Maryland Government Finance Officers Association

Improving Outcomes for your 457(b) Deferred Compensation Plan

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Why Look at 457(b) Plans?

- An often overlooked supplemental plan to state pension plan
- Social security may reduce future benefits
- Pension benefits may be reduced nationally
- Other savings are likely inadequate

* 457(b) plan has become an important tool for a retirement plan savings strategy

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What will we discuss today?

- The history of 457(b) plans
- The evolution of the 457(b) market place
- How do vendors charge fees?
- New products and features
- Case study – the RFP process
- Ongoing 457(b) plan governance

* 457(b) plan has become an important tool for a retirement plan savings strategy

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History of 457(b) Plans

- Authorized by Congress in 1978
- Plan contributions are made via payroll deduction
- These 457(b) programs as more of a payroll slot than a real benefit

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History of 457(b) Plans

- Unlike 401(k) plans, 457(b) plans are not subject to ERISA (Employee Retirement Income Security Act)
- These plans are subject to state laws covering these plans
  - Maryland code includes language which mimics ERISA

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Responsibilities of Plan Fiduciaries

- To act solely in the interest of plan participants and their beneficiaries;
- Carry out their duties with skill, prudence, and diligence;
- Follow the plan documents;
- Diversify plan investments;
- ***Pay only reasonable expenses of administering the plan and investing its assets; and***
- Avoid conflicts of interest.

"Fiduciaries that do not follow the required standards of conduct may be personally liable. If the plan lost money because of a breach of their duties, fiduciaries would have to restore those losses, or any profits received through their improper actions." – *U.S. Department of Labor*

Bolton Source: www.dol.gov/ebsa/publications/wyskapr.html 6

Fiduciary Considerations

- Are the fees in reasonable compared to the market place?
- How are the investment options performing?
- Do I have the right mix of funds for my employees?
- Are my participants using an age-appropriate asset allocation strategy?
- Can the plan improve potential outcomes and gain price concessions by rebidding the contract?
- Is the plan working for my employees?
- Can we get lower fees by combining the 457(b) & 401(a) plans with one vendor?

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History of 457(b) Plans

- As a result of these plans being set up a supplemental plan and not subject to ERISA, there was no formal oversight on these plans
- The vendor said they could "do everything" in a bundled program:
  - Collect participant monies
  - Offer an array of investment options (many of your own funds)
  - Administer the plan
  - Communicate with participants
- Plan sponsor never set up a process for selecting vendors or the investment options
  - Multiple vendors
  - A large amount of investment options

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What's Wrong With That?

Plan Sponsors had no idea:

1. They were fiduciaries to the plan
2. The cost of the plan
3. How fees were being paid (No transparency)
4. The quality of the investment lineup
5. Whether participants were on track for "success"

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Ungoverned plans are plagued by:

Current ungoverned plans consist of:

1. Older, more restrictive contracts (issued in the 80s and 90s)
2. High program and investment management fees
3. Fees are non-transparent (not shown on participant statements)
4. Large number of investment options (including the vendor's own funds)
5. Closed architecture (up to the vendor to remove poor performing funds)
6. Potential surrender charges (back-end penalties)
7. Commissioned agents (selling a product)
8. Unsuitable participant asset allocations (older participants are overallocated to equities)
9. No tools to measure a participant's overall retirement readiness
10. Separate vendors for separate plans (457(b) and 401(a) plans have separate vendors)

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What are more evolved products?

- Enhancements include:
  - Lower fees
  - A more transparent fee structure
  - More flexible investment platform
  - Customized communications

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Market Evolution

- As the ERISA plan market place evolved 401(k) vendors brought better products to their clients and prospects (lower fees, more flexible investment platform)
  - 401(k) plans are highly regulated
- However, these same products have not been fully evaluated or demanded by the 457(b) market place:
  1. No formal oversight or governance structure of these plans
  2. Never reviewed the products in place
  3. Lack of market knowledge
  4. Endorsed products
  5. Limited staff capacity to handle the plan
  6. Happiness with the status quo

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Market Evolution

- Vendors have been earning large streams of revenue on these older contracts, so there is no incentive to let Plan Sponsors know about them
- Many vendors have better contracts available but don't offer them unless:
  1. They conduct a plan review (compare plan to the market place)
  2. Rebid the plan via an RFP process
  3. Plan Sponsor ask about it
- These newer contracts can make the difference between success and non-success for participants

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If investment fees are one percentage point higher than a reasonable amount, the participant's retirement account will be 28 percent lower after a 35 year career.

