



## **Plan Structure and Investment Consultant Relationship**



**North Carolina**  
Total Retirement Plans



## Today's Decision

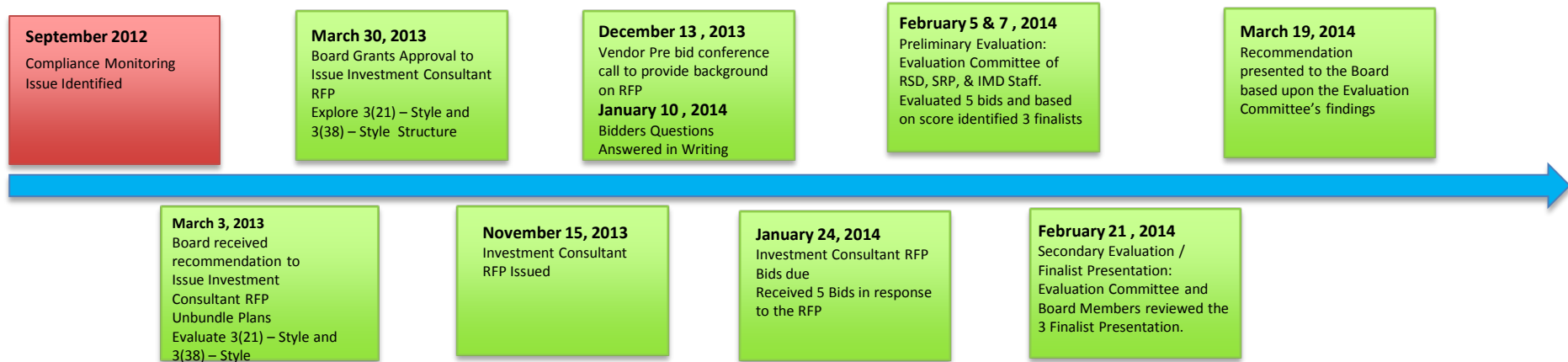
- Direct Staff to Contract with an Investment Consultant
  - Roles & Responsibilities:
    - 3(21) - Style through December 17, 2015 or beyond
    - Plan design – unbundle
    - RFP for record keeping, master trust, custodian
    - Further evaluation of future business model
      - Non-Delegated versus Delegated model for a future Board of Trustees recommendation



## Agenda

- Timeline
- Opportunities
- 3(21) - Style Investment Consultant
- Record Keeping RFP and Plan Design
- Future Business Model
  - Non-Delegated versus Delegated
- Next Steps

# Timeline





## Opportunities

- Establish clear roles, responsibilities & accountability
  - Investment Consulting – 401(k), 457 and 403(b)
- Expiration of Prudential's contract
  - Evaluate Plan Design – Annuity structure versus Master Trust/Custodian Account
  - RFP for record keeping, custody & trust administration and participant services
- Determine Long-Term Business Model
  - GOAL: Determine best long term approach to enhance investment oversight and operational efficiency and effectiveness
    - Leverage Industry Expertise in areas of Investments, Operations and Compliance – Delegated Model
    - Build and maintain an infrastructure to deliver on required monitoring and ongoing services – Non-Delegated or Hybrid Model



## 3(21) – Style Investment Consultant

- Fiduciary for Investment Advice
- 457, 401(k) and 403(b)
- Similar roles and responsibilities as Mercer today
- Through December 17, 2015 or longer (5 year contract)

