

## **NSHE** Retirement Program

# Defined Contribution Plans Town Hall



#### **Discussion Topics**

- Provide Background
- Overview of Proposed Changes
- Obtain Input

The purpose of today's Town Hall is to educate faculty and staff and give you a chance to speak and listen to others



## What's Not Being Reviewed?

#### There are several things that are not being reviewed:

- Non-participation in Social Security
- Benefits provided to classified employees through the Public Employees Retirement System (PERS)
- Current benefit levels
  - Contribution rate set by the Nevada legislature, matching the PERS contribution
  - ➤ Participants are always 100% vested



#### **Current Circumstances - Assets**

#### As of September 30, 2012

	NSHE
Total Assets	\$1.9 billion
Participants with Balance	15,281
Average Participant Balance	\$123,416
Total Number of Investment Options	290

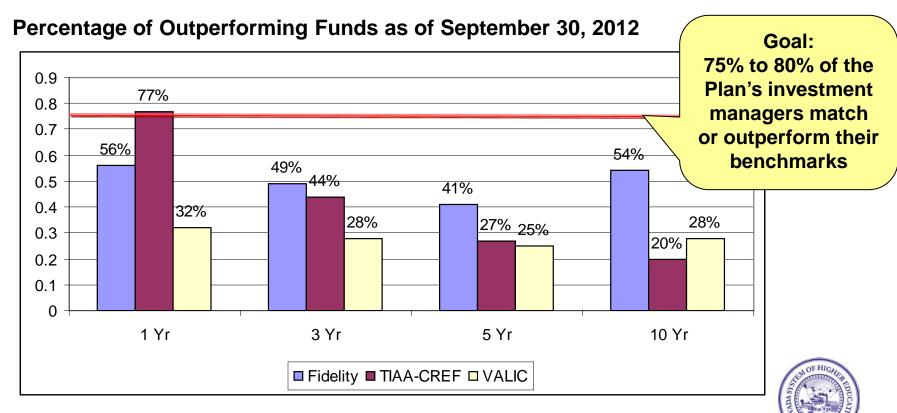
- Three different investment sponsors (Fidelity, TIAA-CREF, and VALIC)
  - Two deselected vendors (American Century and T. Rowe Price)
- The majority of assets (75.1%) are held by TIAA-CREF

	Asset Allocation	Percentage of Total
Fidelity Investments	\$0.3 billion	15.5%
TIAA-CREF	\$1.4 billion	75.1%
VALIC	\$0.2 billion	9.4%
Total Plan Assets	\$1.9 billion	100.0%



#### Current Circumstances - Performance

- Many of the Plans' current investment managers have failed to outperform their respective market benchmarks
  - Higher than average fees have detracted from participant results
  - Proprietary investment menus have limited opportunities for success



#### **Current Circumstances - Fees**

- Administrative fees are currently "hidden" in fund expense ratios
  - Handicaps decision makers from defraying unreasonable expenses
- Costs are significantly above similar size peers or institutions that have recently restructured their defined contribution retirement programs

As of September 30, 2012<sup>1</sup>

Expense	Current	Peer Benchmarking*	Potential Savings
Investment Costs	0.30% of assets	0.23% of assets	0.07% of assets
	\$367 / participant	\$249 / participant	\$118 / participant
Administration	0.11% of assets	0.07% of assets	0.04% of assets
Costs <sup>2</sup>	\$133 / participant	\$81 / participant	\$52 / participant
Other Costs <sup>3</sup>	0.12% of assets \$151 / participant		 
Total Plan Costs	0.53% of assets	0.30% of assets	0.23% of assets
	\$651 / participant	\$331 / participant	\$320 / participant

<sup>&</sup>lt;sup>1</sup> Based upon data from the 2011 Hewitt EnnisKnupp Defined Contribution Total Plan Cost Analysis



<sup>&</sup>lt;sup>2</sup> Includes the impact of administrative reimbursements negotiated by NSHE

<sup>&</sup>lt;sup>3</sup> Includes 12(b)(1), M&E, portfolio advisory services, etc.

## **Opportunity Knocks**

 NSHE can leverage its size to negotiate lower investment and administrative fees due to economies of scale

• All savings will go directly back into your pockets!

