PATHFINDER
Defined Contribution Plan

History and Overview

Presented by the
Oklahoma Public Employees Retirement System

What is Pathfinder

The Pathfinder plan is a mandatory defined contribution retirement savings plan.

It replaced the legacy defined benefit OPERS plan for most new state employees first hired on or after November 1, 2015.

Employers affected represent 74% of active membership in the defined benefit plan.

The History

- Financial Crisis of 2008 – 2009.
- 2010 Pew Charitable Trust Research Center report: *The Trillion Dollar Gap: Underfunded State Retirement Systems and the Road to Reform.*
- 2010 – State government downsizing due to large budget deficit.
- State employees facing layoffs, furloughs, and voluntary buyouts.
- OPERS defined benefit plan 66% funded.

Pension Reformation Era

2010 – 2015

- Multiple legislative studies on pension reform.
- Legislative pension reform changes included:
  - Raising retirement age
  - Increasing vesting
  - Eliminating rounding of service
  - Expanding “final average salary” from 3 to 5 years
  - ***Eliminating COLAs unless funded by Legislature***
    - ***OPERS funded ratio improved to 80%***

Pension Reformation Era

- 2010: Legislative Studies
  - State peer comparison
  - Alternative plans – cash balance, hybrids, defined contribution
- 2011:
  - HB 1003 – surprise committee substitute providing for mandatory DC plan for all new state/local employees
    - Died on House Floor after DB funding became an issue
- 2013:
  - HB 2077 – optional DC plan for all new state/local employees
    - **Vetoed** because bill did not address unfunded pension system with measures to reduce liabilities or strengthen system so COLAs can be implemented. DC plans offer "more cost certainty to employers, but only if there is meaningful participation rates."
  - Interim Legislative Studies - Pew Charitable Trust and Arnold Foundation

Pension Reformation Era

- 2014
  - HB 2630 – mandatory DC plan for all new hires beginning 11-1-2015.
    - Employee contribution of 3% - 7%
    - Employer match from 3% - 7%
    - *Excluded District Attorneys, Asst. DAs, hazardous duty employees*
  - SB 2120 – *excluded all local employees from DC plan*

- 2015
  - HB 1376 – changed DC contribution levels
    - Employee minimum contribution of 4.5% with employer match of 6%
    - Employer will match at 7% if employee contributes at 7% or above
    - Various clean-up provisions

Building the DC

- Board of Trustees – key decisions:
  - General plan design using 401(a) and 457(b) models
  - Recordkeeping contracts
  - Investment options
    - Default option
  - Administrative plan costs
    - Employer and/or employee fees
  - Forfeiture of non-vested employer contributions
  - Permitting former employees to remain in DB plan
  - Hardship withdrawals
  - QDROs

Building the DC

- Planning/Strategy
  - Implementation schedule
    - July 2014 - November 2015
  - Staff assignments
  - Individual and team projects
  - Regular project meetings
  - Meet with Legislative leaders

Building the DC

- Projects:
  - Plan design essentials
  - Payroll process changes
  - Legislative input/amendments
  - Recordkeeping contracts
  - Establish administrative fee structure and financing methods
  - Plan name and identity
  - Evaluate investment options
  - Administrative rules
  - Website design
  - Communication materials

Building the DC

- Projects continued . . .
  - Submission of Plan to IRS
    - Outside tax counsel
    - IRC compliance
    - IRS plan qualification determination letter for 401(a)
    - IRS private letter ruling for 457(b)
  - Defining vesting requirements
  - Contracts with investment service providers
  - IT programming
  - Additional staffing needs

The Lawsuit

- *Stevens v. Fox,* 2016 OK 106, 383 P.3d 269
  - Petition for Declaratory and Supplemental Relief challenging validity of HB 2630 (2014). Allegations:
    - Void because HB 2630 was passed by Legislature in violation of the Oklahoma Pension Legislation Actuarial Analysis Act (OPLAAA), 62 O.S. §§3101 et seq.
    - Unconstitutionally impaired Plaintiffs' retirement security rights in violation of Okla. Const. art. 2, §15 (impairment of contracts), art. 5, §54 (effect of repealing a statute on accrued rights).
    - Certain funds not used exclusively for defined benefit members in violation of Okla. Const. art. 23, §12 (limitation on use of retirement funds), and IRC §401(a)(2) (exclusive benefit).
    - System should be enjoined from enforcing HB 2630.
  - Both parties filed Motions for Summary Judgment.

