



Tax-Sheltered Annuity Review Committee

Minutes

April 28, 2017

- Members Present:** Howard Erlanger (Vice Chair), Anoop Dhingra, Gigi Koenig, Bob Kunkel, Kimberly Sipiorski, Rob Wolf
- Members Absent:** Kevin Bahr (Chair), Michael Collins, Rashiqa Kamal
- Staff:** Rob Cramer (beginning at 12:45 pm), Jennifer Lattis (UW System Deputy General Counsel), Margo Lessard, LaDonna Steinert, Rose Stephenson
- TSA Companies:** Richard Tesch, Brent Kimbel, Ameriprise Financial/RiverSource; Pat Vaughan, Scott Bruce, Fidelity Investments; Betty Harris Custer, Julie Kruser (via teleconference), Lincoln; Shawn Alvino, T. Rowe Price; Leteka Bojanowski, Andy Kelleher, TIAA
- Guests:** Joan Braley, UW-Madison, Benefit Services; Marcel DuBois, UWSA Office of Procurement; Mark Olsen, PlanPilot

Howard Erlanger called the meeting to order at 10:05 a.m.

1. Welcome and Introductions

The TSA Review Committee, UW System staff, TSA company representatives, and guests introduced themselves.

2. Review and Approval of Minutes

MOTION: Rob Wolf moved the approval of the minutes of the October 28, 2016 TSARC meeting. Kimberly Sipiorski seconded. Motion passed unanimously.

3. Roadmap for the UW TSA 403(b) Plan

a. Analysis and Report on the University of Wisconsin TSA 403(b) Program; Mark Olsen, Managing Director, PlanPilot

Rose Stephenson introduced Mark Olsen, Managing Director of Plan Pilot, a retirement plan consulting company in Chicago, IL, that UW System Administration had engaged to provide an analysis of the UW TSA 403(b) Plan.

Mark reviewed what he would cover in the presentation: PlanPilot's background, the goals of the program review, the processes and procedures used in the program review, key observations about the UW TSA Program, and enhancement opportunities for the program. Mark observed that one reason for enhancing the plan is to benefit participants.

For the presentation, Mark narrated a PowerPoint slide deck providing his analysis and findings in the review of the TSA Program. Mark noted that the presentation was intended to provide a basis for discussion of potential future direction for the UW TSA 403(b) Plan. He referenced the 22-page report that detailed the findings, which had been sent to the committee for review.

The PlanPilot document describes the approach taken to come to the conclusions along with the overarching goals the UW had for the plan review:

- Reducing internal administrative burden
- Improving compliance, oversight and fiduciary practices
- Improving overall efficiency
- Lowering investment and administrative costs
- Bringing operational procedures in-line with industry best and most common practice
- Situating the program to proactively anticipate and/or manage risk
- Increasing plan participation and engagement

Mark addressed the reasons a review like this can be valuable, including reducing cost and administrative burden while increasing efficiency, and commented that there is a balance between plan efficiency and the participant experience. For example, the most efficient plan model may be to have all activity take place online; however, there are times when a participant may want to talk with a human being.

Regarding lowering administrative as well as investment costs, Mark noted that the PlanPilot study revealed that there already was an emphasis on reducing investment costs. The TSARC had undertaken steps to provide low-cost funds to participants by voting to use the institutional share class for a number of funds. This is for the benefit of participants. Mark then spoke about the goal to align plan operational procedures with best practices and situate the program proactively to manage and anticipate risks.

Mark discussed the process he used in reviewing the TSA Program and thanked UW TSA Program staff for making themselves and information about the Program available and facilitating access to the UW TSA Program providers.

At this point Mark paused for questions. Rob Wolf asked about plan risk and in which areas the plan may have exposure. Rob also inquired for which issues plans typically have been sued. Jennifer Lattis noted that current litigation is with private universities subject to the Department of Labor's Employee Retirement Income Security Act (ERISA) requirements. Some of the suits allege that the plans have offered or are offering too many options or that the fees have been or are too high and that plans have not leveraged their size for the benefit of participants, among other issues. Rose clarified that there were 12 lawsuits filed in August of 2016 against 403(b) plans at private universities subject to ERISA requirements. Jennifer noted that the University of Wisconsin is a public institution, and the UW TSA 403(b) Program has some immunities, since the plan is not subject to ERISA requirements and there are state immunities regarding lawsuits; however, the UW TSA Plan may want to comply with appropriate ERISA requirements as a best practice model for the sake of the participants and because it's appropriate management. Jennifer observed that there is not a lawsuit risk at the current time, but it is certainly not too early to start assessing potential risk.

