

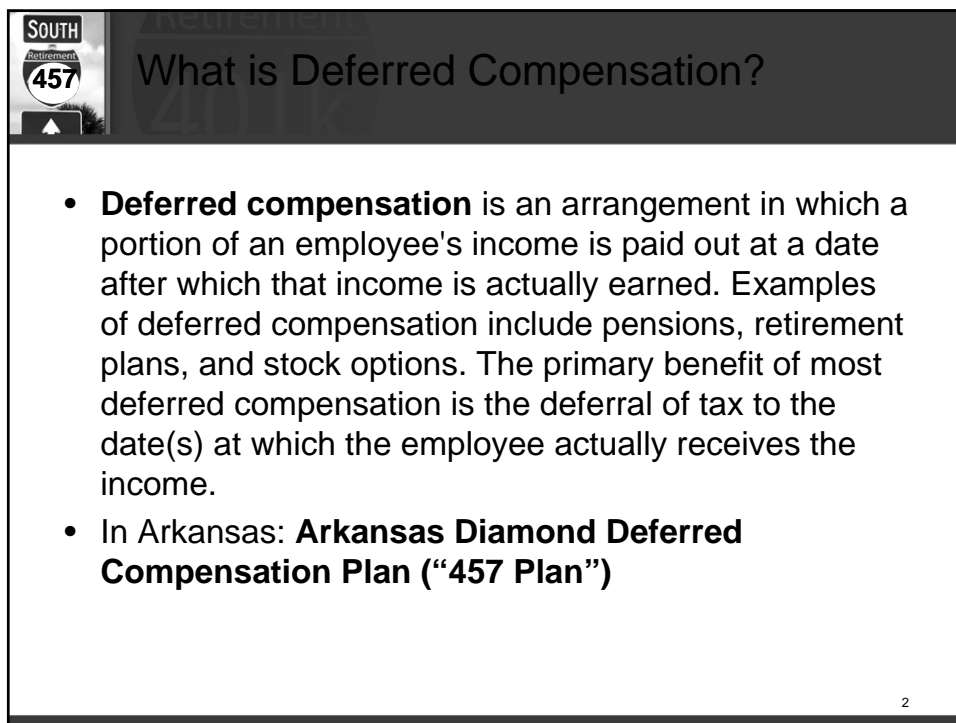


SOUTH
Retirement
457

↑

Deferred Compensation Plan
Supplement for Retirement

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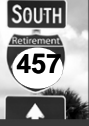
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What is Deferred Compensation?

- **Deferred compensation** is an arrangement in which a portion of an employee's income is paid out at a date after which that income is actually earned. Examples of deferred compensation include pensions, retirement plans, and stock options. The primary benefit of most deferred compensation is the deferral of tax to the date(s) at which the employee actually receives the income.
- In Arkansas: **Arkansas Diamond Deferred Compensation Plan ("457 Plan")**

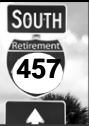
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Benefits of Deferred Compensation

- Kick starts and increases retirement savings
- Increases level of savings
- Tax-favored savings tool
- Extremely low fees
- Helps save more for retirement earlier in employees' career
- 457 funds available without penalty upon termination/retirement
- Important to prepare employees for retirement

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The Arkansas Diamond Plan

- April 1, 2012- June 30, 2012
- Currently there are 14,556 participants with a balance in the Arkansas Diamond Plan. Of the 14,556 participants, 10,717 are active employees and 3,839 are retired/no longer employed by the state.
- At this time there are 31,886 current state employees.
- During the quarter, there were 330 new enrollments with an average age of 45.

State of Arkansas Q212 Service Review

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Why is Auto Enrolling Necessary?