- U.S. Department of Labor

Fees

3 Types of Expenses

- Corporate: The cost of researching; establishing and overseeing the Plan
- Administrative: The cost of maintaining the records
- Investment: The cost of managing the participants' investments

- Corporate: Paid by the Sponsor
- Investment: Paid by the Participant
- Administrative: Paid by the Participant

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Revenue Sharing

- Administrative fees are covered by the plan's investments
- In exchange for becoming a plan option, the fund rebates on "kick back" some of the expenses that it collects to the recordkeeper
- Administrative cost is defrayed but invisible to the participant
- This method of paying for plan expenses has become obsolete in the 401(k) market place but still prevalent in the 457(b) market place, particularly in older contracts or multi-vendor programs

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Problems with Revenue Sharing

- Invisible to the Participant
- Plan cost are generally higher
- Expense ratios of the options are higher
- Vendors do not pass along economies of size as the plan increases
- Future performance of revenue sharing funds is generally lower than non-revenue sharing funds
- Generally, these are weaker retirement plans

Revenue Sharing

- Revenue sharing plans also suffer a lack of fee equity. In this example, the administrative cost are not spread equally amongst participants. Investors in Fund C are not paying any administrative fees.
- These "revenue sharing fees" are not shown on participant statements
- Revenue sharing amounts have not been renegotiated even though the plan size has grown

	Expense Ratio	Revenue Share
Fund A	0.75%	0.20%
Fund B	1.10%	0.45%
Fund C	0.10%	0.00%

Benchmarking Plan Fees

- When comparing "revenue sharing" and multiple vendor plans to the market place, all-in fees are about 30% – 40% higher than an institutionally based plans
- Multiple vendors fragment the buying power for your entity
- Most institutional plans have moved to a single, transparent fee assessed equally to all participants
  - Two ways make it easier to benchmark plan fee
    - Asset-based fee
    - Flat fee

Investment Platform

- Closed architecture platforms include a "pre-packaged" lineup of funds consisting of mainly of their own proprietary funds
  - Vendor administers the plan and selects the funds (conflict of interest)
  - Rarely can change funds
  - Few low cost Vanguard or Fidelity index options

- Open architecture retirement plan platform allows plan sponsors the ability to customize the investment lineup for their employees
  - Can build a customized universe lineup for participants
  - Ensure your minimizing the fee structure

Investment Platform

	Open	Closed
Selects Investment Lineup	Plan Sponsor / Consultant (Fiduciary)	Vendor (Non-fiduciary) / Plan Sponsor approves
Fee transparency	Yes	No
Customized lineup	Yes	No
Contains the vendor's own funds	Usually no	Yes
Fiduciary	Plan Sponsor / Consultant	Plan Sponsor (vendor is not a fiduciary)
Fund Performance	Usually Stronger	Usually Weaker
Fiduciary Liability	Lesser	Greater
Fees	Usually Lower	Usually Higher
Total of Funds	Customized (recommend 15-17)	30 - 70

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S&P 500 Investment Option Comparison

- S&P 500 index funds mimic the performance of the S&P 500
- Fees may vary due to Fund assets
- Fees will affect returns
- Company A offers both a Closed and Open Architecture Platform

S&P 500 Index Option			
Company	Architecture	Fund	Expense Ratio
Company A	Closed	Company A Stock Index Fund	40 bps
Company A	Open	Fidelity 500 Index Fund	1.5 bps

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Selecting the Investment Lineup

- Recent studies have shown a trend towards streamlining the investment lineup to a more manageable number
- According to behavioral finance experts, the optimal number of options is 15 – 17 funds including a target date fund series
- Closed architecture platforms usually include the 30 – 70 investment options. Many of these options are higher cost and underperform.

