

GEORGIA STATE EMPLOYEES' PENSION AND SAVINGS PLAN

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Reasons for New Design

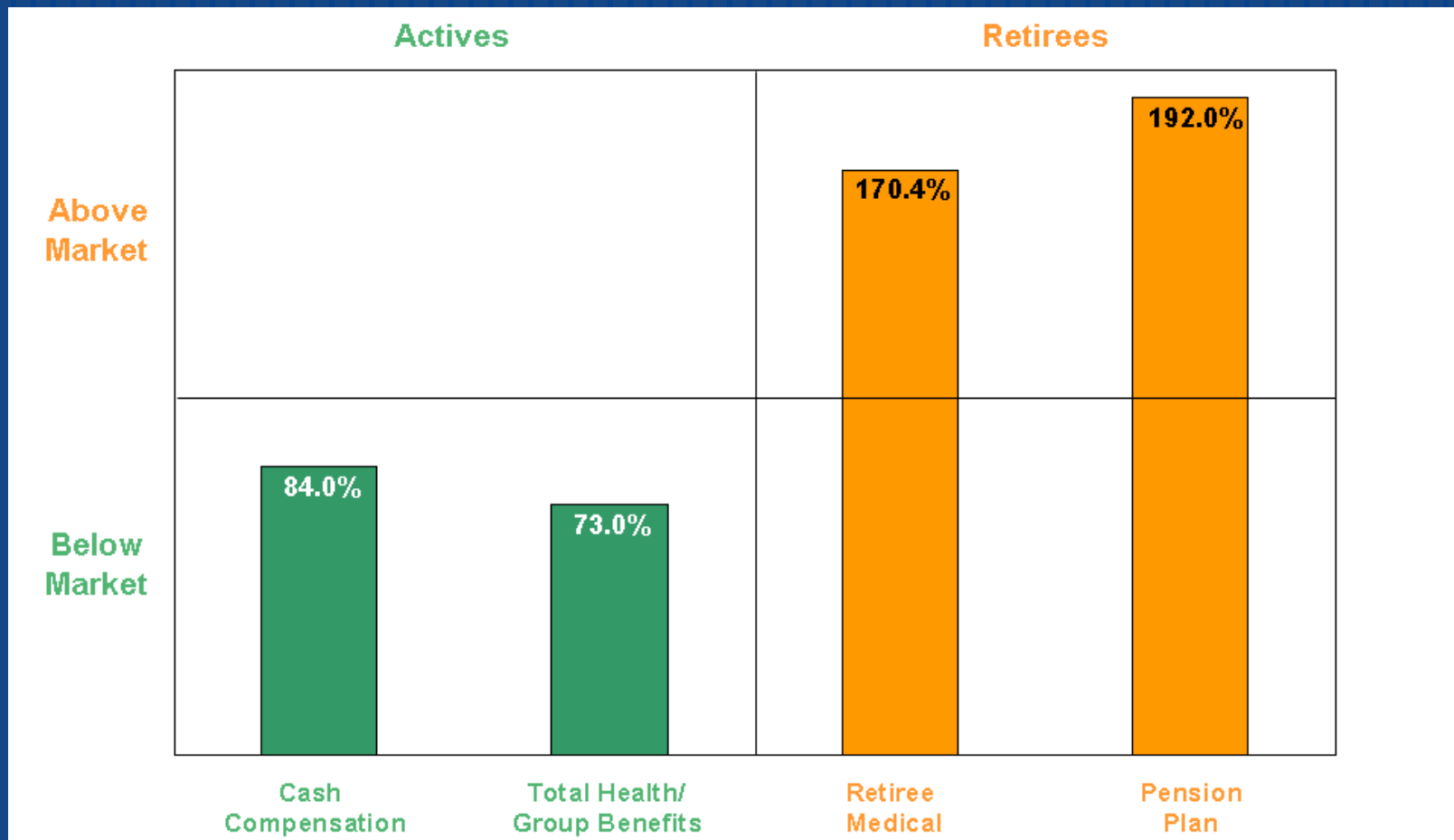
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- ❑ Difficulties attracting and retaining the best and brightest employees
- ❑ State was high on benefits and low on salary
- ❑ Competitive against the private sector
- ❑ Emerging workforce focuses on current cash flow
- ❑ 13.3% turnover in first 5 years of employment
- ❑ 8.3% turnover after 5 years of employment
- ❑ Shared Sacrifice
- ❑ Ensure legacy of financially responsible and sustainable programs

Observations

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Total reward package is competitive at 98% of market but is delivered largely through retirement benefits



DB or DC: What should we do?

