



# NC 403(b) Program Review

December 2021



**North Carolina**  
Total Retirement Plans



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# Topics for Review

- I. History and Background
- II. Challenges
- III. Options





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# I. History and Background

# History of the NC 403(b) Program

## Establishment of the NC 403(b) Program

- Enabling legislation passed in 2011 (Session Law 2011-310 (HB730))
- Department of State Treasurer was authorized, but not required, to create the NC 403(b) Program
- Program was created and implemented in 2014

## Rationale for the NC 403(b) Program

- ✓ Lower Participation Fees – A statewide program would create economies of scale, thus lowering administrative and investment costs for employers
- ✓ Increase Choice – The program was designed to be a high service, low-cost option  
*School districts are not required to participate in the program or eliminate any existing 403(b) options currently offered*
- ✓ Provide Oversight – The program would join the existing NC 401(k) and NC 457 Plans and be governed by the Board and the Department



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# Structure of the NC 403(b) Program

## Investments

- Limited to mutual funds (federal law)
- 12 investment options: Diversified but focused
- Institutional share class

## Recordkeeping

- Bundled with investment and custodial services
- Communications services provided by the recordkeeper
- Same recordkeeper as the NC 401(k) and NC 457 Plans

## Governance

- Administered by the Department and the Board (as with the NC 401(k) and NC 457 Plans)
- Participating employers (school districts and community colleges) are the sponsors of the NC 403(b) plans

## Finance

- Start-up costs: Loan from QEBA (Paid Off)
- Ongoing revenue: Administrative fee of 5 bps



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# Statistics for the NC 403(b) Program

**Current number of Accounts: 1,410**

**Program Balance as of June 30: \$30,531,113**

	Total Market Value	% of Portfolio	Passive Core Options	Active Core Options
<b>Passive Core Options</b>				
Vanguard Short-Term Bond Index Admiral	2,225,929	7.3%	2,225,929	
Vanguard Total Bond Market Index Admiral	1,313,224	4.3%	1,313,224	
Vanguard Institutional Index I	8,896,013	29.1%	8,896,013	
Vanguard Extended Market Index Admiral	2,608,115	8.5%	2,608,115	
Vanguard Total International Stock Index Fund Admiral	610,976	2.0%	610,976	
Vanguard Shrt-Term Infl-Prot Sec Index Admiral	407,739	1.3%	407,739	
<b>Active Core Options</b>				
Metropolitan West Total Return Bd Plan	4,340,866	14.2%		4,340,866
Principal Diversified Real Asset Fund R6	1,072,192	3.5%		1,072,192
Vanguard Windsor II Fund Admiral	1,084,478	3.6%		1,084,478
T. Rowe Price Blue Chip Growth I	1,418,128	4.6%		1,418,128
DFA US Small Cap I	1,825,290	6.0%		1,825,290
Baillie Gifford International Alpha K	4,728,163	15.5%		4,728,163
<b>Total</b>	<b>\$ 30,531,113</b>	<b>100.0%</b>	<b>16,061,996</b>	<b>14,469,117</b>



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# State-sponsored 403(b)s

- Sixteen states sponsor 403(b) programs/plans
- Thirty-three states and DC do not sponsor 403(b) programs/plans
- California has a platform in which school districts can elect to offer a plan, but it is not state-sponsored

Source: National Tax Deferred Savings Association



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## II. Challenges



# Internal Challenges

## Overview

- The NC 403(b) Program faces internal competition from our own state-sponsored NC 401(k) and NC 457 Plans
- Many eligible employers offer more than one of the NC Supplemental plans
- Evidence from Prudential suggests that when faced with the choice of the NC 401(k) Plan, NC 457 Plan, and NC 403(b) Program, most participants elect to participate in the NC 401(K) Plan, followed by the NC 457 Plan