> Reducing fees or improving performance by

> > 25

basis points..

...has the same value as...

Increasing the System's contribution

0.5%

of pay for a full career employee

Source: Aon Hewitt 2011 Universe Benchmarks



#### How Will You Benefit?

- Lower administrative and investment fees by using economies of scale
- Easier selection of administrative service providers and investment options
- Improved remuneration through better investment decisions and utilization of "best in class" managers
- More investment choice for those who want it
  - Adding a mutual fund window

Increase in annual return of 0.7% can translate into

15%

more in retirement assets

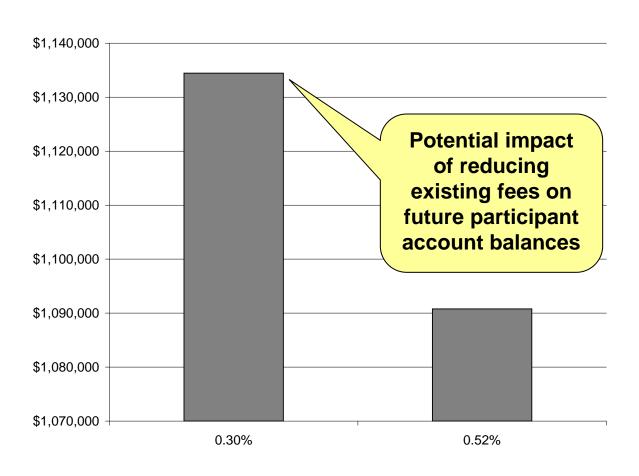
Source: Aon Hewitt 2011 Universe Benchmarks





### Example – Opportunity to Increase Balances

#### **Projected Account Balance with Varied Expenses**



Assumptions: Participant receives 12.5% per year from employer and saves another 12.5% per year starting at age 30, investment return of 5.0%, starting salary is \$60,000 that increases to \$90,000, retirement at age 60.





## **Changing Industry Practices**

Characteristic	Current Paradigm	Emerging Paradigm
1. Plan Design	Bundled	Decouple investments from administration
2. Administration	Provider for each fund family	"Open Architecture"
3. Investment Options	More is better	Fewer, focused, tiered structure
4. Fees	"It's free"	Transparent and equitable
5. Communications	Generic	Personalized, directive
6. Investment Advice	Informational	Unbiased, managed solutions
7. Success Metrics	Accumulation	Lifetime income



#### What Does A Record Keeper Do?

- Recordkeeping is a broad term used to refer to the following services:
  - Process participant activities
  - Create participant communications (i.e. statement)
  - Provide education and guidance
  - Monitor legal and regulatory requirements
  - Safeguard Plan assets





## Why Reduce the Number of Recordkeepers?

- Consolidating administrative services may offer a more centralized way to enhance the participant experience
  - Fee savings
  - Consolidated account statements
  - Enhanced educational resources
  - All assets considered when using tools like investment advice



## Reasons for a Request for Proposal (RFP)

 Best Practice - NSHE has not done an administrative service provider search for the Retirement Program since the early 90's

 Lower Expenses - Employees are paying too much for investment management and administrative services

 Simplification - The Retirement Plan structure is overly complex for the majority of employees



## Objectives of the Request for Proposal

#1 Simplify the	<ul><li>Enhanced purchasing power and lower administrative fees</li></ul>			
participant experience	<ul> <li>Customized and consistent enrollment and education materials</li> </ul>			
oxponence	<ul><li>Identify a master recordkeeper or reduce the number of recordkeepers</li></ul>			
#2 Improve	<ul><li>Utilize open investment architecture for better performing funds</li></ul>			
investment offerings	Lower investment management fees by offering a limited number of "best-in-class" investments			
	■Simplified monitoring of investments			
#3 Maximize	■Transparent and equitable fees			
faculty and staff	<ul><li>Unbiased investment guidance and advice</li></ul>			
engagement	■Enhanced retirement planning and lifetime income features			



