Retirement Plan Conversions

DB to DC

DC to DB

DB + DC

What to Do? How to Do It?

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"My wife and I have been telling our children that they need to find a career they really care about because ***they will probably work for 50 or 55 years***, until their mid-70s."

Why?

"It's because of increasing life expectancies and the cost of retirement in a defined contribution (DC) world."

Fred Reish

Fred Reish, from PLANSPONSOR article *"Your Children's Retirement"*, December 2013

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Today’s Topics

- Common References
- Myths and Realities/Fact and Opinion
- County Plan Changes 2003 – 2014
- Retirement Plan Design: DB or DC or Both?

Break

- Plan Conversions: What About the Employees?
- “Stopping” a DB Plan: Get the Lawyers
- Plan Governance: Double the Fun?
- Perspectives from a Plan Fiduciary

COMMON REFERENCES

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Defined Benefit Plan

Definition:

- Traditional Monthly Retirement Benefit for Life
- Benefit is Defined by a Formula
  - Average Salary X Years of Service X Benefit Multiplier
- Contribution is Variable

Other Names:

- Pension Plan
- DB Plan

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Defined Contribution Plan

Definition:

- Individual Accounts that Accumulate Assets by Contributions and Investment Returns
- Contribution is Defined either by a Plan Formula and/or by Personal Choice
  - Mandatory/Matching/Discretionary
- Benefit is Variable Based on Personal Account Withdrawals

Other Names:

- Deferred Compensation
- 401(k)/IRA

Income Replacement Ratio

Definition:

- The Amount of Income Paid/Taken in Retirement as a % of Employment Income
- "How much of your pay will be replaced by income you will get from all of your sources of retirement income?"
- A Measure of Retirement Income Adequacy

Other Names:

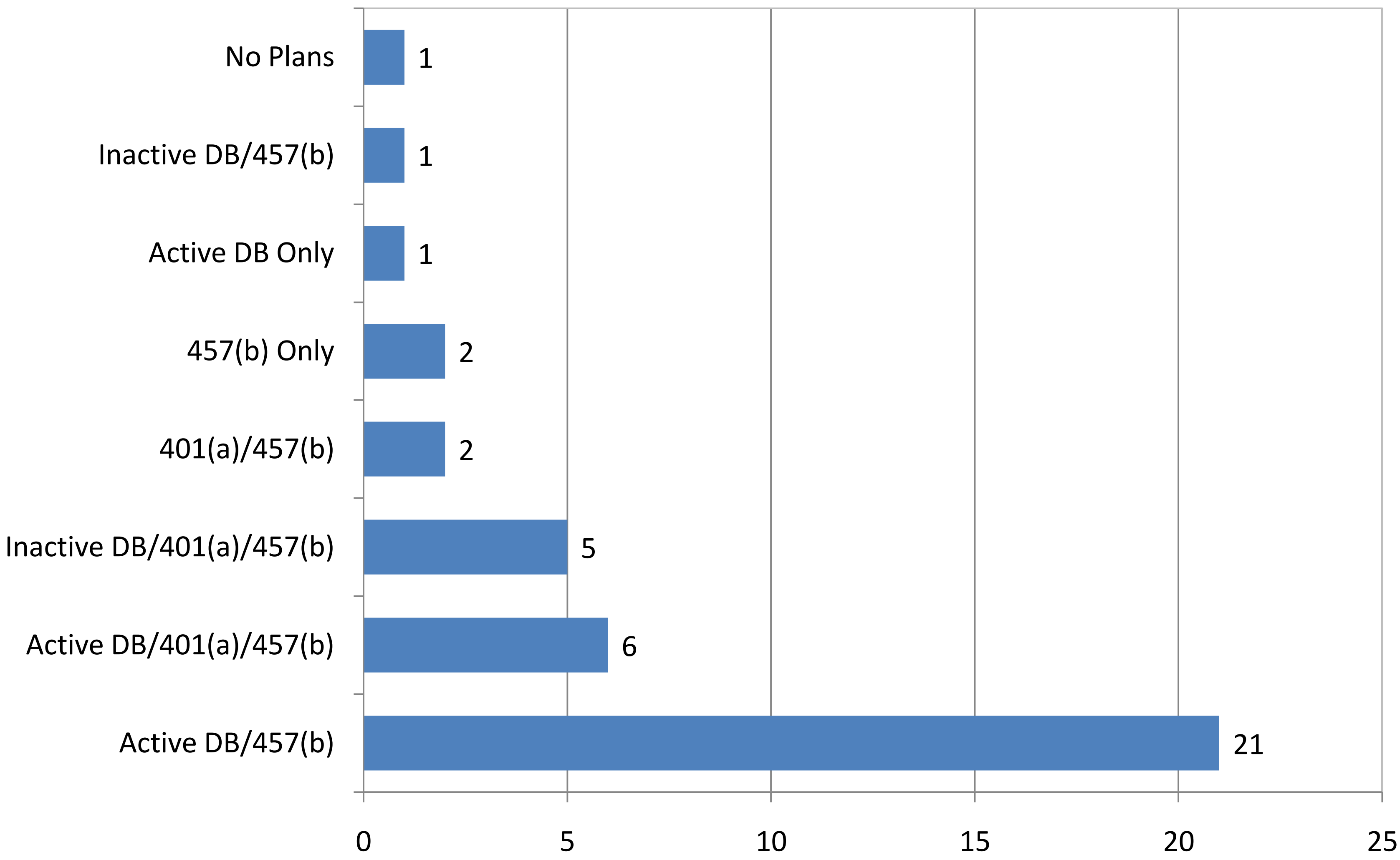
- Income Replacement Rate
- Replacement Rate/Replacement Ratio

Retirement Risks

Definition:

- Any Assumption Used in Projecting Retirement Assets or Retirement Income that is Not Certain and usually Beyond Your Control
- "What Can Cause Your Actual Retirement Income to Be Different than Your Projected Retirement Income?"