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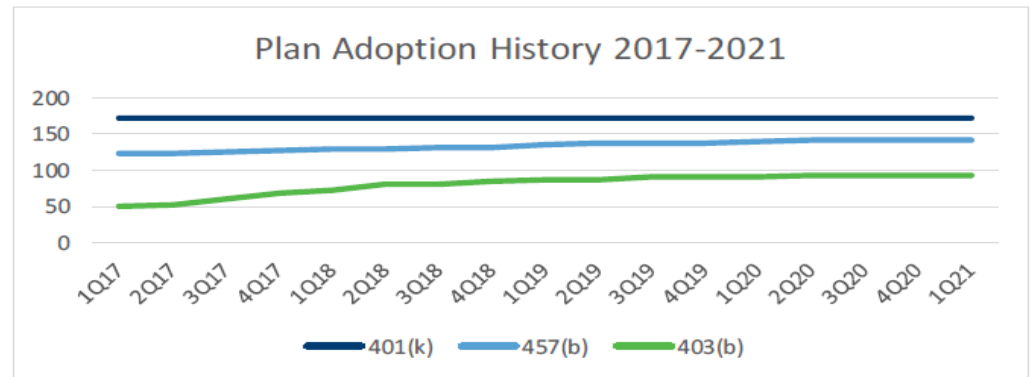


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# Internal Challenges

- As of 1Q 2021 there are **94** School Districts and Community Colleges who offer the NC 403(b) program out of a possible 173 or **54%** that are eligible to offer the NC 403(b)
- All **173** have adopted the NC 401(k) Plan and **141** have adopted the NC 457 Plan
- Of the **94** entities offering the NC 403(b) program, all **94** offer the NC 401(k) Plan and **88** offer the NC 457 Plan

	Plan Adoptions		
	401(k)	457(b)	403(b)
1Q17	173	124	50
2Q17	173	124	53
3Q17	173	126	61
4Q17	173	127	69
1Q18	173	130	73
2Q18	173	130	80
3Q18	173	132	81
4Q18	173	132	84
1Q19	173	136	86
2Q19	173	137	87
3Q19	173	138	90
4Q19	173	138	90
1Q20	173	140	92
2Q20	173	141	93
3Q20	173	141	93
4Q20	173	141	93
1Q21	173	141	93



50 SubPlans had the 403(b) Plan when the transition to Prudential occurred in February 2017. There are 93 SubPlans, an increase of 46.24%, who have the 403(b) as of May 2021.



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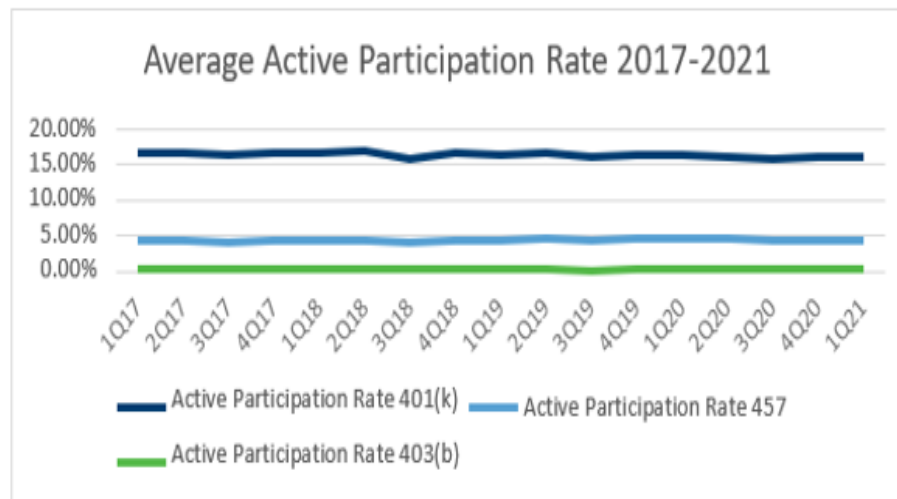
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# Internal Challenges

## Participation by Employees (1Q 2021)

- Like employer participation, active employee participation rates across Schools and Community College subplans that offer the NC 403(b) favor the NC 401(k) and NC 457

