WEST MICHIGAN CHAPTER

Government Retirement Plan Potpourri

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Webinar

Meet Our Speakers

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Polling Question #1

Our vision for today

- What's a fiduciary?
- Review of fiduciary best practices
  - Plan composition
  - Investment menu design
  - Participant education
  - Benchmarking plan costs
- Working with multiple vendors
- Best practice application

What is a fiduciary? Am I one?

In its most basic form, a fiduciary is "a person to whom property or power is entrusted for the benefit of another(1)"

ERISA indicates that persons or entities who exercise discretionary control or authority over plan management or plan assets, anyone with discretionary authority or responsibility for the administration of a plan, or anyone who provides investment advice to a plan for compensation or has any authority or responsibility to do so are fiduciaries(2).

Michigan PA 314 §12c(1) defines an investment fiduciary as "a person other than a participant directing the investment of the assets of his or her individual account in a defined contribution plan who does any of the following:

(a) Exercises any discretionary authority or control in the investment of a System's assets…;

(b) Renders investment advice for a system for a fee or other direct or indirect compensation

(1) Dictionary.com
(2) Dol.gov/general/topic/retirement/fiduciaryresp

Oh shoot, it sounds like I am a fiduciary, what do I need to do?

The primary responsibility of ERISA fiduciaries is to run the plan solely in the interest of participants and beneficiaries and for the exclusive purpose of providing benefits and paying plan expenses. Fiduciaries must act prudently and must diversify the plan's investments in order to minimize the risk of large losses. In addition, they must follow the terms of plan documents to the extent that the plan terms are consistent with ERISA. They also must avoid conflicts of interest(1).

Michigan PA 314 §13(3) provides in part,

(3) An investment fiduciary shall discharge his or her duties solely in the interest of the participants and the beneficiaries, and shall do all of the following:

(a) Act with the same care, skill, prudence, and diligence under the circumstances then prevailing by a prudent person acting in a similar capacity and familiar with those matters would use in the conduct of similar enterprise with similar aims…;

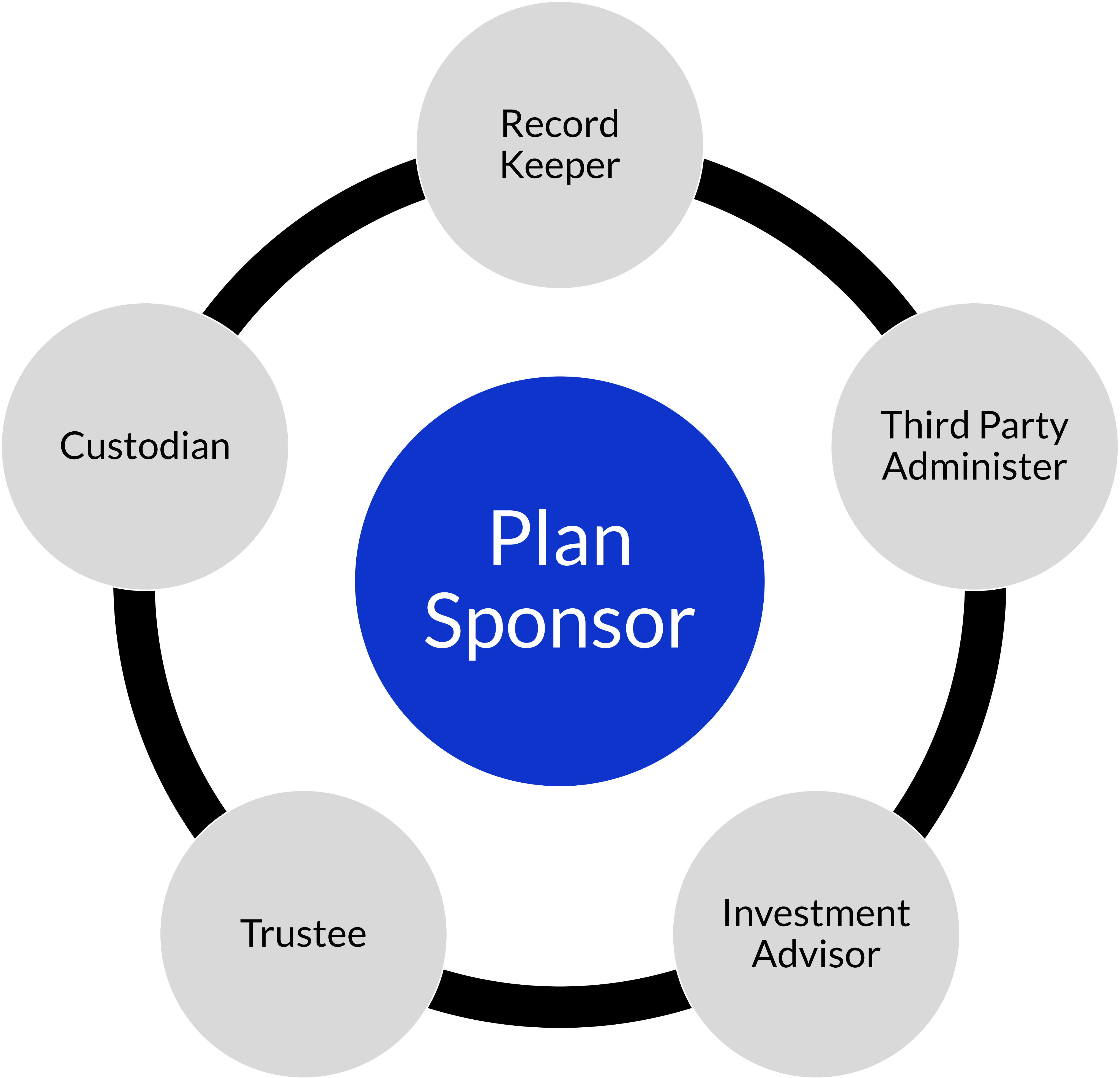
(d) Prepare and maintain written objectives, policies, and strategies with clearly defined accountability and responsibility for implementing and executing the system's investments.

