Colorado PERA Pursues World-Class Programs

By Karl Greve

In consolidating three plans under a single record keeper, Colorado PERA saw an opportunity to build world-class voluntary retirement plans for its members.

Colorado PERA's program won the GFOA's Award for Excellence in Finance in 2013.

In 2009, a change in state law made the Colorado Public Employees' Retirement Association the new plan sponsor for a $428 million 457 plan. With this addition, PERA was responsible not only for its original 401(k) plan, but now a 457 plan and an additional mandatory defined contribution plan. These three DC plans had combined assets of $2.4 billion under two separate record keepers with 34 different investment options. (See Exhibit 1 for details on plan sizes.) An internal committee recognized that the plans were inefficient. Furthermore, participants weren't making the best investment decisions for their accounts, and the committee acknowledged that participants may not have the resources to make better choices.

Exhibit 1: Plan Size Details

As of December 31, 2011

PERAPlus 401(k) Plan
Assets: $1,891,347,000
Participants: 71,620

PERAPlus 457 Plan
Assets: $483,965,000
Participants: 17,821

PERA DC Plan
Assets: $63,597,000
Participants: 4,029

PERA therefore embarked on a project to determine best industry practices for participant-led investment plans. The information gathered set the foundation for the program that solved a variety of problems facing plan participants, as described below.

SOLVING PROBLEMS

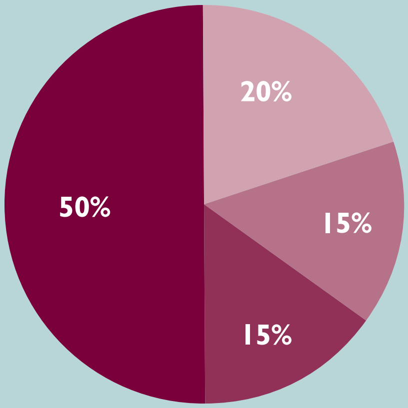
Problem: Too many investment options confused participants, and participants were incorrectly diversified among the options available.

Solution: The number of investment options was altered to be the same for all three plans and reduced to 17, with 26 underlying portfolio strategies. (See Exhibit 2 for an investment option example.) Featuring a single investment option with several underlying portfolios added complexity that the plans had not faced previously, when each plan offered single-manager investment funds. Under the new plan, the record keeper reports to PERA on an investment option level, the custodian bank reports to PERA on an underlying portfolio level, and the investment options, by way of the underlying options, hold assets for three separate plan trusts.

For example, income reporting for interest, dividends, and realized and unrealized gains (and losses) must be gathered from the custodian bank, allocated to three plans, and then reconciled to the record keeper where contributions and distributions are

Exhibit 2: Investment Option

PERAdvantage
U.S. Large Cap Stock Fund



Passive
PERA Russell 1000™ Index Portfolio

Core
PERA Growth & Income Portfolio

Value
U.S. Large-Cap Value Equity Portfolio

Growth
Large-Cap Growth Portfolio

reported on an investment option level for each of the three plans separately. To reconcile the reports and allocate the income and assets across the three plans, new journal entry and reporting templates were created and tested in PERA's general ledger program.

A self-directed brokerage window was also added for participants who sought greater fund choices.

Problem: An influx of new participants threatened to dilute the return on asset value to existing participants in a stable value investment fund, one of the most popular investments in the 457 plan.

Solution: To protect the value of the stable value fund assets for the existing participants, PERA determined the excess of market value over book value of the fund as of a given date. Then, PERA distributed the amount of the excess pro rata to the participants as of that date. The existing participants were credited with a 4.6 percent increase in their stable value account balances as an immediate realization of the value of their long-standing stable value fund. A new stable value fund was created for the existing participants and for those who would automatically be invested in the stable value fund when it became available to participants in all three plans.

Problem: PERA was not making use of its buying power to ensure lower participant fees.

Solution: PERA immediately recognized that the administrative fees would have to be enough to cover the costs of the three plans and any existing administrative deficits, while providing a good value to participants. PERA developed a fee modeler program that imported data on operating revenues and expenses, and allowed PERA to experiment with amounts of flat dollar and asset-based fees to see how a change to any one component affected other components.

