

UNIVERSITY OF WASHINGTON
FACULTY COUNCIL ON BENEFITS AND RETIREMENT
MONDAY, MARCH 7, 2011
4:00-5:30 PM
36 GERBERDING

Meeting Synopsis:

1. Council statement on proposed changes to UWRP
 2. Adjournment
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Call to Order

The meeting was called to order by Chair Gerry Philipson at 4:02 P.M.

Council statement on proposed changes to UWRP

Philipson said that the Fund Review Committee had sent final recommendations to the Provost, which acknowledged that various communications had taken place between the FRC and FCBR, but as far as he could tell did not really include other changes from the original recommendations.

Ray Bowen, a member of both FRC and FCBR, said that the position of FRC has basically been to go ahead with a Request for Proposals (RFP) to get more information to help evaluate both FCBR's suggestions and those made by Hewitt, but that there is not yet commitment to any changes. He added that FCBR's points should be included in the RFP.

Philipson spoke of the need to make a statement of the council's position to the Provost. The council looked at a draft statement and made a number of suggestions to modify the content. A motion was approved to direct Philipson to make revisions to the draft statement in the spirit of the meeting and communicate to the Provost the recommendation of the council.

[The final council statement on proposed UWRP changes is attached as Appendix A.]

Adjournment

The meeting was adjourned at 5:20 p.m.

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

Present: **Faculty:** Philipson (chair), Breidenthal, R. Bowen, Holt, Nihan
Ex-Officio Reps: Chamberlin, J. Bowen
Guests: None

Absent: **Faculty:** Brock, Bradford, Nowell
President's Designee: Kornberg
Ex-Officio Reps: Wiles



March 11, 2011

To: Mary Lidstrom
Interim Provost & Executive Vice President

CC: Doug Wadden, Executive Vice Provost;
Prof. Frederica O'Connor, Chair, Fund Review Committee;
JW Harrington, Chair, Faculty Senate;
Members of the Faculty Council on Benefits and Retirement

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

Subject: Council statement on proposed changes to the UWRP

The Fund Review Committee (FRC) proposal sent to you on February 28th re-affirms its earlier recommendation of substantial changes in the UWRP. The proposed changes include a review and reduction in the number of low-cost core funds, a selection process for core funds to be included in the Plan, a new brokerage account investment option, and consolidation into a single Record Keeper.

The FCBR encourages these efforts to improve the UWRP. Indeed as late as January 24th, 2011, we asked the administration to make a formal request to UWRP fund sponsors to make reduced rates available to plan participants. The administration acted upon this advice, and within two weeks, encouraging responses were received from the three major sponsors. Subsequently, the FRC has recommended that you accept the immediate offer of reduced fees from Fidelity Investments, and the FCBR heartily agrees. We note that this direct negotiation seems to work quickly and effectively to the direct benefit of Plan participants.

Further, the FCBR acknowledges that the FRC and the administration have employed and worked with an investment consultant (Hewitt) to develop proposals to improve upon the present plan offerings. This was a constructive step towards achieving our common goals of improvements in the Plan.

Nonetheless, we recommend strongly that the administration not immediately adopt the FRC proposal. We recommend instead that the administration take the following five steps:

1. Continue to pursue further fee reductions with fund sponsors through direct negotiation. A simple follow-up with other fund sponsors might yield savings similar to that offered by Fidelity.
2. Adopt a somewhat different approach to an RFP from that recommended by the FRC. Hewitt provided three alternative investment models to our current plan (see Hewitt 403(b) Plan Redesign, December 14, 2010). The FRC recommends the administration issue RFPs to fund companies for implementing one of these alternatives, Hewitt Alternative 3, that involves one record keeper and 12-18 core funds. The FCBR recommends that the administration issue requests for proposals that would show costs for at least two of the Hewitt alternatives, alternatives 1 and 3. Alternative 1 involves three record keepers and trimming the number of

core funds to 40-60. Finding out about the costs and benefits of at least these two alternatives is a way to get a more detailed picture of costs and of where we might achieve reduced fees for Plan participants. (See Hewitt 403b Plan Redesign, p. 32, for details of the three “Investment Structure Alternatives”).