The Lawsuit

- District Court - Summary Judgment for OPERS

  - Declaratory relief –
    - Issues not ripe for judicial review;
    - Actuarial soundness of DB plan not threatened;
    - HB 2630 actually provided for continuing funding of DB plan.

  - OPLAAA not violated –
    - Did not affect costs or funding factors;
    - Did not increase “retirement benefits”;
    - Did not immediately increase actuarial accrued liability or normal cost of DB system.

The Lawsuit

- OK Supreme Court – District Court decision affirmed.
  - **Issue 1**: Whether a violation of OPLAAA is justiciable.
  - Answer: No. The provisions of OPLAAA relevant to this action are codified as legislative procedures.
    - Legislative Actuary’s certification of a “non-fiscal bill” does not implicate any provision of the Oklahoma Constitution.
    - Purely a legislative concern the province of which this Court will not invade.

The Lawsuit

- **Issue 2:** Whether funds used to establish DC system and up-front administrative costs came from the OPERS DB plan assets and therefore not used for the exclusive benefit of the DB plan members.
  - Trial Court did not address this issue in Journal Entry of Judgment, even though it was argued to the trial court.
  - Remanded for further proceedings on this issue.
- Case remains in District Court.

Pathfinder -Defined Contribution Plan

HOW IT WORKS

Contributions

Employee contributions

- State employees mandatory contribution of 4.5%
- Contributions are pre-tax

Employer contribution – the match

- Employer matches at 6.0%
- Employee contributes a total 7.0% or more
- Employer matches at no more than 7.0%

Employee Contribution	Employer Match	Total Contribution
Mandatory 4.5%	6.0%	10.5%
Less than 7.0%	6.0%	Up to 13.9%
7.0% or Above	7.0%	14% +

Parts of the Plan

Plan comprised of a 401(a) plan and a 457(b) plan

- **401(a)** – Employee mandatory contributions & employer matching contributions
- **457(b)** – Additional employee contributions

Pathfinder Contributions	
401(a) Plan	457(b) Plan
• Employee mandatory (4.5%) • Employer matching (6% or 7%)	• Employee voluntary (above 4.5%)

Vesting

Vesting = Your right of ownership to a benefit

- Employee contributions 100% vested at all times.
- All employer contributions vested based on the following vesting schedule:

Vesting Period	Vesting Percentage
1 Year	20%
2 Years	40%
3 Years	60%
4 Years	80%
5 Years	100%

Vesting (continued)

- Vesting begins on hire date
- Vesting calculated based on complete years
  - 365 days elapsed = 1 complete year toward vesting
- Termination is the only thing that “stops the clock,” breaks in service do not
- Non-vested employer matching contributions are permanently forfeited to the retirement system after 90 days
- If employee returns, vesting period picks up where it left off

Additional Employer Contribution

- Employer contribution in OPERS legacy defined benefit plan is 16.5% of payroll.

- Total employer contributions on all new State employees remain at 16.5% of payroll.

- Employers remit the difference between the required employer matching contribution rate for Pathfinder **(6% or 7%)** and the current required OPERS employer contribution rate for the defined benefit plan **(16.5%)**. This amounts to 9.5% or 10.5% of salaries.

Contributions for New Employees

Person A – Receives a 6% employer match in Pathfinder	
OPERS required employer contribution (DB)	16.5%
Pathfinder employer match	(6.0)%
Remainder to OPERS	10.5%

Person B – Receives a 7% employer match in Pathfinder	
OPERS required employer contribution (DB)	16.5%
Pathfinder employer match	(7.0)%
Remainder to OPERS	9.5%

Investments

Participants have investment discretion over all contributions, matching funds, and the gains or losses on those amounts.