Ultimately, PERA consolidated the three plans under a single record keeper and now charges a flat-dollar fee for each of the three plans a participant uses. Participants also pay an asset-based fee for each fund in which they invest. (See Exhibit 3 for details on how the asset-based fee is calculated.)

Problem: Participants lacked the tools to make effective investment decisions. There was no way for participants to gain a complete picture of their retirement income that accounted for both voluntary defined contribution plans and the PERA defined benefit plan.

Solution: PERA now provides direct data feeds from participant DB accounts to the online advice tool, making online investment advice available to all participants at no additional cost. The tool collects information about a participant's retirement, investment, and

Exhibit 3: Calculated Asset-Based Fee

PERAdvantage U.S. Large Cap Stock Fund	Target Allocation	Management Fee	Plan Administration Asset-Based Fee	Revenue Sharing	Total Asset-Based Fee *Percentage*	*Per $1,000*
U.S. Large-Cap Value Equity Portfolio	15%	0.44%	0.14%	0.00%		
PERA Growth & Income Portfolio	20%	0.30%	0.14%	0.00%		
PERA Russell 1000 Index Portfolio	50%	0.02%	0.14%	0.00%		
Large-Cap Growth Portfolio	15%	0.55%	0.14%	0.00%		
					0.36%	$3.60

savings accounts, and provides advice on the best investment mix for his or her defined contribution account. Further, participants may choose to have a professional account manager actively manage their accounts for an additional fee.

PERA also developed a retirement planning calculator, available on the PERA website (at www.copera.org), which integrates the 401(k), 457, and/or DC plan account balance information with the data for the PERA DB plan. PERA members can go to one calculator to see their entire PERA retirement outlook and determine whether their plans will provide the desired income replacement in retirement.

Problem: Communicating extensive plan changes to nearly half a million members over a four-month period.

Solution: PERA's goal was to communicate with each affected member at least two times, using several communication pieces that were distributed across a variety of mediums. PERA created informational brochures for each plan. The first brochure introduced the new program, outlined the new features available to participants, and told participants to look for more information in the coming months. A set of follow-up brochures detailed the new investment options, fund mapping, and fees. Moreover, newsletter articles, letters, web pages, webinars, fact sheets, enrollment kits, and forms were all used to communicate plan changes both to participants and employers. In addition to communication pieces, PERA and record keeping staff held 180 meetings across the state to help educate participants about the transition.

Problem: A project of this magnitude could potentially mean exorbitant costs and thousands of staff hours to complete.

About Colorado PERA

Colorado PERA provides retirement and other benefits to more than 483,000 current and former employees of more than 500 public entities in the state of Colorado. Colorado PERA is the 21st largest public pension plan in the United States, with more than $40 billion in defined benefit and defined contribution assets.

Solution: Nearly all divisions within PERA were heavily involved in the transition. In-house, PERA:

- Ensured a smooth record keeper transition and an overhaul of the reporting and ledger processes to accommodate the changes in investments.
- Completed all legal agreements and contracts.
- Completed, with the help of a consulting firm, the investment management search.
- Created tools to efficiently transmit data between PERA and the record keeper.
- Produced all written and web-based communications pieces.
- Developed meeting presentation materials and met with participants to educate them about the transition.

Ultimately, it was decided that the transition would be smoother using in-house talent, rather than paying outside help. Several staff members dedicated the majority of their workdays to the project over the course of 18 months. PERA did hire a transition manager to build the assets in the target retirement date funds, which was paid through commissions resulting from the purchase and sale of securities. PERA also hired a consulting firm to draft the record keeper request for proposals, manage the evaluation of the record-keeper candidates, and consult in the design of the asset class funds. The consulting firm fee was the most significant expenditure, at $60,000.

While the project itself did not require a great deal of money, significant savings were realized because of the project. The cost of record keeping, custodial services, and internal costs were reduced by 34 percent for the 401(k) plan, 14 percent in the 457 plan, and 23 percent in the DC plan.

CONCLUSIONS

Colorado PERA now has all three plans under one record keeper, streamlined investment options, and account management tools for plan participants, who now have access to an efficient set of plans to better manage their retirement income. PERA is dedicated to ensuring stable retirement income for participants, and that was the driving factor in this major transition. This project addressed the many issues facing plan participants and resulted in an award-winning program of retirement investment options for Colorado's public employees.

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