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- Defined Benefit Plan
 - Retirement plan through which employers and employees contribute. Benefit is based on service and salary. Contributions are actuarially calculated to provide benefits for a retiree's lifetime.
 - Popular for career employees, mid-career new hires and older employees.
 - Assets are owned by the system

DB or DC: What should we do?

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- Defined Contribution Plan
 - Savings Plan under which contributions are made by employer and/or employee to individual member accounts. Individuals direct the investment of these accounts. Benefits provided depend on investment experience and longevity of retirement.
 - Popular with short service employees and mobile younger workforce.
 - Assets are owned by employee

Advantages of DB Plan

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- ❑ Provides guaranteed lifetime benefit to retirees
- ❑ Provides more benefit for career employees
- ❑ Investment management fees are lower than DC Plan
- ❑ Investment returns higher than DC Plan
- ❑ Cost-of-living protection after retirement
- ❑ Outside service credit may be recognized
- ❑ May provide inflation protection during career
- ❑ Employer enjoys investment gains
- ❑ Key retention tool for mid-career older workers

Disadvantages of DB Plan

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- ❑ Provides less benefit for non-career employees
- ❑ Cost of plan may fluctuate from year to year
- ❑ Benefits are often not as portable as DC benefits
- ❑ Difficult for employees to understand how much the employer is contributing on their behalf
- ❑ Employer/tax payer bears investment risk
- ❑ Not an attraction tool for young workers
- ❑ Subject to legislative manipulation

Advantages of DC Plan

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- ❑ Contribution amount is easily determined, easy to understand and usually constant from year to year
- ❑ Provides more to non-career employees
- ❑ Account balances may be transferred from one employer to another
- ❑ Costs are fully funded
- ❑ Employee enjoys investment gains
- ❑ Key attraction tool for young workers

Disadvantages of DC Plan

- ❑ Provides less benefit for career employees
- ❑ Benefits bear no relationship to pre-retirement working pay
- ❑ Employee bears financial risk of outliving accumulated assets
- ❑ Employee bears financial risk of poor investment returns
- ❑ Investment returns lower than DB Plan
- ❑ Does not motivate employees to continue in service
- ❑ No retention tool for older workers

Plan Preference by Age

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% Preference



New Plan Design – Eff. 1/1/09

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- Two Benefit Structures Provided:
 - Defined Benefit
 - Defined Contribution
- Defined Benefit Structure
 - Lower formula percentage
 - Increased service requirements for death and disability
 - Vesting is 10 years like old structures

New Plan Design – Eff. 1/1/09

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□ Defined Contribution:

- Automatically enrolled at 1%
- Employee has ability to opt-out within 90 days
- Employee can contribute more than the 1%
- Employer Match is \$1 for \$1 on the first 1% and \$.50 on the \$1 for the next 4% (Total possible match is 3% of salary)
- Employer Match is on a graduated vesting schedule of 20% per year with employee being 100% vested at 5 years.

Current Results

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As of May 31, 2010:

- 7,996 employees covered by the new design
 - 5,995 are participating in the 401(k) – 87%
 - 839 opted out of the 401(k) at hire – 12%
 - 42 opted out after initially contributing

- Of those participating:
 - 87% are at the default percentage of 1%
 - 9.2% are receiving the highest match possible

Current Results

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- Investments:
 - 95% defaulted into the default fund (Lifecycle)

- Contributions to date (May 2010):
 - \$2.6 million in employer contributions to 401(k) plan
 - \$8.78 million in employer contributions to Pension Plan
 - \$105,702 in forfeiture account (terminations)

Current Challenges

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- ❑ Market rebounded in 2009, but has slowed down some in early 2010
- ❑ FY 2010 pension plan return was around 14.25%
- ❑ For consumers and small investors like those in our 401(k) plan, it will be a while before they throw their trust back into 401(k)
- ❑ Must communicate the positives and encourage them to take the risk to contribute more

What would we do differently?

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- ❑ Higher default contribution % than 1% (inertia effect)
- ❑ Interactive modeling tools for employees
- ❑ Produce more communications around 401(k) piece
 - ❑ Educate on investments
 - ❑ Encourage members to revisit modeling tools
 - ❑ Incent employees to contribute
 - ❑ Incent employers to encourage enrollment

Georgia State Employees' Pension and Savings Plan

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Text of the 2007 Georgia State Employees' Pension and Savings Plan legislation is available at

www.legis.ga.gov/legis/2007_08/pdf/sb328.pdf