UNIVERSITY OF
NORTH CAROLINA

Optional Retirement Program

2017 Summary

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

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Introduction

To help you prepare for a secure retirement, The University of North Carolina offers eligible employees a choice between two major retirement plans:

- The Optional Retirement Program of The University of North Carolina (ORP)
- Teachers' and State Employees' Retirement System (TSERS)

As a University employee, you must choose to participate in either the ORP or TSERS, subject to your eligibility. For this reason, these two plans are sometimes referred to as the "mandatory" retirement plans.

The University offers you a choice because we recognize that different people have different circumstances, preferences and goals.

Planning for Retirement Income: The Big Picture

One of the most important steps in preparing for retirement is setting your goals — you need to know how much income you need in order to plan how to achieve it. For help establishing your retirement savings goals, review all of the retirement program materials available at **www.northcarolina.edu/hr/unc/benefits/retirement/index.htm**.

To prepare for a comfortable retirement, you should plan on having retirement income from several sources.

Most experts estimate you'll need between 70-90% of your pre-retirement income to maintain your standard of living in retirement. Of course, how much income you need during retirement depends on several factors — including what you want to do (travel, buy a second home, etc.) and when you retire (which affects the number of years you'll need your savings to last).

Participating in one of the University's mandatory retirement programs is a good start. Social Security benefits will also figure into your plans for retirement income, though experts estimate that Social Security only replaces about 40% of your pre-retirement income.

Choosing Between the Two Retirement Plans

The ORP is a "defined contribution" plan. In this, it differs from TSERS, which is a "defined benefit" plan.

Defined Contribution Plan (Example: ORP)	Defined Benefit Plan (Example: TSERS)
The value of your retirement benefit is not determined by a predetermined formula. Instead, it is based on the contributions you make to the plan (your choice, subject to various rules), how you invest them (among different investment options offered by the plan) and the performance of the investment funds you select. Because these may vary, your benefit at retirement may vary; however, because you have more control over these factors (specifically, your contributions and investment choices), you have more control over your retirement benefit than under a defined benefit plan.	The value of your retirement benefit is determined by a predetermined formula, which is usually based on your service, your pay and other factors.

ORP	TSERS
In general, you may find the ORP to be more favorable if you begin participating in the plan at a younger age, and value a retirement benefit that is portable in the event you ever leave the University. In addition, if you prefer to have more control over how your contributions to the plan are invested, in order to tailor your investment portfolio to your overall investment strategy, you may find the ORP may be a good fit for you.	TSERS is generally more favorable for employees who are hired and begin participating in the plan at a relatively later age — 45 years or older — or for those who plan to stay with the University for the duration of their careers. Also, if you prefer not to assume the risks and responsibility of making your own investment decisions, TSERS may be a good fit for you. In addition, TSERS may be the better option if you prefer to have your retirement benefit based on the consecutive four years of your highest University salary, your age and your years of service. For more information about TSERS, see **www.nctreasurer.com/dsthome/RetirementSystems**. Among other resources, at this website you can find a handbook providing an overview of TSERS.

Other Benefits Related to Your Mandatory Retirement Plan

Your participation in either the ORP or TSERS may make you eligible for other benefits as well.

Health Insurance After Retirement

As a participant in either the ORP or TSERS, you may be eligible to continue health coverage under the North Carolina State Health Plan when you retire and elect a monthly retirement benefit.

Details vary based on when you are hired:

- **If you were first hired before 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.

You may also choose to cover a dependent. In all cases, the full cost of dependent coverage is paid by you.

Please note: You will forfeit your eligibility for the State's retiree group health plan coverage if you withdraw your contributions from the ORP or TSERS, or transfer or roll them over to an individual retirement account (IRA) or another employer's retirement plan.

ORP Information

Eligibility

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

Enrollment

If you are eligible for the ORP, 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.

If you do not make an election to enroll in the ORP within 60 days of your date of hire/appointment, you automatically will be enrolled in TSERS instead.

Keep in mind that, once you are enrolled in either the ORP or TSERS, your election cannot be changed.

