Agenda Item 2.

UW 403(b) SRP Investing in Your Financial Future

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

Friday, April 28th, 2023 – 10:00 a.m. to 1:15 p.m.
1820 Van Hise & Zoom Conference

Members Present:	J. Michael Collins (Chair), Rashiqa Kamal (Vice Chair), Veena Brown (webcast), Ann Iverson (webcast), Will Mass, David Miller (webcast), Syed Moiz, Dave Schalow
Members Absent:	None
Staff:	Sean Nelson (Vice President for Finance and Administration), Jennifer Lattis, Linsey Nelson, Katherine Ptaszek, Rose Stephenson
403(b) Recordkeepers:	Catina Hampton (webcast) and Joe Bonjorino, TIAA; David Bruce, Fidelity
Consultants:	Dan Pawlisch, Aon Investments
Guests:	Erin Schoonmaker (webcast), UW System HR

Meeting called to order at 10:02 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 November 4, 2022, SRPAC Meeting Minutes +***
The Committee reviewed the minutes of the November 4, 2022, meeting. Rashiqa Kamal noted Dave Schalow's name was spelled incorrectly.

MOTION: Will Maas moved to approve the minutes from the November 4, 2022, SRPAC meeting as corrected. Rashiqa Kamal seconded. Motion passed unanimously.

3. **Report of the SRPAC Investment Subcommittee – Michael Collins, SRPAC; Dan Pawlisch, Aon Investments USA Inc.**
Michael Collins reported that the SRPAC Investment Subcommittee met on Friday March 3, 2023, to review the investment performance of the UW 403(b) Supplemental Retirement Program fund lineup. He noted that Dan Pawlisch reviewed capital market and investment manager performance as of December 31, 2022. He also noted the Investment Subcommittee discussed the ongoing underperformance of the T. Rowe Price Institutional Large Cap Growth Fund compared to its benchmark and peers. Collins indicated the Investment Subcommittee evaluated alternative large-cap growth domestic equity manager candidates. Following discussion and review of the materials provided, Collins indicated the Investment Subcommittee members found no compelling reason to replace the T. Rowe Price Institutional Large Cap Growth Fund, agreeing with the recommendation from Aon Investments.

Dan Pawlisch noted the Investment Subcommittee also discussed the Vanguard short-term TIPS index fund in the program's investment lineup, which is designed to provide a hedge against short-term inflation. The Investment Subcommittee reviewed information on alternative multi-asset inflation-hedging funds, which include more inflation sensitive asset classes, such as commodities and real estate, in addition to TIPS. Following discussion and review of the materials provided, the Investment Subcommittee elected to retain the Vanguard short-term TIPS index fund. Pawlisch, as directed by the Subcommittee, will continue to monitor the marketplace for more compelling alternatives to a short-term TIPS fund, while considering factors like performance and fees.

4. **1Q23 Capital Markets and Performance Review+ – Dan Pawlisch, Aon Investments USA Inc.**
Dan Pawlisch, Aon Investments, noted that the positive results observed at the end of the previous year continued into the first quarter of the current year. He discussed the performance of various asset classes, highlighting the upward trend in U.S. equities, particularly among large-cap stocks, which experienced strong absolute performance during the quarter. Pawlisch noted that U.S. small-cap stocks showed positive

results but lagged large-cap stocks and that value-style investments outperformed growth-style investments during the quarter. The international equity market, as represented by the MSCI EAFE index, outperformed the U.S. equity market due to the weakening of the U.S. dollar. The fixed-income market also experienced positive performance during the quarter, as high yield bonds outperformed investment-grade bonds. Pawlisch commented that there was optimism about receding inflation, a potential pause in interest rate increases by central banks, and the pace of economic growth.

In a discussion of the Plan's investment watch list, Dan Pawlisch noted 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 Plan's Investment Policy Statement. He noted that while some of the Vanguard Target Date Funds continued to exceed their tracking error thresholds for the trailing five-year period, there were no immediate concerns or actions required. Pawlisch also reported that the T. Rowe Price Institutional Large Cap Growth Fund continued to underperformance its benchmark and peers but recommended the SRPAC take no action. Pawlisch indicated that while the Vanguard Federal Money Market Fund underperformed its benchmark over the trailing five-year period and the GQG Partners International Opportunities Fund underperformed its benchmark in three of the four most recent trailing calendar quarters, longer-term annualized performance remained favorable.

