

Employee Choice Plan

Current Situation

- Collin County will pay more than \$100 Million in county contribution into the retirement system over five years, including FY2014.
 - More than \$55 Million in lump sum payments in order to keep the retirement plan fully funded.
 - Our normal contributions of more than \$45 Million.
 - These figures do NOT include employee contributions.
- This briefing suggests an alternative that keeps our current employees whole while lowering future county costs and unfunded liability risk.
 - Basically, county savings will be realized as future employees are hired.

Current Situation (cont.)

- The Texas legislature will not lower the guaranteed rate of return.
 - HB958 proposed a lower return, down to 5% from the current 7%, but didn't get a committee hearing.
- TCDRS suggests that counties change the employee contribution level or the county match rate in order to lower costs to the county.

Proposed Plan

All Employees

- All Employees (Current and Future) participate in TCDRS (mandatory per State law).
- Reduce the employee contribution to the legal minimum 4% to TCDRS.
- All TCDRS requirements and decisions continue as they are today:
 - Match
 - Interest
 - How to handle future liabilities, etc

Proposed Plan

Current Employees: 401(a) or 457

- **Employees choose up to 3% employee contribution to a 401(a) or 457 investment plan (in addition to 4% TCDRS)**
- **County match and return guarantee:**
 - **County match for 401(a)/457:**
 - Will mirror county match into TCDRS (currently 2:1)
 - Calculated and paid yearly as “defined contribution” into 401(a)/457 plan
 - **Yearly returns for 401(a)/457:**
 - Employee earns unlimited returns in market
 - If yearly return falls below TCDRS guaranteed return, then county makes up the difference (i.e. 7 percent floor on yearly returns)
 - Calculated and paid yearly as “defined contribution” into 401(a)/457

Proposed Plan

Current Employees: 401(a) or 457 (cont.)

Bottom line:

- **Current employees continue to receive the TCDRS match and guaranteed interest**
- **Current employees' total returns will be no less than TCDRS returns, and possibly more based market conditions**
- No county future unfunded liabilities for 401(a)/457 accounts (paid yearly, as we have been doing in practice with TCDRS)

Proposed Plan

Future Employees: 401(a) or 457

- Up to 3% employee contribution to 401(a) or 457 investment plan (in addition to 4% TCDRS)
- County match:
 - 0.5:1, calculated and paid yearly as “defined contribution”
- No guaranteed interest
- **For a total 7% employee contribution, total county match (TCDRS and 401(a)/457) will be 1.36**
 - Still more than the public sector 1:1

Current Plan

Current & Future Employees

7% TCDRS Contribution

2:1 County Match

- Make 7% employee contribution.
- Receive 2:1 county match (currently) on TCDRS contribution.
- TCDRS accounts earn 7%, regardless of market performance.

Proposed Plan

Current Employees

2:1 County Match on
4% TCDRS Contribution

2:1 County Match on
3% 401(a)/457
Contribution

- Receive 2:1 county match (currently) on TCDRS contribution.
- Receive 2:1 county match on optional 401(a)/457 contribution. Match eligible up to 3%.
- May choose to pocket 3% rather than contribute to 401(a) or 457.
- TCDRS accounts earn 7%, regardless of market performance. 401(a)/457 accounts earn market rate (floor of 7%).

Proposed Plan

Future Employees

2:1 County Match on
4% TCDRS Contribution

1/2:1 County Match on
3% 401(a)/457
Contribution

- Receive 2:1 county match (currently) on TCDRS contribution.
- Receive 1/2:1 county match on optional 401(a)/457 contribution. Match eligible up to 3%.
- May choose to pocket 3% rather than contribute.
- TCDRS accounts earn 7%, regardless of market performance. 401(a)/457 accounts earn market rate.

Proposed Plan

Current Employees

2:1 County Match on
4% TCDRS Contribution

2:1 County Match on
3% 401(a)/457
Contribution

Future Employees

2:1 County Match on
4% TCDRS Contribution

½:1 County Match on
3% 401(a)/457
Contribution

Current Plan: Current & Future Employees

2:1 County Match on
7% TCDRS Contribution

Proposed Plan: **Current Employees**

2:1 County Match on
4% TCDRS Contribution

2:1 County Match on
3% 401(a)/457
Contribution

Proposed Plan: **Future Employees**

2:1 County Match on
4% TCDRS Contribution

½:1 County Match on
3% 401(a)/457
Contribution

Example “Down” Year in Market

- Market returns 4%
 - Current employees:
 - TCDRS: 7% (county will be charged for the 3% difference)
 - 401(a) or 457: 4% from market and 3% from county
 - Future employees:
 - TCDRS: 7% (county will be charged for the 3% difference)
 - 401(a) or 457: 4% from market

Example “Up” Year in Market

- Market returns 12%
 - Current employees:
 - TCDRS: 7% (all over 7% goes to TCDRS reserves)
 - 401(a) or 457: 12% from market
 - Future employees:
 - TCDRS: 7% (all over 7% goes to TCDRS reserves)
 - 401(a) or 457: 12% from market

Analysis

- All employees choose their level of risk in a selection of 401(a) and 457 plans.
- Current employees will earn at least as much as under TCDRS, but the market will determine county costs on the 401(a) and 457 plans.
- Future employees' pensions are closer to the private sector plans.
- County costs will decrease as the current work force retires.

401(a) and 457 Plan Management

- Engage a fiduciary agent.
- Current 457 vendors have 401(a) plans available:
 - Expand current offerings to include 401(a) plans.
 - Offer multiple, but limited participating 401(a) and 457 plans.
 - Conduct RFP process if necessary over the next year to see if changes need to be made.
- 401(a) versus 457
 - 457: tax advantage, public sector only, not portable
 - 401(a): more portable, higher max contribution for high earners

Recommendation

Make change effective January, 2014.