A few years ago, fiduciaries of the State of Illinois Deferred Compensation Plan became concerned because about one-quarter of all plan assets were invested in a small cap growth fund—one of the most aggressive options available to the plan’s then-53,000 participants.

“That’s highly atypical,” said William R. Atwood, executive director of the Illinois State Board of Investment (ISBI), which administers the 457 plan. “In most defined contribution plans, the most popular investment option is either the stable value option or the conservative bond fund. For us, the most relied-upon option was the most aggressive option.”

The 457 plan began in 1982 and now has 56,000 participants with about $4.1 billion invested in 16 options, including a lifestyle option that involves 13 different target-date funds.

Johara Farhadieh, portfolio manager at ISBI, thinks inertia caused many participants to continue putting their money in the aggressive Acorn fund.

“A lot of participants do a set-it-and-forget-it type of thing,” she said. “And early on, that was one of the first options for participants, and so that’s where they put their money.”

“We routinely communicated to our participants the undesirability of that risk or advised them, ‘If you’re going to have this exposure to small cap growth, make sure you’re aware of that risk and, hopefully, you have other, more conservative assets elsewhere,’” Atwood said.

“But those assets were still allocated in a less-than-desirable way.”

For 30 years, the Acorn fund did well. But by about 2012, its relative performance began to decline, Atwood said. And many of those who were invested in the fund were older employees with less time before retirement to recover from a market downturn.

As performance slipped, “we started to get a better grasp of the risk associated with the plan and our duty as a fiduciary,” he added.

Trustees realized bold moves were needed. In September 2014, ISBI issued a request for proposals for a new small cap growth fund provider to replace the Acorn fund.

At the same time, trustees decided on a step that’s unusual, especially in the public sector: The investments of all plan participants who did not opt out would be reenrolled out of the existing portfolio and moved into the lifestyle fund most suitable based on the participant’s age and length of time until retirement. (Although a state system’s retirement plan isn’t regulated by the U.S. Department of Labor (DOL), Atwood said the plan relies on DOL best practices. Lifestyle funds are the safe harbor option DOL prefers.)

The reenrollment occurred on April 30, 2015. However, just before that, participants had a three-week window in which to opt out of the reenrollment—in other words, proactively choose to stick with their current investment options or move investments to another option of their choice.

“Critical to that was a very aggressive and, ideally, successful communication program to notify plan participants what was going on, why we were doing this and what their options were,” Atwood said.

Farhadieh worked with State of Illinois Central Management Services, consultants from Marquette Associates and recordkeeper T. Rowe Price to develop a communication strategy, including the timing and language and which media to use. T. Rowe Price, which
is responsible for participant communications, executed the strategy.

The campaign included mailed and e-mailed notices of what was changing and important dates to remember, such as the opt-out period and when the transfer of assets would occur. A total of 24 live presentations in six cities throughout Illinois were well-attended, Farhadieh said. Participants could watch live webinars offered on April 15 and 22 from anywhere in the state and could view recorded webinars at their convenience.

The main communication piece was a brochure entitled “Important Enhancements Coming to the State of Illinois Deferred Compensation Plan.” It was mailed to participants’ homes separate from quarterly newsletters, which also discussed the reenrollment. The brochure was written as simply and plainly as it could be while meeting the legal requirements of disclosures, Farhadieh said.

Atwood noted that the response to the reenrollment process was overwhelmingly positive. He credits the communication campaign and making sure the employee union, the American Federation of State, County and Municipal Employees, was made aware of why the reenrollment was being done. “We informed AFSCME of what was going on, what we were contemplating, and why we were doing it, and they were very receptive. If members called, they could explain what was going on.”

The results of the communication campaign exceeded expectations, Atwood and Farhadieh said.

“We anticipated that through the reenrollment process, we would wind up with 85% of assets in the lifestyle option,” Atwood said. “In other words, we expected about 85% of participants to do nothing.”

But after April 30, only 62% of assets went into lifestyle funds. And after the first quarterly statements were sent out June 30, a few more people decided to move out to a different option, leaving 59% of assets in lifestyle funds. As of September 30, that was down to 54.1% for assets.

Although fewer people were investing in the lifestyle funds plan fiduciaries thought were most appropriate, far fewer people chose to invest in the Franklin Templeton small cap growth fund that replaced the Acorn fund. Only 5.5% of assets were in that fund.

“It makes more sense,” Farhadieh said. “When you look at our overall asset allocation, where participants have allocated their money, our current structure is more in line with industry standards.”

“What this said to us was that our communication effort was more successful than we had anticipated, and people were well-aware of the reenrollment,” Atwood said. “A significant number opted to not reenroll and thoughtfully made whatever investment option they wanted to make.”

by | Chris Vogel, CEBS | chrisv@ifebp.org

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