

UNIVERSITY OF WASHINGTON
FACULTY COUNCIL ON BENEFITS AND RETIREMENT
MONDAY, DECEMBER 13, 2010
12:30-2:00 PM
36 GERBERDING

Meeting Synopsis:

1. Approval of minutes from November 1, 2010 meeting
 2. Preparatory discussion for meeting with FRC and Hewitt Consultants
 3. Adjournment
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Call to Order

The meeting was called to order by Chair Philipsen at 12:30 P.M.

Approval of the minutes from the November 1, 2010 meeting

The minutes of the November 1, 2010 meeting were approved without changes.

Preparatory discussion for meeting with FRC and Hewitt Consultants

Chair Philipsen gave a summary of where the council was at the end of last meeting, having asked for a more detailed version of the Defined Contribution Plan Redesign. Over the last month, they have been working on getting more information, and have obtained additional documents, as well as arranging a meeting on December 14 with the Fund Review Committee and Hewitt Consultants.

Philipsen presented a list of questions [**Attached, Appendix A**] that he had developed with members of the council and sent as a memorandum to Mindy Kornberg, Vice President for HR and Doug Wadden, Executive Vice Provost. Philipsen noted that those who have accessed the Hewitt documents and are knowledgeable on the work of the Fund Review Committee (FRC) seem to be well satisfied.

The council decided to review and prioritize questions in preparation for the next day's meeting and discuss the course ahead for working on the topic. The following clarifications and points were made:

- Q1: Six comprehensive documents/reports from Hewitt have now been provided to the council.
- Q2: The Request for Proposals (RFP) is posted online, and is self-explanatory.
- Q3: The Fund Review Committee has worked on the issue, and the Treasury Office did an initial assessment that lead to the search for a consultant.
- Q10: The search for a recordkeeper would be an open RFP with specific criteria. Generally they will opt for a long-term relationship with provisions to make adjustments as necessary, and any fees will be public knowledge.
- Q19: The FRC raised a number of comparisons and discussed trends.

Throughout this discussion, the council also identified and prioritized a number of key topics for the following day's meeting [**Attached, Appendix B**].

A question was asked about the FRC's discussion on how much "parenting" to do for the UWRP. It was answered that there is a legal trend with institutions having fiduciary responsibility, yet some fraction of

participants never sign up or do ill-advised moves. There is some “parental” role involved, but the proposed mutual fund window is appealing to more sophisticated investors. Also, there is more attention being paid to retirement plans generally, with additional guidance coming out. The 403(b) world is beginning to look more like the 401(k) world, and institutions are responsible for the funds they offer. Plans or employers will not be judged on the performance of a specific fund, but will be looked at for whether they are offering proper options and have an FRC, an investment advisor, and a process to take action if need be.

The council agreed to take their prioritized questions to the meeting the following day in order to gain further information prior to making a statement on the proposals. They also agreed to move their January meeting to Monday, January 3 in order to expedite the process.

Adjournment

The meeting was adjourned at 2:00 p.m.

Minutes by Craig Bosman, Council Support Analyst. cbosman@uw.edu

Present: **Faculty:** Philipsen (chair), Nihan, Brock, Breidenthal, R. Bowen, Holt
Ex-Officio Reps: Wiles, Chamberlin, J. Bowen
President’s Designee: Kornberg
Guests: Dwyer, Susan Astley

Absent: **Faculty:** Bradford

APPENDIX A

December 10, 2010

To: Mindy Kornberg, Vice President for Human Resources
Doug Wadden, Executive Vice Provost

From: Gerry Philipsen, Professor of Communication
Chair, Faculty Council on Benefits and Retirement

It seems to me that the restructuring of the funds and fees in the UWRP is a matter of the greatest consequence to the University of Washington in its efforts to provide competitive compensation to its faculty, librarians, and professional staff. How the matter is handled could very well mean the equivalent of something on the order of a permanent 2% annual salary increase for many plan participants and could mean the difference between a strong retirement benefit and a weak one.