- Retirement income is insufficient for most people; need to have third source of retirement income in addition to APERS and Social Security
- Employees don't enroll in deferred compensation plans
- Employees wait too long to enroll
- Employees don't contribute enough
- Decrease in personal savings rate
- Many employees have little expertise in making investment decisions

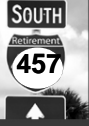
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Typical Components of Auto Enrollment

- Who: New employees
- What: 1-5% contribution
- How:
 - Automatic enrollment
 - May opt out of program in first 30 days
 - Contribution is relatively small
 - Employees can increase contribution over time

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Automatic Enrollment Background

- Auto Enroll has been around since the 90s
- Gained awareness in 2006; The Federal Pension Protection Act of 2006
- The Act provides statutory authority for employers to enroll workers automatically
- Gives employees greater control over how their accounts are invested
- Was created as a convenient, tax savings tool

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Facts

- Experts recommend an income replacement of at least 80% to offset costs in retirement.
- The monthly premium for a state of Arkansas retiree (28 years of service) and his/her spouse in the AR Health Advantage Gold health insurance plan (without Medicare) is **\$575.88**.
- 25 year old employee contributing \$50 per pay period could accumulate approximately \$165,450 at retirement, while someone who contributes the same amount, but starts at age 35, saves only approximately \$82,817.
(Assumes a compounded annual average return of 6% in both instances.)

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States Utilizing Auto Enroll

- Alaska
- Georgia
- Indiana
- Missouri
- South Dakota
- Texas
- Virginia
- Many others are preparing to add auto enrollment

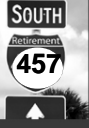
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Missouri

- Missouri's Retirement System (MOSERS) inherited the Deferred Compensation Plan in 2007.
- An increasing number of employees were putting off retirement planning until the end of their careers, at which point it was too late to contribute sufficient funds to support retirement.
- Enrollment in deferred compensation over the years was decreasing.
- Auto Enrollment Bill passed in 2011 and went into effect on July 1, 2012.
- Deferred compensation increased from a rate of 10-12% before law enacted to 91% in the past two months.
- 8-9% of the 91% have even increased the contribution to more than required 1%.

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Missouri Cont.

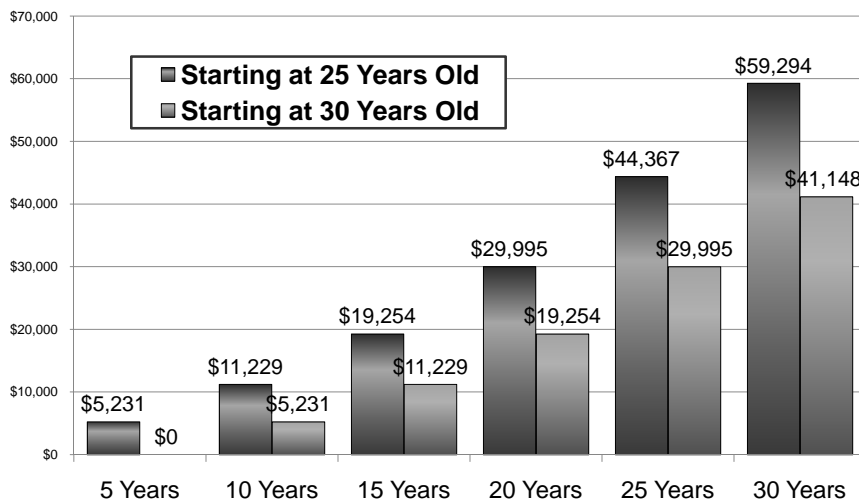
- Very specific under statute to make sure who was covered: New Employees
- Important elements:
 - Catch employees early
 - Make the process easy
 - Communication: Make sure employees are educated on the benefits and basics of the plan