(1) Dol.gov/general/topic/retirement/fiduciaryresp

Polling Question #2

Fiduciary best practices

Plan Structure



Platform Structure

Closed

Limited/ Restricted

Open Architecture

Greater choices in investments leads to more flexibility but increased complexity

Fee Structure

Indirect

Hybrid

Direct

Typically, a direct fee structure increases fee transparency & equality

Investment Structure

- Brokerage
- Separate Accounts
- Mutual Funds
- Collective Investment Trusts (CIT)
- White Label Funds

Committee Structure

Committee Best Practices

Composition	Documentation
Meetings	Education

Participant Education

Best Practice Application


Polling Question #3

Plan Overview

Recordkeeper: Provider A

Plan Assets: $1,047,950

Plan Participants: 39

Investment Options: 17 plus target date funds

Recordkeeper: Provider B

Plan Assets: $2,366,388

Plan Participants: 13

Investment Options: 17 plus target date funds

Investment Menu

Domestic Equity	Value	Blend	Growth
Large	Vanguard Equity-Income Adm Vanguard Windsor II Admiral	Vanguard 500 Index Adm DFA US Core Equity 1 I Vanguard Total Stock Market Index Adm	American Funds Growth Fund of America R6 Pioneer Fundamental Growth Y
Mid	Vanguard Mid-Cap Value Index Adm		Vanguard Mid-Cap Growth Index Adm
Small	Vanguard Small Cap Value Index Adm Bridgeway Ultra-Small Company Mkt	Schwab Fundamental US Small Co Index	Vanguard Small Cap Growth Index Adm

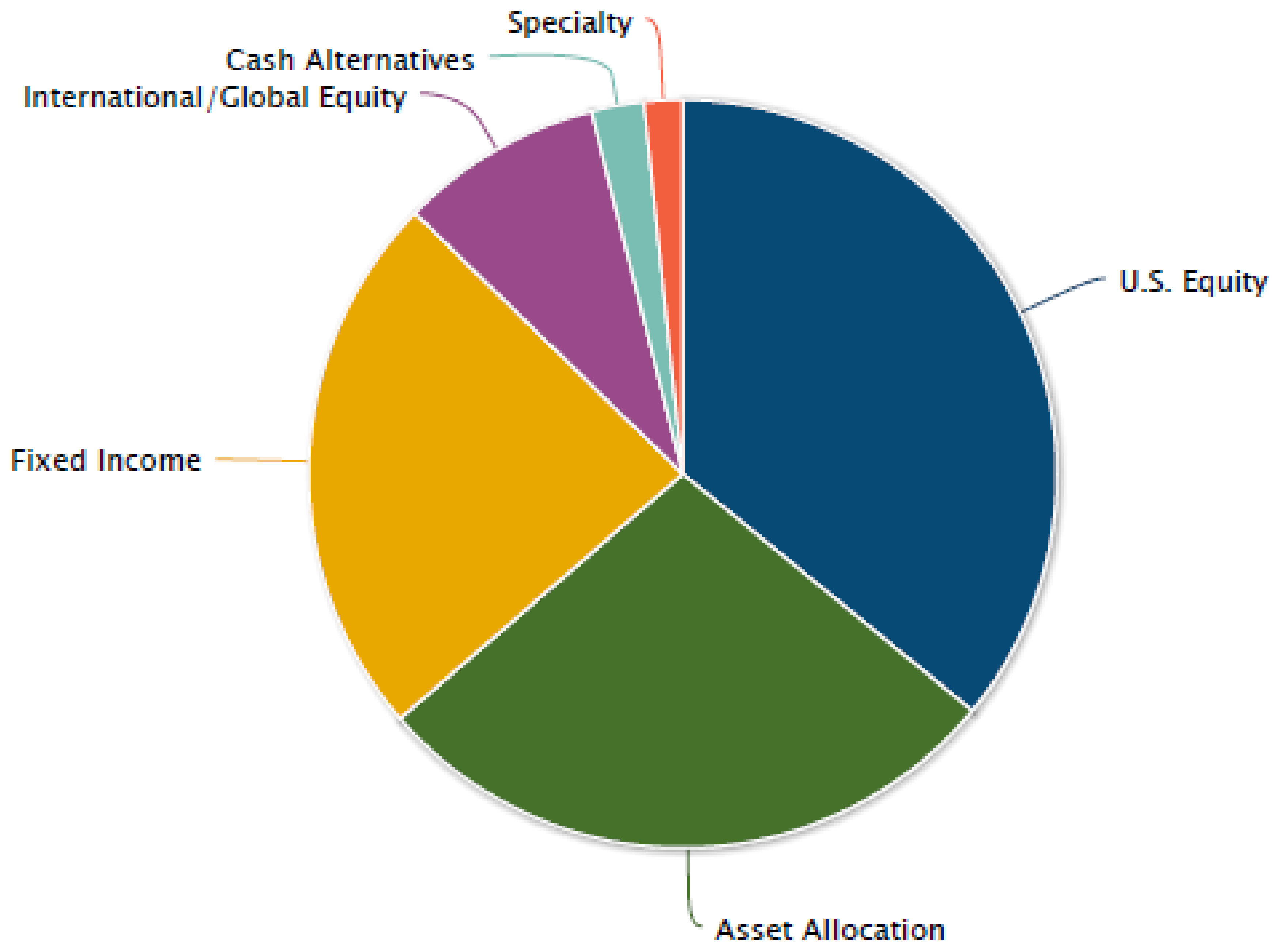
Money Market/Stable Value	Fixed Income – Core	Fixed Income – Non Core
American Funds US Government MM R6 Federated Hermes Gov't Obligation Premier	Vanguard Total Bond Market Index Adm Dodge & Cox Income PIMCO Total Return Instl Federated Hermes Total Return Bond IS	Vanguard GNMA Adm Vanguard Inflation-Protected Secs Adm American Funds American High-Inc R6 PIMCO International Bond (USD-Hdg) Instl PIMCO High Yield Instl Templeton Global Bond

