LEOFF
Plan 2 Retirement Board

Promoting Individual Savings for Retirement

Initial Consideration
August 28, 2013

Issue

Members are not able to take advantage of a recent IRS ruling which provides new options for managing savings in retirement.

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Retirement Savings

- **3 Legs of Retirement stool:**
  - LEOFF Plan 2 Pension
  - Individual Savings
  - Social Security
- **Many LEOFF Plan 2 employers are not in Social Security, making encouragement of individual savings even more important.**

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Federal Tax Law Encourages Savings

- Qualified deferred savings plans allowing member pre-tax contributions.
- Rollovers between qualified plans allowed to enhance savings flexibility.
- Purchase of up to 5 years of “air time”.

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2012 IRS Ruling

- **Internal Revenue Bulletin 2012-8 issued February 21, 2012.**
  - Allows a member of a 401(a) defined benefit plan to annuitize tax deferred retirement savings.
  - Allow employees to maintain a “sidecar” savings account within defined benefit trust fund.

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Existing Options

- Payroll deductions to 457 plan.
- Purchase "Air time" – may be done with rollover.

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Enhancing Existing Options

- "Sidecar" Savings Plan - Leverage existing infrastructure to combine positive features of air time and 457 plan.
- Allow conversion of lump sum to an annuity paid through LEOFF 2 trust fund like air time but without the 5 year limit.

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Potentially Lower Fees

- DRS administered 457 plan has very low fees compared to privately administered plans.
- DRS charges flat annual fee of .13%;
- Apples to apples comparison with private plans challenging because of different fee structure.

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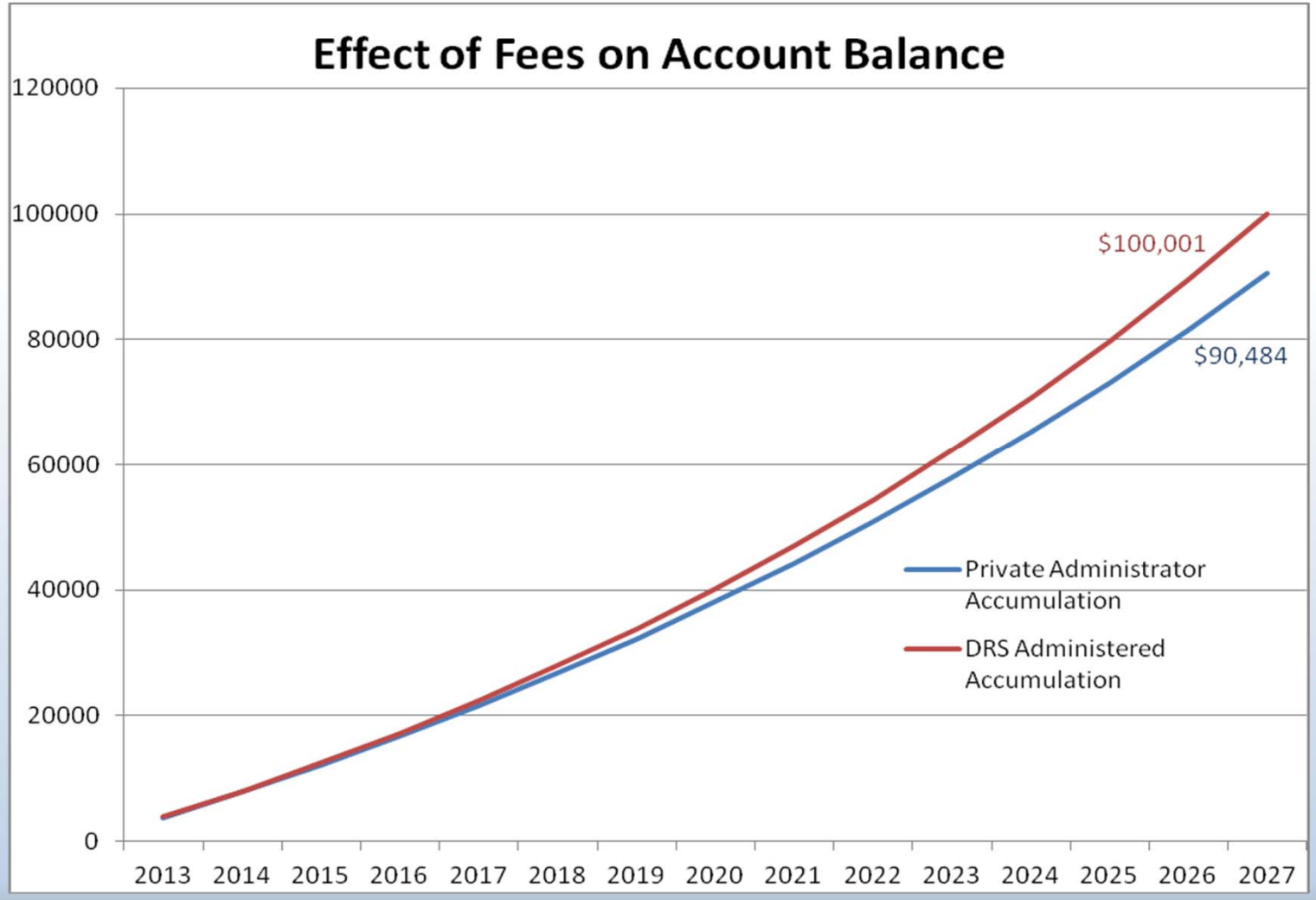
Estimating Private Administrator Fees

