

**OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM**  
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**MEMORANDUM**

DATE: June 3, 2005

TO: OPERS Retirement Board Members

FROM: Julie Reneau, Director of Benefits  
Bill Damsel, Assistant Director - Defined Contribution

RE: **IV. Discussion Items:**  
**A. Financial Planning Program Update**

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**I. Introduction**

At the February 2005 Board meeting, staff provided an update on the OPERS Financial Planning program. During the meeting the Board expressed concerns about having a financial planning program structured in a way that the service provider would be permitted to sell financial products to members. Staff was asked to gather some additional information on low cost financial planning programs that do not involve the recommendation or sale of products by the firm providing the financial planning services. The purpose of this memorandum is to provide the Board with the information that we learned on offering financial planning services without the sale of financial products and to request direction from the Board on the next steps for this initiative.

**II. Request for Information**

A Request for Information (RFI) was issued on April 4, 2005, to gather information from financial planning service providers on low cost approaches to providing financial planning services. The RFI expressly stated that the "service provider will be prohibited from selling financial products to OPERS members and retirees." The RFI was sent to sixteen companies in the financial services or health care services industry and also posted on the opers.org web site.

In the RFI, we requested information on many services that we would like to be able to provide for OPERS members and retirees, such as (1) a comprehensive, personalized financial plan; (2) a toll-free telephone help line that members could use to discuss financial planning topics; (3) a financial planning web site with estimators or calculators, education, and other resources; and (4) other communications/print resources for financial planning education. In addition, we specifically requested that the service providers discuss any tools and resources that they have to help members estimate out-of-pocket health care costs in retirement. We also asked that the service providers estimate the cost to develop a calculator or other resource that would incorporate the HCPP and the health care benefits under the three OPERS retirement plans to help members estimate, plan, and save for out-of-pocket health care costs in retirement.

### **III. Responses to RFI**

We received responses to the RFI from six organizations: PricewaterhouseCoopers (PwC), Ernst & Young (E&Y), Financial Engines, Aetna, AIG/Valic, and Primerica. OPERS was also contacted by several companies (American Express, ICMA, and Nationwide Retirement Solutions) who informed us that they could not provide a response for the services that we specified without the sale of products. A chart comparing the responses is enclosed with this memorandum. The RFI Comparison Chart has a separate column for each of the service providers that submitted a response. However, the Board may want to focus more of its attention on the first two columns (PwC and E&Y), because those were the only responses that would provide the financial planning services that OPERS is seeking without the sale of financial products.

### **IV. Discussion of Responses**

The responses to the RFI submitted by PwC and E&Y both provide details of comprehensive financial planning services that could be offered to OPERS members and retirees without the sale of products. The responses submitted by AIG/Valic and Primerica can probably be disregarded because they include marketing financial products to OPERS members. The Financial Engines response does not involve the sale of products, but their modeling tool does not provide some of the comprehensive financial planning services that we are seeking for our members. Finally, in an effort to provide all of the comprehensive financial planning services, Aetna presented a joint proposal with LifeCare, a vendor of work/life services. This joint proposal would not meet our requirements because some of the financial planning services offered through LifeCare would utilize American Express financial planners who could sell products.

Focusing on the responses of PwC and E&Y, both could provide the following services to OPERS members and retirees.

- Comprehensive, personalized financial plan.
- Unlimited access to personalized telephone-based financial planning counseling on a variety of issues including tax questions, retirement projections, deciding on long-term care insurance, and estate planning.
- Financial planning workshops and/or web casts.
- Financial planning website with tools, education, and other resources.
- Newsletters, emails and other communication resources.

The enclosed OPERS Financial Planning Program RFI Comparison Chart has additional information on the financial planning services offered by PwC and E&Y, and the other four service providers who responded to our RFI.

## **V. Calculator for Out-of-Pocket Health Care Expenses**

With the implementation of the HCPP, an additional impetus behind the financial planning initiative has been the desire to assist OPERS members in planning to meet their out-of-pocket health care expenses in retirement. Ideally, the health care tool would take into account some personal health information provided by the OPERS member, incorporate the projected allowances that the member may be eligible for under the HCPP along with the health care benefits under the three OPERS retirement plans and present the member with an estimated range of their annual out-of-pocket health care costs in retirement. During our research, we have encountered a few estimators that attempt to estimate out-of-pocket health care expenses. However, there is no “off the shelf” tool or resource that will integrate the specific health care benefits for which an OPERS member may be eligible. Thus, OPERS would need to develop that tool probably with the assistance of an outside entity.

