


THE VALUE OF AUTO ENROLLMENTS AND 403(B) MATCH PLANS

KENT SCHUTTE, EFS ADVISORS

Securities offered through Advanced Advisor Group, Member FINRA & SIPC
Investment Advisory Services offered through Advanced Financial Services, a Registered Investment Advisor
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Advanced Advisor Group and Advanced Financial Services are affiliates under common control of EFS Advisors.



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TOPICS WE WILL COVER

- Future of DB Plans
- Why 403(b) Auto Enrollments
- 404(b) On Line Enrollments
- Value of Match Plans
- What is the Right Number of 403(b) Vendors
- Your PERA Benefits



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THE FUTURE OF DEFINED BENEFIT PLANS

DB trends

- Increasing Longevity
- Costs are increasing
- Benefits are decreasing
- It is not poor Management or Poor Returns

Long term solution

- 403(b) Auto enrollments
- 403b Match Plans




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FACTORS IMPACTING DB PLANS

Longevity

- MN TRA average female life expectancy in 2000 = age 87
- MN TRA average female life expectancy in 2018 = age 90.4

Pension Plan Returns on Investments



MINNESOTA SBI RETURNS

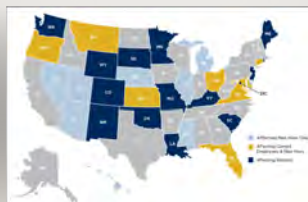


Asset Class	Target Allocation
Domestic Equities	39%
International Equities	19%
US Fixed Income	20%
Alternative Investments	20%
Cash	2%



<https://minnesotafund.org/wp-content/uploads/2018/06/TRA-EconomicAssumptionsStudy.pdf>

STATE PENSION REFORM – STATES THAT REDUCED OR ELIMINATED COLAS



MINNESOTA TRA CONTRIBUTION RATES & FUNDING RATIOS

TRA Contribution Rates			
Year	Employer	Employee	Total
2000-06	5.00%	5.00%	10.00%
2007	5.50%	5.00%	10.50%
2008-11	5.50%	5.50%	11.00%
2012	6.00%	6.00%	12.00%
2013	6.50%	6.50%	13.00%
2014	7.00%	7.00%	14.00%
2015-17	7.50%	7.50%	15.00%
2018	7.71%	7.50%	15.21%
2019	7.92%	7.50%	15.42%
2020	8.13%	7.50%	15.63%
2021	8.34%	7.50%	15.84%
2022	8.55%	7.50%	16.05%
2023	8.75%	7.75%	16.50%

TRA Funding Ratios	
2000	105.20%
2001	105.80%
2002	105.30%
2003	103.10%
2004	100.00%
2005	98.50%
2006	92.00%
2007	87.50%
2008	82.00%
2009	77.40%
2010	78.50%
2011	77.30%
2012	73.00%
2013	71.30%
2014	74.10%
2015	77.10%
2016	75.60%
2017	76.80%
2018	76.90%



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<https://www.pers.state.mn.us/documents/2018/06/funding%20rates.pdf>
<https://www.pers.state.mn.us/employees/>

PERA HISTORICAL CONTRIBUTION RATES

HISTORICAL CONTRIBUTION RATES

Historical contribution rates for PERA's Defined Benefit plans - July 1, 1987 through Present

General Plan Contributing Members	Employees	Employees
01/01/84 - 06/30/87	5.00%	4.50%
07/01/87 - 06/30/88	4.00%	3.50%
07/01/88 - 07/01/89	4.00%	4.25%
07/02/89 - 12/31/89	4.25%	4.40%
12/31/89 - 12/31/91	4.75%	5.0%
01/01/92 - 12/31/95	5.0%	5.5%
01/01/96 - 12/31/96	5.50%	6.00%
01/01/97 - 12/31/97	5.75%	6.25%
01/01/98 - 12/31/98	6.00%	6.50%
01/01/99 - 12/31/99	6.00%	6.75%
01/01/00 - 12/31/03	6.00%	7.00%
01/01/04 - 12/31/04	6.25%	7.25%
01/01/05 -	6.50%	7.50%



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<https://www.mnpera.org/wp-content/uploads/Historical-contribution-rates.pdf>

TRA REDUCTION OF BENEFITS

Benefits prior to Legislative change on July 1, 2019

ASSIGNMENT	YEARS OF SERVICE	RETIREMENT AGE	LEVEL	FORMULA
CLASS 1: 100% of final average salary	30	Age 60	100%	100%
CLASS 2: 90% of final average salary	25	Age 55	90%	90%
CLASS 3: 80% of final average salary	20	Age 50	80%	80%
CLASS 4: 70% of final average salary	15	Age 45	70%	70%

