

## UW 403(b) Supplemental Retirement Program Advisory Committee (SRPAC) Meeting

Friday, April 29, 2022 – 10:00 a.m. to 1:00 p.m.  
780 Regent St. & WebEx Conference

Members Present: J. Michael Collins (Chair), Ann Iverson, Will Mass, Syed Moiz (WebEx), David Miller, Dave Schalow (WebEx), Kimberly Sipiorski (WebEx)  
Members Absent: Anoop Dhingra, Rashiqa Kamal (Vice Chair) – On Sabbatical  
Staff: Jennifer Lattis, Katherine Ptaszek, Charles Saunders, Rose Stephenson  
403(b) Recordkeepers: Catina Hampton, TIAA; David Bruce, Fidelity  
Consultants: Dan Pawlisch, Aon Investments  
Guests: Amanda Sonnenburg, UW System HR

Meeting called to order at 10:10 a.m.

### 1. **Welcome and Introductions**

Michael Collins welcomed those attending. SRPAC members, staff, 403(b) recordkeepers, consultant, and guests introduced themselves.

### 2. **Review and approval of October 1, November 5, and December 3, 2021 TSARC Meeting Minutes +\***

MOTION: Will Maas moved to approve the minutes from the October 1, 2021, the November 5, 2021, and the December 3, 2021 TSARC/SRPAC Meetings. Ann Iverson seconded. Motion passed unanimously.

### 3. **Investment Review and Legislative Update+ – Dan Pawlisch, Aon Investments USA Inc.**

Dan Pawlisch reviewed the state of the major capital markets during the first quarter of 2022, noting that U.S. and non-U.S. stocks and bonds were all down while commodities were up (26% during the first quarter and almost 50% for the trailing one-year period). He noted that the market's volatility was due to rising energy prices and from turmoil being seen around the world. Pawlisch indicated that it's been quite a while since participants have seen negative returns for bonds; noting the inverse relationship between price and yield. As the Federal Reserve has begun raising interest rates this year to combat inflation, prices of bonds have come down. He noted this situation may play out for a while, as the Fed continues to raise short-term interest rates to help combat inflation. Pawlisch observed that the Consumer Price Index (CPI) is up 7.9% year over year. When looking at core CPI (removes energy and food), inflation is still up 6.4%.

Pawlisch led a discussion of the investments offered in the UW 403(b) Supplemental Retirement Program's investment lineup as of March 31, 2022, noting situations in which there were exceptions to, or comments on, the targeted performance, company structure, or other relevant aspects of the funds offered against the Investment Policy Statement. Pawlisch noted that while all the Tier I Vanguard Target Date Funds registered green on the Watch List, recent underperformance was due to tracking error created by fair value pricing adjustments. In reviewing the Tier II index funds, each of the passively managed index funds, except for the Vanguard Emerging Markets Stock Index Fund, posted results that closely approximated the return of its respective performance benchmark. Pawlisch noted that underperformance for the Vanguard Emerging Markets Stock Index Fund exceeded its 30-basis point tracking error and registered yellow on the watch list. Pawlisch also noted that the Vanguard Emerging Markets Stock Index Fund is a component of the Vanguard Target Date Funds. In reviewing the Tier III active funds, Pawlisch noted the T. Rowe Price Institutional Large Cap Growth Fund registered yellow on the watch list because of relative underperformance versus its benchmark. Pawlisch indicated that both the Vanguard Emerging Markets Stock Index Fund and T. Rowe Price Institutional Large Cap Growth Fund remain "Buy" rated by Aon and recommend the Committee take no action.

Pawlich reviewed data regarding the Program's asset allocation. He noted that approximately 80% of Program assets were invested in the Vanguard Target Date Funds. Pawlich also reviewed the investment management fees by fund, noting that the fees for all investments were reasonable relative to an applicable peer group.

Pawlich reported on the following Vanguard fund actions and Investment Subcommittee recommendations from the March 25, 2022 Investment Subcommittee meeting:

- On July 8, 2022, Vanguard will merge the Target Retirement 2015 Fund into the Target Retirement Income Fund because the 2015 fund has reached a target asset allocation that matches the Income Fund. No purchases and exchanges into the 2015 Fund will be permitted after the close of business on July 6, 2022. This is a global fund action which requires participant communications.
- Vanguard recently announced the launch of the Target Retirement 2070 Fund by mid-2022. The 2070 Fund will have an initial allocation of 90% stock and 10% bonds. On March 25, 2022, the Investment Subcommittee reviewed and approved the addition of the 2070 Fund to the Program as soon as administratively feasible following appropriate notice to participants.
- Due to sizeable asset growth, the UW 403(b) Program is now eligible to transition from the "Admiral" class shares to lower cost "Institutional" share class options for nine Vanguard funds. The impacted funds include the Vanguard Total Bond Market Index, the Vanguard Short-Term Inflation Protected Securities Index, the Vanguard Total Stock Market Index, the Vanguard S&P 500 Index, the Vanguard FTSE Social Index, the Vanguard Extended Market Index, the Vanguard Total International Stock Index, the Vanguard Developed Market Index, and the Vanguard Emerging Markets Stock Index. This transition will lower fees for participants invested in these funds. The investment philosophies, objectives, and overall portfolio management processes between the various share class options will remain unchanged.
- In March, Dodge & Cox announced the launch of the new share class (Class X) of the Stock Fund effective May 2, 2022. The net expense ratio for the new Class X share class will be the fund's current expense ratio less 10 basis points, which represents a removal of the revenue sharing component embedded in the Fund's expense ratio. The investment philosophies, objectives, and overall portfolio management processes between the various share class options will remain unchanged. On March 25, 2022, the Investment Subcommittee reviewed and approved the transition of the Dodge and Cox Stock Fund to the new lower fee Class X share class.

Pawlich provided a status update regarding ESG guidance and SECURE 2.0 legislation:

- The Department of Labor issued "Prudence and Loyalty in Selecting Plan Investments and Exercising Shareholder Rights," which reverses prior guidance that required plan fiduciaries to select investments based solely on "pecuniary factors." The proposal received 29,000 comments in response. Pawlich indicated that the DOL is reviewing the public comments and may revise the proposal before issuing a final rule later in 2022.
- When Secure 2.0 legislation was passed by the House, language regarding the securities law exemptions needed to make this provision work were deleted due to jurisdictional issues. Pawlich noted that discussions with the House Financial Services and Senate Banking Committees remained ongoing, and he will continue to provide updates.

#### **4. Report on UW 403(b) SRP Transition**

a) The Recordkeeper's Perspective: Catina Hampton, TIAA; David Bruce, Fidelity

Representatives from TIAA and Fidelity reported on the transition of the UW 403(b) Supplemental Retirement Program to a new structure.

David Bruce, Fidelity, presented the following highlights:

- Unless participants made an affirmative investment election, balances in Fidelity investments were automatically mapped to an age-appropriate Vanguard Target Date Fund. 730 unique participants, or 10% of participants with a balance, chose a different asset allocation. In

addition, 373 unique participants chose to invest in Fidelity's Brokeragelink, which represents 5% of participants with a balance. Participants could move assets in-kind to the same investments in Brokeragelink and \$139 M was transferred this way.

- In January 2022, T. Rowe Price participants' accounts would be defaulted to TIAA unless they chose to have their assets moved to Fidelity, and 681 T. Rowe Price participants chose Fidelity, transferring \$108.4 million.
- Fidelity representatives provided 338 one-on-one appointments and held 2 transition virtual workshops, with 58 attendees and 17 Ask Fidelity Q&A sessions, with 192 attendees. The call center handled 3,533 calls in 2021, a 71% increase from 2020, reflecting increased participant questions.
- As of March 31, 2022, there were 9,250 Fidelity participants with a balance: 6,672 active and 2,578 terminated. Total participant assets were \$1,211,810,620.
- As of December 31, 2021, there were 7,368 participants with a balance, 4,801 active and 2,558 terminated. Participant assets were \$1,181,782,155.

Catina Hampton, TIAA, provided the following highlights:

- TIAA issued new Retirement Choice Plus (RCP) contracts with the new investment lineup and completed a bulk cross contract transfer of mutual funds to the new investment lineup. TIAA also put the new tiered 'per head' fee structure put into place and transitioned to new retirement plan loans.
- T. Rowe Price assets totaling \$194 million from 1,390 unique participants were transferred to TIAA in January 2022.
- As a result of the transition 1,392 new accounts were established for 8,044 participants enrolled into RCP contracts: \$437.6 million was mapped from legacy contracts to RCP contracts.
- TIAA had \$1.86 billion in assets as of 3/31/2022 with 12,177 participants; RCP balances as of 3/31/2022 are \$622 million for 8,454 participants, 5,360 employees actively contributing.
- TIAA sent multiple custom communications to plan participants and TIAA representatives provided group and individual meetings.