	Active Participation Rate		
	401(k)	457	403(b)
1Q17	16.55%	4.04%	0.37%
2Q17	16.60%	4.09%	0.39%
3Q17	16.36%	3.98%	0.37%
4Q17	16.54%	4.10%	0.37%
1Q18	16.56%	4.11%	0.36%
2Q18	16.68%	4.20%	0.37%
3Q18	15.70%	3.94%	0.35%
4Q18	16.44%	4.28%	0.35%
1Q19	16.30%	4.29%	0.36%
2Q19	16.42%	4.40%	0.36%
3Q19	15.90%	4.24%	0.35%
4Q19	16.36%	4.49%	0.35%
1Q20	16.17%	4.42%	0.36%
2Q20	16.08%	4.39%	0.36%
3Q20	15.70%	4.16%	0.36%
4Q20	16.04%	4.26%	0.37%
1Q21	15.90%	4.24%	0.37%



Average Active Participation Rate across School and Community College SubPlans included on the Quarterly Field Reporting.



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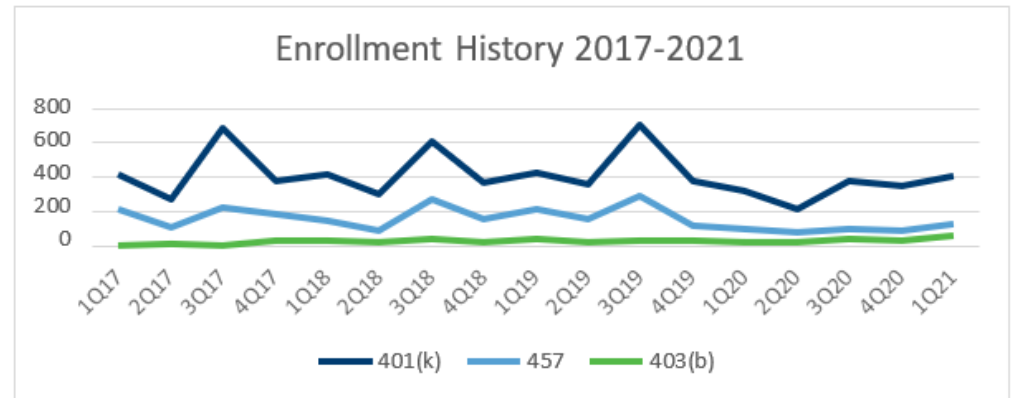
# Internal Challenges

## Enrollment History – 2017 to 2021

### 17 Quarter Snapshot

	Plan Enrollments		
	401(k)	457	403(b)
1Q17	411	208	2
2Q17	273	103	6
3Q17	690	223	0
4Q17	372	185	28
1Q18	412	147	26
2Q18	298	90	18
3Q18	613	266	35
4Q18	366	149	16
1Q19	428	211	38
2Q19	360	156	20
3Q19	704	291	28
4Q19	378	117	32
1Q20	316	95	21
2Q20	213	73	20
3Q20	372	96	36
4Q20	346	89	27
1Q21	406	126	54

## Data for K-12 and Community College Employers offering the NC 403(b)



There have been 407 enrollments in the 403(b) Plan between 2017 and 2021.



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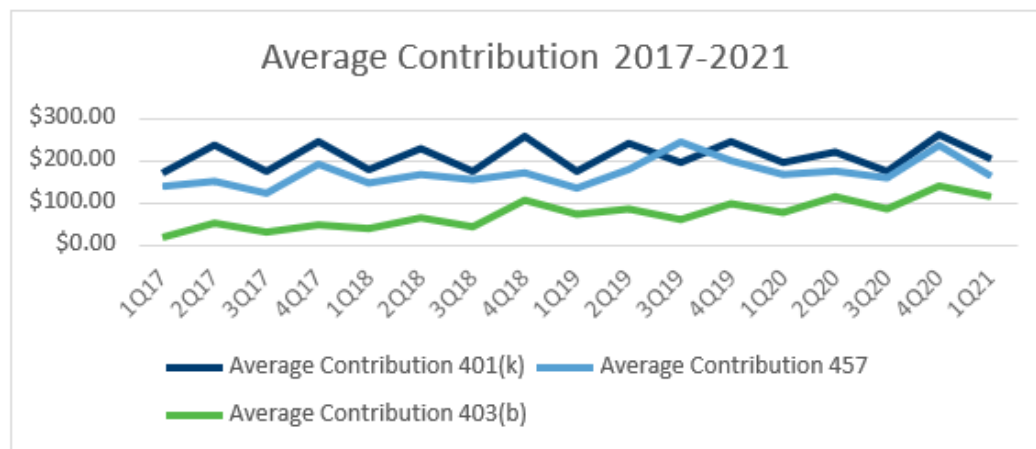
# Internal Challenges