Class Participants/Retirement Plans



MYTHS AND REALITIES / FACTS AND OPINIONS

Social Security won't exist when I retire.

Without changes, the system will be able to pay only 75% of promised benefits after 2037.

This false assessment is one of the reasons so many people are convinced the system won't be there when they need it.

Source: MSN Money "5 Myths about Social Security" August 20,2012

Most state and local pension plans are in crisis.

While plans were thrown seriously off course by the twin market downturns of the past decade, their finances have begun to stabilize, and most now face a manageable challenge.

Alicia H. Munnell. 2012. State and Local Pensions: What Now? Brookings Institution Press.

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Public sector unions are responsible for today's pension shortfalls.

It is impossible to find a link between a plan's generosity or funding level and the strength of unions.

Alicia H. Munnell. 2012. State and Local Pensions: What Now? Brookings Institution Press.

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The high discount rates that plans use to value future benefits explain the shortfalls.

Discount rates do not explain funding levels either. Pension funding is simply a story of fiscal discipline – developing a reasonable plan and sticking to it.

Alicia H. Munnell. 2012. State and Local Pensions: What Now? Brookings Institution Press.

Plans should always use a riskless rate of return to discount obligations.

A riskless rate is appropriate for reporting purposes, *but not* for guiding investment or contribution decisions.

Alicia H. Munnell. 2012. State and Local Pensions: What Now? Brookings Institution Press.

State and local pensions are busting government budgets.

In 2009, overall pension contributions were 4.6 % of total state and local revenues; this share will rise to 5.1 % if plans realize their assumed returns.

Alicia H. Munnell. 2012. State and Local Pensions: What Now? Brookings Institution Press.

States and localities should switch to a 401(k).

Both types of retirement plans have strengths and weaknesses.

Private sector experience suggests a full switch to 401(k)s would be a major mistake, but some blend of traditional pensions and 401(k)s could spread financial risk and balance the interests of short- and long-tenure workers.

Alicia H. Munnell. 2012. State and Local Pensions: What Now? Brookings Institution Press.

Plans should try to improve their funding status by investing more in equities.

Overall, plans have two-thirds of their investments in risky assets, and *this level is imprudently high*.

Alicia H. Munnell. 2012. State and Local Pensions: What Now? Brookings Institution Press.

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State and local governments can’t cut pension benefits for current workers.

Most jurisdictions have more leeway than commonly thought, depending on how the courts define the nature of their employment contracts with public workers.

Alicia H. Munnell. 2012. State and Local Pensions: What Now? Brookings Institution Press.

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Fixing pensions is too difficult politically.

Many states and localities have recently raised employee contributions, reduced benefits, and/or cut cost-of-living adjustments. Some troubled states, like Rhode Island, have enacted sweeping reforms that equitably share the burdens among employees, retirees, and taxpayers.

Fairness is the key to a comprehensive solution.

Alicia H. Munnell. 2012. State and Local Pensions: What Now? Brookings Institution Press.

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"…*defined benefit plans* will become extraordinarily expensive to corporations and, for public plans, to taxpayers. If a person can retire from a *defined benefit plan* at age 65 and then live for another 35 years…"

Fred Reish

What if the phrase:

"defined benefit plan"

is changed to

"defined contribution plan"?

Fred Reish, from PLANSPONSOR article *"Your Children's Retirement"*, December 2013

Define benefit plan funding is simply a story of fiscal discipline…

developing a reasonable regimen and sticking to it.

