

# Retirement System Options

An Update

November 2013

# Background

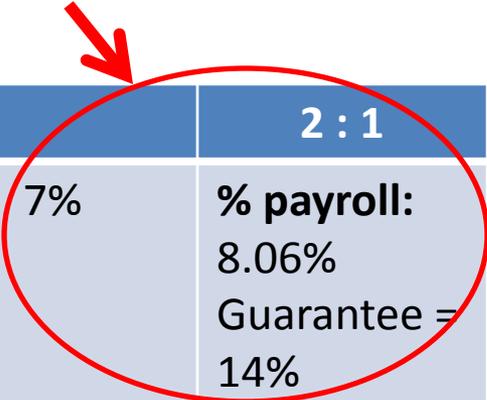
- The Employee Choice Plan (ECP) goals were designed to keep current employees whole and allow them to participate in positive market movement, while providing savings to the county.
- A parallel retirement “system” is not legal in Texas, therefore, a 401(a)/457(b) combination may not be legal.
- However, a 457(b) deferred compensation plan is legal and can be structured to closely model ECP goals.

# Options Available

1. Do nothing and accept the recurring unfunded costs to the county budget incurred from a growing employee base and number of retirees.
2. Change the Texas County and District Retirement System (TCDRS) contribution and/or county match in order to lower costs.
  - Select from a matrix of four different contribution levels and five different match levels.
3. Change TCERS contribution and/or county match, plus add a 457(b).

Current pension plan

# TCDRS Options



	2 : 1	1.75 : 1	1.5 : 1	1.25 : 1	1 : 1
7%	<b>% payroll:</b> 8.06% Guarantee = 14%	Not yet calculated	Not yet calculated	Not yet calculated	3.42%
6%	6.41%	Not yet calculated	Not yet calculated	Not yet calculated	2.74%
5%	5.11%	Not yet calculated	Not yet calculated	Not yet calculated	2.06%
4%	3.82%	Not yet calculated	Not yet calculated	Not yet calculated	1.37% Guarantee = 4%
<b>Source for % of payroll: TCDRS</b>					

Note: The 8.06% is the calculated cost to the county, not the 14% match commitment because of guarantee (7% employee contribution, matched 2-to-1)

# Private Sector 401(k) Match

- Private sector match norm:
  - 61% of employers who offer a 401(k) also offer a match with **an average match of 3.57% of salary.**
- Current county commitment is 14% of salary.
  - 7% employee contribution with a 2-to-1 county match.
- The minimum TCDRS contribution of 4% with a 1-to-1 match represents a higher match than the private sector average (4% versus 3.57%)

Source: 2010 National Compensation Survey

# 457(b) Option

- In order to get as close to the original Employee Choice Plan and keep current employees whole, a 457(b) deferred compensation plan could be structured:
  - Up to 3% employee contribution
  - County match:
    - 2:1 for current employees (same as TCDRS).
    - 1:1 for future employees.
  - Since vesting is not allowed under 457(b), a 4-year “qualification period” will be instituted.
    - No county match until an employee has worked for county for four years. Current employees grandfathered to four years.
  - Combined match for future employees for TCDRS at 4%, 2-to-1 match, plus 457(b) at 3%, 1-to-1 match is 11% of salary, more than three times the private sector average match (3.57% of salary).

# Benefits of 457(b)

- Employees:
  - Participate in market returns
  - Receive 457(b) county match after four years of county employment
  - Current employees grandfathered to four years
  - Or, Employees can opt to take the 3% in paycheck
- County:
  - Retention tool to encourage longevity past four years (about 50% leave before the fifth year)
  - Estimated savings about \$22,000,000 over 20 years

# Examples

- Employee with 6 years county employment:
  - TCDRS: 4% contribution, two more years to vest.
  - 457(b): employee elects contribution, county match starts immediately.
- Employee with one year county employment:
  - TCDRS: 4% contribution, seven more years to vest.
  - 457(b): employee elects contribution, county match starts immediately.
- Future employee:
  - TCDRS: 4% contribution, eight years to vest.
  - 457(b): employee elects contribution, county match starts during fifth year of employment.

# Comparison

Break even point

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 20	Total
<b>Current scenario TCDRS</b>											
Payroll	\$93,606,400	\$95,478,528	\$97,388,099	\$99,335,861	\$101,322,578	\$103,349,029	\$105,416,010	\$107,524,330	\$109,674,817	\$136,366,849	\$2,274,389,316
Payroll Cost	\$6,440,120	\$6,769,428	\$7,109,331	\$7,460,123	\$7,822,103	\$8,195,578	\$8,580,863	\$8,978,282	\$9,388,164	\$14,823,077	\$204,988,680
<b>TCDRS plus 457(b)</b>											
Payroll	\$93,606,400	\$95,478,528	\$97,388,099	\$99,335,861	\$101,322,578	\$103,349,029	\$105,416,010	\$107,524,330	\$109,674,817	\$136,366,849	\$2,274,389,316
Payroll Cost TCDRS	\$2,471,209	\$2,721,138	\$2,980,076	\$3,248,283	\$3,526,026	\$3,813,579	\$4,111,224	\$4,419,250	\$4,737,952	\$9,041,122	\$108,554,573
457, 1:1 new, 2:1 current	\$4,998,582	\$4,821,037	\$4,639,941	\$4,455,223	\$4,357,438	\$4,251,822	\$4,140,715	\$4,025,261	\$3,906,075	\$2,391,084	\$73,803,384
Total Payroll Cost	\$7,469,791	\$7,542,175	\$7,620,016	\$7,703,505	\$7,883,463	\$8,065,402	\$8,251,939	\$8,444,511	\$8,644,027	\$11,432,206	\$182,357,957

Assumptions: Payroll grows by 2% a year  
 TCDRS annual change is .21  
 No contribution for first four years employment in 457(b)

**> \$22 MM savings over 20 years**

# Overview of Three Options

Option	Total cost over 20 years
Current TCDRS Plan, 7%, 2:1 match, 8 year vesting No 457(b)	\$204,988,680
TCDRS: 4% @ 2:1 match, 8 year vesting 457(b): 3% @ 1:1, 4 year qualification period	\$182,357,957
TCDRS: 4% @ 1:1 match, 8 year vesting No 457(b)	\$ 73,528,978

# Timeline

- TCDRS decision: December 9, 2013
- Decision on 457(b): March 1, 2014
- Employee education: March 1-April 1, 2014
- “Go live”: April 1, 2014