HEALTH WEALTH CAREER

MERCER PROJECT SUMMARY

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Study goal: provide the Retirement Security Board with analysis to support a comprehensive proposal for implementing a state-sponsored savings platform for private-sector employees

The Statutory Goals

Facilitate retirement savings for uncovered Connecticut employees

- Provide uncovered employees with a cost-effective savings platform designed in line with their needs.
- Implement automatic enrollment and default contribution rate.
- Enable portability.

Access to low-cost retirement programs that provide high quality services and investments with full transparency

- Establish practical, functional, well-controlled and fiscally responsible savings platform to promote wealth accumulation and secure retirement income.
- Provide guaranteed rate of return.

Manage the State's liability & fiduciary obligations

- Work consistently with applicable federal and state laws and guidelines.
- Manage governance efforts and mitigate compliance risk.
- Ensure the State has no enduring obligations to participants.

Avoid unintended policy consequences

- Decline in number of private employer-sponsored plans.
- Possible loss of employer contributions.
- Increased governance responsibilities for the State.

Translating a platform design into a viable savings vehicle needs to consider several critical issues

Design

- Contribution rates
- Auto-enrolment/escalation
- Employer contributions
- Pre-retirement withdrawals
- Cost design alternatives
- Wealth accumulation adequacy
- Federal & state laws, including ERISA & tax

Investment Strategy & Options

- Single trust vs. fund choice
- Default options
- Guaranteed returns
- Retirement income
- Post-retirement
- Costs & fees

Governance

- Roles & responsibilities
- Liability management
- Risk mitigation
- Ongoing compliance
- Provide committee support
- Enforcement & penalties

Employer/Employee Experience

- Payroll processing & technology
- Portability
- Technology
- Communications
- Cash movement controls
- Costs & fees

Vendors

- Key requirements
- Technology
- Cash movement controls
- Participant experience
- Costs & fees

The financial feasibility model requires making assumptions to address a range of questions about the Connecticut Retirement Security Program

Key questions	Assumed plan design
What program structure?	• IRA structure • Target date or similar investment vehicle assigned to individual based on age • Key parties include employers, payroll provider, IRA admin, IRA depository/custodian, asset manager
Which employers will participate?	• "Qualified employers" that do not currently offer a qualified retirement plan, defined as any person, corporation, limited liability company, firm, partnership, voluntary association, joint stock association or other entity that employs five or more persons in the state[1]
Which employees will participate?	• Automatic enrollment within 90 days of eligibility • Mandatory participation unless an employee chooses to opt out
How much will employees contribute?	• Eligible compensation includes "Box 1' W-2 income and certain other forms of income such as commissions • Default contribution rate when employees are enrolled in the program • Employees can change default contribution rate by instructing IRA administrator
What is the expected investment return?	• Expected investment vehicle performance will be a function of expected risk and return for different asset classes in multi-asset class products and relative mix • Guarantee option – decision pending
What are the expected costs?	• Upfront: Program set-up (e.g. website, marketing collateral, advertising, contracting with service providers, legal fees) • Ongoing: Outreach, IRA administrator, IRA depository / custodian, asset managers, advisors, legal, enforcement, education, tools

[1] "Qualified employer" does not include: (A) The federal government, (B) the state or any political subdivision thereof, or (C) any municipality, unit of a municipality or municipal housing authority. Qualified retirement plans include Payroll deduction IRA, Simplified Employee Pension (SEP), Simple IRA, Profit sharing, with 401(k) feature, 403(b) (employer and/or employee contributions), Defined benefit plan (open to new participants and providing accruals), 457(b) plan