PLAN CHANGES 2003 -2014

Primary Plan Type Changes 2003 - 2009

DC to DB

2003
Cherokee County
Henry County
Lumpkin County

2004
Henry County W/S Authority
Jackson County Public Safety
Rabun County
Sumter County
Walton County

2005
Rockdale County
E911 Middle Georgia Authority

2006
Douglas County
Effingham County

2007
Spalding County

2008
Augusta-Richmond County
Lee County

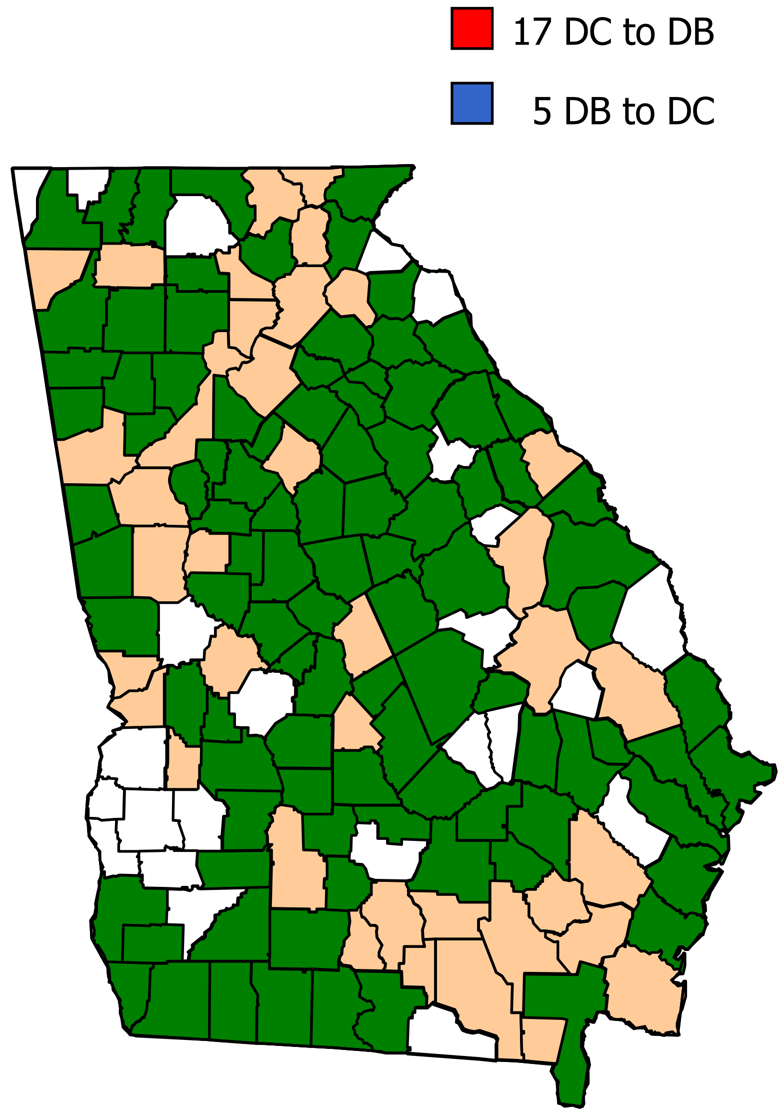
2009
Dooly County
Fayette County

DB to DC

2006
Cusseta-Chattahoochee County

2007
Coweta County
Dawson County
Gwinnett County

2009
Pulaski County



Primary Plan Type Changes 2010 - 2014

DC to DB

2012

Covington Housing Authority

DB to DC

2011

Franklin County (New Hires)
Rabun County (New Hires)
Washington County (New Hires)

2012

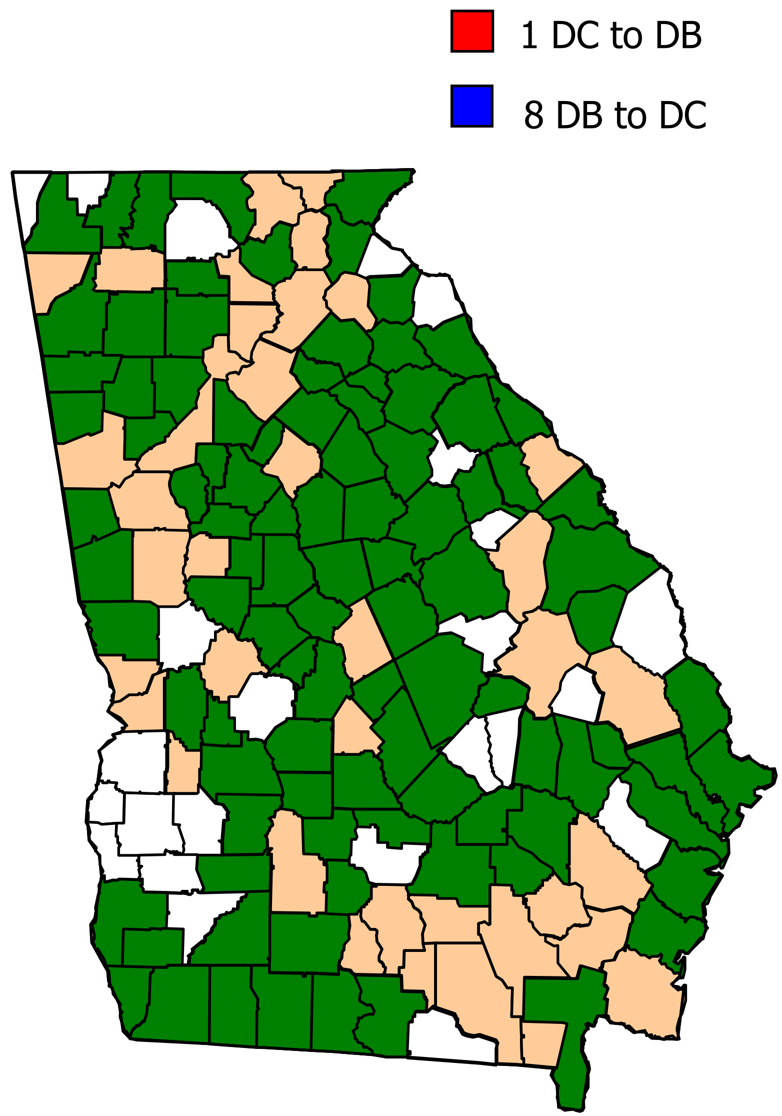
Oglethorpe County (New Hires)
Coffee County (New Hires)

2013

Murray County (New Hires)

2014

Morgan County (New Hires)
Troup County (New Hires)



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Primary Plan Structure Changes 2010 - 2014

