ILLINOIS PUBLIC PENSION FUND ASSOCIATION

Preparing Pension Funds for Tomorrow

The Illinois Public Pension Fund Association, (IPPFA), is a not-for-profit organization founded in 1985 responsible for providing continuing education for public pension fund trustees. The Association's members manage over twelve billion dollars in public pension assets. In 1998 members of IPPFA were concerned about the vendors that were offering supplemental savings plans to member communities. As fiduciaries, our members recognized that these plans were not run using the same best practice principles we require our public pension funds.

Because of member concerns, in 2000, the Association surveyed the deferred compensation plans in their member jurisdictions and came to the conclusion that they, generally:

- Provided no fiduciary protection to employers
- Were expensive
- Were Annuities
- Contained Contingent Deferred Sales Charges
- Lacked adequate disclosure of fees (e.g. "wrap" and administrative fees)
- Provided little field service to participants
- Were a "hodgepodge" of retail investments
- Did not offer an Open Architecture option

The Association's response was to create a supplemental savings program which incorporated Best Practice plan design and pricing to help public sector employees, regardless of size, achieve greater retirement plan account balances. We achieved this by pooling the buying power of the IPPFA member communities with a single vendor. After an exhaustive RFP process, IPPFA chose Diversified Investment Advisors as the asset manager for the plan. IPPFA believes no employee should have less money at retirement just because they work for an employer that does not have the size to negotiate large case pricing.

By pooling the buying power of the association's membership, the IPPFA was able to negotiate a program that normally would require a single employer to have 50 million dollars in assets available to be deposited into the plan before this fee structure would be available. Within the core funds, the IPPFA Wise Choice Plan provides total delivered pricing from .65% – 1.55% annually

The IPPFA Wise Choice Deferred Compensation Plan includes:

- No Wrap Fees

- No Annuity Charges of any type
- No Contingent Deferred Sales Charges
- State of the art internet access
- The plan uses “pension style” investment funds, built around sound asset allocation and modern portfolio theory, in the core product.
- Complete access to the broad mutual fund market for the sophisticated participant (Open Architecture with Schwab and access to over 4,800 mutual funds).
- Full fee disclosure. The fees are fully expressed in the investment ratio of each fund. Participants do not have to search in multiple locations for all of the fees they pay.
- The pricing runs up to 1.70% less than the average annuity product and .55% to .95% less than other group or collective trust products.
- A “Hold Harmless” to the plan sponsor for all delegated fiduciary responsibilities including investment manager selection.

The Wise Choice Deferred Compensation plan has been designed to emphasize employee education, and was created with easy to understand enrollment materials. The IPPFA program has investment options for each type of investor. For those who want complete management, including asset allocation, the plan contains the Strategic Allocation Funds, Portfolio Express (Target Maturity using the plans own options) and Managed Accounts (Ibbotson). For those who want to do their own asset allocation but want manager selection and monitoring assistance, the plan has the core Diversified funds. The core Diversified Funds are sub-advised, using as many as five high quality institutional managers. Each investment option is style and objective specific with no overlap. For the investor who wants to “do it themselves” the plan has the Schwab PCRA account which provides the investor the opportunity to invest their money using the Schwab platform with the availability of over 4,800 funds.

In 2006, the IPPFA executive board went through a comprehensive review of the Wise Choice Deferred Compensation plan and through an RFI process confirmed that Diversified Investment Advisors still offered IPPFA members the best pricing, fiduciary hold harmless language, internet capabilities and open architecture flexibility. The executive board authorized the extension of the Diversified partnership through the end of 2011.

HOW THE IPPFA STORY APPLIES TO SCHOOLS

The new regulations pertaining to 403(b) plans which became effective 1/1/09 finally confirm that the school districts are the plan sponsor and because of that have fiduciary responsibilities in the running and oversight of their supplemental savings plans. This has caused us to examine how we could extend our Wise Choice Deferred Compensation Plan to our fellow public sector employees in school districts. We approached this process with a “what is the best practice” approach. We did not restrict ourselves to merely examining the 403(b) regulations. We looked at whether we were using all of the appropriate areas of the tax code that could benefit school district employees.

After much analysis, IPPFA decided to expand the IPPFA Wise Choice Deferred Compensation plan. The IPPFA added a 403(b) money source and now offers to its 403(b) eligible entities a complete 457(b)/403(b) integrated platform (“The Wise Choice for Educators”) with the participant being able to choose which retirement plan, 403(b) or 457(b), is the most appropriate for their individual retirement goals and objectives.

One of the most significant features of The Wise Choice for Educators Plan is that by joining the plan, the school district is able to outsource all plan sponsor responsibilities except payroll deduction and remittance. The Wise Choice for Educators Plan provides a comprehensive Hold Harmless agreement for all delegated fiduciary duties including investment manager selection. Most other hold harmless agreements only provide protection for administrative functions.

While 457(b) plans have always been available to school districts, since 2002 457(b) and 403(b) do not have an aggregate combined contribution limit. Participants can defer the full amounts into each plan. The biggest advantage with a 457(b) plan is that at separation of service, participants have access to their money without the 10% excise tax, regardless of age.

One of the obstacles to the single vendor solution, raised by business officers and superintendents is the concern that participants (and Union leadership) will react negatively to being told they will no longer be able to work with their “retirement guy” or that by consolidating into a single vendor, investment choices will be limited. With the open architecture option more investment options are available to participants with no additional wrap fee. It has been our experience that when discussing the single vendor solution and thoroughly explaining the economic benefits, the overwhelmingly majority of the participants respond with “why wouldn’t we do this?” These above mentioned concerns are a paper tiger that prevents the implementation of a Best Practice supplemental retirement program.

A single vendor plan also increases employee participation. When we compare school districts to their municipal counterpart, the participation in a municipality with good service is nearly always in excess of sixty percent where as the average participation in a school district; with multiple vendors is usually less than thirty percent. In a multiple vendor environment employees feel overwhelmed with choices and many times their choice is to do nothing. The Wise Choice for Educators plan includes a comprehensive educational component. Rather than having field representatives explaining why their product is better than the others available, IPPFA representatives spend their time explaining the benefits of savings and asset allocation. Our representatives address these major hurdles and will, over time, increase employee participation, ensuring greater retirement security.

The Wise Choice for Educators Plan allows a school district to outsource their plan sponsor responsibilities, including fund manager selection and oversight and holds the school district harmless for these responsibilities. In addition, The Wise Choice for Educators Plan provides a comprehensive participant education program, full-fee transparency and a strong asset allocation platform. It is unique in that it was built by a not-for-profit association that is the plan sponsor and, therefore, acts in the best interest of participants, not insurance companies, brokers or sales people. The Wise Choice for Educators Plan offers no surrender charges, no wrap fees and offers an open architecture platform which includes fund families such as Fidelity, Vanguard and American Funds.

The Wise Choice for Educators Plan streamlines the administrative process and decreases staff time spent on supplemental savings plans, accepting fiduciary responsibility for all delegated responsibilities including fund manager selection. The Wise Choice for Educators Plan provides full compliance and remitting with no fees and there is no need to hire an outside third party administrator (TPA) or purchase fiduciary insurance.