

UNIVERSITY OF WASHINGTON
FACULTY COUNCIL ON BENEFITS AND RETIREMENT
MONDAY, FEBRUARY 28, 2011
4:00-5:30 PM
36 GERBERDING

Meeting Synopsis:

1. Review of January 24, 2011 minutes
 2. Report on response to Council resolution RE: proposed termination of supplemental benefit
 3. Report on Discussion Between Gerry Philipsen and Frederica O'Connor, Chair of FRC
 4. Adjournment
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Call to Order

The meeting was called to order by Chair Gerry Philipsen at 4:08 P.M.

1. Review of January 24, 2011 minutes

The minutes were approved with one addition.

2. Report on response to Council resolution RE: proposed termination of supplemental benefit

Philipsen gave a report on the council's actions regarding a proposed termination of the UW Supplemental Retirement Plan: subsequent to the January 27 Faculty Senate meeting, an informal discussion on the supplemental benefit was conducted with President Wise, himself, Bob Bowen, and Charles Chamberlin. Following that, Bowen wrote a summary of the council's concerns about the matter and some online editing took place. The document was circulated to the council and the council affirmed the resolution by email vote. The resolution was then forwarded to Senate Chair JW Harrington, who brought it to the Senate Executive Committee (SEC). The SEC voted to affirm the resolution with amendments, but it was not forwarded to the Senate as a Class C Resolution.

[The FCBR resolution and SEC-amended resolutions are attached as Appendix A.]

At the SEC meeting, Philipsen expressed support of the resolution and said that the council was not interested in embarrassing or fighting the administration, but wanted to have a serious discussion. He framed it in terms of the council being composed of people with great experience and knowledge on these matters. He said the council appreciated the courtesy of the report on the UWSRP being given, but felt the action proposed was a lapse in good governance.

Philipsen said that concern expressed to Harrington was that when it was presented to the Board of Regents they not see it as a knee-jerk reaction from faculty. The resolution was undertaken with full knowledge that it would not benefit anybody on the council, but rather concern was with future colleagues and for a benefit that might be useful in part for recruitment of staff. Philipsen felt that Harrington pressed this point, and his understanding was that the concern was taken seriously and the sense on the Board of Regents was that the council was acting in a responsible and mature manner. In the end, the Regents voted to limit participation in the UWSRP to those eligible on February 28, 2011.

3. Report on Discussion Between Gerry Philipsen and Frederica O'Connor, Chair of FRC

Philipsen, noting that the council gave him some license and a charge to act at its last meeting, said that he had contacted Frederica O'Connor, chair of the Fund Review Committee. He approached her with the basis that the FRC has a responsibility and charge to make recommendations as to fund choices and the selection of a recordkeeper, and the FCBR has a charge to work with the administration on benefits and retirement policy. The UWRP recommendations would constitute a substantial policy change.

Philipsen referred to a document containing a draft proposal, recommendations, and points of discussion **[Attached – Appendix B]**.

The council briefly discussed certain issues under consideration, including the availability of variable annuities in the investment plan, the provision of “best in class” funds, whether a reduction in fees could be achieved, and the challenges of marketing changes to the UWRP.

Philipsen summarized that the objective of his meeting with O'Connor was to get the two groups talking, identify the issues, and get agreement on steps. One step was to first get information on fee reduction from fund companies, and address other enumerated issues after. Also, it was to be determined whether FRC and FCBR would meet and come to some common ground. If not, it would be responsible for FCBR to come out with its own statement to the Provost on policy changes. Philipsen said that the FCBR had so far done what it should do in insisting on a policy discussion. If no further discussion with FRC was to occur, at the next FCBR meeting the council would do revision and fine-tuning of a policy statement, communicate it to the administration, and announce it to the faculty.

4. Adjournment

The meeting was adjourned at 5:18 p.m.