International/World Equity	Asset Allocation	Other
American Funds Europacific Growth R6 DFA International Small Company I DFA International Core Equity I Harbor International Instl	American Funds Target Date Retirement R6 Vanguard Target Retirement Inv	DFA Real Estate Securities I DFA Emerging Markets Core Equity I

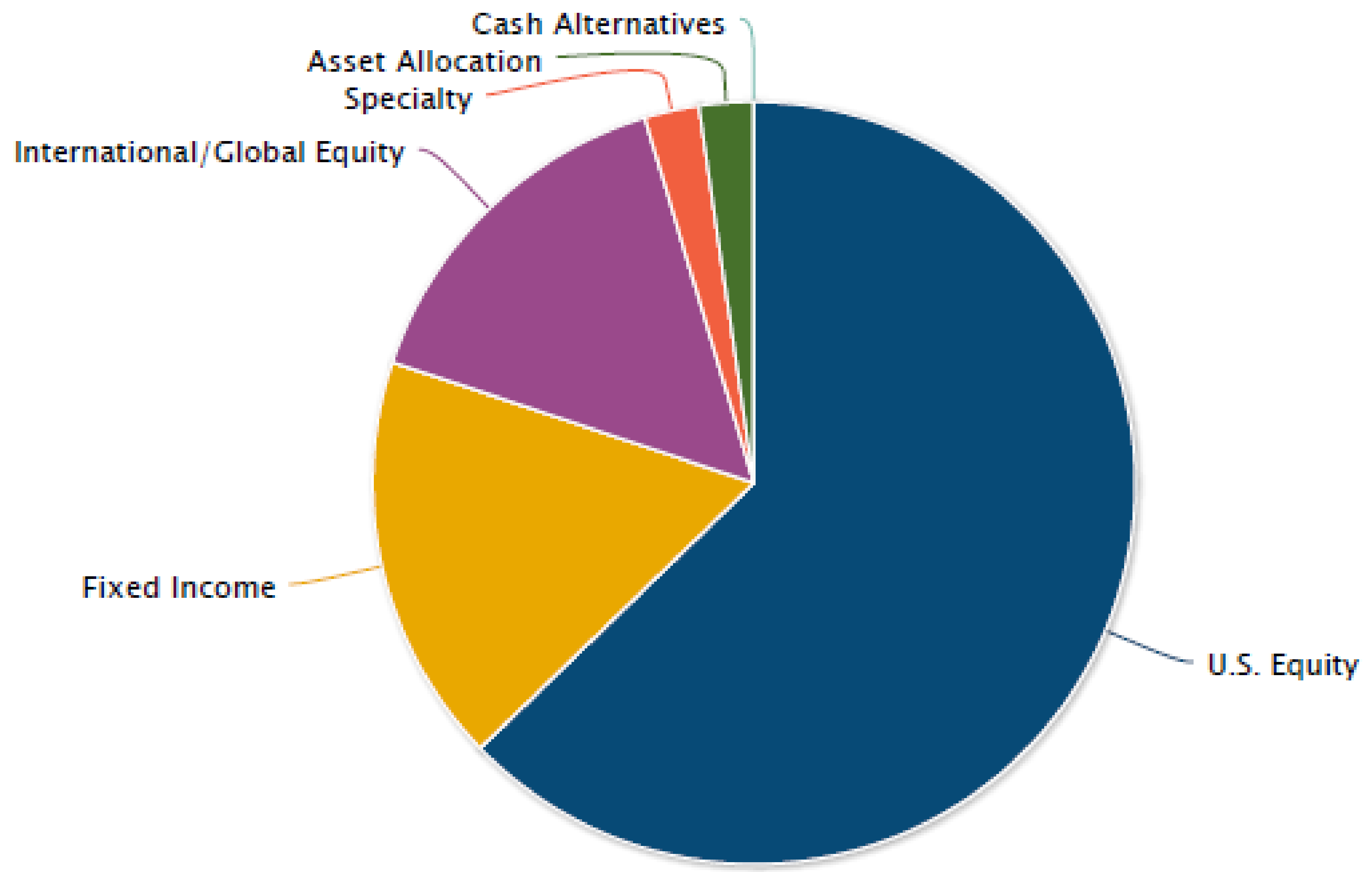
Provider A Investment | Provider B Investment