## Average Contribution – 2017 to 2021

### 17 Quarter Snapshot

### Data for K-12 and Community College Employers offering the NC 403(b)

	Average Contribution		
	401(k)	457	403(b)
1Q17	\$169.97	\$137.06	\$18.98
2Q17	\$235.59	\$147.72	\$51.30
3Q17	\$172.36	\$120.99	\$28.34
4Q17	\$243.61	\$190.96	\$46.11
1Q18	\$176.81	\$145.28	\$38.78
2Q18	\$226.70	\$166.70	\$60.67
3Q18	\$175.60	\$151.61	\$43.82
4Q18	\$257.59	\$170.42	\$105.05
1Q19	\$171.81	\$133.65	\$70.76
2Q19	\$238.47	\$179.09	\$85.12
3Q19	\$195.22	\$242.90	\$58.37
4Q19	\$245.40	\$198.35	\$96.65
1Q20	\$192.79	\$165.32	\$75.05
2Q20	\$218.14	\$173.79	\$110.94
3Q20	\$172.33	\$157.21	\$84.49
4Q20	\$258.15	\$237.47	\$134.80
1Q21	\$202.79	\$159.89	\$111.43



Average Contribution across School and Community College SubPlans included on the Quarterly Field Reporting.



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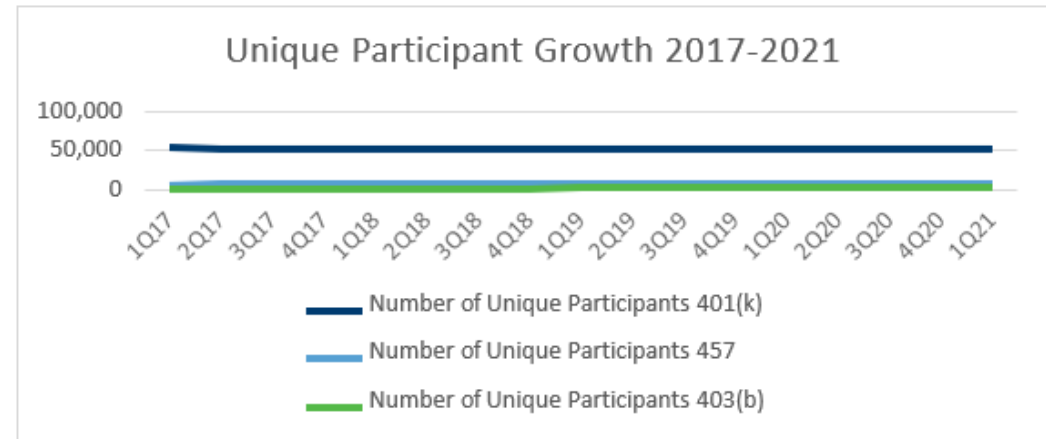
# Internal Challenges

## Unique Participant Growth – 2017 to 2021

17 Quarter Snapshot

Data for K-12 and Community College Employers offering the NC 403(b)

	Number of Unique Participants		
	401(k)	457	403(b)
1Q17	52,764	6,865	1,196
2Q17	52,594	6,910	1,186
3Q17	52,496	6,946	1,183
4Q17	52,608	7,161	1,204
1Q18	52,407	7,188	1,212
2Q18	52,208	7,223	1,226
3Q18	51,975	7,237	1,235
4Q18	52,124	7,453	1,252
1Q19	51,881	7,496	1,264
2Q19	51,773	7,596	1,282
3Q19	51,622	7,658	1,293
4Q19	51,823	7,860	1,335
1Q20	51,590	7,877	1,335
2Q20	51,361	7,856	1,339
3Q20	51,115	7,842	1,349
4Q20	51,080	7,868	1,375
1Q21	50,902	7,852	1,386



403(b) Unique participants have grown by 190, or 13.71%, between 2017 and 2021.