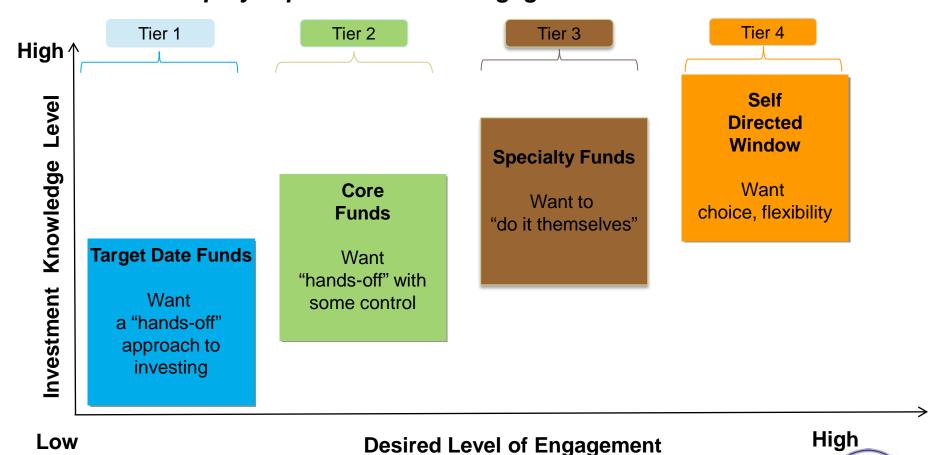
## Why Simplify the Investment Menu?

- Use size of NSHE Retirement Plan assets to negotiate better share classes with lower management fees
- Removal of duplicate investment options and poor performing funds
- Open architecture allows investment flexibility to utilize only "best-in-class" managers
- Investment "tiers" help guide participants in their investment decision making
- Mutual Fund window creates expanded choice



#### Tiered Investment Structure

 Investment offering to meet different levels of investor knowledge and different employee preferences for engagement



## Sample Investment Line-Up

Tier	Investment Structure				
Asset Allocation Funds	<ul> <li>Target Date Retirement Funds (Income - 20XX)</li> </ul>				
Core Funds	<ul><li>Money Market</li></ul>	<ul> <li>Total Bond Market Index</li> </ul>			
	<ul><li>Total U.S. Equity Index</li></ul>	<ul><li>Total Non U.S. Equity Index</li></ul>			
Specialty Funds	Index Options:	Active Options:			
	<ul><li>Short-term Fixed Income</li><li>Inflation Protected Fixed Income</li></ul>	<ul><li>Stable Value / Guaranteed Interest</li></ul>			
<ul> <li>Large Cap U.S. Equity</li> <li>Small/Mid Cap U.S. Equity</li> <li>Developed Non-U.S. Equity</li> <li>Emerging Non-U.S. Equity</li> </ul>	<ul> <li>Diversified Fixed Income</li> </ul>				
	<ul><li>High Yield Fixed Income</li></ul>				
	<ul><li>Large Cap Growth U.S. Equity</li></ul>				
	<ul><li>Large Cap Value U.S. Equity</li></ul>				
	<ul><li>Small/Mid Cap U.S. Equity</li></ul>				
	<ul><li>Non-U.S. Growth Equity</li></ul>				
	<ul><li>Non-U.S. Value Equity</li></ul>				
	<ul><li>Global Equity</li></ul>				
		<ul><li>Real Estate</li></ul>			
Self-Directed Window	<ul><li>Mutual Fund Window</li></ul>	NOF HIGHE			



#### NSHE Is Not Alone...

#### Institutions Who Are Enacting Similar Changes based on Best Practice

- Arizona University Systems
- Caltech
- George Washington University
- Harvard University
- Johns Hopkins University
- Loyola Marymount University
- Minnesota State Colleges & Universities
- Michigan State University
- Massachusetts Institute of Technology
- Northwestern University
- Oregon University System
- Pepperdine University

- Purdue University
- Stanford University
- University of Colorado
- University of Louisville
- University of Miami
- University of Minnesota
- University of Missouri
- University of Oklahoma
- University of Pittsburgh
- University of Utah
- University of Washington
- Yale University



#### **Holding Out on Social Security**

Many state and local governments have opted out of the Social Security system for some of their employees, choosing to provide their own pension plans instead.