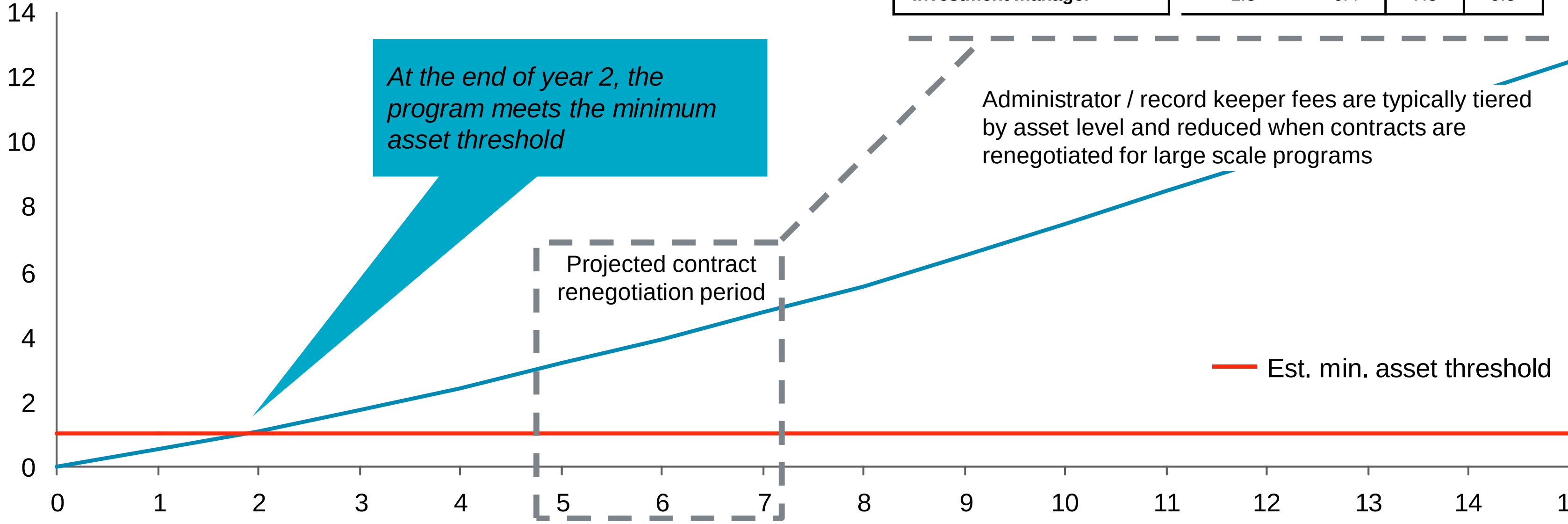
We used a three-part test to assess financial feasibility of the strawman retirement program

Criteria for assessing program feasibility	Meets feasibility condition	Summary findings / comments
Self-funding *Program fees can cover the upfront investment and ongoing administration costs the state incurs*	✓	• The state must cover start-up costs (estimated to be $1-2MM) to establish a governance board, and pay for legal and contracting fees and other administrative costs, and for ongoing expenses (estimated at $500K per year) within a reasonable time period • Service providers indicate the willingness to cover upfront costs associated with their capability build-out, so the state will not be liable for those additional costs • In our base case projection, the program will generate sufficient fees to reimburse the state's initial outlay within 5 years and cover ongoing expenses by the second year
Attractive to service providers *Fees generated by program provide a fair economic return to service providers*	✓	• Potential service providers have indicated a desire to participate in supporting the strawman program • While not a large list, there are several providers that have existing capabilities that can be leveraged to support the program (e.g. employer and participant communications, fulfilment and on-boarding, call center and website support, record keeping, custody and investment management) • Compared to 529 plans, the program economics appear comparable if not superior by Year 2 (i.e. viable 529 plans exist with fewer assets than we project in the base case), and very favorable thereafter, and hence be attractive to providers that currently serve that market
Attractive to participants *Services can be provided at a reasonable fee*	✓	• We expect total program fees can remain below 1%, and potentially start as low as 50 bp, and will therefore be sufficiently attractive to program participants • Additionally, Mercer is performing an income replacement analysis to assess the benefits of program participation at an individual level

In the base scenario, program assets are estimated to meet the minimum asset threshold by the end of the second year