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Ideal Fund Lineup

- Includes 15 – 17 options and a target date fund series
- Sponsors and consultants usually select just 1 fund in each category
- Fund menus include both active and passive options
  1. Large Cap / Mid Cap / Small Cap / Foreign
  2. Value and growth
  3. Fixed Income / Capital Presentation
  4. Target Date Funds

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Target Date Funds

- First introduced in 1993
- QDIA option under the Pension Protection Act made them an eligible default option
  - Balance Fund
  - Managed Account
- Pre-mix portfolio of stocks and bonds (Asset Allocation)
- Asset Allocation becomes more conservative over time

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What is a Target Date Fund?

- A target date fund represents a planned progression of asset allocation changes over time
  - This progression is known as the *"glide path"*
  - The glide path becomes more conservative over time, investing more in fixed income and less in equities as retirement approaches
- "To retirement" glide paths will adjust the asset allocation up until retirement age (age 65)
- "Through retirement" glide paths continue to adjust the asset allocation past the point of retirement

"Through retirement" glide paths are more common, used by approximately two-thirds of all target-date fund offerings.

Source: TIAA -https://www.tiaa.org/public/pdf

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Choosing a Target Date Fund

Step 1: If you were born in	Step 2: And you plan to retire (or have retired) in	Then consider choosing this fund
1998 or later	2063 or later	2065
1993-1997	2058-2062	2060
1988-1992	2053-2057	2055
1983-1987	2048-2052	2050
1978-1982	2043-2047	2045
1973-1977	2038-2042	2040
1968-1972	2033-2037	2035
1963-1967	2028-2032	2030
1958-1962	2023-2027	2025
1953-1957	2018-2022	2020
1948-1952	2013-2017	2015
1947 or earlier	2012 or earlier	2010

The "target date" is the year that corresponds roughly to the year in which you plan to retire and begin taking withdrawals. Because a target date fund generally holds many different kinds of investments, the fund you choose offers a diversified portfolio designed to help smooth the market's ups and downs.

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Source: American Funds

Not all Target Date Funds are the same

- Active vs. Passive
- Glidepath → mix of stocks and bonds → differ across fund families
- Fee structure differs
- Performance has varied as well
- Volatility differs
- Not a prudent strategy to use vendor's proprietary funds without an evaluation

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ASSET ALLOCATION | RESULTS AND RISK | PARTICIPANT OUTCOMES

Results and rankings in down markets

Total return and percentile rankings during S&P 500 Index corrections and bear markets illustrate manager's ability to preserve wealth relative to the broad market and peers.

Figures shown are past results for the share class listed below, with all distributions reinvested, calculated using net expense ratios, and are not predictive of results in future periods. Current and future results may be lower or higher than those shown. Prices and returns will vary, so investors may lose money. Investing for short periods makes losses more likely. Class R shares do not require an upfront or deferred sales charge. For current information and month-end results, visit capitalgroup.com or the website of the firm managing the applicable investment.

