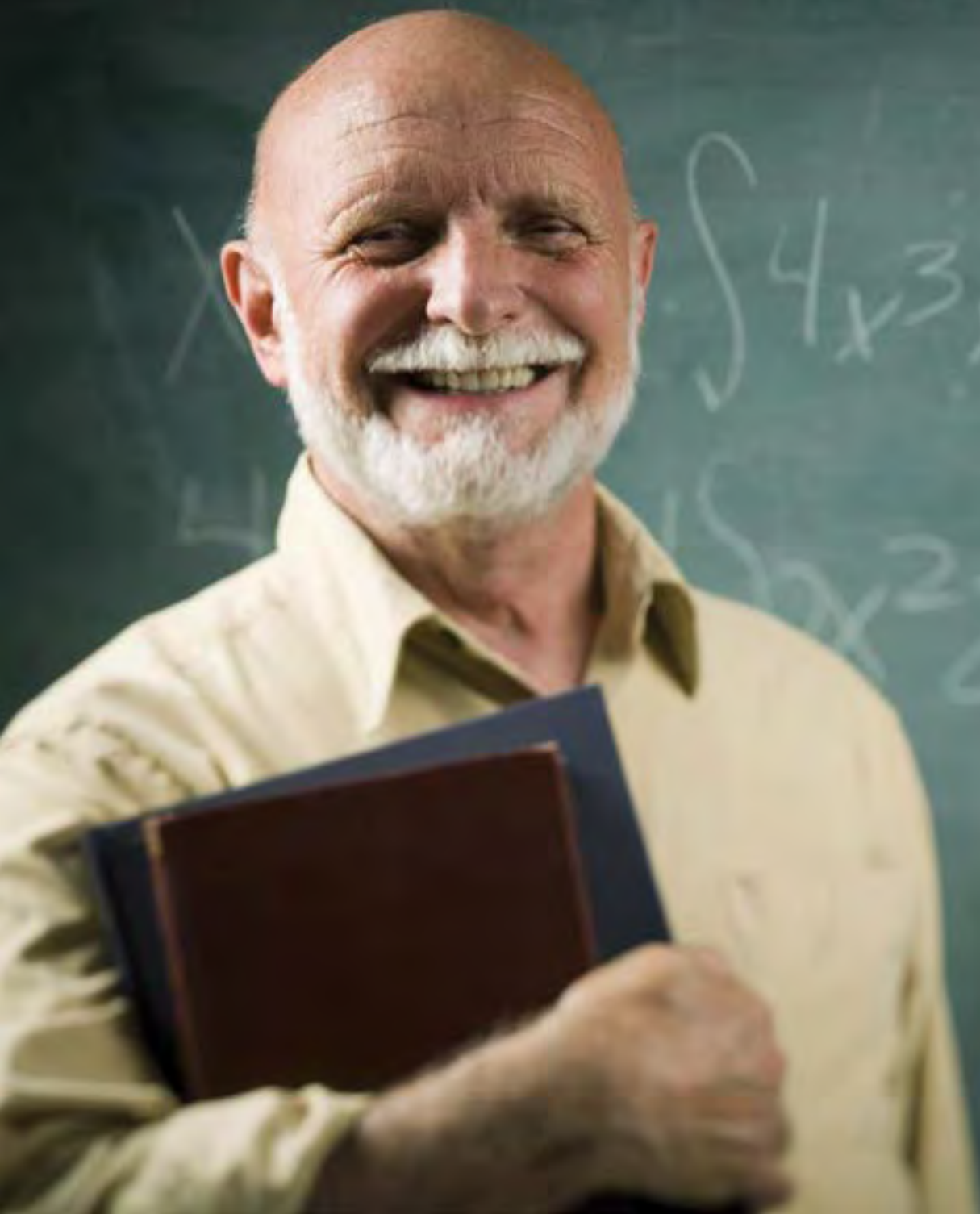


# Your Mandatory Retirement Plan 2017 Decision Guide



Appalachian State University

East Carolina University

Elizabeth City State University

Fayetteville State University

North Carolina A&T State University

North Carolina Central University

North Carolina State University

North Carolina School of Science and Mathematics

University of North Carolina at Asheville

University of North Carolina at Chapel Hill

University of North Carolina at Charlotte

University of North Carolina at Greensboro

University of North Carolina at Pembroke

University of North Carolina at Wilmington

University of North Carolina School of the Arts

Western Carolina University

Winston-Salem State University

Other Affiliates:

– University of North Carolina Health Care

– University of North Carolina Press



# Your Retirement, Your Choice

At The University of North Carolina (the University), we know how important it is to prepare for retirement. We also know that everyone’s financial goals, needs and savings strategies are different. That’s why we are proud to offer our employees a choice between two retirement programs, both of which provide a valuable retirement benefit. As an UNC employee, you must enroll in either the Teachers’ and State Employees’ Retirement System (TSERS) or The University of North Carolina Optional Retirement Program (ORP).

In this guide, we’ll introduce you to the programs and provide you with an overview of the key provisions of each plan to help you make sense of your options. Inside, you’ll find helpful graphics and examples to illustrate how your participation in one of these programs might fit into your overall financial picture. Then, we’ll direct you to the convenient, online resources you will need to make the right decision for you.

This guide is not, however, intended to provide detailed information about these programs, so it’s essential for you to review the Plan document and all fund literature available online at <https://myapps.northcarolina.edu/hr/benefits-leave/retirement/> before making your retirement plan election. Remember that all investing carries some level of risk. Be sure to consult with your financial and/or tax adviser before making any investment decisions.

## The Bigger Picture

While both TSERS and the ORP are designed to provide you with a valuable opportunity to prepare for retirement, your UNC retirement program is just one part of your overall financial picture. How much you need in retirement depends on your current lifestyle, as well as what you want to do in retirement.

While a general rule of thumb says that you’ll need between 70% and 90% of your pre-retirement income to maintain your standard of living in retirement, everyone’s needs are different. Understanding your retirement needs is an important step in choosing which retirement program is right for you. It’s also a key to developing a savings and investment strategy that can help ensure you reach your financial goals.

If you need help establishing your retirement savings goals or developing a savings strategy, we recommend you talk to a financial adviser. Additionally, refer to *Your Guide to Investing in The UNC Retirement Programs*, as well as the “Helpful Resources and Contacts” section of this guide for a comprehensive list of our investment carriers and other useful resources.





# Retirement Program Basics

## Eligibility

Permanent (non-temporary) employees working 30 or more hours per week are eligible for TSERS and/or the ORP.

**Both the TSERS and the ORP are designed to provide retirement income along with Social Security benefits. Although you and the University share the cost of each plan, each plan works differently.**

You have 60 days from your date of hire/appointment to make your retirement plan decision. Be sure to review your retirement plan information thoroughly so that you are comfortable with your choice. **Keep in mind, once made, your election cannot be changed.**

If you do not make an election, you automatically will be enrolled in the TSERS.

## Defined Benefit Plan versus Defined Contribution Plan

The TSERS is a *defined benefit plan*. The benefit you receive at retirement is based on a predetermined formula. This formula considers your years and months of creditable service (any period during which you contribute to TSERS, provided you do not withdraw your contributions), your age and your average final compensation (the average of your salary during your four highest consecutive paid years). The amount of the guaranteed benefit you will receive at retirement is not directly determined by the investment experience of

the plan assets or the amount of contributions. Under TSERS, the State controls the investments and assumes all of the investment risks. The plan funds are invested by professional money managers selected by TSERS.

The ORP is a *defined contribution plan*. The value of your benefit is not based on a predetermined formula. Contributions to your account are made by you and the University. The contributions are invested and the returns are credited to your account. The value of your account is based on the amount of contributions made to your account and the performance of the investment funds you select. Your accumulated balance provides monthly income during your retirement. Again, you control your investment choices and distribution methods.

## Contributions

Each plan includes both employee and employer contribution rates as determined by the North Carolina General Assembly.

Your contribution rate is 6% of your eligible pay, regardless of whether you enroll in TSERS or the ORP.

The ORP employer contribution rate is 6.84%. The TSERS employer contribution rate changes annually. To review the current rate, visit <https://myapps.northcarolina.edu/hr/benefits-leave/retirement/>.

