



NORTH CAROLINA
DEPARTMENT OF STATE TREASURER
RETIREMENT SYSTEMS DIVISION

JANET COWELL
TREASURER

STEVEN C. TOOLE
RETIREMENT SYSTEMS DIRECTOR

Memorandum #2012-19

November 7, 2011

Dear School District Finance Officer and Superintendent:

RE: New Statewide 403(b) Option for Teachers and Educational Personnel

During the 2011 Session of the General Assembly, Session Law 2011-310 (HB 730) was passed authorizing the Department of State Treasurer to create a retirement savings option entitled the *North Carolina Public School Teachers' and Professional Educators' Investment Plan* (NC 403(b) Plan). To prepare you for any questions you receive about the plan, we want to provide you with the attached fact sheet. The fact sheet addresses why and how the 403(b) plan will be implemented.

This new plan is an excellent mechanism to help teachers reach their retirement savings goals. The plan will be funded entirely by teachers' and school employees' voluntary contributions from their salaries. The state's role will be to support local school systems by helping them offer this plan.

It is important to note that similar legislation is sweeping the country as states take a proactive approach to improve retirement savings for America's teachers. I commend the General Assembly for passing this important piece of legislation, which will do the following for North Carolina teachers:

- Lower their participation fees
- Increase savings at retirement

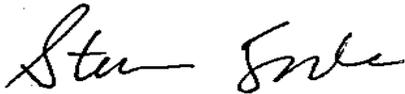
The NC 403(b) plan will also enable local school district administrators to:

- **Lower Costs** – A statewide plan will create economies of scale, which means the Department of State Treasurer can obtain lower investment and administrative fees as the number of participants and investment amounts grow. Also, this plan will not contain any front-end fees, back-end fees, commissions, or surrender charges commonly found in other 403(b) plans. Fees can significantly erode the amount of income available to plan participants in retirement.
- **Increase Choice** – The NC 403(b) Plan is designed to be a low-cost, high-service retirement savings option for teachers and professional educators. School districts will not be required to eliminate existing 403(b) options if they choose to adopt the centralized plan.

- **Reduce Oversight** – The NC 403(b) Plan will be governed by the existing Supplemental Retirement Board of Trustees and administered by the Department of State Treasurer. The Board and Department have a successful track record of managing two centralized supplemental retirement savings plans – the NC 401(k) and NC 457 plans. These plans total more than 250,000 participants and over \$6 billion in assets.
- **Operate in Compliance** – The NC 403(b) Plan will be managed in compliance with the Internal Revenue Service regulations regarding 403(b) plans that went into effect January 1, 2010.
- **Access Essential Information** – The Department of State Treasurer and the third-party administrator (to be selected via competitive bid) will provide transparent fee disclosure to participants. We also anticipate incorporating 403(b) account information into the Annual Benefit Statement produced by the Department.

Enclosed you will find a fact sheet on the NC 403(b) Plan. If you have questions or need additional information, please contact me at 919-508-5303, or Timothy Dale, Supplemental Retirement Plans Coordinator, at 919-508-5164.

Sincerely,

A handwritten signature in black ink, appearing to read "Steve Toole". The signature is fluid and cursive, with the first name "Steve" and last name "Toole" clearly distinguishable.

Steve Toole
Director, Retirement Systems Division

Frequently Asked Questions about Retirement Savings Programs for Teachers

Why is the state creating a centralized 403(b) plan?

The goals of the NC 403(b) plan are to facilitate local school board compliance with regulatory agencies and maximize teacher retirement savings by reducing investment and administrative fees.

How many public school teachers and educational personnel participate in 403(b) plans in North Carolina?

Based on survey information received by the Department of State Treasurer, approximately 30,000 to 35,000 teachers and educational personnel are currently contributing to a 403(b) plan in North Carolina.

How will the NC 403(b) Plan help teachers save more for retirement?

By creating a single plan to offer statewide, the Department of State Treasurer will be able to create significant economies of scale that provide lower investment and administrative fees charged to 403(b) members. These fee savings can equal thousands of dollars over the course of a teaching career.

What are the benefits of a centralized 403(b) plan?

A centralized 403(b) plan will allow educators the ability to save more for retirement due to reduced fees and will give assurance that the plan is operated in compliance with all applicable regulations. It will also be easier to continue contributing if you change school systems due to wider availability between school districts. For school administrators, the plan will be administered and governed at the state level, removing the administrative burden the addition of a 403(b) provider may cause.

What are other states doing about their 403(b) Plans?