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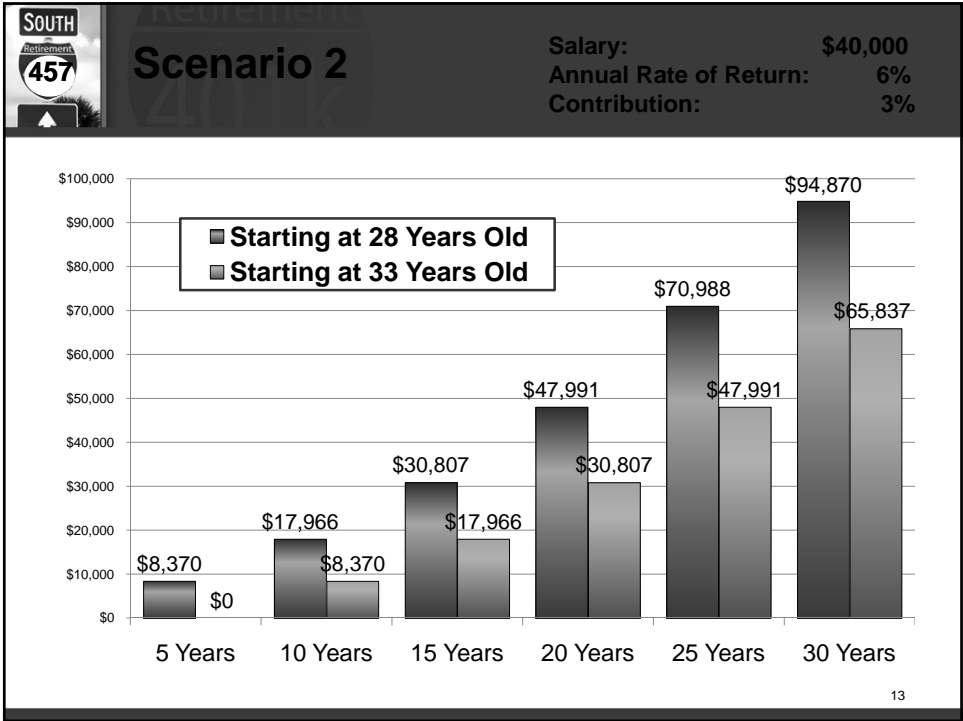


Scenario 1

Salary: \$25,000
Annual Rate of Return: 6%
Contribution: 3%



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SOUTH Retirement 457

Example: 1% Contribution

Starting Salary	Per Pay Period Contribution
\$15,000	\$5.77
\$25,000	\$9.62
\$35,000	\$13.46
\$45,000	\$17.32

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Example: 3% Contribution

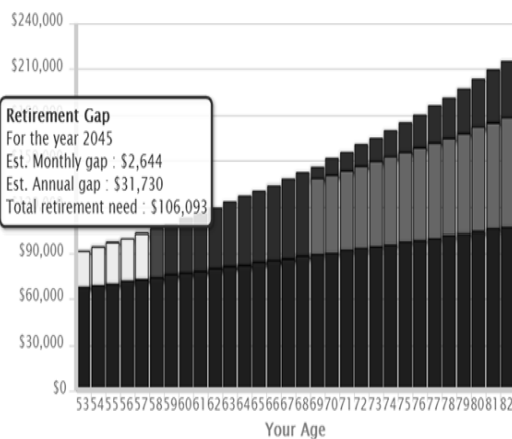
Starting Salary	Per Pay Period Contribution
\$15,000	\$17.31
\$25,000	\$28.85
\$35,000	\$40.38
\$45,000	\$51.92

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Retirement Income Graph

Based on the information you provided, as well as certain assumptions, it is estimated that you may experience an income shortage during your retirement.

Estimated Retirement Income
Future Dollars



Graph Legend

- Retirement Gap
- Retirement Plan Withdrawals
- Social Security Benefit
- Pension Benefit

Select Today's Dollars or Future Dollars

Today's Dollars

Future Dollars

Information...

The graph displays the hypothetical results of your retirement analysis in Today's Dollars or Future Dollars.

Today's Dollars shows the value of a dollar discounted by the assumed annual inflation rate.

Future Dollars shows the hypothetical value of a dollar increased by the inflation rate.

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Benefits for Employee

- Accumulation of much needed savings
- Simple payroll deduction
- Tax deductions
- Achieving a secure retirement
- More control over retirement investments
- Allows automatic contributions to be returned to employees without tax penalties, if employee opts out
- Unlike with traditional 401(k) plans, there is no 10% penalty for withdrawal before the age of 59½