	Great financial crisis 10/9/07 - 3/9/09		Flash crash 4/23/10 - 7/2/10		US debt downgrade 4/29/11 - 10/3/11		China slowdown 5/21/15 - 8/25/15		Oil price shock 11/3/15 - 2/11/16		US inflation/rate scare 1/26/18 - 2/8/18		Global selloff 9/20/18 - 12/24/18		Coronavirus crisis 2/19/20 - 3/23/20		
Vintage	Return	Rank	Return	Rank	Return	Rank	Return	Rank	Return	Rank	Return	Rank	Return	Rank	Return	Rank	Morningstar category
S&P 500	-55.25		-15.63		-18.64		-11.89		-12.71		-10.10		-19.36		-33.79		
American Funds Trgt Date Rtrmt Series | R6 share class																	
2065																	MF 2065+
2060							-10.68	1	-12.46	1	-8.35	3	-15.26	11	-29.32	6	MF 2060
2055			-12.21	1	-18.49	2	-10.70	6	-12.52	3	-8.33	7	-15.28	16	-29.29	6	MF 2055
2050	-49.45	1	-12.18	1	-18.39	11	-10.74	11	-12.49	8	-8.32	10	-15.24	20	-29.28	8	MF 2050
2045	-49.39	6	-12.21	6	-18.44	16	-10.72	16	-12.44	9	-8.27	16	-15.00	21	-28.95	12	MF 2045
2040	-49.36	1	-12.27	19	-18.41	16	-10.57	25	-12.21	20	-8.16	28	-14.70	26	-28.52	19	MF 2040
2035	-49.33	14	-12.00	10	-18.07	19	-10.41	33	-11.92	39	-7.83	45	-13.85	48	-26.62	29	MF 2035
2030	-48.82	12	-11.67	34	-17.69	56	-9.61	45	-10.75	44	-6.95	35	-11.42	25	-22.29	18	MF 2030
2025	-48.25	54	-10.94	36	-16.23	58	-8.05	27	-8.51	18	-5.96	33	-9.41	24	-19.16	15	MF 2025
2020	-45.59	50	-8.67	24	-12.59	29	-7.01	23	-6.97	11	-5.13	28	-7.51	14	-17.04	14	MF 2020
2015	-41.74	64	-7.21	13	-10.20	13	-6.17	19	-5.93	14	-4.68	37	-6.60	10	-16.56	36	MF 2015
2010	-39.77	79	-5.56	14	-7.80	14	-6.12	53	-5.50	22	-4.45	64	-5.96	33	-15.01	57	MF 2000-2010
Average		**31**		**16**		**23**		**24**		**17**		**28**		**23**		**20**	
Nationwide Destination Series | R6 share class																	
2065																	MF 2065+
2060							-11.73	40	-14.33	77	-9.06	54	-17.58	81	-35.22	99	MF 2060
2055					-21.54	52	-11.67	39	-14.29	66	-9.10	66	-17.59	85	-34.84	100	MF 2055
2050	-55.55	54	-14.46	63	-21.64	53	-11.52	38	-14.15	68	-8.88	46	-17.35	85	-34.29	98	MF 2050
2045	-55.66	66	-14.37	69	-21.28	55	-11.59	43	-14.15	71	-8.75	41	-16.88	83	-33.47	93	MF 2045
2040	-54.98	67	-14.20	81	-21.09	78	-10.97	36	-13.17	63	-8.41	47	-16.27	75	-32.29	97	MF 2040
2035	-52.09	43	-13.35	39	-19.88	55	-10.80	56	-12.74	63	-7.91	58	-15.01	73	-30.11	90	MF 2035
2030	-49.43	19	-12.56	72	-18.53	72	-10.15	81	-11.98	76	-7.34	65	-13.63	87	-26.10	79	MF 2030
2025	-45.59	21	-11.24	52	-16.21	58	-9.34	80	-10.76	78	-6.69	86	-12.01	91	-21.72	49	MF 2025
Ret. Inc.	-38.57	96	-7.93	92	-12.35	97	-6.95	95	-7.76	95	-4.97	100	-9.18	98	-15.03	68	MF Retirement
Average		**52**		**67**		**65**		**56**		**73**		**63**		**84**		**86**	

Source: Capital Group using data from Morningstar as of June 30, 2021. See "Additional information" for details.

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ASSET ALLOCATION | RESULTS AND RISK | PARTICIPANT OUTCOMES

Trailing absolute and risk-adjusted results and rankings

Total return, standard deviation and Sharpe ratio characteristics illustrate manager's ability to deliver favorable outcomes for participants over various time periods.

Figures shown are past results for the share class listed below, with all distributions reinvested, calculated using net expense ratios, and are not predictive of results in future periods. Current and future results may be lower or higher than those shown. Prices and returns will vary, so investors may lose money. Investing for short periods makes losses more likely. Class R shares do not require an upfront or deferred sales charge. For current information and month-end results, visit capitalgroup.com or the website of the firm managing the applicable investment.