Benefits after Legislative changes

ASSIGNMENT	YEARS OF SERVICE	RETIREMENT AGE	LEVEL	FORMULA
CLASS 1: 100% of final average salary	30	Age 60	100%	100%
CLASS 2: 90% of final average salary	25	Age 55	90%	90%
CLASS 3: 80% of final average salary	20	Age 50	80%	80%
CLASS 4: 70% of final average salary	15	Age 45	70%	70%



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PERA REDUCTION OF BENEFITS

HOW INCREASED YEARS OF SERVICE AFFECTS RETIREMENT BENEFITS
 Started before July 1, 1989
 Normal retirement age is at the Rule of 90 -- or age 65 if not under the Rule of 90

ASSUMPTIONS	YEARS OF SERVICE	RETIREMENT AGE	FORMULA USED
CAREER BEGINS 9-1-1988 UNTIL			STEP LEVEL Retirement benefit expressed as % of High-3 average
6/3/2008	32	Age 62	49.4% 40.25%
6/3/2013	35	Age 65	54.5% (NA) 59.5%
6/3/2014	36	Age 66	56.2% (NA) 61.2%



SOLUTION FOR RETIREMENT PREPARATION? 403(b)

- Automatic Enrollment
- Online Enrollment
- Auto Increase
- Match Programs



WHY AUTOMATIC ENROLLMENT?


- Increased participation in retirement plans
 - Plan sponsor merely enrolls the employee at a set deferral rate
 - Plans "opt-out" in nature instead of "opt-in"
 - Studies showed a 41% increase in participation by new employees
- Save employers money
 - Legislative push to reduce cost into defined benefit (DB) Plans
 - 403(b) Employer contributions avoid FICA and other payroll taxes
- Lessen the burden on taxpayers
 - Fewer retirees are relying on the government to cover their expenses associated with post-retirement needs



AUTO ENROLLMENTS


Pros and Cons to the employer for Auto Enrollments

- Pros
 - No employer cost to implement Benefit
 - Employees are prepared to retired earlier regardless of changes in DB plan
 - Educates employees earlier on the value of accumulating supplemental retirement accounts
 - Ease of 403(b) Participation Decision
- Cons
 - Must implement an auto enrollment process through payroll





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12%
☒ donate organs
12% Donors



1%
☒ don't donate
99% Donors



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RETIREMENT SAVINGS CONCERNS

- 50% of Employers do NOT have a 401(k) type of benefit
 - 403(b) National Average is approx. 30%
- Only 11% of employees save enough to maintain or improve lifestyle in retirement
- 92% think a money market account is a well diversified fund



GOAL

90-10 Rule

- At least **90%** should be saving for retirement
- Saving rate should be **10%** or more



Source: The Behavioral Economics Learning Group at UCLA

90-10 SOLUTIONS

- Auto enrollments
- Auto increases
- Online Enrollment



Source: The Behavioral Economics Learning Group at UCLA

QUALIFIED DEFAULT INVESTMENT ALTERNATIVES (QDIA)

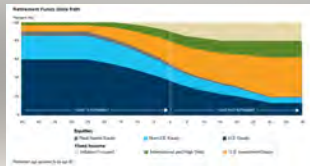


- The DOL defines a QDIA as an investment fund or model portfolio that seeks both long-term appreciation and capital preservation through a mix of equity and fixed income investments. Management of the fund's or portfolio's investments must be based on an employee's age or target retirement date or on the overall age of the plan's employees. Investments that qualify as QDIA include lifecycle or target date retirement funds, balanced funds or managed accounts.



TARGET DATE FUNDS (TDF)

Target Date Funds	2000	2005	2010	2013	2018
Target Date Funds & Common Trusts AUM	\$0	\$8 B	\$59 B	\$121 B	\$400 B



Target Date Funds and Common Trusts AUM is defined as the amount of target date fund and common trust assets managed by T. Rowe Price. © T. Rowe Price

STATE AUTO ENROLLMENT RESTRICTIONS



Issues for Plan Sponsors to Consider Before Adoption

- Federal and state laws
 - Federal law as part of the Pension Protection Act (PPA)
 - MN prohibits automatic enrollment because they require written permission from the employee to make payroll deductions
 - Collective Bargaining Agreements make it legal**



SAMPLE AUTO ENROLLMENT LANGUAGE

Section 8.403(b) Auto Enrollment


All Teachers hired after January 1, 2018 will be automatically enrolled in a voluntary 403(b) plan. Fifty (\$50.00) dollars will be deducted from each paycheck and contributed into a Target Date Fund (TDF) as the default investment managed by EFS Advisors. EFS Advisors will be the responsible Fiduciary of the default investments. A teacher can opt out of the plan within 90 days and withdrawals will be returned to the school and added back into the teacher's paycheck. Teachers may transfer the account to any of the qualified investment companies listed in the Employer 403(b) Plan Document Adoption Agreement.