DB Plan Reductions

2010
Oconee County
Barrow County

2011
Warren County
Elbert County
Barrow County
Colquitt County
Rabun County
Morgan County
Bibb County

2012
Washington County

2013
Fayette County

DB Plan Enhancements

2010
Cherokee County

2012
Oconee County (ERIP)
Fayette County (ERIP)
Grady County
Early County
Mitchell County (ERIP)

DC Plan Reductions

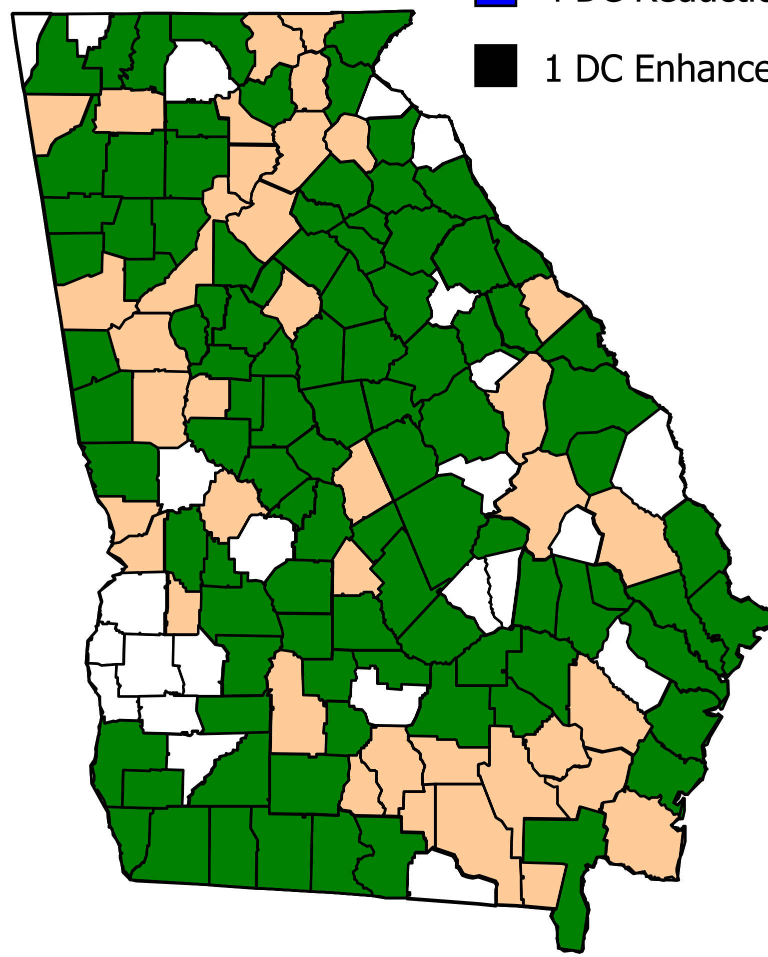
2010
Oconee County
Spalding County

2012
Sumter County
Ware County

DC Plan Enhancements

2013
Sumter County

10 DB Reductions
6 DB Enhancements
4 DC Reductions
1 DC Enhancement



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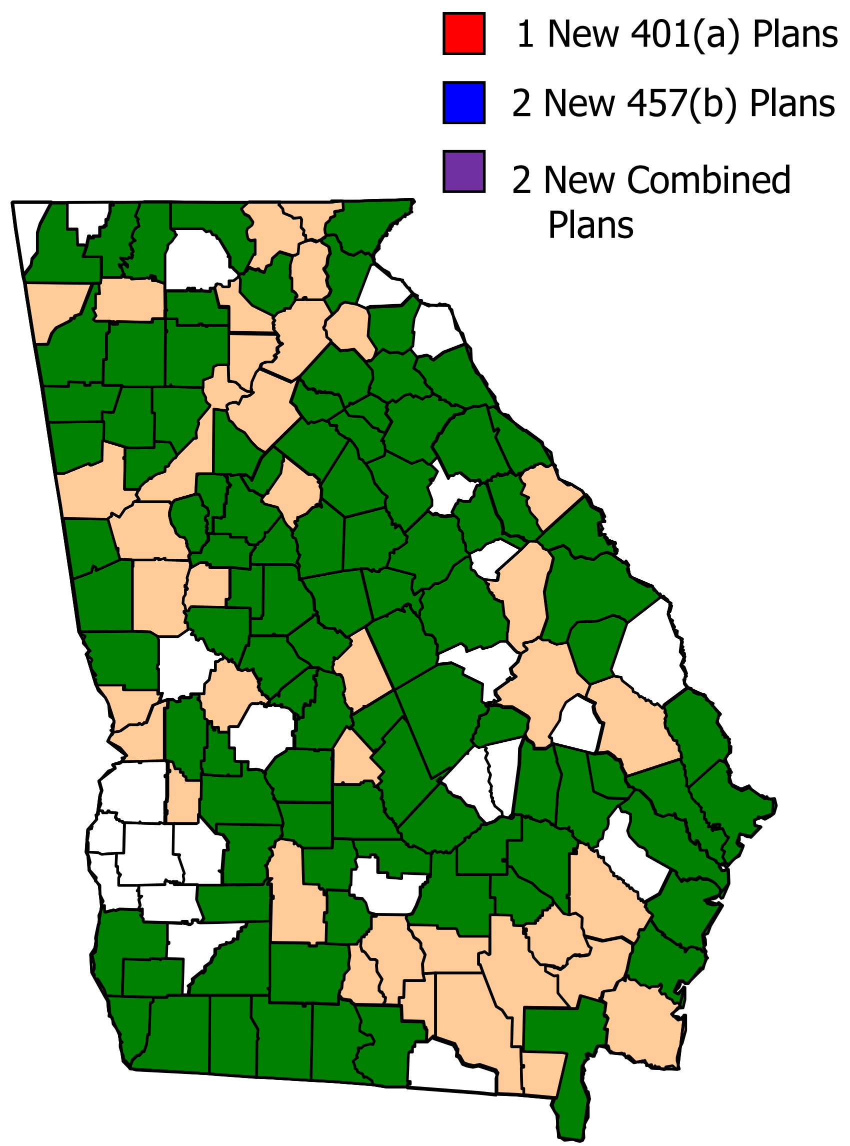
Other Program Changes 2010 - 2014



New 401(a) Plan

2011
Barrow County

New 457(b) Plan

2011
Elbert County

2012
Hancock County

New Combined 401(a) and 457(b) Plans

2011
Warren County

2013
Fulton Industrial CID

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RETIREMENT PLAN DESIGN
DB OR DC OR BOTH?