Mark addressed the key observations and enhancement opportunities, which were broken down into Plan Analysis, Identified Investment Gaps/Overlap, Plan Education, and Plan Costs.

Mark commented on the large number of investment options available in the UW TSA Plan, noting that Fidelity alone has 182. There is research that concludes that having fewer options may make the decision making process easier. Having five providers, each with a large number of investment options, may make enrolling in the TSA plan difficult.

Mark introduced the idea of simplifying the plan by having one recordkeeper and/or provider. He noted that this might allow the consolidated assets of 2.1 billion to be leveraged further, which would allow costs for the participant to be reduced. This may also make it easier for participants to enroll.

When asked what her experiences were, Kimberly Sipiorski replied that, from her position working with benefits at UW-Green Bay, it is difficult to guide employees when they wish to sign up. Kimberly commented that there are a lot of options with benefits in general in the UW System, which is overwhelming in itself. It can be discouraging to new hires, especially, to have to select one TSA provider right away. Staff cannot give direct financial advice nor show preference for any particular provider.

Committee members remarked that it sounded as if the decision to consolidate into one provider had already been made. There had not been an analysis of the plusses and minuses of having five providers with a large choice of investment options. The TSARC did not have input and was not part of the process.

Bob Kunkel noted that, in the open market, when an individual invests in an Individual Retirement Account (IRA), for example, that person has a choice of thousands of funds to invest in. There may be employees who are overwhelmed by the amount of choice in our plan, but there may be others who

benefit from the investment options. Bob noted that care should be taken not to design the plan around just one group of employees while ignoring the others.

Mark explained that this was just PlanPilot's recommendation based on what other plans have done. The consulting firm that is selected to perform the complete plan review will conduct a formal in-depth evaluation and the TSARC will be intimately involved in the decision making process.

Discussion focused on actions other plans have taken in consolidating the number of providers. Fidelity representatives described actions Michigan State, Cal State, and the University of North Carolina have taken. Anoop asked if there was any evidence to show that consolidation led to increased participation. Mark responded that he only had anecdotal evidence. Howard followed up by asking for information about how much costs went down. Bob stated that he would like to see concrete evidence of higher participation and lower costs with institutions that have already completed this process. Mark noted that this is information Rose could get through discussions with other plan administrators and that the committee could ask the consultant to provide.

Committee members expressed concern over their role in choosing a small number of investment options. Mark described the difference between a recordkeeper and investment options from different fund families on the recordkeeping platform and went on to describe the Request For Proposal (RFP) process. PlanPilot has recommended the following steps along with a time frame for completion:

- Step 1: Develop and issue RFP(s) for consulting services and select consultant (Summer 2017)
- Step 2: Partner with providers to address key opportunities (Summer 2017 and ongoing)
- Step 3: Conduct provider review (Fall 2017)
- Step 4: Develop an ongoing annual plan (2017 and ongoing)
- Step 5: Develop education plan and materials (Winter 2017/2018)
- Step 6: Review plan investment options (Early 2018 through year end)

Mark noted that this process should help the program have documented reasoning for decisions, which is important in the event there were any questions raised.

b. Roadmap: Using Consultants for Plan Review and Strategic Improvements – Discussion

Rose directed the committee's attention to the memo for Item 3.b. that provided language to approve beginning a Request for Proposal (RFP) process to procure a provider search consultant, an investment consultant, and an education provider consultant.

The RFPs would help review the different providers for potential insights, current redundancies, high costs and assist with internal staff, time on campus, and increase plan participation. If the recommendation were to decrease to one provider, the provider selected would need to offer an assortment of choices from different fund families and target date series while also allowing them to be more involved mixing active and passive investment options, should they choose.

The TSA 403(b) Program would also need to develop cross platform educational materials: increasing content and usability of the TSA website, video vignettes, and increased reporting.

Marcel DuBois explained the RFP process, including the role of the evaluation committee. It is proposed that up to three TSARC members be included in the RFP evaluation committee. The consulting firms that are chosen as finalists would make presentations to the TSARC with reasons why that firm should be selected to provide the consulting work to the Plan. The TSARC, as subject matter experts, would provide feedback to the evaluation committee. The evaluation committee makes the decision regarding which consulting firm(s) should be chosen to aid the process of improving/re-designing the UW TSA 403(b) Plan.

