

DEFINED CONTRIBUTION RETIREMENT PLAN IMPLEMENTATION

Summary for Eligible Employees effective
10/1/2013

House Bill 1452

- Who is eligible/affected?
- Defined contribution retirement bill provisions.
- Defined benefit hybrid plan provisions.
- What is the difference between the two plans?
- What does this mean to you?

State Employees

- Employees who will be eligible for the Defined Contribution (DC) Retirement plan election are those who are at least 18 years of age, a permanent state employee, and hired on or after October 1, 2013. Provision expires July 1, 2017.
- Includes:
 - Judges
 - Air National Guard
 - Law Enforcement
 - Main System Employees
 - Higher Education

State Employees

- Does not Include:
 - Highway Patrol
 - Political subdivisions, schools, cities or counties
 - State employees hired prior to October 1, 2013

State Employees

- New eligible employees will initially be enrolled in the Defined Benefit Hybrid (DBH) Plan.
- You will be given a six-month window to make an election.
 - If no election is received within the six-month window, you will remain in the DBH plan.
 - If the DC plan is elected, a lump sum amount will be transferred from the DB plan to the DC plan.

State Employees

- Election into the DC retirement plan is **IRREVOCABLE!**
- However, if you elect to transfer to the DC Plan, but terminate before the transfer occurs, the election is considered invalid and the transfer will be voided and your account will remain in the DBH Plan.

Contribution Rates for Both Plans

Current:

- Main system
 - Employer – 6.12%
 - Employee – 6.00%
- Judges
 - Employer: 16.52
 - Employee: 7.00
- Law Enforcement
 - Employer: 10.31
 - Employee: 6.00
- Air National Guard
 - Employer: 6.50
 - Employee: 4.00

Effective January 1, 2014:

- Main system
 - Employer – 7.12%
 - Employee – 7.00%
- Judges
 - Employer: 17.52
 - Employee: 8.00
- Law Enforcement
 - Employer: 11.31
 - Employee: 6.0
- Air National Guard
 - Employer: 7.00
 - Employee: 4.50

Contribution Rates Adjustment

Defined Benefit Hybrid Plan

- The required contribution increases will continue until July first of the year following the first valuation showing a ratio of the actuarial value of assets to the actuarial accrued liability that is equal to or greater than 100%
- This also includes the Highway Patrol Plan, political subdivisions, schools, cities and counties.

Defined Contribution Plan

- The required contribution increases will continue until July first of the year following the first valuation showing a ratio of the actuarial value of assets to the actuarial accrued liability that is equal to or greater than 100%

Defined Benefit Hybrid Plan vs. Defined Contribution Plan

- Let's do a quick review the Defined Benefit Hybrid Plan...

Vesting in DB Hybrid Plan

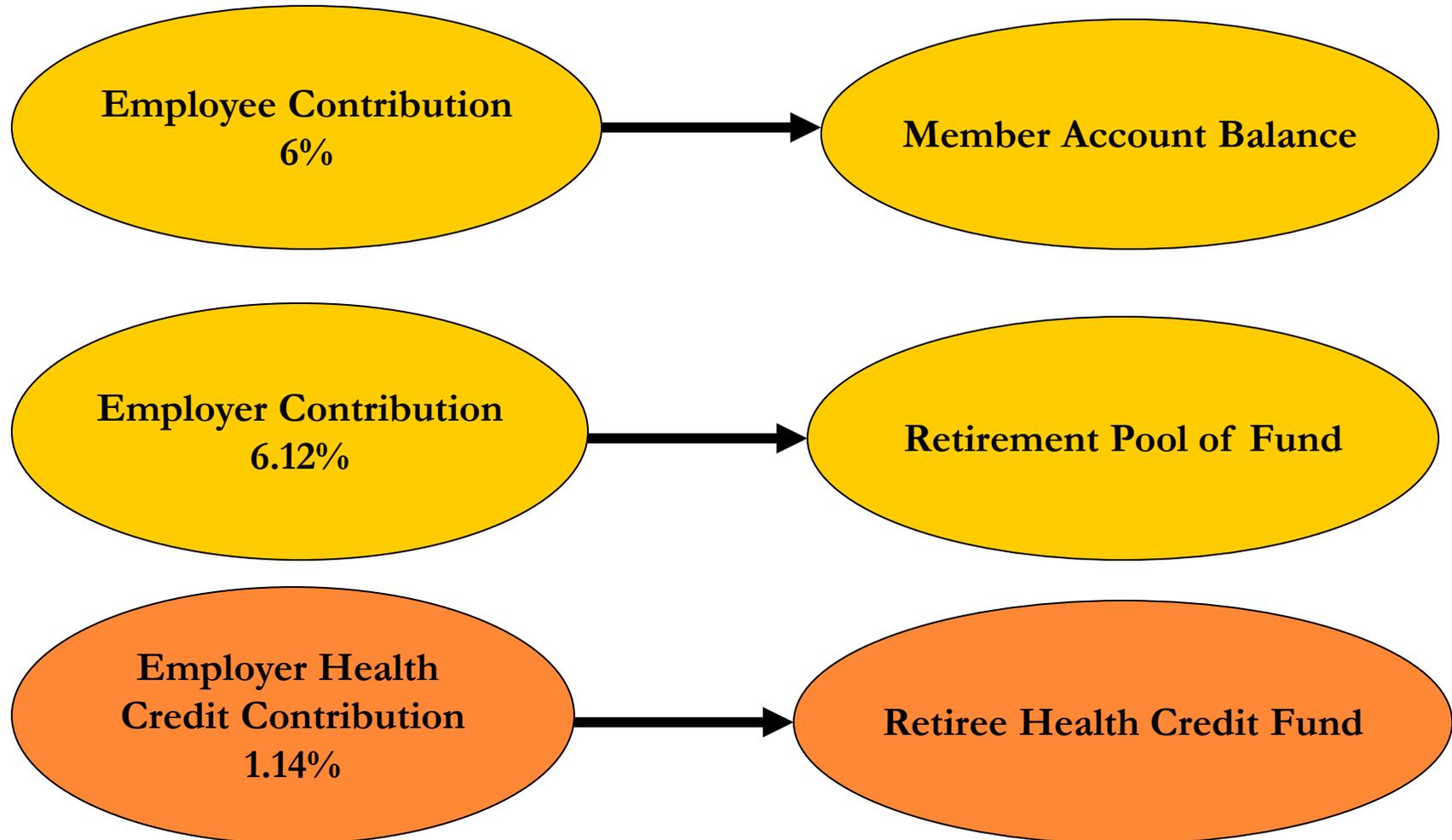
- You become vested the earlier of:
 - Achieving 36 months (3 years) of service credit