Income Replacement Ratio (IRR)

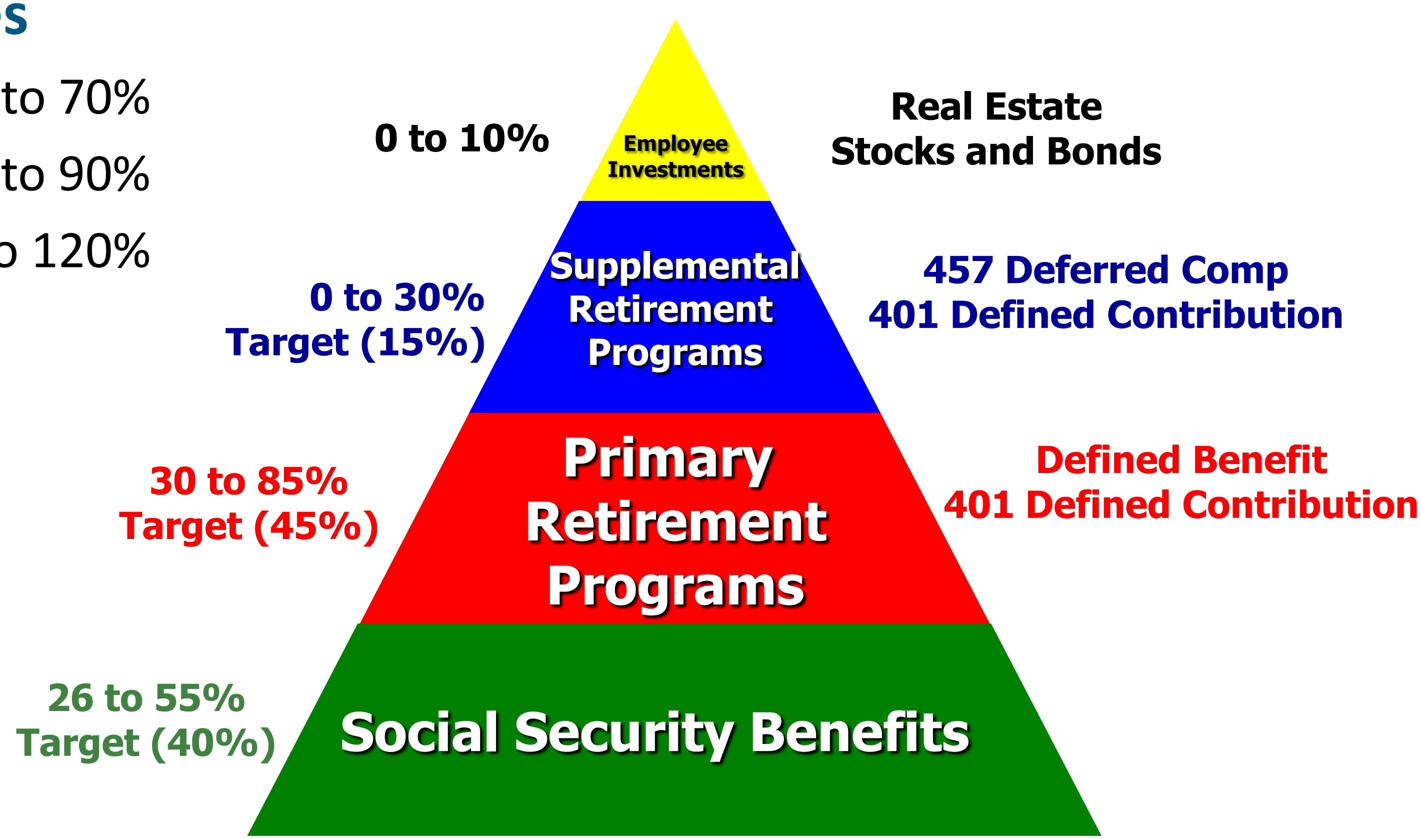
$$= \frac{\textit{Projected}\text{ Income }\textit{after}\text{ Retirement}}{\textit{Actual}\text{ Income }\textit{before}\text{ Retirement}}$$