Since lunch was ready, committee members agreed to a short break and to reconvene for a working lunch.

The committee broke for lunch at 12:15 and reconvened at 12:35.

MOTION: The motion as proposed in the memo for Agenda Item 3 was revised by the committee during the meeting and projected on the screen so it could be read. Anoop Dhingra moved and Gigi Koenig seconded.

The motion as revised by the TSARC reads as follows:

1. Authorize initiating the Request for Proposal (RFP) process to procure a Provider Search Consultant to guide an appropriate provider number, an Investment Consultant to help determine if we need an investment policy statement, and if so, develop and implement an investment policy statement and investment line-up, and an Education Provider Consultant. Those companies responding to the RFPs may respond to one or more individual sections of the RFP or all sections of the RFP combined.
2. Authorize the continued use of PlanPilot to assist with drafting the Request for Proposals, in collaboration with up to three TSARC members.
3. LaDonna Steinert, Rose Stephenson, and up to three members of the TSARC who have volunteered to serve will serve as the RFP evaluation committee to evaluate the proposals received. The RFP evaluation committee will convene after the bidding process has been closed. The evaluators will bring final recommendations to the TSARC prior to finalizing the scores for award.

Howard Erlanger noted that the vote should proceed with a show of hands. Five voted in favor with one abstention. Motion passed.

4. Plan Revenue Update; Returning Revenue to Participants

Rose provided the committee with a summary of the revenue that the TSA 403(b) Program receives from three of the five providers in the UW TSA Plan: TIAA, Fidelity, and T. Rowe Price. The revenue is derived from moneys that are above the cost of providing services to the participants in the plan. If the TSARC votes to return revenue to participant accounts, the returned revenue would be distributed equitably among participants with the three providers, regardless of an individual’s investment fund selections.

Staff proposed that the UW TSA Plan return one-half of the 2015 and 2016 revenue from Fidelity, TIAA, and T. Rowe Price to participants with those providers on a pro-rata basis based on the balance in the participant accounts:

| | Fidelity | TIAA | T. Rowe Price |
|-----------------------------|-----------------|--------------|----------------------|
| 2015 + 2016 Revenue | \$1,300,000.00 | \$198,174.00 | \$189,250.00 |
| Proposed 2017 Return | \$650,000.00 | \$99,087.00 | \$94,625.00 |

Rose observed that when UW TSA Program revenue was returned in 2015, some participants thought they were being charged a fee rather than receiving revenue, because of the wording used on participant statements by one of the providers. She noted that program staff will make sure that effective communication to participants is in place, both from the university and from the providers. Rose also stated that benefits administrators at the institutions would be notified before the return was made, to be prepared in the event employees came to them with questions.

MOTION: Rob Wolf moved that the TSA Plan return revenue to participants on a pro-rata basis as outlined in the memo. Anoop Dhingra seconded the motion. Motion passed unanimously.

5. UW TSA 403(b) Plan Annual Report

Rose presented the *UW TSA Program 2016 Annual Report*. Plan assets as of 12/31/2016 total \$2,213,929,098. With the former providers Dreyfus, DWS, and WRS included, total assets are \$2,238,756,905. TIAA received the largest amount of contributions with more than \$29.9 million, followed by Fidelity (\$26 million), T. Rowe Price (\$9.3 million), Ameriprise (\$3.3 million), and Lincoln (\$2 million). Roth contributions continued to increase; 8.30% of all contributions versus 6.85% in 2015, 5.47% in 2014, and 3.97% in 2013. There were over \$855,000 more Roth deferrals than in 2015. For the four providers

offering Roth contributions, Fidelity had the highest percentage of 11.02%, followed by T. Rowe Price (8.03%), Lincoln (7.51%), and TIAA (7.02%).

Looking at participation by employee type: faculty, academic staff and limited employee participation was 31.04%; university staff participation was 18.39%; participation for protective employees was 26.01%, and for executive employees it was 60.00%. Percent of salary deferred in 2016 was 9.98% across all employee types, compared to 10.06% in 2015. TSA participants, on average, have a higher salary by employee type and their average age is slightly older, compare to the average salary and age of all employees. Rose pointed out that 63.8% of contributions came from 2,323 participants or 25.9% of the TSA participants. In 2016, 14.8% contributed less than \$1000, while 25.6% contributed in the \$1,001 to \$3,000 range, and 25.9% contributed greater than \$13,000. The average deferral is \$7,880 and median deferral is \$4,500.