\*In most states the majority of police officers and firefighters do not participate in Social Security. New York and New Jersey are exceptions.



Source: National Association of State Retirement Administrators

## DC Plans in Non-Social Security States

		Stand Alone	Not Optional to DB Plan	Self-Directed	Consolidated	Newer Version of Old Plan for New Hires after a Certain Date	
Alaska	State of Alaska Teachers Retirement System	•	•	•	•	<b>✓</b>	One of 3 DC plans offered in Alaska, Great West is single vendor.
Alaska	Alaska PERS Defined Contribution Plan	<b>✓</b>	•	<b>✓</b>	<b>✓</b>	<b>✓</b>	One of 3 DC plans offered in Alaska. Great West is single vendor.
Alaska	University of Alaska Retirement Program	•	•	•		•	One of 3 DC plans offered in Alaska
Colorado	CSU Defined Contribution Plan for Retirement	•	•	•			
Colorado	CO State College Defined Contribution Pension Plan	•	•	•			
Colorado	U of Northern CO Defined Contribution Pension Plan	•	•	•			AND HIGH THE PROPERTY OF THE P



## DC Plans in Non-Social Security States

OPTIONAL DEFINED B CONTRIBU	ENEFIT OR DEFINED	Stand Alone	Not Optional to DB Plan	Self-Directed	Consolidated	Newer Version of Old Plan for New Hires after a Certain Date	
Ohio	Ohio State Teachers Retirement System	<b>✓</b>		<b>✓</b>	<b>✓</b>		Offered as DB, DC or combination
Illinois	Illinois State University Retirement System Self Managed Plan	•		•	•		SURS acts as "service agent" producing unified statement
Ohio	Ohio PERS Member Directed Plan	•		•	•		One of three plans offered in Ohio. Offered as DB, DC or combination
Louisiana	Louisiana Optional Retirement Plan	•		•			Each vendor offers a guaranteed income product
Ohio	Ohio Alternative Retirement Plan	•		•			One of 3 plans offered in Ohio
MA	Massachusetts Optional Retirement Program	•		•			Fidelity recently added as 4th vendor via RFP
	J						Lincoln Financial eliminated as 4th vendor due to performance issues

## Shared Governance - What Happens Next?

- We are soliciting your input and concerns today
- Approximate timeline of future communications to the NSHE community are as follows:

Timing	Activities
May – June 2012	Meetings with the Chancellor, Counsel of Presidents, Chief Financial Officers, Chief Human Resource Officers, and Chairs of Faculty Senates to discuss the proposed enhancements and plans to roll out to faculty and staff
July – October 2012	Meetings with the Faculty Senates to discuss the proposed enhancements and plans to roll out to faculty and staff
November 2012 – February 2013	Town Halls at all institutions to provide faculty, professional staff, retirees, etc. with additional information and provide a forum for feedback. Participant Survey to solicit input on service enhancements and investment options
March 2013	Administrative search to establish optimal relationship between cost and services provided by service provider(s)



#### **RPAC Committee Members**

- RPAC committee members include:
  - Robb Bay, CSN
  - Kent Ervin, UNR
  - Carla Henson, Retiree
  - Patricia Hughes, DRI
  - Michelle Kelley, Chair, BCN
  - Spencer Stewart, NSC
  - Frank Daniels, GBC

- Mike Hardie, WNC
- Pat LaPutt, BCS, UNLV
- Hank Stone, Delegated Authority, NSHE
- Steven Streeper, TMCC
- Alan Schlottmann, Faculty Senate Chairs Rep (UNLV)
- Paul Thistle, UNLV

The mission of the NSHE Retirement Program is to provide opportunities for employees to accumulate a reasonable level of savings towards retirement income through engagement, education, guidance, and investment choices



#### **Need More Information?**

## http://tinyurl.com/retirementenhanceprogram OR

www.nevada.edu

Administration

**Human Resources** 

Retirement Plan

Current Initiatives to Enhance Program



#### Discussion, Feedback, and Questions



Please ask questions now or submit via email to george dombroski@nshe.nevada.edu

pat.laputt@unlv.edu

kelleym@unr.edu