	Results							Results rank							Std dev			
Vintage	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Feb '07	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Feb '07	3 Yr	5 Yr	10 Yr	Feb '07
S&P 500	8.55	15.25	40.79	18.67	17.65	14.84	10.11								18.52	14.99	13.59	24.86
American Funds Trgt Date Rtrmt Series | R6 share class																		
2065	6.77	11.23	35.19					41	85	89								
2060	6.74	11.12	35.10	15.17	15.09			39	87	87	10	2			15.78	12.74		
2055	6.69	11.15	35.08	15.19	15.11	11.88		48	85	85	7	3	1		15.79	12.76	11.94	
2050	6.58	11.06	35.03	15.18	15.11	11.88	8.87	58	86	85	7	1	1	1	15.79	12.76	11.93	20.19
2045	6.54	10.89	34.54	15.00	14.93	11.79	8.82	50	83	74	7	3	1	1	15.56	12.58	11.81	20.10
2040	6.39	10.61	33.68	14.73	14.61	11.64	8.72	35	64	47	9	8	1	1	15.24	12.32	11.64	19.94
2035	5.82	9.60	30.39	13.88	13.81	11.22	8.43	45	43	45	11	8	1	1	14.16	11.49	11.10	19.41
2030	4.90	7.95	24.88	12.16	11.99	10.36	7.85	73	55	62	25	17	1	1	11.71	9.58	9.96	18.28
2025	4.30	6.79	20.71	11.06	10.40	9.42	7.14	77	46	64	33	34	1	1	9.90	8.09	8.74	16.97
2020	3.89	6.38	17.98	9.80	8.93	8.29	6.34	79	30	62	51	57	2	14	8.38	6.87	7.31	14.96
2015	3.67	6.16	17.22	9.38	8.14	7.63	6.00	70	13	48	37	53	3	9	7.94	6.49	6.59	13.22
2010	3.33	5.52	15.38	8.74	7.53	7.08	5.64	72	16	39	41	53	2	15	7.19	5.90	5.90	11.89
Average								**57**	**58**	**66**	**22**	**22**	**1**	**5**				
Nationwide Destination Series | R6 share class																		
2065	6.58	12.46	40.14					69	48	22								
2060	6.50	12.16	39.50	13.43	13.62			70	57	35	70	70			18.70	14.97		
2055	6.44	11.97	38.95	13.34	13.55	10.20		71	62	33	68	63	58		18.51	14.82	13.63	
2050	6.47	11.68	37.99	13.28	13.39	10.14		65	72	38	68	59	55		18.21	14.58	13.46	
2045	6.38	11.42	37.01	13.18	13.24	10.10		63	67	42	64	59	45		17.78	14.25	13.27	
2040	6.14	10.77	35.12	12.77	12.66	9.78		54	55	33	62	58	51		17.10	13.68	12.77	
2035	5.65	9.62	31.81	12.03	11.89	9.36		64	43	29	64	63	47		15.80	12.65	12.01	
2030	5.08	7.96	26.52	11.04	10.98	8.67		63	55	37	63	57	49		13.75	11.07	10.76	
2025	4.56	6.21	21.18	9.83	9.84	7.82		61	68	61	72	57	58		11.54	9.35	9.33	
Ret. Inc.	3.88	4.34	14.90	8.38	7.93	6.28		16	29	27	23	10	10		8.50	6.88	7.00	
Average								**60**	**56**	**36**	**62**	**55**	**47**					