- Default investment option – Vanguard Balanced Fund
- Target Date Funds – Vanguard 2020, 2030, 2040, 2050
- Actively managed options
- Passively managed options

Investment Mix

International Equity
American Funds EuroPacific Gr Fund A
BNY Mellon ACWI ex-U.S. Instl
T. Rowe Price Emerging Mkts Stock

Small Cap Equity
BlackRock Small Cap Growth
BNY Mellon Small Cap Stock Index Instl
Janus Henderson Small Cap Value N

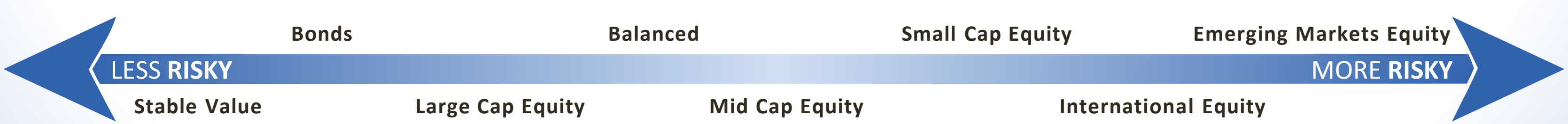
Mid Cap Equity
Artisan Mid Cap Value Investor
Columbia Acorn Institutional

Large Cap Equity
American Century Income & Growth Inst
iShares S & P 500 Index K Fund
T. Rowe Price Blue Chip Growth Fund