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

Present: **Faculty:** Philipsen (chair), R. Bowen, Holt
Ex-Officio Reps: Chamberlin, J. Bowen, Wiles

Absent: **Faculty:** Nihan, Brock, Bradford, Breidenthal
President's Designee: Kornberg

[Resolution as approved by FCBR, January 28, 2011]**Resolution recommending against the elimination of the UW Supplemental Retirement Benefit for new hires.**

WHEREAS, the UW Supplemental Retirement Benefit (UWSRP):

- Has helped 5-10% of UWRP participants in retirement over approximately 55 years
- Has protected UWRP participants when they needed it most (during severe economic downturns).
While the actuarial liability has increased during the recent economic crisis, this is exactly what it is designed to do. This liability will likely recede as the economy recovers and interest rates rise to “normal” levels.
- Provides a surviving spouse/partner a continuing supplemental monthly benefit upon death of retiree
- Puts UWRP benefits on par with defined benefit plans in place for other University employees (e.g., PERS 1, PERS 2)
- Only serves as downside protection and does not have inflation or other escalator clauses that are included in some other retirement plans (e.g., PERS 1), and thus UWSRP is much less expensive to fund than these other plans
- Is *potentially* a powerful recruiting and retention tool; and

WHEREAS, elimination of the UW Supplemental Retirement Benefit for new hires:

- Would not save the University or the State any money for at least 10 years, and likely would not save significant money for 30 years or more (as UWRP participants must have a minimum of 10 years of service and cannot retire before age 62 to be eligible for a supplemental benefit)¹
- Would jettison an important safeguard that differentiates the UW from its competitors
- Would be the largest benefit takeaway in decades and sends a negative message to UWRP participants and potential hires; therefore

BE IT RESOLVED, that the Faculty Council on Benefits and Retirement encourages the UW Administration to reconsider its support for elimination of this important benefit. Its elimination does nothing to solve the current budget crisis and harms yet-to-be hired colleagues many years in the future;
and

BE IT FURTHER RESOLVED, that the Faculty Council on Benefits and Retirement encourages the Administration to help current UWRP participants plan for their retirement by supplying an estimate of the value (if any) of their supplemental benefit. One cannot adequately plan for retirement without this information and, currently, the information is only provided after one retires – a Catch 22.

Submitted and Approved by:
Faculty Council on Benefits and Retirement
January 28, 2011

¹The 30-year estimate assumes that the typical new hire is age 32 and retires at age 62. The earliest any cash savings could occur from elimination of the UWSRP for new hires is 10 years, i.e., where the new hire is age 52 and retires 10 years later at age 62.

[Resolution as amended by SEC, February 14, 2011. Amendments underlined.]

Resolution recommending reconsideration of the elimination of the UW Supplemental Retirement Benefit for new hires.

WHEREAS, the UW Supplemental Retirement Benefit (UWSRP):

- Has helped 5-10% of UWRP participants in retirement over approximately 55 years
- Has protected UWRP participants when they needed it most (during severe economic downturns). While the actuarial liability has increased during the recent economic crisis, this is exactly what it is designed to do. This liability will likely recede as the economy recovers and interest rates rise to “normal” levels.
- Provides a surviving spouse/partner a continuing supplemental monthly benefit upon death of retiree
- Puts UWRP benefits on par with defined benefit plans in place for other University employees (e.g., PERS 1, PERS 2)
- Only serves as downside protection and does not have inflation or other escalator clauses that are included in some other retirement plans (e.g., PERS 1), and thus UWSRP is much less expensive to fund than these other plans
- Is *potentially* a powerful recruiting and retention tool; and

WHEREAS, elimination of the UW Supplemental Retirement Benefit for new hires:

- Would not save the University or the State any money for at least 10 years, and likely would not save significant money for 30 years or more (as UWRP participants must have a minimum of 10 years of service and cannot retire before age 62 to be eligible for a supplemental benefit)¹
- Would jettison an important safeguard that differentiates the UW from its competitors
- Would be the largest benefit takeaway in decades and sends a negative message to UWRP participants and potential hires; therefore

BE IT RESOLVED, that the Faculty Council on Benefits and Retirement encourages the UW Administration to reconsider its support for elimination of this important benefit. Its elimination does nothing to solve the current budget crisis and harms yet-to-be hired colleagues many years in the future; and

BE IT FURTHER RESOLVED, that the Faculty Council on Benefits and Retirement encourages the Administration to help current UWRP participants plan for their retirement by supplying an estimate of the value (if any) of their supplemental benefit. One cannot adequately plan for retirement without this information and, currently, the information is only provided in the year one retires.

Submitted and Approved by:
Faculty Council on Benefits and Retirement
January 28, 2011

Amended and Affirmed by:
Senate Executive Committee
February 14, 2011

¹The 30-year estimate assumes that the typical new hire is age 32 and retires at age 62. The earliest any cash savings could occur from elimination of the UWSRP for new hires is 10 years, i.e., where the new hire is age 52 and retires 10 years later at age 62.

