

# **NSHE Retirement Program**

**Summary of Current Status, Goals & Objectives, and  
a Process for Achieving Enhancements**

**Retirement Plan Advisory Committee  
June 2012**

**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.**

## Executive Summary

The NSHE Retirement Plan Alternative (RPA) was established in 1977 as an alternative to the Nevada Public Employees Retirement System (PERS). Faculty and professional employees who are not members of the PERS system when first hired with NSHE are mandated to participate in the RPA. The plan is a defined contribution program or 401(a) and contribution rates to the program are set by the legislature to match the contributions to PERS.

NSHE employees do not contribute to Social Security and as such, their primary source of retirement income from employment at NSHE is either through PERS or the RPA. Therefore, 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.*

The Chancellor is the authorized Plan Administrator of the NSHE retirement plans, with certain day-to-day operations handled by a Delegated Authority, currently the System Counsel. The Retirement Plan Advisory Committee (RPAC) advises the Plan Administrator on plan policy and investment matters. A Retirement Plan Alternative Manager supports the RPAC and Delegated Authority, and an investment and plan consulting firm has been retained to provide independent expertise.

Although NSHE is not subject to the federal private defined contribution law known as ERISA, NSHE's intention is to administer the Retirement Program consistent with ERISA's provisions of fiduciary best practice. The two key fiduciary duties under ERISA are:

- Selection must be made by focusing exclusively on how best to provide benefits to participants and beneficiaries while ensuring that administrative expenses are reasonable.
- Selection must be made with the skill, prudence, and diligence of a prudent expert. The focus is on a prudent process.

The NSHE Retirement Program includes the following defined contribution plans:

- Retirement Plan Alternative 401(a)/414(h)
- Medical resident/Postdoctoral Scholar Retirement 403(b) Plan
- Tax Sheltered Annuity 403(b) Plan (TSA)
- Excess Benefit 415(m) Plan

Assets in the program have grown to \$1,878,800,632 as of 3/31/2012. Investment, account, and administrative services are currently provided through a three-vendor, fully bundled service provider structure. Vendors are reviewed every five years with the last review in 2007. During that review process, the RPAC identified multiple service and cost issues with all three vendors. These issues include:

- The current three-vendor, fully bundled service provider structure and the large number of redundant investment alternatives are confusing to participants, administratively difficult, and not cost effective compared with peer institution benchmarks. Each of the

vendors provide personal guidance on retirement investments, but the number of account advisors dedicated to NSHE participants by the vendors has not been commensurate with the level of assets in the plans.

- Many of the existing investment alternatives from all three providers, including some with a very large amount of assets, are not meeting well-defined performance benchmarks over 1-, 3-, and 5-year periods.
- The investment management expenses and administrative expenses of the plan are much higher than the benchmarks for other similar sized plans and not equitable due to the fee being applied as a percentage, thus employees with larger balances are paying much more than the cost of maintaining their Plan. Additionally, these expenses are hidden in the fund expense ratios and thus are not transparent, leading many employees to believe that their retirement plan is free.
- Although the program offers 290 funds (93 in the RPA), the great majority of plan participants utilize fewer than five funds. Research studies show that offering participants a large number of choices (of funds and vendors) tends to paralyze decision making and to lead to more conservative asset allocations.
- Consolidation of the mutual fund lineup into fewer funds with more assets would give the Program access to less expensive institutional share classes, with the lowest possible management and administrative expenses for the collective benefit of all participants.
- ERISA best practices and recent changes in 403(b) regulations require that NSHE monitor and disclose information to participants about all of the funds in the plans, and coordinate administration across all vendors. This is a major burden for the RPAC and NSHE as the plan is currently structured.
- Negotiations with the three vendors over the past two years have resulted in significant but modest absolute dollar savings for participants and funding concessions for plan administrative expenses.

These issues prompted a discussion of possibly re-designing the program. At that time, the RPAC had limited resources at its disposal and it was not until 2011 that resources were made available to make it possible to hire a consultant to fully examine the program and make recommendations. Hewitt EnnisKnupp was hired in October of 2011 to conduct a review of the program as well as provide information to the RPAC regarding best practices in the industry especially in higher education. Hewitt EnnisKnupp prepared a detailed report listing their findings including:

- Even after recent reductions, the investment management and administrative fees from all three vendors are high compared with plans of similar size. Many of the investment vehicles are underperforming their benchmarks.
- A tiered structure for the investment alternatives provides a simplified experience for participants that enhances engagement. The tiers represent the “best of the best”

investments with professionally managed, low-cost lifecycle funds for the typical hands-off participant, a limited number (15-25) of diversification funds for more sophisticated investors that can be effectively monitored by NSHE, and a self-directed mutual fund brokerage window for the small number of participants with specialized needs.

- Consolidation of investment vehicles and recordkeeping services can result in significant cost savings, better performance, and service enhancements.
- Many peer institutions have recently enacted changes in their retirement plans using a Request for Proposal process. All have achieved cost reductions and improvements in investment offerings and participant services. Some have chosen a single recordkeeper and full open architecture for investments, while others have found a continuation of multiple vendors or a hybrid structure to be in the best interest of participants, particularly for plans with a large “legacy” asset base.
- The best way to achieve further cost savings and plan improvements is to issue a Request for Proposals where all vendors can competitively bid on various scenarios. Future contributions of participants must be formally on the table in order to induce vendors to make their best offers. (There is no plan for NSHE to force participants to move existing assets from their current investments or service provider accounts; NSHE is in fact unable to do so in the case of individual contracts with TIAA-CREF.)

Based on these findings, the Chancellor has approved a process for the RPAC to provide information to and solicit input from faculty and staff about plan improvements leading to a possible RFP in late 2012. Members of the RPAC are meeting with institutional leadership groups in May to August, will conduct a participant survey in early Fall semester, and will schedule open forums at all NSHE institutions in September to October. A recommendation by the RPAC to the Chancellor regarding a RFP is targeted for November 2012.

## **I. NSHE Retirement Program**

The Board of Regents has authorized the Chancellor as the Plan Administrator for the NSHE retirement plans. The policies controlling the NSHE Retirement Program are contained in the approved Plan Documents and in the actions affecting the plans as approved by the Chancellor from time to time, including contracts or agreements with vendors. These policies may be modified in the future administration of the plans, as the NSHE deems best in its judgment.

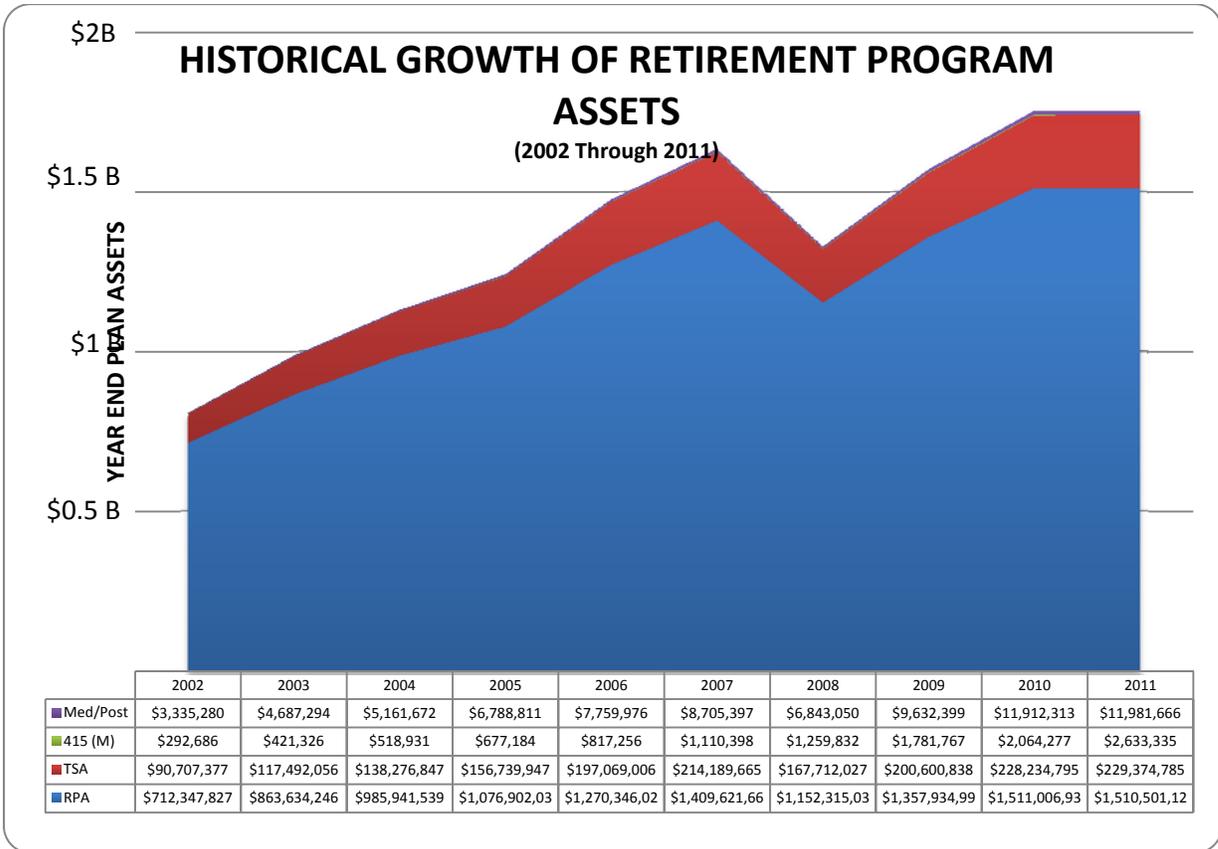
Although NSHE Retirement Program is not currently subject to certain portions of the Employee Retirement Income Security Act (“ERISA”) which governs plan operations and plan sponsor fiduciary duties, NSHE’s intention is to administer the Retirement Program consistent with ERISA’s provisions of fiduciary best practice. The two key fiduciary duties of plan sponsors are:

- Selection must be made by focusing exclusively on how best to provide benefits to participants and beneficiaries while ensuring that administrative expenses are reasonable.
- Selection must be made with the skill, prudence, and diligence of a prudent expert. The focus is on a prudent process.

The NSHE Retirement Program includes the following defined contribution plans that are described further in this section:

- Mandatory Defined Contribution Retirement Plan Alternative (RPA)
- Mandatory Medical resident/Postdoctoral Scholar Retirement Plan
- Supplemental Tax Sheltered Annuity 403(b) Plan (TSA)
- Excess Benefit Plan

The assets in the four plans have grown significantly and collectively they represent a very sizable retirement fund, as shown in the graph below. As of 3/31/2012, the total amount of plan assets held by active, retired, and former employees is \$1,878,800,632.



### A. Retirement Plan Alternative

The Retirement Plan Alternative (RPA) is a mandatory 401(a) plan for NSHE faculty and administrators (other than those who are participants in the Nevada Public Employees Retirement System). The contributions, set by the State of Nevada, are currently 12.25% (employer) and 12.25% (employee, picked up as a 414(h) contribution). The RPA is a substitute for social security; Nevada state employees are exempt from social security and do not contribute into it. The RPA plan is authorized under NRS 286.802-816 and the NSHE Administrative Code Title 2, Section 5.6.1.

Total assets as of 12/31/11:	\$1,513.1M
Annual contributions (2011):	\$ 83.2M*
Total number of accounts as of 12/31/11:	11,354**

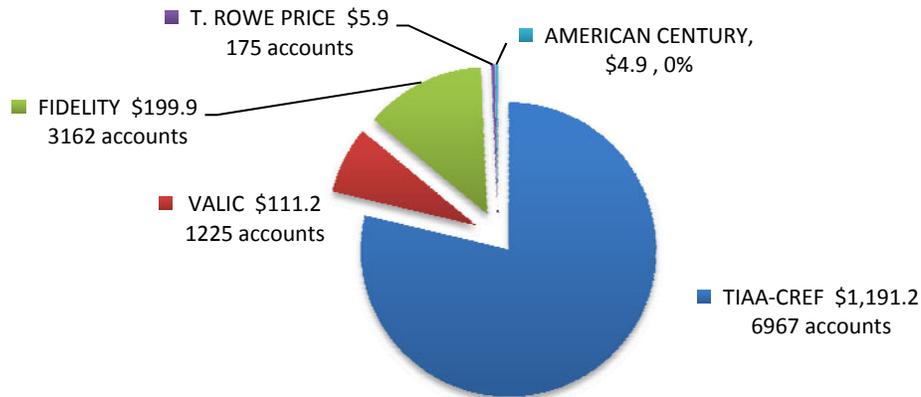
\*Includes employer matching contributions.

\*\*This number may be overstated as participants can have accounts with multiple vendors.

RPA participants currently may invest contributions with one, two, or three vendors (Fund Sponsors). The vendors are Fidelity Investments, TIAA-CREF, and VALIC. In addition, American Century and T. Rowe Price hold frozen accounts in the plan. The asset breakdown as of 12/31/2011 is as follows:

## DISTRIBUTION OF RPA PLAN ASSETS

(In millions)



The RPA plan assets listed above include a discontinued 403(b) plan, legacy assets from the 1990s that must be segregated, and a 415(m) Excess Benefit Plan (\$3M in assets) for highly compensated individuals. Vendors are expected to support these additional plans.

The NSHE Retirement Plan Alternative (RPA) was established in 1977 as an alternative to the Nevada Public Employees Retirement System (PERS). Faculty employees who are not members of the PERS system when first hired with NSHE are mandated to participate in the RPA. The plan is a defined contribution program or 401(a) and contribution rates to the program are set by the legislature to match the contributions to PERS. Classified staff participate in PERS instead of the RPA.

As with PERS, the RPA plan is a substitute for Social Security. The Board of Regents has directed that the RPA plan be administered to provide for the retirement income for covered faculty and administrative staff. However, as a Defined Contribution plan, the RPA lacks any guarantee of retirement income as provided by a Defined Benefit plan such as PERS. Rather, in a Defined Contribution plan all investment risk and the risk of outliving the retirement assets is left to the individual employee. Of the few states that have never opted into the Social Security system for state employees, most provide a Defined Benefit retirement plan (some with an option to join a Define Contribution plan instead within a few years of the hire date).

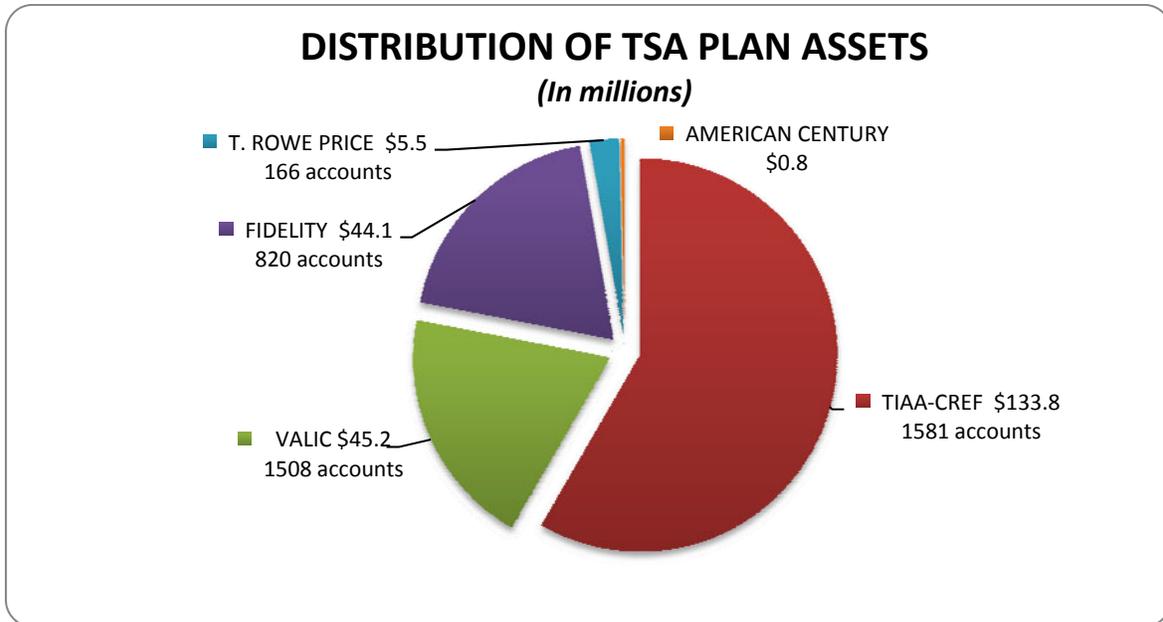
### B. Tax Sheltered Annuity

The Tax Sheltered Annuity (TSA) plan is a voluntary 403(b) retirement savings program for NSHE faculty, administrators and staff, who may contribute up to the allowed maximum amounts. Both Traditional 403(b) and Roth 403(b) accounts are available. There is no employer match for TSA contributions.

Total assets as of 12/31/2011:	\$229.4M
Annual contributions (2011):	\$ 14.0M
Total number of accounts as of 12/31/11:	3,474*

*\*This number may be overstated as participants can have accounts with multiple vendors.*

TSA participants currently may invest contributions with one, two, or three service providers. The providers are Fidelity Investments, TIAA-CREF, and VALIC while T. Rowe Price has trusteeship over frozen accounts, with the following breakdown of assets as of 12/31/2011:



### C. Medical Resident and Postdoctoral Scholars Plan

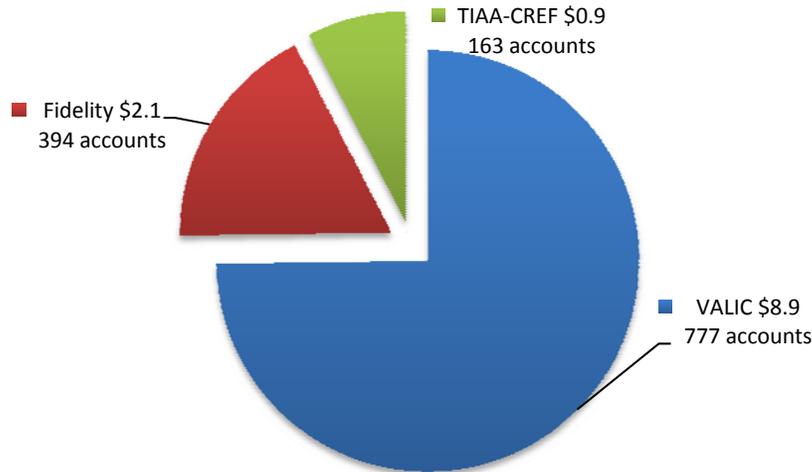
The MedRes/Postdoc Plan is a social security substitute plan for Medical Residents and Postdoctoral scholars implemented as a 403(b) plan. The contributions are 6.2% (employer) and 6.2% (employee).