Pawlisch discussed the asset allocation of the Program, highlighting the $2.9 billion in assets for the period ended March 31, 2023. He noted that market values were trending up due to positive capital market performance, unlike the previous year when they were trending down. Pawlisch noted that a significant portion of the Program's assets, about 42.6%, were held in the Vanguard Target Date Funds. The performance of the funds closely approximated the return of their benchmarks during the quarter, with some funds even outperforming. Although there was still negative absolute performance and some relative underperformance against the benchmark, the funds ranked above the median, providing some comfort. Pawlisch also noted that significant assets reside in Fidelity's Brokeragelink and TIAA's orphan accounts following the transition from the old to the new structure.

Pawlisch reviewed the management fees for the investments in the Program, comparing them to the medians of applicable peer groups. Except for the TIAA Traditional, he noted that each fund had an expense ratio below its applicable peer group median.

Pawlisch provided an update regarding portfolio manager changes to Vanguard's target date funds and several equity index funds. He also discussed the passage of SECURE 2.0 along with guidance regarding ESG investing in light of the Department of Labor's final rule, Prudence and Loyalty in Selecting Plan Investments and Exercising Shareholder Rights. Pawlisch highlighted the Vanguard FTSE Social Index Fund in the Program and noted how performance is measured relative to the S&P 500 index as a best practice.

Pawlisch reminded the SRPAC members that although it is the individual participant's responsibility to periodically review the performance and costs of any legacy annuity investments, many plan sponsors have started to provide periodic communications to remind participants of the importance of monitoring these assets.

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

a) Plan Administration and Operational Updates

Rose Stephenson presented the update on SRP administration and operations. She observed that there was a decrease in loan usage and wondered if there might be a need to educate participants about the availability of loans for short-term emergencies. Rose reported that 25 employees used the 15-year rule service catch up in 2022 and 10 employees were approved so far this year. This catch-up option is popular among employees who are terminating their employment and wish to invest and tax-defer their vacation pay-out.

Rose noted that emails were sent to employees not contributing to the 403(b) Program on April 20; these emails frequently result in increased enrollments. Education efforts included an on-demand enrollment presentation (viewed by 993 employees since September 2022), counseling sessions, and webinars conducted by TIAA and Fidelity. Rose noted that messages about the program will be printed on May 4 earning statements.

Rose reported that Linsey Nelson began as the 403(b) SRP Benefit Specialist in February and that she appreciated Linsey's quick learning.

b) Financial Report
Rose referred the Committee to the financial report in the meeting materials and noted that money remained in the budget due to the Benefit Specialist position vacancy over the past year.

c) Implementation Update of Mandatory SECURE 2.0 Provisions
Rose reported that provisions from SECURE 2.0 include changes in required minimum distributions and catch-up contributions. There are approximately 90 provisions in total, with many of them effective in 2024 or further in the future. Some initial requirements include changes in the required minimum distribution, increasing the age for distributions from 72 to 73 and eventually to 75 by 2033.

Rose noted there was a meeting with UW Shared Services analysts and representatives from the Administrative Transformation Program (ATP) to discuss the mandatory SECURE 2.0 requirement for the 50-and-over catch-up. Under SECURE 2.0, for those earning more than $145,000, the 50-and-over catch-up contributions must be made as Roth contributions starting January 1, 2024. Coordination between shared services/HRS and ATP/Workday is necessary for this implementation. Rose reported that meetings have been held, and manual monitoring will be required. An initial analysis revealed that there are 2,165 employees in the UW System earning over $145,000, with approximately 1,400 of them being over 50 years old. Assuming a 50% participation rate in the 403(b) program, there could be around 700 individuals affected, potentially more due to higher participation among higher earners. Rose mentioned that this rule also applies to the 457 WDC program.

Rose commented that she learned from Fidelity that a significant number of their plans in the tax-exempt market – around 11,000 – do not currently offer the Roth option. This has caused some difficulty in implementation, and there are rumors of a possible delay.

6. **Provider Summary of Plan Activity+**
TIAA
Catina Hampton reported that assets under management are around $1.7 billion, slightly lower than in the past due to market performance. In addition, contributions have decreased slightly while distributions have increased. Catina remarked that TIAA will make efforts to educate participants about loans as an alternative to distributions. The plan has 12,250 participants, a mix of terminated and active employees. Cybersecurity is a top priority, and TIAA plans an upcoming Cybersecurity campaign. Catina invited the Committee to visit the TIAA Charlotte campus, including the cybersecurity space.

Catina highlighted annuitizations among Wisconsin retirees, with 361 new annuitants. The average age of participants who are receiving annuities is around 80, and there are participants in their 90s and even over 100 receiving guaranteed income from TIAA. The total annual payout is approximately $5.7 million, with an average payment of $15,600 and the longest payment period lasting 36 years. The plan sees more female participants than male, indicating a positive engagement trend among female employees.

