

VII. STANDING COMMITTEES

B. Finance, Audit and Facilities Committee

UW Retirement Plan Overview

INFORMATION:

The University of Washington Retirement Plan (UWRP) is a tax-deferred, defined contribution retirement plan authorized under RCW 28.B.10.400 et seq. It was established in 1939 by the Board of Regents to provide a fully vested and portable retirement plan to faculty in higher education.

The “Supplemental Benefit” (now called the UW Supplemental Retirement Plan or UWSRP) is defined in statute and was added in 1955. It is a defined benefit plan that works in concert with the UWRP.

Each of the 4-year public institutions, plus the State Board for Community and Technical Colleges are authorized to offer these plans. Each institution’s Board of Regents or Trustees is the fiduciary of the institution’s plans. The plan design and provisions are very similar at each institution. The plans are organized under Internal Revenue Code (IRC) Section 403(b) for the Defined Contribution portion of the plan. Due to changes to the Internal Revenue Code (IRC), effective January 2009, the UW Board of Regents authorized splitting the UWSRP into a separate Defined Benefit Plan, which has been filed with the IRS under IRC Section 401(a). Approval is pending from the IRS. Participants in the UWRP are also participants in the UWSRP.

Below are details about the UWRP 403(b) plan. Details about the UWSRP will be provided in a separate Information Item.

UWRP 403(B) FACTS

- Delegation from the Board of Regents for administrative actions is to the Provost/Executive Vice President
- Initial Eligibility: Employment in an eligible job class (faculty, professional staff or librarian) at 50% or greater FTE.
- Current participants: 12,346
- Employee Contribution Rates:

under age 35	5	%
Age 35 and over	7.5	%
Age 50	10	% (optional)

VII. STANDING COMMITTEES

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UW Retirement Plan Overview (continued p. 3)

investment structure offered in both programs and providing any recommendations for change to Provost/Executive Vice President.

- Investment Consultants to Committee: Hewitt Investment Group, LLC
 - Hewitt was selected effective February 2010 following a Request for Proposal process.
- Current Committee focus: evaluation of current UWRP investment managers and structure.
- Committee recommendations provided to Provost/Executive Vice President – September 2010 (see attachments)
 - Discussions with stakeholder committees to obtain input regarding the recommendations is underway fall 2010; report of stakeholder input to be delivered to Provost/Executive Vice President by December 15, 2010.

Additional details about the UWRP are available online at:

<http://www.washington.edu/admin/hr/benefits/retirement/plans/uwrp/index.html>

Attachments

1. Hewitt Investment Group Defined Contribution Plan Redesign
2. Fund Review Committee Recommendations to Provost/EVP – September, 2010
3. Provost's Response to Fund Review Committee – September, 2010



Hewitt Investment Group LLC | September 2010

Defined Contribution Plan Redesign

University of Washington

F-5.1/210-10
10/21/10

ATTACHMENT 1

To protect the confidential and proprietary information included in this material, it may not be disclosed or provided to any third parties without the approval of Hewitt Investment Group LLC.

Hewitt

Why Make Changes?

Why is the Fund Review Committee considering changes to the defined contribution plans?

Fees and Plan Expenses

- ▣ Identify 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
 - 100% of the fee savings will accrue to the staff and faculty
 - There is increased scrutiny in Washington D.C. on fees paid for administrative expenses and investments

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

Why Make Changes?

Fiduciary Oversight

- ▣ Fiduciary responsibilities apply to selection of a recordkeeper and the investments offered
- ▣ Broad selection of investment options in the UWRP means:
 - The Fund Review Committee needs to monitor and track 67 investment funds
 - Time and cost are involved:
 - > Reviewing fund performance, and
 - > Removing funds that are inappropriate for the Plan
 - Some of the current investments may need to be replaced

Compliance Risk

- ▣ Must apply plan limits across multiple recordkeepers
 - The complexity of monitoring across recordkeepers leaves opportunity for error

Why Make Changes?

Too Much Choice?

UWRP Investment Structure

Asset Class	TIAA-CREF	Vanguard	Fidelity	Total
Target Date ¹	0	1	1	2
Capital Preservation	2	1	1	4
U.S. Fixed Income	2	9	2	13
Balanced	1	5	3	9
U.S. Large Cap Equity	3	11	12	26
U.S. Mid Cap Equity	0	1	2	3
U.S. Small Cap Equity	0	1	1	2
International/Global Equity	1	2	4	7
Real Estate	1	0	0	1
Specialty	0	0	0	0
Total	10	31	26	67

¹ TIAA-CREF target date funds are offered by CWU and WWU (not UW)

- ✦ Too much investment choice in defined contribution Plans can have negative effects:
 - **Lower Diversification and Participation** - Too much choice can overwhelm participants, leading to poor diversification, inappropriate investment decisions, and potentially lower participation
 - **Complexity in Communication** – Industry surveys indicate that participants have difficulty explaining and understanding investments

Why Make Changes?

