

REDESIGNING OUR CORE DEFINED CONTRIBUTION PLAN

IDENTIFYING CRITICAL ISSUES IMPORTANT TO OUR MEMBERS

We redesigned our optional core defined contribution retirement plan to better serve the retirement needs of our members. As originally designed in 1998, the Self-Managed Plan (SMP) was launched to give public higher education faculty and staff members an alternative to the existing defined benefit plans, similar to the option offered at most higher education institutions nationwide.

While interacting with members and reviewing the Self-Managed Plan since the inception, we recognized a few critical issues:

- The Self-Managed Plan was designed with a focus on wealth accumulation, similar to most private sector 401(k) plans. As designed, the SMP would not be expected to be any more successful in meeting the lifetime income needs of participants than a standard 401(k) plan.
- Under the Self-Managed Plan, members were required to take a distribution at retirement. Members could use 100% of the assets in their account to purchase an annuity from the available providers or they could take a lump-sum distribution and forfeit any earned retiree health care benefits. Both options were problematic for our members.
- Most members failed to annuitize. Academic research suggests that there are many reasons why they failed to do so. People tend to overestimate the ability of their savings to meet their retirement needs. Annuities have earned a bad reputation. Many retirees are uncomfortable gambling on their own longevity. The 100% annuitization requirement likely dissuaded participants with limited supplemental or emergency savings.
- Historically low annuity payout rates since the global financial crisis in 2008 have made annuities even less attractive to investors. While participant assets have grown substantially since the market decline, the amount of guaranteed lifetime income that can be generated from those assets has declined roughly 70% based on the decline of interest rates over the same time period. A difficult period in the financial market and a low annuity payout rate for those near or at retirement could be detrimental to their standard of living in retirement.
- Participants taking a lump-sum distribution must either manage their own investments or find someone they can trust to provide them the assistance that they need. In either case, they are likely to pay significantly higher fees than they would pay if they remained in the plan. The risk of participants outliving their savings is compounded by the forfeiture of retiree health benefits and that fact that SURS members do not contribute to Social Security.
- The mistakes investors make in managing their own assets are well documented. For example, MetLife's Paycheck or Pot of Gold Study found that about 20% of retirement plan participants who selected a lump-sum distribution depleted it in 5.5 years on average. Other retirees fail to maintain their standard of living in retirement in an effort to ensure they do not outlive their savings. Our members could benefit from a default option that automatically manages their account for them while providing the opportunity to secure lifetime income.

ADDRESSING THESE ISSUES THROUGH THE REDESIGN

We redesigned the Self-Managed Plan to address these shortcomings and correct for these gaps within the retirement plan experience, renaming it the Retirement Savings Plan to make clear that participants are not required to manage their own investments. We embarked on a thoughtful recordkeeper Request for Proposal (RFP) process and an investment manager RFP process that culminated in the elimination of a multirecordkeeper structure through the selection of a new recordkeeper, the implementation of a new default investment option, the development of a simplified investment array, and new planning and educational tools for members.

We partnered with AllianceBernstein to create a custom lifecycle solution named the SURS Lifetime Income Strategy (LIS) as the default option for participants during both accumulation and decumulation. The SURS LIS is a professionally managed, flexible investment option that enables members to build retirement wealth and provides an opportunity to secure guaranteed lifetime income without surrendering access to their account balances.

The SURS LIS also addresses interest rate risks and market risks by providing members an option to secure retirement income over a period of 15 years prior to retirement. This gradual phase into guaranteed lifetime income is intended to mitigate the risk of point-in-time annuitization and help protect against short-term market volatility. In exchange for this benefit, members pay an asset-based premium on the secured assets. Additionally, eligible members in the SURS LIS who convert a portion (at least 50%) of their account balance into monthly lifetime income at retirement are not forced to forfeit their earned retiree health benefits. As a result, the SURS LIS provides a guaranteed retirement income stream while going beyond that of a typical annuity by providing members with the flexibility to access and control their assets. The SURS LIS also allows the member's beneficiary to receive the account balance upon death.

We selected Voya as the recordkeeper based on their ability to recordkeep the LIS and provide customized statements and communications to participants that focused on retirement income. Through this process, we examined the multirecordkeeper structure and identified significant benefits from adopting a sole recordkeeper structure. Consolidating recordkeepers enabled us to rebrand the plan, streamline investment offerings, reduce fees, gain administrative efficiencies, and improve member communication and education.