Your contributions are made on a pre-tax basis. This means the University will deduct your contributions from your pay before calculating federal and state income tax withholdings. The result? You lower your current taxable income and pay less in federal (and sometimes state) taxes.

## Health Insurance Post Retirement

Under TSERS and the ORP, you may be eligible to continue health insurance under the North Carolina State Health Plan when you retire and elect a monthly retirement benefit.

- **If you were first hired prior to October 1, 2006**, and retire with five or more years of contributory retirement services, you will be eligible for health care coverage at no cost, under certain plan options. Check with your Human Resource/Benefits Office for details on plans and premiums.
- **If you were first hired on or after October 1, 2006**, in order to receive health care coverage at no cost, you must retire with 20 years of retirement service credit. If you have at least five years of contributory retirement service, but less than 20 years of retirement service credit, you may be eligible for coverage by paying a larger percentage. Check with your Human Resources/Benefits Office for details on plans and premiums.

In all cases, the full cost of dependent coverage, if elected, must be paid by you.

**If you withdraw, transfer or roll over your TSERS or ORP contributions to an IRA or another employer's retirement plan, you will forfeit your right to the State's retiree group health plan coverage.**

## Disability Benefits

As a participant in either retirement program, you automatically are covered under the North Carolina Disability Income Plan (DIP-NC). This benefit provides a short-term benefit after one year of contributing in TSERS or ORP. After five years of contributing to either retirement program, DIP-NC provides a long-term benefit.

Additional supplemental disability coverage is available to you for purchase depending on the retirement program you elect. For more information, read the *Income Protection Programs* guide or contact your Human Resources/Benefits Office.

## FOR TSERS ONLY

### Qualified Excess Benefit Arrangement

Under federal tax law, a retiree is permitted to receive pension benefits up to a set annual allowable limit. Any retirement benefit that may exceed the limits set by the Internal Revenue Code (IRC) cannot be paid from a governmental pension plan like TSERS; however, governmental pension plans can pay amounts above the federal limit through another type of fund or arrangement, typically called a Qualified Excess Benefit Arrangement (QEBA). In 2013, the North Carolina State Treasurer requested that the General Assembly establish a QEBA for TSERS members. A QEBA is a fund that pays retirement benefits of a highly compensated retiree who would otherwise be limited under the IRC.

Effective July 1, 2016, the General Assembly revised the TSERS' QEBA legislation so that only TSERS members hired prior to January 1, 2015 are eligible to participate in the QEBA. Any employee who became a TSERS member on or after January 1, 2015, will not be eligible to participate in the QEBA, and will not be paid more retirement benefits than allowed under section 415(b) of the IRC.





UNC - Wilmington



UNC - Wilmington

# TSERS Basics

## Vesting

You must complete five years of membership service (five years of contributing to TSERS) to be fully vested in your retirement benefits.

## Transfers Between Agencies/Systems

Your TSERS membership is transferable. Participating employers include: the seventeen institutions within the University and the agencies and departments of the State of North Carolina, and public schools and community colleges within the state.

## Retirement Benefits

Under TSERS, you are eligible to retire with an unreduced retirement benefit once you:

- reach age 65 and complete five years of membership service,
- reach age 60 and complete 25 years of creditable service, or
- have at least 30 years of creditable service, regardless of age.

It is also possible to retire earlier and receive a reduced benefit once you:

- reach age 50 and complete 20 years of creditable service, or
- reach age 60 and complete five years of membership service.

Your TSERS monthly retirement benefit is determined according to a retirement formula and is payable to you for your lifetime. There are multiple payment options including options for monthly payments to a survivor in

the event of your death. There also is the potential for periodic cost-of-living increases in your retirement benefit, as approved by the North Carolina General Assembly.

As a result of recent legislation, effective January 1, 2015, there is a contribution-based cap on pension benefits for TSERS members who retire on or after January 1, 2015, and whose average final compensation (AFC) is \$100,750 or higher. The law aims to control the practice of “pension spiking,” in which a member’s compensation substantially increases to create a benefit that is significantly greater than the contributions paid by the member and that the employer would fund.