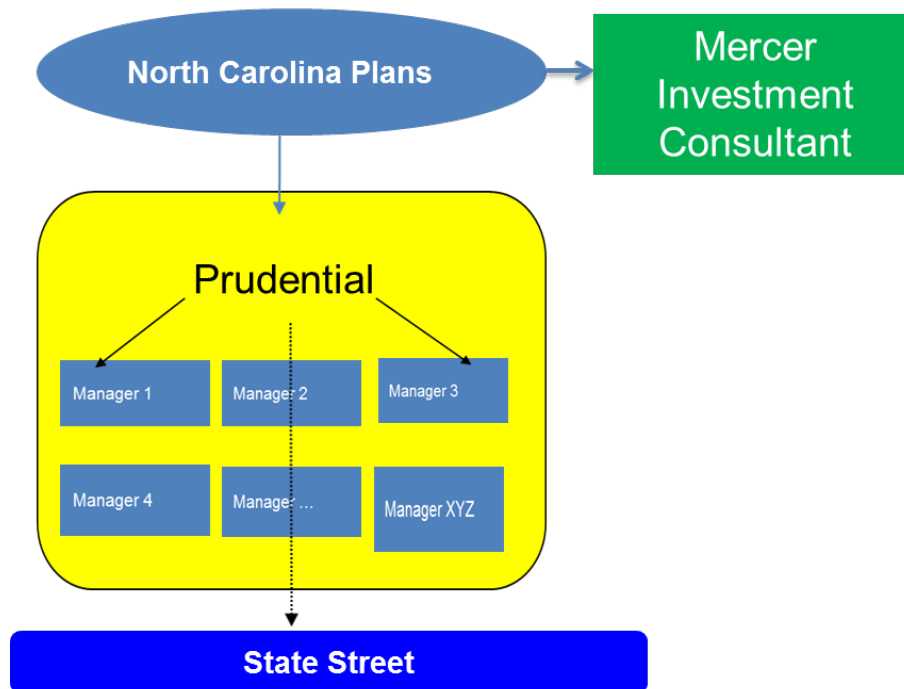


## Record Keeping RFP and Plan Design

- Plan Design
- Service Provider Search and Selection
  - Record Keeper
  - Trust Administrator
  - Custodian
  - Marketing and Education
  - Participant Services
- Effective Date: December 18, 2015

## Record Keeping RFP and Plan Design

### Current Plan Structure



#### OVERVIEW

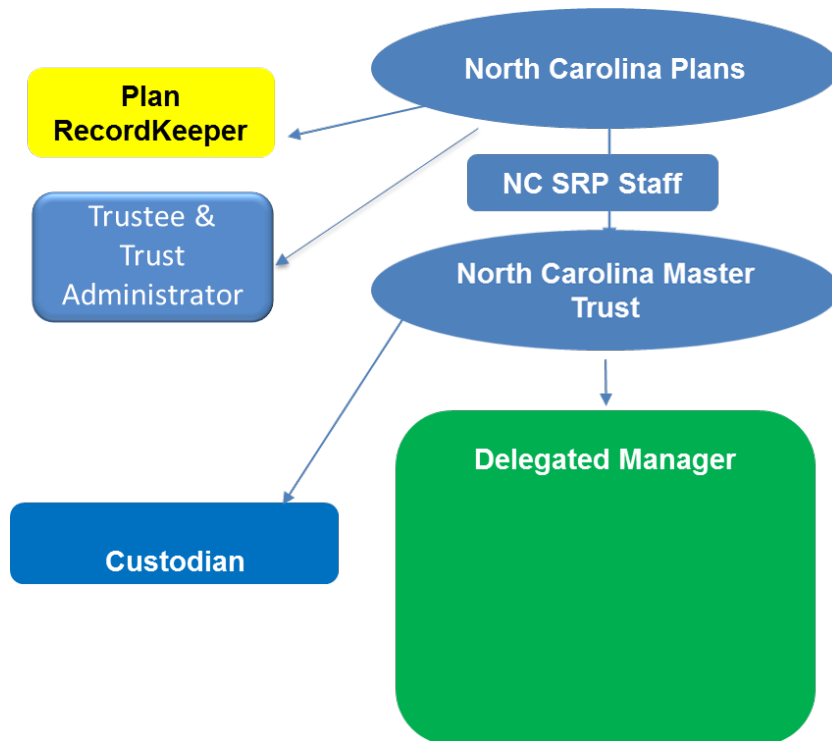
- NC, via a variable annuity structure, employs Prudential as Plan record keeper, administrator and informally delegated investment manager
- Prudential, in turn, employs all investment managers and also the custodian of underlying securities, State Street
- NC employs Mercer as investment consultant

#### CONSIDERATIONS

- Variable annuity structure is restrictive and opaque.
- NC assets are held on Prudential balance sheet within an insurance separate account. Potential issues include counterparty risk and/or access to assets.
- Bundled structure lacks transparency on fees and also legal liability
- Very difficult to change any single service provider as the offering/structure would need to be unbundled



## Record Keeping RFP and Plan Design Future State Plan Structure



### OVERVIEW

- NC establishes a Master Trust to hold all assets
- NC directly employs Plan Recordkeeper
- Master Trust directly employs a Delegated Manager who, in turn, employs underlying investment managers on NC's behalf
- Master Trust also employs Plan custodian to hold assets. Custodian continuously transmits investment data to Recordkeeper to facilitate participant transactions