or

- Attaining 65 years of age



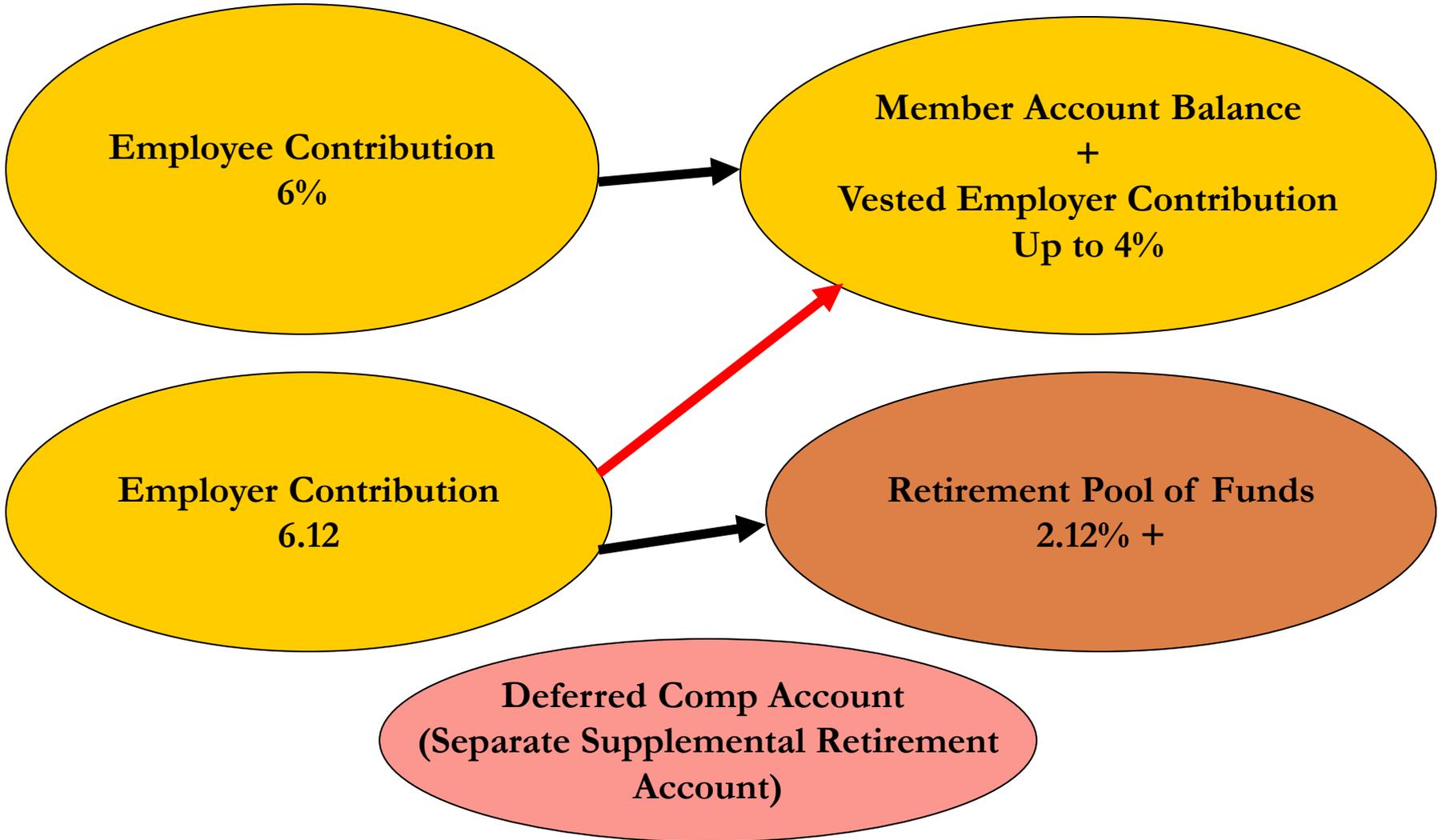
Defined Benefit Hybrid Contribution Allocation