The range of potential costs to develop that out-of-pocket health care estimator is not well defined because only E&Y provided cost estimates for that resource. E&Y provided a detailed proposal for a “Basic Health Care Calculator” that would take information provided by the member (*e.g.*, age, expected retirement date, current annual out-of-pocket health care expenses) and then using projected OPERS health care benefits calculate an estimated lump-sum amount that would be needed at retirement to fund the expected lifetime out-of-pocket health care expenses. The “Basic Health Care Calculator” would also provide specific annual savings goals for the years before retirement to assist the member in meeting those future health care expenses. The cost estimate provided by E&Y for the “Basic Health Care Calculator” is \$25,000 - \$30,000.<sup>1</sup>

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<sup>1</sup> E&Y also provided a cost estimate of \$65,000 - \$100,000 to develop an “Advanced Health Care Calculator.” However, in reviewing the differences between the proposed calculators, a resource similar to the “Basic Health Care Calculator” probably would meet the needs of OPERS members.

Both PwC and Aetna indicated in their responses that they have worked on or are currently developing health care cost projection tools. However, neither PwC nor Aetna provided details of how any proposed calculator would operate. The RFI responses submitted by PwC and Aetna also did not provide an estimate of costs to develop the out-of-pocket health care tool. Thus, with only one cost proposal, it is difficult to gauge the reasonableness of E&Y's estimate, although the \$25,000 - \$30,000 range is well below the \$75,000 that we estimated as a part of the budget process last year.

## **VI. Cost Estimates to Establish an OPERS Financial Planning Program**

PwC and E&Y both provided some pricing information on the estimated costs to OPERS to establish a financial planning program and the estimated charge that OPERS members and retirees would need to pay to utilize the financial planning services. It is important to keep in mind that, although these cost estimates were submitted in good faith to assist OPERS with our planning and decisions, they are not firm proposals.

PwC provided a cost estimate that includes a one-time implementation cost to OPERS of \$100,000. The fee that OPERS members and retirees would pay to PwC for unlimited access to the financial planning services is estimated at \$120 - \$150 annually. The cost proposal submitted by E&Y is slightly different. E&Y does not include a separate cost to OPERS for implementing the financial planning program. Instead, under the E&Y proposal OPERS would pay an annual charge of 50 cents per eligible member (\$255,000 based on 360,000 actives and 150,000 retirees). This annual payment would give all eligible OPERS members and retirees access to the E&Y Financial Planning Center web site and provide them with six electronic issues per year of the *E&Y Understanding Personal Finances* newsletter. The fee that OPERS members would pay to E&Y for unlimited access to the financial planning services is estimated at \$125 annually.<sup>2</sup>

## **VII. Next Steps**

From the responses to our RFI, it appears that OPERS could establish a financial planning program for our members and retirees that would not involve the sale of financial products by the service provider. There would be some initial implementation costs to OPERS (estimated at \$100,000) and probably internal costs for the start-up of the program (\$50,000), but most of the costs for the financial planning program would be paid by the OPERS members and retirees who sign up to utilize the services (\$120 - \$150 annual fee for unlimited access to all services). This annual fee estimate is congruent with the cost

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<sup>2</sup> Even though the RFI specified that OPERS was seeking information on a financial planning program that would be low cost to OPERS, both PwC and E&Y submitted cost proposals for the financial planning program if OPERS were to pay the entire cost. The PwC cost proposal for unlimited access to all financial planning services was \$6 per OPERS member and retiree (\$ 3.06 million) annually. The E&Y cost proposal was \$10 per OPERS member and retiree (\$5.1 million) annually.

range that OPERS members and retirees indicated that they would be willing to pay for unlimited access to financial planning services, if OPERS were to offer them.<sup>3</sup>

The cost estimates for implementation are in line with the \$214,000 (\$145,000 and one financial planning coordinator position [\$55,000 plus \$14,000 benefits]) that the Board approved as a budget initiative last September for development of a financial planning program. At this point, staff is asking the Board for direction on this initiative. If the Board wants to offer financial planning services to OPERS members and retirees, then we will use the information that we learned from the responses to the RFI and prepare a Request for Proposal for a financial planning services program that will provide high quality and unbiased financial planning services without the sale of products.

On the other hand, if the Board decides that it no longer wants to offer financial planning services to OPERS members and retirees, we will file this information so that it can be used later, if needed. If there is a decision to pursue only the development of a tool or resource to assist members with planning for out-of-pocket health care expenses, then primary responsibility for that initiative probably will be shifted to the Health Care Division.

Enclosure

- OPERS Financial Planning Program RFI Comparison Chart

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<sup>3</sup> During a Financial Planning Services survey conducted by OPERS in June 2004, over 10% of the OPERS members and retirees surveyed indicated they would be willing to pay \$150 or more annually for unlimited access to financial planning services (38% indicated they would be willing to pay \$100 or more annually).

