

## VII. STANDING COMMITTEES

## B. Finance, Audit and Facilities Committee

UW Retirement Plan and Voluntary Investment Program: Recordkeeping and Investment RedesignINFORMATION:

This presentation will provide an update on proposed changes to the UW Retirement Plan and Voluntary Investment Program. Final decisions will be made by the Provost/Executive Vice President.

This is for information only.

BACKGROUND:

The University of Washington Retirement Plan (UWRP) is a tax-deferred, defined contribution retirement plan authorized under RCW 28.B.10.400 et seq. and is the basic retirement plan for faculty, librarians, and professional staff. The Voluntary Investment Program (VIP) is an un-matched supplemental retirement savings program authorized under the same statute, which is open to all faculty, staff, and students of the University of Washington.

The Regents delegated authority for recordkeeper and investment fund selection to the Provost/Executive Vice President (EVP) in 2002. The Fund Review Committee (FRC) was also authorized by the Regents in 2002 and is comprised of representatives of the administration and fund participants. The FRC has contracted with AON Hewitt, professional investment consultants, to provide oversight of recordkeepers and fund options and to provide recommendations to the UW Provost/Executive Vice President.

Since our last retirement plan update to the Regents in October 2010, the FRC, with assistance from the Faculty Council on Benefits and Retirement, has been engaged in a review of both plans to determine current best practices and whether changes should be made to either plan. The FRC received permission to conduct a review of plan structure; issue an RFP for fund manager options; conduct an evaluation of fees paid by participants; and complete a recordkeeper search.

The FRC has provided their recommendations to the Provost/EVP. While the results of the recordkeeper search cannot be publicly named prior to a decision by the Provost/EVP, an update about all other aspects of the FRC's work-to-date has been shared with key stakeholder committees including the Faculty Senate Executive Committee, the full Faculty Senate, the Faculty Council on Benefits and Retirement, the Professional Staff Organization, and the Association of

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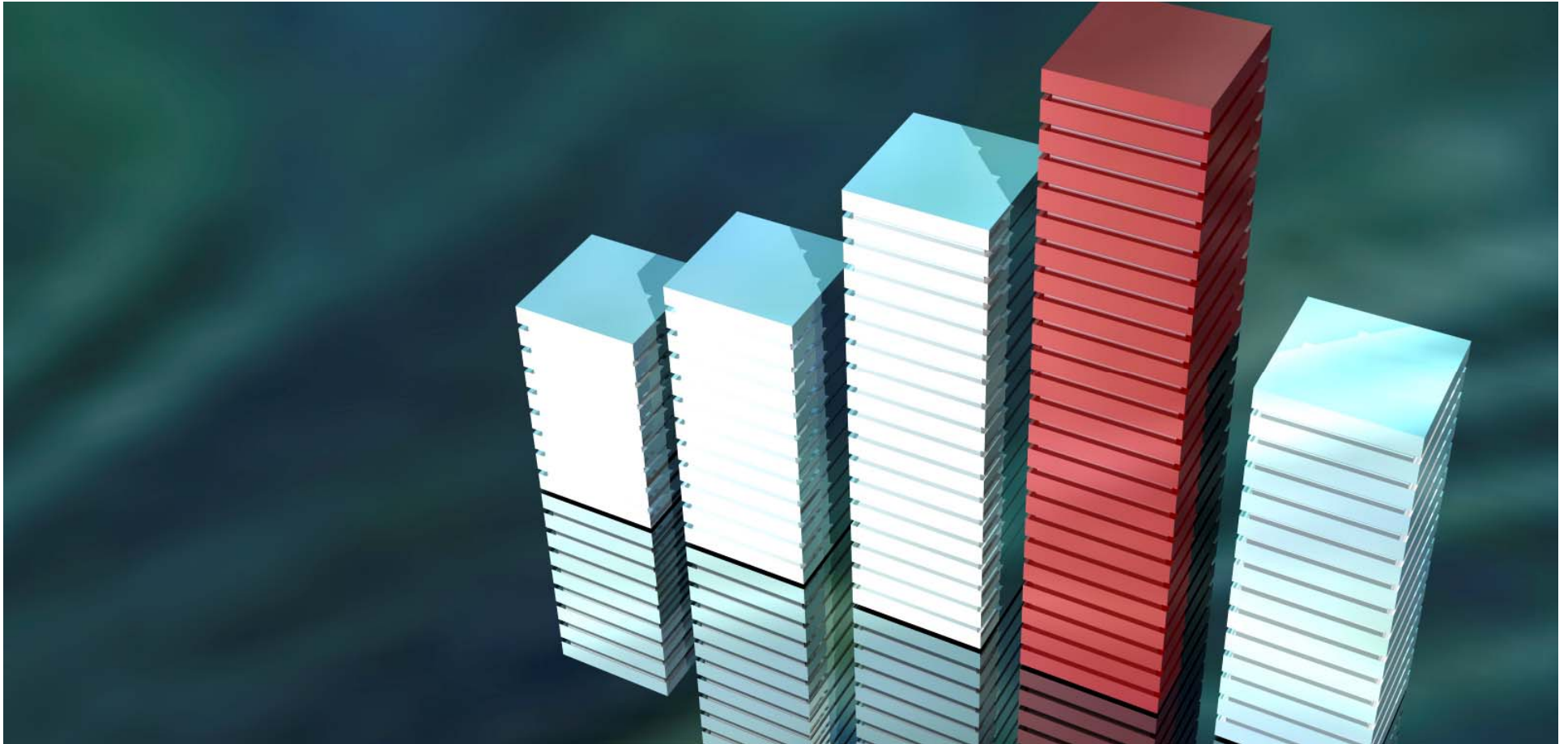
### B. Finance, Audit and Facilities Committee

