



Tax-Sheltered Annuity Review Committee

Minutes

November 3, 2017

- Members Present:** Kevin Bahr (Chair), Michael Collins, Anoop Dhingra, Howard Erlanger (Vice Chair), Gigi Koenig, Bob Kunkel, Rob Wolf
- Members Absent:** Rashika Kamal, Kimberly Sipiorski
- Staff:** Noah Brisbin (UWS Associate System Legal Counsel), Shenita Brokenburr, Brianna Greenwood, Terry Lauber, Margo Lessard, Erin Schoonmaker, Rose Stephenson
- TSA Companies:** Richard Tesch, Brent Kimbel, Ameriprise Financial/RiverSource; Pat Vaughan, Fidelity Investments; Kevin Mohr, Lincoln; Shawn Alvino, Matt Garrity, Tom Shelton, T. Rowe Price; Leteka Bojanowski, Andy Kelleher, TIAA
- Guests:** Rich Lampe, UWSA Office of Procurement; Mark Olsen, PlanPilot

Kevin Bahr called the meeting to order at 10:05 a.m.

1. Welcome and Introductions

The TSA Review Committee, UW System staff, TSA provider representatives, and guests introduced themselves. Rose Stephenson went over logistics, including lunchtime and exit locations, since the meeting was located in a new venue, Room 1920 in Van Hise Hall.

2. Review and Approval of Minutes

MOTION: Bob Kunkel moved the approval of the minutes for the April 28, 2017 TSARC meeting. Howard Erlanger seconded. Motion passed unanimously.

3. Fiduciary Responsibility Refresher

Noah Brisbin reminded the committee of the importance of regularly reviewing fiduciary duty, which includes two major components: loyalty and prudence. Although the focus of the current discussion is on prudence, Noah first gave a short overview of the fiduciary duty of loyalty.

Under the duty of loyalty, fiduciaries are entrusted to act solely in the interest of trust beneficiaries. Secondary interests (industry-based, social, charitable) are permissible only if commensurate returns are expected or diversification in offerings is realized. Noah also emphasized the need to avoid conflicts of interest, and, in the event of a conflict, disclose and manage it with members of the committee.

There is a sliding scale for the standard of prudence: corporate boards, nonprofit boards, trustees in general, private-sector pension funds, and public-sector pension funds. Although the UW TSA Program is not subject to ERISA requirements, the Program has responsibilities parallel to ERISA requirements. Under the Uniform Prudent Investors Act, fiduciaries must exercise reasonable skill, care, and caution; analyze expected return against risk levels; make reasonable effort to verify relevant facts; use special skills or expertise; diversify investments; and incur only appropriate and reasonable costs. This requires the plan to comply on an ongoing basis with the prudent investor rule and with relevant laws and policies. In order to make prudent decisions, it is important to rely on established processes, diligent behavior, and accountability of delegees. As long as Program fiduciaries conduct themselves under the guidelines of loyalty and prudence and act within the scope of the obligations, the State will indemnify them.

Bob Kunkel asked Noah how it is determined that a plan has too many or too few options. Noah replied that a plan with a few dozen to a few hundred options is not in danger. The UW TSA plan structure with the different providers presents a two-level decision tree – what do providers offer and is it sufficient for a diverse portfolio. There could be concern if the list were very short or a participant had to flip through multiple pages of fund offerings.

Kevin asked whether a plan could be sued if fiduciaries removed a fund that then out-performed the market. Noah explained that if a decision to remove a fund option has a good basis and follows due diligence processes, then it could be determined to be a prudent decision. The ultimate decision is not the important part; process and diligence become the focus.

Rob Wolf asked what constitutes having too many options, since often having many options is considered to be good. Rose cited studies in behavioral finance and how “overload” can impede the decision-making process. Michael Collins elaborated on this, noting that studies show that too many decisions and excessive options can create an atmosphere in which participants may walk away.

4. TSA Program Finances

a. TSA Program Financial Report

Rose presented the financial report to the committee. She focused on the projected versus actual budget for 2016-2017 and the projected budget for 2017-2018. Howard asked about the increase in professional development from \$4,725.60 for the 2016-2017 actual budget to \$10,000 for the 2017-2018 projected budget. Rose stressed the benefits of professional development and noted the increase was primarily due to an already-approved trip to the TIAA corporate offices in North Carolina in January 2018. Howard affirmed the importance of professional development and wondered if the professional development budget should be increased for the 2017-2018 year. Erin mentioned there were other conferences and classes that could be attended or taken. Rose asked the committee if they felt the amount should be increased. Howard noted the committee had confidence in staff to make decisions regarding which conferences and classes were beneficial and that actively pursuing more knowledge would help in the case of being prudent fiduciaries. It could help the program become stronger and make the committee’s job easier with a more knowledgeable staff.