Base scenario assets (Target date fund)
$BN, by year (1-15)

	Fees by year ($MM)			
Role	**Min criteria**	**5**	**6**	**7**
Governing body	0.5	1.6	2.0	2.4
IRA admin. and dep. / cust.	3.0	8.0	9.8	11.9
Investment manager	1.5	6.4	7.8	9.5

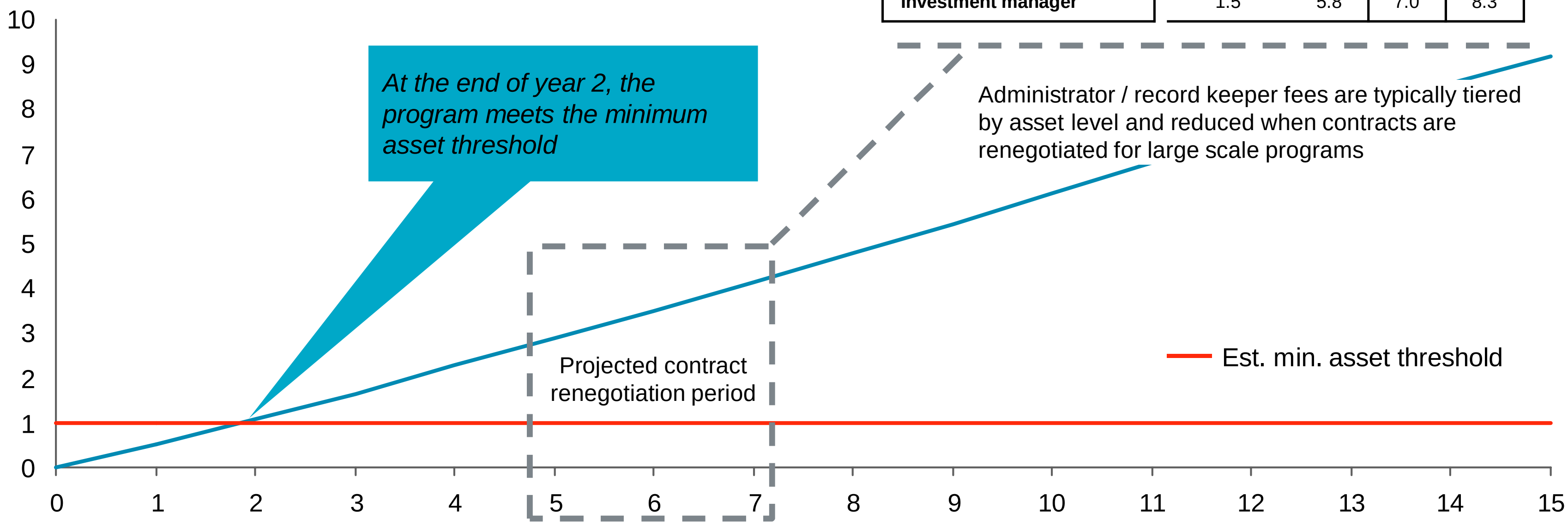


Assets ($BN)		0.5	1.1	1.8	2.4	3.2	3.9	4.8	5.6	6.5	7.5	8.5	9.5	10.3	11.5	12.5
Accounts (K)		246	252	257	261	266	268	271	271	274	278	281	280	279	280	281
Per account ($K)		2	4	7	9	12	15	18	21	24	27	30	34	37	41	45

Under a money market investment assumption, program assets are expected to meet the minimum asset threshold by the end of the second year

	Fees by year ($MM)			
Role	**Min criteria**	**5**	**6**	**7**
Governing body	0.5	1.5	1.8	2.1
IRA admin. and dep. / cust.	3.0	7.3	8.8	10.4
Investment manager	1.5	5.8	7.0	8.3

Base scenario assets (Money Market)
$BN, by year (1-15)