## OPERS Financial Planning Program

### RFI Comparison Chart

	<b>PricewaterhouseCoopers (PwC)</b>	<b>Ernst &amp; Young (E&amp;Y)</b>	<b>Financial Engines</b>	<b>Aetna</b>	<b>AIG/Valic</b>	<b>Primerica</b>
<b>Description of Service Provider</b>	<ul style="list-style-type: none"> <li>• Large accounting firm, which has provided comprehensive tax and financial planning services to individuals for over 50 years.</li> <li>• Has provided employee financial education and counseling services through its Personal Financial Services practice since the early 1980s.</li> </ul>	<ul style="list-style-type: none"> <li>• Large accounting firm, with more than 300 professional staff in the U.S. focused on financial planning.</li> <li>• Has provided comprehensive financial planning programs for large employers since 1978.</li> </ul>	<ul style="list-style-type: none"> <li>• Provider of personalized advice and portfolio management since 1996.</li> <li>• Provides tools, resources, and technology to assist participants with decisions on asset allocation.</li> <li>• Works with 27 public sector systems to provide education or advice to their participants.</li> </ul>	<ul style="list-style-type: none"> <li>• Large nationally recognized provider of health care services.</li> <li>• Extensive experience with OPERS health care program.</li> <li>• Response to RFI for financial planning services was a joint proposal with a vendor of work/life services.</li> </ul>	<ul style="list-style-type: none"> <li>• Large financial services firm that specializes in retirement programs, recordkeeping and related investment services for schools, non-profit organizations and governmental entities.</li> <li>• Provides services in Ohio for 457 and 403(b) plans.</li> </ul>	<ul style="list-style-type: none"> <li>• Subsidiary of large financial services firm that specializes in sale of insurance products.</li> </ul>
<b>Can Service Provider offer the financial planning services OPERS is seeking without sale of products?</b>	<p><b>Yes.</b></p> <p>“PwC employees are not involved in the sale or endorsement of any investment or insurance products.”</p>	<p><b>Yes.</b></p> <p>“E&amp;Y has no economic interest in the sale or marketing of any investment, insurance, or other financial products.”</p>	<p><b>No.</b></p> <p>Financial Engines provides calculators to assist participants or financial planners with asset allocation decisions, but does not offer comprehensive financial planning services.</p>	<p><b>No.</b></p> <p>The financial planning portion of the response Aetna submitted utilizes financial planners who would be able to recommend products.</p>	<p><b>No.</b></p> <p>AIG/Valic would not be able to commit to a program that would limit their ability to market products to OPERS members.</p>	<p><b>No.</b></p> <p>Primerica would solicit life insurance, long-term care, mortgages, etc., although clients are under no obligation to buy any of their products.</p>

### RFI Comparison Chart for OPERS Financial Planning Program

	PricewaterhouseCoopers (PwC)	Ernst & Young (E&Y)	Financial Engines	Aetna	AIG/Valic	Primerica
Resources to help members estimate out-of-pocket health care expenses in retirement	<p><b>Some health care resources.</b></p> <p>PwC has developed health care cost projection models for employers, employees, and retirees.</p> <p><b>Note:</b> PwC provided no details or cost estimates for developing a tool that would incorporate OPERS health care information to assist our members in planning to meet their out-of-pocket health care costs.</p>	<p><b>Some health care resources.</b></p> <p>E&amp;Y currently provides education on planning for future health care expenses.</p> <p><b>Note:</b> E&amp;Y provided detailed plan to develop a (1) basic calculator or (2) advanced calculator that would incorporate OPERS health care information to assist our members in planning to meet their out-of-pocket health care costs. The cost estimate for the basic calculator is \$25,000 - \$30,000, while the cost estimate for the advanced calculator is \$65,000 - \$100,000.</p>	<p><b>No.</b></p> <p>Calculator offered by Financial Engines does not take into account health care variables. It assists participants with monitoring the progress of their portfolio of personal assets toward a goal that the participant has set.</p>	<p><b>Some health care tools in development.</b></p> <p>Aetna is working on health care-related tools and would be interested in co-developing an integrated financial tool to assist OPERS members in planning for health care costs throughout their life.</p> <p><b>Note:</b> Aetna provided no details or cost estimates for developing a tool that would incorporate OPERS health care information to assist our members in planning to meet their out-of-pocket health care costs.</p>	<p><b>No.</b></p> <p>AIG/Valic offers retirement strategies education to help members estimate the cost of health care in retirement.</p>	<p><b>No.</b></p> <p>The sample personalized financial plan attached to the response submitted by Primerica does not address issue of health care costs.</p>
Personalized financial plan	<p><b>Yes.</b></p> <p>OPERS members could create and update comprehensive personal financial plans on-line.</p>	<p><b>Yes.</b></p> <p>OPERS members could call financial planner line to request plan and discuss results. Members may request to speak with the same financial planner.</p>	<p><b>No.</b></p> <p>Financial Engines provides personalized portfolio management, but does not address many financial planning topics.</p>	<p><b>No.</b></p> <p>They would consider piloting an integrated approach with OPERS and a financial planning vendor.</p>	<p><b>Yes.</b></p> <p>Comprehensive personalized financial plan would be available to OPERS members.</p>	<p><b>No.</b></p> <p>The personalized financial needs analysis offered by Primerica appears to be aimed at identifying insurance needs.</p>

