Frequently Asked Questions About
Cash Balance vs. Defined Contribution

The choice you must make by December 1 between the new cash balance benefit and the current defined contribution benefit is a personal choice only you can make. You should consider your own financial objectives, the expectations you have of your retirement plan AND your ability to tolerate risk.

It is exciting to have a choice, but unfortunately it will not be an easy choice. In fact, once you make it you may second-guess yourself and wonder why you did what you did. Try to remember this: it is not a choice of “good vs. evil.” What may be right for you may not be right for your neighbor. Also, no choice is a choice. If you do not return an election form by December 1, you will REMAIN in the defined contribution plan.

As proof of the importance of this issue, the turnout for the meetings describing the new cash balance benefit for state and county employees has been absolutely tremendous. We are delighted by the response! By mid-October we will have held nearly 150 sessions statewide.

We are getting insight from the members who attend the meetings based on the concerns/questions they submit to us. The feedback has helped us develop a list of frequently asked questions, besides helping us refine our presentation. Here is a sample of questions we have been asked that we hope will assist you as you make your decision:

Q - Is the cash balance just like the School Retirement Plan?

A - No. The School Plan offers only a lifetime annuity at retirement and the amount is based on years of service and salary. By contrast, your cash balance benefit is based on your account balance (employer and employee contributions and interest), and you have multiple disbursement options. The School Plan has a “formula annuity” and cash balance uses your account balance to determine your annuity.

Q - Why was the cash balance chosen instead of a “defined benefit” which is already in place for school, judges and patrol employees?

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A - Traditional defined benefit plans cost more to implement and, in these times of budget constraints, the Legislature did not want the added financial liability. The School Plan when first established in 1945 was similar to a cash balance plan, but has changed with many improvements over the years. The cash balance for state and county employees could be considered a “baby step” toward a defined benefit.

Q - What is the federal mid-term rate and how is it determined?

A - The federal mid-term rate is a rate published to reflect the average return of U.S. government bonds that mature between 3 to 9 years. The rate as of August 30, 2002 was approximately 3.75%. We will use the rate published at the end of the year and each quarter thereafter plus 1.5% to determine the interest credit rate for cash balance member accounts.

Q - What if an employee kept their defined contribution account, then terminated employment, and later came back to work for the state or a county?

A - That depends on the length of the termination. State and county employees with a termination “break” of over 120 days would be considered new employees and would participate in cash balance. Any prior retirement funds they had deferred (left invested on account) would be rolled into cash balance (even if they previously elected to remain in defined contribution). If the length of termination is 120 days or less, they are not considered a terminated employee and would remain in the plan they previously selected. The member must repay any termination benefits.

Q - Once you make your choice to either convert to cash balance or keep defined contribution, can you ever change back?


Q - Will new members have a choice?

A - No. All employees who enroll in the retirement system after January 1, 2003 will receive the cash balance benefit.

Q - If we leave the funds where they are in the current plan, will this mean an increase in costs since new employees will be in the new plan?

A - The fees and costs in defined contribution are very low. They range
from 5 basis points in the S & P 500 Fund to 80 basis points in the International fund. By contrast, most retail mutual funds have fees ranging from 100 to 300 basis points. NPERS and the Investment Council use institutional fund managers who manage other assets (in the School, Judges and Patrol Plans) to help keep these fees low. This practice will continue even with cash balance in place.

With respect to record keeping, Ameritas will remain the provider of services to defined contribution and cash balance, as well as to the Deferred Compensation Plan. Ameritas’ fees are set by contract, and are stable until the next time the contract is bid.

Q - Are the options at retirement the same with both cash balance and defined contribution? Why are the annuities calculated differently?

A - The disbursement options are nearly the same with two exceptions. Cash balance will not offer the systematic withdrawal option. Both will offer annuities, but cash balance will provide a higher annuity because the anticipated investment performance has been designed to not only provide the guaranteed rate of return, but to also create a reserve in order to fund the improved annuity. In other words, the improved annuity is an integral part of cash balance.