#### UW Retirement Plan and Voluntary Investment Program: Recordkeeping and Investment Redesign (continued, p. 2)

Librarians at UW. In addition, the campus community was invited to attend one of five presentations on campus or to view a webcast presentation (available online at [http://uwtv.org/webcast/HR\\_UWRP\\_20120131\\_Archive\\_wm9.aspx](http://uwtv.org/webcast/HR_UWRP_20120131_Archive_wm9.aspx)), and was provided approximately one month to provide input and comments to the Provost about the proposed changes. Approximately 2,500 people attended a presentation or viewed the webcast and approximately 80 mostly favorable comments were received.

#### *Attachment*

Retirement Redesign Update



# **Retirement Redesign Update: UW Board of Regents**

*March 8, 2012*

# Process Overview

## Regent information item

- Regents delegated authority Provost/EVP in 2002
  - Recordkeeper selection
  - Investment fund selection
- Fund Review Committee (FRC) – authorized by Regents 2002
  - Monitor recordkeepers and funds
  - Make recommendations to Provost/EVP



# Why Make Changes?

## Fees and Plan Expenses

- Opportunities to reduce Plan fees for administration and investment management
  - Lower fees can lead to increased retirement savings as participants keep more of their investment return
  - Fee savings will accrue to Plan participants
  - Increased federal scrutiny of administrative and investment fees

## New IRS Rules

- IRS regulations issued in 2007 effectively made 403(b) plans much more similar to 401(k) plans
- Regulations require:
  - Complex data consolidation across all recordkeepers
  - Fiduciary oversight by the University



# Fund Review Committee

Fund Review Committee has fiduciary status

UW is not subject to federal ERISA law, but ERISA provides best fiduciary practices

## Two key fiduciary duties:

|                                  |                                                                                                                                                                                   |
|----------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>1. Exclusive Purpose Rule</b> | Selection must be made by focusing exclusively on how best to provide benefits to participants and their beneficiaries while ensuring that administrative expenses are reasonable |
| <b>2. Prudent Expert Rule</b>    | Selection must be made with the skill, prudence, and diligence of a prudent expert<br><br>The focus is on a prudent process.                                                      |



# Process Overview

## Evaluation process

- Utilized current plan investment consultants: AON Hewitt
  - Accessed their expertise and data to develop and place the RFP
  - AON Hewitt coordinated the RFP in partnership with UW Purchasing
  
- FRC reviewed responses; selected four finalists to interview – September 2011
  - Provost/EVP Wise requested that key UW stakeholder committees be updated – fall 2011
  - Updates to & input from:
    - Faculty Council on Benefits & Retirement
    - Professional Staff Organization
    - Association of Librarians at UW
    - Senate Executive Committee
    - Faculty Senate



# Process Overview

## Evaluation process (cont'd)

- Update to campus community & comment period January 14 through February 10, 2012
  - Presentations at each campus – five total presentations
  - Webcast live & archived for future viewing
  - Over 2,500 people attended a presentation or viewed the webcast
- Regent update is last step prior to Provost/EVP decision





# Peers Consolidating\Changing Recordkeepers

- Arizona University systems
- Caltech
- George Washington University
- Harvard
- Johns Hopkins
- Minnesota State Colleges & Universities
- MIT
- Northwestern
- Oregon University system
- Pepperdine University
- Purdue
- Stanford
- University of California system
- University of Colorado
- University of Louisville
- University of Miami
- University of Missouri
- University of Oklahoma
- University of Pittsburgh
- University of Utah
- Yale

Sample of universities enacting change through negotiation of lower fees, stronger investment line-up.