The major barrier to consolidating recordkeepers was the loyalty of members to the brand of the existing recordkeepers. Information from members gained from surveys and interviews suggested that while many members had a strong affinity for the existing recordkeepers, most were open to change. We found that members were less concerned about the recordkeeper than they were about the redesigned investment lineup.

IMPLEMENTING THE INVESTMENT REFRESH

Alongside implementing the SURS LIS, we also sought to enhance the core investment menu by implementing a simplified, white-labeled fund lineup with access to high quality, cost effective investment options. The core lineup was streamlined from 29 options to 16 to facilitate better decision making and avoid investment overlap. The intent of white labeling the fund names was to help members make better investment decisions by moving away from thinking about the brands or manager names and instead, shift to focusing on the asset allocation strategy.

We underwent a rigorous due diligence process to construct the investment lineup. We structured the lineup with the goal of improving retirement outcomes. In addition to creating the SURS LIS as the default option, we streamlined the individual fund offerings by minimizing fund overlap while offering additional functional asset classes to better enable participants to create their own diversified portfolios.

We also deliberated on the mapping strategy of member assets. With the focus on our goal to provide a solution to help members generate enough income to maintain their standard of living, we elected to re-enroll members' current account balances and future contributions into the SURS LIS in order to improve retirement security and ensure members are properly allocated to an investment strategy customized to their retirement age and desired level of income protection.

COMMUNICATING THE CHANGES

We spent a tremendous amount of time and effort communicating these changes to participants. We focused on ensuring that the communications around the SURS LIS content were simplified and clear in their explanation of the product, the benefits and how members can use it. We created customized emails, postcards, transition and getting started guides, brochures, fact sheets, videos and FAQs. Live webinars gave participants an opportunity to learn about the changes to the plan and meet the new account representatives. Members were encouraged to set up appointments with SURS staff or contact the SURS call center with questions or concerns.

A SURS LIS dedicated website was also developed to provide members the real-time ability to see their projected income amount and allow them to customize features such as contributions, retirement age and their secure income level. Members visit the website for a personalized projection of the income they are on track to replace in retirement.

SURS was awarded a first-place Eddy Award from Pensions & Investments newspaper for our communications and education efforts in promoting the redesign to members. Eddy Awards are given annually to private companies and public pensions for excellence in communications campaigns to defined contribution plan participants.

BENEFITS OF THE REDESIGN

As a result of these efforts, we experienced many benefits including:

- A decrease in recordkeeping fees due to the RFP process and consolidation to one recordkeeper. The recordkeeping fees were reduced from \$47 per member at the previous lead recordkeeper and approximately \$72 per member at the previous secondary recordkeeper to \$30 per member at the new recordkeeper, or approximately a 36% and 58% reduction in recordkeeping fees, respectively.
- A decrease in investment expenses due to the revamped investment lineup and negotiated investment fees. The weighted average expense ratio of the investments was reduced from approximately 0.26% at the previous recordkeepers to approximately 0.24% (excluding the SURS Fixed Account). The 24 basis points weighted average expense ratio may understate the fee reduction as it includes the Secure Income Portfolio within the Lifetime Income Strategy. Excluding assets in the Secure Income Portfolio, the weighted average expense ratio of the investment options available at Voya is 0.11%.
- Reduction in the number of investment options offered to simplify decision making and limit investment overlap. The number of investment options was reduced from 29 to 16.
- The majority of members and plan assets were defaulted to the LIS and these members are on the path to secure retirement income.

SUPPLEMENTAL OFFERINGS

We are also excited to launch a new supplemental defined contribution plan, called the SURS Deferred Compensation Plan (DCP), to provide members an avenue to save more and generate additional income in retirement. Most active SURS members employed by a state university, community college or other government entity will be able to participate in the SURS DCP, which is a 457(b) plan. We recognize that many members need a way to supplement their income to maintain a comfortable standard of living in retirement. The DCP investment line-up includes the all-new SURS Lifetime Income Strategy.

FUTURE ENHANCEMENTS

In addition to the noteworthy initiatives taken in the past 24 months to improve our DC plan, we are committed to seek ways to continually enhance the retirement plan experience for our members. One of these initiatives includes the plan to customize and improve the member account statements. The consolidated statements will include retirement assets under SURS, including the RSP assets and any frozen assets with the inactive recordkeeper, reported as an asset balance and a projected monthly income amount. The projected monthly income is intended to help members better understand their retirement savings and better plan for their retirements by evaluating their retirement readiness. We are currently working with our new recordkeeper to customize the statement to be launched in the second half of 2021.



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