Balanced
Vanguard Balanced Index Fund - Admiral

Bond
BNY Mellon Aggregate Bond Index Instl
T. Rowe Price Instl High Yield

Stable Value Fund

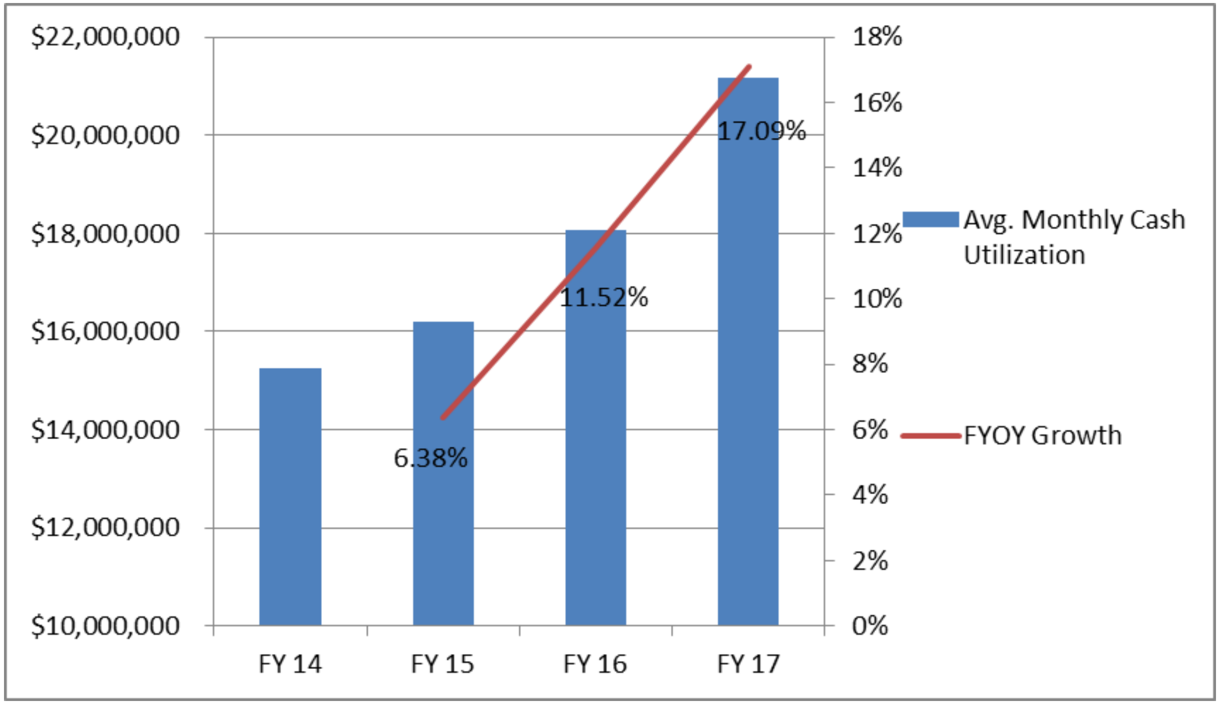


Impact

- As of December 31, 2017:
  - Pathfinder has $24 million total assets
  - 5,591 participants
- Approximately 39% of participants in Pathfinder contribute more than the minimum of 4.5%
- Approximately 98% of assets in Pathfinder are held in the default option
- Administrative fee –
    - Participants - $2.61 per month to recordkeeper
    - Employers - $0.36 per participant per month to OPERS

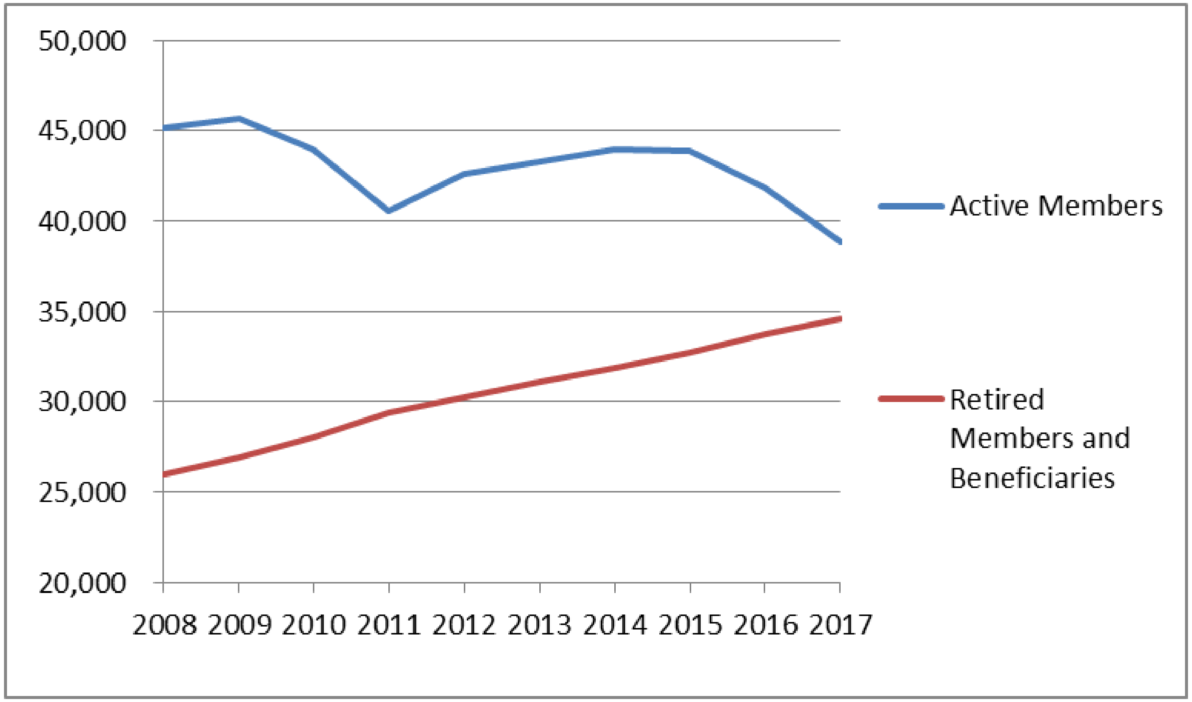
Impact on DB Plan

- Impact on DB plan liquidity due to partial closure
  - Hyper-speed maturation of the DB plan
  - Cash utilization rate - the amount in excess of monthly contributions needed to make monthly benefit payments