Plan Allocation by Investment Type

Provider A

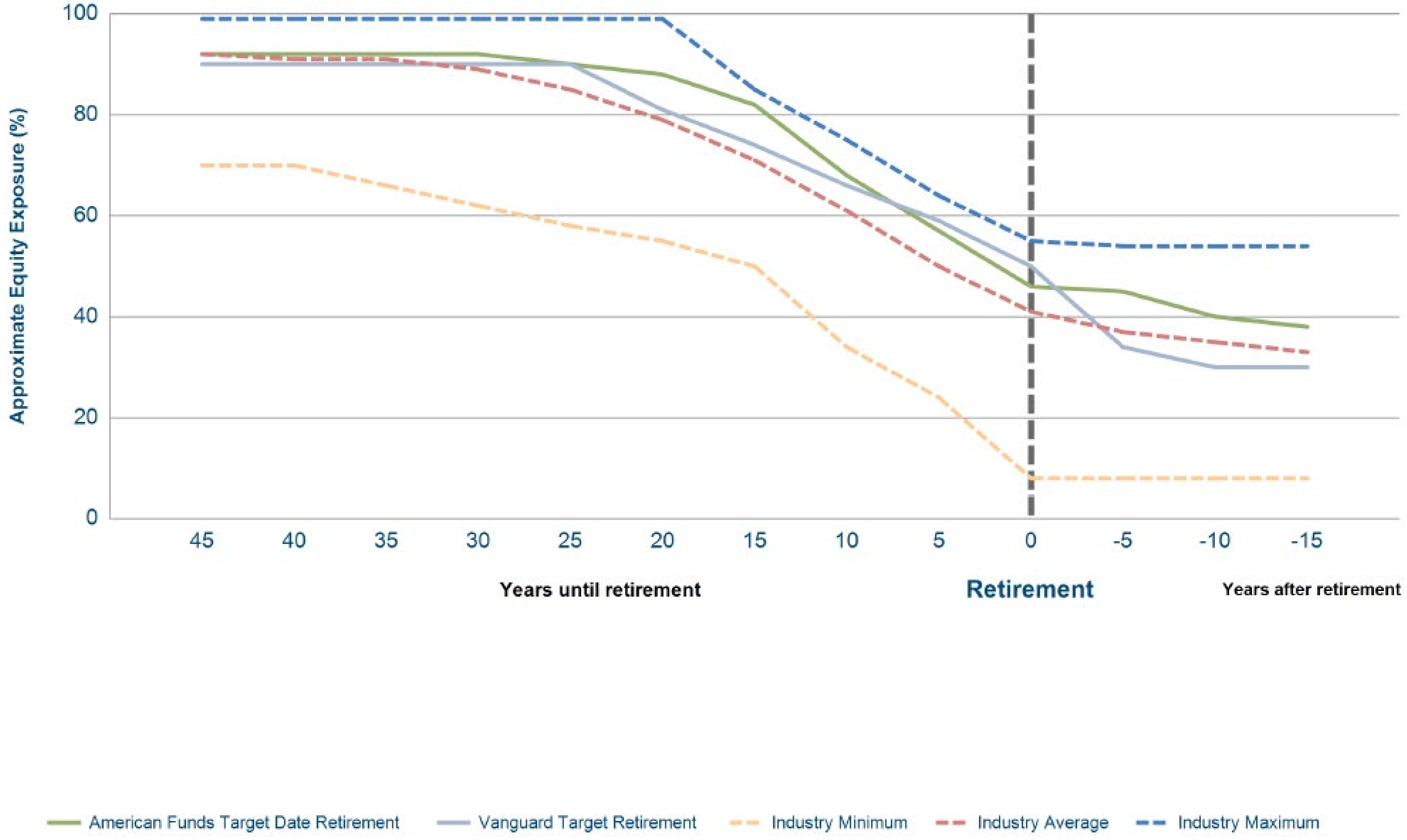


Provider B



Investment Menu

Target Date Glidepath



TDF Fiduciary Checklist
Align TDF and participant characteristics
Understand underlying investments
Review fees and investment expenses
Consider custom or non-proprietary options
Develop effective employee communications
Document the process
Periodically reassess

Source: RPAG

Investment Menu

Provider A

Mutual Funds	Category Rank Ending 3/31/2021			
	1 Year	3 Year	5 Year	10 Year
Vanguard Target Retirement 2015 Inv	91	79	75	52
Vanguard Target Retirement 2025 Inv	39	29	27	16
Vanguard Target Retirement 2035 Inv	60	46	41	27
Vanguard Target Retirement 2045 Inv	49	35	31	21
Vanguard Target Retirement 2055 Inv	67	44	42	25
Vanguard Target Retirement 2065 Inv	75	55	-	-
Templeton Global Bond R6	96	93	91	90
Vanguard Windsor II Admiral	16	4	5	7
DFA US Core Equity 1 I	10	52	35	40
Pioneer Fundamental Grow th Y	73	50	70	35
Bridgew ay Ultra-Small Company Market	3	7	4	2
DFA International Core Equity I	13	73	42	35
Harbor International Institutional	19	62	82	83
DFA Emerging Markets Core Equity I	30	62	60	53
PIMCO Total Return Instl	85	52	45	55
Federated Hermes Total Return Bond IS	35	13	21	32
Vanguard Inflation-Protected Secs Adm	61	29	40	17
PIMCO High Yield Instl	76	33	47	27
Federated Hermes Govt Obl Premier	-	-	-	-
DFA Real Estate Securities I	70	23	33	21
Vanguard Total Stock Mkt Idx Adm	20	17	13	17
Schw ab Fundamental US Small Company Idx	21	51	51	41
Vanguard Total Bond Market Index Adm	79	45	54	47