	Std dev rank				Sharpe ratio				Sharpe ratio rank				Inception		Expense ratio		
Vintage	3 Yr	5 Yr	10 Yr	Feb '07	3 Yr	5 Yr	10 Yr	Feb '07	3 Yr	5 Yr	10 Yr	Feb '07	Return	Date	Net	Gross	Morningstar category
S&P 500					0.95	1.09	1.05	0.64									
American Funds Trgt Date Rtrmt Series | R6 share class																	
2065													47.81	Mar-20	0.40	0.45	MF 2065+
2060	9	10			0.90	1.08			2	1			12.11	Mar-15	0.40	0.40	MF 2060
2055	10	12	9		0.90	1.08	0.95		2	1	1		12.28	Feb-10	0.39	0.39	MF 2055
2050	15	16	16	9	0.90	1.08	0.95	0.65	2	1	1	1	8.87	Feb-07	0.39	0.39	MF 2050
2045	17	14	16	17	0.90	1.08	0.95	0.65	2	1	1	1	8.82	Feb-07	0.39	0.39	MF 2045
2040	37	37	20	9	0.90	1.08	0.95	0.65	2	1	1	1	8.72	Feb-07	0.38	0.38	MF 2040
2035	47	48	33	26	0.90	1.08	0.96	0.64	4	2	1	1	8.43	Feb-07	0.37	0.37	MF 2035
2030	16	24	42	26	0.93	1.11	0.98	0.62	5	4	1	1	7.85	Feb-07	0.35	0.35	MF 2030
2025	16	17	34	45	0.98	1.12	1.01	0.60	4	1	1	3	7.14	Feb-07	0.33	0.33	MF 2025
2020	13	15	23	43	1.01	1.11	1.04	0.59	4	6	1	1	6.34	Feb-07	0.31	0.31	MF 2020
2015	29	33	29	38	1.01	1.06	1.06	0.61	9	37	1	20	6.00	Feb-07	0.30	0.30	MF 2015
2010	43	38	40	73	1.03	1.06	1.08	0.63	29	37	1	31	5.64	Feb-07	0.30	0.30	MF 2000-2010
Average	**23**	**24**	**26**	**32**					**6**	**8**	**1**	**7**			**0.36**	**0.36**	
Nationwide Destination Series | R6 share class																	
2065													28.89	Feb-20	0.41	0.41	MF 2065+
2060	100	100			0.70	0.85			83	89			10.21	Nov-14	0.40	0.40	MF 2060
2055	97	97	91		0.70	0.86	0.74		87	87	70		10.25	Dec-10	0.40	0.40	MF 2055
2050	99	99	88		0.71	0.86	0.74		82	86	68		7.38	Aug-07	0.40	0.40	MF 2050
2045	97	97	86		0.72	0.86	0.75		85	85	61		7.30	Aug-07	0.40	0.40	MF 2045
2040	96	93	86		0.72	0.86	0.75		88	90	73		7.09	Aug-07	0.40	0.40	MF 2040
2035	95	89	75		0.72	0.86	0.76		92	92	66		6.96	Aug-07	0.41	0.41	MF 2035
2030	86	84	80		0.74	0.89	0.77		88	83	71		6.63	Aug-07	0.41	0.41	MF 2030
2025	73	66	64		0.76	0.93	0.79		89	77	67		6.17	Aug-07	0.40	0.40	MF 2025
Ret. Inc.	85	86	98		0.84	0.98	0.82		81	56	71		5.11	Aug-07	0.39	0.39	MF Retirement
Average	**92**	**90**	**84**						**86**	**83**	**68**				**0.40**	**0.40**	

Source: Capital Group using data from Morningstar as of June 30, 2021. See "Additional information" for details.

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Recent assessments of a Mid-Atlantic 457(b) program

- A 457(b) plan was using three older contracts (ICMA-RC, Nationwide, VALIC)
- Current administrative and investment management fees are significantly higher than what is considered "reasonable" in the marketplace
  - Current average administrative fee is 0.88% or 88 basis points (bps)*
  - Current investment management fee is 0.94% or 94 basis points (bps)*
- There are 119 different investment options available to participants across all vendor platforms
- Closed architecture (only have the vendor's own proprietary funds to chose from)
- A higher number of investment options results in an increase in fiduciary liability
  - Proprietary funds are prevalent (potential conflict of interest)
- Expense ratios for passive (index funds) and active options are high
- Commissioned agents and poor participant asset allocation decisions

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Vendor Search and Investment Selection Process

Two Step Process

Step One – Re-bid the plan	Step Two – Select a lineup of best in class funds
• Consolidate providers • Reduce participant administrative fees • Enhance fee transparency (shown on the statement) • Implement open architecture investment platform • Enhance participant communication and education • Eliminate surrender charges • Eliminate commissions	• Transition to a mutual fund platform • Streamline the number of options • Reduce investment management fees • Select a suitable target date fund series • Select a transition strategy

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Rebidding Your Plan

Development
- Gather plan data from the current provider
- Develop and send a Request for Proposal (RFP) to providers

Analysis
- Compare and contrast each vendor's proposal
- Proprietary scoring method
  - Customized for your plan
- Provide written analysis and next steps

Interviews
- Select up to 3 finalists
- Allow 60 minutes for finalist presentations
- Collect best and final offers

Implementation
- Construct prudent fund lineup
- Select an appropriate Qualified Default Investment Adviser (QDIA)
- Sign letter of intent

