

**PENSION REVIEW COMMITTEE
RECOMMENDATIONS
CONTRIBUTION ACCELERATOR FOR DEFERRED COMPENSATION PROGRAM
INCREASE RETIREMENT CONTRIBUTION TO 16% (8% COUNTY MATCH)
CHANGE DEFAULT INVESTMENT OPTION TO GOALMAKER MODERATE
January 18, 2018**

INTRODUCTION

The Pension Review Committee met December 5, 2017 to discuss and formulate recommendations on the following topics: potential updates of the investment arrays for the 401(a) Lancaster County Employees Retirement Plan and 457(b) Deferred Compensation Program; addition of a Deferred Compensation contribution accelerator; increasing the total contribution to the Retirement Plan to 16%, with the County and employees each contributing 8%; and changing the default investment option from GoalMaker Conservative to GoalMaker Moderate. Additional information is being gathered by Segal Marco Advisors on potential changes to the investment array. Another meeting of the Committee will be necessary to review this information before a recommendation can be issued on updating the array. The other topics are discussed below.

DISCUSSION

Contribution Accelerator for the 457(b) Deferred Compensation Program

It was the consensus of the Committee that a contribution accelerator should be added to the Deferred Compensation Plan, so long as it is voluntary. As salaries increase over time employees are able to contribute more towards their retirement. However, inertia often prevents employees from increasing the amount they put in deferred compensation. An automatic annual increase would overcome this problem.

Increase Total Contribution to the 401(a) Retirement Plan to 16% (8% County-8% Employee)

In 2015 the Nebraska Legislature passed LB 126, amending Neb. Rev. Stat. §23-1118 to allow Lancaster County to increase the combined employer-employee pension contribution from 13% to 16%, with the County providing at least a 100% match of the employee contribution. LB 126 also provided that any employee receiving a 150% County match with the combined contribution limit of 13% could irrevocably elect to switch to the employer match of 100% for all future contributions.

Presently, the total match is 13%. The Committee noted that at this contribution limit many long-term County employees are financially unable to retire at the normal retirement age. It was also noted that the County spends more money on older employees who tend to be at the top of their pay scales and who generally have higher medical expenses. Increasing the total pension contribution to 16% with a 1 to 1 County match could help employees save more and retire earlier, thereby saving money for the County.

Depending on the date of hire and union membership, employees receive a County match of either 1.5 to 1 or 1 to 1. For employees with a 1.5 to 1 match, increasing the total contribution to 16% would result in a .2% increase of the County match and a 2.8 % increase of the employee contribution. For employees with a 1 to 1 match, moving to 16% would result in a 1.5% increase of both the County match and the employee contribution. If all active Retirement Plan participants were to receive the 16% total contribution with a 1 to 1 County match, the additional annual expense to the County would be \$225,000, less any savings realized due to decreased personnel and health insurance expenses.

The Committee further noted that increasing the combined contribution to 16% for employees covered under a collective bargaining agreement could not be implemented without negotiating with the applicable unions. Unions may be reluctant to agree to an increase of the employee contribution, but this should be tempered by the fact that current employees receiving the 150% match would have a one-time election on whether to go from 13% to 16%.

Change Default Investment Option from GoalMaker Conservative to GoalMaker Moderate

Most Prudential governmental plans use either GoalMaker Moderate or target date funds as the default investment option. As an alternative, it was suggested that the County should create a customized default investment option using the stable value fund, various index funds, and adjusting the mix according to the age of the participant. However, since the adoption of new Department of Labor (DOL) regulations regarding default investment options most plans have moved away from using stable value as a default option. Also, GoalMaker is classified as a Qualified Default Investment Alternative (QDIA) under DOL regulations, which would provide the County protection against a fiduciary lawsuit filed by plan participants. A customized default investment option designed by the County would probably not qualify as a QDIA.

Because of the inertia problem, employees who fail to make an investment selection are likely to stay with the default investment option selected by the County. For this reason, the Committee believes that using GoalMaker Moderate as the default investment option would provide these employees with a better chance of saving enough for retirement than GoalMaker Conservative.

RECOMMENDATIONS

Based on the foregoing information and discussion the following recommendations are hereby tendered to the Lancaster County Board of Commissioners:

1. **A VOLUNTARY AUTOMATIC CONTRIBUTION ACCELERATOR SHOULD BE ADDED TO THE 457(b) DEFERRED COMPENSATION PROGRAM;**
2. **THE TOTAL CONTRIBUTION TO THE 401(a) LANCASTER COUNTY EMPLOYEES RETIREMENT PLAN SHOULD BE INCREASED TO 16%, WITH EMPLOYEES CONTRIBUTING 8% OF THEIR INCOME AND THE COUNTY MATCHING 100% OF THE EMPLOYEE CONTRIBUTION; CURRENT EMPLOYEES RECEIVING A 150% MATCH WOULD HAVE A ONE-TIME ELECTION TO SWITCH TO THE NEW TOTAL CONTRIBUTION OF 16%; AND**
3. **THE DEFAULT INVESTMENT OPTION FOR THE 401(a) LANCASTER COUNTY EMPLOYEES RETIREMENT PLAN SHOULD BE CHANGED FROM GOALMAKER CONSERVATIVE TO GOALMAKER MODERATE.**

Respectfully submitted this 18th day of January, 2018 on behalf of the Pension Review Committee.



Kerry P. Eagan
Chief Administrative Officer