Source: RPAG, Morningstar

Data as of 3/31/2021

Provider B

Mutual Funds	Category Rank Ending 3/31/2021			
	1 Year	3 Year	5 Year	10 Year
American Funds 2010 Trgt Date Retire R6	46	31	37	1
American Funds 2015 Trgt Date Retire R6	59	29	41	1
American Funds 2020 Trgt Date Retire R6	60	35	55	3
American Funds 2025 Trgt Date Retire R6	64	17	24	1
American Funds 2030 Trgt Date Retire R6	58	14	12	1
American Funds 2035 Trgt Date Retire R6	36	1	1	1
American Funds 2040 Trgt Date Retire R6	39	1	1	1
American Funds 2045 Trgt Date Retire R6	65	1	1	1
American Funds 2050 Trgt Date Retire R6	70	1	1	1
American Funds 2055 Trgt Date Retire R6	72	1	1	1
American Funds 2060 Trgt Date Retire R6	79	1	1	-
American Funds 2065 Trgt Date Retire R6	77	-	-	-
Vanguard Equity-Income Adm	78	37	39	8
American Funds Growth Fund of Amer R6	28	52	39	38
American Funds Europacific Growth R6	25	54	35	40
DFA International Small Company I	32	48	31	28
DFA Emerging Markets Core Equity I	30	62	60	53
Dodge & Cox Income	32	18	15	25
Vanguard GNMA Adm	35	45	15	16
Vanguard Inflation-Protected Secs Adm	61	29	40	17
American Funds American High-Inc R6	19	14	9	39
PIMCO International Bond (USD-Hdg) Instl	36	31	9	1
DFA Real Estate Securities I	70	23	33	21
Vanguard 500 Index Admiral	53	26	23	11
Vanguard Mid-Cap Value Index Admiral	71	55	44	14
Vanguard Mid-Cap Growth Index Admiral	64	47	64	57
Vanguard Small Cap Value Index Admiral	65	33	34	15
Vanguard Small Cap Growth Index Admiral	73	49	57	58
Vanguard Total Bond Market Index Adm	79	45	54	47

Understanding Plan Expenses

How Are Your Fees Paid?

Best Practice

More Transparent & Equitable	Less Transparent & Equitable
Plan Sponsor; Plan Assets	Fund Manager > Plan Provider > Plan Expense Account
Having fees paid directly through plan assets or paid directly by the company provides more transparency and more equality	Having fees paid indirectly through methods such as revenue sharing, commissions, plan expense accounts (e.g. ERISA account) provides less transparency to participants and a higher likelihood of an unequal allocation of fees

Understanding Plan Expenses

Provider A

Asset Class	Assets ($)	Assets (%)	Score	Fund Name	Expense (%)	Expense ($)	Revenue Sharing (%)	Revenue Sharing ($)
MC	$66,921	6.39%	9	Vanguard Target Retirement 2015 Inv	0.12%	$80	0.00%	$0
MOD	$44,022	4.20%	9	Vanguard Target Retirement 2025 Inv	0.13%	$57	0.00%	$0
MA	$95,014	9.07%	9	Vanguard Target Retirement 2035 Inv	0.14%	$133	0.00%	$0
AGG	$0	0.00%	-	Vanguard Target Retirement 2065 Inv	0.15%	$0	0.00%	$0
AGG	$46,535	4.44%	8	Vanguard Target Retirement 2055 Inv	0.15%	$70	0.00%	$0
AGG	$37,997	3.63%	8	Vanguard Target Retirement 2045 Inv	0.15%	$57	0.00%	$0
LCV	$736	0.07%	10	Vanguard Windsor II Admiral	0.26%	$2	0.00%	$0
LCB	$34,925	3.33%	10	Vanguard Total Stock Mkt Idx Adm	0.04%	$14	0.00%	$0
LCB	$276,817	26.42%	6	DFA US Core Equity 1 I	0.15%	$415	0.00%	$0
LCG	$20,531	1.96%	6	Pioneer Fundamental Growth Y	0.76%	$156	0.35%	$72
SCV	$11,966	1.14%	10	Bridgeway Ultra-Small Company Market	0.94%	$112	0.10%	$12
SCB	$31,485	3.00%	4	Schwab Fundamental US Small Company Idx	0.25%	$79	0.00%	$0
ILCB	$63,338	6.04%	7	DFA International Core Equity I	0.25%	$158	0.00%	$0
ILCB	$18,330	1.75%	2	Harbor International Institutional	0.77%	$141	0.10%	$18
EME	$10,297	0.98%	5	DFA Emerging Markets Core Equity I	0.39%	$40	0.00%	$0
CFI	$10,434	1.00%	9	Federated Hermes Total Return Bond IS	0.39%	$41	0.05%	$5
CFI	$10,137	0.97%	10	PIMCO Total Return Instl	0.70%	$71	0.00%	$0
CFI	$211,734	20.21%	10	Vanguard Total Bond Market Index Adm	0.05%	$106	0.00%	$0
UGT	$8,806	0.84%	8	Vanguard Inflation-Protected Secs Adm	0.10%	$9	0.00%	$0
HY	$3,938	0.38%	8	PIMCO High Yield Instl	0.57%	$22	0.00%	$0
MSB	$2,823	0.27%	2	Templeton Global Bond R6	0.56%	$16	0.00%	$0
MM	$23,816	2.27%	-	Federated Hermes Govt Obl Premier	0.15%	$36	0.00%	$0
REI	$17,351	1.66%	10	DFA Real Estate Securities I	0.18%	$31	0.00%	$0
Totals	$1,047,950	100.00%			%	$		
Weighted Investment Expense					0.18%	$1,847	0.01%	$107