ONLINE ENROLLMENT




The Value of Implementing Match Plans

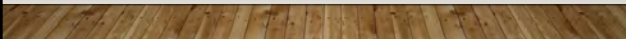




NATIONAL AVERAGE CONTRIBUTION RATES


- Only 6 % of schools have match compared to 50 % of 401(k)s
- Average 403(b) contributions: \$322 monthly / \$3,864 annually
- Average Teacher salary - \$55,919.00
- Contributions equal 6.9 % of salary






OPTIONS FOR SEVERANCE/EARLY RETIREMENT

- Paid in Cash minus FICA, State and Federal Income Taxes
- Implement 403(b) Match, phasing out severance over time
- Post Employment 403(b), 401(a) Contribution
- Post Employment Medical Spending Accounts





SAMPLE SALARY SCHEDULE GREATER MINNESOTA

Schedule 2									
2019-2020 BUDGET SCHEDULE									
	RE	NA+13	NA+10	NA+43	NA+10	NA2	NA+13	NA+10	NA+43
1	NA+107	\$41,494	\$41,823	\$41,823	\$41,823	\$41,823	\$41,823		
2	NA+107	\$41,824	\$41,824	\$41,824	\$41,824	\$41,824	\$41,824		
3	NA+107	\$41,824	\$41,824	\$41,824	\$41,824	\$41,824	\$41,824		
4	NA+107	\$41,824	\$41,824	\$41,824	\$41,824	\$41,824	\$41,824		
5	NA+107	\$41,824	\$41,824	\$41,824	\$41,824	\$41,824	\$41,824		
6	NA+107	\$41,824	\$41,824	\$41,824	\$41,824	\$41,824	\$41,824		
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9	NA+107	\$41,824	\$41,824	\$41,824	\$41,824	\$41,824	\$41,824		
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91	NA+107	\$41,824	\$41,824	\$41,824	\$41,824	\$41,824	\$41,824		
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99	NA+107	\$41,824	\$41,824	\$41,824	\$41,824	\$41,824	\$41,824		
100	NA+107	\$41,824	\$41,824	\$41,824	\$41,824	\$41,824	\$41,824		
CARRIER	NA+120	\$63,177	\$63,177	\$63,177	\$63,177	\$63,177	\$63,177	\$73,491	\$73,491

The salaries for the units actually will be paid for a normal teaching load in a school year as determined in Article 12 of this Master Agreement. Teachers who are employed beyond the number of days specified in the official school calendar shall be paid at 85 percent of their regular salary.

These loans represent *quarter credits*, not *semester credits*. Semester credits are converted to quarter credits by taking the semester credit times 1.5 (i.e. 3 semester credits = 4.5 quarter credits.)



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SAMPLE SEVERANCE

Severance Qualifications: 20 years of service to the School District and at least 55 years of age.

Benefit: Accumulated sick days not to exceed 100

Total Benefit: 40% of Base Salary, Paid over 5 Years

Example

2018-2019 Salary Schedule

<u>Years of Service</u>	<u>MA+</u>
20+	\$68,776

Severance: $\$68,776 \times 40\% = \$27,510$

Severance = \$27,510



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For Informational Purposes Only: Not for Distribution

SEVERANCE CASH OPTION

\$27,510 Benefit Cost to District = \$29,615 (includes FICA)


After tax benefit to employee	\$27,510.00
FICA	- \$ 2,104.50
Federal Tax	- \$ 6,052.20
State Tax	- <u>\$ 1,939.40</u>
	\$ 17,413.90


\$3,482.70/yr for 5 years Employee Net Benefit




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**TAX-DEFERRED
ACCUMULATION**



5% Sample Match


YEAR	SALARY	AMOUNT	ANNUAL	TOTAL	VALUE @	WITH	VALUE @	WITH
NUM	4%	PER MO	CONT.	CONT.	4%	MATCH	4%	MATCH
5	\$ 42,114.91	\$ 175.48	\$ 2,105.76	\$ 9,749.38	\$11,353.74	\$12,487.48	\$12,177.85	\$14,343.70
10	\$ 51,239.23	\$ 213.00	\$ 2,564.96	\$ 21,610.99	\$28,879.69	\$37,739.38	\$33,136.82	\$67,072.64
15	\$ 62,940.35	\$ 255.75	\$ 3,117.02	\$ 36,042.46	\$55,379.84	\$110,719.68	\$69,417.87	\$139,235.74
20	\$ 75,846.37	\$ 316.52	\$ 3,792.33	\$ 53,605.34	\$94,468.72	\$188,936.23	\$129,036.54	\$258,073.08
25	\$ 90,238.95	\$ 384.92	\$ 4,613.95	\$ 74,962.63	\$151,187.54	\$302,375.08	\$225,268.74	\$450,417.47
30	\$112,271.45	\$ 467.80	\$ 5,613.57	\$ 100,952.89	\$222,456.96	\$444,913.92	\$378,939.73	\$757,919.44
35	\$136,596.39	\$ 569.15	\$ 6,829.77	\$ 132,574.00	\$347,942.38	\$695,884.76	\$622,354.66	\$1,244,189.31
40	\$184,189.18	\$ 835.45	\$ 9,205.44	\$ 171,043.91	\$519,762.32	\$1,039,524.63	\$1,054,908.72	\$2,011,437.42


This is a hypothetical example for illustrative purposes only.

