

**University of Washington**  
**Faculty Council on Benefits and Retirement**  
February 22<sup>nd</sup>, 2016  
2:30 pm – 4:00 pm  
Gerberding 26

**Meeting Synopsis:**

1. Call to order
  2. Review of the minutes from January 25<sup>th</sup>, 2016
  3. VEBA Review by UWRA (Charles Chamberlin)
  4. Opt-in / Opt-out for UWRP contribution increase at age 50 (Stephan Siegel)
  5. Benefit Comparison Update (Stephan Siegel)
  6. Good of the order
  7. Adjourn
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**1) Call to order**

Siegel called the meeting to order at 2:30 p.m.

**2) Review of the minutes from January 25<sup>th</sup>, 2016**

The minutes from January 25<sup>th</sup>, 2016 were approved as amended.

**3) VEBA Review by UWRA (Charles Chamberlin)**

Chamberlin explained that the Legislative and Benefits Committee of the UW Retirement Association (UWRA) has reviewed and created a report on the Voluntary Employees Beneficiary Association (VEBA) plan (Exhibit 1). He noted he would like to go through the report with the council and discover next steps based on the results of the assessment. Investigations by the UWRA began in 2014, and noticeable improvements have been made to the VEBA plan since that time including increased online functionality, he explained.

Chamberlin explained elements of the VEBA plan for council members. A VEBA is a tax-free health reimbursement account that can continue year over year, which can be used to reimburse for qualified health expenses after retirement. It is authorized by the Washington State Legislature, with contracts overseen by the State of Washington Health Care Authority (HCA), and is operated under rules established in the Internal Revenue Code (IRC). A VEBA is available to certain groups of UW professional and classified staff, librarians, police officers, and tenured faculty.

Chamberlin noted the committee found issues with several aspects of the VEBA plan, which he explained included: 1) service, 2) administrative fees, 3) investment products, 4) VEBA's board membership and, 5) the need for an open and competitive process for selecting the VEBA administrator

(see Exhibit 1). Discussion ensued. Chamberlin clarified that VEBA had received the committee's report in January and expressed they plan to respond by March (2016).

It was noted the FCBR may potentially endorse some or all of the report given its standing as a university faculty council. There was an interest in proceeding with an endorsement. Dwyer explained in the past when the council had endorsed similar reports, the chair of the FCBR had sent a letter to the Health Care Authority expressing the council's position, which had been received positively by that agency. Discussion ensued.

A member made a motion stating: "The FCBR endorses the UWRA Legislative and Benefits Committee's report on VEBA, and the chair will draft a letter to be delivered to the Health Care Authority stating this intention."

The endorsement was unanimously approved by voting members.

#### **4) Opt-in / Opt-out for UWRP contribution increase at age 50**

Siegel noted he has planned for the council to discuss the question of an opt-in vs. opt-out policy model for a UW Retirement Plan (UWRP) contribution increase at age 50. He explained the FCBR and several other faculty senate bodies have taken up this topic before, urging that the university policy be shifted from the current opt-in model to an opt-out (wherein any eligible faculty/librarian/staff who turn 50 on or after a specific date would have to actively notify the Benefits Office that they did not wish to increase their contribution to 10%). He noted efforts came to a peak in 2012, when the Senate Committee on Planning and Budgeting (SCPB) considered and endorsed the FCBR's recommendation (Exhibit 2), and forwarded the requested policy change to the Provost.

Kornberg (president's designee) explained there are two schools of thought pertaining to the group of people who had not opted in to the last UWRP contribution increase. She noted some believe that these individuals are adults and as such are responsible for their own business, while others believe that many people simply forget to opt-in, error in another way, or otherwise will benefit from a system that automatically opts them in with the option to opt-out thereafter.

Some discussion ensued. Fernandes explained many people do not know that UWRP savings cannot be tapped for other costs outside of retirement, such as housing costs, healthcare, or other expenditures. It was noted it is usually approximately 400-500 people who are enrolled in UWRP at a 7.5% contribution and not at a 10% contribution (at the age of 50). This number was noted to be out of approximately 5,274 total UWRP participants age 50 and over. Dwyer explained the Benefits and Work/Life Office sends a reminder every quarter to these individuals concerning their current contribution rate. A member noted if the policy was changed to an opt-out, it is likely these same 400-500 individuals might opt-out of a 10% contribution immediately.