Total assets as of 12/31/2011:	\$ 11.9M
Annual net contributions (2011):	\$ 2.0M
Total number of accounts:	1334

*\*This number may be overstated as participants can have accounts with multiple vendors.*

The service providers for the MedRes/Postdoc Plan are VALIC, Fidelity, and TIAA-CREF. VALIC was the sole provider until October 2008. The assets as of 12/31/2011 are as follows:

## DISTRIBUTION OF MED RES/POSTDOC PLAN ASSETS (In millions)



## II. Non-NSHE Retirement Plans

In addition to the retirement plans sponsored by NSHE, certain NSHE employees are eligible for the following separate State of Nevada plans that are not sponsored by NSHE:

### A. Nevada Public Employees Retirement System (PERS)

PERS is a state-sponsored defined benefit plan for classified staff employees, faculty who were covered under PERS prior to employment at NSHE, and faculty who were covered by PERS prior to July 1, 1977 and elected to stay in the system. PERS is administered by the State of Nevada, with a Retirement Board and Executive Staff (<http://www.nvpers.org/>).

### B. Nevada Deferred Compensation Plan

The Nevada Deferred Compensation Plan is a 457 plan for state employees. NSHE faculty and staff may make voluntary contributions to the 457 plan in addition to the TSA 403(b) plan. The 457 plan is overseen by the Nevada Deferred Compensation Committee and an Executive Officer (<http://defcomp.state.nv.us>). The current vendors for the NDC 457 Plan are ING and The Hartford. As required by statute, the NDC 457 Plan conducts Request for Proposals for service providers every five years. A RFP was issued in Spring 2012 to select vendor(s) for the 457 plan to be effective on 1/1/2013.

### C. FICA Alternative Plan

The FICA Alternative Plan is a substitute for social security for part-time and temporary NSHE employees. It is overseen by the Nevada Deferred Compensation Committee

(<http://defcomp.state.nv.us>). The current vendor for this plan is The Hartford, with grandfathered accounts administered by ING.

### **III. Oversight of the NSHE Retirement Program**

The Chancellor has delegated authority for the day-to-day operation of the Retirement Program and the Retirement Plan Advisory Committee to an NSHE senior staff member, currently the System Counsel (**Delegated Authority**). This includes staffing, organization, and duties of the Retirement Plan Advisory Committee.

The NSHE **Retirement Program Advisory Committee** (RPAC) serves in an advisory capacity to the Delegated Authority. The purpose of the Committee is to review, comment, and make recommendations to the Delegated Authority on past, current and proposed policies related to the NSHE Retirement Program consistent with the following mission statement that has been adopted for the Retirement Program:

**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.**

The Committee is composed of representatives from each of the NSHE institutions nominated by the Presidents of the institutions and the Benefit Managers for Business Center North and Business Center South. The Committee also includes representatives of the faculty senate chairs and NSHE retirees. Members preferably have a background and experience in the administration of retirement and other benefit plans, in finance or financial planning, or other areas that would provide the ability to make knowledgeable decisions related to the Plans. The Chair is appointed by the Delegated Authority in consultation with the Chancellor. The Committee is currently chaired by Michelle Kelley, Business Center North Benefits Manager.

The RPAC meets on a quarterly basis and is expected to:

- Exercise functions solely in the interest of the participants and beneficiaries, and be responsive and flexible to meet participants' needs.
- Promote the collective best interests of the participants in the Program.
- Provide a selection of investment options to ensure that the options represent a reasonable choice as to investment risk, return, style and asset class.
- Ensure that plan providers provide quality service to the participants.

An **Investment Management Subcommittee** (IMS) of the RPAC, appointed by the RPAC Chair, is responsible for regular reviews of the performance of investment vehicles and of the services provided by the vendors. The IMS meets quarterly with the independent consultant and semi-annually with Fund Sponsor representatives to review overall Plan performance. The current members of the Investment Management Subcommittee are Kent Ervin (UNR, Chair), Michelle Kelley (BCN Benefits Manager), and Pat La Putt (BCS Benefits Manager).

The **Retirement Plan Alternative Manager**, currently George Dombroski, is a staff resource to the RPAC and to the Delegated Authority. The Manager's role is to schedule meetings and coordinate meeting arrangements for members and other meeting participants/invited guests such as service providers and consultants; communicate goals and timetables for requested data and reports from service providers and consultants to ensure timely submission of materials; and written analysis, reports and recommendations in advance of meetings to allow members to consider and digest information in the interest of promoting well-informed meetings. The RPA Manager also manages the RPA Administration budget with oversight from the Delegated Authority.

In October 2011, following a Request for Qualifications process, the RPAC retained the services of an investment and plan management consultant, Hewitt EnnisKnupp. The role of the investment management consultant is to advise the Committee on the management of plan assets and plan design.

The detailed roles and responsibilities of the Delegated Authority, RPAC and its members and chair, the Investment Management Subcommittee, the Retirement Plan Alternative Manager, and the investment consultant are provided in **Exhibit A**.

#### **IV. Participant Rights and Responsibilities**

Participants are 100% vested in all of the NSHE retirement plans. Withdrawals are subject to age and employment status limitations according to the respective Plan Documents and are subject to taxation as provided in the Internal Revenue Code and applicable Regulations.

Participants:

- are responsible for their own investment decisions and assume all investment risk;
- are responsible for learning about the retirement plans and investments;
- are responsible for selection among vendors for management of accounts;
- are responsible for keeping beneficiaries and contact information up to date;
- may expect access to a diversified set of funding vehicles allowing prudent retirement investing;
- have a right to request and receive information on investments and providers;
- have a right to full and transparent reporting of personal investment performance;
- have a right to full and transparent reporting of expenses and fees;
- have a right to clear and complete information about withdrawal restrictions, surrender charges, or market adjustment charges.

#### **V. Service Providers**

NSHE currently contracts with three bundled service providers (known as the Fund Sponsors, recordkeepers, or vendors). The service providers serve in the combined capacities of trustee, record keeper, administrator, and investment manager for the NSHE Retirement Program. The vendors are responsible for frequent and open communication with the RPAC on all significant matters pertaining to investment guidelines and the management of plan assets. This section outlines the RPAC's understanding of service provider responsibilities, and desires for future

services, in the context of the current multi-vendor, fully bundled plan structure. The 2012 Investment Program Review by Hewitt EnnisKnupp, which accompanies this report, discusses possible alternative structures in which the responsibilities for account recordkeeping and investment management would be de-coupled so that the available investments are not limited to proprietary products from the service provider.

As a provider for the NSHE retirement plans, the service providers' role is to provide comprehensive administrative, marketing/educational services and investment management services to all plan participants for all plans under NSHE.

Some of the key investment-related responsibilities of the service providers, or of the outside investment consultant under an open-architecture structure, include obligations to:

- Comply with the provisions of applicable federal and local regulations and rulings;
- Working with NSHE and its investment consultant, develop an investment program that offers a diversified range of funds;
- Identify investment options (i.e., types of funds) which it deems appropriate and prudent to make available to plan participants;
- Select and monitor investment managers/funds to serve as the investment options of the NSHE Retirement Program;
- Inform the RPAC of any major changes in the vendor company's investment outlook, investment strategy or portfolio structure;
- Advise the RPAC of any material changes in the ownership organization structure, financial condition or senior personnel staffing of the vendor company;
- Acknowledge in writing the ability and agreement to invest within the guidelines set forth in the written agreement between the vendor company and NSHE;
- Advise the RPAC of any change in the portfolio managers responsible for managing plan assets;
- Advise the RPAC of any pertinent issues that the vendor deems to be of significant interest;
- Keep the RPAC informed on current investment trends and issues and on regulatory issues;

Some of the key participant service responsibilities of the vendor companies may include obligations to provide:

- One-on-one counseling services
  - Offer on-campus sessions at least monthly during academic year (Las Vegas and Reno metro-area campuses) and as required to meet client demand at other campuses
  - Telephone support center
  - Periodic outreach to clients
- Group meetings and educational seminars
- Custom web site showing investment options to clients and non-clients
- Online contribution changes, fund exchanges, all other transactions
- Online retirement and financial planning tools

- Educational literature and newsletters
- Customer service center
- Marketing and education services
- Enrollment services
- User-friendly account statements with personal rates of returns and expenses reported in a transparent manner;
- Quarterly statements (mail or optional electronic delivery)
  - Investment balances
  - Transaction detail
  - Asset allocation pie chart
  - Summary of beginning balance, net contributions/withdrawal, earnings/market appreciation, ending balance
- Additional statement information at least annually
  - Personal rate of return for 1-, 3-, and 5-year periods
  - Average net expense ratio and total expense dollar amount for period and year-to-date
- Advising on retirement withdrawal and annuity options
- Optional low-cost asset management or portfolio guidance services (possibly with account asset threshold)

Key administrative service responsibilities of the vendors include:

- Administrative support to NSHE benefits managers
- Dedicated Plan Manager and National Accounts Manager
- Profile maintenance and update
- Contribution changes
- Catch-up elections
- Distribution support
- Income tax reporting and withholding for Federal taxes
- Unforeseen emergency withdrawal support (where allowed)
- Loan support (where allowed)
- Tracking of loans and defaults
- Qualified Domestic Relation Order support
- Maintain account beneficiary information
- Enrollment services
- Processing investment changes and transfers
- Same-day execution of investment exchanges and contribution allocation changes
- Processing inter-vendor transfers.
- Daily valuation on all participant account values
- Avoid any relationships with NSHE staff, administrators, or RPAC members that could be perceived as creating a conflict of interest.
- Meet with and report semi-annually to RPAC on funding vehicle performance, total expenses, participant demographics, participant investments and asset allocations, participant returns, client service, and administrative service.

## **VI. History of the Process Leading to the Current Review**

In 2007 under the leadership of past Chair Carla Hansen, the RPAC conducted a regular 5-year review of the three vendors. A Request for Information from each vendor solicited information about their services, investment performance, fees, litigation, etc. The Committee reviewed the material provided by the vendors and questioned their representatives. Although the Committee was generally satisfied that the vendors were fulfilling their contractual duties, there were major concerns especially about apparent high fees for some of the investment alternatives (especially VALIC annuities), about the low number of in-state representatives (especially TIAA-CREF), and the large number of investment alternatives with redundancies (especially Fidelity). Discussions about possible changes led to a decision to begin a long-term strategic planning process, which has continued since then.

In 2008, the RPAC voted to recommend that NSHE conduct a formal Request for Proposals from the vendors to provide more competitive services and fees. A subcommittee (Kent Ervin, Mike Hardie, Pat La Putt) researched RFPs at similar institutions and developed an initial version of this document. However, no RFP was pursued, largely because of limits of staff time in the benefits offices and later because of the strain of the state budget crisis and associated issues.

The financial crisis of late 2008 led to concerns about the financial stability of the insured products in the NSHE retirement program, namely the AIG Retirement/VALIC Fixed Accounts and the TIAA Traditional Annuity. In addition, the fallout from the AIG financial implosion and bailout, and resulting changes at VALIC, magnified concerns by the RPAC and the BCN and BCS Benefits Managers about deficiencies in the participant and administrative services provided by VALIC. This situation led to the Committee recommending a temporary suspension of new enrollments in VALIC (existing contributors were allowed to continue) and then conducting a review of program concentrating on the insured stable value funds/annuities, VALIC service, and on fees and commissions. The summary report of the review subcommittee (members Kent Ervin, Pat La Putt, Michelle Kelley, and Judy Stewart) is attached as **Exhibit B**. Following this review and service improvements by VALIC, the enrollment suspension was lifted.

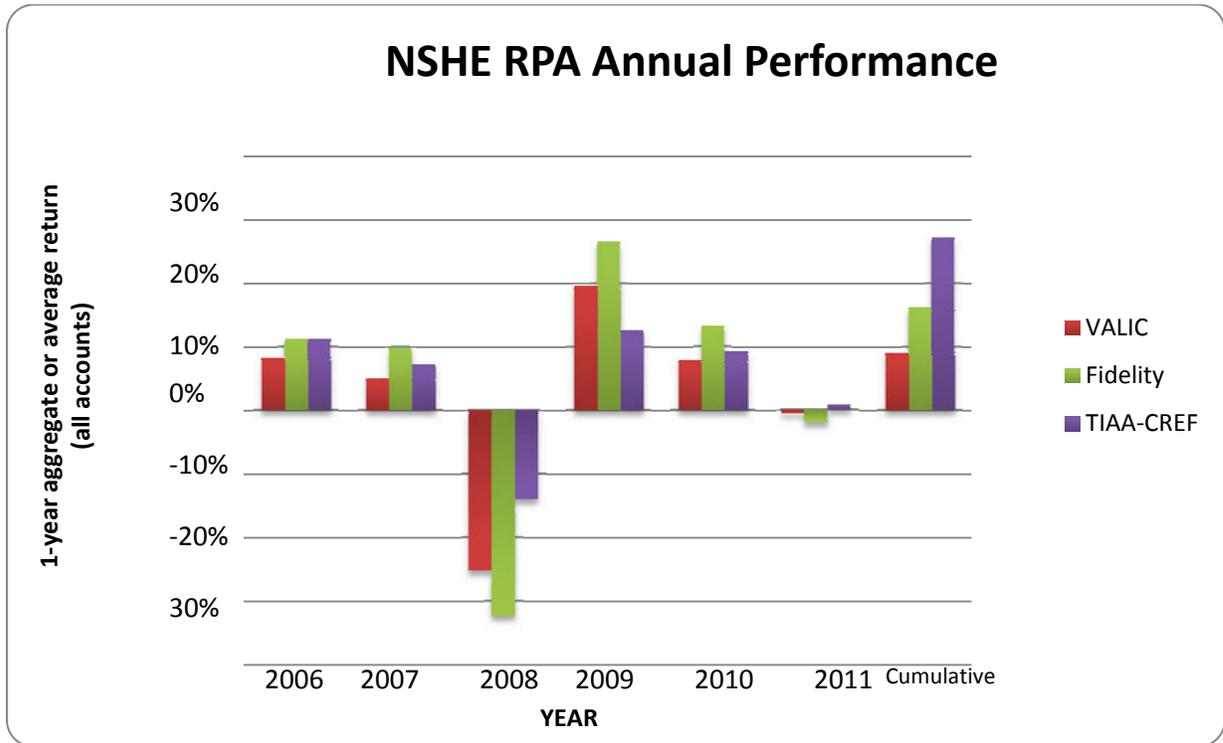
In 2009, the RPAC under the leadership of then co-Chairs Henry Stone and Michelle Kelley conducted an informal benchmarking of plan expenses, investment lineups, and vendor services with the aid of an outside firm. This analysis led the Committee to understand that the Plan was being charged high, retail-level fees by the three vendors for both administration and fund management, and that NSHE was not obtaining the lower fees and higher levels of service that should be leveraged by the large size of the assets held by participants.

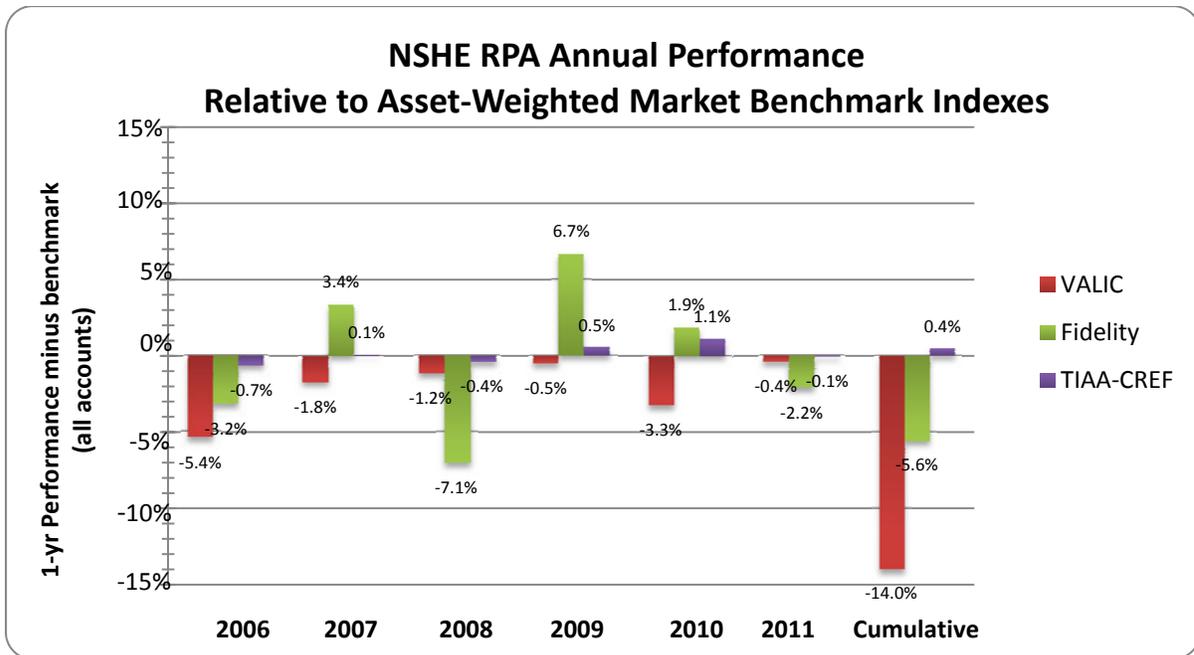
It became apparent that further progress on improving plan services, monitoring and rationalizing the investment fund lineup, and reducing expenses would require expertise beyond that of the RPAC membership. However, the NSHE Retirement Program never had a state-funded budget or any other means to hire a program manager or independent consultants (beyond legal counsel required to maintain the Plan Documents in compliance, retained by the System Office on an ad hoc basis). Negotiations with the current vendors to provide funding

concessions for plan administrative expenses, as is typical of retirement plans of our size, were chosen as the best way forward. As described further below, these negotiations led by Henry Stone have also achieved significant net reductions in total expenses for participants.

**VII. Investment Fund Monitoring**

Since 2007, the Committee has been devoting increased attention to the performance of the investment fund offerings of the three vendors. In addition to their customary semi-annual plan reviews, each of the vendors has been required to prepare year-end summary reports on the performance of their fund offerings in the aggregate. The results of these reports are compiled by the Committee into summary comparisons of the funds. The charts that follow graphically display the relative performance of the vendor’s investment portfolios (for all RPA participants in aggregate) as well as the performance of the respective portfolios relative to their asset-weighted benchmarks for calendar years 2006-2011.





It is noteworthy that the TIAA-CREF portfolio, largely because of its concentration in guaranteed income investments, has held up best during this period of financial turmoil. It is also noteworthy that the VALIC portfolio has consistently underperformed both the competitor vendors and the benchmarks, which largely reflects its higher fees as well as trailing fund performance.

There has been a developing concern on the part of the Committee about its ability to meet its fiduciary responsibility to participants to evaluate the performance of the funds. While it has strived to maintain an appropriate level of due diligence by monitoring the investments and vendors on a semi-annual basis, the Committee has long acknowledged that it lacks the time and expertise to evaluate the performance of all 290 investment options at the level of scrutiny it would desire. The faculty representatives on the RPAC serve as part of their institutional service, some voluntarily while off contract, and the Benefits Managers have many other duties in addition to RPAC activities. Since 2007, there has been a palpable need for the expertise of an investment management consultant to assist the Committee in fulfilling its obligation to monitor fund performance and take prudent action regarding the funds.