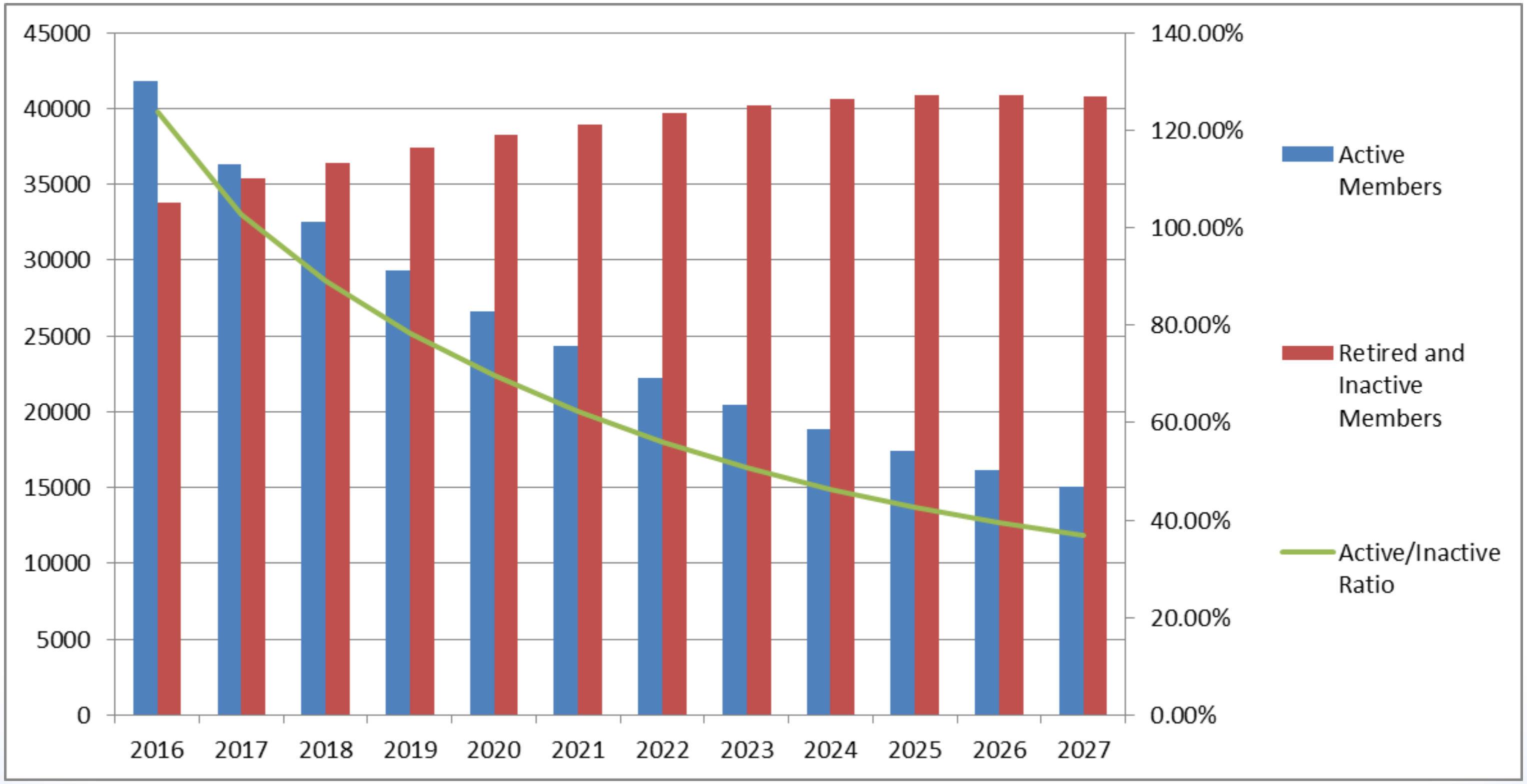
Impact on DB Plan

- Active membership decline in DB plan apparent
- Steady increase in new retirees



Impact on DB Plan

- Expecting steady decline in active members supporting retirees
- No active replacements on closed portion of plan



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PATHFINDER OKLAHOMA

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