IRR Ranges

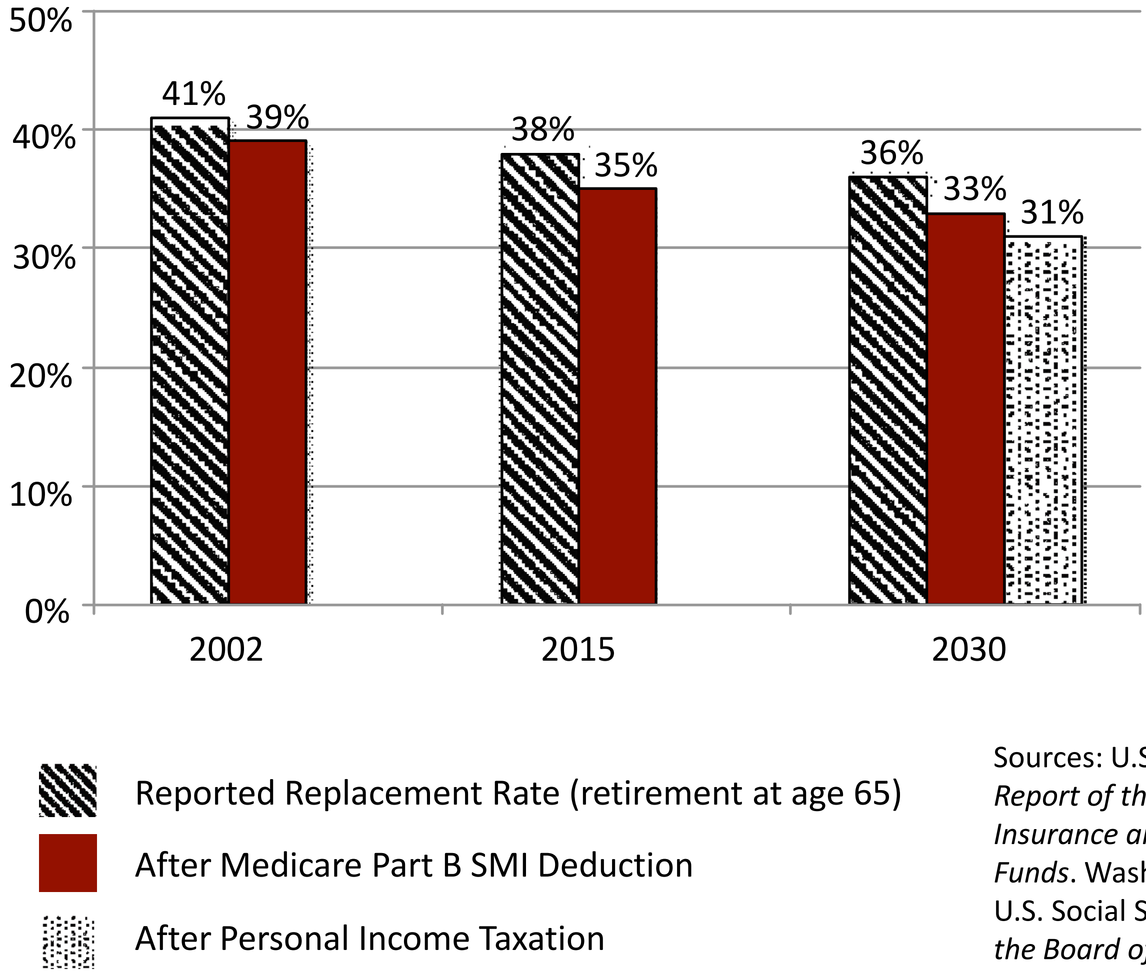
Minimum: 60% to 70%

Common: 80% to 90%

Generous: 100% to 120%



Social Security



For Average Earner Retiring at Age 65

in 2002, in 2015, and in 2030

Sources: U.S. Social Security Administration. 2012. *Annual Report of the Board of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds*. Washington, DC: U.S. Government Printing Office; and U.S. Social Security Administration. 2012. *Annual Report of the Board of Trustees of the Federal Old-age and Survivors Insurance and the Disability Insurance Trust Funds*. Washington, DC: U.S. Government Printing Office.

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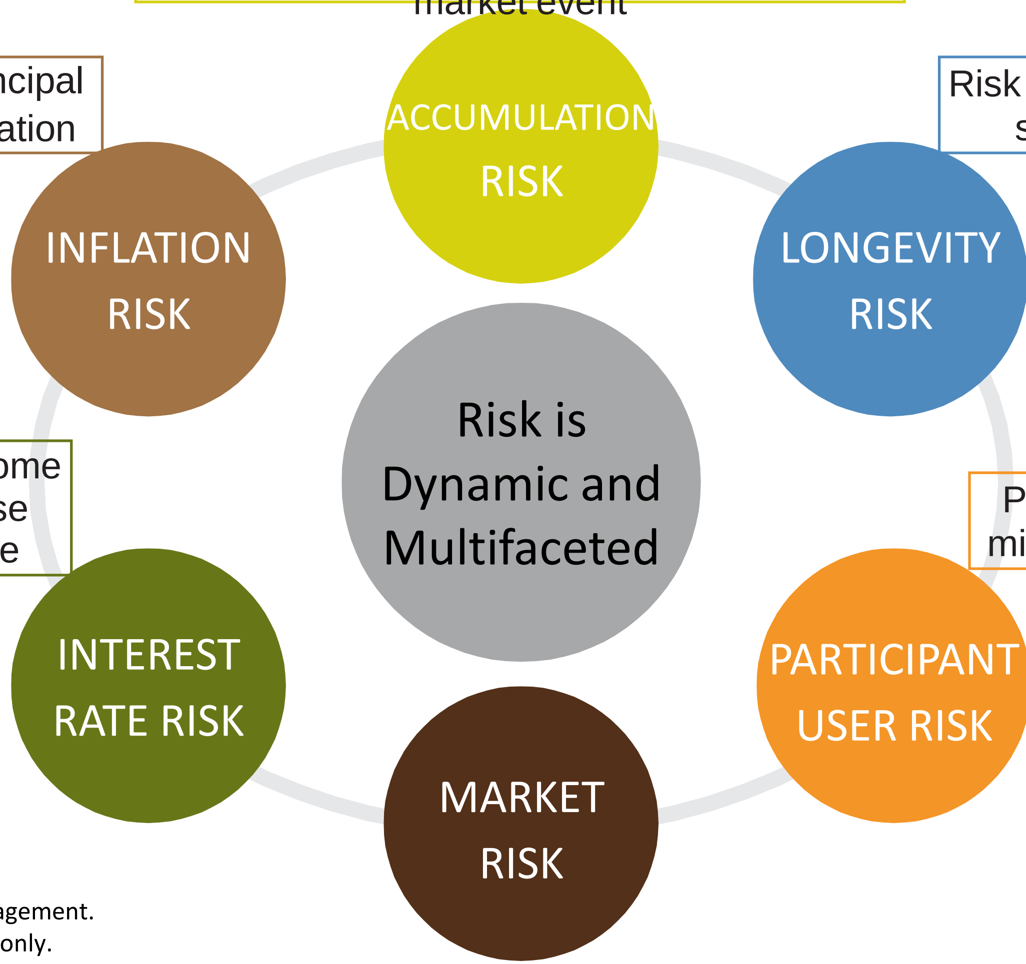
Plan Risks

