DEFER - DELAWARE RETIREMENT SAVINGS PLAN

STRATEGY DISCUSSION

PLANS MANAGEMENT BOARD

DECEMBER 2021 MEETING

DELAWARE RETIREMENT SAVINGS PLAN

DEFER

For a brighter tomorrow™

The Delaware Retirement Savings Plan, known as **DE**FER, is intended to create a vehicle through which State employees may, on a voluntary basis, provide for additional retirement income security. **DE**FER is in addition to pension and other benefit programs provided by law for employees of the State.

DEFER encompasses three Plans: (1) the State's deferred compensation plan under IRC § 457(b); (2) the State's tax-sheltered annuity plan for certain education employees under IRC § 403(b); and (3) the State's employer match plan under IRC § 401(a) (the "Match Plan"). All three Plans are administered through an integrated platform offered by a single recordkeeper that serves as the **DE**FER program manager (presently, Voya). The record keeper, or one or more affiliates or third-parties, serves as the trustee for 457(b) Plan and Match Plan assets and the custodian of 403(b) Plan assets.

Plan assets valued at $1.471 billion as of 9.30.2021

457(b)

Plan assets valued at approximately $902 million as of 09.30.2021

403(b)

Plan assets valued at approximately $231.6 million* as of 09.30.2021

*Does not include assets held in individual accounts at previous/legacy providers/contracts. 403(b) legacy vendor assets are valued at approximately $312.1 million as of 09.30.2021

401(a)

Plan assets valued at approximately $25.6 million as of 09.30.2021

Match Plan Frozen Since 2009

DEfer presently includes a multi-tiered investment architecture providing participants with three overarching types or "tiers" of investment options for participants.

Tier One – "Make It Easier for Me"

This option selects an investment for a participant based upon a date of birth and years left to retirement. The fund periodically rebalances the allocation to stocks and bonds and adjusts its risk as the participant approaches retirement. Target Date funds target a certain date range for retirement, or the date the participant plans to start withdrawing money. Participants can select the fund that corresponds to their target date. They are designed to rebalance to a more conservative approach as the date nears.

Tier Two – Give Me Some Choices

This option allows participants to choose from a set of actively and passively managed investment options from the major asset classes.

Tier Three – Let Me Have it All

This option allows participants to access thousands of investment options though a self-directed brokerage account at TD Ameritrade if a participant is willing to take on the additional risks and costs of managing your account.

Paths to Retirement

- **93% of unique plan participants invest in the target date series**
- **72% of plan assets are invested in the target date series**
- **73% of new contributions went into target date funds in the third quarter 2021**

- **25% of plan assets are invested in the core fund options or Tier Two**

- **3% of plan assets are invested in Tier Three**

As of September 30, 2021

DEFER - S.W.O.T. ANALYSIS

STRENGTHS

- Enrollment growth
- Simplified Investment architecture
- Three tiers of investment choice (target date funds, core, brokerage)
- Target date funds as default option in plan
- Fee Transparency
- Institutional Pricing
- Online retirement income analysis tools
- Current model has four field representatives to meet with employees
- Special catch-up provisions and ability to purchase service credits (defined benefit)
- Statewide Benefits Office and School Business Manager Collaboration
- Plans Management Board Oversight

WEAKNESSES

- Mature work force that leads to potential retirement wave (for every 2 enrollments there is one retiree that is actively contributing to the program)
- Active participation rate is 38.35% as of November 2021 (opt-in program)
- Brand confusion (Defer versus Delaware Retirement Savings Plan vs Deferred Compensation)
- Operational challenges with IRS limit aggregation at recordkeeper and payroll providers
- Limited tier two investment fund options (i.e., 14 funds compared to plans of similar size 22-24 funds)
- Low beneficiary designation of existing accounts (new enrollments have 80-90% designation rate)
- Casual/Seasonal employees not eligible to participate
- Lack of matching incentive/frozen Match 401(a) Plan
- No percentage deferral, only flat dollar contributions

OPPORTUNITIES

- Tier Two investment choice depth
- New hire enrollment and lower tenured employee (under 10 years of service) engagement
- Auto-Enrollment
- Percentage deferrals
- Environmental, Social, Governance (ESG) options
- Retiree education and account retention
- Retirement income investment solution
- Legacy account consolidations (Currently, $350 million with legacy vendors)

THREATS

- Outside legacy advisor/broker solicitation of retirees
- Pension and Social Security complacency
- Lack of personal retirement planning and fear/procrastination
- Competing retirement products (e.g, ROTH IRAs)
- Discretionary income for savings and competing consumer needs
- Inflation
- Market volatility

1. INCREASE PARTICIPATION
2. REVIEW INVESTMENTS AND GROW ASSETS
3. ENHANCE PLAN OPERATIONS

1 **Goal One – Build Upon the Enrollment Growth Momentum**
Employee enrollment into the deferred compensation has grown consistently since the transition to the Voya recordkeeping platform in 2016. In 2017, just over 1,000 employees enrolled into the program. In 2021, we anticipate that close to 1,500 employees will enroll into the program. OST developed a strategy to promote the benefits of the deferred compensation plans through employee email campaigns and in partnering with Statewide Benefits to feature the plans during Open Enrollment.

