

N o r t h C a r o l i n a  
**Future of Retirement**  
S t u d y C o m m i s s i o n

Meeting 1

January 22, 2010

Department of the State Treasurer

Framework Proposal and Getting to Know Our Customers

## Key Events in NC Retirement Systems History

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- ▶ 1939 – Local Governmental Employees' Retirement System (LGERS) framework established
- ▶ 1941 – Teachers and State Employees' Retirement System (TSERS) established
- ▶ 1945 – LGERS begins to take on members
- ▶ 1963 – TSERS and LGERS converted from money purchase plans to traditional defined benefit plans; integrated with Social Security
- ▶ 1974 – NC 457 Deferred Compensation Plan established
- ▶ 1975 – TSERS adopts flat accrual rate
  - ▶ In 1976, LGERS does the same
- ▶ 1985 – NC 401(k) plan established



# Steps of Proposed Framework

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- ▶ 1. Getting to know the customers
- ▶ 2. Setting the Goal
- ▶ 3. Managing Risks
- ▶ 4. Adjusting Incentives
- ▶ 5. Participant Decision-Making
- ▶ 6. Paying for It
- ▶ 7. Reviewing Tentative Recommendations (Optional)
- ▶ 8. Finalizing Recommendation for New Hires
- ▶ 9. Finalizing Recommendation for Current Employees



# State and Local Employee Statistics

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- ▶ Diverse group of over 450,000 active members in state and local workforce
- ▶ State Employees: Key Statistics
  - ▶ 58% work in K-12 schools; 76% in education at all levels
  - ▶ 69% are female
  - ▶ 68% are over the age of 40
  - ▶ 33% have less than 5 years of service; 16% have 20+
  - ▶ 26% make less than \$30k per year
- ▶ Local Employees: Key Statistics
  - ▶ 21% of local employees are LEOs
  - ▶ 54% of local employees are male
  - ▶ 62% of local employees are over the age of 40
  - ▶ 33% have less than 5 years of service; 15% have 20+
  - ▶ 21% of local employees make less than \$30k per year