Source: RPAG, Morningstar

AGA

Rehmann

Understanding Plan Expenses

Provider A

Estimated Plan Fees ($1,047,950 and 39 participants)	Fees as a % of Assets
Investments	
Fees from expense ratios	0.18%
Net investment fees	**0.18%**
Administration fees	
Annual base fee	0.10%
Per participant fee ($46)	0.17%
Net administration fees	**0.27%**
Advisory Services	
Asset based fee (65 bps, min $7,500)	0.72%
Net advisory Fee	**0.72%**
Total Estimated Plan Fees	**1.17%**

Source: Provider fee disclosures, Morningstar, RPAG

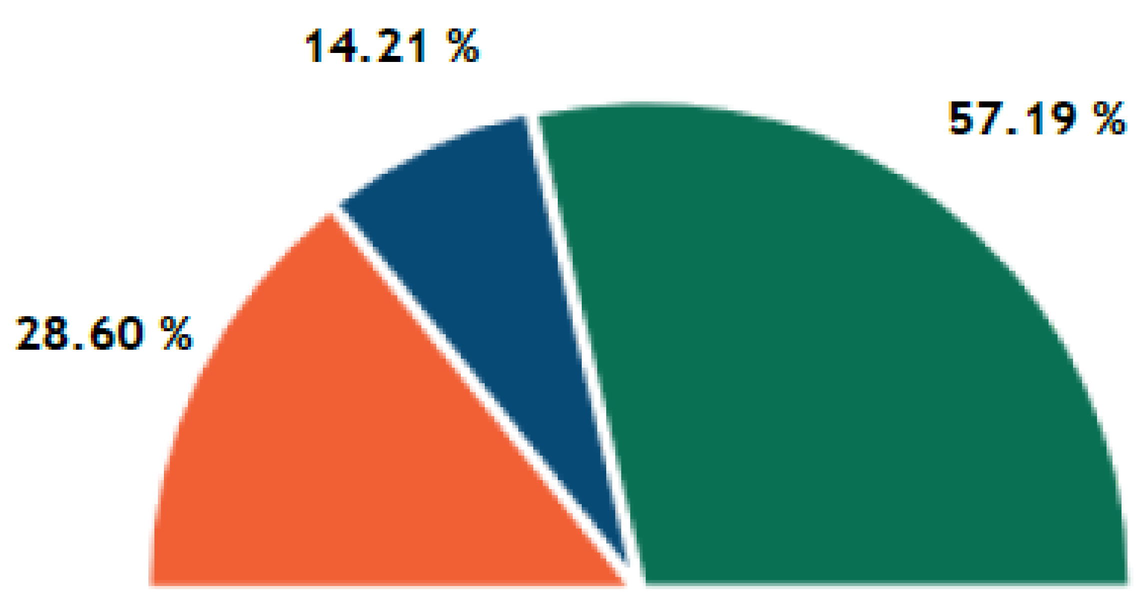
Provider B

Estimated Plan Fees ($2,366,388 and 13 participants)	Fees as a % of Assets
Investments	
Fees from expense ratios	0.22%
Net investment fees	**0.22%**
Recordkeeping fees	
Annual base fee	0.09%
Per participant fee ($100)	0.06%
TPA fees	
Annual base fee	0.07%
Net administration fees	**0.22%**
Advisory Services	
Asset based fee	0.48%
Trustee charge	0.03%
Net advisory fees	**0.51%**
Total Estimated Plan Fees	**0.95%**