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# External Challenges

- Participation in the NC 403(b) Program is optional for eligible employers (school districts and community colleges) – and only 54% opt to participate
- Participating employers are not required to discontinue any existing 403(b) options or limit the number of options they offer
- Many participating employers offer the NC 403(b) Program as an additional choice to other current 403(b) offerings

Type of Employer	Number of Employers
Total participating	94
<b>NC Exclusive for all employees</b>	<b>13 (14%)</b>
NC Exclusive only for new employees	39
Multiple vendors for all employees	42



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# External Challenges – Example #1










## Plan Details for Charlotte-Mecklenburg Schools, Charlotte NC

403(b) 457(b)

Current Status: Active

### OMNIP3 Participating Investment Providers

Investment Types: ● Fixed Annuity (F) ● Fixed Index Annuity (FI) ● Variable Annuity (VA) ● Investment Advisory Service (RIA) ● Mutual Funds (MF) ○ Not Offered

	(F)	(FI)	(VA)	(RIA)	(MF)
 AIG Retirement Services (formerly VALIC)	●	○	●	●	○
 Equitable (formerly AXA)	●	●	●	●	●
 Horace Mann Life Ins. Co.	●	●	●	○	●
Lincoln Financial Group	Please contact provider				
NC State Plan - Prudential - 401(k)	Please contact provider				
NC State Plan - Prudential - 403(b)	Please contact provider				
 ROTH - AIG Retirement Services (formerly VALIC)	●	○	●	●	○
 ROTH - Equitable (formerly AXA)	●	○	●	●	●
 ROTH - Horace Mann Life Ins. Co.	●	●	●	○	●
ROTH - Lincoln Financial Group	Please contact provider				
ROTH - NC State Plan - Prudential - 401(k)	Please contact provider				
ROTH - NC State Plan - Prudential - 403(b)	Please contact provider				
ROTH - Security Benefit	●	●	●	●	●
ROTH - Voya Financial (North.)	●	●	●	●	●
ROTH - Voya Financial (VRIAC)	●	●	●	●	●
 Security Benefit	●	●	●	●	●
 Voya Financial (North.)	●	●	●	●	●
 Voya Financial (VRIAC)	●	●	●	●	●



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# External Challenges – Example #2

## Union County Board of Education

### Authorized Investment Providers

*For specific investment provider information, please click on the investment provider name of your choice to visit the company's website.*

#### 403(b)

ASpire Financial Services	(866) 634-5873
Brighthouse Life Insurance Company	(800) 638-5433
Cetera-MG Trust Company-PenSelect	(803) 354-5003
GWN Securities	(561) 472-2700
Horace Mann Insurance Company	(800) 999-1030
Lincoln Investment Planning, LLC	(800) 242-1421
Metropolitan Life Insurance Company	(800) 560-5001
National Life Group	(800) 579-2878
Prudential, Recordkeeper for NC 403(b) Program	(866) 627-5267
ReliaStar Life - Subsidiary of VOYA Financial	(877) 882-5050
VOYA Financial	(800) 584-6001



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# Assessment of Challenges

## Challenges of the NC 403(b) Program vs. Focusing on the NC 401(k) and NC 457 Plans

### 1. HIGHER FEES

- Administrative fee: 5 bps for the NC 403(b) Program vs. 2.5 bps for the NC 401(k) and NC 457 Plans
- Investment management fees: Investments in 403(b) plans are restricted by federal law to mutual funds, which typically are more expensive than separately managed accounts and CITs like the ones offered in the NC 401(k) and NC 457 Plans
- TPA fees: Many eligible employers offer multiple 403(b) options and therefore, often employ a third-party administrator (TPA) to reduce their compliance and administrative burdens. The TPA fee is in addition to the recordkeeping fee and can be as much or more than the recordkeeping fee

