

State Managed 403(b) in North Carolina: Evaluation and Assessment

Project funded by the TIAA-CREF Institute

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Prepared for the NC SRP Board Meeting
June 18, 2015

Overview of Research Project

- How will the NC 403b program affect retirement savings?
 - Will the new program bring in more participants?
 - Will existing plans see a drop in participation and new enrollments?
 - Will contribution rates and asset accumulation increase?
 - Will competition result in other vendors offering lower fee products?
 - Will districts benefit from the plan through lower oversight and management costs?

Overview of Research Project

- Phase I: On-going Research Activities
 - Analyze the landscape of savings *before* NC403b.
 - Collect survey and payroll data.
 - Working paper:

“Supplemental Plan Offerings and Retirement Saving Choices: An Analysis of North Carolina School Districts”

Robert Clark, Emma Hanson, Melinda Morrill, Aditi Pathak

- Phase II: Spring 2016 Evaluate NC 403(b)
 - Collect data *after* some districts implement NC 403b

Supplemental Retirement Saving Plans: 403(b) and School District Employees

- Relatively little is known about 403(b) plans:
 - Public schools, hospitals, and charitable organizations can offer 403(b) plans.
 - Historically subject to fewer restrictions than 401(k).
 - New IRS regulations on 403(b) in 2008.

“Historically, the 403(b) market has been thought of as the Wild West of retirement savings plans”

Mercado (2014)

Supplemental Retirement Saving Plans: 403(b) and School District Employees

- School districts may offer 401(k), 403(b), or 457
 - All plans are tax-deferred
 - All government plans exempt from ERISA
 - Maximum contributions are calculated separately:
401(k)/403(b) and 457(b)

| | <u>403(b)</u> | <u>457(b)</u> | <u>401(k)</u> |
|---------------------------|---------------|-----------------|---------------|
| Number of Vendors | Many | Many | One |
| Management | Local | Local and State | State |
| Minimum Retirement Age | 55 | None | 55 |
| In-Service (and Hardship) | Allowed | Not Allowed | Allowed |
| Withdrawals | | | |

Motivating Research Questions

- Why do school districts offer multiple plans?
 - Employee demand?
 - Highly compensated individuals?
 - Plan management differences?
 - Historical precedent, legacy offerings?
- How do individuals make retirement saving decisions in an environment with multiple plans, vendors, and investment options?

Does Having More Choices Encourage or Discourage Participation?

1. Neoclassical model – *more is better*
 - Products specific to “special needs of teachers”
2. Information overload
 - Employees are overwhelmed
 - Do not participate; Choose lower quality plans
3. Rational inattention:
 - Encourage participation through marketing

Phase I: Data Sources

- Survey data -- August 2013
 - 90 school districts in North Carolina
 - Detailed information on plan offerings and 403(b) plan management and oversight
- Payroll data -- March 2013
 - 53 school districts (matched to survey)
 - 71,156 full-time employees
 - Basic demographics and salary
 - Deductions for supplemental plans

