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RETIREMENT SYSTEMS DIRECTOR

September 15, 2016

To: Supplemental Retirement Board of Trustees
From: Steve Toole, Director, RSD
Re: NC 403(b) Record Keeping Contract

As you know, securing the retirement of all North Carolina public servants continues to be mission critical for the Supplemental Retirement Plans. To further that mission with North Carolina public teachers, staff is recommending a change in record-keeper for the NC 403(b) Program. After careful consideration and consultation with TIAA, staff recommends the Supplemental Retirement Board of Trustees approve the termination of the existing NC 403(b) record-keeping contract with TIAA and instruct staff to negotiate terms and transition date.

Staff is appreciative of TIAA's efforts associated with the launch of the NC 403(b) Program. TIAA provided market expertise, sound analysis of the complex 403(b) landscape and a history of working in this product area.

In the last three years, the Department has learned a great deal and now believes the unique NC 403(b) Program should evolve to match the visionary approach the Department had in mind – a more tailored, participant-centered, robust program. With this in mind, staff recommends contracting and transitioning record-keeping for the NC 403(b) Program to Prudential Retirement. By leveraging our existing record-keeper, participants in the NC 403(b) Program will experience the same economies of scale and services afforded to other North Carolina public servants.

Following a successful transition to Prudential Retirement, school districts and community colleges that offer the NC 403(b) Program will benefit from access to a single vendor partner as record-keeper across all three of the NC Total Retirement Plans supplemental offerings – the NC 401(k), NC 457 and NC 403(b). School districts will now enjoy access to a simplified plan administration and remittance process, and will be able to receive consolidated assistance for all three plans.

Participants and employers will also benefit from improved customer experiences and from economies of scale, as the network of Prudential retirement educational consultants (who are well-versed in the NC pension plans and NC 401(k) and NC 457 supplemental offerings already) casts a wider net across the state. In addition, Prudential Retirement's existing office based in Raleigh will be available for all NC 403(b) Program participants, and, of course, they also operate a fully staffed call center with retirement education consultants who are available to assist NC 403(b) participants and employers.

After a transition to Prudential as record-keeper, NC 403(b) Program participants will have access to additional plan features that are currently available in the NC 401(k) and NC 457 Plans, such as the asset allocation service, GoalMaker, and the contribution accelerator feature. Participants will continue to benefit from very competitive fees, and those that

have savings in two or more of the NC Total Retirement Supplemental plans can simplify their retirement planning by accessing all account information in one website portal and within one monthly statement.

Prudential has offered the following two contract term options for our consideration:

Staff's Preferred Option and Recommendation to the Board

1. Prudential would receive a flat fee of \$31 per account deducted from participants' accounts for the 403(b) record keeping services.
2. Once amended, the Department would exercise two of its three, one-year term extension options under the existing NC 401(k)/457(b) contract. Therefore, the contract for services for all three plans would run through December 31, 2022, with an option for the Department to renew for an additional one-year term expiring on December 31, 2023.
3. Prudential would increase the marketing/communications annual budget for the plans by \$200,000.
4. Prudential would add one retirement educational consultant to its field team, bringing the total to 16 throughout the state.
5. North Carolina will evaluate Prudential's Concierge Service for implementation without its accompanying IRA component. Once Prudential has developed its policies, processes and subsequent product changes to comply with the Department of Labor's recently issued fiduciary rule, the IRA component would be evaluated for possible implementation.
6. North Carolina will evaluate Prudential's IncomeFlex and Real Estate products and determine if the addition of these products would benefit participants as options in the NC 401(k) and NC 457(b) plans.

Note: A formal due diligence process for any of the items requested in items 5 and 6 above would depend on staff's initial evaluation and approval.

Staff's Alternative Option:

1. Prudential would receive a flat fee of \$31 per account deducted from participants' accounts for the 403(b) record keeping services.
2. Once amended, the Department would exercise one of its three, one-year term extension options under the existing NC 401(k)/457(b) contract. Therefore, the contract for services for all three plans would run through December 31, 2021, with an option for the Department to renew for one or two additional, one-year terms expiring on December 31, 2023.
3. No increase to the existing marketing/communications budget.
4. No addition to the retirement educational consultant field team.
5. North Carolina will evaluate Prudential's Concierge Service for implementation without its accompanying IRA component. Once Prudential has developed its policies, processes and subsequent product changes to comply with the Department of Labor's recently issued fiduciary rule, the IRA component would be evaluated for possible implementation.

6. North Carolina will evaluate Prudential's IncomeFlex and Real Estate products and determine if the addition of these products would benefit participants as options in the NC 401(k) and NC 457(b) plans.

Note: A formal due diligence process for any of the items requested in 5 and 6 above would depend on staff's initial evaluation and approval.

Staff seeks approval to transition record keeping services from TIAA to Prudential, subject to successful contract negotiations with Prudential.