### 2. GREATER COMPLEXITY

- Message to employers and employees: Value proposition (generally the same withdrawal options and restrictions as the NC 401(k) Plan, higher price, contributions count against 401(k) limit)
- Administration (small increase, but increase nonetheless, in administrative burden)

### 3. REDUCED CHOICE

- Investments in 403(b) plans are restricted by federal law to mutual funds
- 403(b) plans do not have stable value funds like the NC Stable Value Fund



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## III. Options

# Option #1: Status Quo

## Option #1

- Maintain the current operation of the NC 403(b) Program
- Permit new employers and employees to join the program
- Permit continued contributions by employers and employees

### Pros

- \$30+ million in assets and 1400+ participants stay in NC Supplemental Program. (Smallest of 3)
- NC 403(b) continues to be the low cost/best practice 403(b) offering in the State; lower in cost than competing options. (Yet very few new enrollments)
- Allows plan-to-plan transfers from higher-cost legacy 403(b) providers. (Not leveraged)

### Cons

- NC 403(b) program remains “third choice” when compared to NC 401(k) and NC 457 Plans
- Participant confusion and inaction based on multiple options/choices
- NC Regional Education Counselors (REC) team continues to wrestle with competing priorities specific to increasing participation in NC 401(k), NC 457 and/or NC 403(b)
- NC 403(b) requires portion of staff time
- Duty of Loyalty and Duty of Care, one would recommend the lower fee, lower cost option in the NC 401K and NC 457 Plans



# Option #2: Discontinue Program

## Option #2

- Discontinue the NC 403(b) Program
- Participating employers: Decide whether to terminate or continue 403(b) plan
- Participants / Assets: Take distribution, transfer to other investments within the same 403(b) plan, or roll over to another retirement plan

### Pros

- Focuses the value proposition (lower fees, lower expense investments) on the NC 401(k) and NC 457
- Reduces confusion for employees
- Allows for NC REC resources to be more focused
- Reduction of administrative burden/oversight from the State

### Cons

- Removes best in class/low-cost 403(b) option
- Likely impacts teachers who are focusing on 403(b) as plan choice
- For certain schools' discontinuation may create discontent and unforeseen political risks that could impact how the NC 401(k) and NC 457 plans are positioned in the schools



# Option 2: Discontinue Program

## Options for Employers (as plan sponsors)

- Terminate the 403(b) plan
  - Creates distributable event
  - Participants can withdraw or roll over their account balances
  - **NC 401(k) and NC 457 Plans** are options for rollovers
- Continue the 403(b) plan
  - Use other investment providers (current or new)
  - Participants can transfer account balance to another investment provider

## Options for Participants

- If employer terminates 403(b) plan
  - Receive account in a lump-sum payment
  - Roll over account to another retirement plan, e.g., **NC 401(k) or NC 457 Plan**
- If employer continues 403(b) plan
  - Transfer account balance to another investment provider (current or new)
  - Account cannot be rolled over to **NC 401(k) or NC 457 Plan**



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# Option 2: Possible Timeline

- 12/2/2021: Board votes to discontinue the NC 403(b) Program
- 12/15/2021: Notice of program discontinuance and timing is sent to participants, participating employers, and Prudential
- 1/1/2022: Program is frozen to participation by new employers and to employees hired on or after this date
- 1/1/2022 – 6/30/2022: Employers contract with new recordkeeper / investment provider (if NC is sole provider and employer wants to continue plan)
- 5/31/2022: Deadline for employers to notify Department / Prudential of go-forward direction (i.e., continue / terminate plan and investment fund mapping)
- 7/1/2022: Program is frozen to new participants
- 7/1/2022 – 12/31/2022: Employers work with Prudential and new investment providers on transfers and rollovers
- 8/1/2022: Program is frozen to new contributions
- 12/31/2022: NC 403(b) Program is discontinued



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# Questions



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# Thank you



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