You enroll in the ORP by filling out forms that are available from your Human Resources/Benefits Office. At the time of your enrollment, you must complete The University of North Carolina Optional Retirement Program Election and Forfeiture form (Form ORP-1) and once you elect the carrier(s) for your investments, you must complete their form and allocate your specific investment options, and designate your beneficiary(ies).

When Your Participation in the ORP Begins

If you enroll in the ORP, the effective date of your participation will be your hire/appointment date. Your deductions will be calculated retroactive to your hire/appointment date.

Choosing a Beneficiary

When you enroll, you must choose one or more beneficiaries as the person(s) who receive the vested value of your plan benefit if you should die before you retire. (If you die after you begin receiving retirement benefits, whether payment is made to another person depends upon the form of payment you choose for receiving your benefit.)

Contributions

Your benefit is funded by contributions to the ORP, made by both you and the University. The amount of these contributions is a percentage of your eligible compensation from the University.

The exact percentages of these contributions are established by the General Assembly. The amount of your employee contributions is 6% of your eligible pay, and University contributions are equal to 6.84% of your eligible pay.

Your contributions to the ORP, and those from the University, are allocated by you to various investment options, as described in "Investment of Contributions" on page 5.

Your contributions are deducted from your paychecks on a pre-tax basis (before state and federal taxes). University contributions are also made on a pre-tax basis. This means that you are not taxed on contributions and their investment earnings until you begin receiving payments from the plan.

Contributions to the ORP end when you are no longer employed by the University.

If you are re-employed by the University, special rules apply regarding your participation in the plan and distributions made from the plan. See the plan document for details.

Contribution Limits

There are limits on the amount you can contribute to the plan in any one year. This limit is set by Internal Revenue Code Section 415, which for 2017 is $54,000.

Compensation Limit

For purposes of the ORP, eligible compensation is defined as your salary, overtime or shift differential, commissions, bonuses and similar payments. If you participate in any other defined contribution plan sponsored by the University, such as one or more of the voluntary retirement plans, your contributions to those plans count toward these limits as well.

Eligible compensation is limited by IRC 401(a)(17). As of January 1, 2017, the annual limit is $270,000. If you were hired prior to July 1, 1996, the annual limit for 2017 is $400,000.

Rollover Contributions

As of January 1, 2012, the ORP will accept rollovers or transfers of pre-tax funds from certain other qualified plans. However, the ORP does not accept direct rollovers of after-tax contributions from another plan. For more information, see your Human Resources/Benefits Office.

Vesting

Being "vested" means you have a non-forfeitable right to the ownership of your plan benefits, even if you leave employment with the University.

You are always 100% vested in your own contributions to the plan, as well as their investment earnings.

You are 100% vested in the University's contributions and their earnings after five years of participating in the ORP.

In addition, some special vesting rules apply:

- You become 100% vested in the University's contributions and their earnings upon your death. This means that if you die before retirement, your beneficiary is entitled to the full value of your retirement benefit, including University contributions and their earnings, even if you had fewer than five years of participation in the ORP.
- If you leave employment with the University before completing five years of participation in the ORP, but within 12 months you continue participation in a "like retirement plan" that is the core retirement plan of another institution of higher education or health care, and is underwritten by one of the four carriers currently underwriting the ORP, then the University will vest you in the value of the University's contributions and their earnings.

Participation in Other Plans That Count Toward Vesting

If you leave the University your participation in any combination of TSERS, the Local Governmental Employees' Retirement System (LGERS) and/or the Consolidated Judicial Retirement System, as well the ORP, will count toward the ORP's five-year participation requirement for vesting.

Investment of Contributions

If you enroll in the ORP, you will have several decisions to make. You must choose the ORP carrier(s) with which you will invest your contributions, select the specific funds in which to invest, and review and redirect your investments in the future if needed.

Choosing Your Carrier(s)

There are two investment carriers that each offer a variety of investment funds to participants in the ORP.

- Fidelity Investments
- TIAA

You decide how to invest both your employee contributions and the University's contributions. If you wish, you can choose to direct your employee contributions to one carrier, and University contributions to another — or you can allocate them all to the same carrier. However, you cannot split your employee contributions among multiple carriers, nor split the University's this way.

We encourage you to thoroughly review the detailed information available at each carrier's website before making your decision. You can find links to each carrier's website at **www.northcarolina.edu/hr/ga/benefits/retirement/ORP/ORPMain.htm**. In addition, you can find website addresses and telephone numbers in the "Contact Information" section near the back of this summary.