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ADDITIONAL MATCH BENEFITS

- **Employee**
 - Severance/Early Retirement can be sheltered
 - Can borrow against (use of money without current taxation)
 - Can withdraw at employee's control
 - Money goes with employee upon separation from service regardless of age
 - Vested on monies immediately upon deposit
- **Employer**
 - 7.65% employer FICA savings
 - Recruiting benefit
 - Retention Benefit
 - Levelized Budgeting
 - Education encourages savings





403(B) BARGAINING BENEFITS SUMMARY

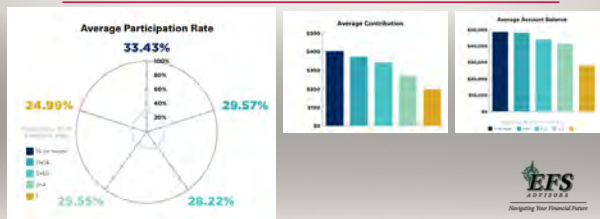
- Add Auto Enrollment Language
 - -0- cost to Employer
 - Employee is not required to enroll in Benefit
- Add or Increase Match Benefit
 - Most Efficient Benefit for Employer to add
 - Dramatically Increase Supplemental Retirement Values



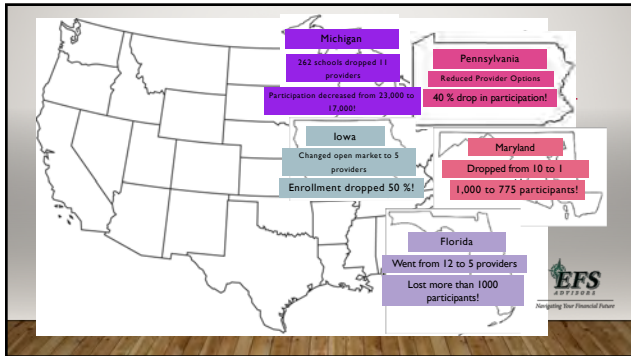
What is the Right Number of 403(b) Vendors

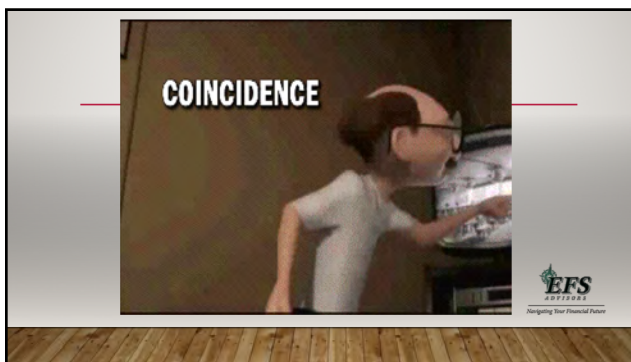


IMPACT OF CHOICE



https://www.efsadvisors.org/assets.net.org/156122/2018_NTSA_Improving_403b.pdf






BENEFITS OF CHOICE

- 25 % greater participation with 15 or more investment options
- Balances are 73 % higher with 15 or more providers
- 203 % increase in contributions in plans with 15 or more providers
- Single provider plans participation rate is 8 % below national average

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LEVEL FORMULA NORMAL RETIREMENT AGE 66 HIRED AFTER 7-1-1989 MEMBER AGE 62

High 5 Average	\$100,000 Salary
Final Gross Monthly Salary	\$8333
Single "0" Federal Tax	-1,450
Single "0" State Tax	-549
Social Security Tax @ 7.65%	-637
PERA Contribution @ 6.50%	-542
Net Final Monthly Salary	\$5,155




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For personalized PERA account information or benefit estimates, contact your pension plan office.

LEVEL FORMULA NORMAL RETIREMENT AGE 66 MEMBER AGE 62

Comparison to Salary Summary	
High 5 Average Salary	\$100,000
PERA Single Life Annuity	\$3,350
Single "0" Federal Tax	-349
Single "0" State Tax	-187
Net Monthly PERA	\$2,814
Net Monthly PERA	\$2,814
Net Final Monthly Salary	\$5,115
Net Difference	\$2,301



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