Defined Contribution Plan Redesign Objectives

#1 Make it easier for Plan participants to view and evaluate their retirement savings

- Consider reducing the number of vendors and/or identifying a Master Recordkeeper to coordinate reporting
 - > Simplify participant experience
 - > Lower fees due to economies of scale
 - > Facilitate compliance with federal regulations

#2 Make it easier for Plan participants to select appropriate funds for retirement savings

- 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

#3 Offer increased investment flexibility for sophisticated investors through a self-directed brokerage option

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

#4 Add a Roth 403(b) Plan option

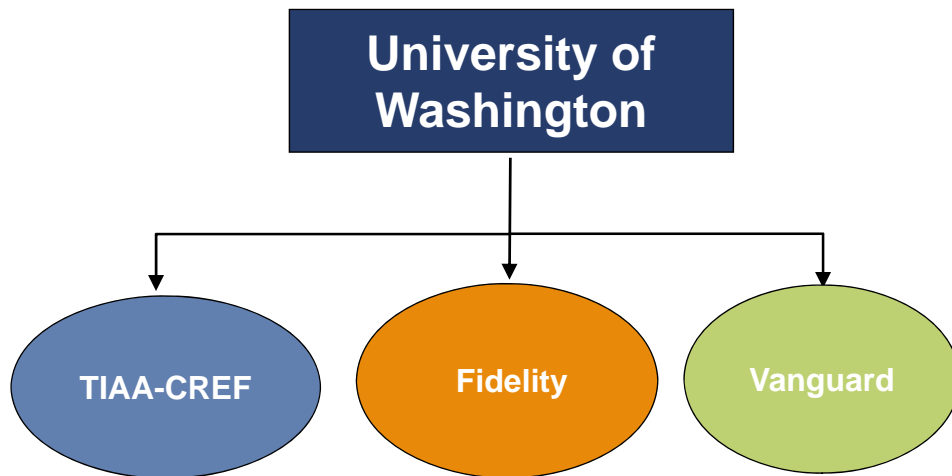
- Provide the opportunity for participants to contribute after-tax dollars now; this option is most attractive if tax rates are higher in the future

#5 Leverage work on UWRP to improve VIP

- Implement similar changes to VIP if appropriate

Select Recordkeeper

Current Recordkeeper Structure



Currently have a total of three recordkeepers

Faculty and staff may have a relationship with one or all of the three recordkeepers

Potential Recordkeeper Structure

One Recordkeeper or Master Recordkeeper
Select one:
TIAA-CREF, Fidelity, Vanguard, or Other

Consider consolidation to one Recordkeeper or a Master Recordkeeper that can consolidate data

Select Recordkeeper

Why consider reducing the number of recordkeepers?

Pros

Participants

- ▣ Improved participant experience
- ▣ Fee savings
- ▣ Consolidated account statement for participants
- ▣ All Plan assets considered when providing investment guidance

Administration

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

Cons

Participants

- ▣ May lose existing relationships with current recordkeeper(s)
- ▣ Possibly a new user experience
 - investment tools
 - quarterly statements

Administration

- ▣ Programming and processes may need to be developed in order to accommodate the recordkeeping system

Select Investments

Implement a tiered approach

Possible Tier	Characteristics
Target Retirement Date Funds	<ul style="list-style-type: none">▪ Simple packaged solution requires less time and expertise▪ Built-in asset allocation that gets more conservative as a person gets closer to retirement
Core Funds	<ul style="list-style-type: none">▪ Limited number of mutual funds covering the key asset classes▪ Includes active and indexed fund options▪ Requires asset allocation decision
Annuity Window	<ul style="list-style-type: none">▪ Full or partial menu of TIAA-CREF annuity accounts
Mutual Fund Window	<ul style="list-style-type: none">▪ Includes all mutual funds available through recordkeeper's brokerage account▪ Participant has greater flexibility, but also full responsibility for whether specific funds are appropriate

Investment Structure – Leading Candidate

	Asset Class	Funds
Target Retirement Date Fund Series	Pre-Mixed	Approx. 12 Funds at 5-Year Increments
Core Funds (11 Active / 4 Index)	Capital Preservation	Money Market Fund
	Diversified Bond	Core Fixed Income Fund Barclays US Aggregate Bond Index Fund
	Specialty	Inflation Protected Bond (TIPS) Fund Non-US\$ Bond Fund Real Estate Investment Trusts (REITs) Fund
	Large Cap Equity	Large Cap Value Fund S&P 500 Index Fund Large Cap Growth Fund
	Small/Mid Cap Equity	Small/Mid Cap Value Fund Small/Mid Cap US Index Fund Small/Mid Cap Growth Fund
	Non-US Equity	Non-US Equity Fund Non-US Equity Index Fund Emerging Markets Equity Fund
Annuity Window (optional)	Various	Full or partial menu of TIAA-CREF annuity accounts
Mutual Fund Window	Various	Full menu of mutual funds in brokerage account