3. The RFP should be written in such a way that we can separately examine costs in alternative investment models re (a) number of record keepers, and (b) the number of low-cost core funds. By separately examining these we can get a better understanding of costs and of how we might achieve reduced fees for Plan participants.

4. It is important to explicitly estimate the ongoing costs to plan participants of outside professional advice in identifying so-called “best in class.” Hewitt has recommended that we select a model that would require such advice and the FRC has selected that as the single model to consider going forward. Before we adopt such a practice we need to know what it will cost Plan participants.

5. FCBR should be: involved at every step in the ensuing process of fund structure design, brought into the discussion early at every step, and at every step be given the information it needs to make serious assessments of policy proposals such as are anticipated in the present exercise. We respectfully request timely involvement of FCBR in the review of all RFP drafts.

In addition to the above specific recommendations, FCBR believes the following should be considered in any decisions going forward.

1. Many Plan participants believe the availability of a large number of low-cost funds across three different families is a valued benefit of their employment at the University of Washington. Taking away this benefit could be experienced as an unnecessary loss in times of diminishing benefits and the absence of merit increases over several years.

2. If the FRC becomes the chief recommender of so-called best in class funds, it takes on the responsibility of choosing winners and losers. It would be wise to consider whether this is a role, or a designation, that the administration would like the FRC to take on, especially given the wide-spread belief among sophisticated investors that it can be foolish to make sound predictions about the performance of a given fund in a given year, and the wide-spread tendency of many unsophisticated investors to believe (falsely) that the “best in class” label assures future success. Hewitt alternative 1, “Trimming” funds, might be a less risky process and designation.

The FCBR stands ready to work with the administration in any way it can to help achieve the goal of improvements to the policies and details of the UWRP. We are encouraged by our recent success in working together. These efforts position us to provide lower fees for many Fidelity offerings in the Plan, and we believe that even more good results can come from our cooperative efforts.

Investment Structure Alternatives

	Current	Alternative 1 - Trim Funds	Alternative 2 - Best in Class	Alternative 3 - 1 Recordkeeper
	Current	Alternative 1 - Trim Funds	Alternative 2 - Best in Class	Alternative 3 - 1 Recordkeeper
# of Recordkeepers	3	3	3	1
Total # of Funds (Target Date as 1)	67	40-60	25-40	12-18
Tier 1	Target Date Funds Vanguard Fidelity Passive Active	Target Date Funds Vanguard Fidelity Passive Active	Target Date Funds Vanguard Fidelity TIAA-CREF Passive Active Passive or Active	Target Date Funds TBD Passive
Tier 2	Core Funds 4 Stable Value/ Money Market 13 U.S. Fixed Income 9 Balanced 26 U.S. Large Cap Equity 3 U.S. Mid Cap Equity 2 U.S. Small Cap Equity 7 International\ Global Equity 1 Real Estate Active Active/ Passive Active/ Passive Active/ Passive Active/ Passive Active/ Passive Active	Core Funds 3-4 Stable Value/ Money Market 6-10 U.S. Fixed Income 3-7 Balanced 15-22 U.S. Large Cap Equity 3 U.S. Mid Cap Equity 2-4 U.S. Small Cap Equity 4-6 International\ Global Equity 1 Real Estate 1 Emerging Markets Equity Active Active/ Passive Active/ Passive Active/ Passive Active	Core Funds 2-4 Stable Value/ Money Market 4-6 U.S. Fixed Income 1-3 Balanced 5-10 U.S. Large Cap Equity 3 U.S. Mid Cap Equity 2-4 U.S. Small Cap Equity 3-5 International\ Global Equity 1 Real Estate 1 Emerging Markets Equity Active Active/ Passive Active/ Passive Active/ Passive Active	Core Funds 2 Stable Value/ Money Market 3-4 U.S. Fixed Income 0-1 Balanced 3 U.S. Large Cap Equity 1-3 U.S. Mid Cap Equity 1-3 U.S. Small Cap Equity 2-3 International\ Global Equity 1 Real Estate 1 Emerging Markets Equity Active Active/ Passive Active/ Passive Active/ Passive Active
Tier 3		Mutual Fund Window	Mutual Fund Window	Mutual Fund Window