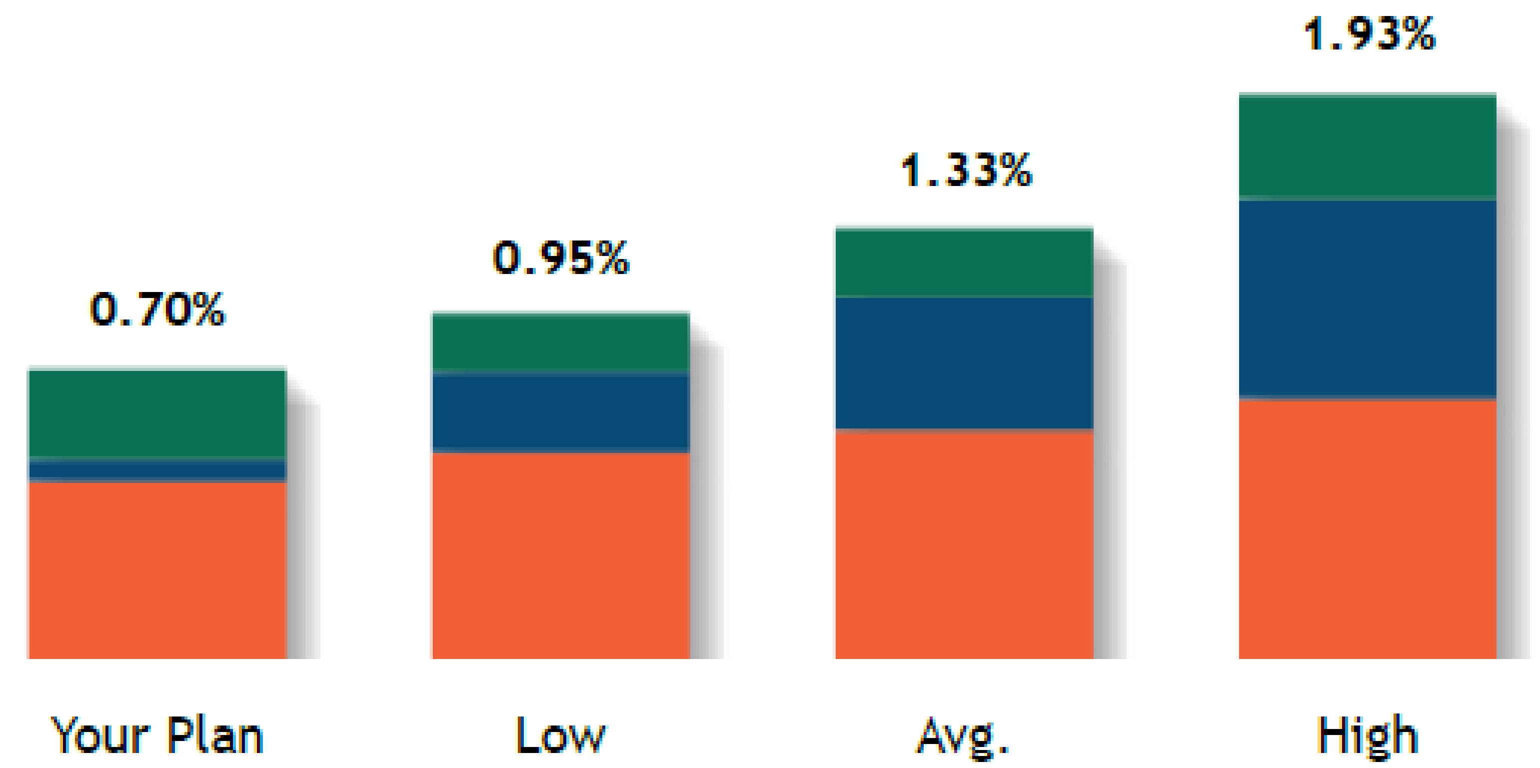
Understanding Plan Expenses

PLAN INFO		BENCHMARK INFO	
Your Plan:	ABC Organization - Consolidation Scenario	Universe:	579
Plan Assets:	$3,414,339	Plan Asset Band:	$2,390,000 to $4,440,000
Total Participants:	52	Participant Band:	40 to 70

Fee Types	Your Plan		Prism™ Low		Prism™ Average		Prism™ High	
Investments	0.20%	$6,829	0.33%	$11,267	0.43%	$14,682	0.57%	$19,462
Recordkeeping	0.10%	$3,392	0.36%	$12,292	0.59%	$20,145	0.89%	$30,388
Advisory	0.40%	$13,657	0.26%	$8,877	0.31%	$10,584	0.47%	$16,047
Total Fees	**0.70%**	**$23,878**	**0.95%** (+0.25%)	**$32,436** (+$8,558)	**1.33%** (+0.63%)	**$45,411** (+$21,533)	**1.93%** (+1.23%)	**$65,897** (+$42,019)
Per Participant		**$459**		**$624**		**$873**		**$1,267**



Fee Breakdown - Your Plan



Source: PlanFees


Polling Question #4


Understanding relationship
between plan liabilities and assets
in defined benefit plans

Consider two plans – A & B

	Plan A	Plan B
Total liability	4,100,000	4,100,000
Assets	3,000,000	3,000,000
Funded status	1,100,000	1,100,000
Funded %	73%	73%

- Same liability
- Same assets
- Same funded percentage

Consider two plans – A & B

	Plan A	Plan B
Total liability	4,100,000	4,100,000
Assets	3,000,000	3,000,000
Funded status	1,100,000	1,100,000
Funded %	73%	73%

- Are these two plans' situations the same?
- How might they differ?

Consider two plans – A & B

	Plan A	Plan B
Total liability	4,100,000	4,100,000
Assets	3,000,000	3,000,000
Funded status	1,100,000	1,100,000
Funded %	73%	73%

Questions to consider:

- What are actuarial assumptions used to determine the liabilities?
  - In particular, for this discussion, what is the expected return on plan assets (and was that used as the discount rate)?
  - Is the rate of return assumption reasonable?
- Are the asset values shown Market or Actuarial?
  - Actuarial values smooth market gains and losses over a select period of time

Example of actuarial value of assets

	Year – 2	Year – 1	Current year	
Asset gain/(loss)[1]	(30,000)	(120,000)	150,000	
Percent recognized	75%	50%	25%	
Percent deferred	25%	50%	75%	
Market Value				3,045,000
Deferred gain/(loss)	(7,500)	(60,000)	112,500	45,000
Actuarial Value				3,000,000

[1] Amount above/(below) expected return

What if:

- A & B are valued using the same actuarial assumptions including expected return
- A & B both use the same asset smoothing method

Are we now comfortable claiming the two situations are the same?