There was a slight decrease in the contributions to large-cap funds down to 26.63% from 28.13% in 2015. Large-caps are now at 33.00% of plan assets compared to 34.74% in 2015. The target date funds are at 24.72% of contributions versus 24.03% in 2015; contributions to target date funds have been increasing each year. Mid-caps are at almost \$3.64 million, or 4.98% of contributions, while small-caps are at \$1.87 million, or 2.56% of contributions. Looking at specialty funds, real estate investments received \$1.85 million; the next largest specialty fund investment is health with \$1.03 million, followed by technology and natural resources with \$0.5 million. Together fixed annuities and money markets equal 13.58% of contributions, a slight increase from 2015.

Of the 50 most-used funds, TIAA Traditional takes first place every year; CREF Stock came in second; CREF Social Choice came in third, bumping Fidelity Contrafund to fourth. TIAA Lifecycle funds now take 8th, 9th, and 10th place. There are currently 19 Target Retirement Date Funds in the top 50: seven each from TIAA and Fidelity and five from T. Rowe Price. There continues to be no money market funds in the top 50. Contributions to the top 50 account for 66% of all contributions.

Rose addressed the 2016 education highlights. Approximately 4,000 employees had individual counseling sessions with TSA investment company representatives. Fidelity, TIAA, and T. Rowe Price were at all 13 campus benefits fairs; Ameriprise attended seven; Lincoln attended six. Staff and TSA Review Committee members led 17 workshops attended by 323 employees.

6. Report on TSA Plan Administration

a. Audit Update

Rose reported that the IRS audit is officially closed with no adverse findings. Jennifer Lattis commented that the IRS complimented the University on the timeliness, organization, and thoroughness of the information submitted for the audit response, and stated that the IRS does not give out compliments lightly. TSARC members congratulated staff on the completion of the audit and noted that because of staff's long history of providing detailed, carefully prepared, accurate work, committee members were not concerned when the audit was announced.

b. 15-year Rule Catch Up

Rose noted that there was a PeopleSoft upgrade to version 9.2 in February that improved the functionality of the 15-year rule service catchup within HRS. UWS program staff can now use HRS with greater efficiency to calculate this catch-up. Because there may still be a few inaccuracies, staff continues to calculate eligibility and approve participants for the catch-up, but the functionality is now automatically allowed in HRS for eligible employees, and the eligibility box stays checked after every calculation, which saves considerable time. Rose thanked the Service Center for implementing this.

c. Voluntary Separation Incentive Program (VSIP) Deferrals

Rose Stephenson gave a brief report on the VSIP deferrals. This retirement incentive was used for a second time, but at fewer institutions. This time Stevens Point, La Crosse, River Falls, and Superior elected to use the program. By IRS regulation, deferrals coming from VSIP payments cannot be tax-deferred after the participant termination date. Therefore, the deferrals must be sent before the term date and are manual deferrals. Program staff calculated eligibility for the 403(b) 15-year rule service catch-up to ensure accuracy and worked with the Service Center to be sure deferrals were sent to TSA providers well before the employee's termination date.

d. America Saves & Financial Wellness

Rose reported that education is an important part of the UW TSA Program. The *America Saves* campaign in February 2017 had an emphasis on financial wellness topics as well as saving for retirement. It included a website with information, tips, links to webinars, and a list of events. With the help of TSA and UW institution benefits staff, 23 America Save events were planned and carried out at 14 UW institutions – presented by UW TSA staff, UW TSARC members, UW TSA investment company representatives, and UW and Summit Credit Union representatives.

e. Open Records Request

Rose stated that a reporter from Reuters has made an open records request regarding Fidelity Freedom funds. The request was for correspondence that staff or the committee had with Fidelity regarding those funds during specified time frames. The reason behind the request is unknown; however, Fidelity did confirm that other Fidelity clients had also been contacted, and it does not appear that the request is targeted solely at the UW TSA Program.

