KEY POINTS FOR DC CHOICE OPTIONAL PLAN

At our last meeting, the Commission voted unanimously to recommend that new employees be offered the option of choosing to enroll in a defined contribution retirement plan or TSERS/LGERS. The Commission now needs to consider some of the specifics of this option. We discussed and agreed on some of these points at our last meeting, but I thought it would be useful to review them in conjunction with our discussion today. While many of the specifics should be left for the staff of the retirement system and the General Assembly to develop, here are a few key characteristics of a plan that we need to consider along with my recommendations. Throughout these points, I have identified questions which we should address in our final recommendations. All points are open for additional discussion and the proposals that follow are based on our prior discussion and votes and my recommendations. My objective in preparing this document is to organize our discussion of the DC option and is not an attempt to close debate on any of these issues.

1. DC plan needs to be presented to newly hired employees along with considerable information so that individuals can make an informed choice between the new DC plan and TSERS/LGERS.

2. Newly hired workers should be required to make a choice between the plans within 60 days. TSERS and LGERS will be the default plan if the worker fails to make an active election. All employees are required to participate in one of the retirement plans.

   Question: Is 60 days too long, too short, or just right?

3. Financial literacy is essential if individuals are to make appropriate retirement plan choices. The Commission recommends that the retirement system and the State Treasurer develop needed materials and programs for new state employees. The Commission should recommend funding for financial literacy programs; these literacy programs should be available to current employees as well as new hires.

4. The DC optional plan should have the same employer cost as TSERS and LGERS; employee contributions should be the same.

5. If the DC plan is chosen and the worker does not make an active choice of investments, the default investment will be some type of lifecycle or target date fund.

6. The state retirement system will manage and regulate the DC option perhaps in conjunction with existing 401(k) or 457 accounts currently offered by the state. The State could develop and announce a request for proposals from financial service companies to serve as vendors in the new plan. The State could consider number of providers that will be allowed to participate in the new plan.

7. The current ORP of the UNC system will remain a separate pension system; however, this plan will be expanded to include all employees of the University. Even though the

ORP was established by legislation, current plan documents for the ORP are with the University.

8. After employment and the initial choice of a pension, all employees will have one opportunity to switch plans. This choice should be cost neutral to the employer.

   Question: Is one opportunity to switch sufficient?

   Question: Should this choice be time limited, say only in the first 10 years of employment?

   Question: Should a person switching from the DC plan to either TSERS or LGERS be allowed to purchase prior service years at a cost neutral price to the DB plans? Or is the option simply limited to closing the DC account and starting with zero years of service in the DB plan?

9. The providers of the DC plans should be required to offer annuity option to retiring workers.

10. Vesting in the DC plan should be the same as for TSERS and LGERS, 5 years; for the DC plan this refers to vesting in the employer contributions.