Participation Rates

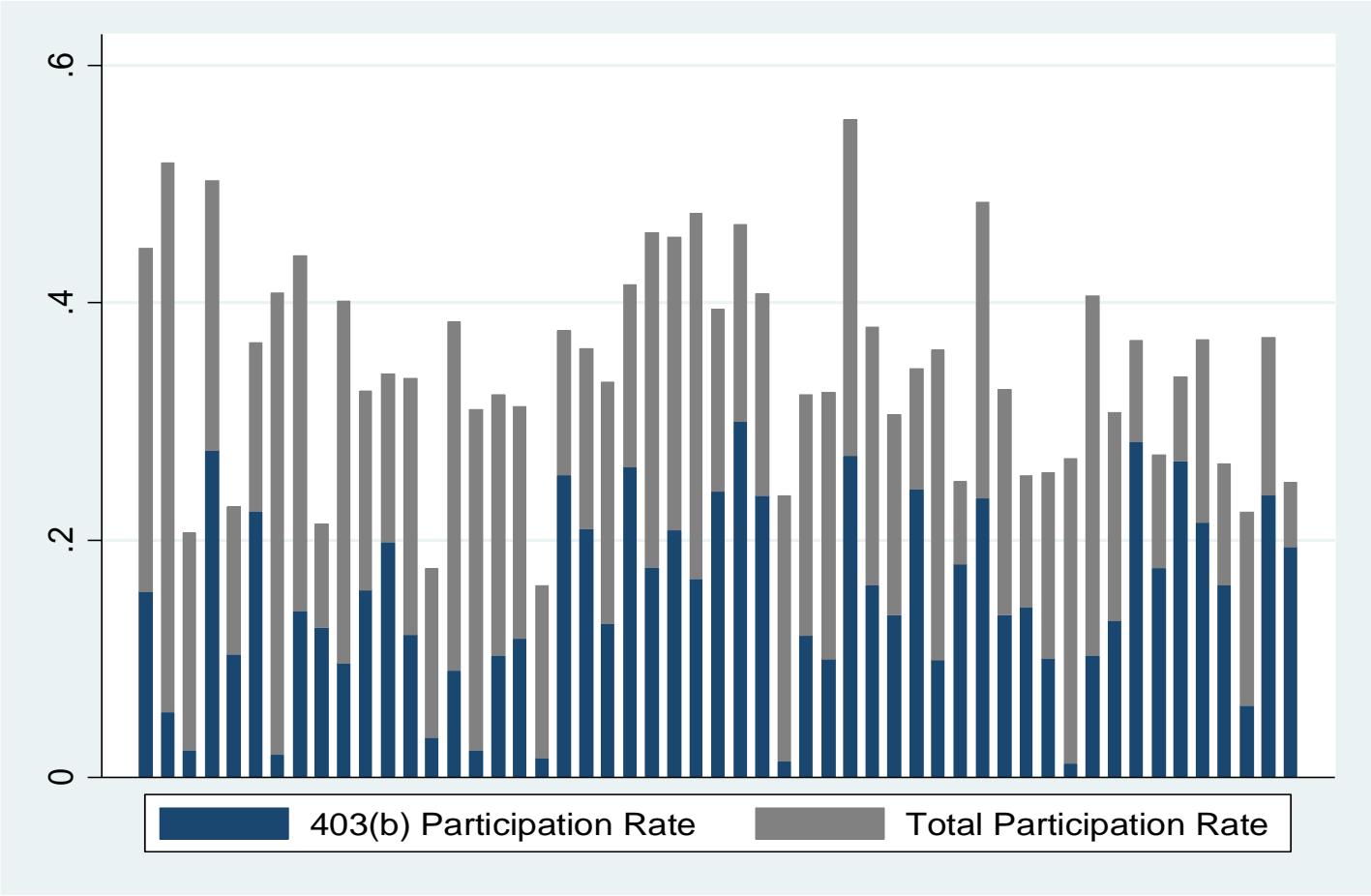
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|--------------------------------|--------------|
| Total | 32.0% |
| 403(b) | 16.7% |
| NC 401(k) | 12.9% |
| NC 457 | 1.3% |
| Local 457 | 4.7% |
| Participates in multiple plans | 4.6% |

Contribution amounts among participants (Monthly)

| | |
|-----------|-------|
| 403(b) | \$150 |
| NC 401(k) | \$177 |
| NC 457 | \$72 |
| Local 457 | \$156 |