In 2011, the RPAC was reconstituted by Vice Chancellor Bart Patterson, who was then acting as the Chancellor's Delegated Authority. RPAC membership was expanded to include faculty representatives from all institutions. At the August 2011 RPAC meeting a plan review was conducted for the benefit of the newer members. The slide deck attached as **Exhibit C** was used to stimulate discussion around the Committee's need for expert advice from a third party to carry out its fiduciary duties to manage the Program's highly complex and, in many instances, redundant investment structure. The sample simplified tier structure for investment alternatives was based on the Committee's research into best practices for plans of a similar size; it closely mirrors the subsequent recommendations in Hewitt EnnisKnupp's Investment Program Review document.

The process of engaging an investment management consultant has been hindered by a lack of funds. The RPAC and the NSHE Retirement Program operate with no direct allocation of state funds. Beginning in 2009, the Committee began negotiations with the vendors for modest contributions to an NSHE administrative expense account. These negotiations bore fruit in 2010 and 2011 when the vendors agreed to quarterly allocations to NSHE in the following amounts:

<u>Vendor</u>	<u>Quarterly Allocation</u>	<u>Annual Allocation</u>
TIAA-CREF	\$50,000	\$200,000
VALIC	\$20,000	\$ 80,000
FIDELITY	<u>\$10,000</u>	<u>\$ 40,000</u>
TOTAL	\$80,000	\$320,000

This annual allocation to NSHE for administrative expenses represents about 0.02% of plan assets. It's important to note that the provider concessions for administrative expenses were based on the existing fee structure. Participant fees were not increased to support these concessions. In fact, as discussed later in this report, participant expenses have been significantly reduced.

It should be noted that in 2012, as a result of pressure to align NSHE participant fees with the true cost of administering the NSHE plans, additional significant savings have been identified. Fidelity has identified an additional \$60,000 in annual excess credits (revenues collected in excess of plan administration expenses) that will be made available for plan expenses or allocation back to participants. TIAA-CREF has identified \$848,953 in excess revenue credits for the plan year ended June 30, 2011 that will be available for plan expenses or allocation back to participants. Similar excess revenue credits are expected in coming years. Finalizing the revenue credits is subject to completion of amendments to the recordkeeping services agreements with the vendors that are currently under review.

Having secured a funding source, the Committee launched an RFQ for an investment management consultant in February 2011 which culminated in a contract with the firm of Hewitt EnnisKnupp in October 2011. Having retained a consultant, the Committee's first order of business was to create an Investment Policy Statement to serve as a process guide in fulfilling its duty to monitor fund performance. In February 2012, the Committee adopted the Investment Policy Statement which is attached as **Exhibit D**.

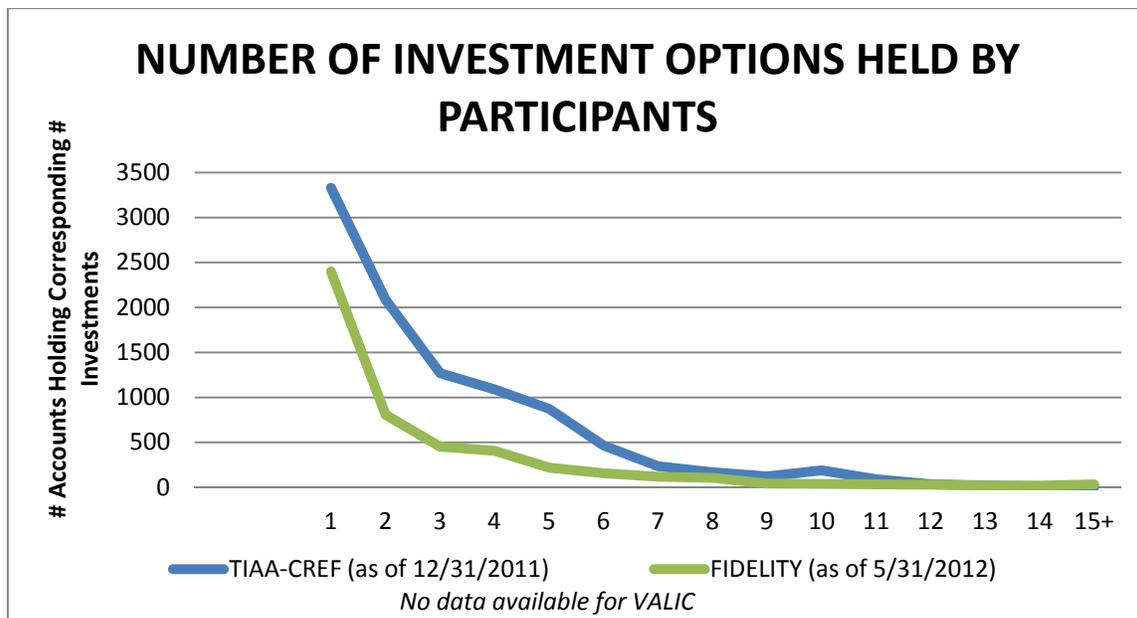
With an Investment Policy Statement in place, the Committee, with the resources and expertise of Hewitt EnnisKnupp, has begun defining a deliberative process for evaluating the performance of the investment lineup and prescribing actions to be taken with regard to funds that are not performing as well for participants as they might hope and expect. As of this writing the process is still a work in progress. The initial quarterly Investment Performance Reports are available for participants to examine on the NSHE System website.

While continuing to fulfill its obligations to oversee the Retirement Program's current investment lineup, the Committee has engaged Hewitt EnnisKnupp to conduct a strategic review of the Retirement Program and develop recommendations for enhancing the delivery of

investment offerings to participants. During a planning session in January 2012, the Investment Management Subcommittee identified objectives for achieving strategic goals to benefit Program participants and NSHE. The document attached as **Exhibit E** identifies the desired outcomes of any strategic enhancement to the Program. The Investment Program Review accompanying this document contains the recommendations of the Committee and its consultant as a result of its recent strategic review.

The Committee has had extensive discussions around how the RPA plan should be designed and managed to provide a satisfactory substitute for Social Security or PERS. The structure of a Defined Contribution plan is in some ways antithetical to those Defined Benefit programs with guaranteed income. Both the investment choices and the investment risk are placed upon the individual participant in a Defined Contribution plan. Also, there is the opportunity for the participant to remove assets from the plan before retirement through loans, in-service distributions (after age 59.5), as well as through rollovers or distributions upon termination. Ultimately, perhaps the best the RPA plan can do is help provide education and guidance on how the lack of Social Security affects required accumulations for providing retirement income. In addition, the program can help provide the ability to convert accumulations into guaranteed lifetime income through annuitization.

The transfer of risk from employer to participant that distinguishes Defined Contribution from Defined Benefit plans imposes an extra duty on the part of plan sponsors to rationalize the investment lineup. Many investment experts agree that a common impediment to achieving a secure retirement through a participant-directed retirement vehicle is investing too conservatively. The NSHE Program's offering of 290 funds with multiple redundancies is not conducive to rational asset allocation. As the following graph shows, the vast majority of participants invest in three funds or fewer. The average number of funds invested in at TIAA-CREF is 3.1. At Fidelity, the average is 2.7. VALIC data were not available at this writing. Choosing the appropriate funds out of 290 funds is an exercise only the most engaged investors would relish. With so many funds to choose from, even with specific investment styles (e.g., mid cap US funds or large cap international funds), rational decision-making can become overly complex, causing less engaged participants to select overly conservative investment choices. NSHE participants have a large proportions of assets in guaranteed fixed annuities (37%) and money market funds (4%). The Committee believes that limiting the investment choices to a smaller number of best-in-breed funds, while providing sufficient choices for asset allocation and diversification, offers NSHE faculty and staff the best chance at constructing successful asset allocations in the long run.



Looking at the NSHE Retirement Program’s investments in aggregate, rather than at individual fund choices, also shows a high degree of concentration in a few funds. As the following table illustrates, 72.1% of all assets are invested in 10 funds (all from TIAA-CREF), the remaining 27.9% of assets being allocated to the other 280 funds.

#### DISTRIBUTION OF RETIREMENT PROGRAM ASSETS

Investment Fund	Assets	% of Total
TIAA Traditional Annuity Accounts	\$ 587,459,465	33.8%
CREF Stock Variable Annuity Accounts	\$ 313,008,650	18.0%
CREF Bond Market Variable Annuity Accounts	\$ 54,596,091	3.1%
TIAA Real Estate Variable Annuity Accounts	\$ 48,475,589	2.8%
CREF Global Equities Variable Annuity Accounts	\$ 44,751,621	2.6%
CREF Growth Variable Annuity Accounts	\$ 43,707,680	2.5%
CREF Money Market Variable Annuity Accounts	\$ 43,582,926	2.5%
CREF Inflation Linked Bond Variable Annuity Accounts	\$ 41,059,375	2.4%
CREF Social Choice Variable Annuity Accounts	\$ 39,995,215	2.3%
CREF Equity Index Variable Annuity Accounts	\$ 35,488,950	2.0%
<b>TOTAL</b>	<b>\$ 1,252,125,562</b>	<b>72.1%</b>

The majority of assets held at TIAA-CREF are represented by just two investment vehicles, the TIAA Traditional Annuity (44%) and CREF Stock Variable Annuity (24%). Ten funds account for 50% of Fidelity assets and eight funds account for 50% of VALIC assets. (These data include retirees, which we cannot disaggregate from active participants because the vendors

cannot distinguish between terminated employees and active employees who are no longer contributing to that vendor.) This concentration implies that having many fewer funds in the program would serve the needs of the great majority of participants, while relieving NSHE of full monitoring of all 290 funds. The concentration in few funds also reflects, however, that many participants set their contribution choices once and then never rebalance or only begin becoming more engaged 5-10 years before retirement. For example, until the mid-1990s contributions of 50% to CREF Stock and 50% to TIAA Traditional were commonly recommended. The high concentration in a few funds does not imply that participants are optimally allocated. Anecdotally, some participants who wished to retire around the time of the 2008-2009 financial crisis found themselves unable to do so because high allocations to equities had resulted in a precipitous drop in retirement assets.

Target date or “lifecycle” retirement funds were introduced as the Qualified Default Investment Alternative (QDIA) in January 2008. The QDIAs provide safe harbor for fiduciaries under Department of Labor regulations for ERISA plans for automatic enrollment of participants who never make an active investment election. Unless they make an active selection, new NSHE employees are placed in an age-appropriate 20xx retirement target date fund. The target date funds are designed to become more conservative as participants near retirement age. That is especially important for NSHE participants who do not have Social Security or PERS as a defined benefit. The enrollment in the target date funds is increasing rapidly, but is still relatively small: 32% of assets at Fidelity, 1.7% at TIAA-CREF, and 1.4% at VALIC. The higher penetration of target date funds at Fidelity results from the default enrollment for new employees who make no vendor selection into the Fidelity Freedom K 20xx funds as the QDIA.

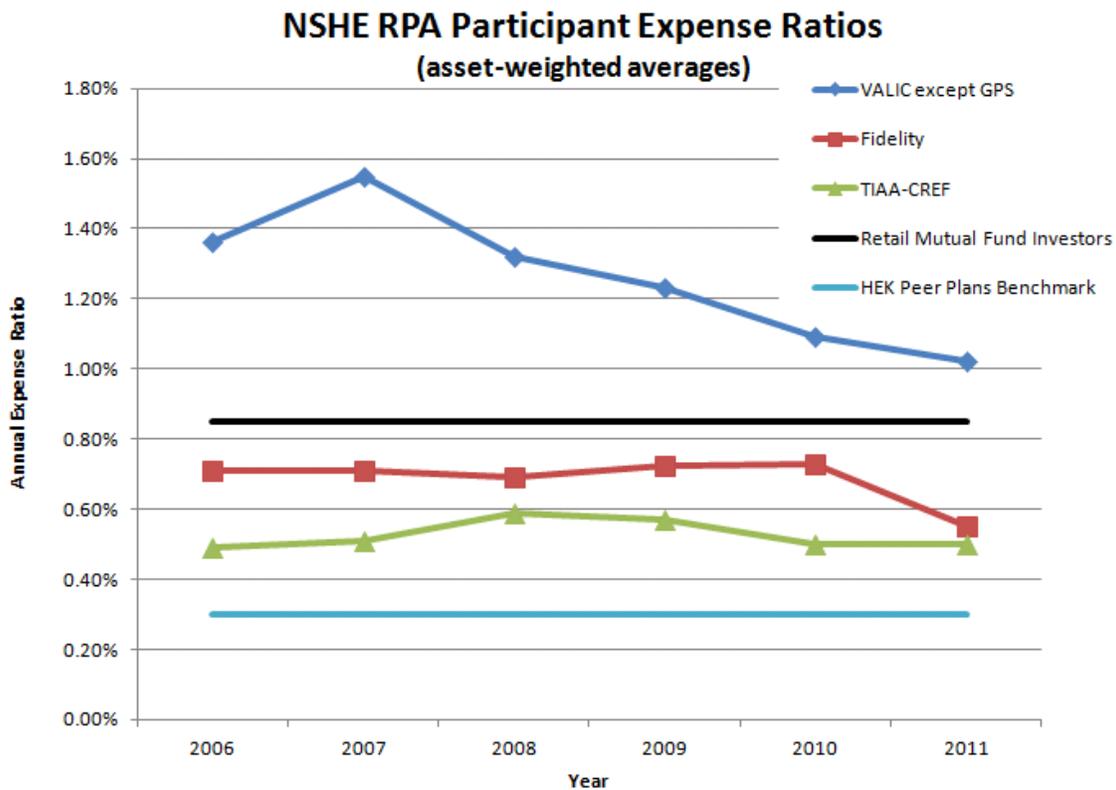
### **VIII. Plan Expenses**

While working to formulate a strategy for managing the Retirement Program’s investment offerings, the Committee has also been more closely scrutinizing the expenses paid by the participants to the three vendors for investment management and plan administration. As described in the accompanying Investment Program Review, identification of fees paid by participants is difficult in bundled plan administration arrangements that presently characterize NSHE’s contracts with its three vendors. Starting in 2007 each of the vendors has been required to prepare year-end reports the aggregate fees paid by participants during the calendar year. These reports from the vendors have been compiled by the Committee into reports that compare the fees paid to the three vendors. **Exhibit F** attached displays on separate pages the summary reports for calendar years 2007-2011.

As noted in the previous section, starting in 2010, the Committee negotiated contributions to an NSHE account to fund plan administration. At the same time, the Committee began negotiations with the vendors to reduce expenses to plan participants. These negotiations resulted in concessions by the vendors that have directly benefited plan participants through significantly reduced annual expenses. The concessions and resulting cost savings are described in **Exhibit G** attached.

The chart below tracks the ratio of expenses to assets for each of the providers for the 5-year period ending in 2011 (combined investment management and administrative expenses). It is

noteworthy that increased scrutiny and negotiation with the vendors has resulted in a significant downward overall trend in expense ratios for VALIC since introduction of their mutual fund platform in 2008 and Fidelity since they switch to the less expensive K class mutual funds in 2011. Although TIAA-CREF switched from its retail class to its institutional class of mutual funds in 2011, their variable and fixed annuities comprise the bulk of assets with an increase in expense ratios around the time of the 2008-2009 financial crises and a later decrease as asset levels recovered. Also noteworthy are (1) VALIC's high expense ratio relative to the other providers and (2) the consistently high expense ratios of all three NSHE providers relative to the Hewitt EnnisKnupp peer plans benchmark.



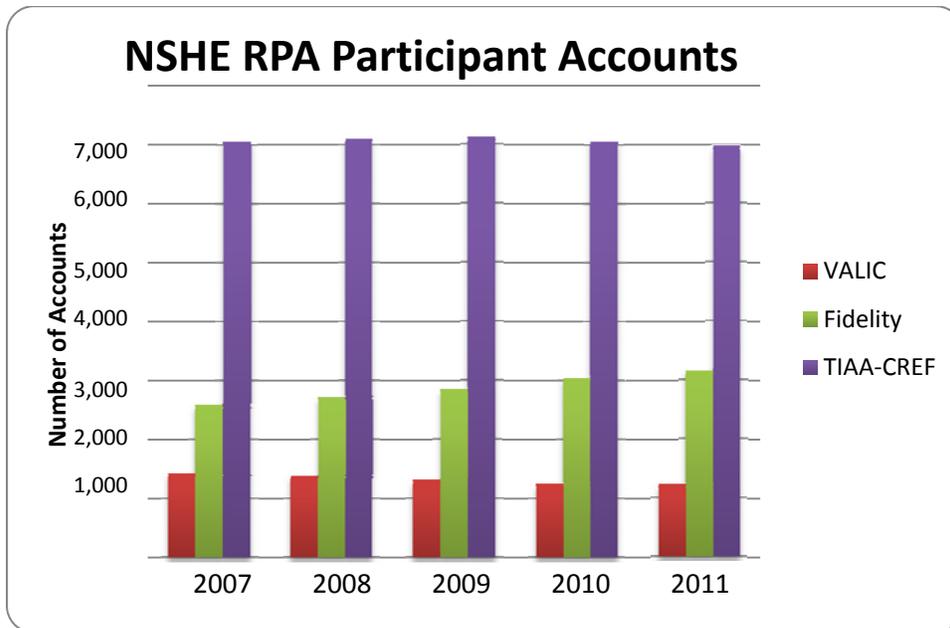
Even with the described cost reductions, the accompanying Investment Program Review by Hewitt EnnisKnupp documents that expenses for the NSHE plans are above the norm for plans with assets as large as NSHE's. The Committee believes that significant further cost reductions can be achieved through an RFP for plan services. Consolidation of funds into a smaller number of best-in-breed funds can, on its own, significantly reduce plan costs, enhancing participants' chances for a successful long-term investment outcome. Concentration of assets in fewer funds increases negotiating power to participate in the lowest cost funds typically offered by mutual fund companies only to their largest and most profitable plan sponsors.

## IX. Participant Satisfaction with the Retirement Program.

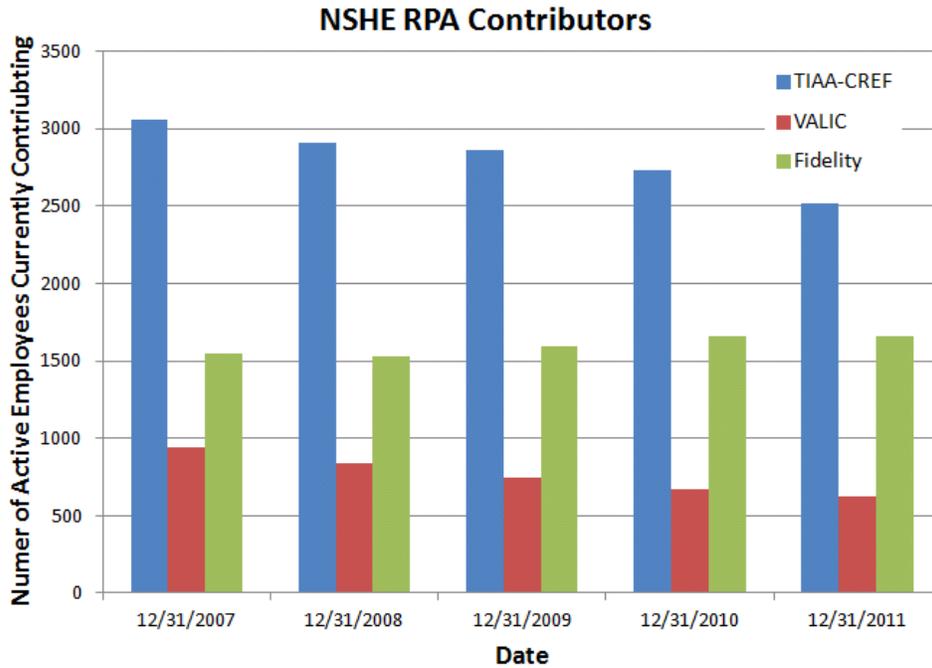
In April 2010 the Committee reached out to participants for feedback on the Retirement Program via a satisfaction survey. An executive summary of the survey results is presented in **Exhibit H** attached. It is the Committee's intention to solicit feedback from participants about every two years. Plans are well underway for a new survey early in the Fall semester 2012. It will include questions related to possible plan enhancements.