	Hartford Life Deferred Compensation Plan		ICMA Retirement Corporation Deferred Compensation Plan		Minnesota State Deferred Compensation Plan MNDCP – (Great West)		Nationwide Deferred Compensation Program	
	Original data	Average fee	Original data	Average fee	Original data	Average fee	Original data	Average fee
Annual Account Fees	No	0 %	No.	0%	No	0%	No.	0%
Daily Asset-Based Charges	75 - 90 bps	.825 %	0.55% + 0.15% fee on non-proprietary funds assets	.55%	0.10%	.1%	0.50% on variable assets. 0.25% on fixed account.	.375%
Fund Operating Expenses	Varies from 0.0% to 2.42%	1.21%	From 0.46% to 1.40%	.93%	From 0.01% to 0.93%.	.47%	From 0.00% to 1.40%.	.7%
Net fee estimate	**2.035%**		**1.48%**		**.57%**		**1.075%**	
Average	**1.29%**							

Lower Fees Benefit Member



More Favorable Annuity Purchase Through LEOFF Plan 2

Superior annuity: "[A] private insurer will provide the annuity based on an interest rate of about 4 percent, whereas DRS will provide the annuity based on an interest rate of about 8%".

-- *OSA fiscal note on Board's 2010 purchase of annuity proposal.*

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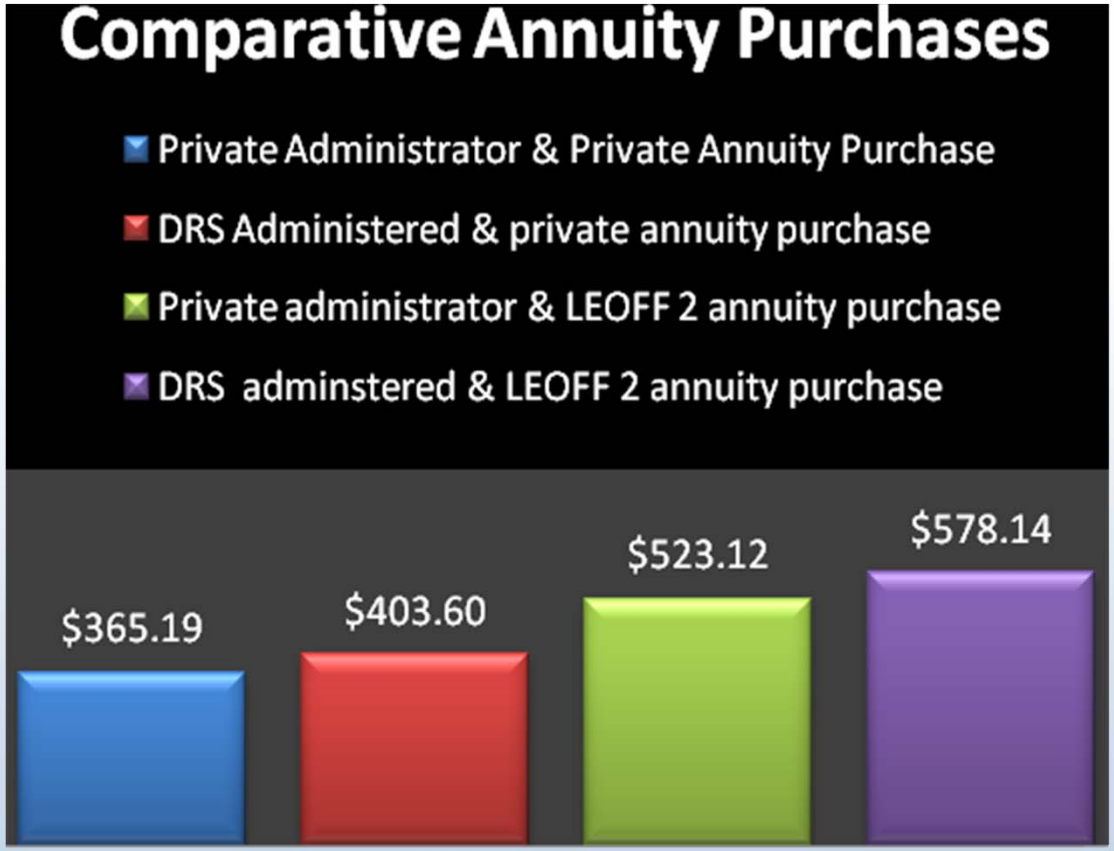
Different Administrator Different Outcomes



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Summary

- New IRS ruling allows 401(a) defined benefit plans like LEOFF Plan 2 to annuitize retirement savings within the plan.
- Annuitization within plan can leverage existing infrastructure to member's benefit.
- Providing that benefit to members would require legislation.

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Next Steps

- Not pursue the issue at this time
- Provide Comprehensive Report with policy options

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Any Questions?

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