Portability Enhancement Provision (PEP)

- PEP allows a member to vest in the employer contribution
 - *Requires participation in a Deferred Compensation Plan (457/403(b))*
- Vested employer contributions are added to the member's account balance
- The result is increased value of your member account for portability purposes.

DBH Contribution Allocation With PEP



DBH Benefits at Termination

Defined Benefit Hybrid Member Account Balance Options:

- Lump Sum Refund (before age 59 ½)
 - 20% federal tax withholding
 - 14% state tax withholding
 - of the federal amount
 - 10% penalty for early withdrawal

- Direct Rollover
 - Taxable amount only
 - Avoid tax & early withdrawal penalties

- Combination rollover/refund



Retirement Benefit Formula

Defined Benefit Hybrid Plan

- Final average salary (FAS)
 - The average of your highest 36 salaries during the last 180 months worked
- Benefit multiplier
 - 2.00%
- Credited service
 - One month of service for each contribution

(FAS x 2.00% x Service Credit)

“Normal” Retirement in DBH

- Attain Age 65
- Achieve the Rule of 85
 - Member's Age + Service Credit



“Early” Retirement in DBH

- Age 55
- Reduction of Benefits Under Age 65 or Attaining Rule of 85, Whichever Occurs First
 - 6% for each year
 - .005 for each month

Benefit Options in DBH

- Single Life
- Joint & Survivor 50%
- Joint & Survivor 100%
- Ten Year Term Certain
- Twenty Year Term Certain



Disability Benefits in DBH

- Long Term Disability
- 25% of Final Average Salary (FAS)
- \$100 per month minimum



