

Does the Defined Contribution Plan Established in House Bill 1040 Meet Gold Standards?



| Gold Standard | DC Plan in HB 1040 |
|---|--------------------|
| <p>Adequate Contributions <i>Replace approximately 80% of a worker’s final salary. Match structure facilitates strong contribution rates.</i></p> | <p>Yes</p> |
| <p>Benefit Portability <i>Provide meaningful benefit accrual for all periods of service and safeguard the ability to recruit highly mobile 21st Century employees.</i></p> | <p>Yes</p> |
| <p>Offer Distribution Options <i>Provide members with a variety of asset distribution methods while limiting borrowing.</i></p> | <p>Yes</p> |
| <p>Auto Enrollment <i>Enroll new employees into the new NDPERS DC plan by default.</i></p> | <p>Yes</p> |
| <p>Defined Plan Objectives <i>Ensure plan objectives are defined in writing as part of a comprehensive benefits policy statement.</i></p> | <p>Yes</p> |
| <p>Communication and Education <i>Ensure members are educated on the available choices and have all relevant information to make competent retirement choices.</i></p> | <p>Yes</p> |
| <p>Retirement Specific Portfolio Design <i>Offer “one-touch” investment options for employees who are not sophisticated investors and do not want to avail themselves of in-plan investment advice.</i></p> | <p>Yes</p> |
| <p>Disability Coverage <i>Offer a separate disability insurance benefit from a quality insurer.</i></p> | <p>No</p> |

| Objective | Gold Standard | DC Plan in HB 1040 |
|---|--|---|
| Adequate Contributions | Replace approximately 80% of a worker’s final salary. | <i>The range of potential employer and employee contributions under the bill is a low of 8.12% for those who do not make any voluntary contribution to a high 14.12% of compensation for those who make a 3% voluntary contribution. The 8.12% level would not meet our best practice standard because it is unlikely to generate at least an 80% income replacement with Social Security taken into account. The bill would meet best practice standards for those who make at least a 2% voluntary contribution.</i> |
| Benefit Portability | Safeguard the ability to earn meaningful benefits for all periods of service and to recruit highly mobile 21st Century employees. | <i>Employer contributions into the DC Plan are vested on a scale over four years of service – 50% after 2 years, 75% after 3 years and 100% vesting on completion of 4 years of service. Employee contributions are, of course, immediately vested. This vesting schedule partially meets our best practice standards because accruals are not fully portable until after 4 years. Full and immediate vesting would be preferred.</i> |
| Offer Distribution Options | Provide members with a variety of asset distribution methods while limiting borrowing. | <i>HB 1040 adds annuity distribution options to the current standard distribution method offered under the DC plan of a lump-sum withdrawal upon retirement. The employee can also roll this distribution over to an IRA or take periodic distributions. The addition of in-plan annuity distribution options in the Bill is a significant improvement to the current DC plan design and meets our best practices standards.</i> |
| Auto Enrollment | Defaults members into a defined contribution retirement option if no other option is selected upon hire. | <i>All new NDPERS hires on or after January 1, 2025 are automatically enrolled into the DC plan.</i> |
| Defined Plan Objectives | Defines objectives in writing as part of a comprehensive “benefits policy statement.” | <i>While 2023 HB 1040 does not provide a formal statement of benefit policy or objectives, the structure of the new DC plan reflects the objectives state by other similar plans</i> |
| Communication and Education | Educates members on the available choices and relevant information needed to make competent retirement decisions. | <i>HB 1040 continues to require the PERS Board to provide DC plan participants with general information regarding account balances, participant assumption of investment risk, administrative and investment costs, and projected benefits. New requirements are added under the bill to provide participants enrollment information, benefits of a defined contribution plan, investment options, and assumptions of risk and costs. The Board must provide investment and retirement income planning, education on how to set, measure, and adjust income and savings goals based on desired retirement income, participant behaviors, and changing circumstances. Retirement income education regarding distribution options and in-plan annuitization features must be provided. With these legislative mandates, the Board’s communication and education services will be significantly enhanced over the current treatment of the DC plan as a secondary option for eligible employees.</i> |
| Retirement Specific Portfolio Design | Offer “one-touch” investment options for employees who are not sophisticated investors and do not want to avail themselves of in-plan investment advice. | <i>HB 1040 improves on the investment offerings in the NDPERS DC Plan by requiring the offering of risk-managed packages of investment portfolio options that reallocate and rebalance automatically as a participant ages. The default investment must meet federal Qualified Default Investment Alternative requirements for ERISA plans. The QDIA must include an in-plan annuity. The general investment menu must include a diversified group of mutual funds and in-plan life-time annuities. The Bill establishes requirements for the selection of qualified annuity providers to help guide the Board toward strong providers.</i> |
| Disability Coverage | Offer a separate disability insurance benefit from a quality insurer. | <i>There is no disability coverage provided for employees participating in the DC Plan. The only option for disabled participants is to take distributions from their accumulated retirement assets. A simple solution would be to offer a private disability insurance plan, similar to the Arizona Public Safety Disability plan. Members and employers would make a small contribution to the insurance plan, and depending on the age and years of service the member attains, they would be able to draw a disability benefit from that program. Another option would be to allow continued participation in the PERS DB plan disability benefit.</i> |