MOTION: Howard Erlanger moved to increase the budgeted amount for Professional Development in the TSA Program budget from \$10,000 to \$20,000 for the 2017-2018 year. Bob Kunkel seconded. Motion passed unanimously.

b. Return of Revenue to Participants

Rose reviewed the Committee’s decision to return revenue to participants, which is expected to take place in November 2017. The three providers crediting participant accounts, Fidelity, TIAA, and T. Rowe Price, will help publicize this. An article will be posted on the UW portal and the providers will send letters to participants. The balances remain with the providers until the Program requests payment from them.

| | Fidelity | TIAA | T. Rowe Price |
|--|-----------------|-------------|----------------------|
| 2015 + 2016 Revenue | \$ 1,300,000 | \$ 198,174 | \$ 189,250 |
| 2017 Revenue Returned | \$ 650,000 | \$ 99,087 | \$ 94,625 |
| New Balance After Return as of 10/15/2017 | \$ 1,009,507 | \$ 510,113 | \$ 120,358 |

c. Approval of ALEX Expenditure

With the expansion and enhancement of ALEX (an online, interactive decision-support benefits tool) to include a retirement section, Rose requested that the committee approve the use of TSA monies to pay an appropriate part of the cost. Erin mentioned approximately 13,000 people used ALEX for the annual benefits enrollment period of October 2 – 27. The cost of the retirement module, which includes WRS, TSA, and WDC, is \$52,110 for the first year. The cost will increase by 2-3% in the second year and again in the third year.

The request is that \$21,313 in funds from the TSA account (Fund 128) be approved to pay for part of the \$52,110 cost for the ALEX retirement module. This number was determined by taking the eligibility for the TSA Program and dividing it by the total eligibility for the three retirement plans to get a percent – 40.9%. Student Help was included in the calculation, since they are eligible for the TSA 403(b) Program as well as the WDC Program. The total cost (\$52,110) was multiplied by the eligibility percentage (40.9%) to arrive at \$21,313.

| Eligibility by Retirement Plan | | | | |
|--------------------------------|-----------------|-------|------------------|-------|
| | W/ Student Help | | W/O Student Help | |
| WRS | 30,780 | 18.1% | 30,780 | 26.8% |
| WDC | 69,409 | 40.9% | 42,109 | 36.6% |
| TSA | 69,409 | 40.9% | 42,109 | 36.6% |
| Total | 169,598 | | 114,998 | |

The purpose of adding a retirement module to ALEX is two-fold: it acts as outreach and communication about the plan to employees, hopefully increasing participation in the Program, and it could assist in answering questions, which would free up staff time for more strategic and higher-level tasks.

MOTION: Howard Erlanger moved to approve the request to use \$21,313 from TSA Program Fund 128 to pay for part of the ALEX Retirement module. Rob Wolf seconded. Motion passed unanimously.

5. **TSARC Appointment/Re-appointment Process Improvement Discussion**

Staff is working on documenting the procedures involving the TSARC appointment and re-appointment process, including documenting the selection, vetting, and onboarding process. Current plans include having an onboarding summary, position description and duties of committee members, a fiduciary code of conduct, and succession planning. The goal is to have procedures documented by February/March 2018 and implemented for the 2018 appointments and 2017 appointments that expired in August and were extended for a year.

Discussion focused on TSARC member selection criteria and important attributes TSA Review Committee members should have. Howard recommended that retired employees in the plan be represented on the committee. Gigi Koenig recommended that students be represented; Rose noted this would require an amendment to the Plan Document. Michael suggested it would be beneficial to have someone with a communications background on the committee. There was also concern about how to adapt the representation once the merger between UW Colleges and Extension and UW institutions occurred.

The committee agreed having a code of conduct that each member signed off on could show due diligence and good faith. Mark Olsen mentioned that an additional benefit of such paperwork would be that having it could help should there ever be litigation brought against the plan. Documentation could help demonstrate that members took their positions as stewards of the plan seriously and were trying to do right by the participants.

Members agreed there should be a standard for attendance, both in person and via teleconference. Although attendance is part of fiduciary responsibility and is tracked in the TSARC meeting minutes, members felt it would be beneficial to have documented steps and procedures related to attendance, as well.