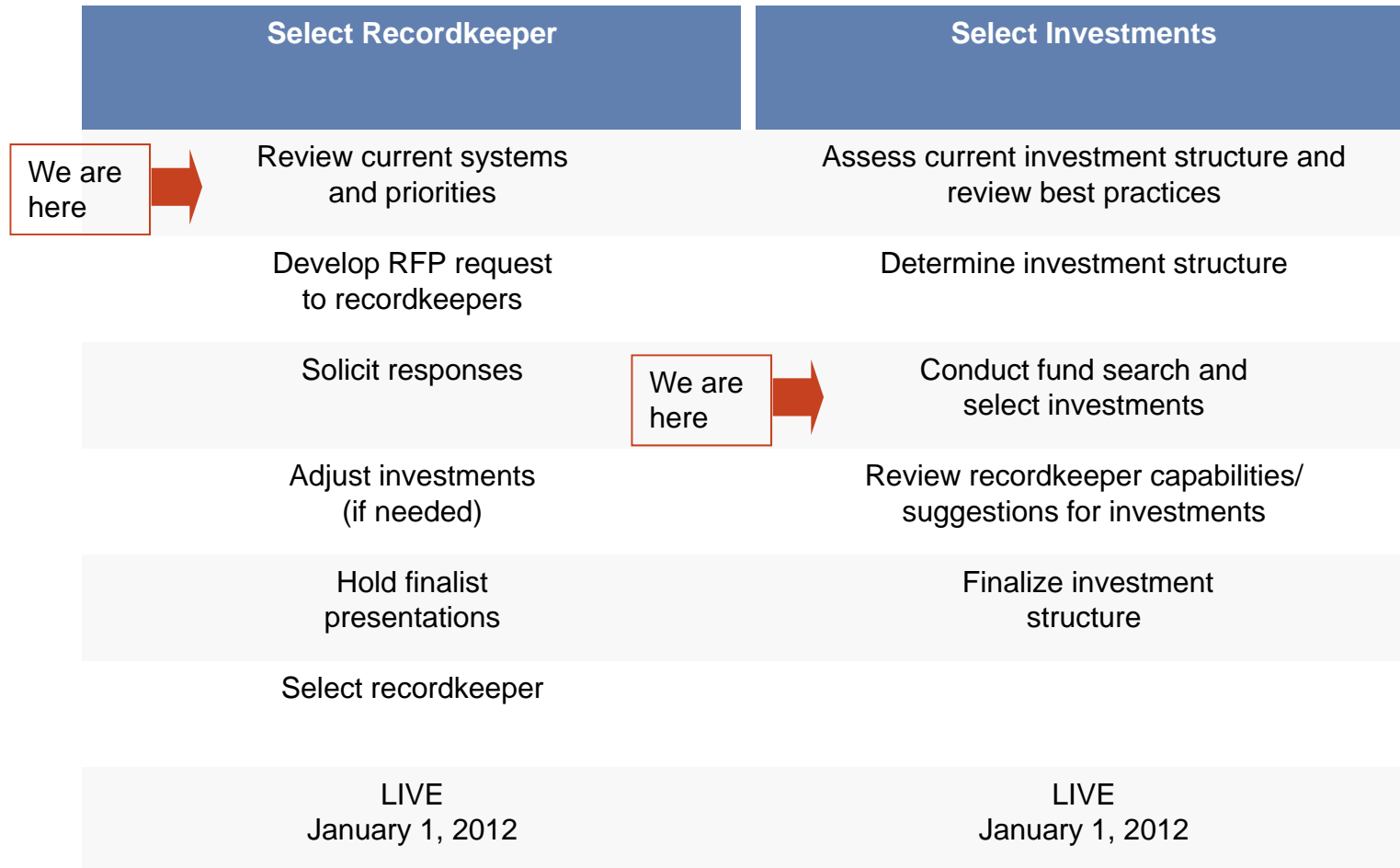
Self-Directed Brokerage Accounts

Self-Directed Brokerage Accounts

	Fidelity	TIAA-CREF	Vanguard
# Funds Available in Brokerage Window	4,600	1,800	3,000
# Funds Available with No Transaction Fee (NTF)	1,400	1,000	1,000
Minimum Initial Investment (most funds)	\$2,500	\$500	\$3,000
Annual Maintenance Fee	\$0	\$40	\$50
Transaction Fee (except NTF Funds)	\$75 per online trade \$100- \$250 per trade with assistance from Fidelity Rep	\$35 per trade	\$35 per trade