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Evaluating the Responses

- Bolton focused on the following categories when evaluating the responses:
  - Professional fee schedule
  - Experience of proposed on-site representative(s) and relationship manager
  - On-site participant communications strategy and support
  - Proprietary fund requirement
  - Open architecture investment platform
  - Crediting rate and contractual provisions on capital preservation option(s)
  - Tools related to educating participants and getting them on track for retirement
    - Participant and Plan Sponsor web experience

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Conducting the Finalist Interviews

- Bolton drafted an agenda for each of the three finalists approximately two weeks before the scheduled interviews
- Three finalists presented and were each allotted 60 minutes
- The Committee had a few follow-up questions for each vendor
  - This included best and final price quotes from both vendors
  - Committee agreed on a single vendor solution

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Case Study: Outcomes

- Reduced administrative and investment management fees
- Enhanced fee transparency (administrative fees are now shown on participant statements)
- Streamlined the investment lineup to a more manageable amount (15-17 options) which includes a target date fund series
  - Removed poor options from the plan
- Re-enrolled participants into a target date fund series to correct poor asset allocation decisions
- Transitioned the representative compensation structure from commission to salaried based
- Eliminated future surrender charges
- Created a committee for future governance overseeing the investment options and fees

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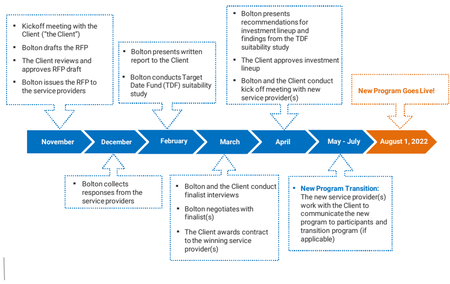
Vendor Search & Investment Selection Timeline

Commencing in November 2021



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Cost Comparison

- Savings to the plan is 102.5 basis points or 1.025%
- Assuming $15 million in plan assets, the savings is $187,500 annually in fees
- This represents a reduction of 56%
- Does not include potentially higher investment returns

	Old Program	New Program
Administrative fee	0.88% (average)	0.335%
Investment fee	0.94% (average)	0.46%
Total	**1.82% (average)**	**0.795%**

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Three Courses of Action

- Conduct a plan review of the current plan
- Rebid plan through an RFP process
- Take no action

★ Our Recommendation and Industry Best Practice

- Conduct an initial plan review and/or
- Rebid plan through an RFP process to ensure the most optimal vendor has been selected
- Continue to monitor the investment lineup on a periodic basis

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Summary of Industry "Best Practices"

1. Investment Policy Statement ("IPS") – Build an IPS to provide specific guidelines and directions for the plan. This document will serve as evidence that there is a written decision making process in place. It should be reviewed at least annually.
2. Provider Search (Putting the plan out to bid) – A competitive bid process is a highly effective tool for negotiating fees and services with a new and/or current provider. In most cases, plans experience enhancements to their program features and/or pricing as a result of this process – particularly when the plan's asset size has increased. A provider search should be conducted every 5 to 7 years.
3. Target Date Fund Suitability Study – Conduct a suitability study to determine the most appropriate TDF series for plan participants. This study will consider the glide path*, underlying asset allocation, risk profile and performance of various target date fund series. This study should be conducted once every three years.
4. Share class review – Perform an annual review of all the available share classes to ensure the most cost effective shares are being utilized.

*A target date fund represents a planned progression of asset allocation changes over time. This progression is know as the "glidepath". The glidepath becomes more conservative over time, investing more in fixed income and less in equities as retirement approaches.

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Summary of Industry "Best Practices"

5. Monitoring the investment options – A periodic review of the investment lineup should be conducted. Areas of focus include performance (against benchmarks and peers) and investment fees.

6. Review fee policy – Examine the fees associated with the plan and understand how all plan providers are paid. The fee structure should be reviewed on an annual basis. (e.g. flat fee vs asset based fee, revenue sharing vs. explicit fee)

7. Conducting a fee benchmarking study – Current plan fees should be benchmarked against other leading service providers. This helps ensure that current fees are inline with the market place. Fees should be benchmarked once every three years.

8. Fiduciary Training – We can provide comprehensive fiduciary training. Committee members should understand their roles and responsibilities as plan fiduciaries. This training will also provide tips and tools to help mitigate fiduciary risk.

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