6. **Request for Proposal (RFP) Update – PlanPilot, Mark Olsen, Managing Director**

Mark Olsen provided an update on the status of the RFP process and the steps scheduled to be taken in coming months. The UW TSA 403(b) Program has five providers with a host of underlying investment options. Communication is important to help new hires and existing employees understand the choices.

During and after the RFP process, it will also be important to communicate the process and any changes to the Program, including the number of providers and the investment options. Effective communication can be the key to smooth implementation of change.

Mark Olsen outlined six steps to the RFP process:

1. Development

The development step is implemented to understand and underscore the objective and goals of the TSA Program.

2. Planning

Criteria for evaluating consulting firms will be developed. Procurement, TSA Program staff, TSA Review Committee members participating in the subcommittee, and PlanPilot will develop a weighting system for key criteria that will assist in the evaluation phase.

3. Develop RFP
Based on key criteria identified in step 2, PlanPilot will assist in the development of business requirements to create an RFP that covers the following areas: provider review, investment review, and communication and education.
4. Evaluate RFP Responses
RFP responses will be reviewed and the strengths and weakness of respondents identified. PlanPilot will develop a summary document pinpointing the key differences to be used by procurement and the evaluation committee.
5. Finalist Meetings
Finalists chosen through the RFP process will make presentations, and TSA staff and Procurement will develop a summary to identify key focal points. Procurement will follow up with questions for finalists.
6. Contract Negotiations
UW System Administration Office of Procurement will lead the process of negotiations with PlanPilot providing subject matter expertise.

The tentative completion date for the process is August 2018. The immediate next steps are to develop a survey instrument, conduct a first meeting with the subcommittee, and identify communication support with a larger committee.

Anoop Dhingra expressed concern that the schedule presented during the April meeting was delayed. Rich Lampe responded that procurement and contract completion times are approximate; there are many unknowns that could affect the timeline during the procurement process.

7. *Capital Markets Update and Retirement Fund Review – Matt Garrity, T. Rowe Price*

T. Rowe Price has \$950 billion in assets under management as of 9/30/17 with 562 investment specialists across the world. Of those investment specialists, over 250 are research professionals meeting with companies and competitors and feeding ideas to portfolio managers. T. Rowe Price has 35 years in recordkeeping, over two million participants, and works with 3,500 plans.

Matt Garrity noted T. Rowe Price's unique position in the retirement investment space because of their:

- a. Goal Driven Glide Path
- b. Dynamic Tactical Adjustments – group of 14 individuals with over 350 years' experience meet monthly to discuss the markets and how to make the portfolio better
- c. Opportunity of Active Management – 17 of the 18 underlying funds are actively managed.

T. Rowe Price observed that participants were facing some issues in making their income last that T. Rowe Price felt were necessary to address:

- a. The recommended standard to save is 15%. Participants are not saving enough at an average of 10-11%. Only once the age group attains age 60+ are participants saving at 15% or higher.
- b. Life expectancy is rising, and retirees increasingly need to plan for a very long retirement.
- c. Participants are planning on a small percentage of assets being distributed but not for any adverse events in retirement. T. Rowe Price reports that 72% of participants will have a spending shock in retirement (housing, health, etc.) that will require a significant withdrawal of assets.

T. Rowe Price has maintained the same retirement glide path since 2002 with a beginning equity exposure of 90%. At 25 years to retirement, the equity percentage decreases as investments become more conservative. The T. Rowe Price Target Retirement Date funds continue to be managed through the respective retirement date for an additional 30 years before landing at a 20% equity allocation.

Washington Update – Tom Shelton, T. Rowe Price

T. Rowe Price reported that the first version of the tax reform bill did not affect incentives for retirement savings. Republicans are currently pushing to move the federal corporate tax rate from 35% to 20% and to reduce the number of tax brackets for individuals. To offset the deficit that this may cause, Republicans are looking at removing some current tax deductions and incentives. The largest tax expenditures are health care, followed by deductions for mortgage interest and retirement contributions. This puts those incentives in line to be considered for elimination in order to offset the tax cuts.

Tom reported that another option Republicans are currently looking at is Rothification of current retirement accounts. This would either reduce or eliminate pre-tax deferrals and replace them with Roth deferrals. Republicans are floating the idea of reducing the amount of pre-tax contributions to \$2,400 (currently \$18,000 for most participants). Sixty percent of defined contribution plans offer a Roth option, but 90% of contributions are on a pre-tax basis. Even in IRA assets, only 1 in 12 dollars is invested after-tax. Americans prefer the pre-tax option, and limiting that amount could reduce retirement savings at a time when people are already not saving enough.