What if the smoothing for the two plans was…

Plan A	Year – 2	Year – 1	Current year	
Asset gain/(loss)[1]	60,000	(60,000)	15,000	
Percent recognized	75%	50%	25%	
Percent deferred	25%	50%	75%	
Market Value				2,996,250
Deferred gain/(loss)	15,000	(30,000)	11,250	(3,750)
Actuarial Value				3,000,000

[1] Amount above/(below) expected return

Plan B	Year – 2	Year – 1	Current year	
Asset gain/(loss)[1]	(30,000)	(120,000)	150,000	
Percent recognized	75%	50%	25%	
Percent deferred	25%	50%	75%	
Market Value				3,045,000
Deferred gain/(loss)	(7,500)	(60,000)	112,500	45,000
Actuarial Value				3,000,000

[1] Amount above/(below) expected return

What situation would be preferable and why?

What if the smoothing for the two plans was…

Plan A	Year – 2	Year – 1	Current year	
Asset gain/(loss)[1]	60,000	(60,000)	15,000	
Percent recognized	75%	50%	25%	
Percent deferred	25%	50%	75%	
Market Value				2,996,250
Deferred gain/(loss)	15,000	(30,000)	11,250	(3,750)
Actuarial Value				3,000,000

[1] Amount above/(below) expected return

Plan B	Year – 2	Year – 1	Current year	
Asset gain/(loss)[1]	(30,000)	(120,000)	150,000	
Percent recognized	75%	50%	25%	
Percent deferred	25%	50%	75%	
Market Value				3,045,000
Deferred gain/(loss)	(7,500)	(60,000)	112,500	45,000
Actuarial Value				3,000,000

[1] Amount above/(below) expected return

- The market value of assets for Plan B is higher (deferred gain of $45,000 which will be recognized over future years) while Plan A will be recognizing a loss in future years
- Investment return for Plan A appears to be less volatile than returns for Plan B

Do the liabilities inform our decision for asset preference?

Consider two plans – A & B

	Plan A	Plan B
Active	2,250,000	750,000
Terminated	150,000	250,000
Retired	1,700,000	3,100,000
Total liability	4,100,000	4,100,000
Assets	3,000,000	3,000,000
Funded Status	1,100,000	1,100,000
Funded %	73%	73%
Covered Lives		
Active	27	9
Terminated	2	3
Retired	21	38
Total Lives	50	50


Polling Question #5

Investment Considerations

Given more liability associated with active members than inactive, Plan A has:

- More years over which to fund benefits => more time to recover from poor market returns (can handle more volatility)
- Likely higher future contributions will be needed for additional benefits to earned by current, active employees
- Higher return seeking investments could be desirable with less concern for volatility

Given the higher inactive liability in Plan B:

- Higher liquidity demands
- Fewer years (less time) to recover from poor market returns
- Benefits paid out will not earn future returns (sequence of returns becomes more important)
- Less need for future contributions than Plan A as fewer number of active employees still accruing benefits => perhaps leaving room for higher contributions to make up for lower expected returns in a more conservative portfolio

With that in mind, take a second look at the liabilities and assets for each plan

	Plan A
Active	2,250,000
Terminated	150,000
Retired	1,700,000
Total liability	4,100,000
Assets	3,000,000
Funded Status	1,100,000
Funded %	73%
Covered Lives	
Active	27
Terminated	2
Retired	21
Total Lives	50

Plan A	Year – 2	Year – 1	Current year	
Asset gain/(loss)[1]	60,000	(60,000)	15,000	
Percent recognized	75%	50%	25%	
Percent deferred	25%	50%	75%	
Market Value				2,996,250
Deferred gain/(loss)	15,000	(30,000)	11,250	(3,750)
Actuarial Value				3,000,000

[1] Amount above/(below) expected return

With that in mind, take a second look at the liabilities and assets for each plan

Plan B	
Active	750,000
Terminated	250,000
Retired	3,100,000
Total liability	4,100,000
Assets	3,000,000
Funded Status	1,100,000
Funded %	73%
Covered Lives	
Active	9
Terminated	3
Retired	38
Total Lives	50

Plan B	Year – 2	Year – 1	Current year	
Asset gain/(loss)[1]	(30,000)	(120,000)	150,000	
Percent recognized	75%	50%	25%	
Percent deferred	25%	50%	75%	
Market Value				3,045,000
Deferred gain/(loss)	(7,500)	(60,000)	112,500	45,000
Funded %				3,000,000

[1] Amount above/(below) expected return

Additional Considerations

Why might the portfolio for Plan B be a better fit for Plan A while the portfolio shown for Plan A be a better match for Plan B?

If the assumed rate of return for the two portfolios is the same, should they be?

Questions for plan trustees to consider:

- How will benefits be paid?
    - When does the plan need cash (liquidity) and
    - From where will it come
- Will the plan's investment strategy change over time?
- Will Plan A become Plan B?

What is private equity and does it have a place in your pension plan portfolio?

- Venture vs leveraged private equity
- Expected return net of management fees
- Not easily valued
- Not a ready form of liquidity
- Some advisors have warned, ***"The good private equity managers don't need your money"***

Final Comments

Sequence of return

- The sequence of good and bad return years makes a difference – especially when paying out benefits
- Never be a forced seller – anticipate liquidity needs and identify source

While assuming a higher rate of return/discount rate will result in a lower liability (and "better" funded status)

- A well-funded plan is one that has an honest and viable plan for paying benefits
- U.S. investors have never had a 10-year market like the one we've just experienced; if your plan has been underfunded and this market didn't fix those problems, funding returns will not be the answer


Polling Question #6

Disclosure

Past performance may not be indicative of future results. Therefore, you should not assume that the future performance of any specific investment or investment strategy will be profitable or equal to past performance levels.

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