The law creates a new method of identifying pension spiking through a contributions cap that is based on the actual amount of money state and local employees and employers put into the retirement system.

**For members first hired before January 1, 2015,** the member would continue to receive the difference created through the pension spiking, however the member’s last employer will be required to pay the additional amount.

**For members first hired on or after January 1, 2015,** the employer may choose whether to pay the difference created through the pension spiking; if the employer chooses not to pay, the member may accept a reduced benefit.

# ORP Basics

## Vesting

You are immediately 100% vested in the value of your contributions. You are 100% vested in the University’s contributions after five years of participating in the ORP.

If you enroll in the ORP, you will have several decisions to make. You must:

- choose the ORP carrier that will invest your contributions,
- select the funds in which to invest, and
- review and redirect your investments in the future if needed.

## Our ORP Carriers

You must choose from our two carriers: Fidelity Investments and TIAA. Once you select your carrier, you must choose the appropriate investment fund(s) that meet your investment objectives and retirement goals.

We encourage you to review the detailed carrier information available at <https://myapps.northcarolina.edu/hr/benefits-leave/retirement/orp/> thoroughly before making your decision. These materials provide:

- Financial strength or stability of the carrier
- Fees, charges and operating expenses
- Explanation of annuity options
- Interest rate history, policies and guarantees
- Descriptions and performance history of investment accounts
- Special features and services offered by the carrier

Each carrier offers a variety of investment funds and a broad array of fund categories. These include both fixed and variable account investment options and mutual funds. Before making your investment selections, you should assess your ability to tolerate different types of risk, given your retirement time horizon. You also may want to consider how you invest other retirement assets and diversify as appropriate.

## Allocations

You elect to allocate both your contributions and the University’s contributions to any one carrier. You may change these allocations for any future month as long as your payroll office can accommodate the change. You also decide what portions of your contribution and the University’s will go into a fixed account versus an investment account. By simply contacting your ORP carrier, you can change your allocation for future contributions at any time.

## Portability

Under the ORP, your retirement benefit is portable, which is becoming more important for workers in today’s evolving marketplace where the average worker may switch jobs and even careers multiple times over the course of a lifetime. However, keep in mind that if you withdraw, transfer or roll over your ORP account to an IRA or another employer’s retirement plan, you will forfeit your right to the State’s retiree group health plan coverage.



# Overview of TSERS and the ORP

Both of these retirement programs offer a valuable retirement savings opportunity, but they differ on several key points. Which one is right for you depends on many factors, such as your time horizon, your savings goals, your financial strategy and even your personal investment style. Review the chart below for a side-by-side comparison of these two programs, as well as some tips on which program might work best for you.

Type of Plan	TSERS	ORP
	Defined benefit plan	Defined contribution plan
<b>Who oversees the plan</b>	TSERS Board of Trustees	UNC Board of Governors
<b>Who controls the investments</b>	TSERS controls and monitors the investments and makes investment decisions.	You control and monitor your investments and make all investment decisions.
<b>How the benefit is determined</b>	Retirement benefit is based on your years of creditable service, salary, actuarial formula and the payment option chosen, including credit for any unused sick leave (if applicable).	Retirement benefit is based on contributions made to the plan, investment performance and the payment option chosen.
<b>Vesting</b>	Vested after five years of membership service. If you leave State employment before five years, you may request a refund of your contributions or leave your contributions in TSERS in anticipation of a return to State service in the future.	Vested immediately in the value of your employee contribution, vested after five years of participation in the value of the University contribution.  If you leave University employment before completing five years of participation, but within 12 months of your separation from the University, you continue participation in a core retirement plan at another institution, as outlined in the Plan document, we will vest you in the value of the University contribution.
<b>Vesting Reciprocity</b>	Your ORP participation may be added to your TSERS service credit for the purpose of determining your eligibility for a reduced or unreduced TSERS benefit.	Total membership service under TSERS and participation in the ORP can be counted toward the ORP vesting requirement of five years of service.
<b>Portability</b>	Not portable nationwide.	Portable nationwide.