Information about the retirement options can be found in your retirement handbook, available from your personnel contact or on our web site at www.nol.org/home/pers/. Also on our web site is a benefit estimator you can use to calculate monthly estimates under all the annuity options.

Q - What is the difference between an annuity and systematic withdrawal?

A - With systematic withdrawal, you withdraw dollars from your account at

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One Plan - Two Benefits

LB 687 brings unprecedented change to the retirement systems created for state and county employees. The process of accruing (accumulating) a benefit during a member’s career is very different between the new benefit and the current benefit. The cash balance benefit accrues an account balance at a legally promised rate and offers an enhanced annuity, while the defined contribution benefit rises and falls with investment gains and losses.

Yet for all the change LB 687 makes to the ongoing accrual of a benefit, many things remain unchanged. Cash balance and defined contribution share the same basic retirement plan. This article reminds members of some aspects of the retirement plans that both benefits share.

Eligibility requirements are identical:
• All full-time employees are REQUIRED to join the retirement plan after 12 months of continuous service (“full time” means those who work ½ or more of the regularly-scheduled hours during each pay period);
• All employees (full-time or part-time) who serve 12 months within a 5-year period and are at least 20 years old MAY elect to join the retirement system voluntarily.

Employee contribution rates remain the same:
In the County Plan:
• Members contribute 4.5% of pay beginning January 1, 2003 (all sworn law enforcement officers contribute 5.5% of pay, except Sarpy County officers who contribute 6.5%);
In the State Plan:
• Each year members contribute 4.33% of pay until they have contributed $864 to the Plan ($19,954 in salary), the rate then increases to 4.8% for the remainder of the year.

Matching employer contributions remain the same:
In the County Plan:
• Employee contributions are matched at 150%;
• All sworn law enforcement officers’ contributions, except for those from Sarpy County, are matched at 150% for the first 4.5% of contributions as of January 1, 2003, and 100% for the additional 1% (a total of 7.75% of pay);
• Sarpy County law enforcement officers’ contributions are matched at 150% for the first 4.5% of pay and 100% for the additional 2%.

In the State Plan:
All contributions are matched at 156% of member contributions.

Vesting
Vesting for both plans now occurs after three years (includes the first 12 months of continuous service plus 2 years of plan participation), including any eligibility and vesting credit a member has been granted at the time of enrollment.

Pre-distribution death benefits remain the same:
If members die before taking a distribution from their account, the options available to their beneficiaries remain the same. The death benefit consists of the member’s total account balance including employer and employee contributions – this means you are automatically vested if you die before terminating employment.

Most options at termination or retirement are shared:
In all plans, members have these options when ceasing employment:
• Purchase an annuity (a monthly payment for your lifetime);
• Take your money as a lump-sum distribution (taxable income);
• Roll your money into another tax-deferred account (rollover);
• Leave your money at NPERS until you turn 70½ years of age; or
• Choose a combination of the above.

NOTE: In defined contribution, you may also take systematic withdrawals of money from your account (you determine the frequency and dollar amount);

Annuity options are shared - dollar amounts differ:
You have the same annuity options. For example, you may choose a 5, 10, or 15 year “Certain and Continuous” option for both cash balance and defined contribution, however, cash balance will provide a greater annuity amount.

FAQ’s (Cont’d from page 3)
the frequency and dollar amount you determine. Your account balance may fluctuate in value depending on your investment returns. Once you have depleted your account, there is no more money available. With an annuity, you turn over a specified amount from your account in exchange for a monthly benefit guaranteed for your lifetime. Market fluctuations will not affect an annuity.

Q - If you decide to convert to cash balance, will just your employee account convert or will your employer matching account convert also?
A - Both your employers’ and your contributions will convert at the close of business on December 31, 2002.