## X. Plan Participation Trends

The chart below tracks the annual participation in the RPA for the period 2007-2011, including active and inactive employees. It is noteworthy that Fidelity has experienced a 22% increase in participation during a period when overall participation increased by only 2%. VALIC and TIAA-CREF have experienced declines of 15% and 2%, respectively, during the period. That Fidelity has been selected by the RPAC as the default provider for new enrollees who do not affirmatively choose another provider may account for some of Fidelity's increased enrollment.

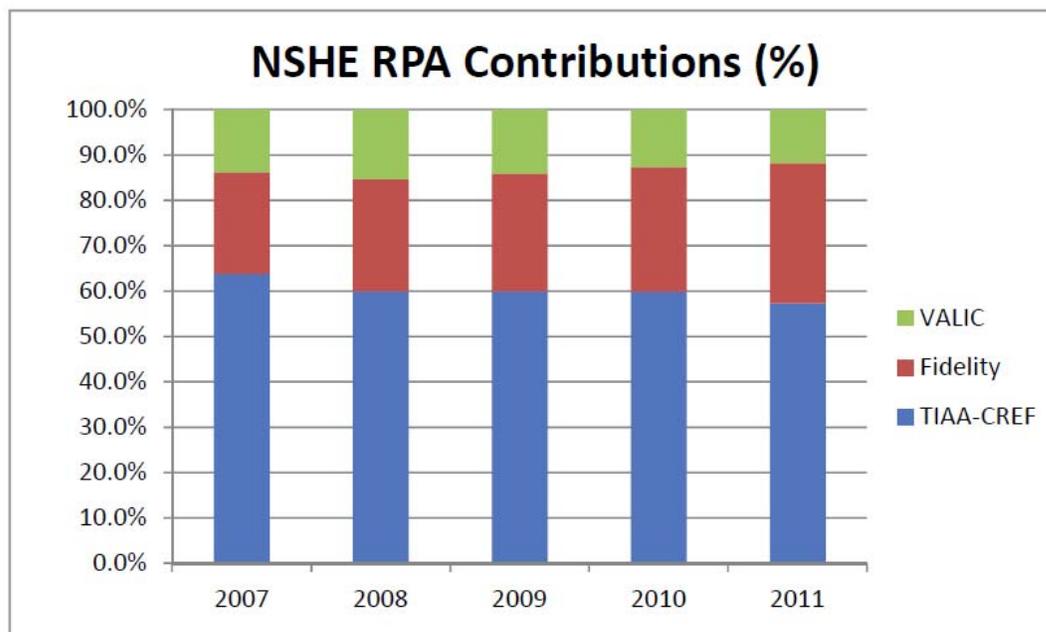
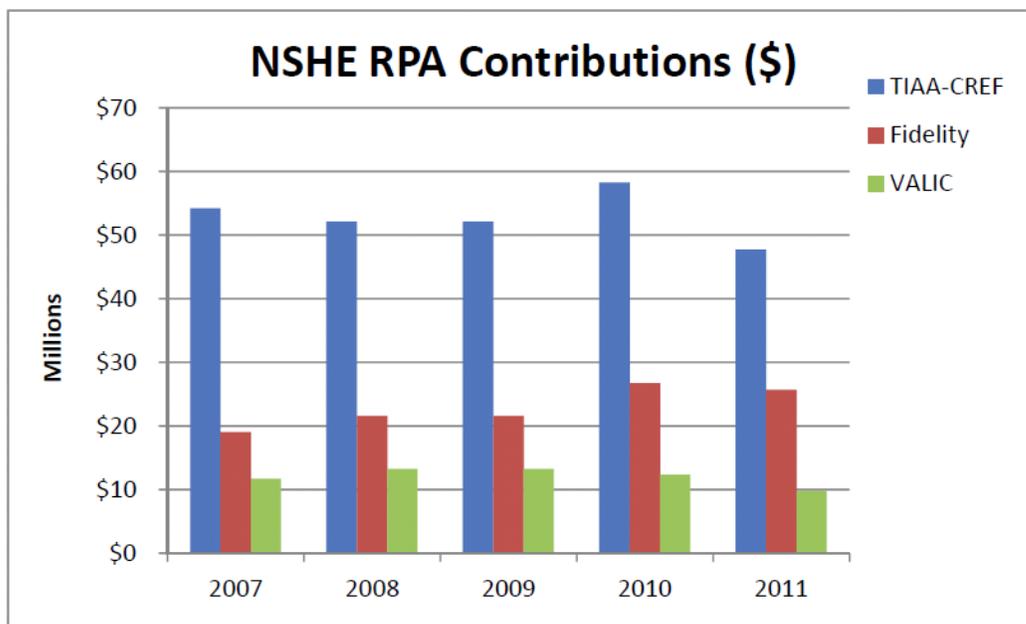


Another measure of participation by vendor is the number of active employees making current monthly contributions to the RPA, as shown in the chart below. These numbers over count participants because some are contributing to more than one vendor. As of 12/31/2011, for example, there were 4267 contributors total, with 3804 contributing to one vendor, 393 to two vendors, and 70 to all three vendors. The trends show a 6.9% increase from 2007 to 2011 for Fidelity, with decreases of 17.7% for TIAA-CREF and 34.0% for VALIC. The observation that the number of current contributors for TIAA-CREF has dropped more than the number of accounts (chart above) reflects the fact that some participants keep existing assets with a vendor but change current contributions to a different vendor as well as more retirements for TIAA-CREF holders over this period.

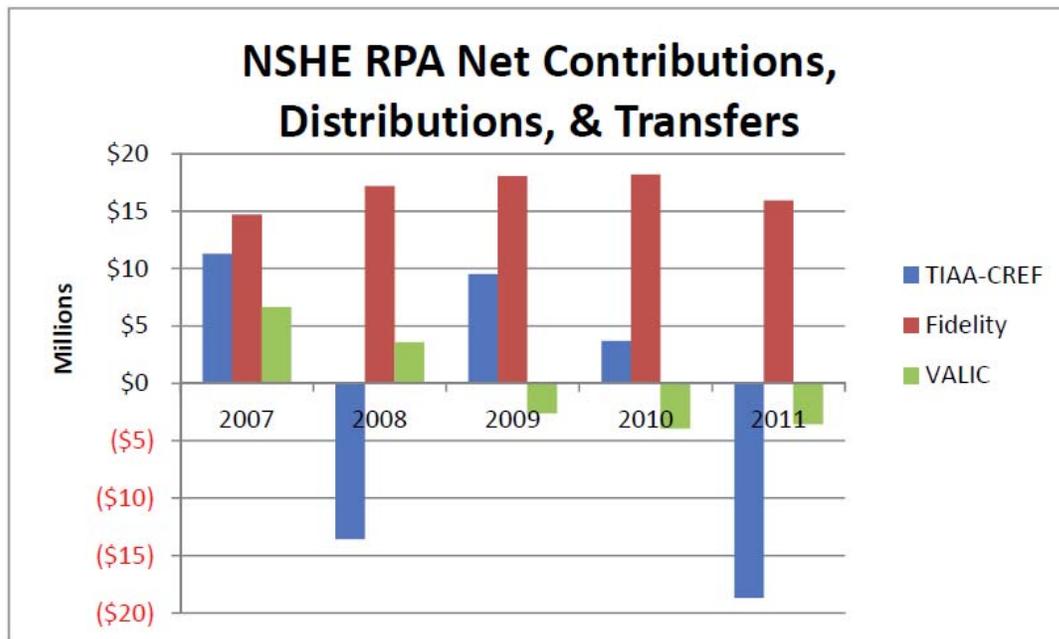


## XI. Plan Asset Trends

The Committee has been interested in the flow of funds to the various service providers. The charts below display a 5-year history of contributions, both in dollars and percentages, to the three providers. It is noteworthy that only Fidelity has increased its share of NSHE participant contributions, from 22.4% in 2007 to 30.9% in 2011. By contrast contributions directed to funds offered by VALIC and TIAA-CREF have declined, from 13.8% to 11.8% and from 63.8% to 57.3%, respectively. That Fidelity has been selected by the RPAC as the default provider for new enrollees who do not affirmatively choose another provider may account for some of positive flow into Fidelity funds.



The chart below shows that only Fidelity has experienced a consistent positive inflow of funds (contributions less transfers to other providers or non-NSHE plans and benefit payments).



## XI. 2012 Plan Review Process

On the basis of the analyses contained in this report and in the Investment Program Review by Hewitt EnnisKnupp, and additional discussions in its strategic planning since 2007, the Committee has recommended to the Chancellor that a process be implemented leading to a possible Request for Proposals (RFP) in late 2012. Initial summary presentations were made to the system Presidents on April 10, 2012, followed by presentations to the Faculty Senate Chairs and institutional Business and Human Resources officers in May 2012. Meetings with faculty senates and town hall forums for faculty at all NSHE institutions are planned for early Fall 2012 semester. These meetings, along with the planned participant survey, will provide input for the design of a RFP. It is likely that the RFP will be used to evaluate several different scenarios for the future of the plan through the competitive bid process. Depending on input from stakeholder groups and further analysis by the RPAC, the scenarios could range from the single-recordkeeper, open-architecture unbundled solution favored by Hewitt EnnisKnupp as current best practice to the existing fully bundled structure with up to three vendors. The Committee is also investigating hybrid solutions that have been employed by peer institutions to accommodate participants with legacy account assets. The large base of participant funds in existing assets as well as vendor proposals for various scenarios will need to be taken into account in determining the best structure going forward. The entire process will be guided by the Goals and Objectives in **Exhibit E**, the input from participants, and by the fiduciary duty of the Committee, investment consultant, and Chancellor to act in the best interests of the plan participants.

Hewitt EnnisKnupp has indicated to the Committee that the RFP process, in addition to reducing costs and optimizing the investment options, can provide for enhanced program services, including:

- (1) participant account representatives who are contractually obligated to serve as fiduciaries to the participants,
- (2) a single-point of contact and online portal for participants to manage their contributions and investments across all plans and consolidated account statements,
- (3) a communications and education plan that is tailored for NSHE participants,
- (4) retirement income guidance including a lifetime annuity market to find the best available annuity plans,
- (5) managed third-party asset investment advice, and
- (6) stable value guaranteed income products following current best practices with managed risk factors.

Part of the open forum process will be to solicit participant advice on additional needs and desires for the future of the NSHE Retirement Plan.

Members of the NSHE Retirement Plan Advisory Committee  
(as of 6/2012)

Robb Bay, College of Southern Nevada  
Nasser Daneshvary, University of Nevada, Las Vegas  
Kent Ervin, University of Nevada, Reno  
Mike Hardie, Western Nevada College  
Carla Henson, Retiree  
Patricia Hughes, Desert Research Institute  
Michelle Kelley (Chair), BCN Benefits Manager  
Jim LaBuda, Nevada State College  
Pat La Putt, BCS Benefits Manager  
Alan Schlottmann, Faculty Senate Chairs Representative  
Steven Streeper, Truckee Meadows Community College  
(Vacant), Great Basin College

Henry Stone, Delegated Authority, NSHE System Counsel

George Dombroski, Retirement Plan Alternative Manager

Hewitt EnnisKnupp, Investment and Plan Consultant

Daniel Pawlisch  
Ruth Schau

## Exhibit A

### **NSHE Retirement Program Governance and Administrative Structure**

#### **1. Plan Administrator**

The Board of Regents has authorized the Chancellor as the Plan Administrator for the NSHE retirement plans. The policies controlling the NSHE Retirement Program are contained in the approved Plan Documents and in the actions affecting the plans as approved by the Chancellor from time to time, including contracts or agreements with vendors. These policies may be modified in the future administration of the plans, as the NSHE deems best in its judgment.

#### **2. Delegated Authority**

The Chancellor has delegated authority for the day-to-day operation of the Retirement Program and the Retirement Plan Advisory Committee to an NSHE senior staff member, currently the System Counsel (Delegated Authority). This includes staffing, organization, and duties of the Committee. The Chancellor is consulted on:

- significant changes to the plans or vendors,
- leadership of the Committee,
- appointments to the Committee.

#### **3. Fiduciary Best Practices**

Although NSHE Retirement Program is not currently subject to certain portions of the Employee Retirement Income Security Act (“ERISA”) which governs plan operations and plan sponsor fiduciary duties, NSHE’s intention is to administer the Retirement Program consistent with ERISA’s provisions of fiduciary best practice. The two key fiduciary duties of plan sponsors are:

- Selection must be made by focusing exclusively on how best to provide benefits to participants and beneficiaries while ensuring that administrative expenses are reasonable.
- Selection must be made with the skill, prudence, and diligence of a prudent expert. The focus is on a prudent process.

#### **4. Retirement Program Advisory Committee**

The NSHE Retirement Program Advisory Committee (RPAC) serves in an advisory capacity to the Delegated Authority who is the authorized Plan Administrator on day-to-day operational matters. The purpose of the Committee is to review, comment, and make recommendations to the Delegated Authority on past, current and proposed policies related to the NSHE Retirement Program consistent with the following mission statement that has been adopted for the Retirement Program:

**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.**

The Chair of the RPAC is appointed by the Delegated Authority in consultation with the Chancellor.

The Committee is composed of representatives from each of the NSHE institutions nominated by the Presidents of the institutions and the Benefit Managers for Business Center North and Business Center South. The Committee also includes representatives of the faculty senate and NSHE retirees. Members preferably have a background and experience in the administration of retirement and other benefit plans, in finance or financial planning, or other areas that would provide the ability to make knowledgeable decisions related to the Plans.

The committee is officially charged with:

- Adopting and maintaining an Investment Policy Statement for guiding Committee decisions regarding selection of investment options.
- Developing and reviewing Requests for Proposals (RFP) to add fund sponsors to the Plans, and for recommending the addition and/or deletion of fund sponsors to the Delegated Authority.
- Approving the addition and/or deletion of funds for each fund sponsor for inclusion in the Plans.
- Recommending or reviewing Plan Document amendments to the Delegated Authority.
- Ensuring that the administration of the Plans by the member institutions and Business Centers conforms to the requirements of the Plans.
- Developing and disseminating information about the Plans to member institutions and Business Centers through materials such as campus and System newsletters.
- Evaluating the effectiveness of the Plans and reporting the results to the Delegated Authority.
- Providing guidance to fund sponsors on the application of Plan provisions through the Chair of the RPAC.
- The Committee will also review, comment, and make recommendations to the Delegated Authority on past, current and proposed policies related to the State of Nevada Deferred Compensation Program 457 and FICA Alternative plans.

The committee may collect information, consult campus experts, work with the Chancellor's staff or through the Chancellor, and consult outside experts to fulfill its charge.

The RPAC is expected to:

- Exercise functions solely in the interest of the participants and beneficiaries, and be responsive and flexible to meet participants' needs.
- Promote the collective best interests of the participants in the Program.
- Provide a selection of investment options to ensure that the options represent a reasonable choice as to investment risk, return, style and asset class.
- Ensure that plan providers provide quality service to the participants.

- Adopt and maintain an Investment Policy Statement to guide Committee decisions regarding selection of investment option.

The NSHE Retirement Plan Advisory Committee meets quarterly. These meetings will focus on the following:

- Adherence to the guidelines, statement of work, and negotiated performance standards with vendors.
- Adherence to the provisions of the Plan Documents, and adherence to agreements or contracts between the vendor and NSHE.
- Review of reports and recommendations by the Investment Management Subcommittee.
- Review of participant services provided by the vendors;
- Review of administrative services provided by the vendors;
- Evaluation of the plans overall and of participant investment returns;
- Informational presentations by invited guests, or upon request by vendors, on investment or regulatory issues or current market conditions.

## **5. Committee Chair**

The role of the RPAC Chair is to:

- Understand the RPAC's mission and provide leadership to the RPAC to perform its functions and responsibilities and meet its fiduciary duties.
- Set RPAC meeting dates and agendas.
- Chair meetings, encouraging RPAC member participation to ensure robust exchange of ideas and points of view and mediating where necessary.
- Guide RPAC actions with respect to organizational priorities and governance concerns.
- Review and edit minutes of the Committee meetings. Present meeting minutes to Committee for adoption.
- Appoint subcommittee members and chairpersons.
- Delegate to RPA Manager, through the Delegated Authority, responsibility for carrying out RPAC action items as appropriate and for data gathering, analysis and reporting to inform RPAC decisions and actions.
- Perform appropriate follow-up and monitoring of implementation of RPAC actions.
- Report on action items to the Delegated Authority.
- Discuss important issues confronting the Retirement Program with and advise the Delegated Authority on actions to be taken.
- Develop a consensus for a communication strategy for the Retirement Program in concert with the Delegated Authority.

## **6. Committee Members**

- The Committee is responsible for meeting on a regular basis and conducts its business in accordance with the mission and primary goals as outlined above, along with the applicable State laws and federal requirements for the Plan.
- Members of the Committee are responsible to attend meetings of the Committee, maintain familiarity with Plan activities and policies, exercise due diligence in reviews of the Plans and

investments, participate and vote on matters under consideration before the Committee, respond to or appropriately refer inquiries from Plan participants, serve on subcommittees, and perform other duties as directed by the Chair or Committee.

- Because the plans are complex and a high degree of familiarity with the plans and investment concepts is required for members to meet their responsibilities, appointments are generally expected to be long term, at the pleasure of the Chancellor or the Delegated Authority. In the case of the absence of a member, a substitute may be sent to provide representation but proxies do not vote and do not count toward a quorum.
- The Chancellor's Office provides legal counsel to the Committee. The legal counsel is responsible to review all contracts and other legal documents and to provide legal advice and assistance relating to the work of the Committee.
- Members of the RPAC and other NSHE staff and administrators involved in managing the NSHE Retirement Program shall not request or accept hosting or other financial or non-financial perquisites from vendors or prospective vendors.
- Communications between RPAC members and vendors outside of the regular RPAC meetings, other than personal account management and routine administrative functions, shall be reported to the Chair of the RPAC.
- In carrying out their delegated duties, members of the RPAC shall be indemnified by NSHE against liability claims to the full extent permitted by Nevada statutes.