Failure to save enough due to lack of growth, low savings rate or unexpected market event

Risk that value of principal will be eroded by inflation

Risk of outliving savings



Risk that fixed income securities will lose value if rates rise

Possibility participant will misuse investment options

Source: J.P. Morgan Asset Management.
Shown for illustrative purposes only.

Risk of capital or investment losses due to market or asset class volatility

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Retirement Plan Design

In no particular order…

- Coordination with Social Security
- Employee Career Length
- Target Income Replacement (% of Salary)
- Target Funding Range (% of Payroll)
- Employer/Employee Cost Sharing
- Employer/Employee Risk Sharing

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Health Care Plan Design

- Also, in no particular order…

  - Coordination with Retirement Benefits
  - Coordination with Medicare Benefits
  - Target Funding Range (% of Payroll)
  - Employer/Employee Cost Sharing
  - Employer/Employee Risk Sharing
  - Annual Funding Strategy

Contribution Design/New DC Plans

Jurisdiction	Employer Contributions			Employee Contributions		Total Contributions*
	Mandatory	Matching	Maximum Matching	Mandatory	Target Matching	
Franklin	2%	50%	2%	2%	4%	10%
Coffee	2%	100%	5%	0%	5%	12%
Washington	3%	50%	3%	3%	6%	15%
Murray	3%	50%	3%	3%	6%	15%
Rabun	0%	100%	3%	0%	3%	6%
Morgan	3%	200%	4%	3%	2%	12%
Oglethorpe	5%	50%	2%	5%	4%	16%

*At Target IRR

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Income Replacement/New DC Plans

Jurisdiction	Previous DB Plan		New DC Plans		
	DB Plan IRR	Employee Cost Sharing	Minimum IRR	Target IRR	Employee Cost Sharing*
Franklin	60%	0%	15%	38%	60%
Coffee	45%	0%	7%	46%	42%
Washington	87%	24%	23%	56%	60%
Murray	30%	0%	23%	56%	60%
Rabun	45%	0%	0%	23%	50%
Morgan	60%	0%	23%	46%	42%
Oglethorpe	30%	0%	38%	60%	56%

*Assumes a 30 Year Career Employee retiring at age 65 (age 60 for Morgan County)

**At Target IRR

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DB and DC/Hybrid Programs

- Old is New Again
  - Original Design for Corporate DB Plans with Supplemental 401(k) Plans
  - Began with Public Plans in late 1990's
- Incremental Change for Public Retirement Plans
  - Shift Partial Plan Risks to Employees
  - Shift Partial Plan Costs to Employees
  - Guaranteed but Reduced Minimum Benefit/IRR
  - Optional Target IRR

Contribution Design/New Hybrid Programs

Jurisdiction	Employer Contributions: Mandatory	Employer Contributions: Matching	Employer Contributions: Maximum Matching	Employee Contributions: Mandatory	Employee Contributions: Target Matching	Total Contributions*
Barrow	0%	100%	3%	0%	3%	6%
Lumpkin	0%	200%	4%	0%	2%	6%
Polk	0%	50%	1.5%	0%	3%	4.5%
Rabun**	0%	100%	3%	0%	3%	6%
Spalding	0%	100%	4%	0%	4%	8%
Sumter	0%	50%	3%	0%	6%	9%
Walton	2%	100%	2%	2%	2%	8%

*At Target Matching Rate
**Design from 2004 through 2011/Closed DB Plan in 2011

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Income Replacement/New Hybrid Programs

Jurisdiction	DB Plan		DC Plans			Total IRR*
	DB Plan IRR	Employee Cost Sharing	Minimum IRR	Target IRR	Employee Cost Sharing*	
Barrow	30%	0%	0%	23%	50%	53%
Lumpkin	30%	0%	0%	23%	33%	53%
Polk	30%	0%	0%	17%	67%	47%
Rabun**	45%	0%	0%	23%	50%	68%
Spalding	30%	0%	0%	30%	50%	60%
Sumter	30%	0%	0%	34%	67%	60%
Walton	30%	0%	15%	30%	50%	60%

*At Target IRR

**Design from 2004 through 2011/Closed DB Plan in 2011

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PLAN CHANGES/CONVERSIONS
"WHAT ARE THEY DOING ~~FOR~~ TO US?