2 **Goal Two – Analyze the Opportunity to Allow Casual/Seasonal Employees to Contribute**
The 457(b) Plan is a voluntary plan available to all pension-eligible employees (Casual-Seasonal employees are not eligible). The 403(b) Plan is a voluntary plan available to all employees working in a public school, charter school, DTCC, DSU and the Dept of Education regardless of pension eligibility. Employees that join the State's agency workforce as a casual seasonal lack a workplace retirement plan.

3 **Goal Three – Explore Auto-Enrollment Opportunities for Deferred Compensation Plans**
Employee participation in deferred compensation does not exceed 30% until six or seven years after an employee start date. For many younger workers, this window of missed opportunity could be crucial to a more secure retirement. By providing an opportunity for an employee to automatically enroll into the plan, with the option of not contributing, more employees will have a stronger savings foundation for retirement.

4 **Goal Four –Support Efforts to "Unfreeze" the 401(a) Match Plan**
Commencing from January 1, 2001, till June 30, 2008, participants contributing to the 457(b) received a $10 per pay or $260 total payment into the 401(a) Match Plan. To promote additional retirement savings, the match incentive is strong promotional tool to attract new participants.

1 **Goal One – Review and Broaden Tier Two Core Investment Options**

Tier Two of the investment menu consists of 14 investment options for participants. The investment options range from passive to active management funds and offer sufficient diversification choices for participants. The managed account service by Morningstar utilizes the investment options in Tier Two. Plans of similar size offer participants a broader mix of options within their core fund menu.

2 **Goal Two – Explore Environmental, Social, and Governance (ESG) Investment Offering**

The Plans Management Board, through the Investment Committee, can review the target date series and potential fund options that satisfy ESG criteria. By reviewing and offering such options, a new segment of plan participants might choose to invest through the deferred compensation plans.

3 **Goal Three – Promote Account Consolidations**

Many employees would benefit from the plans' lower fees and the Board's strong oversight model. Either outside retirement assets (such as a former employer 401k) or a legacy 403(b) account by a current state employee can be consolidated into the plans. As of September 30, 2021, there were approximately $312.1 million in assets at legacy 403(b) providers.

4 **Goal Four –Investigate the Benefits of Offering Flat vs Percentage Based Deferrals:**

Currently, employees looking to contribute to the deferred compensation plans choose a flat dollar amount each pay cycle to contribute to their plan. For the Delaware pension, employees hired after December 31, 2011, contribute 5% of that portion of their monthly compensation which exceeds $6,000 per year. Popular personal finance advice recommends contributing approximately 15% to future retirement needs. By offering a percentage deferral, employees could plan based off percentage allocations and would be more beneficial if an auto-enrollment provision would be implemented for deferred compensation.

1 **Goal One – Improve Existing Internal Controls and Operating Efficiencies**
In the current operations of the plan, the recordkeeper and payroll providers are challenged with managing deferral limits imposed by the IRS each year. Reporting tools are provided for to identify over deferrals and payroll reports are generated to help forecast situations where an over deferral may occur. In addition, missing participants or bad addresses can caused uncashed checks. By innovating with the available tools, OST can help strengthen internal controls.

2 **Goal Two – Beneficiary Designation Rate**
Participants that newly enroll into the deferred compensation have a high designation rate (85%) for beneficiary assignment. Existing accounts have a much lower rate of assignment (30%). Continue to build on efforts to promote beneficiary designation on existing accounts.

3 **Goal Three –Continue to Strengthen Oversight with Board and Committees**
The Board and OST should continue to build on the positive momentum of the last several years and look for additional ways to strengthen its oversight of deferred compensation plans and associated vendors.

4 **Goal Four – Retiree Experience**
Further collaborate with the Office of Pensions and Department of Human Resource to enhance the “off-boarding” process for employees looking to retiree. Leverage program manager to help provide solid planning guidance for employees and streamline request such as special catch and sick/vacation payout provisions.

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INCREASE PARTICIPATION

Goal One – Build Upon the Enrollment Growth Momentum
Goal Two – Analyze the Opportunity to Allow Casual/Seasonal Employees to Contribute
Goal Three – Explore Auto-Enrollment Opportunities for Deferred Compensation Plans
Goal Four –Support Efforts to “Unfreeze” the 401(a) Match Plan

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REVIEW INVESTMENTS AND GROW ASSETS

Goal One – Review and Broaden Tier Two Core Investment Options
Goal Two – Explore Environmental, Social, and Governance (ESG) Investment Offering
Goal Three – Promote Account Consolidations
Goal Four –Investigate the Benefits of Offering Flat vs Percentage Based Deferrals

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ENHANCE PLAN OPERATIONS

Goal One – Improve Existing Internal Controls and Operating Efficiencies
Goal Two – Increase Beneficiary Designation Rate
Goal Three –Continue to Strengthen Oversight with Board and Committees
Goal Four – Enhance Retiree Experience