## **7. Investment Management Subcommittee**

An Investment Management Subcommittee (IMS) of the RPAC is appointed by the RPAC Chair. Guided by the Investment Policy Statement, the IMS is responsible for:

- Monitoring the performance of the investment vehicles and reporting on the performance to the RPAC.
- Developing communications for participants regarding fund performance.
- Recommending the addition and/or deletion of fund sponsors to the RPAC.
- Developing and reviewing Requests for Proposals (RFP) to add or change fund sponsors.
- Proposing plan modifications to the Committee to align the plan with best practices for controlling plan expenses and improving participants' experience with and utilization of the plan.
- Recommending changes/updates to the Investment Policy Statement.

The Investment Management Subcommittee meets quarterly with the independent consultant and semi-annually with Fund Sponsor representatives to review overall performance. These meetings will focus on:

- Review of the investment fund performance results;
- Review of expenses and fees;
- Recommendations by the consultant on the current investment funds and the opportunities available in the different asset classes;
- Review of the administration and participant service of the vendors and their communications plans.

## **8. Retirement Plan Alternative Manager**

The Retirement Plan Alternative Manager is a staff resource to the RPAC and to the Delegated Authority. The Manager's role is to:

- Interact regularly with the Delegated Authority to maintain a clear understanding of the strategic direction of the NSHE as it pertains to providing retirement benefits to NSHE employees through the RPA.
- Ensure that the administration of the Plans by the member institutions and Business Centers conforms to the requirements of the Plans (this was previously in the RPAC charter).
- Develop and disseminate information about the Plans to member institutions and Business Centers through various communication materials (this was previously in the RPAC Charter).
- Interact regularly with RPAC Chair to ensure clear understanding of the Chairs' goals, objectives, and timetables.
- In concert with RPAC Chair, create meeting agendas and disseminate agendas to members in advance of meetings.
- Schedule meetings and coordinate meeting arrangements for members and other meeting participants/invited guests such as service providers and consultants.
- At the request of the RPAC Chair and in consultation with the Delegated Authority, gather data, analyze data, create reports, formulate recommendations, and present analyses, reports and recommendations to inform RPAC decisions and actions.
- Communicate goals and timetables for requested data and reports from service providers and consultants to ensure timely submission of materials and disseminate materials to members in advance of meetings.
- Provide written analysis, reports and recommendations in advance of meetings to allow members to consider and digest information in the interest of promoting well-informed meetings.
- Coordinate and facilitate communications between the RPAC and service providers, consultants, and other parties as necessary, interpreting as needed the intentions, wishes, and goals of the RPAC.
- Stay abreast of Code and regulation changes and inform and advise the Delegated Authority and RPAC Chair about matters potentially impacting the RPAC, the Retirement Program or Program participants.
- Ensure Program good housekeeping by initiating plan documentation, plan amendments, and service agreements to maintain alignment of plan documentation and plan administration.
- Assist in the formulation of and then execute the RPAC's communications strategy for participants with the approval of the Delegated Authority.
- Coordinate RFPs initiated by the RPAC in consultation with the Delegated Authority. Draft requests, distribute requests to prospective vendors, respond to vendors inquiries, collect all proposals and facilitate reviews of proposals by the RPAC.
- With oversight from the Delegated Authority, develop a budget based on general account funds for plan related expenses, and then monitor expenses.

## **9. Investment Management Consultant**

The role of the investment management consultant is to advise the Committee on the management of plan assets. Specifically, the consultant will:

- Advise and assist the Committee in the design and updating of an investment policy statement to help guide Committee actions regarding the management of plan assets.
- Conduct quarterly reviews of the financial markets.
- Conduct quarterly reviews of the absolute performance of the investments offered by the Program and the relative performance of the investments relative to established peer groups and benchmarks.
- Recommend continuation, removal, or addition of funds to the investment lineup.
- Conduct searches for funds that meet criteria determined by the Committee.
- Continually review the status of the fund manager organizations to stay abreast of changes that may affect the performance of the funds.
- Assist the Committee in improving the design of the plans to ensure that the design is aligned with the Retirement Program mission statement.
- Assist the Committee in evaluating the performance of other service providers to ensure NSHE participants receive high quality services.
- Monitor the fees paid to service providers and investment managers to provide visibility to the Committee regarding plan expenses that are not readily apparent.

## **10. Participant Rights and Responsibilities**

Participants are 100% vested in all of the NSHE retirement plans. Withdrawals are subject to age and employment status limitations according to the respective Plan Documents and are subject to taxation as provided in the Internal Revenue Code and applicable Regulations.

Participants:

- are responsible for their own investment decisions and assume all investment risk;
- are responsible for learning about the retirement plans and investments;
- are responsible for selection among vendors for management of accounts;
- are responsible for keeping beneficiaries and contact information up to date;
- may expect access to a diversified set of funding vehicles allowing prudent retirement investing;
- have a right to request and receive information on investments and providers;
- have a right to full and transparent reporting of personal investment performance;
- have a right to full and transparent reporting of expenses and fees;
- have a right to clear and complete information about withdrawal restrictions, surrender charges, or market adjustment charges.

**RPAC VALIC Review Subcommittee Report  
12/18/2009**

**Process and Background Information**

At the recommendation of the Retirement Plan Advisory Committee (RPAC), Chancellor Klaich approved the suspension of new enrollments to VALIC and a review of VALIC as a fund sponsor. A subcommittee of the RPAC was appointed to conduct the review: Kent Ervin (chair), Michelle Kelley, Pat La Putt, and Judy Stewart.

The subcommittee developed a review plan and sent Requests for Information to all three vendors. Vendor responses, follow-ups, and other collected documents are available to RPAC members. The subcommittee requested that the BCN and BCS Benefits Managers keep logs of service issues involving the three vendors. The RPAC requested that an independent consultant be retained to provide an expert opinion on the financial stability and credit risk of VALIC and its fixed/guaranteed accounts; however, no consultant report was available in time for the subcommittee's review. The subcommittee, with the assistance of Wendy Starkweather and input from the vendors, developed a participant survey questionnaire to gauge participant satisfaction with the vendors' investments and services, satisfaction with the NSHE plan overall, and desires for future plan features; an abbreviated survey covering only participant satisfaction was also prepared. The participant survey is not available at this time; implementation of a survey is to be considered at the January RPAC meeting. We also have not yet received the VALIC response to follow-up questions submitted to them on 11/20/2009.

**1. Financial Security of Fixed/Guaranteed Accounts (stable value funds)**

Because the stable value funds (TIAA Traditional and VALIC Fixed Account) are intended as long-term conservative investments, the ability of the insurance company to meet its future obligations is paramount. In the absence of advice from an independent financial consultant, the financial strength ratings by the major rating agencies are the only external evaluation available. The members of the subcommittee do not possess sufficient expertise or information to analyze the underlying investments; we can only provide a basic interpretation of the ratings from the major rating agencies. In order to interpret the ratings, we used the Mercer report on the ING and Hartford stable value funds for the Nevada Deferred Compensation Program (NDC) as a guide in developing the following findings.

*Findings:*

(a) The current financial strength ratings for TIAA, VALIC, ING, and the Hartford are summarized on the attached chart. Categories (color-coded) are based on the NDC/Mercer report.

(b) Since NSHE's 5-year review in 2007, the financial strength ratings for VALIC have been reduced to below the range recommended by Mercer when evaluating a new stable value fund. Three of the four rating agencies state that although VALIC's current ability to meet its obligations is strong, that could be adversely affected by future declines in the business environment. Similarly, the stable value funds from ING and Hartford have declined below the preferred range since NDC's RFP process in 2007. NDC has placed its two stable value funds on "watch" and set trigger points for an early RFP for replacement.

(c) The financial strength ratings for TIAA Traditional remain at the highest possible levels, indicating little likelihood of future impairment. While the ratings of many annuity/insurance companies have been downgraded since the financial crisis, there are also others that have maintained higher ratings.

(d) Only the individual participants may elect to withdraw funds, and usually only over 5 years for VALIC or over 10 years for TIAA. NSHE has no control over existing individual contracts. NSHE participants who are concerned about VALIC's financial strength ratings have the option to move to the higher-rated TIAA Traditional, but this requires 5 years to transfer and TIAA Traditional has a longer withdrawal restriction.

(e) VALIC and TIAA have stated that their guaranteed accounts are covered by the Nevada Health and Life Insurance Guaranty Association (NHLIGA), with coverage up to \$100,000 per participant. This would provide limited "last resort" protection. However, the ING and Hartford stable value funds in the 457 plan are not covered by NHLIGA, according to NDC. The NHLIGA coverage of the VALIC and TIAA guaranteed accounts is being investigated by Henry Stone.

*Possible recommendations for RPAC discussion:*

(a) If the Chancellor wishes RPAC to monitor or evaluate the financial stability the fixed/guaranteed accounts on behalf of participants, then an independent financial consultant should be hired to review the financial strength of VALIC and TIAA and make recommendations to the full committee.

(b) NSHE should develop a policy on how to handle downgrades in financial strength ratings for insured products. Should there be a "trigger" rating below which contributions into the fixed/guaranteed accounts would be suspended? Should there be any action by NSHE if the insurance company goes into default? Or else is monitoring and action entirely up to individual participants?

(c) NSHE should communicate with participants, regarding fixed/guaranteed accounts, (1) the financial strength ratings for TIAA and VALIC, with links to similar information for the NDC 457 plan; (2) NHLIGA insurance coverage (if any) and amounts; and (3) withdrawal and transfer limitations.

(d) Place the VALIC Fixed Account on watch and ask VALIC for its plan for improving its financial strength ratings. Consider the possibility of adding a stable-value fund or similar vehicle with Fidelity as a third option for participants wanting a conservative investment.

(e) For all funding vehicles, NSHE should consider communicating with participants on actions by the RPAC to put funds on watch and the reasons.

## **2. Administrative and Participant Service**

### *Findings*

(a) Issues from the "action plan" discussed with Gary Petrytus in February 2009 that have now been adequately resolved include (1) advisor re-assignment notification to Benefits Managers and letter to participants; (2) advisor appointment checklist; (3) white paper on salary and commission models; and (4) communications with participants on the financial crisis and credit ratings downgrades.

(b) Based on anecdotal information provided by the Benefits Managers at the January and June 2009 RPAC meetings and on the logs for September to November 2009, the record indicates that the service issues that VALIC has been asked to address have not been adequately resolved. The vast majority of vendor issues that have to be handled by the Benefits Managers are due to processing errors or delays by VALIC. While most issues can be resolved individually by a phone call to Erik Jensen, the same problems recur, indicating that the systematic causes of these issues have not been resolved. Both Benefits Managers complain of a lack of effective response by Jensen.

(c) In the absence of a participant satisfaction survey, the subcommittee is unable to determine whether issues logged by the Benefits Managers (21 total over three months) are representative of more global service issues. Anecdotal information about participant satisfaction with VALIC is mixed (some very positive, some negative, possibly varying by campus).

(d) Delays by VALIC in processing transfers of assets to other vendors are unacceptable (average of 26-33 days). Transfer issues that had to be addressed by Benefits Managers are a substantial fraction of all transfers during the period. Some participants have been told that they need to contact their VALIC advisor to initiate or approve a transfer, which should not be necessary.

(e) VALIC has much higher rates of loans, hardship withdrawals, and early in-service withdrawals than other vendors. However, new regulations as of 1/1/2009 that require NSHE approvals for these transactions should ameliorate future problems.

(f) Nearly a quarter of VALIC loans are currently in default, a much higher rate than other vendors.

(g) Signed forms from participants who elect not to convert from the annuity platform to the mutual fund platform have not been received by the Benefits Offices as requested.

*Possible recommendations for RPAC discussion:*

(a) VALIC needs to create and implement a plan to eliminate the excessive number of processing and compliance errors and to improve communications between VALIC and the Benefits Managers. This could include retraining, improved follow-up procedures, and/or personnel changes.

(b) NSHE should consider implementing service performance and compliance standards. Should audits of compliance and financial transactions be conducted?

(c) Ask VALIC to reinforce with advisors and participants that TSA funds should *not* be treated as a bank account via loans and hardship withdrawals, and to modify the advisor meeting checklist appropriately.

(d) The procedure for resolving defaulted loans needs to be clarified.

(e) Conduct a periodic survey of all NSHE retirement plan participants to establish a baseline of information on participant satisfaction with the services being provided by all vendors.

- (f) Instruct the Benefits Offices to continue keeping logs of vendor issues, for review at regular RPAC meetings.
- (g) As part of NSHE communications with participants, develop a checklist of questions participants should ask their vendor representative.

### 3. Expenses and Commissions

#### *Findings*

(a) Expense ratio and revenue sharing information was obtained from Fidelity, TIAA-CREF, and VALIC (see also amended report for VALIC RPA). For the RPA accounts, the average expense ratios and revenue sharing amounts are as follows:

<i>Provider</i>	<i>Average Net Tot Exp Ratio</i>	<i>Revenue Sharing</i>
Fidelity	0.71%	0.31%
TIAA-CREF	0.57%	n/a
VALIC Mutual Fund Platform	0.85%	0.46%
VALIC Annuity Platform	1.39%	0.83%
VALIC+GPS/Mutual/Very Aggressive**	1.57%	1.02%*
VALIC+GPS/Annuity/Very Aggressive	2.03%	1.39%*

For comparison, industry asset-weighted average expense ratios are about 0.8% for all mutual funds (2008).

\*Including the GPS Manager fees except the 7% of it that goes to Ibbotson. \*\*A majority of GPS accounts are enrolled in the most-risky and most-expensive Very Aggressive GPS portfolio (55% of RPA GPS/Mutual Fund participants are in Very Aggressive, 61% of TSA, 100% of MedRes/PostDoc).

- (b) The reduction in expense ratio for the new VALIC mutual fund platform compared with the annuity platform has met expectations.
- (c) Conversion to the mutual fund platform has been slower than anticipated, with only about 18% of assets converted. This means that the overall reduction in expenses for the VALIC plan has not met goals.
- (d) The VALIC GPS Manager fee is 0.60% for the vast majority of participants, who have less than \$100,000 in GPS assets.
- (e) VALIC has combined the mutual fund conversion and GPS enrollment forms, which has the effect of encouraging enrollment in GPS when participants switch to the new mutual fund platform: 49% of mutual fund accounts are enrolled in GPS Manager, versus 34% of annuity accounts. Adding GPS management fees more than offsets the savings from switching to the mutual fund platform.
- (f) The fees for GPS Manager are adequately disclosed, but there is some question as to how aware most participants are of total expenses. The enrollment materials for GPS Manager do not disclose that participants are apparently placed in one of seven Ibbotson-managed portfolios (Very Conservative to Very Aggressive), nor the past performance or expenses for those portfolios.

(g) VALIC states that commissions are not affected by investment choices. However, a commission of 0.07%-0.12% on annuity assets gives an incentive *not* to convert participants to the mutual fund platform. An additional commission of 0.20% on GPS Manager assets gives a strong incentive to convert to GPS, and the majority of GPS participants are placed into the Very Aggressive portfolio.

(h) About 40% of the VALIC advisor compensation comes from selling non-NSHE products to NSHE participants. This creates a very strong incentive to sell additional outside products, possibly with a perception to participants of approval by NSHE.

(i) In general, the 100%-commission model at VALIC affects the service and advice given to participants. Participants are probably not aware of how commissions are calculated or that advisors are compensated solely through commissions.

*Possible recommendations for RPAC discussion:*

(a) To reduce participant expenses, consider accelerating conversion of accounts to the mutual fund platform, or requiring future contributions and transfers to go to the mutual fund platform.

(b) Before conversion of existing annuity assets, participants should be informed of the actual current value of their death benefit. Ask VALIC for statistics on the value of the death benefits.

(c) Require VALIC to describe to participants, before enrollment, the seven GPS Manager portfolios and to disclose the past performance and total expenses of the portfolios (after GPS fees).

(d) NSHE should communicate to participants (1) the ranges of expense ratios and average expenses for each of the three vendors and (2) the salary/commission structure for each vendor. An expert opinion is needed on what supposedly "proprietary" information from vendors may be disclosed to participants.

(e) Consider developing a policy on sales of non-NSHE products (limitations or disclosure of non-approval by NSHE).

### **Summary Recommendation**

The subcommittee has not reached a consensus regarding the continued suspension of VALIC enrollments. We recommend that the full RPAC discuss future actions at the January meeting.

no change since 2007 review

**TIAA**

as of 11/2/2009

A.M. Best	Fitch	Moody's	Standard & Poor's
A++ = Superior	AAA = Exceptionally Strong	Aaa = Exceptional	AAA = Extremely Strong
A+ = Superior	AA+ = Very Strong	Aa1 = Excellent	AA+ = Very Strong
	AA = Very Strong	Aa2 = Excellent	AA = Very Strong
	AA- = Very Strong	Aa3 = Excellent	AA- = Very Strong
A = Excellent	A+ = Strong	A1 = Good	A+ = Strong
A- = Excellent	A = Strong	A2 = Good	A = Strong
B++ = Good	A- = Strong	A3 = Good	A- = Strong
B+ = Good	BBB+ = Good	Baa1 = Adequate	BBB+ = Good
	BBB = Good	Baa2 = Adequate	BBB = Good
	BBB- = Good	Baa3 = Adequate	BBB- = Good
B = Fair	BB+ = Moderately Weak	Ba1 = Questionable	BB+ = Marginal
B- = Fair	BB = Moderately Weak	Ba2 = Questionable	BB = Marginal
C++ = Marginal	BB- = Moderately Weak	Ba3 = Questionable	BB- = Marginal
C+ = Marginal	B+ = Weak	B1 = Poor	B+ = Weak
C = Weak	B = Weak	B2 = Poor	B = Weak
C- = Weak	B- = Weak	B3 = Poor	B- = Weak
D = Poor	CCC = Very Weak	Caa1 = Very Poor	CCC+ = Very Weak
E = Supervision	CC = Distressed	Caa2 = Very Poor	CCC = Very Weak
F = In Liquidation	C = Distressed	Caa3 = Very Poor	CCC- = Very Weak
		Ca = Extremely Poor	CC = Extremely Weak
		C = Lowest	

as of June 2007 5-yr review

**VALIC**

as of 11/2/2009

A.M. Best	Fitch	Moody's	Standard & Poor's
A++ = Superior	AAA = Exceptionally Strong	Aaa = Exceptional	AAA = Extremely Strong
A+ = Superior	AA+ = Very Strong	Aa1 = Excellent	AA+ = Very Strong
	AA = Very Strong	Aa2 = Excellent	AA = Very Strong
	AA- = Very Strong	Aa3 = Excellent	AA- = Very Strong
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B- = Fair	BB = Moderately Weak	Ba2 = Questionable	BB = Marginal
C++ = Marginal	BB- = Moderately Weak	Ba3 = Questionable	BB- = Marginal
C+ = Marginal	B+ = Weak	B1 = Poor	B+ = Weak
C = Weak	B = Weak	B2 = Poor	B = Weak
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E = Supervision	CC = Distressed	Caa2 = Very Poor	CCC = Very Weak
F = In Liquidation	C = Distressed	Caa3 = Very Poor	CCC- = Very Weak
		Ca = Extremely Poor	CC = Extremely Weak
		C = Lowest	

as of June 2007 RFP

**ING**

as of 10/27/2009

A.M. Best	Fitch	Moody's	Standard & Poor's
A++ = Superior	AAA = Exceptionally Strong	Aaa = Exceptional	AAA = Extremely Strong
A+ = Superior	AA+ = Very Strong	Aa1 = Excellent	AA+ = Very Strong
	AA = Very Strong	Aa2 = Excellent	AA = Very Strong
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		Ca = Extremely Poor	CC = Extremely Weak
		C = Lowest	

as of June 2007 RFP

**The Hartford**

as of 10/27/2009

A.M. Best	Fitch	Moody's	Standard & Poor's
A++ = Superior	AAA = Exceptionally Strong	Aaa = Exceptional	AAA = Extremely Strong
A+ = Superior	AA+ = Very Strong	Aa1 = Excellent	AA+ = Very Strong
	AA = Very Strong	Aa2 = Excellent	AA = Very Strong
	AA- = Very Strong	Aa3 = Excellent	AA- = Very Strong
A = Excellent	A+ = Strong	A1 = Good	A+ = Strong
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B+ = Good	BBB+ = Good	Baa1 = Adequate	BBB+ = Good
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B- = Fair	BB = Moderately Weak	Ba2 = Questionable	BB = Marginal
C++ = Marginal	BB- = Moderately Weak	Ba3 = Questionable	BB- = Marginal
C+ = Marginal	B+ = Weak	B1 = Poor	B+ = Weak
C = Weak	B = Weak	B2 = Poor	B = Weak
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E = Supervision	CC = Distressed	Caa2 = Very Poor	CCC = Very Weak
F = In Liquidation	C = Distressed	Caa3 = Very Poor	CCC- = Very Weak
		Ca = Extremely Poor	CC = Extremely Weak
		C = Lowest	

GREEN: At or above Mercer's recommendation per 3rd Quarter 2009 report to Nevada Deferred Compensation Plan.

