Ohio School Boards Association
Capital Conference and Trade Show

November 13 – 16, 2011

Greater Columbus Convention Center
Columbus, Ohio

Pension reform is here

Human Resources
Monday, November 14, 2011
9:00 a.m.
D 230—232

Richard White, treasurer, Mid-East Career & Technology Centers
James Heagen, assistant director of administration, Ohio Public Employees Deferred Compensation
Keith Overly, executive director, Ohio Public Employees Deferred Compensation
Matt Gill, program director,Ohio Public Employees Deferred Compensation

OSBA/OASBO School Finance Seminar

Mark your calendars for the OSBA/OASBO School Finance Seminar.

The event will take place on Dec. 2 at the Qwest Conference Center in Columbus at 9 a.m. The workshop will share the most up-to-date information for treasurers. Visit www.ohioschoolboards.org for complete agenda information.

For more information, contact OSBA at (614) 540-4000 or (800) 589-OSBA.

Please complete an online conference evaluation either during or after the event at:
http://links.ohioschoolboards.org/CC11Evaluation

OSBA Mission

OSBA leads the way to educational excellence by serving Ohio's public school board members and the diverse districts they represent through superior service and creative solutions.

Ohio School Boards Association

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www.osba-ohio.org

Ohio School Boards Association Capital Conference

Monday, November 14, 2011

Presenters

Keith Overly, Ohio Deferred Compensation

Jim Heagen, Ohio Deferred Compensation

Matt Gill, Ohio Deferred Compensation

Richard White, Mid-East Career and Technology Centers

Ohio Deferred Compensation

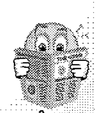
Pension Reform is Coming!

How do Defined Contribution (DC) Programs fit into the changing pension landscape, and how can employers meet their responsibilities and assist their employees to successfully plan and save for retirement?

Ohio Deferred Compensation

U. S. Public Employee Defined Benefit Retirement Programs

- National pressures on Defined Benefit(DB) plans
  - Pension envy
  - Political and ideological pressures
  - Focus on abuses
  - Follow private sector model
  - National Association of Government Defined Contribution Administrators (NAGDCA) survey reports that 37% of public sector respondents report plans to change their current DB plan
  - Demographics
  - Sustainability



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Ohio Public Employee Defined Benefit Retirement Programs

- Proposed changes to Ohio pension plans
  - STRS
    - ✓ Minimum age of 60(no minimum age) with 35 (30)years of service(full retirement)
    - ✓ Minimum of 30 (25) years of service for a reduced benefit
    - ✓ FAS calculation based on five (three) highest years of earnings
    - ✓ 2% (3%) COLA not to begin until 60 (immediately) months after retirement
    - ✓ Member contributions increase 3% over 3 year period
  - SERS
    - ✓ Minimum retirement age 57 (55) with 30 years of service(full retirement)
    - ✓ Minimum retirement age 67(62) with 10 years of service(full retirement)

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Outcomes of Pension Reform

- Currently, employees are not contributing sufficiently to DC plans in private and public sector.
- Public Sector Employees will have to rely more on DC plans in the future for retirement income as DB plan benefits are reduced.
- Are public sector employees ready for this change?

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Advantages of a DB plan and Supplemental DC plan

[illegible]	
Average salary for contributing members	$42,073
Average final average salary	$50,896
Average years of service at retirement	23.7
Average age at retirement	56.7
Average income replacement at normal retirement	56%
Average annual retirement income	$29,181
Defined Contribution Data (ODC)	
Median DC account balance (age 55-60)	$27,630
Average DC annual retirement income (Based upon 25-year life exp. and 4% earnings)	$1,769 or 3.5%
Combined income replacement from DB & DC	59.5%

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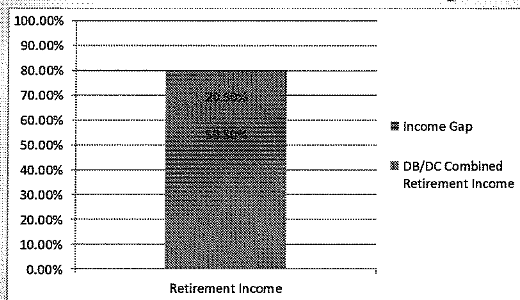
Retirement Income Gap



Research

- Gap between what employees and employers believe regarding employer responsibilities to encourage adequate retirement savings.
  - Too many choices deter people form enrolling.
  - Employees want more assistance preparing for-and providing for-retirement.
  - Employees and employers have widely differing opinions regarding how self-reliant the employee should be when preparing for retirement.

Research Continued

[illegible]	[illegible]	[illegible]
Warning me if I am not saving enough for retirement	60%	19%
Help me make sure my money fasts all through my retirement	57%	17%
Educating me on the realities of life in retirement	55%	24%
Helping me safeguard my assets in retirement	52%	14%
Helping me make smart investment decisions	49%	35%
Helping me secure an income stream in retirement	48%	13%
Helping me to save more	46%	25%
Educating me on how much money I'll need to accumulate for retirement	43%	51%
Helping me learn about investing and building my nest egg	40%	51%
Helping me understand my retirement plan investment options	33%	83%
Giving me an incentive to save and invest for retirement	21%	56%
Contributing money to my retirement nest egg	18%	43%

Data from Black Rock 2011 Defined Contribution Survey

Why Should Employers Care about Defined Contribution Plans?