Type of Plan	TSERS	ORP
	Defined benefit plan	Defined contribution plan
<b>Payment options</b>	Several payment options are available at retirement.	Several payment options are available at retirement.
<b>Loan options</b>	No loans available.	No loans available.
<b>Disability Benefit</b>	State of North Carolina Disability coverage is automatic once service requirements are met.	State of North Carolina Disability coverage is automatic once participation requirements are met.
<b>Post-Retirement Health Insurance</b>	Available if you have the years of service required and elect a monthly retirement benefit from TSERS.	Available if you have the years of service required and elect to receive a monthly retirement benefit from your ORP account.

**Who Should Enroll in TSERS?**

Generally, TSERS is more favorable for employees who are hired and begin participating at relatively later ages — 45 years and older, and for those who plan to stay with UNC for the duration of their careers. If you prefer not to have to assume the risks and responsibility of making your own investment decisions, TSERS may be a good fit for you. Additionally, TSERS may be the better option if you prefer to have your retirement based on your consecutive highest four years of UNC employee salary, your age and your years of service.

**Who Should Enroll in the ORP?**

The ORP generally is more favorable for UNC employees who enter the plan at a younger age and who value a retirement benefit that is portable, in the event they ever leave UNC. If you prefer to have more control over how your plan contributions are invested in an effort to better tailor your portfolio to your overall investment strategy, the ORP may be a good fit for you.



# Plan Comparison Examples

Here are some helpful examples of what your future benefit under each program could be. Remember that your benefit depends on your personal situation, and that these examples are for illustrative purposes only.

## ASSUMPTIONS FOR EXAMPLES:

- TSERS Benefit = 1.82% of highest four-year average salary times years of service. The salary is capped by the IRC 401(a)(17) limit for defined benefit plans. As of 2017, the 401(a)(17) limit for defined benefit plans is \$270,000. TSERS normal retirement benefits are paid unreduced at age 65 with 5 years of membership service, age 60 with 25 years of creditable service or with 30 years of creditable service regardless of age.
- TSERS early retirement may not commence prior to age 50 with 20 years of creditable service or age 60 with 5 years of membership service.
- TSERS Benefit Plan reductions for early retirement:
  - Reductions apply for retirement ages 60-64 for service under 25 years. Benefits are reduced 3% per each year under age 65 at retirement.
  - Reductions apply for retirement ages 50-60 for service between 25 and 30. Benefits are reduced 5% per each year under 30 years of service.
  - Reductions apply for retirement ages 50-60 for service between 20 and 25 years. Reduction levels vary between 20% to 50% and are a function of age and service at retirement.

- ORP reflects a level 12.84% contribution schedule of salary up to the IRC 401(a)(17) limit for defined contribution plans. As of 2017, the 401(a)(17) limit for defined contribution plans is \$270,000.
- ORP post-retirement interest rate of 4% per year
- Single Life Annuity benefit option
- Defined Contribution Plan Mortality Table = Annuity 2000 (MGM1), set back 3 years

**Note: The benefit amounts shown are not guaranteed. Actual benefits may be higher or lower.**

## EXAMPLE 1

Name	Joe UNC	Current Salary	\$50,000
Current Age	30	Rate of Return (Pre-Retirement)	5.00%
Current Years of Service	0	Salary Increase Rate	1.00%
Age When Benefits Begin	65		

## Future Service Retirement Benefits Comparison

	Retirement Benefit Payable at Age 65 if Participant Terminates After the Following Additional Years of Service			Continued Employment Until Age 65
	10 years	15 years	20 years	
<b>OPTION 1</b> TSERS Annual Benefit	\$9,806	\$15,459	\$21,663	\$44,013
<b>OPTION 2</b> ORP Annual Benefit	\$19,615	\$26,910	\$32,917	\$45,292

**Note:** The illustration is based upon the assumptions outlined above and actual benefits will vary from those illustrated to the extent that actual experience varies from those assumptions.