Rule #1

Manage Expectations

Rule #2

Address
Rumors

Rule #3

Be Clear
and Open

Employee Perspectives

GEBCorp Regional Client Managers

- Greg Gease
  - Middle Georgia
- Paul Bates
  - West Georgia/Atlanta Metro

Employee Interactions

- Routine/Normal
- DC to DB Conversions
- DB to DC Conversions
- DB to Hybrid Conversions
- Significant Plan Modifications

“STOPPING” A DB PLAN
NOW THE LAWYERS ARE INVOLVED

Legal Perspectives

GEBCorp and ACCG Special Counsel

- Patti Keesler
  - Owner, Benefits Law Group
  - Retirement Plan Specialty Practice

Impairment of Contract/State Law

Retirement Plan in Effect at DOH is a Contract

- Limited ability to reduce benefits in the future
  - No retroactive changes ever
- Reduction exceptions for current employees
  - Plan document clearly authorizes changes after DOH
  - Employees voluntarily elect change
  - Change has a beneficial effect for all employees
  - No employee contributions
- Reduction exceptions for new employees
  - Wide latitude with modern plan document

Well Designed Plan Documents are Important

"Stopping" Options

Plan Termination

- Stops:
  - All Calculations and Service Accruals
- Requires
  - Immediate 100% Vesting for All Plan Participants
  - Additional Employer Contributions to Bring Funding to 100%
  - Transfer of Benefits to 3rd Party with Annuitization
  - Distribute Annuity Guarantees within One Year of Plan Termination

Significant Administrative and Legal Requirements

“Stopping Options”

Hard Freeze

- Stops:
  - Calculation Service Accruals
  - Compensation Adjustments
- Continues:
  - Vesting Service Accruals
  - Funding Requirements for Prior Accrued Benefits
  - Plan Documents Revision for Federal or State Law Changes
- Generally Moves Existing Employees to New Plan or Benefit Structure

"Stopping Options"

Close/Soft Freeze

- Stops:
  - New Employees from Plan Participation
  - Exclusion may be Extended to Current Non-Participants
- Continues:
  - Current Benefit Structures for Existing Employees
  - Funding Requirements for Prior and Future Accrued Benefits
- Still Considered an Active Plan
  - In Addition to any New Benefit Structure or Alternative Plan

NEW PLAN GOVERNANCE "DOUBLE THE FUN"

Plan Governance and Oversight

General Fiduciary Responsibilities

- Duty to Diversify
  - Investments selection to avoid large losses
- Duty of Prudence
  - Fiduciaries must be experts or must hire experts
  - Expertise is not optional
- Duty of Loyalty
  - Fiduciary decisionmaking must be solely in the best interests of plan participants and their beneficiaries

Employer either accepts Fiduciary responsibilities or delegates through appointment or hiring.

Employer Fiduciary Obligations

- Accepts All Fiduciary Obligations
  - – Establishes Board of Commissioners as the Plan Board of Trustees
  - – May delegate specific functions to other groups
    - Example-Investment Committee may be delegated investment monitoring
- Delegates Specific Fiduciary Obligations to:
  - – Independent Board of Trustees appointed by BOC
  - – ACCG DB or DC Board of Trustees
  - – Specific outside experts willing to accept specific fiduciary obligations

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Other Governance and Oversight Obligations

- Monitoring Investments
  - Develop Investment Policy Statement
  - Due Diligence Review Process
    - Quarterly investment options review compared to peers and benchmarks
    - Suspension/replacement and expansion of investment options
    - Comparative investment costs

Other Governance and Oversight Obligations

- Monitoring Plan Providers
  - Appropriateness of employee education and communications
  - Ongoing administration fees and expenses
  - Specified performance benchmarks

PLAN GOVERNANCE
A FIDUCIARY'S PERSPECTIVE

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ACCG DC Board of Trustees

- Rick Muggridge
  - Chairman, DC Board of Trustees
  - Chairman, Lee County Board of Commissioners
  - Owner, DWB Insurance Agency

IN CONCLUSION

Plenty of Options

- Options from Current DB
  - DB to DC
  - DB to DB and DC
  - DB to Lesser DB
- Options from Current DC
  - DC to DB
  - DC to DB and DC
  - DC to a Lesser DC

Plenty of Decisions

- Policy Goals and Objectives
  - Desired Outcomes
  - Risk and Cost Sharing
  - Funding Level Sustainability
  - Coordination with Other Retirement Benefits
- Plan Design
  - Which Plan or Plans
  - Which Employees
  - Plan(s) Structure
  - Plan Governance

A Final Thought (from "THE INTELLIGENT INVESTOR")

"…tens of millions of people remain trillions of dollars short of the savings they will need to fund their retirement.

The solution is simple, but it isn't easy. Americans need to save more—not just a little more, but vastly more, according to a new study by two leading investment analysts."

"*Retiring on Your Own Terms*", The Wall Street Journal, February 1, 2014
By Jason Zweig, "THE INTELLIGENT INVESTOR"

A Final Thought (from "THE INTELLIGENT INVESTOR")

"To be assured of having enough money to fund a comfortable retirement, you should save a total of 22 times the annual income you want to earn when you retire.

That is higher than many previous estimates, but it offers near-certainty of hitting your target."

"*Retiring on Your Own Terms*", The Wall Street Journal, February 1, 2014
By Jason Zweig, "THE INTELLIGENT INVESTOR"