### BENEFITS

- To Board:
  - Clear contractual links and legal liability for services employed
  - Delegated manager can effect investment manager changes and act on compliance breaches
- To Participants:
  - No balance sheet risk to external party
  - Absolute clarity on fees for services provided at each level
- To Staff:
  - Unbundled structure much more flexible



# Future Business Model

## Non-Delegated versus Delegated

### Sec. 3(21) Fiduciary Consulting Relationship vs. Sec 3(38) Consulting

#### ERISA Section 3(21) Fiduciary

ERISA section 3(21) provides the standards by which any individual performing services for the plan might become a fiduciary due to the functions they actually (or have ability to) perform. Any individual can be a fiduciary under section 3(21) if he or she exercises any authority or control over the management of the plan or the management or disposition of its assets; if he or she renders investment advice for a fee (or has any authority or responsibility to do so); or if he or she has any discretionary responsibility in the administration of the plan.

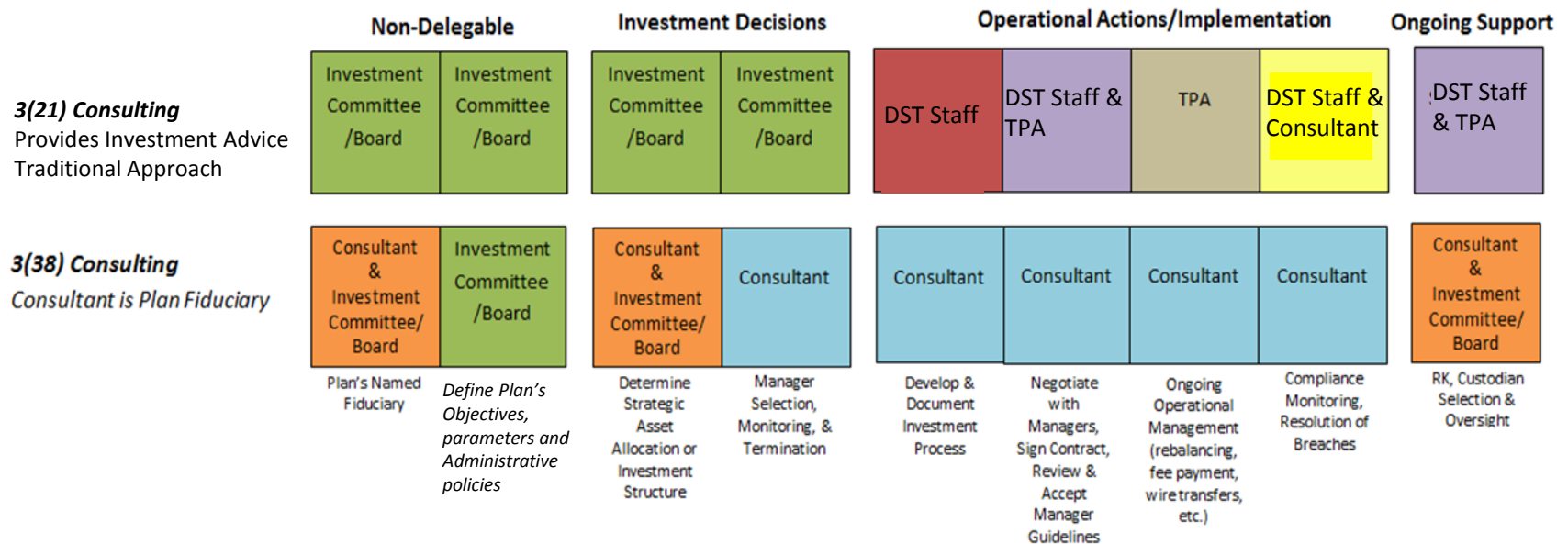
#### ERISA Section 3(38) Fiduciary

Section 3(38) is an “investment manager” and by definition is a fiduciary because of their ability to manage the plan’s assets. ERISA provides that a plan sponsor can delegate the significant responsibility (and significant liability) of selecting, monitoring and replacing of investments to the 3(38) investment manager/fiduciary. A 3(38) fiduciary can only be (a) a bank, (b) an insurance company, or (c) a registered investment adviser (RIA) subject to the Investment Advisers Act of 1940.