Therefore the Faculty Council on Benefits and Retirement stands ready to exercise its Code-mandated duty to provide a rigorous review of and commentary on the proposed changes to the UWRP.

To do this, we will need data and cooperation from the Administration, but given that the Council exists through direct action of the President and the Faculty, I am sure the Council can expect both of these precious commodities from the administrative officers of the University.

Some FCBR questions and themes re proposed changes to UWRP funds and fees structure

1. There appear to be multiple Hewitt reports or other materials related to the proposed changes. It appears that FCBR was given the briefest, least detailed version. In order to provide the type of review that we are obligated to do, we will need to see the most complete report as well as other pertinent documents that have been circulated. The one we saw is more like a brochure or advertisement in terms of detail and explicitness than it is a report. Can we see these other reports and communications?
2. FCBR should see the RFP for services so as to be able to ascertain what Hewitt was asked to do. Once FCBR knows what Hewitt was asked to do, and once FCBR has read the full Hewitt report(s), then FCBR can draw up a set of questions to ask and topics to discuss with Hewitt. Can we see the RFP and related materials that are pertinent to our understanding of the charge to Hewitt?
3. What other experts, either internal to UW or external to UW, were consulted, if any were, prior to the beginning of work with Hewitt as principal consultant?
4. The brochure FCBR has seen does not provide any data about fees incurred by UWRP participants but rather merely asserts that the total cost for equivalent investments can be reduced through a new fund and fee structure. Did Hewitt not provide, in some report, actual data to support this assertion? FCBR should review those data if indeed they were supplied.
5. I think we all know that for several years UWRP participants have been paying fees that are higher than necessary. Now, FCBR should ascertain whether—and, importantly, how—a new structure will help effect a savings across the individual accounts of plan participants. What has been established re how a better fee structure will be established through the changes?
6. Stanford's new plan—which on the surface seems to be a fleshing out of the outline FCBR saw in the Hewitt brochure—actually charges a new fee for plan participants, or at least a fee that

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would be new for UWRP participants. This is a fee that all participants pay to the record-keeper. Would there be such a fee in the proposed new UWRP fee structure? This is not to say that such a fee necessarily is bad, but rather that we need to know if such a fee—or some other new cost to participants—might be necessary or desirable.

7. How much does Hewitt charge for their continuing services under the new scheme? Where does this money come from?
8. How is the eventual record-keeper compensated? Where does this money come from?
9. If Hewitt is the consultant, should they also be a candidate for the eventual record-keeper? Is there a conflict of interest here? Would not the interests of plan participants be served best by a consultant who has nothing to gain from the selection of a record keeper?
10. Presumably the record keeper will be managing annual accumulations of several billions of dollars. What kind of process has been or will be established to assure that the selection of the record keeper will be in the best interests of the UWRP plan participants whose voluntary and non-voluntary contributions will be managed by the record-keeper?
11. The brochure presents the outline of a plan that apparently has been selected over other arrangements. What other plans were considered and why was the present one chosen over others? Was there such a systematic evaluation of alternative plans prior to the selection of a best plan?
12. The working assumption seems to be that fees can be reduced only by having a much reduced number of Core Funds and Target Retirement Date Funds. Especially with regard to Core Funds, what evidence is there that it is only through reducing the number can UWRP participants actually get institutional class fees or other reduced fees?
13. With regard to the actual funds, investment vehicles, and likely fees that will appear in the presently unfilled slots, there are many questions that cannot be answered until the FCBR sees what will actually appear there. When in the process will FCBR be able to see those actual names and likely fees?
14. There is an annuity window that says “optional”—does this mean it will be an option that will be provided plan participants or does this mean that it is an option for the University to make available one or more annuity instruments?
15. Given the present state of scholarly and professional discussion of retirement planning, the role of annuities is an important consideration. The present brochure says the “funds” will consist of a full or partial menu of TIAA-CREF annuity accounts. Does this mean CREF accounts, which are all variable annuities, and does this include TIAA Traditional in the RA, and does this include TIAA Real Estate. Or does this refer to what the brochure actually says, “TIAA-CREF” funds, which are institutional or retirement class mutual funds and somewhat different from CREF variable annuities, TIAA Traditional, and the TIAA Real Estate Account?
16. The present array of Core Funds does not include some categories that are available under the present UWRP fund structure, including: a short term bond fund, multiple short term bond funds, a GNMA fund, a social investing fund (such as Social Choice in the present array of CREF variable annuities); and apparently there are no actively managed balanced funds, such as the presently available Vanguard Wellesley Income and Vanguard Wellington. Each of the funds or fund type mentioned here performs a distinctive function for many investors saving for