# Questions to Ask about Workforce

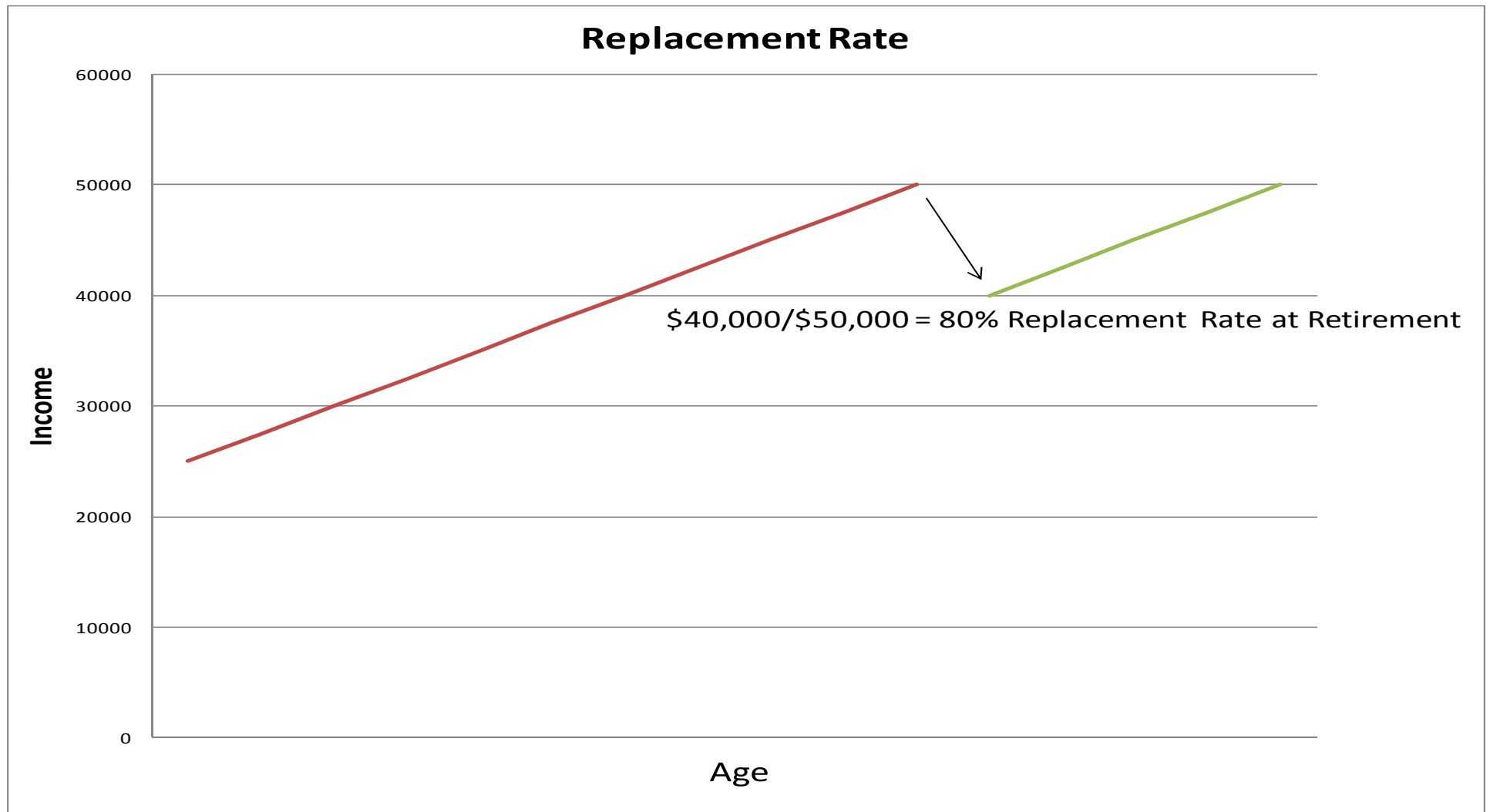
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- ▶ What retirement benefits do employees want/need?
- ▶ What risks are they willing to take?
- ▶ What incentives, particularly for attraction and retention, should the retirement system provide?
- ▶ Are employees capable of doing their own retirement planning?
- ▶ How do they feel about employee vs. employer contributions?



# Retirement Adequacy: The Replacement Rate

- ▶ Replacement rate is the ratio of post-retirement income to pre-retirement income



# Benefit Adequacy

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- ▶ Rigorous Aon study confirms common arguments for replacement rates of 70%-90%
- ▶ Study adjusts for:
  - ▶ Post-retirement changes in taxes
  - ▶ Post-retirement changes in savings behavior
  - ▶ Post-retirement changes in consumption expenditures
- ▶ Some argue for rates lower than 70%
- ▶ Others argue for rates greater than 90%
- ▶ Desired spending might increase faster or slower than CPI measure of inflation



# Social Security

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- ▶ Most (but not all) public employees are in Social Security
- ▶ Social Security formula is based on lifetime (or least highest 35 years) of earnings, brought forward to current wage levels
- ▶ Highly progressive. Replaces 90% of low earnings, 32% of medium earnings, 15% of high earnings, and 0% of earnings above taxable wage base.
- ▶ Full benefit not available until age 67 for most future hires. Available with reduction at 62 and increased if delay until 70.
- ▶ Inflation indexed





# Retirement Age and Career Length

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- ▶ Retirement ages declined for most of 20<sup>th</sup> Century and then reversed course
- ▶ Decisions may reflect lack of planning tools, as well as incentives in DB plans and Social Security, instead of true desires
- ▶ Lower wage workers may face additional constraints
- ▶ No readings on desired allocation of lifetime total compensation. We will have an exercise in meeting 2 to help you think about this
- ▶ A career may involve time out of the workforce in the middle, not just the beginning and end