T. Rowe Price has joined the group *Save Our Savings* to discuss these issues with Congress. The current bill did not include the change, but it is still in the early stages. Congress passed the 2018 budget calling for \$1.5 trillion in unnamed tax cuts. In the Senate, the reconciliation process can be used to pass tax reforms with a bare majority vote if they add up to exactly \$1.5 trillion. Not all of the current offsets, including eliminating deductions for state income and state sales tax and changing the mortgage interest deduction, are favored by the 50 Republicans necessary to create a majority. If they backtrack on those offsets and need to get to \$1.5 trillion, retirement incentives could be brought up again.

8. Insurance Company Ratings

Insurance company ratings provide an indication of the financial strength of the company and its ability to pay promised benefits. The ratings for Lincoln, Ameriprise/RiverSource, and TIAA from major rating companies remain unchanged from 2016.

| | Lincoln | RiverSource | TIAA |
|----------------|-------------------------|--------------------|----------------------------|
| | Rating | Rating | Rating |
| Best | A+ (Superior) | A+ (Superior) | A++ (Superior) |
| Fitch | A+ (Strong) | AA- (Very Strong) | AAA (Exceptionally Strong) |
| Moody’s | A1 (Upper Medium Grade) | Aa3 (High Quality) | Aa1 (High Quality) |
| S&P | AA- (Very Strong) | AA- (Very Strong) | AA+ (Very Strong) |

9. Highlights of TSA Plan Administration

a. Plan Efficiency Scorecard

This summer, TIAA evaluated the UW TSA plan, using an efficiency scorecard. Using the TIAA efficiency scorecard as a guide, TSA staff developed an efficiency scorecard that allows all five providers to rate the Program on performance as a plan. TSA staff sent out a “test” scorecard covering the 2016 calendar year with the intent of sending the first official scorecard in January/February 2018 for the 2017 calendar year.

TSA staff have provided TSA Review Committee members with a summary that does not identify providers. The main component the plan is looking into is Plan and Employee Data. The plan was scored lower in this area, because it does not currently provide salary data to providers. Providing salary data to the providers could allow them to calculate the replacement rate and better assess retirement readiness.

b. Report on Loans

Each provider uses TIAA’s Compliance Coordinator to approve and monitor loans. The Compliance Coordinator provides outstanding loan and account balances; TSA staff monitors the information to ensure loans are being used appropriately. From January 1 through September 30, 2017, 156 loans were issued, with the percentage of participants with a loan at 2.55%. This compares to 219 loans issued in 2015, 208 in 2014, 237 in 2013, 254 in 2012, 191 in 2011, and 187 in 2010.

Loan services are available from all five providers, with a maximum of two outstanding loans permitted at any time.

c. 15-year Rule Catch-ups

With the PeopleSoft upgrade to version 9.2 in February, the functionality of the 15-year rule service catchup within HRS was greatly improved. Staff members continue to calculate eligibility and approve participants for the catch-up; however, the eligibility box stays checked in HRS after every calculation,

which saves considerable time. Any discrepancies that are identified between the manual calculation and HRS are being tracked. Thirty-eight employees were confirmed to be eligible for and were using the 15-year service catch-up as of September 25, 2017.

d. **Notifying Employees of Eligibility to Participate in Plan**

The Program has a duty as a plan to notify employees of their eligibility to contribute. The Program uses multiple avenues to do this:

- Earnings Statement Messages –
The message, “Start now to save for the future with the UW TSA 403(b) Plan – www.wisconsin.edu/tsa” is regularly included on two biweekly paychecks (March 16, 2017 and November 9, 2017) and two monthly paychecks during the year (May 1, 2017 and November 1, 2017)
- TSA Provider Workshops –
Fidelity and TIAA presented on different topics in Madison. Elise Waligora from Fidelity gave the presentations, “Identify and Prioritize Your Savings Goals” at 780 Regent Street on September 19, 2017 and “Select, Sign Up and Save With Your UW TSA 403(b)” at the UW-Madison Benefits Fair on October 17, 2017. Joe Bonjorino from TIAA gave the presentation “Financial Foundations: Planning for Your Future” at the UW-Madison Benefits Fair on October 17, 2017.
- TSA Workshops Presented by TSA Review Committee Members & Benefits Staff –
Thirteen workshops were presented throughout the year by committee members or institution benefits staff with 186 total participants.
- TSA Program Website Enhancements –
 - ALEX enhancement
 - PowToon videos – short videos that provide information about the TSA Program, including how to enroll.
 - Recorded workshop explaining the basics of the TSA Program – UW TSA Program staff worked with Fidelity to draft the PowerPoint, which includes information about all providers.

e. **Staff Professional Development**

There were several staff professional development events throughout the year.