YELLOW: Below Mercer's preferred range

ORANGE: Nevada Deferred Compensation Plan trigger for possible replacement (from any one agency)

RED: Below investment grade

NOTE: All four companies were rated in the "green" range by all four rating agencies in 2007, when the NDC did their RFP and NSHE did our 5-year review.

# DEFINED CONTRIBUTION RETIREMENT PLAN ALTERNATIVE (RPA)

## PLAN REVIEW

# OVERVIEW

- 1. REFRESHER ON PLAN GOVERNANCE**
  - Role of RPAC
  - Role of Investment Management Subcommittee
  
- 2. RPAC'S NEED FOR EXPERT ADVICE ON:**
  - Selection, monitoring, and replacement of investment alternatives
  - Plan modernization and simplification
  
- 3. WHERE WE HOPE TO GO FROM HERE**
  - Simplified plan
  - Single recordkeeper or master administrator
  - NSHE branding

# PLAN GOVERNANCE

- Board of Regents authorized to sponsor PERS alternative plan by NRS 286.802
- Regents delegate administration of plan to Chancellor
- Chancellor delegates day-to-day administration to Vice Chancellor Administrative & Legal Affairs
- Vice Chancellor appoints Retirement Plan Advisory Committee (RPAC) to advise on policy and administrative matters

## COMPOSITION OF RPAC

- **Representative from each institution**
- **Benefits Manager North (BCN)**
- **Benefits Manager South (BCS)**
- **Retiree (must be a retiree from the Plan)**
- **Faculty Senate Chairs' Representative**
- **NSHE System Office Representative**

## INVESTMENT MANAGEMENT SUBCOMMITTEE

### **Appointed by RPAC to:**

- Monitor the performance of the fund sponsors and report on the performance to the RPAC.
- Recommend the addition and/or deletion of fund sponsors to the RPAC.
- Develop and review Requests for Proposals (RFP) to add fund sponsors to the Plans.

## RPAC's Standard of Care

- **Subject to fiduciary duties to be discussed at greater length at later meeting**
- **One of these duties is to obtain expert advice where needed**

# INVESTMENT DECISIONS

- **Investment Policy Statements are an integral part of a prudent fiduciary process**
  - Set goals and objectives for investments
  - Create a process for objectively monitoring results
  - Set triggers for eliminating poor performers and searching for replacements
- **In the absence of time, expertise and defined process, RPAC has relied heavily on Fund Sponsors**
  - Are the best funds being offered?
  - What happens when a fund underperforms?
    - How do we define underperformance?
    - What to we do with a fund that underperforms?

# RPAC'S NEED FOR EXPERT ADVICE

## 1. Investment decisions

- No written policy to guide investment decisions
- RPAC lacks time and expertise to select, monitor, and replace investments
- Over-reliance on vendors for decisions

## 2. Need for plan simplification

- Multiple vendor format
- Vast array of investment offerings
- Duplication of investments in the same investment style
- Gaps in offerings within investment styles

# PLAN COMPLEXITY

- New employees have to choose among TIAA-CREF, VALIC, and Fidelity
  - Creates confusing first impression
- All employees have to choose among 93 investment options
  - Creates “paralysis of choice”
  - Decreases probability of participation in voluntary plans and fosters conservative asset allocation

## 93 INVESTMENTS FOR EMPLOYEES TO CHOOSE FROM AND RPAC TO MONITOR

### TIAA-CREF

1. TIAA Traditional
2. CREF Money Market
3. CREF Bond Market
4. CREF Inflation-Linked Bond
5. CREF Social Choice
6. TIAA Lifecycle Ret Income
7. TIAA CREF Lifecycle 2010 Ret
8. TIAA CREF Lifecycle 2015 Ret
9. TIAA CREF Lifecycle 2020 Ret
10. TIAA CREF Lifecycle 2025 Ret
11. TIAA CREF Lifecycle 2030 Ret
12. TIAA CREF Lifecycle 2035 Ret
13. TIAA CREF Lifecycle 2040 Ret
14. TIAA CREF Lifecycle 2045 Ret
15. TIAA CREF Lifecycle 2050 Ret
16. TIAA Real Estate
17. CREF Equity Index
18. CREF Global Equities
19. CREF Growth
20. CREF Stock
21. TIAA-CREF Int'l Equity
22. TIAA-CREF Large Cap Value
23. TIAA-CREF Mid Cap Growth
24. TIAA-CREF Mid Cap Value
25. TIAA-CREF Small Cap Equity

### VALIC

#### Mutual Funds

1. Allianz NFJ Dividend Value
2. Artisan Mid-Cap Value
3. Heartland Value Plus
4. Davis New York Venture
5. Dreyfus S&P 500 Index
6. Dreyfus Mid-Cap Index
7. Dreyfus Small Cap Stock Index
8. American Fds Grth Fd of America
9. JP Morgan Mid-Cap Growth
10. JP Morgan Small Cap Growth
11. Am Fds Cap World Grwth & Inc
12. Am Fds Euro Pacific Growth
13. Dreyfus Int'l Stock Index
14. Virtus Real Estate Securities
15. T. Rowe Price Retirement 2010
16. T. Rowe Price Retirement 2020
17. T. Rowe Price Retirement 2030
18. T. Rowe Price Retirement 2040
19. T. Rowe Price Retirement Income
20. Amer. Century Infl-Adj Bond
21. Dreyfus Bond Market Index
22. PIMCO Total Return
23. Am Fds American High-Income
24. Am Century Premium Money Mkt
25. Fixed Interest Option

### FIDELITY

1. Blue Chip Growth K
2. Contrafund K
3. Dividend Growth K
4. Equity Income K
5. Growth & Income K
6. Growth Co K
7. Independence K
8. Magellan K
9. OTC K
10. Spartan 500 Index K
11. Spartan Total Market K
12. Low Priced Stock K
13. Mid-Cap Stock K
14. Value K
15. Spartan Ext Mkt Index K
16. Small Cap
17. Diversified Income K
18. Overseas K
19. Worldwide
20. Spartan Int'l Index
21. Real estate
22. Telecom & Utilities
23. Asset Mgr 50%
24. Convertible Securities
25. Balanced K
26. Freedom 2000 K
27. Freedom 2005 K
28. Freedom 2010 K

## 93 INVESTMENTS FOR EMPLOYEES TO CHOOSE FROM AND RPAC TO MONITOR

<b>TIAA-CREF</b>	<b>VALIC</b>	<b>FIDELITY</b>
	<p data-bbox="772 1117 1318 1203"><b>Note: Participants in VALIC's Portfolio Director can choose from among 33 additional funds.</b></p>	<ul style="list-style-type: none"> <li data-bbox="1356 574 1633 597">29. Freedom 2015 K</li> <li data-bbox="1356 607 1633 630">30. Freedom 2020 K</li> <li data-bbox="1356 639 1633 662">31. Freedom 2025 K</li> <li data-bbox="1356 672 1633 695">32. Freedom 2030 K</li> <li data-bbox="1356 704 1633 727">33. Freedom 2035 K</li> <li data-bbox="1356 737 1633 760">34. Freedom 2040 K</li> <li data-bbox="1356 769 1633 792">35. Freedom 2045 K</li> <li data-bbox="1356 802 1633 824">36. Freedom 2050 K</li> <li data-bbox="1356 834 1667 857">37. Freedom Income K</li> <li data-bbox="1356 867 1747 889">38. Inflation Protected Bond</li> <li data-bbox="1356 899 1667 922">39. Intermediate Bond</li> <li data-bbox="1356 932 1642 954">40. Strategic Income</li> <li data-bbox="1356 964 1684 987">41. Government Income</li> <li data-bbox="1356 997 1566 1019">42. Bond Index</li> <li data-bbox="1356 1029 1768 1052">43. Retirement Money Market</li> </ul> <p data-bbox="1356 1117 1873 1203"><b>Note: The Tax Sheltered Annuity Plan includes an additional 133 Fidelity funds.</b></p>

# Offerings Within Equity Investment Styles

	US VALUE	US BLEND	US GROWTH
LARGE	<ol style="list-style-type: none"> <li>1. TIAA-CREF Large Cap Value</li> <li>2. Fidelity Equity Income</li> <li>3. (VALIC) Allianz NJF Dividend Value</li> </ol>	<ol style="list-style-type: none"> <li>1. CREF Stock</li> <li>2. CREF Equity Index</li> <li>3. Fidelity Spartan 500 Index</li> <li>4. Fidelity Growth &amp; Income</li> <li>5. Fidelity Dividend Fund</li> <li>6. Fidelity Spartan Total Market Index Fund</li> <li>7. (VALIC) Davis New York Venture</li> <li>8. (VALIC) Dreyfus 500 Index</li> </ol>	<ol style="list-style-type: none"> <li>1. CREF Growth</li> <li>2. Fidelity Contrafund</li> <li>3. Fidelity Blue Chip Growth</li> <li>4. Fidelity Growth Company</li> <li>5. Fidelity Independence Fund</li> <li>6. Fidelity Magellan Fund</li> <li>7. Fidelity OTC Fund\</li> </ol>
MID	<ol style="list-style-type: none"> <li>1. TIAA-CREF Mid Cap Value</li> <li>2. Fidelity Value Fund</li> <li>3. (VALIC) Artisan Mid Cap Value</li> </ol>	<ol style="list-style-type: none"> <li>1. Fidelity Low Priced Fund</li> <li>2. Fidelity Spartan Extended Mkt</li> <li>3. (VALIC) Dreyfus Mid Cap Index Fund</li> </ol> <p>No TIAA-CREF offering</p>	<ol style="list-style-type: none"> <li>1. TIAA-CREF Mid Cap Growth</li> <li>2. Fidelity Mid Cap Stock Fund</li> <li>3. (VALIC) JP Morgan Mid Cap Growth</li> </ol>
SMALL	<ol style="list-style-type: none"> <li>1. (VALIC) Heartland Value Plus Fund</li> </ol> <p>No TIAA-CREF or Fidelity offering</p>	<ol style="list-style-type: none"> <li>1. TIAA-CREF Small Cap Equity</li> <li>2. Fidelity Small Cap Stock Fund</li> </ol>	<ol style="list-style-type: none"> <li>1. (VALIC) JP Morgan Small Cap Growth</li> </ol> <p>No TIAA-CREF or Fidelity offering</p>

# Offerings Within Equity Investment Styles

	VALUE	BLEND	GROWTH
GLOBAL EQUITY	1. (VALIC) American Funds Capital World Growth & Income  No TIAA-CREF or Fidelity offering	1. CREF Global Equities 2. Fidelity Worldwide Fund  No VALIC offering	No offering
INT'L EQUITY	No offering	1. Fidelity Diversified International Fund 2. Fidelity Overseas Fund 3. Fidelity International Index Fund 4. (VALIC) American Funds EuroPacific Fund  No TIAA-CREF offering	1. (VALIC) Dreyfus Int'l Stock Index  No TIAA-CREF or Fidelity offering
SPECIALTY	1. (VALIC) Virtus Real Estate Fund 2. Fidelity Real Estate Fund  No TIAA-CREF offering	1. TIAA Real Estate 2. Fidelity Telecom and Utilities  No VALIC offering	No offering
HYBRID	1. CREF Social Choice 2. Fidelity Balanced Fund 3. Fidelity Puritan Fund 4. Fidelity Convertible Securities Fund  No VALIC offering	No offering	No offering

# Offerings Within Fixed Income Investment Styles

	<b>INVESTMENT GRADE</b>	<b>HIGH YIELD</b>	<b>INFLATION PROTECTED</b>	<b>MONEY MARKET</b>	<b>STABLE VALUE</b>
<b>TIAA-CREF</b>	1. CREF Bond Market		1. CREF Inflation Protected	1. CREF Money Market	1. Traditional
<b>FIDELITY</b>	1. Government Income Fund 2. Intermediate Bond Fund 3. Investment Grade Bond Fund 4. US Bond Index Fund		1. Fidelity Inflation Protected	1. Fidelity Money Market Trust	
<b>VALIC</b>	1. Dreyfus Bond Market Index 2. PIMCO Total Return	1. (VALIC) American Funds High Income Trust	1. (VALIC) American Century Inflation-Adjusted	1. American Century Premium Money Mkt	1. Fixed Interest Option

## WHERE WE ARE GOING

- A simplified menu of more limited, best in class investment choices to accommodate both hands off and hands on investors, organized along a tiered structure
- A Single recordkeeper or master administrator
- NSHE Branding

# TIERED INVESTMENT STRUCTURE (Example)

TIER	INVESTMENT MENU		
<b>ONE Default</b>	Retirement Income Fund Retirement 2015 Fund Retirement 2020 Fund Retirement 2025	Retirement 2030 Fund Retirement 2035 Fund Retirement 2040 Fund Retirement 2050 Fund	Retirement 2050 Fund
<b>TWO Core</b>	CREF Money Market	PIMCO Total Return  Fidelity Worldwide Fund	Vanguard Total Stock Market Index
<b>THREE Managed</b>	TIAA-CREF Traditional CREF Inflation Protected CREF Growth CREF Global Equities	Fidelity Investment Grade Bond Fund Global Bond Fund Fidelity Growth & Income Fidelity Balanced Fund	Fidelity Government Income Fund TIAA-CREF Large Cap Value Dreyfus Mid Cap Index Fund
<b>FOUR Expanded</b>	Stock Funds Commodity Funds	Bond Funds Real Estate Funds	Sector Funds TIPS

## WHEN WE GET THERE

- One stop shopping for employees
- Slimmed down menu of investment options for participants
- Reduced number of funds to monitor
- Elimination of duplication of investment options within asset classes
- More surgical-like focus on best in class investment offerings
- NSHE Branding

**Investment Policy Statement**  
For the Nevada System of Higher Education Defined Contribution Plans

Adopted February 23, 2012

## **CONTENTS**

- I.** Overview & Purpose
- II.** Roles and Responsibilities
- III.** Investment Objectives
- IV.** Investment Guidelines
- V.** Review and Amendment of the Policy

## **I. OVERVIEW AND PURPOSE**

The Board of Regents of the Nevada System of Higher Education (the "Sponsor") maintains the following defined contribution retirement plans (herein collectively referred to as the "Plans"):

1. The Retirement Plan Alternative (RPA), a 401(a) plan with mandatory employer and employee contributions;
2. The Excess Benefit Plan, a 415(m) plan with supplemental employee and employer contributions;
3. The Tax Sheltered Annuity Plan (TSA), a 403(b) plan with voluntary employee contributions; and
4. The Medical Resident/Postdoctoral Scholar Plan, a 403(b) plan with mandatory employee and employer contributions.

The Plans are intended to provide eligible employees with long-term accumulation of retirement savings through a combination of employer and employee contributions to individual participant accounts.

The Sponsor may, from time to time, delegate the operation of the Plans to its Chancellor, who may in turn delegate certain responsibilities to an officer of the Sponsor. In that regard, the Chancellor has created the Retirement Plan Advisory Committee (the "RPAC") to advise on a range of matters relating to the Plans. Investment matters which are addressed by the RPAC are within the purview of a subcommittee, the Investment Management Subcommittee (the "Committee") of the RPAC.

Notwithstanding that certain provisions of 29 United States Code Sections 1001, *et seq.*, ("ERISA"), specifically Subchapter 1 thereof, are not applicable to the Plans, the Sponsor intends to be guided by the provisions of ERISA, including but not limited to Section 1104(c) thereof. Given the Plans intent to be guided by the provisions of ERISA, the Plans will provide a broad range of investment alternatives to reflect the different risk tolerances common among participants in retirement savings plans. The Plans are intended to provide participants the opportunity to save for retirement on a tax deferred basis and participants will be given the flexibility to alter their investment choices and the direction of existing and future contributions. Participants alone bear the risk of investment results from the investment alternatives and asset mixes that they select.

It is the intention of the Sponsor that the assets of the Plans shall be maintained in compliance with all applicable laws governing the operation of the Plans. Practices in this regard include, but are not limited to, the following:

- The investment alternatives offered to participants will be selected with the care, skill, and diligence that would be applied by a prudent person acting in a like capacity and knowledgeable in the investment of retirement funds.
- All transactions undertaken on behalf of the Plans shall be for the exclusive purposes of providing benefits to the Plans' participants and beneficiaries and defraying reasonable expenses of administering the Plans.

- Participants will be provided the opportunity to obtain sufficient information to make informed decisions with regard to investment alternatives available under the Plans.

The purpose of this Statement of Investment Policy ("Policy") is to record the investment goals and objectives that have been established for the Plans. This document also outlines various operational guidelines intended to assist the Committee in efficiently and effectively monitoring the investment alternatives available under the Plans. Specifically, this Policy is intended to:

- Outline by way of description and not as binding on the Committee, the overall structure of the investment program, the duties and responsibilities of the Committee, and the general policies and procedures under which the Committee operates;
- Establish guidelines and procedures to be followed in connection with the selection of investment funds to be offered as investment vehicles under the Plans; and
- Outline the criteria and procedures that the Committee intends to use in evaluating the performance of the investment funds in which the Plans invest.