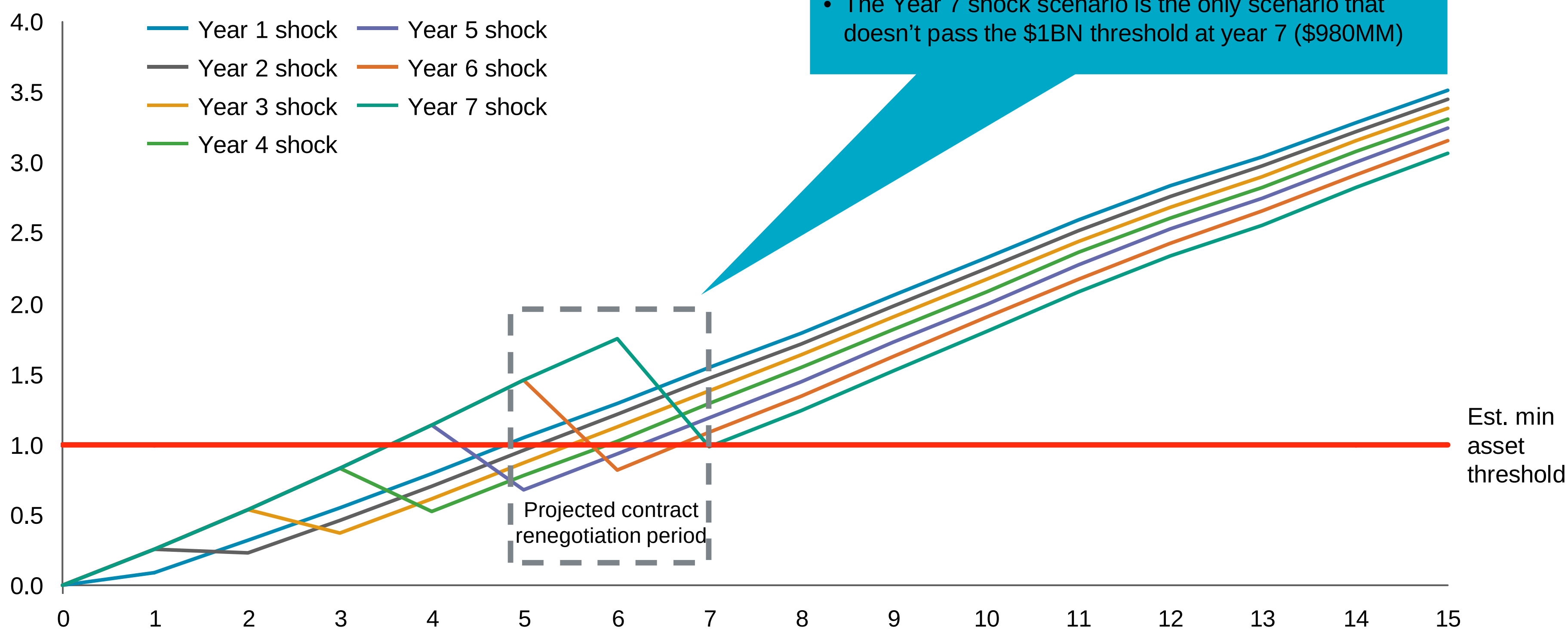


Assets ($BN)		0.5	1.1	1.7	2.3	2.9	3.5	4.2	4.8	5.4	6.1	6.8	7.4	7.9	8.6	9.2
Accounts (K)		246	252	257	261	266	268	271	271	274	278	281	280	279	280	281
Per account ($K)		2	4	6	9	11	13	15	18	20	22	24	27	29	31	33

In some bear scenarios, program assets fall below the minimum threshold between years 5-7, but in all bear scenarios assets eventually recover

Bear scenario assets by year shock applied (Target date fund)
$BN, by year (1-15)

- Between Years 5-7 is the critical period for determining if minimum criteria is met
- The Year 7 shock scenario is the only scenario that doesn't pass the $1BN threshold at year 7 ($980MM)



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