### RFI Comparison Chart for OPERS Financial Planning Program

	PricewaterhouseCoopers (PwC)	Ernst & Young (E&Y)	Financial Engines	Aetna	AIG/Valic	Primerica
Financial planning counseling and phone support	<b>Yes.</b>  OPERS members would have unlimited access to telephone based financial planning counseling.  In-person financial planning would not be provided.	<b>Yes.</b>  OPERS members would have unlimited access to telephone based financial planning counseling.  In-person financial planning can be provided for additional cost.	<b>No.</b>  Financial Engines provides personalized portfolio management, but does not address many financial planning topics.	<b>No.</b>  Aetna can provide referrals for financial counseling.	<b>Yes.</b>  AIG/Valic provides financial advisors who would be available to explain and answer questions about personalized financial plan.	<b>No.</b>  Primerica provides financial advisors who would be available to meet with members to answer questions about the financial needs analysis.
Financial planning website	<b>Yes.</b>  OPERS members would have unlimited access to a comprehensive financial planning website.	<b>Yes.</b>  OPERS members would have unlimited access to a comprehensive financial planning website.	<b>No.</b>  Financial Engines provides website with personalized portfolio advice, but does not cover many financial planning topics.	<b>No.</b>  Aetna provides a website that offers financial education and calculators, but does not cover many financial planning topics.	<b>Yes.</b>  Web-based education available at online financial planning and education site.	<b>No.</b>
Financial planning workshops	<b>Yes.</b>  Financial planning workshops are available in person or online via Webcasts.	<b>Yes.</b>  Financial planning workshops are available in person, online, or via tele/videoconference.	<b>No.</b>	<b>No.</b>	<b>Yes.</b>  Has certification course for its presenters of financial and education program.	<b>No.</b>
Communication resources	<b>Yes.</b>  Various communication resources are provided including newsletters and email messages on timely financial planning topics.	<b>Yes.</b>  Various communication resources are provided including newsletters and retirement planning guides.	<b>Yes.</b>  Electronic newsletter content.	<b>No.</b>	<b>Yes.</b>  A variety of communication resources are provided.	<b>No.</b>



### RFI Comparison Chart for OPERS Financial Planning Program

	PricewaterhouseCoopers (PwC)	Ernst & Young (E&Y)	Financial Engines	Aetna	AIG/Valic	Primerica
Cost for programs (annual fee for unlimited usage)	<p><b>Cost to members / retirees (estimated)</b></p> <p>\$120 – 150 annual fee for each member enrolled</p> <p><b>Cost to OPERS for implementation (estimated)</b></p> <p>one-time charge of \$100,000</p> <p><b>Note:</b> If OPERS were to pay for everything, the annual charge would be about \$6 per eligible member and retiree.</p>	<p><b>Cost to members / retirees (estimated)</b></p> <p>\$125 annual fee for each member enrolled</p> <p><b>Cost to OPERS for implementation and ongoing services (estimated)</b></p> <p>annual charge 50 cents per eligible member and retiree</p> <p><b>Note:</b> based on 360,000 actives and 150,000 retirees annual charge would be \$255,000.</p> <p><b>Note:</b> If OPERS were to pay for everything, the annual charge would be about \$10 per eligible member and retiree.</p>	<p><b>N/A</b></p> <p>Financial Engines did not provide cost estimates. They would need more information on the OPERS project before providing an estimated cost range.</p>	<p><b>N/A</b></p> <p><b>Note:</b> Aetna's proposal of costs is non-responsive because services include marketing products to OPERS members/retirees.</p>	<p><b>N/A</b></p> <p><b>Note:</b> AIG/Valic's proposal of \$0 cost to OPERS and \$0 annual or per/service cost to members is non-responsive because it includes marketing products to OPERS members/retirees.</p>	<p><b>N/A</b></p> <p><b>Note:</b> Primerica's proposal of costs is non-responsive because services include marketing products to OPERS members/retirees.</p>
Cost for programs (per service usage)	<p><b>Note:</b> PwC also estimated that the fee each member or retiree would pay for using a single financial planning service would be \$100 per service.</p>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>