Payroll Records: 71,156 full-time employees in 53 districts

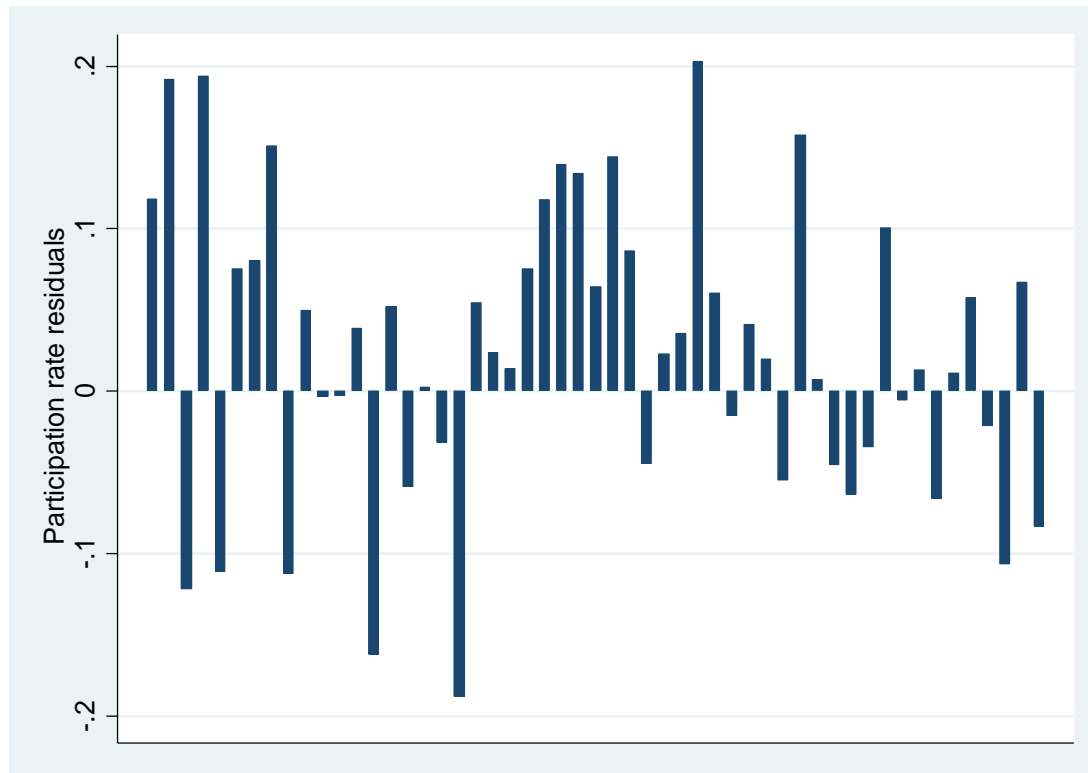
Figure 1. Participation Rates by District



Notes: Each bar represents a district ordered by smallest to largest district by number of full-time employees.

Residual Plot

Individual Characteristics Do Not Explain Variation Across Districts



Notes: Each bar represents a district ordered by smallest to largest district by number of full-time employees. Residuals are calculated from Equation (1) excluding district fixed effects and are aggregated to the district-level. The vertical axis is the residual participation rate in any supplemental plan.

What else explains variation across districts?

- Could be:
 1. Unobserved differences in population characteristics.
 2. Peer or leadership effects.
 3. District management and oversight.

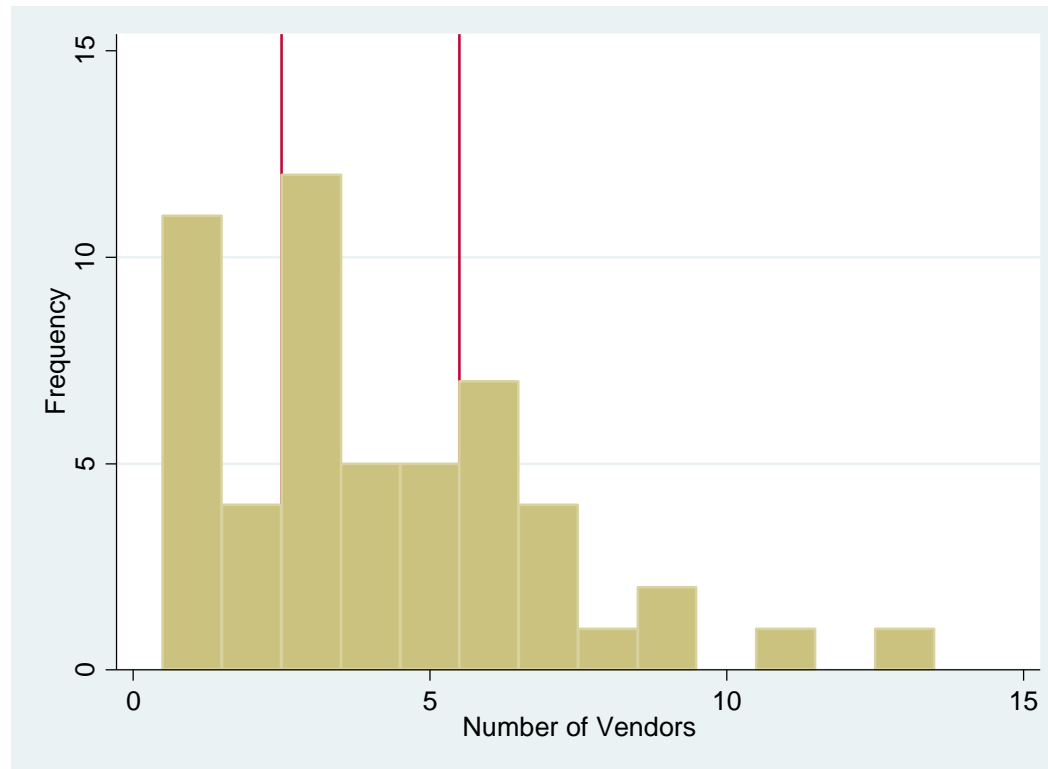
North Carolina Public School Districts: 403(b) Plan Management