f. Conseco Settlement Checks

Rose reported that Conseco was a former variable annuity sub-account for both Lincoln and American United Life (AUL) that had been involved with litigation because of market timing. The Securities and Exchange Commission (SEC) case from the early 2000s was settled in 2016, and the TSA Program received a number of Conseco settlement checks. Since the case was from so long ago, many of the participants were no longer in the plan or possibly deceased. As a part of the TSA Program's due diligence, staff worked with Lincoln and AUL to get the money back to participants. Each participant who was located received \$50.

g. Small Balance Notifications

Staff has been working with TSA Program providers to notify participants with small balances in their accounts. Because of a variety of circumstances, participants may not be aware of small balances that are left in accounts. In the event participants have terminated employment with the UW or are 59 ½ or over, they can withdraw those monies. If participants are still working for the UW, the notification provides a way to remind participants to update address and beneficiary information.

h. Professional Development

Rose will be attending the Fidelity Conference in Florida during the first week of May. Terry and Rose will be attending the PlanSponsor National Conference in Washington, DC, during the first week of June. The UW System annual HR, Payroll, and Benefits conference is in August at UW-Oshkosh; there will be a considerable TSA Program presence there.

There is also an opportunity for TSA Program and UW System Administration staff to visit the main TIAA facilities in Charlotte, North Carolina. Staff is asking the TSARC to approve the use of TSA Program funds for the airfare, hotel, and associated costs.

MOTION: Rob Wolfe moved to approve using TSA Program funds to allow UWSA staff to visit TIAA facilities in Charlotte, NC. Anoop Dhingra seconded. Motion approved unanimously.

7. TSA Investment Company Updates, TSA Company Representatives

a. Fidelity Update

Pat Vaughan noted that Fidelity is putting effort and resources into financial basics for college students and has created a "College Landing Page" that can be shared with students and faculty. The page includes video and tools to help students get on a path to paying off student loan debt so they are able to start saving for retirement as soon as possible. An account with Fidelity is not needed to view the information.

Scott Bruce addressed the Public Service Loan Forgiveness Program. Starting in October 2017, those with direct federal loans who pay on income-based payment plans (loan payments go beyond 120 payments) can apply to have the remainder of the payments forgiven. To be considered, the applicant would need to work for a 501(c) (3) organization for 10 years and have made 120 payments.

b. Lincoln Update

Betty Custer announced Lincoln's new public website with more educational information and passed around a flyer.

c. TIAA Update

Leteka Bojanowski announced that TIAA won the Lipper Award for Best Large Fund Family for the fifth consecutive year. She discussed the changes in asset management TIAA has gone through since acquiring Nuveen Investment in 2014. They have worked to consolidate the asset management division and Nuveen under one umbrella, consolidating projects and services. Effective April 21, 2017, there is a new CEO of Nuveen. His primary mission is to complete the consolidation. He will be looking into the products and services in order to provide income-based solutions, income generation, and retirement readiness products.

d. Ameriprise/RiverSource Update

Richard Tesch handed out a packet and discussed a study of 2,700 people that Ameriprise commissioned. The survey showed that baby boomers and millennials both feel comfortable with where they are regarding finances and retirement (57% and 54%, respectively). Ameriprise noted that, although they are an advisor-based company, they are working on being more online friendly. However, they are also seeing that many millennials are using financial planners, often sharing them with their parents and grandparents.

e. T. Rowe Price Update

Shawn Alvino provided a handout to illustrate how T. Rowe Price is increasing investments in the company and what they will focus on for 2018. In 2016, the focus was on building out the participant experience, and in 2017, T. Rowe Price is focusing on deepening engagement with participants. In 2018, T. Rowe Price will focus on pulling data from their system to help individual institutions analyze their plan and compare it to other plans that T. Rowe Price services. The handout included 70+ active initiatives, including building the website platform for both participants as well as plan sponsors. Recently, the University went through an analysis of the investment lineup of T. Rowe Price and transitioned 40 funds to an institutional share or "i-share" product. After revisiting these products again, prices were further reduced effective April 1, 2017. The average weighted expense ratio decreased to 60 basis points from 63 basis points.

8. Other

9. Next Meeting

The fall TSA Review Committee meeting was set for Friday, November 3, 2017 in Madison, Wisconsin.

10. Adjourn.

MOTION: Anoop Dhingra moved that the meeting be adjourned; Gigi Koenig seconded. Motion passed unanimously. The meeting was adjourned at 2:00 p.m.