This Policy does not apply to investments purchased through the Self-Directed Window, an individual brokerage account.

## **II. ROLES AND RESPONSIBILITIES**

The following are the key responsibilities:

- The Sponsor, and settlor of the Plans, will be responsible for establishing the Plans, determining the terms and design features of the Plans, and terminating the Plans (if deemed appropriate).
- The RPAC, acting through the Committee, is responsible for advising the Sponsor or its delegated authority on the selection and monitoring of the investment alternatives and service providers of the Plans. The Committee is entitled, but not required, to use the services of an investment consultant ("Investment Consultant") or other professionals to assist in carrying out its responsibilities.
- If retained, the Investment Consultant will render their recommendations on policy regarding availability and oversight (monitoring) of the investment alternatives. This includes but is not limited to, providing formal reviews of the performance of the investment alternatives, conducting investment manager due-diligence, and assisting with investment manager searches and selection. The Investment Consultant will also aid the Committee in adhering to the guidelines of the Policy and making recommendations regarding changes should they need to be made. The Investment Consultant shall provide such additional services as may be appropriate subject to the terms of a written agreement between the Sponsor and the Investment Consultant.
- Participants are solely responsible for monitoring the return on their assets and moving assets to other available investment alternatives as they deem necessary to minimize aggregate risk and maximize aggregate return on their investments. Participants are also solely responsible for determining their voluntary contribution rates within the IRS limits and allocating their assets among the investment alternatives offered by the Plans.
- The investment managers for the Plans' investment alternatives have the responsibility for managing the underlying assets by making reasonable investment decisions consistent with the stated approach in the fund's prospectus.
- The Plans' Service Provider(s) shall be responsible for providing the Plans with the services deemed appropriate by the Committee, acting in compliance with state and federal laws governing those services, and acting as fiduciaries to the Plans and Participants when appropriate. Practices in this regard include, but are not limited to, the safekeeping of securities, settlement of trades, collection of income, reimbursement of revenue sharing to offset administrative costs, administrative reporting to the Committee, and providing information regarding the investment alternatives to participants.

### **III. INVESTMENT OBJECTIVES**

The Committee believes long-term investment performance, in large part, is a function of asset class mix. The objective of the Committee is to offer a sufficient range of investment alternatives to allow participants to diversify their accounts and construct portfolios that reasonably span the risk/return spectrum.

While offering a variety of investment alternatives is important, efforts will be made to limit the total number to a prudent level that balances the benefits of broad diversification with the disadvantages of too much choice. At a minimum, the Plans shall offer enough investment alternatives so that participants can construct an investment program appropriate for their respective risk tolerances.

In that regard, the Plans shall be comprised of at least one investment alternative from each of the following categories:

- Capital Preservation
- Diversified Fixed Income
- U.S. Stock
- Non-U.S. Stock

Within these categories, the types of investment alternatives may include active or passive alternatives, low to high risk alternatives, and specialized styles of investment management.

In addition, at participants' discretion, some of the participants' assets in the Plans may be invested in loans to themselves.

#### **Qualified Default Investment Alternative**

Target Date Retirement Funds will be utilized as the Plans' default investment alternative. It is the Committee's intent that these funds serve as a "Qualified Default Investment Alternative" pursuant to regulations issued by the U.S. Department of Labor. Each fund is designed to provide varying degrees of long-term appreciation and capital preservation through a mix of equity and fixed income exposure based on the participant's age and target retirement date.

#### **IV. INVESTMENT GUIDELINES**

The Committee acknowledges that fluctuating rates of return characterize the securities markets, particularly during short-term periods. Recognizing that short-term fluctuations may cause variations in performance, the Committee intends to evaluate performance from a long-term perspective.

On a periodic basis, but not less than annually, the Committee will evaluate the performance of the Plans' investment alternatives on a net-of fee basis relative to (1) the return of an appropriate market index(es) and (2) the returns of a universe of comparable funds, where applicable, over a full market cycle (typically three to five years) or such other period determined by the Committee. In the case of pre-mixed investment alternatives, performance objectives will be based upon a custom benchmark composed of weighted market indices.

#### **Investment Selection**

The Committee will apply the following due diligence criteria when selecting an investment alternative:

- **Regulatory oversight:** The investment manager should be a regulated bank, an insurance company, a mutual fund organization, or a registered investment advisor.
- **Minimum track record:** The investment alternative's inception date should be at least three years; a shorter track record may be used when the investment professionals of a new organization have a well established and recognized track record at a previous organization.
- **Assets under management:** The portfolio manager should have a sufficient and appropriate asset base; in general, the Plans' portfolio should make up no more than 25% of the manager's total asset base, exceptions may be made on a case-by-case basis.
- **Stability of organization:** The portfolio manager should have at least a two-year tenure, as well as a record of managing asset growth effectively, both in gaining and retaining clients. For any passively-managed (index) funds, manager tenure of at least two years is not a requirement.
- **Performance:** The portfolio manager's performance should be evaluated against appropriate index and peer group returns over a trailing three- and five-year cumulative period; past performance should not, however, be the primary basis for selecting investment managers.
- **Holdings consistent with style:** A minimum of 80% of the investment alternative's securities should be consistent with the stated investment discipline.
- **Fees:** The investment alternative should be available at a reasonable cost.

In rare cases, some of the above criteria can be waived as approved by the Committee if few investment products are available related to a specific search.

## **Investment Monitoring**

The Committee will examine each investment alternative on a regular basis to ensure that the investment style and other relevant investment criteria are acceptable, given the purpose of each investment alternative. Investment vehicles that do not meet the Committee's expectations may be placed on watch.

The Committee may place an investment manager/alternative on a "Watch List" and conduct a thorough review and analysis of the investment if and when (but not limited to) any of the following occurs:

- Material changes to investment philosophy and objectives;
- Substantial change in assets under management (track substantial changes in total assets);
- Underperformance relative to benchmarks and peer groups;
- Lack of adherence to the investment alternative's stated investment discipline and style; and
- Significant organization instability and personnel turnover.

Funds repeatedly or consistently "on watch" may be candidates for replacement.

## **Investment Termination**

Unless contractually obligated, the Committee has the authority to remove or replace an investment alternative if, in the opinion of the Committee, the investment alternative does not, or is not expected to meet the specified criteria, or is no longer suited to the Plans and its participants. Grounds for termination may include, but are not limited to, the following:

- Failure to comply with stated guidelines;
- Significant deviation from the manager's stated investment philosophy and/or process;
- Loss of key personnel;
- Evidence of illegal or unethical behavior by the investment management firm;
- Loss of confidence by the Committee in the investment manager; or
- Failure to achieve performance objectives specified in the manager's guidelines over reasonable measurement periods.

## **Investment Mapping**

Generally, when the Committee recommends terminating an investment manager/alternative in the Plans, participants will be granted an opportunity to direct their assets to the Plans' remaining investment fund alternatives prior to termination. If the Committee has the authority, assets that are not directed by participants will be transferred or "mapped" to an investment alternative(s) that the Committee deems appropriate.

## **Fee Structure**

The Committee will review, at least annually, all costs associated with the management of the Plans' investment program, including, but not limited to:

- Costs to administer the Plans, including recordkeeping;
- Expense ratios of each investment option against the appropriate peer group;
- Sales loads including front-end or back-end sales charges; and
- Revenue sharing, including 12b-1 fees.

**V. REVIEW AND AMENDMENT OF THE POLICY**

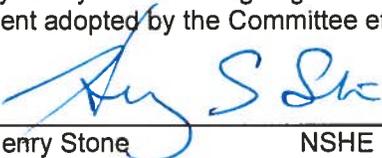
The Committee will periodically review this Policy to determine if it continues to reflect the Plans' objectives and meet the needs of the Plans' participants. Changes to this Policy are expected to be infrequent, as they will reflect long-term considerations, rather than short-term changes in the financial markets. However, the Committee retains authority to make interim changes to the Policy.

The criteria used to evaluate this Policy may include, but not limited to, consideration of: (1) demographics of the workforce, (2) growth of the Plans, and (3) changes in the legal or regulatory requirements of the Plans.

The Committee will communicate any modification on a timely basis to the Plans' other fiduciaries and any other interested parties.

**Certification by Delegated Authority:**

I hereby certify that the foregoing is an accurate and complete copy of the Investment Policy Statement adopted by the Committee effective as of (date)

By:  \_\_\_\_\_  
Henry Stone NSHE System Counsel

Date: 3/28/12

**Exhibit -**

**NSHE Retirement Program  
Goals/Objectives for Plan Enhancement**

<b>Employee</b>	
<b>Goal</b>	<b>Objectives/Strategies</b>
Simplify the program while enhancing choice	<ul style="list-style-type: none"> <li>• Four-tier investment structure                             <ul style="list-style-type: none"> <li>○ Tier I: Single-decision investing</li> <li>○ Tier II : Basic asset allocation options</li> <li>○ Tier III: Menu of more specialized investment fund styles</li> <li>○ Tier IV: Mutual fund window for sophisticated investors</li> </ul> </li> <li>• Single point of entry for participant enrollment and contribution changes</li> <li>• Combined retirement plan statement</li> </ul>
Investments focused on quality and value	<ul style="list-style-type: none"> <li>• High performing investment options</li> <li>• Low net expenses</li> <li>• Fee transparency</li> <li>• Independent investment oversight</li> <li>• Retirement income options</li> <li>• Elimination of commissions based on contributions, investments, or accumulations</li> </ul>
Increase employee engagement in their retirement plan	<ul style="list-style-type: none"> <li>• Implement a strategic communication plan</li> <li>• Heightened awareness/participation in 403(b) voluntary program</li> <li>• Increase targeted employee education                             <ul style="list-style-type: none"> <li>○ Appreciation/understanding that deferrals and asset allocation drives accumulations &amp; thus ability to retire</li> </ul> </li> </ul>
Simplify and enhance employee services	<ul style="list-style-type: none"> <li>• Neutral high quality participant guidance</li> <li>• Individual investment advise available by a fiduciary</li> <li>• Enhance retirement counseling</li> <li>• High quality services</li> <li>• Access to retirement tools using the latest available technology</li> </ul>
NSHE branding	<ul style="list-style-type: none"> <li>• Identification with NSHE as sponsor of retirement program</li> <li>• Remove all vendor branding</li> <li>• Recognition of employer retirement contributions</li> <li>• NSHE branded Customer Service Representative number and microsite</li> </ul>

<b>Employer</b>	
<b>Goal</b>	<b>Objectives/Strategies</b>
Enhance employer services	<ul style="list-style-type: none"> <li>• Administrative ease</li> <li>• Simplified remittance</li> <li>• Accurate and enhanced data reporting</li> <li>• Performance standards and guarantees</li> <li>• Enhanced enrollment services</li> </ul>
Fund administrative expenses	<ul style="list-style-type: none"> <li>• Establish a funding mechanism to fund value added services, including retaining the independent consultant.</li> <li>• Fee transparency</li> </ul>
Provide compliance and professional advice	<ul style="list-style-type: none"> <li>• Oversight of investment vehicles by independent consultant</li> <li>• Adherence to fiduciary obligations and best practices</li> <li>• Plan document compliance review</li> <li>• Periodic RPAC self assessment</li> <li>• Ensure regulatory and tax code compliance</li> </ul>
NSHE branding	<ul style="list-style-type: none"> <li>• Brand identity separate from vendor brands</li> <li>• Value proposition to employees</li> <li>• Recognition of retirement contribution as part of total compensation</li> </ul>

Working Document, Investment Management Subcommittee, 1/10/2012

2007 NSHE RPA Plan Comparison

	NSHE Plan Provider			All Providers
	AIG	Fidelity	TIAA-CREF	(asset weighted)
<i>As of 12/31/2007</i>				
1-year portfolio return*	5.11%	9.90%	7.26%	7.30%
3-year annualized portfolio return	7.65%	10.73%	9.17%	9.17%
5-year annualized portfolio return	7.12%	16.04%	10.15%	10.39%
Aggregate participant assets 12/31/2006	\$107,143,501	\$93,321,264	\$1,037,026,338	\$1,237,491,103
Net contributions/withdrawals	\$6,645,022	\$14,703,855	\$11,298,316	\$32,647,193
Income and market appreciation (net)	\$5,439,544	\$9,713,245	\$90,431,606	\$105,584,395
Aggregate participant assets 12/31/2007	\$119,228,067	\$117,738,364	\$1,138,756,261	\$1,375,722,692
Number of participant accounts	1,437	2,582	7,062	11,081
Change from previous year	46	230	(101)	175
Average assets per account (12/31/2007)	\$82,970	\$45,600	\$161,251	\$124,151
Expense ratio**	1.37%	0.71%	0.50%	0.59%
Total expenses**	\$ 1,567,721	\$ 837,413	\$ 5,669,494	\$ 8,074,628
<i>Asset allocations as of 12/31/2007</i>				
U.S. Stocks	54.0%	51.8%	36.3%	39.2%
Foreign Stocks	17.0%	15.6%	11.5%	12.3%
Bonds	5.0%	11.7%	4.5%	5.2%
Fixed/Guaranteed Annuity	21.0%	0.0%	39.2%	34.3%
Cash	3.0%	13.9%	4.6%	5.3%
Other	0.0%	7.0%	0.0%	0.6%
Real Estate	0.0%	0.0%	3.9%	3.2%
Allocation-weighted 1-yr benchmark	6.87%	6.52%	7.20%	7.11%
Portfolio return minus market return	-1.76%	+3.38%	+0.06%	+0.19%

**Market benchmarks 1-yr return 200**

5.62% Wilshire 5000
11.17% MSCI EAFE net TR
6.97% Lehman US Aggregate Bond
6.97% Lehman US Aggregate Bond
4.74% Citigroup 3-month T-bill Index
5.62% Wilshire 5000
15.80% NCREIF Property Index

based on average of beginning- and end-of-year asset allocation

Exhibit F  
page 1 of 5

**Notes**

\*\*AIG Retirement expense ratio and total expense excludes fixed/guaranteed accounts

\*\*TIAA-CREF expense ratio include fixed/guaranteed accounts estimated at 0.5%

\*Portfolio returns

AIG Retirement: average of time-weighted rates-of-return (modified Dietz method) of individual participants (not asset-weighted)

Fidelity: aggregate time-weighted rate-of-return

TIAA-CREF: aggregate time-weighted rate-of-return (modified Dietz method)

updated 3/19/2009

For RPAC use only. Not to be released to participants.

2008 NSHE RPA Plan Comparison

Exhibit F  
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As of 12/31/2008	NSHE Plan Provider			All Providers (asset weighted)	
	AIG	Fidelity	TIAA-CREF		
1-year portfolio return*	-25.26%	-32.40%	-14.04%		-16.42%
3-year annualized portfolio return	-17.64%	-17.20%	1.56%		-1.49%
5-year annualized portfolio return	-7.27%	-1.50%	3.94%		2.61%
<b>Aggregate participant assets 12/31/2007</b>	\$119,228,067	\$117,738,364	\$1,138,756,261		\$1,375,722,692
<b>Net contributions (withdrawals)</b>	\$3,603,918	\$17,162,767	(\$13,566,073)		\$7,200,612
<b>Income and market appreciation (net)</b>	(\$31,212,243)	(\$42,271,646)	(\$161,113,207)		(\$234,597,096)
<b>Aggregate participant assets 12/31/2008</b>	\$91,619,742	\$92,629,485	\$964,076,981		\$1,148,326,208
<b>Number of participant accounts</b>	1,383	2,724	7,097		11,204 note: overcounts participants with multiple vendors
<b>Change from previous year</b>	(54)	142	(66)		22
<b>Average assets per account (12/31/2008)</b>	\$66,247	\$34,005	\$135,843		\$102,493
<b>Expense ratio**</b>	<b>1.32%</b>	<b>0.69%</b>	<b>0.59%</b>		<b>0.66%</b>
<b>Total expenses</b>	\$ 1,167,658	\$ 635,245	\$ 5,674,384		\$ 7,477,287
<b>Asset allocations as of 12/31/2008</b>					<b>Market benchmarks 1-yr return 2008</b>
<b>U.S. Stocks</b>	46.0%	48.5%	25.2%	28.7%	-37.23% Wilshire 5000
<b>Foreign Stocks</b>	15.0%	12.7%	8.2%	9.1%	-43.38% MSCI EAFE net TR
<b>Bonds</b>	12.0%	19.9%	5.9%	7.5%	5.24% BarCap US Aggregate Bond
<b>Fixed/Guaranteed Annuity</b>	24.0%	0.0%	49.8%	43.7%	4.58% Hueler Stable Value Index
<b>Cash</b>	3.0%	17.3%	6.8%	7.3%	1.37% Citigroup 3-month T-bill Index
<b>Other</b>	0.0%	1.5%	0.1%	0.2%	-37.23% Wilshire 5000
<b>Real Estate</b>	0.0%	0.0%	4.0%	3.4%	-6.46% NCREIF Property Index
<b>Allocation-weighted 1-yr benchmark</b>	<b>-24.04%</b>	<b>-25.35%</b>	<b>-13.61%</b>	<b>-15.39%</b>	based on average of beginning- and end-of-year asset allocation
<b>Portfolio return minus market benchmark</b>	<b>-1.22%</b>	<b>-7.05%</b>	<b>-0.43%</b>	<b>-1.03%</b>	estimate

Notes

\*\*AIG Retirement expense ratio and total expense excludes fixed/guaranteed accounts

\*\*TIAA-CREF expense ratio include fixed/guaranteed account estimated at 0.55%

\*Portfolio returns

AIG Retirement: average of time-weighted rates-of-return (modified Dietz method) of individual participants (not asset-weighted)

Fidelity: aggregate time-weighted rate-of-return

TIAA-CREF: aggregate time-weighted rate-of-return (modified Dietz method)

updated 3/19/2009

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2009 NSHE RPA Plan Comparison

Exhibit F  
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As of 12/31/2009	NSHE Plan Provider			All Providers	
	VALIC	Fidelity	TIAA-CREF	(asset weighted)	
1-year portfolio return*	19.62%	26.70%	12.69%	14.78%	
3-year annualized portfolio return	-1.00%	-5.80%	1.29%	0.33%	
5-year annualized portfolio return	6.42%	13.20%	3.94%	5.15%	
Aggregate participant assets 12/31/2008	\$91,619,742	\$99,216,525	\$964,661,291	\$1,155,497,558	
Net contributions (withdrawals)	(\$2,628,474)	\$18,042,073	\$9,476,016	\$24,889,615	
Income and market appreciation (net)	\$18,110,173	\$31,331,639	\$123,821,567	\$173,263,379	
Aggregate participant assets 12/31/2009	\$107,101,441	\$148,590,237	\$1,097,958,874	\$1,353,650,552	
Number of participant accounts	1,308	2,856	7,113	11,277	note: overcounts participants with multiple vendors
Change from previous year	(75)	132	16	73	
Average assets per account (12/31/2008)	\$66,247	\$36,423	\$135,925	\$103,133	
Average assets per account (12/31/2009)	\$81,882	\$52,027	\$154,359	\$120,036	
Expense ratio**	1.23%	0.72%	0.57%	0.64%	
Total expenses**	\$ 1,352,704	\$ 1,076,692	\$ 6,268,010	\$ 8,697,406	
<b>Asset allocations as of 12/31/2009</b>					<b>Market benchmarks 1-yr return 2009</b>
U.S. Stocks	52.0%	50.7%	29.3%	33.4%	28.30% Wilshire 5000
Foreign Stocks	16.0%	14.3%	11.3%	12.0%	31.78% MSCI EAFE net TR
Bonds	11.0%	19.4%	6.6%	8.4%	5.93% BarCap US Aggregate Bond
Fixed/Guaranteed Annuity	19.0%	0.0%	45.2%	38.2%	3.12% Hueler Stable Value Index
Cash	2.0%	13.6%	5.4%	6.0%	0.16% Citigroup 3-month T-bill Index
Other	0.0%	2.0%	0.0%	0.2%	28.30% Wilshire 5000
Real Estate	0.0%	0.0%	2.2%	1.8%	-16.86% NCREIF Property Index
Allocation-weighted 1-yr benchmark	20.15%	20.03%	12.16%	13.66%	based on average of beginning- and end-of-year asset allocation
Portfolio return minus market benchmark	-0.53%	+6.67%	+0.53%	+1.12%	