The information provided by each carrier includes:

- Financial strength or stability of the carrier
- Fees, charges and operating expenses
- Explanations of the different forms in which you may receive payment of your benefit when you retire
- Interest rate history, policies and guarantees
- Descriptions and performance history of investment accounts
- Special features and services offered by the carrier

Choosing Your Investment Fund(s)

Once you select your carrier(s), you must choose the appropriate investment funds that meet your investment objectives and retirement goals. Each carrier offers a variety of investment funds and a broad array of fund categories. Detailed information about each fund is available from the respective carriers.

Default Investment Fund

Once you select an investment carrier, if you do not make a fund selection, your employee contributions and the University contributions made on your behalf will be automatically directed to the appropriate Target Date Fund offered by that carrier. A Target Date Fund is a mix of investments with a level of risk that is considered appropriate for a person based on his or her age and closeness to retirement.

Changing Your Investment Fund Allocations

At any time, you may request that your future contributions be changed in order to allocate them to different investment funds. Contact your ORP carrier to make this request.

Withdrawing Money From the Plan (Distributions)

Money taken from the plan is called a "distribution." This includes receiving benefits when you retire, or receiving the value of your plan account if you end employment with the University before you retire.

When You May Take Money From the Plan

Remember that the ORP is intended to provide you with income after you retire. Therefore, you may not withdraw money from the plan while you are employed by the University.

You may elect to receive a distribution from the vested portion of your ORP account:

- When you retire, as a retirement benefit (with various payment options available), or
- When you leave employment with the University before retirement.

In addition, a distribution from the plan will be paid to your designated beneficiary if you should die before you retire or leave employment with the University.

If you take money out of the plan before you reach age 59½, you will have to pay a 10% tax penalty, in addition to the ordinary income tax that applies to distributions.

Required Distributions

Unless you choose otherwise, you will begin receiving a retirement benefit from the ORP when you end your employment with the University.

If you wish, you may choose to delay receiving your retirement benefit until some later time after you have retired. *However, remember that to be eligible to continue your State Health Plan coverage during retirement, you must begin to receive a benefit from the ORP on a monthly basis, directly from your ORP account, at the time you retire.*

In addition, you are required to begin receiving a distribution from the ORP no later than the April 1 following the year in which you attain age 70½ or retire. The minimum amount that you must receive is governed by rules that are described in the ORP plan document.

Special In-Service Distributions for Participants in the Phased Retirement Program

As an exception to the usual rules, tenured faculty who reach age 59½ and enter The University of North Carolina Phased Retirement Program after completing five years of participation in the ORP may begin receiving a benefit from the ORP while still employed with the University, in any form of payment that is available from the employee's carrier.

You will receive additional information if this applies to you.

Forms of Payment for Your Retirement Benefit

You will have the opportunity to designate one of several payment options for receiving your benefit when you retire. You must choose your payment option before retirement; you cannot change your payment method once the payment of your benefits has begun.

The available options for payment will vary from carrier to carrier — you must contact your carrier to find out which payment options are available to you.

However, some of the most common methods of payment are outlined below. Just bear in mind that every carrier may not offer all of these options, details may vary, and various restrictions and rules may apply.

- One common method of payment is an **annuity**, which is a series of payments made over a specified period of time.
  - **A single-life annuity** (also called a **life-only annuity**) pays you a monthly benefit for as long as you live. The exact amount of your monthly benefit depends upon the value of the benefit you have accumulated in the ORP when you begin receiving benefits, and your life expectancy at that time.
  - Under a **two-life annuity** (also called a **joint-and-survivor annuity**), the plan pays you a monthly benefit for as long as you live. Upon your death, it continues to pay a monthly benefit to another designated recipient, sometimes called an annuity partner, for as long as he or she lives. Under some versions of a two-life annuity, the monthly payment that is paid to your surviving annuity partner is equal to the monthly payment you received; under other versions, your surviving annuity partner receives a percentage of the monthly amount you had been receiving. If your annuity partner dies before you do, payments cease upon your death — unless the payment option includes a **specified minimum number of payments**. In this case, if both you and your annuity partner die before the minimum number of payments have been made, the remaining payments are made to a designated beneficiary. (If there is no surviving designated beneficiary, payment is made to other persons as specified by the carrier's rules.)