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retirement. Curiously, there is an emerging markets equity fund but not an emerging market bond fund (unless that is covered by the “Non-US\$ Bond Fund”).

17. Is there a plan to accommodate plan participants whose present investment vehicles are not taken over into the new structure? This could be crucial for TIAA Traditional and TIAA Real Estate. How will this be handled? What services will be provided to participants who hold money in funds from fund families no longer a part of the UWRP, if such is the case?
18. Was there any consideration given to what plan participants might lose under this change? This is a rather open-ended and perhaps vague question, but one that likely was asked, and that FCBR might want to consider.
19. Were the plans of other Universities considered as comparators? If so, which ones? If so, why were these selected? One suggestion that has been made is that Texas, Kentucky, North Carolina, Harvard, and Yale be used as comparators, if possible. Another group might be the HECC Board 24 or Global Challenge States.
20. What is the heart of the matter regarding the “supplemental benefit”? Is there a record of discussion in this matter in all the dealings so far with Hewitt or in other UW deliberations? Have any numbers been run on this? What statements, if any, about this will be made to UWRP participants in the process of moving from the present to a revised plan?
21. Under the IRS Code public universities are not covered by ERISA: private universities are. The proposed plan is modeled after one at Stanford, which is a private institution. Which of the changes proposed in the materials are required now under the IRS Code as it applies with ERISA to public universities?
22. Under the new plan there are significant opportunities for an individual to make many choices. In order for individuals who wish to make such choices what methods of payment are proposed to be available? I presume the plan sponsors are not prepared to provide such advice as a service and hence individuals will have to purchase. Will these costs be payable from the individual’s plan account as permitted under IRS Code if authorized by the UW?
23. A proposal to select best of class funds is presented. How will these funds be selected and how often. Is Hewitt proposing to be the advisor on this selection and if so how are they being compensated?
24. I understand that the Investment Advisory Group has within the past few years discussed the matter of the investments of the UWRP. Records of their discussions could prove invaluable to the work of the FCBR.
25. Which of the above questions were not asked and answered in the course of discussions of the Fund Review Committee? If all of these were asked and answered, it should be quite easy for the administration to provide answers to the FCBR, although I suspect the Council quite properly will want to do some of its own interpretation.
26. Finally, who in the Administration will be advising the final decision maker, that is, the Provost or President, who presumably will be making a recommendation to the Board of Regents? What I am getting at here is who in the Administration is the intellectual point person, the person who has most wrapped their mind around this whole matter, who presumably knows a lot about this sort of financial and legal matter, and who cares deeply that the University get this right? If there is such a person, and we hope there is, it might be useful for the FCBR to have a session with her or him.

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Below I have pasted in a few passages from the Faculty Code, which I take to be the de facto employment contract of the University faculty.

From the Faculty Code of the University of Washington

1. Section 42-44. Faculty Council on Benefits and Retirement

The Faculty Council on Benefits and Retirement shall be responsible (as described in Section [42-33](#)) for all matters of policy relating to faculty retirement, insurance, and benefits.