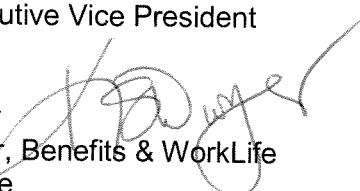
- ▶ Participants must complete a separate brokerage application
- ▶ The participant can avoid transaction fees by selecting funds that are included within the vendor’s “no-transaction-fee” program
 - Vanguard, Fidelity, and TIAA-CREF funds available without a transaction fee through their own brokerage account
- ▶ Waiver form for participants to acknowledge their acceptance of the risks associated with the account

UWRP Plan Redesign Process



September 29, 2010

To: Dr. Phyllis Wise
Provost and Executive Vice President
351237

From: Kathleen S Dwyer 
Executive Director, Benefits & WorkLife
UW Benefits Office
355660

Subject: Fund Review Committee – UWRP Recommendations

The Fund Review Committee (the Committee) of the UW Retirement Plan (UWRP) and Voluntary Investment Program (VIP) has been working with Hewitt Investment Group since their appointment as Investment Advisor in February 2010. The addition of a professional investment advisor has greatly enhanced the Committee's role of monitoring the funds offered to UW faculty and staff for their retirement savings. Hewitt has provided a thorough data analysis of the funds currently available in our plans, education about fiduciary responsibilities and best practices, and professional expertise to assess other fund options.

The initial work of the Committee has been focused on a review of the funds offered in the UWRP, and its current investment structure. The Committee has received updates regarding recent recommendations from the US Department of Labor around retirement plan fiduciary responsibility and best practices, and been provided information about actions of similar committees in higher education institutions around the U.S. After completing its initial analysis of the UWRP, the Committee unanimously passed three recommendations for your consideration at its September 22, 2010 meeting:

1. The Committee recommends that the UW implement four tiers for the UWRP investment structure:
 - a. Tier One: Target Retirement Date Funds, selected and monitored by the Committee
 - b. Tier Two: Core Funds, selected and monitored by the Committee
 - c. Tier Three: Annuity Window: this addresses the large number of participants currently using TIAA-CREF annuities in their UWRP.
 - d. Tier Four: Mutual Fund Window – allow access to a broad range of mutual funds through a recordkeeper's brokerage account.
2. The Committee recommends a substantial reduction in the number of Core funds offered in the UWRP. We recommend the use of Target Retirement Date Funds (Tier One, above) plus 10 to 20 Core Funds (Tier 2).
3. The Committee recommends that the UW retain a consultant to conduct a Recordkeeper search to assist the Committee in determining if consolidation of recordkeeping services will be of benefit to the Plan and participants.

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10/21/10

ATTACHMENT 2

Provost Phyllis Wise
September 29, 2010
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Attached is a summary document which provides information in support of the recommendations outlined above. If you have any questions please contact me at 543-2812, or any of the Committee members listed below.

Enclosure

Cc: UWRP/VIP Fund Review Committee Members:

Professor Emeritus Ray Bowen
Professor Robert Breidenthal
Ms. Kathleen Dwyer
Professor Paul Malatesta
Mr. Aaron Morello
Professor Frederica O'Connor
Ms. Dorothy Smith
Ms. V'Ella Warren

Non-voting Committee Members:

Ms. Nicole Goodman - WWU
Ms. Wendy Rittereiser - CWU


Committee Guests

Mr. Gary Quarfoth, UW Planning & Budgeting Office
Ms. Susan Ball, UW Treasury Office
Mr. Gerry Grohs, UW Benefits Office



September 30, 2010

TO: Kathleen Dwyer
Executive Director, Benefits & WorkLife

FROM: Phyllis M. Wise
Provost and Executive Vice President 

SUBJECT: Fund Review Committee Recommendations

Thank you for informing me of the recommendations of the UWRP/VIP Fund Review Committee in your memo of September 29.

First let me convey my thanks to the Committee for their valuable service on this Committee. The work of monitoring our retirement programs on behalf of our participants and the UW is of great importance to all of us and we are all deeply appreciative of their efforts and commitment.

At this time I ask you to meet with and communicate the recommendations of the Committee to key stakeholder committees and leadership of the UW community and seek their input. Please provide a summary of your meetings and of the input received by December 15, 2010 to Interim Provost and Executive Vice President Mary Lidstrom. At that time she will review the input from stakeholders and act on the recommendations.

Again, my thanks to the Fund Review Committee for their efforts in this important work.

c: Mary E. Lidstrom

UWRP/VIP Fund Review Committee:

- Professor Emeritus Ray Bowen
- Professor Robert Breidenthal
- Ms. Kathleen Dwyer
- Professor Paul Malatesta
- Mr. Aaron Morello
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