## EXAMPLE 2

Name	Joe UNC	Current Salary	\$75,000
Current Age	40	Rate of Return (Pre-Retirement)	5.00%
Current Years of Service	0	Salary Increase Rate	1.00%
Age When Benefits Begin	65		

## Future Service Retirement Benefits Comparison

	Retirement Benefit Payable at Age 65 if Participant Terminates After the Following Additional Years of Service			Continued Employment Until Age 65
	10 years	15 years	20 years	
<b>OPTION 1</b> TSERS Annual Benefit	\$14,709	\$23,188	\$32,495	\$42,690
<b>OPTION 2</b> ORP Annual Benefit	\$18,063	\$24,780	\$30,312	\$34,868

**Note:** The illustration is based upon the assumptions outlined earlier and actual benefits will vary from those illustrated to the extent that actual experience varies from those assumptions.



Western Carolina University



UNC - Greensboro

# Your Enrollment Checklist Helpful Resources and Contacts

Now that you've learned the basics about your retirement program options at the University, you're almost ready to make your decision. We recommend you review the detailed information about both the TSERS and ORP available online at <https://myapps.northcarolina.edu/hr/benefits-leave/retirement/> and then follow the steps below to make your choice.

**Don't forget, once you make your retirement choice, it cannot be changed.**

**If you want to enroll in TSERS**, you do not need to complete an enrollment form; however, you must designate a beneficiary for The Retirement System Return of Contributions and Death Benefit.

Designate your beneficiary online by logging in to TSERS Online Retirement Benefits through Integrated Technology (ORBIT) at <https://orbit.myncretirement.com/>.

- If you have not used ORBIT before, you will need to register by clicking on the Register button on the same page. To complete the registration, you need to supply your Social Security number, birth date and zip code. You cannot log in to ORBIT until after the first contribution is withheld from your paycheck and processed by TSERS.

**If you want to enroll in the ORP**, you must complete the following forms:

Form ORP-1 The University of North Carolina Optional Retirement Program (ORP) Election And Forfeiture Agreement

ORP Carrier Enrollment Application (Complete the ORP Carrier form for the carrier you want for your contributions and the University contributions.)

Follow the instructions provided by your campus Human Resources/Benefits Office for instructions on where to return forms. **Remember, you must enroll in the ORP within 60 days from your date of hire to participate in that plan; otherwise you will be enrolled in TSERS automatically.**

Got questions? Review the list of resources below and find the right contact information to help you with your questions.

<b>Access information about choosing between the ORP and TSERS</b>	The University Website	<a href="https://myapps.northcarolina.edu/hr/benefits-leave/retirement/">https://myapps.northcarolina.edu/hr/benefits-leave/retirement/</a>
<ul style="list-style-type: none"> <li>Your Retirement, Your Choice Video</li> <li>The Retirement Plan Comparison Tool</li> </ul>		
<b>Access additional information about TSERS</b>	North Carolina Retirement System	1-877-627-3287
<b>Access additional information about the ORP</b>	Your Campus Human Resources/Benefits Office	
<b>Review detailed information about the ORP investment carriers and/or their respective investment options, or for information about your investment accounts</b>	Fidelity Investments	800-343-0860 <a href="http://www.netbenefits.com/unc">www.netbenefits.com/unc</a>
	TIAA	800-842-2252 <a href="http://www.TIAA.com/UNC">www.TIAA.com/UNC</a>
<ul style="list-style-type: none"> <li>Information about choosing between the ORP and TSERS</li> <li>Detailed information about the ORP investment options</li> <li>Specific personal advice on the right investment options to choose</li> <li>Retirement planning</li> </ul>	CAPTRUST	800-967-9948 <a href="http://www.captrustadvice.com">www.captrustadvice.com</a>

The information in this guide is general in nature and may be subject to change. Neither The University of North Carolina, Fidelity Investments, TIAA, nor any of their agents/representatives, can give legal or tax advice. Applicable laws and regulations are complex and subject to change. For legal and tax advice concerning your situation you should consult your attorney or tax adviser.

For more information about any of the authorized ORP carriers or their products, including investment options, charges and expenses, please contact a company representative for a prospectus. Please read the prospectus carefully before selecting an ORP carrier or investment option. In the event of a conflict between this guide and the Plan documents, the Plan documents will control. The University reserves the right to amend the Plan documents.

January 2017