- May 1–3, 2017: Rose attended the Fidelity Benefits Summit, which she found valuable; there were motivational speakers, as well as sessions focused on Washington updates, security, investments, and other topics.
- June 7–9, 2017: Rose and Terry attended the PlanSponsor National Conference, which had multiple speakers, seminars, and workshops. Particularly valuable was a session detailing the process of reducing the number of providers and several sessions on outreach and communication best practices.
- August 2–3, 2017: The UW System Human Resources office hosted a HR/Payroll/Benefits Conference with the theme, “Building on the Best” at UW-Oshkosh. Rose thanked providers for attending and providing “swag” for attendees.

TSA staff will be attending a tour of the TIAA headquarters in Charlotte, NC in January 2018 (previous date was November 2017). Shenita also mentioned that the President and CEO of TIAA, Roger Ferguson, will be visiting Madison, Wisconsin, in March. It is anticipated he will speak at UW-Madison with other institutions able to videoconference into the lecture. The topics he may address include student relations, diversity, investing, and millennials.

10. TSA Provider Updates by Representatives

a. **Fidelity**

Pat Vaughan provided an update on Fidelity’s cybersecurity measures. Fidelity currently employs over 800 cybersecurity professionals, including an ethical hacking team. They recently received ISO 2017-001 certification and have created redundant systems with two data centers in the United States. This allows Fidelity to have almost 99.9% control over the availability of their data systems.

From a customer standpoint, Fidelity has a customer protection program that includes a two-factor authentication process. This process is triggered if participants try to access their accounts abroad or for high-risk transactions, including movement of money or changes in address. Fidelity also has no dollar

gap in their customer guarantee, in the event someone hacks a participant's account or impersonates a participant to remove money. Fidelity replaces the money and pursues the thief. Fidelity has also gained access to the dark web to prevent data breaches by mining information. If Fidelity finds that a customer has a username with one of the organizations on the dark web, Fidelity freezes the account until the customer calls. At that point, Fidelity authenticates the participant and recommends a change in username and password.

b. TIAA

TIAA provided an update on the company's digital capabilities and a response to the *New York Times* article that came out a few weeks ago. Regarding digital capabilities, TIAA contributes to an evolved recordkeeping system and has worked to create a cleaner mobile app for participants. They also started promoting TIAA Vision, which has a healthcare calculator and shows participants how they compare to a benchmark of characteristics in their peer groups.

Leteka Bojanowski provided Rose with a Q&A and FAQ deck in response to the NYT article, which Rose had shared with the TSARC. Andy Kelleher relayed President Roger Ferguson's comments on the article. Andy mentioned that typically the author of an article shares it with the subject and allows them to refute claims before the article is published. TIAA met with the author for six hours and refuted the claims made, but the author published the article without including TIAA's comments.

Andy provided President Ferguson's responses on several key issues addressed in the article and emphasized that TIAA is a nonprofit company that owns companies that are for profit, TIAA supports the Department of Labor's Fiduciary Rule, TIAA's annuities have lower expense ratios than 90% of all mutual funds, and TIAA does not compensate advisors to push certain products. (The compensation plan for advisors was available on the website.)

After the article was published, 990 participants reached out to TIAA but only between two and four proceeded with a formal complaint.

c. Lincoln

Lincoln reported they have increased security measures by implementing two-factor authentication. They also added Fidelity Freedom funds to their platform, which they believe will be attractive to younger participants.

d. T. Rowe Price

T. Rowe Price reported they have also implemented two-factor authentication. They also reported that participants calling in by phone are now required to answer more authentication questions. T. Rowe Price provided a booklet on their security measures and extended an invitation to TSA Program staff, administration, and the TSARC to visit onsite and meet with enterprise security.

e. Ameriprise/RiverSource

Ameriprise presented an article on building financial confidence, which lays out how to save for the future. When participants are young, it is important to cover essentials, but as participants grow older, they will need to save enough to ensure a certain lifestyle in retirement and prepare for unexpected events; some may want to leave a legacy.

Ameriprise also touched on cybersecurity measures and expressed interest in how ALEX can help them provide better service to their participants.

11. Other

12. Next Meeting Date

The next meeting will be held on May 4, 2018.

13. Adjourn

Gigi Koenig moved to adjourn. Rob Wolf seconded. Motion passed unanimously. The meeting was adjourned at 2:10pm.