# UWRP Investment Redesign Objectives

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## #1 Simplify participant experience

Consider reducing the number of vendors and/or identifying a Master Recordkeeper to coordinate reporting

- Access to array of educational topics and tools
- Lower fees due to economies of scale
- Facilitate compliance with federal regulations

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## #2 Streamline investment selection process for average participant

Offer a limited number of strong “core” investments

- Broadly diversified “core” funds with low fees that will be monitored by the University
  - Funds with lower fees translates into more retirement income for faculty and staff
  - Make ongoing monitoring of investments more manageable
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# UWRP Investment Redesign Objectives

– *cont'd*

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#3 Increase investment flexibility for sophisticated investors

Participants that want more flexibility can access thousands of funds through a self-directed brokerage account

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#4 Add a Roth 403(b) Plan option

Provide the opportunity for Voluntary Investment Program (VIP) participants to contribute after-tax dollars; this option is most attractive if tax rates are higher in the future

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# Implementing a Tiered Approach

| Tier                                | Characteristics                                                                                                                                                                                                                                                               |
|-------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Target Retirement Date Funds</b> | <ul style="list-style-type: none"><li>▪ Simple packaged solution requires less time and expertise</li><li>▪ Built-in asset allocation that gets more conservative as a person gets closer to retirement</li><li>▪ Default investment for those who make no election</li></ul> |
| <b>Core Funds</b>                   | <ul style="list-style-type: none"><li>▪ Limited number of mutual funds covering the key asset classes for diversification</li><li>▪ Include active and indexed fund options</li><li>▪ Requires asset allocation decision</li><li>▪ FRC recommends 10 – 20 funds</li></ul>     |
| <b>Annuity Window</b>               | <ul style="list-style-type: none"><li>▪ TIAA-CREF annuity accounts</li></ul>                                                                                                                                                                                                  |
| <b>Mutual Fund Window</b>           | <ul style="list-style-type: none"><li>▪ Includes all mutual funds available through recordkeeper's brokerage account</li><li>▪ Provides greater investment flexibility, but with that comes full responsibility for deciding whether specific funds are appropriate</li></ul> |



# Core Funds

Allows participant to create a diversified investment portfolio:

- Index funds covering the major broad market segments
- Actively managed funds covering more specific market segments
- Final fund recommendations are currently being finalized.



# Purpose Of A Recordkeeper

**Keeps transactional records of each participant and across entire plan.**

Offers:

- Transactional services, such as buying and selling mutual funds and annuities to each participant
- Online services such as enrollment, deferral elections, deferral changes, loan applications, rebalancing, retirement planning, and more

**Provides plan call center, automated phone service, and UW-specific web site.**

Creates:

- Quarterly statements with balances for all UW plans
- Communications materials for plan including rollout and new participant information
- Works with UW to develop annual communications/outreach to participants

**Conducts retirement education and advice seminars on campus for employees and retirees.**

Provides:

- One-on-one retirement counseling services for employees
- Notices to employees of material changes, or messages from University regarding new IRS rules, etc.



# Why Consider Reducing the Number of Recordkeepers?

## Plan Participants

- Fee savings
- Improved experience
- Consolidated account statements
- All Plan assets considered when using tools like investment guidance
- Enhanced educational resources

## Administrative Considerations

- Streamline processes
- Easier to monitor—fulfilling fiduciary duties
- Reduces risk of non-compliance with regulations
- Reduces administrative burden



# Recordkeeper(s) will have new stringent requirements

UW Recordkeeper(s) will be expected to:

- Provide onsite, unbiased investment advice
- Provide high-level participant services:
  - Performance standards and penalties will be developed
  - Standards will be higher than current level of services





# How Will Plan Participants Benefit?

- Easier selection of investments
  - Removal of duplicate investment options and low performing funds
- Lower investment fees by using economies of scale
- Brokerage window allows more investment choice for those who want to dive deep
- New choice of a Roth deferral option for the VIP



# UWRP Investment Redesign Process