Dwyer explained the Benefits and Work/Life Office conducted a survey of these individuals (those with a contribution less than 10% at age 50) in 2011, asking their reasoning for remaining at a lower contribution. She explained a variety of answers were received, (e.g. individual had "saved enough," is purchasing a house, paying for kids to go through college). Dwyer explained the results of that survey

were brought to a FCBR meeting years ago and are likely recorded in those meeting minutes. She noted she is able to bring these results again if desired by the council. There was more discussion.

Siegel noted, after a discussion of potential additional UWRP policy changes, that the initial proposal from the FCBR and SCPB was fairly simple, and also presents the least controversial change. It was noted it is still the council's view that any individual enrolled in UWRP at the age of 50 should be transferred to the 10% contribution with the option to opt-out (opt-out model). Dwyer explained she is happy to revisit the topic and discuss further. She noted nothing can happen pertaining to the policy in the next two years due to the major ongoing HR/Payroll system overhaul.

## 5) Benefit Comparison Update

Siegel explained he has not received an update from faculty senate leadership relating to a standard list of institutions that would be most suitable for inclusion in the FCBR's benefits comparison analysis. He noted he and the UW graduate student who agreed to aid with the project are currently looking at the University of California system and mocking up some initial comparisons.

Siegel explained that during this investigation, he came across an organization titled College and University Professional Association for Human Resources (CUPA-HR), which conducts detailed surveys of benefits and other employee-related information of which results may be quite useful to the council's work. Kornberg explained the UW is already a member of this organization, and she and Dwyer are able to discover feasibility of retrieving data for this purpose.

## 6) Good of the order

Kornberg asked when Carol Diem (Director of Institutional Analysis, Office of Planning and Budgeting) might join the FCBR to discuss tuition waivers. It was noted Diem should be invited for the council's April meeting.

## 7) Adjourn

Siegel adjourned the meeting at 4:00 p.m.

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*Minutes by Joey Burgess, jmbg@uw.edu, council support analyst*

**Present:**                      **Faculty:** Russell Fernandes, Gowri Shankar, Stephan Siegel (chair), Susan Spieker  
**Ex-officio reps:** Casey Gifford, Charles Chamberlin  
**President's designee:** Mindy Kornberg  
**Guests:** Katy Dwyer

**Absent:**                        **Faculty:** Robert Breidenthal, John Mittler, Iulia Metzner, Tom Dodson  
**Ex-officio reps:** Thomas Deardorff

## Exhibits

Exhibit 1 – FINAL-Assessment of VEBA- UWRA Legislative Committee.pdf  
Exhibit 2 – optinoptout transmittal.pdf

## Review of the VEBA Plan: Assessment & Summary

The Legislative & Benefits committee of the University of Washington Retirement Association (UWRA) began to review the procedures & policies of VEBA (Voluntary Employees Beneficiary Association) after a member of UWRA brought concerns to the committee about a year ago. The issues identified were within the following categories: 1) service, 2) administrative fees, 3) investment products, 4) VEBA's board membership and, 5) the need for an open and competitive process for selecting the VEBA administrator.

UW faculty members are newer participants in the VEBA plan than other UW staff and state agency staff who are the majority of enrollees. UW faculty are VEBA account-holders through the university's Voluntary Retirement Incentive program, under which UW deposits a lump sum into a VEBA account for a retiring tenured faculty member, based on his/her annual salary in exchange for the individual's vested five-year post-retirement re-employment rights. Accounts established through that mechanism tend to be larger than other VEBA accounts created from monetized unused sick leave.

During our review this past year, the following were contacted for information and sharing of concerns: Brian Riehs, Client Consultant at Gallagher VEBA; Kathleen Dwyer, Executive Director, Benefits Office at the University of Washington; and the VEBA agent at the 2015 UW Health Fair. The Board of Directors at VEBA was also contacted by mail during 2015.

We learned during our review that HCA would be conducting a critique of the VEBA plan options and process early in 2016. Renee Bourbeau, the Public Employee Benefits Board (PEBB) Benefits Accounts Section Manager, was contacted by the chair

of UWRA Legislative committee to offer input to the HCA review. She suggested we send our committee's assessment to her during early 2016. The following is the committee's assessment with a summary statement for each of the five issues.