Notes

\*\*VALIC Retirement expense ratio and total expense excludes fixed/guaranteed accounts

\*\*TIAA-CREF expense ratio include fixed/guaranteed account estimated at 0.55%

\*Portfolio returns

VALIC: average of time-weighted rates-of-return (modified Dietz method) of individual participants (not asset-weighted)

Fidelity: aggregate time-weighted rate-of-return

TIAA-CREF: aggregate time-weighted rate-of-return (modified Dietz method)

Fidelity includes Pre1999 Plan and 415m assets and expenses as part of RPA, but not in performance data or participant numbers

TIAA-CREF includes 415m assets and expenses as part of RPA, but not in performance data or participant numbers

For RPAC use only, not to be released to participants

Updated 4/22/2010

2010 NSHE RPA Plan Comparison

Exhibit F  
page 4 of 5

As of 12/31/2010	NSHE Plan Provider			All Providers (asset weighted)	
	VALIC	Fidelity	TIAA-CREF		
1-year portfolio return*	7.94%	13.20%	9.16%		9.57%
3-year annualized portfolio return	0.58%	-3.00%	0.71%		0.24%
5-year annualized portfolio return	8.76%	18.70%	4.49%		6.60%
Aggregate participant assets 12/31/2009	\$107,101,441	\$148,590,237	\$1,097,958,874		\$1,353,650,552
Net contributions (withdrawals)	(\$3,904,066)	\$18,182,719	\$3,693,669		\$17,972,322
Income and market appreciation (net)	\$12,231,732	\$21,478,685	\$97,550,358		\$131,260,775
Aggregate participant assets 12/31/2010	\$115,429,107	\$188,251,641	\$1,199,202,901		\$1,502,883,649
Number of participant accounts	1,252	3,044	7,062		11,358 note: overcounts participants with multiple vendors
Change from previous year	(56)	188	(51)		81
Average assets per account (12/31/2009)	\$81,882	\$52,027	\$154,359		\$120,036
Average assets per account (12/31/2010)	\$92,196	\$61,844	\$169,811		\$132,319
Expense ratio**	1.09%	0.73%	0.50%		0.57%
Total expenses**	\$ 1,024,110	\$ 1,366,572	\$ 5,988,342		\$ 8,379,024
<b>Asset allocations as of 12/31/2010</b>					
U.S. Stocks	49.0%	48.5%	29.5%	33.4%	17.16% Wilshire 5000
Foreign Stocks	18.0%	17.3%	12.1%	13.2%	7.75% MSCI EAFE net TR
Bonds	9.0%	19.0%	6.8%	8.5%	6.54% BarCap US Aggregate Bond
Fixed/Guaranteed Annuity	21.0%	0.0%	42.9%	35.8%	3.12% Hueler Stable Value Index
Cash	3.0%	13.8%	6.6%	7.2%	0.13% Citigroup 3-month T-bill Index
Other		1.4%		0.2%	17.16% Wilshire 5000
Real Estate		0.0%	2.0%	1.6%	13.11% NCREIF Property Index
Allocation-weighted 1-yr benchmark return	11.05%	11.16%	8.06%	8.68%	based on end-of-year asset allocation
Portfolio return minus market benchmark	-3.11%	2.04%	1.10%	0.89%	

Notes \*\*VALIC Retirement expense ratio and total expense excludes fixed/guaranteed accounts

\*\*TIAA-CREF expense ratio include fixed/guaranteed account estimated at 0.52%

\*Portfolio returns

VALIC: average of time-weighted rates-of-return (modified Dietz method) of individual participants (not asset-weighted)

Fidelity: aggregate time-weighted rate-of-return

TIAA-CREF: aggregate time-weighted rate-of-return (modified Dietz method)

Fidelity includes Pre1999 Plan and 415m assets and expenses as part of RPA, but not in performance data or participant numbers

TIAA-CREF includes 415m assets and expenses as part of RPA, but not in performance data or participant numbers

For RPAC use only, not to be released to participants

Updated 5/10/2011

2011 NSHE RPA Plan Comparison

As of 12/31/2010	NSHE Plan Provider			All Providers (asset weighted)	
	VALIC	Fidelity	TIAA-CREF		
1-year portfolio return*	-0.63%	-2.00%	0.94%	0.43%	
3-year annualized portfolio return	23.16%	43.50%	7.48%	13.43%	
5-year annualized portfolio return	7.06%	7.30%	2.04%	3.11%	
Aggregate participant assets 12/31/2010	\$115,429,109	\$188,251,641	\$1,199,202,901	\$1,502,883,651	
Net contributions (withdrawals)	(\$3,570,254)	\$15,911,503	(\$18,675,855)	(\$6,334,606)	
Income and market appreciation (net)	(\$715,118)	(\$4,253,689)	\$10,710,643	\$5,741,836	
Aggregate participant assets 12/31/2011	\$111,143,737	\$199,909,455	\$1,191,237,689	\$1,502,290,881	
Number of participant accounts	1,225	3,162	6,967	11,236	note: overcounts participants with multiple vendors
Change from previous year	(27)	118	(95)	66	
Average assets per account (12/31/2010)	\$92,196	\$65,914	\$169,811	\$134,546	
Average assets per account (12/31/2011)	\$90,730	\$65,673	\$170,983	\$133,703	
Expense ratio**	1.02%	0.55%	0.50%	0.55%	
Total expenses**	\$ 876,922	\$ 987,633	\$ 6,014,223	\$ 7,878,778	
	\$1,133,666	\$1,099,502	\$5,956,188	\$8,189,357	
<b>Asset allocations as of 12/31/2011</b>					<b>Market benchmarks 1-yr return 2010</b>
U.S. Stocks	48.0%	47.5%	28.2%	32.2%	1.08% Wilshire 5000
Foreign Stocks	17.0%	15.3%	10.1%	11.3%	-12.04% MSCI EAFE
Bonds	12.0%	20.9%	7.9%	9.9%	7.84% BarCap US Aggregate Bond
Fixed/Guaranteed Annuity	21.0%	0.0%	44.5%	36.8%	2.69% Hueler Stable Value Index
Cash	2.0%	14.6%	6.9%	7.6%	0.08% Citigroup 3-month T-bill Index
Other		1.8%		0.2%	1.08% Wilshire 5000
Real Estate		0.0%	2.5%	2.0%	14.26% NCREIF Property Index
Allocation-weighted 1-yr benchmark	-0.19%	0.15%	1.05%	0.84%	based on average of beginning- and end-of-year a
Portfolio return minus market benchmark	-0.44%	-2.15%	-0.11%	-0.41%	

**SUMMARY OF COST REDUCTIONS**

**Expense Reductions Secured in 2010**

Negotiations with VALIC in 2010 resulted in expense reductions or interest rate enhancements for plan participants totaling an estimated \$199,000. These reductions came from four changes:

1. *Increased rate on Fixed Interest Option by 15 basis point effective December 21, 2010. Estimated annual savings of \$16,000 as per the following:*

<i>Fixed Interest Additional</i>	<i>Hypothetical Q1 2011</i>	<i>Q1 2011</i>	<i>Additional</i>	<i>Estimated</i>
<i>Option Balance 12/21/10</i>	<i>Interest Earned at Former Rate of 3.6%</i>	<i>Interest Earned at New Rate of 3.75%</i>	<i>Interest Paid in Q1 2011</i>	<i>Interest Paid in 2011</i>
<i>\$6,707,575</i>	<i>\$99,656</i>	<i>\$103,800</i>	<i>\$4,144</i>	<i>\$16,576</i>

*It should be noted that VALIC initially estimated the savings at \$8,000 annually.*

2. *Reduced Guided Portfolio Services fees to a flat 45 basis points effective January 1, 2011. Estimated annual savings of \$93,000 as per the following:*

<i>GPS Assets As of 1/1/11</i>	<i>Hypothetical Q1 Fees Paid Based on Former Rate Schedule*</i>	<i>GPS Fees Actually Paid Based on New Rate Schedule</i>	<i>Participant Savings in Q1</i>	<i>Estimated 2011</i>
<i>\$106,102,320</i>	<i>\$141,171</i>	<i>\$117,532</i>	<i>\$23,639</i>	<i>\$93,476</i>

*\*Blended rate of 5.4% was used reflecting actual blended rate paid in Q3 and Q4 2010.*

*It should be noted that VALIC initially estimated the savings at \$86,000 annually.*

3. *Reduced Portfolio Director expenses by 20 basis point effective December 15, 2010. Estimated annual savings of \$49,000 as per Schedule 1 attached.*
4. *Reduced fees on mutual fund expenses by 10 basis points effective December 21, 2010. Estimated annual savings of \$41,000 as per Schedule 2 attached.*

**Expense Reductions Secured in 2011**

As a result of continuing negotiations with TIAA-CREF and with Fidelity, additional expense reductions and revenue sharing have been achieved.

In February, TIAA-CREF agreed to begin offering the Institutional Class shares for 15 of its mutual funds effective May 6, 2011. This change will save participants in these funds approximately \$183,870 annually in fees as shown in the table on the next page:

Investment	Balance Amount as of March 4, 2011	Retirement Class Expense Ratio	Annual Expenses	Institutional Class Expense Ratio	Annual Expenses	Savings
TIAA-CREF Intl Eq-Rtmt	\$13,280,454	0.0084	\$111,556	0.0059	\$78,355	\$33,201
TIAA-CREF Lfcyle Rtmt Inc-Rtmt	\$1,594,351	0.0065	\$10,363	0.004	\$6,377	\$3,986
TIAA-CREF Lg-Cap Val-Rtmt	\$8,436,663	0.0077	\$64,962	0.0052	\$43,871	\$21,092
TIAA-CREF Lifecycle 2010-Rtmt	\$1,145,067	0.0065	\$7,443	0.004	\$4,580	\$2,863
TIAA-CREF Lifecycle 2015-Rtmt	\$2,833,343	0.0067	\$18,983	0.0042	\$11,900	\$7,083
TIAA-CREF Lifecycle 2020-Rtmt	\$4,180,278	0.0067	\$28,008	0.0042	\$17,557	\$10,451
TIAA-CREF Lifecycle 2025-Rtmt	\$4,665,833	0.0069	\$32,194	0.0044	\$20,530	\$11,665
TIAA-CREF Lifecycle 2030-Rtmt	\$4,050,803	0.0071	\$28,761	0.0046	\$18,634	\$10,127
TIAA-CREF Lifecycle 2035-Rtmt	\$3,954,052	0.0072	\$28,469	0.0047	\$18,584	\$9,885
TIAA-CREF Lifecycle 2040-Rtmt	\$5,990,608	0.0072	\$43,132	0.0047	\$28,156	\$14,977
TIAA-CREF Lifecycle 2045-Rtmt	\$928,533	0.0072	\$6,685	0.0047	\$4,364	\$2,321
TIAA-CREF Lifecycle 2050-Rtmt	\$545,832	0.0071	\$3,875	0.0046	\$2,511	\$1,365
TIAA-CREF Mid-Cap Gr-Rtmt	\$6,241,554	0.0079	\$49,308	0.0054	\$33,704	\$15,604
TIAA-CREF Mid-Cap Val-Rtmt	\$10,854,855	0.0081	\$87,924	0.0056	\$60,787	\$27,137
TIAA-CREF Sm-Cap Eq-Rtmt	\$4,845,869	0.0084	\$40,705	0.0059	\$28,591	\$12,115
TOTALS	\$73,548,095		\$562,368		\$378,501	\$183,870

Also in February, Fidelity agreed to replace a number of mutual funds with K Class shares which carry significantly lower expense ratios and will generate estimated \$276,845 in annual savings for participants.

### Summary of Cost Reductions

For years 2010 and 2011, the vendor concessions negotiated by the RPAC total an estimated \$661,000 annually as per the following summary:

#### VALIC

1.	Increased interest on Fixed Income Option	\$ 16,000
2.	Reduced GPS fees	\$ 93,000
3.	Reduced Portfolio Director fees	\$ 49,000
4.	Reduced Mutual Fund fees	\$ 41,000

Total \$199,000

#### TIAA-CRE

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1.	Conversion of mutual funds to Institutional Class	\$184,000
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#### FIDELITY

1.	Conversion of 44 mutual funds to K Class	\$277,000
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TOTAL \$660,000

### 2010 NSHE Retirement Program Survey—Summary

A survey was distributed to active NSHE employees via e-mail during April 2010. The survey was designed to help the NSHE Retirement Plan Advisory Committee (RPAC), which advises the Chancellor on retirement plan policy, to evaluate the program and providers and to plan for future improvements.

Nearly 800 plan participants completed the web-based survey. The response rate was somewhat variable by institution, possibly because the e-mail solicitations were sent at different times on various campuses. The responses were moderately over-weighted for the 45-65 year age groups compared with the overall population. However, the overall satisfaction ratings are largely uniform, statistically, among age groups, campuses, higher or lower asset levels, and self-described knowledge about investing.

Some key results are given in tables (page 3). Some highlights are listed below:

- \* In satisfaction ratings of overall client service and investments, both Fidelity and TIAA-CREF score fairly high at about 4.0 on a 1-to-5 scale, with little difference between them statistically. Their participants express somewhat lower satisfaction with help provided for selecting investments and planning for retirement, compared with other service areas questioned.
- \* Satisfaction scores for VALIC are lower by a statistically significant margin, both for service and investments. Differentiation among providers is especially apparent in the question of whether clients would recommend their provider to a colleague (bottom table on page 3). The “high touch” service model at VALIC does not translate into higher satisfaction ratings for either availability of or interactions with their account representatives, compared with the other two providers. The timing of the survey, following the AIG financial crisis and the temporary suspension of new VALIC enrollments by NSHE, might have influenced these responses.
- \* Participants are moderately satisfied with the choices of investments. They are less satisfied with investment performance, not surprising given the market downturn in 2008-2009. They are quite sensitive to expenses, with satisfaction ratings about expenses for the three providers inversely correlated with their average expense ratios.
- \* The NSHE Retirement Program as a whole received moderate satisfaction ratings of 3.7/5.0. It scores low in helping participants with selecting providers and communicating about the plan. This is not surprising because NSHE has mainly relied on the providers for services and communications.
- \* Participants prefer web-based information over communications on paper. A NSHE website with information about the plan and benefits is rated of high importance.
- \* Plan features rated highly important include an annual investment performance and expense summary, regular retirement check-ups (available now for participants who make appointments

with representatives or through on-line tools), keeping current providers and funds, and lower net expenses. Because lowering expenses may require changing fund line-ups and adding features entails costs, the program will have to balance these desires.

\* Regarding investment fund line-ups, there is a moderate preference for “a simplified menu of funds covering the basic assets class” and little support for a brokerage account option.

The committee appreciated the many comments from respondents. It is impractical to summarize all of them, but there are a few themes:

(1) “I want XYZ investment.” Unfortunately, there is little consensus on XYZ investments and research shows that a multitude of investment options actually stymies many employees from making decisions. The RPAC is considering a “tiered” investment structure that would simplify investment choices for most participants, but give self-directed participants a wider choice.

(2) “I want ABC company.” Vanguard is mentioned most often, as well as keeping Fidelity and TIAA-CREF.

(3) “I would prefer to be covered by PERS (faculty) or Social Security.” The retirement plans are defined by state law and changing that is beyond the RPAC’s purview.

(4) “Representative A is great. Representative B is ineffective or hard to reach.” These comments have been communicated, without any identifying client information, to the provider managers. In some cases A or B is no longer serving NSHE.

(5) “Fidelity and TIAA-CREF don’t come to Elko often enough.” The providers have been asked to address this issue.

(6) Difficulty transferring funds to another provider, especially from VALIC. These issues have been addressed by the temporary suspension of new enrollments to VALIC and associated administrative follow-up.

The RPAC hopes that plans for improvements in the NSHE Retirement Program, including reductions in expenses, improved communications and better administrative oversight, will come to fruition over the next one or two years. The committee welcomes all feedback.

NSHE Retirement Program Survey  
 Distributed to active employees via e-mail during April 2010

Selected Results for all NSHE Retirement Plan Participants

Overall satisfaction with client service with	Somewhat or Very Satisfied	Somewhat or Very Dissatisfied	Mean Score/5.00	Number of Respondents
Fidelity	67 ± 6 %	8 ± 2 %	4.00±0.13	N=286
TIAA-CREF	69 ± 4 %	7 ± 1 %	4.07±0.10	N=508
VALIC	59 ± 7 %	16 ± 2 %	3.75±0.16	N=216

Overall satisfaction with investments at	Somewhat or Very Satisfied	Somewhat or Very Dissatisfied	Mean Score/5.00	Number of Respondents
Fidelity	70 ± 5 %	7 ± 2 %	3.89±0.11	N=286
TIAA-CREF	75 ± 4 %	6 ± 1 %	4.07±0.08	N=503
VALIC	49 ± 7 %	21 ± 3 %	3.42±0.16	N=213

	Somewhat or Very Satisfied	Somewhat or Very Dissatisfied	Mean Score/5.00	Number of Respondents
Satisfaction with service from Benefits Office	52 ± 4 %	10 ± 2 %	3.74±0.10	N=784
Overall satisfaction with NSHE Retirement Program	63 ± 3 %	11 ± 1 %	3.73±0.07	N=782

Percentage of the clients of each vendor who would recommend that vendor to a colleague:

Fidelity	63 ± 6 %	N=290
TIAA-CREF	75 ± 4 %	N=510
VALIC	29 ± 6 %	N=217

Margins of error on percentages are at the 95%-confidence level assuming random sampling.

Rating scale: 1 = very dissatisfied, 2 = somewhat dissatisfied, 3 = neither dissatisfied nor satisfied, 4 = somewhat satisfied, 5 = very satisfied. Mean score out of 5.00, plus or minus the uncertainty of the mean at the 95%-confidence level assuming random sampling. The mean response for all satisfaction rating questions was 3.74 with standard deviation 0.29.