Across the nation, many states are consolidating their 403(b) offerings to reduce fees and provide adequate oversight of the 403(b) options available to their educators. In North Carolina, the University system recently implemented a system-wide 403(b) plan to reduce the number of providers serving North Carolina universities.

Will the NC 403(b) Plan replace the current 403(b) options available in local school systems today?

No. The NC 403(b) Plan will be offered as a low-cost, centrally administered option that school districts can opt to offer alongside their current 403(b) options. The local school board responsible for governing the respective school system retains the authority to offer or eliminate any 403(b) option.

If I am a teacher and want to participate in the NC 403(b) Plan, but my school board has not approved the NC 403(b) Plan as an approved 403(b) provider, can I still participate?

No. In accordance with House Bill 730, local school boards must choose to participate in the Plan before it is made available to their employees.

Is this a push by the State to move away from the traditional pension (defined benefit) plan to defined contribution plans?

No. The NC 403(b) Plan will be offered in the same manner as the current NC 401(k) and NC 457, as an optional supplemental retirement savings plan.

When will the new NC 403(b) Plan be available?

Local school boards will be able to adopt the NC 403(b) Plan in 2012.

Who can we contact with questions?

Please direct any questions to Timothy Dale, Supplemental Retirement Plans Coordinator, at 919.508.5164 or timothy.dale@nctreasurer.com.

Why a North Carolina centralized 403(b) Plan?

Many local 403(b) providers in North Carolina charge teachers high fees to manage their 403(b) accounts and are operating out of compliance with applicable regulations. When the Department of State Treasurer partnered with the Department of Public Instruction to survey local school boards across the state, 85 percent of respondents indicated their desire for a low-cost, centralized 403(b) plan.

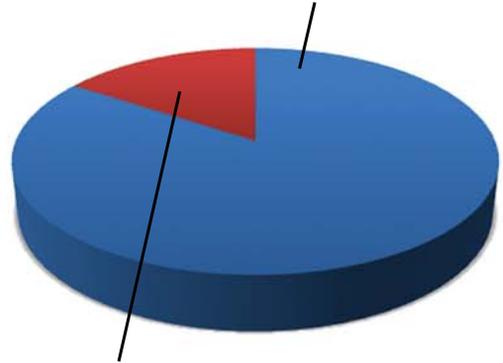
During its 2011 session, the General Assembly enacted House Bill 730, authorizing the Department of State Treasurer to offer such a plan to local school boards for K-12 teachers and other personnel in North Carolina's public school systems. Each local school board across the State will have the option of adopting the state-sponsored 403(b) plan to offer alongside existing 403(b) plans permitted by the school boards.

This new plan will enable North Carolina school systems to offer:

- Increased services
- Lower fees for North Carolina teachers
- Compliance oversight provided by the Supplemental Retirement Board of Trustees
- Low management burden on local school administrators

Survey results for local school systems

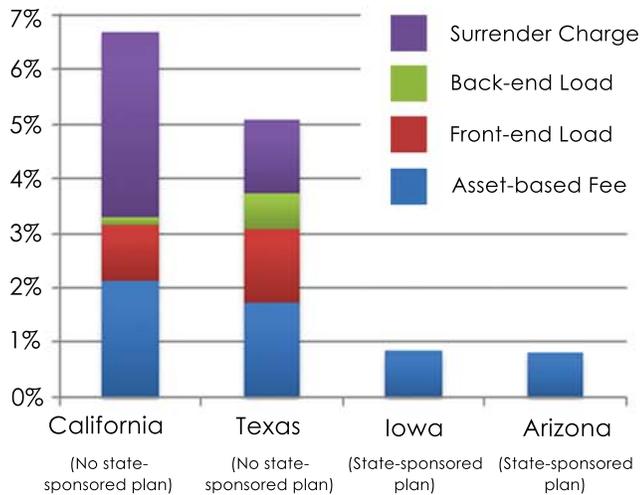
70 school systems (84.3 percent) favor a state-sponsored 403(b) plan.



13 school systems (15.7 percent) do not favor a state-sponsored 403(b) plan.

Based on responses from 83 local school systems to a survey by the Retirement Systems Division of the Department of State Treasurer

The NC 403(b) plan = lower fees...



Lower fees = more savings!



Source: Who's Watching the Door? How Controlling Provider Access Can Improve K-12 Teacher Retirement Outcomes, Clark & Richardson, TIAA-CREF Institute, Nov. 2010

Other organizations supporting the NC 403(b) Plan include:



North Carolina Association of Educators



North Carolina School Boards Association



North Carolina Association of School Administrators



Professional Educators of North Carolina



State Employees Association of North Carolina