² For participants age 50 or older | Three-Year Catch-Up ³ Three years prior to normal retirement |
|----------------|---|---|--|
| 2018 | \$18,500 | \$24,500 | \$37,000 |
| 2019 and later | Expected to be adjusted for cost of living. | | |

1 Lesser of 100% includible compensation or applicable dollar amount.

2 The Three-Year Catch-Up and Age 50+ Catch-Up provisions cannot be used in the same year.

3 The maximum amount is limited by the amount of underutilized deferrals from prior years.

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457(b) Plan Provisions

- Roth option: Allowable in 457b plans
- Hardships: Unforeseeable emergency beyond employees control that cannot be resolved through other sources (per IRS guidelines)
- Distributions: Must have a distributable event
- Loans: Varies by plan; can be detrimental

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At-a-Glance Comparison*:

Before-Tax 457 vs. After-Tax Roth 457

| | Before-Tax Traditional 457 | After-Tax Roth 457 |
|---|---------------------------------------|---|
| Is a contribution taxable in the year it's made? | No | Yes |
| Is a contribution taxed when distributed? | Yes | No |
| Are the earnings on contributions taxed when distributed? | Yes | No, provided the distribution occurs after age 59½, death or disability and at least five tax years after the first Roth contribution |

* This information is based on guidance issued by the IRS to date and is subject to any additional restrictions found in your Plan's document.

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Different Choices

- **Before-Tax Traditional 457**
 - Taxes are deferred until a distribution is taken
 - Suitable for lower tax bracket at retirement
- **After-Tax Roth 457**
 - Locks in today's tax rates on all contributions
 - Suitable for higher tax bracket at retirement



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Access to Your Retirement Funds

- Separation from service
- Death
 - Designated beneficiaries have access to benefits upon the death of a SMART Plan participant
- Unforeseeable emergency
 - In accordance with Internal Revenue Service regulations
- \$5,000 In-service distribution
 - Available in limited circumstances under the terms of the Plan
- In-service distribution at age 70½
- Loans (if available)

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Best Practices



Electronic Transactions

- More secure
 - Paperless
 - Participant actions
- Faster data transmission
 - Enrollments
 - Remittance
 - Statements
- “Greener” approach
- Lowers plan costs
- Mobile device functionality

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Meet your participants where they are — in the digital world



77%

of American adults have a smartphone¹

72%

of adults prefer companies communicate with them via email²

55%

of emails are viewed on a mobile device³



1 Pew Research Center, <http://www.pewresearch.org/fact-tank/2017/01/12/evolution-of-technology/>, January 2017

2 MarketingSherpa Email Marketing Benchmark Survey, 2015

3 <https://returnpath.com/newsroom/mobile-now-preferred-platform-reading-email-half-email-opens/>, July 2017

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Plan Consolidation - Benefits

- Single Plan Document
- Potentially reduce fees
- Excessive fund choices/plans can dilute economy of scale
- Focused/Singular communication
- Single point of contact

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Plan Comparison

- Form committee
- RFP
- Analyze ALL fees
- Fulfill fiduciary role
- Potentially avert lawsuits

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Fraud Protection

- More robust web identification process
- Strong usernames, passwords, answers to security questions
- Change passwords often
- Beware of unauthorized transactions
- Review account regularly

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Plan design and administrative features

| | Implemented | | Comments |
|---|-------------|----|----------|
| | Yes | No | |
| Consolidated recordkeeping | | | |
| Open architecture | | | |
| Auto-enrollment | | | |
| Auto-increase | | | |
| Employer match | | | |
| Roth | | | |
| Loans | | | |
| Self-directed brokerage | | | |
| Fee disclosure and transparency | | | |
| Investment advisory services | | | |
| Annual investment product review | | | |
| Qualified default investment alternative (QDIA) | | | |
| Target date glide path review | | | |
| DB and DC integration | | | |
| Behavior-based education | | | |
| Annual plan review and benchmarking | | | |

| | Implemented | | Comments |
|--|-------------|----|----------|
| | Yes | No | |
| Payroll data interchange (PDI) | | | |
| Indicative data (SSN, name address, DOB, gender) | | | |
| Employment data (eligibility, hire, term and rehire dates) | | | |
| Contributions (EE before tax, Roth, after tax, ER match) | | | |
| Salary (for Lifetime Income Score) | | | |
| Email address (for electronic delivery) | | | |
| Online deferral process | | | |
| Plan Service Center | | | |
| Hardship approval services | | | |
| Beneficiary record Keeping | | | |
| Vesting tracking | | | |
| Online enrollment | | | |

Empower Retirement Advisory Services offered by Advised Assets Group, LLC, a registered investment adviser.

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Fiduciary Oversight and Fees



Fiduciary Responsibility Refresher

- The Who, What, When, Where, Why and How of Fiduciary Responsibility
- WHO is a plan fiduciary?
- WHAT is fiduciary capacity?
- WHEN and WHERE does fiduciary responsibility arise?
- WHY do I need to know if I am a fiduciary?
- WHAT are a plan fiduciary's responsibilities?
- WHAT common mistakes should fiduciaries avoid?
- HOW do I best comply with my fiduciary duties?
- WHAT are best practices for plan fiduciaries?
- HOW can I limit my fiduciary liability?
- What lessons can be learned from participant lawsuits?

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Core Fiduciary Duties and Participant Lawsuits

- Most of the lessons learned from plan-related lawsuits relate to fiduciary prudence or the lack thereof
- Follow the plan documents, including your Investment Policy Statement, when selecting, monitoring and deselecting funds
- Document your processes and plan decisions
- Significant fiduciary functions can be taken over by a state-sponsored plan

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Core Fiduciary Duties and Participant Lawsuits

- When evaluating whether a fiduciary acted prudently, the courts generally look at the process by which the fiduciary makes decisions rather than the outcomes
 - Economies of scale
 - Too many funds/diluting balances
 - Non-awareness of other plan options
- Consolidation: Multi-vendor to single plan advantages:
 - Reduce admin. complexity
 - Improve fiduciary oversight
 - Consistent education and advice
 - Single point of contact
 - Simplified cost structure

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Reasonable Fees

- Duty to ensure that plan expenses are reasonable based upon the services being provided to the plan
 - Check for all fees: Administration, CDSC, Fund Operating Expenses, etc.
 - Know the services being provided for the amount charged compared to the cost of those services to the market
- Recent lawsuits related to plan fees
 - MIT
 - NYU

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Retirement Plan Fees

- *Administrative Fee*: covers the cost of managing the Plan
- *Investment Management Fee*: an expense that varies by investment option and which covers the cost of managing the fund, including trading and administrative costs
- *Commission (or Sales Cost)*: a fee paid to an investment provider or third party (investment advisor) to purchase, or exit, an investment
- *Contract Maintenance Charge*: a fee associated with insurance company annuity products
- *Withdrawal Surrender Charges*: 403(b) contracts can be written with back-end loads resulting in potential penalties for withdrawals

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Summary

- Form committee
- Determine if RFP is appropriate
- Analyze ALL fees

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The Attorneys Say...

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