- District choices:
 1. Which plans to offer?
 - Local 403(b), Local 457
 - NC 457, NC 401(k)
 2. How much oversight to provide?
 3. What information and promotional activities to provide?

North Carolina Public School Districts: 403(b) Plan Management

- 53 school districts, 70K employees:
 - Plan offerings:
 - All offer a 403(b) and the NC 401(k)
 - Offers NC 457: 21 districts
 - Offers Local 457: 40 districts
 - 48 districts offers 3 or 4 plans

North Carolina Public School Districts: 403(b) Plan Management



403(b) Vendors:

1-2: 15 districts; 3-5: 22 districts; 6+: 16 districts

North Carolina Public School Districts: 403(b) Plan Management

- **District choices:**
 1. Which plans to offer?
 2. How much oversight to provide?
 3. What information and promotional activities to provide?

North Carolina Public School Districts: 403(b) Plan Management

- 53 school districts, 70K employees:
 - Oversight:
 - Selective: 18 districts
 - Any criteria beyond minimum enrollment
 - Evaluate Plans: 12 districts
 - Conduct any periodic review of plan offerings
 - Reviewed Criteria: 20 districts
 - Reviewed criteria for vendors in past 5 years
 - Attempted to obtain fee information: 3 districts

North Carolina Public School Districts: 403(b) Plan Management

- **District choices:**
 1. Which plans to offer?
 2. How much oversight to provide?
 3. What information and promotional activities to provide?

North Carolina Public School Districts: 403(b) Plan Management

- 53 school districts, 70K employees:
 - Information provision:
 - Low quality website: 35 districts
 - Requires employee log-in, does not mention plans
 - Moderate quality website: 9 districts
 - Basic information on plan offerings
 - High quality website: 9 districts
 - Contact information for vendors, some plan information

Regression Analysis: What explains variation across districts?

- Weak evidence that higher participation rates are associated with:
 - More vendors
 - More selection criteria for vendors
 - Better information
- Some substitution between local 457 and 403(b)
- **Reverse causality:** higher propensities to participate leads to different plan offerings.

Summary of Phase I Findings

- Raises more questions than answers about 403b
- Districts vary in plan offerings, management, and oversight.
- There is substantial unexplained variation across districts in employees' plan participation.
- No clear predictions for how NC 403b will affect individuals' decision-making.

Phase II: Project Overview

- How is the NC 403b program affecting retirement savings?
 - Has the new program brought in more participants?
 - Have existing plans seen a drop in participation and new enrollments?
 - Have contribution rates increased?
 - Do individuals experience higher asset accumulations through reduced fees?
 - Have other vendors begun offering lower fee products?
 - Are districts benefitting through lower oversight and management costs?

Phase II: The Effects of NC 403b

1. What changes are made to retirement saving plan offerings and management/oversight practices?
 - Lower fees? Different marketing practices?
2. Which districts choose to adopt?
 - Different models of adoption – sole vendor, soft sole vendor, additional vendor
 - How does adoption benefit the districts?
3. How do plan offerings affect employees' participation and contribution decisions?
 - NC 403(b) provides a “shock” to district offerings.