Surviving Spouse Benefits in DBH

Assumption: Member is Active Prior to Death

- Lump Sum Payment
 - Also available to single and non-vested members

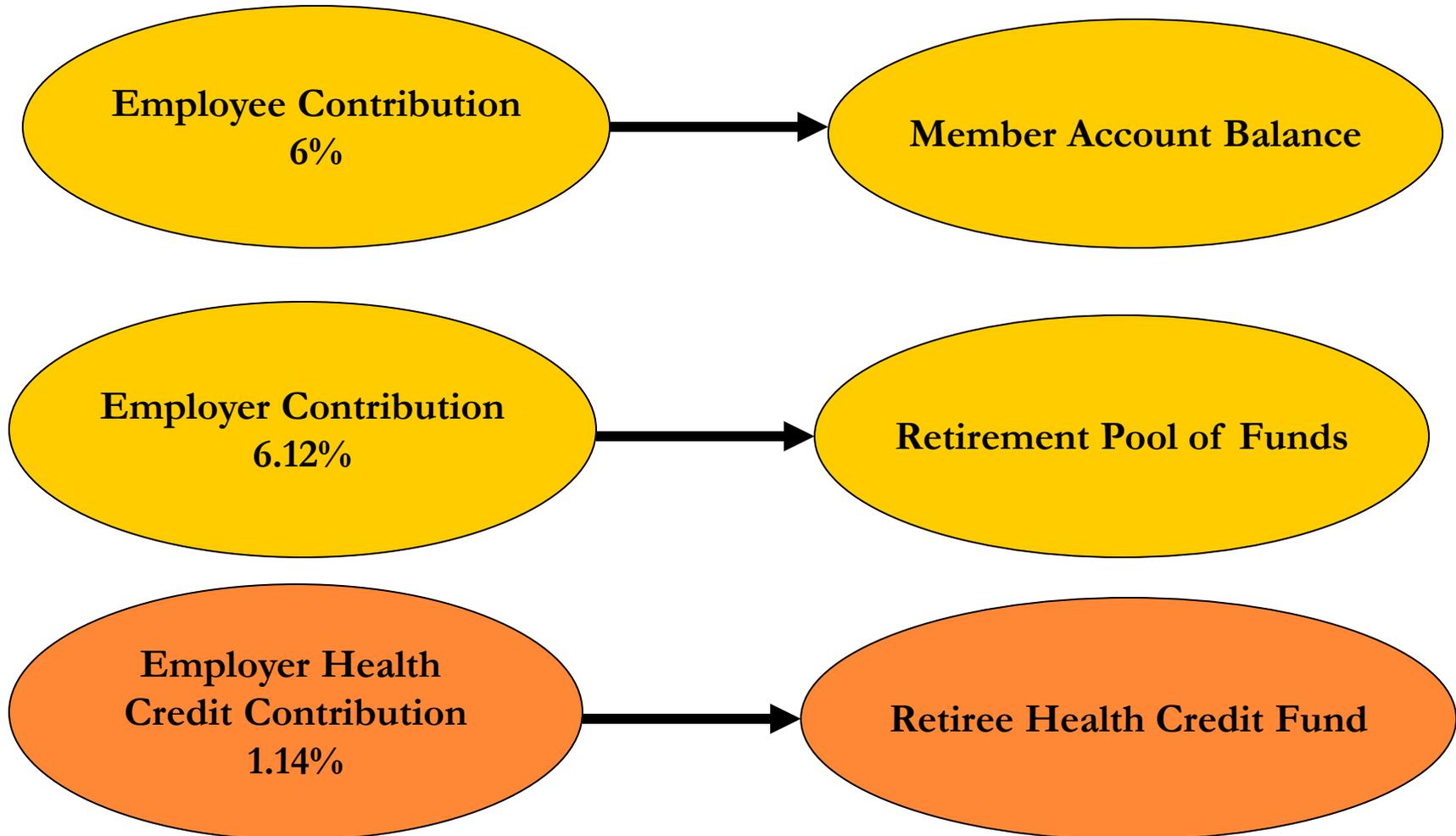
- Lifetime Payments

- 100% Joint & Survivor Payment
(If deceased was age 65 or met Rule of 85)

Defined Benefit Hybrid Plan vs. Defined Contribution Plan

- Now we're going to do a quick review the Defined Contribution Plan...

Contribution Levels in Defined Contribution Plan Allocation



Defined Contribution Plan Vesting

Years of Service:

- Less than 2 years
- 2 years
- 3 years
- 4 years

Percentage vested:

- 0%
- 50%
- 75%
- 100%

Defined Contribution Options at Termination

Defined Contribution Member Account

Balance Options:

- Lump Sum Refund (before 59 ½)
 - 20% federal tax withholding
 - 14% state tax withholding
 - of the federal amount
 - 10% penalty for early withdrawal
- Direct Rollover
 - Taxable amount only
 - Avoid tax & early withdrawal penalties
- Combination rollover/refund
- Systematic withdrawals



Retirement Benefit Formula

Defined Contribution Plan

- Work with TIAA-CREF representative to develop income stream scenarios
 - Select payment type and stream of income
- Monitor account balance
 - Adjust income stream if necessary
- Same process for Early Retirement or Disability retirement

Surviving Spouse Benefits in Defined Contribution Plan

- If the event of the death of the member, the designated beneficiary is entitled to receive member's vested balance.

RETIREE HEALTH CREDIT

- \$5.00 For Every Year of Service Credit
- Reduced for Early Retirement
- Applies only to the NDPERS Group Health Insurance Plan until 2015.
- Options for married members
 - ❖ 50% Joint & Survivor
 - ❖ 100% Joint & Survivor

Differences Between the DBH & DC Plans

Defined Benefit Hybrid:

- Rule of 85
- Fixed monthly benefit amount
- Fixed Disability benefit
- PEP available
- Option to vest in portion of employer contribution

Defined Contribution:

- No Rule of 85
- Variable benefit amount and payment schedule
- Variable disability benefit.
- PEP not available
- Ability to vest in 100% of employer contribution

Differences Between the DBH & DC Plans

Defined Benefit Hybrid:

- No control over investment of funds
- Cliff vesting after 3 years
- Benefits are based on FAS.
- Benefit duration is based on the lifetime of the member.

Defined Contribution:

- Investment of funds is determined by employee
- Gradual vesting over 3 years
- Benefits not based on pre-retirement income
- Benefit duration is based on account balance.

Contact Information

NDPERS

(800) 803-7377

(701) 328-3900

ndpers-info@nd.us (email)

www.nd.gov/ndpers (web address)