    Compared to a similar single-life annuity, monthly benefits under a two-life annuity will be smaller because two life expectancies must be taken into account rather than just one.
- You may be able to withdraw funds from your ORP account as a **cash payment**, either all at once as a one-time **lump sum**, or as a series of **systematic withdrawals**, depending on your carrier's rules. Other restrictions may apply.
- **Fixed period withdrawals,** if available, may allow you to receive income for a specified number of years, after which you will have received the total value of your plan benefit and payments will stop.
- **Interest-only payments,** if available, allow you to receive the current interest earned on your plan account while your principal remains intact and in the plan. This form of payment may only be available until you reach age 70½, when specified minimum payments from the plan are required.

Again, this is only a sampling of some common payment options. Check with your carrier to find out about the specific payment options that are available to you.

Rolling Over Your Distribution

If your distribution method allows, you may designate all or a portion of your distribution to be rolled over to an eligible retirement plan. Eligible retirement plans include, but are not limited to, a 403(b) plan, a 457 deferred compensation plan, a 401(k) plan and an individual retirement account (IRA). *However, remember that to be eligible to continue your State Health Plan coverage during retirement, you must begin to receive a benefit from the ORP on a monthly basis, directly from your ORP account, at the time you retire, or you will forfeit your State Health Plan benefit.* See the plan document for details regarding rollover distributions.

Taxes

Federal Taxes

When you begin receiving a retirement benefit from the ORP, any pre-tax contributions made by you and the University, as well as any investment earnings on these contributions, are taxed as ordinary income. (If any of your employee contributions were made on an after-tax basis, the portion of your retirement benefit attributable to those after-tax contributions will not be taxed. Note that employee contributions to the ORP made prior to July 1, 1982, were made on an after-tax basis.)

State Taxes

The amount of your retirement benefit you receive each year that is subject to North Carolina state income taxes is the same amount on which federal income taxes must be paid. If the taxable portion of your annual retirement benefit is less than the amount of your exemption, you will not owe any state income tax on your benefits. In addition, if you were enrolled in the ORP on or before August 12, 1989, your ORP benefits, no matter what amount, are exempt from state income tax.

If You Leave Employment Before You Retire

If you leave employment with the University before you retire, you have a number of options concerning your ORP retirement benefit.

- You can leave your account balance in the ORP until you begin receiving a retirement benefit under one of the various payment options available to you.
- As an alternative, under the ORP your retirement benefit is portable.
  - If you change employers, you may continue to use the same carrier under your new employer's plan, if the same carrier is available under that plan.
  - You may transfer or roll over your benefit into an individual retirement account (IRA) or the qualifying plan of your new employer, if it accepts rollovers.

However, remember that if you withdraw, transfer or roll over your entire ORP account, you forfeit your right to retiree group coverage under the State Health Plan.

Keep in mind that if you withdraw money from the ORP before age 59½ without properly making a direct transfer or rollover into an IRA or other qualified plan, you will be subject to tax penalties. Various rules must be followed in order to avoid this. For legal and tax advice concerning your situation, you should consult your attorney or tax adviser.

Distributions in the Event of Your Death

You become 100% vested in the full value of your ORP account upon your death.

If you should die before you retire or leave employment with the University, the value of your ORP account will be payable to your designated beneficiary.

If you should die after you retire or leave employment with the University, the value of your ORP account will be paid according to the payment option arrangements that apply to your carrier.

Helpful Resources and Contact Information

Information	Contact
For additional information about the ORP	Your Campus Human Resources/Benefits Office
To review detailed information about the ORP investment carriers and/or their respective investment options, or for information about your investment accounts	**Fidelity Investments** 1-800-343-0860 www.netbenefits.com/unc **TIAA** 1-800-842-2252 www.TIAA.com/UNC

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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 brochure and the Plan documents, the Plan documents will control. You can find the ORP Plan document at **www.northcarolina.edu/hr/ga/benefits/retirement/ORP/ORPMain.htm**. The University reserves the right to amend the Plan documents.

January 2017