Joe Bonjorino, TIAA Sr. Director of Retirement Solutions, discussed strategies to enhance employee engagement in 2023. He mentioned the benefit of using Zoom for both in-person and virtual consultations, allowing employees to specify their preferred consultant. This flexibility enables meetings even when the consultant is not physically present on campus. Joe shared data on employee engagement: 1,849 employees met with financial consultants or wealth management advisers. He explained that employees have the opportunity to work with either a financial consultant or an advisor based on their needs. Some employees with complex needs, such as retirement planning or trust establishment, can benefit from ongoing advisory relationships that last throughout their lives.

Dan Pawlisch inquired about the impact of a systems glitch on the retirement choice retirement and choice plus contracts. Catina Hampton clarified that while the glitch affected other clients, it did not affect Wisconsin.

Fidelity
David Bruce reported that plan assets as of March are approximately $1.1 billion. The number of participants has been steadily increasing, with about 9,400 participants, almost 50% more than three years ago. Dave observed that four key areas are considered for a healthy plan: participant contribution levels, plan participation, savings allocation, and engagement with Fidelity. The retention rate for participants who have contributed is approximately 93%, indicating sustained involvement. Asset allocation remains strong, with around 86% in top-tier investments, largely due to the default option of target date funds for participants who did not make an investment election.

Dave commented that although maintaining high employee engagement can be challenging during uncertain markets, the plan has achieved a 75% engagement rate, with three out of four participants contacting Fidelity in the previous 12 months. 86% of participants are appropriately allocated, with consideration given to generational cohorts and investment preferences. He emphasized that Fidelity categorizes plan participants into five engagement levels, ranging from deeply unengaged to highly engaged, and he remarked that they recognize the correlation between engagement levels and participant outcomes and plan to focus on engaging the 25% of active participants who haven't contacted Fidelity.

Fidelity emphasizes the importance of digital readiness for effective engagement and offers various cybersecurity measures such as real-time alerts and multi-factor authentication. The goal is to ensure participants can respond promptly to any potential issues and address them proactively. Fidelity conducts campaigns throughout the year to remind participants of the benefits of providing more information for improved cybersecurity.

David Bruce highlighted the risk of unclaimed accounts, where funds can be accessed by someone else and explained that Fidelity's goal is to improve engagement and satisfaction rates by implementing outreach efforts, educational workshops, and enhancing website content. Fidelity offers a financial wellness tool that helps participants assess their financial situation and identify areas for improvement.

Catina Hampton stressed that TIAA also implements multi-factor identification for participants who engage with their services, providing additional security measures. Their commitment is to protect participants' interests in the event of a data breach caused by TIAA.

Committee members expressed interest in how TIAA and Fidelity implement Cyber Security. It was agreed that Cyber Security experts from each company would make a presentation at the next Committee meeting.

7. **2022 UW 403(b) SRP Annual Report+ – Highlights**
Rose Stephenson presented highlights from the 2022 Annual Report, noting that program assets have decreased by approximately 15% to just under $3 billion, primarily due to market performance. Rose reported that 11,887 unique contributors participated in the UW 403(b) SRP in 2022, an increase of over 17% from 2021. In 2022 there were 23,360 accounts with balances, which does not include accounts with frozen providers like Wells Fargo.

Rose observed that program contributions increased by 12% to almost $105.4 million in 2022. Roth contributions increased to over 21% of all contributions. She noted that Roth contributions have risen steadily each year since the Roth option was introduced in 2011. Rose remarked that in 2022 12% of participants contributed less than $1,000, representing about 1% of all contributions. However, even smaller contributions of $300 or $400 per year still contribute positively to retirement savings over time. Nearly 48% of participants (5,683 individuals) contributed less than $5,000 per year, accounting for approximately 11% of overall contributions. The average contribution was $8,863, while the median was $5,220.

Rose pointed out that the highest average balance was with TIAA at $138,629. The highest median balance was with Ameriprise at $68,529. Rose noted that female participants had lower average balances across all providers. Although there were 1,717 more female participants than male participants in the program, female participant balances were generally smaller. Rose then reviewed the top investments, with the Vanguard Target Retirement Date Fund 2030 receiving the most contributions.

Rose noted that, along with the increase in the total number of participants, the percentage of participation has increased, with 40% of faculty, academic staff, and limited appointees, along with 23% of university staff, participating in the program. The average deferral rate among contributors is 10%. Page 31 shows the participation by campus for WRS eligible participants. Rose mentioned she hopes to collaborate with campuses currently experiencing lower participation rates (around 25% to 27%) to increase involvement.

8 Next Meeting:
The SRPAC will hold its fall meeting Friday, November 3, 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. Rashiqa Kamal seconded. Motion passed unanimously. The meeting was adjourned at 1:15 p.m.