

# MEMO

**Date:** September 9, 2010

**To:** Board of Directors

**From:** Barbara J. Bonifas, CEO

**Subject:** Recommendation: Defined Contribution Plan

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The National Girl Scout Council Retirement Plan has been frozen, effective July 31, 2010. As a result, after July 31, 2010 the benefit that employees earn will not grow for additional compensation or service. For most employees, the defined benefit freeze may cause a significant strain on their future retirement plans, since the Girl Scout Retirement Plan is a key source of retirement income.

To replace the loss of future benefit accruals, councils may choose to provide defined benefit or defined contribution benefits to supplement employee savings. For this reason, GSUSA, with the help of the ad hoc pension group, has considered two options: a defined contribution plan and a defined benefit plan.

Defined Benefit Plan: The lower cost defined benefit plan is a new formula with the current plan. It will work in a manner similar to the way the current formula works and will provide a monthly benefit payable at retirement. This plan provides defined benefits funded via the pension trust and therefore councils will continue to be subject to volatility in deficit related funding. A new asset allocation will, over a two-year period, shift the assets from equities to fixed income. As a result, it is expected that the plan's funded status will be less volatile and therefore the deficit related funding is also expected to be less volatile. The lower cost defined benefit plan is being designed to result in a 5% of payroll contribution rate. In the future, the cost will vary, since it will reflect any difference in experience from the economic and demographic assumptions that were used to project the costs of the plan. Should actuarial assumptions not be fully realized, it is possible that the lower cost formula, defined benefit plan could still generate a deficit above and beyond the amount funded to provide for the lower cost benefit. If such a deficit is generated, the additional deficit would be funded only by councils participating in the lower cost defined benefit plan. Employees who stay at the council for a relatively short time will receive less value and will have to wait until retirement age to receive their benefit. Investment risk lies with the employer who monitors investment funds.

Defined Contribution Plan: A preferred defined contribution plan has been vetted by GSUSA, through Mercer. After receiving proposals from several national companies, T. Rowe Price was selected as the preferred vendor. Councils will have design flexibility with a defined contribution plan option and can choose to use the preferred vendor, the current vendor (Mutual of America), or another vendor. A defined contribution plan is permitted to have voluntary deferrals, employer matching contributions, and employer non-elective contributions. Under a defined contribution plan, the council is the plan sponsor and fiduciary, and is responsible for plan governance and vendor fees. Investment risk lies with the employee who selects investment funds. An advantage for employees is portability. There is not currently an option for a national multiple employer defined contribution plan.

Recommendation: My recommendation is that Girl Scouts of Western Ohio elect to participate in a defined contribution plan, with a decision on a vendor to be brought at a later date. We will compare features and costs related to the defined contribution plan being proposed by T. Rowe Price and our current plan offered by Mutual of America before making a final decision on vendor.

Cost estimates of a defined contribution plan are as follows for the two choices we are currently considering:

Option 1: The council will pay 3% of payroll as a base contribution (\$126,798) and provide a 2% match (up to a specific dollar amount), estimated at \$84,531.

Option 2: The council will pay 5% of payroll as a straight contribution. Total cost is estimated at \$211,330.

As a reminder, the council will be required to pay an estimated 10% of payroll to fund the deficit defined benefit plan. This is projected at just under \$450,000.

This recommendation was reviewed and supported by the Investment Task Group during its August 23, 2010 meeting.

Recommendation:

That Girl Scouts of Western Ohio elect to participate in a defined contribution plan. Further, the council will pay 3% of payroll as a base contribution and provide a 2% match (up to a specific dollar amount).