Rose Stephenson presented the "Plan Sponsor's Perspective" regarding the transition experience and noted the following highlights:

- The University's goal in moving to the new structure was to provide a top-tier, low-cost supplemental retirement program for participants, offering leading providers and proven investment options with a simple and engaging participant experience.
- UW employees have had to adjust to a lot of change, including new job titles as a result of the Title and Total Compensation project and the conversion to a single biweekly payroll. Some participants have voiced displeasure with the new UW 403(b) Program investment lineup and others have expressed dismay with the new fee structure – even though through the RFP process, the fees participants pay have been greatly reduced; however, the fees are now transparent.
- Some participants defaulted to TIAA wanted Fidelity and some who chose Fidelity, actually wanted TIAA. Some participants who signed up during the Annual Benefit Enrollment period entered the contribution amount for the entire year and were surprised when a large contribution came out of the first paycheck of the year. All these issues have been corrected.
- On the plus side, through 4/27/2022, the 403(b) Program has 11,198 participants, 1,350 more than all of last year, and contribution amounts are keeping pace with last year, in spite of the volatile markets. There are no longer any minimum contribution amounts and participant can change the contribution amount easily online.

## **5. UW 403(b) Supplemental Retirement Program Updates**

### **a) Implementation of In-plan Roth Rollover Option**

Participants can now convert pre-tax to Roth after-tax contributions at both TIAA and Fidelity.

b) **Plan Administration and Operational Updates+**

Rose Stephenson provided information on loan usage, which continued to decrease in 2021 with 139 loans initiated compared with 265 in 2020. As of April 22, 33 loans were issued in 2022. She indicated that 23 employees requested to be checked for eligibility for the 15-Year Service Catch-up so far in 2021; 15 were eligible for the catch-up. EZ Enrollment usage continues to increase every year. In 2021, 698 employees enrolled in the 403(b) Program using EZ enrollments. In the first quarter of 2022, 182 employees enrolled using this method.

Rose reported that following Committee direction revenue was returned to participants accounts with TIAA, Fidelity, and T. Rowe Price. The process was completed at the end of November and beginning of December 2021 with all three companies and went smoothly. A February UW-Shared Services portal article publicized the return of revenue.

Rose summarized the communication and outreach initiatives, which have been substantial, including earnings statement messages, portal articles, and the 2022 *America Saves Week* Event (February 21–25) with 32 separate webinar titles and 740 unique participants. She noted that TIAA and Fidelity continue to hold virtual individual counseling sessions, as well as virtual group sessions.

c) **Financial Report+**

Rose presented the financial report. Expenses have been minimal with the unfilled Benefits Specialist position and virtual meetings.

**6. 2021 UW 403(b) SRP Annual Report+ – Highlights**

Rose Stephenson provided an overview of the 2021 annual report. As of 12/31/2021, program assets were almost \$3.5 billion, up more than 8% from 2020. Contributions to the UW 403(b) Program increased by more than 16% to \$93.7 million in 2021 from approximately \$80.8 million in 2020. Roth contributions made up almost \$16.4 million, or over 17% of the overall contributions.

The highest average participant balance was \$175,278 with TIAA, though T. Rowe Price and Fidelity average participant balances were not far behind. Rose noted that the average balance for women was lower than that of average balance for men at the three providers that report average balances by gender (Fidelity, TIAA, and Lincoln), but looking at contributions from HRS payroll data, in 2021 more women participated in the program than men across all five providers. The highest median average balance was \$84.447 at Ameriprise. As expected, account balances increased as participants grew older.

Rose indicated that of the top 50 funds based on contributions, 24 were target retirement date funds with contributions totaling more than \$31.7 million of the more than \$66 million in the top 50 investments. Contributions to the top ten funds constitute more than 29% of all contributions, and contributions to the top 50 funds make up over 70% of contributions.

The number of University of Wisconsin employees who contributed to UW 403(b) Program increased by approximately 4% to 9,848 in 2021 from 9,461 in 2020. There were 1,236 new enrollments into the program in 2021, up from 826 in 2020. The additional communication about the UW 403(b) Program because of upcoming changes may have helped increase participation. Across the five providers, there are approximately 21,223 participants, not including participants with accounts at frozen providers.

**7. Other**

**8. Next Meeting:**

The SRPAC will hold its fall meeting on November 4, 2022, with a tentative time of 10:00 a.m. to 2:00 p.m.

**9. Adjourn\***

MOTION: Will Mass made a motion to adjourn the meeting. Ann Iverson seconded. Motion passed unanimously.

The meeting was adjourned at 1:00 p.m.