FCBR Draft Proposals re Major Changes in UWRP Investments Policy February 17, 2011

The following includes a draft proposal from FCBR and points of discussion between FCBR chair, Gerry Philipson, and FRC chair, Rica O'Connor, 2-17-11

1. To ensure UWRP participants pay the lowest possible fees, other things equal, the UW Administration should immediately contact existing fund sponsors and request from them their best rates for a large plan such as UWRP. The FCBR notes that Vanguard, CREF, and Fidelity offer lower fees for the same underlying funds than those currently available to the UWRP participants. Data on whether revised fees can be made available should be provided within 60 days by the Plan Sponsors. These revised fees, should they be immediately available, would form the basis for any subsequent comparisons and choices.

Katy has contacted all fund sponsors (the 3 above plus Calvert – available in the VIP option) – by telephone or e-mail and then through a more formal memo. The memo states that our evaluation of possible changes in our retirement plan continues, and makes a request for a detailed fee analysis and an “evaluation of all possible reductions to participant fees,” as we “wish to identify any possible immediate savings available to participants even as our overall review continues.” Memos are dated 7 February, and Mindy Kornberg was also copied. I have no knowledge of any responses to date.

2. When data on revised fees are available, we recommend that the following alternatives (at least) be reviewed bearing in mind the goal of keeping plan fees to a minimum:
 - a. Separately examine the costs and benefits of (i) reducing the number of low-cost funds and (ii) keeping a single record keeper, an RFP could include the alternative of keeping the present number of funds but requiring that one sponsor act as the overall record keeper.
 - b. Examine the full costs and benefits of offering different plan alternatives (e.g. time-to-retirement funds, best of class funds, individual brokerage accounts, as covered in the October Hewitt document). FCBR notes that for example the offering of the best of class funds would require external consulting advice, the cost of which should be revealed as part of the analysis.

General comment:

FCBR believes there are many issues at the policy level that need to be considered explicitly prior to announcing to the plan participants what is essentially an established policy change, e.g.

- a best in class core fund policy,
- the elimination of a variable annuity option for mutual funds such as is presently provided by the CREF variable annuity funds,
- specificity as to the new fee structure re management costs and fund expense ratios,
- the reduction in choices, and assurance re ancillary services now provided by the present multiple record keepers.

There is a general concern that the current proposal represents a sharp change from present policy, and it will be important to anticipate strong opposition from plan participants.

Main points of discussion included the following:

- The changes being proposed seem substantial in that they represent a level of policy change.
- CREF variable annuities provide a highly preferred option for some individuals. The FRC plan does not provide any equivalent, and if this remains the plan, some participants will experience a significant loss of opportunity.
- The appeal of the changes has focused on the single record keeper and low-fee funds. It's important to know the true cost reduction before proceeding to implement a single record keeper and reduced availability of (low-fee) funds
- Participants should be provided with clear information on all costs and fees associated with adoption of a new retirement savings system
- While the primary emphasis has been minimization of fees, there is an accumulation benefit anticipated from the selection and ongoing review of high performing funds within category. Consider that in our present system, within some categories (e.g. esp. lg. growth) vendors offer several similar funds that have shown notable differences in long-term performance. A notable proportion of plan participants never or almost never make changes in their original allocations – which may mean decades of mediocre returns that are not even recognized as such by the participant.

The FRC proposal would at least ensure that the funds held are consistently in well-performing funds (and this assurance is further enhanced by selection from a broad universe).

Quarterly and annual statements provided by a single record-keeper should better inform participants about their overall status than the two (2) or three (3) statements (each with partial information) many now receive. This might stimulate more active involvement in allocation and rebalancing decisions by participants.

Exercise of the brokerage option incurs added fees, the amount of which must be clearly stated. Individuals opting to use this mechanism for some or all allocation will be expecting especially high benefit, and may believe the fees well justify the greatly enlarged field of options.

- The goal of this discussion was to exchange information between two committees, with intent to move forward with a plan intended to increase current and future participants' retirement assets.
- FRC, which developed the proposal, is enthusiastic about the anticipated benefits. FCBR has set forth several areas of concern (cited above), which they ask the FRC to reconsider or explore/clarify further.
- Concerns chiefly address cost relative to costs for current options, need for full disclosure of fees, and potential loss of a unique investment vehicle presently used by a number of participants.