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# Future Business Model

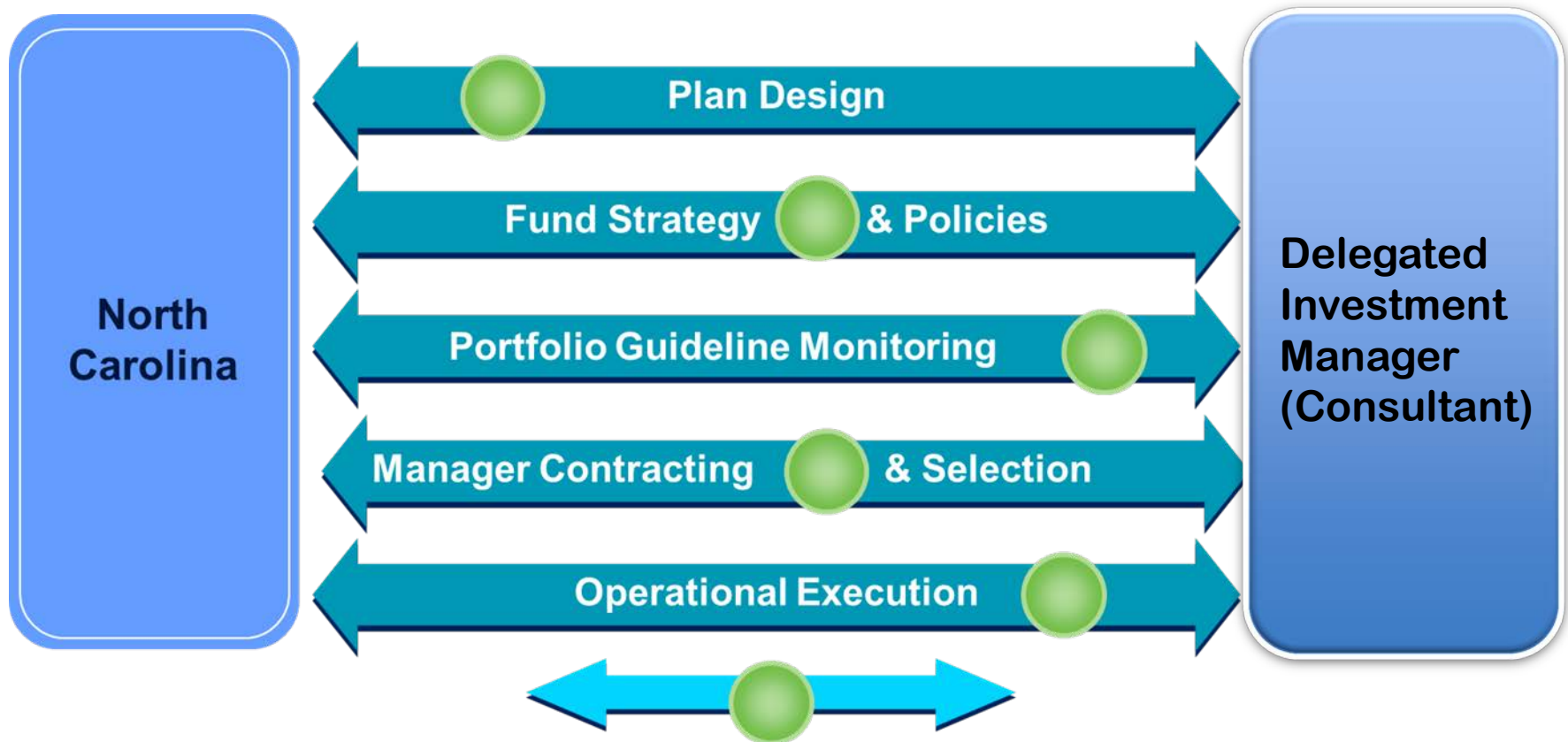
## Non-Delegated versus Delegated



**Note: For comparison purposes, we are currently in a Delegated 3(38) – relationship with Galliard for the NC Stable Value Product.**

## Future Business Model

Non-Delegated versus Delegated



Move the button left/right as required and evolve over time.



## Next Steps

- Finalize Contract for 3(21) – Style Investment Consultant
  - 457, 401(k) and 403(b) ongoing investment consulting services
  - 457 and 401(k) Plan Design and Service Provider Search and Selection
  - December 17, 2015 or later...
- Benefits and Cost Comparison – Non-Delegated versus Delegated Model
  - Future Decision
  - Prior to December 17, 2015 (including required implementation time, if applicable)
- Ongoing Quarterly Progress Reports to Board
  - Recognition of milestone dates and key decision points



**North Carolina**  
Total Retirement Plans

**Thank you**