I. SERVICE. Within the past year, the VEBA Service Group, a division of Gallagher Benefit Services, Inc., became the third-party claims processor for VEBA instead of Meritain Health, a subsidiary of Aetna.. This new firm introduced significant enhancements in service such as online claims processing, improved WEB site and 'My Care Card'. This card has a fee of \$1.00 per month to be deducted from one's account upon card activation. With the supporting documentation, the card can be used to pay for qualified medical care items directly from VEBA. In addition, a mobile app is now available, "HRAgo", through which claims and supporting documents can be filed with an Apple or Android mobile device. ***Summary: The service issues have significantly improved with the recent change in the firm providing services. However, the justification for the \$1.00 fee per month for the 'My Care Card', is not clear since those individuals using the card are actually saving on paperwork and related administrative costs.***

II. ADMINISTRATIVE FEES. We are concerned that the system under which VEBA charges administrative fees to an account to cover its operating expenses is not equitable. The fee structure for the processing is unbalanced. The fees are asset based and thus, are higher for those with higher fund balances. In particular, the VEBA web site reads: "Plan expenses include claims processing, customer service, account administration, printing, postage, legal, consulting, local servicing, auditing, etc. (Plan Benefits, p. 4). These costs are paid by a monthly, per participant fee of

\$1.50 (if claims-eligible) or \$0.75 (if not claims-eligible), plus an annualized, asset-based fee of approximately 1.25%.”

Under this system, holders of large accounts pay disproportionately more than those with small accounts for essentially the same level of service. For example, someone with a \$100,000 in a VEBA account pays about 15 times as much as someone with \$4,000, while generating nowhere near 15 times the administrative load. As noted earlier, the size of an enrollee’s VEBA account depends on why the account was established in the first place: either as payment for unused sick leave, or as a voluntary retirement incentive.

Moreover, the component of VEBA’s administrative fees that is based on a percentage of the annualized account balance does not currently appear on enrollees’ quarterly financial statements; it has already been deducted in the process of calculating the account balance shown. Only the fixed fee of \$1.50 (or \$0.75) per month is shown on the report. Thus, enrollees are not informed about administrative fees being charged to their accounts. They must find the fee formula on the VEBA website and do the calculations themselves.

VEBA’s current asset-based formula is only one of several possible arrangements for allocation of administrative fees. By comparison, the University of Washington Retirement Plan is administratively managed by Fidelity Brokerage Services. Like VEBA, Fidelity handles deposits and withdrawals to individual accounts, provides information to clients about investment choices, and generates a quarterly report for each client, although it does not process claims. But unlike VEBA, Fidelity covers its costs by charging a flat fee of \$13.75 per quarter to each account, regardless of the account

balances. ***Summary: We recommend that the VEBA fee structure be revised. A new fee structure needs to reflect more closely the actual cost of the service to an account and not be tied to the amount of monies in individual accounts.***

III. INVESTMENT PRODUCTS and WEB SITE INFORMATION. There are approximately 10 funds for the participant to choose from. Four Vanguard LifeStrategy funds and six other funds: a 'stable value', bond, large cap equity index, mid cap equity index, small cap equity index and an international fund are offered. The financial rating of these funds vary from 3 to 5 (highest) by Morningstar with a few of the funds not rated as they are new or customized (GSAM separate account). The expense ratios for all ten of the investment products range from .04% to 1.36%. VEBA enrollees pay those mutual-fund expenses on top of VEBA's own administrative fees.

Overall, the information on the VEBA web site is basic but sketchy and difficult to locate. For example, a 2006 Investment Policy Statement that provides general guidelines for selection of the funds is difficult to locate. Only after questions to the VEBA client consultant about the rationale for the selection of funds with higher than typical operating expenses, average Morningstar ratings of 3, and below market outcomes, were we directed to this 2006 document. However, some of the typical financial information targeted for each investment product is not included in this 2006 document. We have been unsuccessful in being linked to a financial agent with VEBA who could further our understanding of the selection process.