- Recruitment
- An additional Fringe benefit as no cost
- Might allow older employees a chance to retire when they choose
- Productivity-a happy, financially secure employee is a productive employee
- IRS compliance-employers have responsibilities for proper plan administration

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Differences between a 457 (b) and a 403 (b) Program

	457(b)	403(b)
Early Withdrawal Penalties	None.	Yes. A 10% penalty applies before age 59 ½ unless you are retired and age 55 or over.
Deferral Limits/Coordination	Standard limit is $16,500 in 2011. 457(b) plans do not need to coordinated with 403 (b) plans	Standard limit is $16,500 in 2011,.403(b) plans need only be coordinated with other 403(b) plans or 401(k) plans (not 457(b) plans) in applying limits.
Catch-up Provision	Catch-up provision is $33,000 last 3 taxable years before normal retirement age under the plan.	Catch-up available for participants age 50 or over. Catch-up available employees who have at least 15 years of service with certain organizations.
Trust Requirements	Yes, assets insulated from the claims of the employer's creditors.	No, but must have annuity contracts or custodial accounts.
Exceptions for Distribution from the Plan	Only if the reason for distribution is an "Unforeseeable Emergency".	Hardships may be taken on salary reduction only, not investment income.

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What Services Do DC Plan Administrators Typically Provide?

- Recordkeeping services
- Updates to plan documents
- Distribution of plan literature and educational materials
- Transaction processing (daily buy/sell)
- Benefit Payments
- Education & Enrollment Services
- Customer Service via phone and website

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What Roles Are There for Employers?

- Assure that plans are properly adopted & implemented
- Make sure that DC plans are promoted as part of new employee hiring orientations
- Allow account executives flexible access to employees.
- Encourage employee savings
- Provide personal finance education
- Timely transmission of data and contributions

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Employee Education

- Take advantage of providers on-site programs – no cost to employers
- Help employees become better personal financial managers
- Help them become better savers and investors
- It is no longer an option for employees to be passively involved in their retirement planning
- Happy, financially secure employees are productive employees!

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Employer Due Diligence before Selecting a Provider

- Review plan document and investment policy statement.
- Meet on-site representatives.
- Does the plan offer a call center/service center?
- What services does the plan offer (i.e. loans, unforeseeable emergency withdrawals, auto-escalation, target date funds, retirement planning assistance)?
- What are the investment options?
- What is the fee structure of the plan?
- Department of Labor Disclosure Rules
  - New fee disclosure rules for plans covered by the Employee Retirement Income Security Act (ERISA)
  - According to the NAGDCA survey, 94% of public plans will comply with these disclosure rules voluntarily

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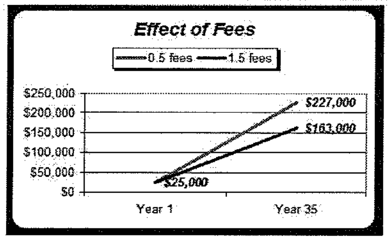
Impact of Fees on Retirement Assets



This hypothetical example is not intended to predict or project investment results of any specific investment. This calculation illustrates the principle of time and compounding. It assumes neither taxes on contributions or earnings, nor any account withdrawals, which would reduce the results shown.

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Ongoing Employer Due Diligence

- Overcome inertia with automatic features for successful outcomes (i.e. auto-enrollment, ez enrollment or auto-escalation features).
- Monitor the plan's investment policy.
- Monitor investment manager selection and performance.

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Insights from a School District's Perspective

- Retirement Perceptions vs. Future Reality.
- Communicate with staff regarding available DC options.
- Work with DC representatives who make the effort to come to campus and make themselves available to staff.
- Encourage staff to attend meetings with DC representatives when they are on campus.
- Encourage participation but refrain from giving advice.
- Give all approved vendors equal access to staff.

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Actively Encourage Employees to Save

- Be a Champion for Saving.
  - What will have the greatest impact on assets available for retirement
    1. Amount deferred will have greatest impact
    2. Asset allocation next greatest impact
    3. Fund returns least impact
- Promote NS4RW
- Encourage employees to invest part of their salary and wage increase on an annual basis
- Consider an Employer match
- Promote the Saver' s tax credit

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Hurdles to Overcome?

- Many times the major hurdle to overcome is access to employees for enrollment and education
- Whenever possible, work with 457 and 403 (b) Account Executives to distribute Program information to employees and to announce dates and times that they will be available for group and/ or individual meetings
- Retirement planning needs to become a priority for employees. Strong leadership from Board' s of Education and Senior Administrators can make all the difference on this issue

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T.E.A.M

- Teamwork is the Key!
- After you have vetted and selected the investment programs for your district, partner with the providers to assure that everyone is aware and knowledgeable regarding the various programs and investment options.
- Timely and secure transmission of data and contributions to your plan providers.

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Questions?

Thank you for attending and have a great conference!

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