Section 42-33. Duties, Responsibilities and Powers of Faculty Councils

A. Faculty Councils serve as deliberative and advisory bodies for all matters of University policy, and are primary forums for faculty-administrative interaction in determining that policy. Each Faculty Council within the area of its jurisdiction:

1. shall prepare for submission to the Senate through the Executive Committee all legislative proposals pertaining to matters set forth in Section [22-32.A](#);
2. shall prepare for submission to the Senate through the Executive Committee any resolution passed at a faculty meeting falling under Section [21-51.D](#);
3. may on its own initiative prepare legislative proposals or resolutions for submission through the Executive Committee to the Senate;
4. shall submit to the Senate Chair any report, including annual reports, for transmission to the Senate through the Executive Committee;
5. may receive and make appropriate recommendations, within the limits set forth in Section [22-32.B](#), concerning any communication from a member of the Faculty;
6. may request such information and assistance as may be required in the effective pursuit of its duties;
7. may appoint, subject to the approval of the Executive Committee, such *ad hoc* committees as may be required for the effective pursuit of its work;
8. shall be responsible for providing information and for interpreting or obtaining interpretation of policy regarding matters falling under its jurisdiction;
9. shall receive reports or recommendations or resolutions from administrative or presidential committees in areas for which it is responsible, and, when appropriate, shall be invited to be represented on those committees.

APPENDIX B

December 14, 2010

Topics for FCBR meeting with Hewitt Investments

(note: we only late yesterday were given access to the more detailed documents; some of these questions therefore might be answered in these documents)

1. Will fees and/or expenses be reduced by moving from multiple record-keepers to one record-keeper? How much in savings could be attributed to such a shift?
2. Will fees and/or expenses be reduced by restricting the number of core funds? How much in savings could be attributed to such a shift?
3. Could fees and/or expenses not be reduced simply by the FRC approving Institutional or Admiral class versions of present funds? For example, other Puget Sound employers provide a cost to participant of 0.05 ER for Vanguard 500 Index Fund, where the UWRP restricts participants to the Investor class of this fund and its 0.18 ER. Or could not reduced fees simply be negotiated with the record-keeper(s)?
4. Will there be any new fees imposed on accounts, e.g., a record-keeper fee? If not, how does the record keeper get its money? How does a single record keeper save money since the fund (that is not a record keeper) still has to keep records — it seems that total costs almost have to go up with an incremental (overall) record keeper.
5. Would admin costs (e.g., systems issues) normally borne by the University might be outsourced to this single record keeper and then passed along to UWRP participants. UWRP participants end up paying for University overhead and also lose control over total fees in that participants cannot prevent this transfer of overhead to the recordkeeper. Under the current system, with adequate transparency, one can in theory choose low total cost funds, e.g., if a fund raises its fees, one can transfer to another fund. Under the proposal as I understand it, a chunk of these admin costs will be centralized and allocated to all UWRP participants. What controls exist to keep this centralized record keeping cost from escalating?
6. We understand that Hewitt has been hired as advisor to the UWRP. Will it also be applying to be the record-keeper? If so, is there a conflict of interest?
7. In terms of the overall structure of the new plan, as well as some of its details, were any alternatives considered or did the FRC devote its study only to this one scheme? If an alternative was considered, what is it? Why was the present plan selected rather than some alternative? The development of “cons” in the power-point like outline we saw was very skimpy.
8. Given the current state of scholarly discussion of retirement savings, we are concerned with what has been discussed with regard to annuities. In the present UWRP offerings, participants can choose the Traditional annuity (that is like a stable-value plan) and the Variable Annuities of CREF and TIAA Real Estate. Will there be a reduction in the annuity offerings, e.g., the elimination of CREF Variable Annuities? Has there been discussion of the unique role of CREF Variable Annuities in a comprehensive retirement plan offering? Or were the CREF funds considered only as mutual funds?
9. Is the new plan voluntary rather than compulsory? Can we have some enlightenment on this? Which of the changes proposed are actually required now under IRS Code as it applies with to public universities?
10. We have not seen a discussion of restrictions, if any, on participants’ freedom to move money from fund to fund or fund family to fund family. Has anything about this been worked out yet? Likewise we have not seen anything pertaining to the services the participants would receive from the record-keeper.
11. What accommodations will be made for plan participants whose present investment vehicles are not taken over into the new structure? There are non-trivial but sometimes hidden costs to plan participants when their plan no longer supports funds that have been rendered inactive.