There are links on the VEBA web page, "Investment Fund Overview", to the fund family. However, direct links to a current fund prospectus or to annual or quarterly reports for each investment product are not found on the VEBA website. One of the

funds, GSAM Stable Value fund, is managed by Goldman Sachs Asset Management (GSAM). Per the link to GSAM on the VEBA web site, this fund is offered in lieu of a money market due to the “historically low yields” of a money market fund. Per e-mail and phone conversation with Brian Riehs, the VEBA client consultant, we learned that GSAM is a customized fund and thus, prospectus or quarterly reports are not available. The consultant noted in an e-mail that VEBA will note on the website that there is no prospectus due to the customized approach to the fund. However, at this time, we are not able to locate such a note on the website or learn whether this fund guarantees the principal and a fixed interest, for example. ***Summary: The Investment Product selection process, the type of funds available and WEB site communication issues remain a concern to the committee.***

IV. BOARD MEMBERSHIP OF VEBA. During a phone meeting between our committee and the VEBA client representative, we requested information on the VEBA Trust board membership. An e-mail dated 2/18/2015 from the VEBA client consultant noted the following information: there are no Washington State higher education members on the board although six institutions of higher education in Washington State have adopted the VEBA Medical Expense Plan. In addition, it was noted in the 2/2015 e-mail from the client consultant that higher education institutions compose: 1.5% of the total employers in VEBA, 5% of the total participants and provide 6% of the assets. ***Summary: The VEBA Trust board would benefit from including a board member from higher education at the very next open board member selection. We understand that to do so the contract between the Washington Health Care Authority and the***

**VEBA administrator would have to be revised so that additional trustees could be added.**

V. PARTICIPATION IN THE REVIEW AND SELECTION PROCESS FOR VEBA'S ADMINISTRATOR. Members of UWRA Legislative and benefits committee are very interested in the review and selection process for the administrator of the VEBA plan. Our understanding is that the original selection of VEBA Trust was non-competitive and that the arrangement has been continued from year to year. An open selection process would contribute to having a competitive exercise that would provide a comparison of the services, administrative fees, web sites and board membership. **Summary: Our committee looks forward to the HCA process and learning the results of this feedback we have provided. Thank you for giving this opportunity to communicate our review and recommendations of the VEBA plan.**

*This Assessment Report was prepared by the UWRA committee: Patti Brandt, chair; Bob Roseth, Charles Chamberlin, Jim Whittaker and Jill McKinstry in consultation with Thomas Koepsell, UWRA member. January 26, 2016*

December 12, 2012

Ana Mari Cauce, Provost and Executive Vice President  
University of Washington  
Office of the Provost – Box 351237

Dear Provost Cauce:

At its November 26, 2012, meeting the Senate Committee on Planning and Budgeting (SCPB) approved a resolution endorsing the Faculty Council on Benefits and Retirement's proposal to request a change in the UWRP implementation to an opt-out model at age 50 versus an opt-in, with regards to the optional increase in contribution to 10% from 7.5%. At that time you indicated that before making a decision, you would like to consult with President Young and appropriate folks in Planning and Budgeting.

My hope is to revisit the issue at a winter quarter SCPB meeting, that is, if you think it's enough time to gather the necessary information. Let's further discuss this issue at our meeting in January.

Sincerely,



Susan Astley  
Professor, Epidemiology and Pediatrics  
Chair, Senate Committee on Planning and Budgeting

/nlb

Attachment

cc: Ashley Emery, Chair, Faculty Council on Benefits and Retirement



June 26, 2012

Dear Members, Senate Committee on Planning & Budgeting

By unanimous consent, the Faculty Council on Benefits and Retirement requests a change in the UWRP implementation to an opt-out model at age 50 versus an opt-in, with regards to the optional increase in contribution to 10% from 7.5%. This means that any eligible faculty/librarian/staff who turn 50 (on or after for example July 1, 2012) would have to actively notify the Benefits Office that they did not wish to increase their contribution to 10%.

We have been informed that if all remained in the plan, this could cost up to \$996,000 per year which on a benefits pool of \$615 million, and specifically on a base of \$114 million annual benefits paid by the employer into UWRP, is a very small change. We note this is an upper bound as it assumes the worst case scenario that all those who have not opted in, did so as a default, rather than a money management choice. In addition, the number will likely be significantly less as many of these plan participants are paid from research grants rather than state funds.

We ask that you consider this change to be effective as soon as possible.

Sincerely yours,

A handwritten signature in cursive script, appearing to read 'Gerry Philipson'.

Gerry Philipson  
Chair, Faculty Council on Benefits and Retirement