

## **We Can Do Better With Our NSHE Retirement Plan**

by Kent Ervin

The NSHE Retirement Plan Advisory Committee (RPAC) is conducting a Request for Proposals (RFP) this year for contracts with retirement plan service providers (currently Fidelity, TIAA-CREF, and VALIC) for the mandatory RPA/401a and the voluntary TSA/403b plans. The RFP seeks enhancements in service levels and program features, simplification of the investment offerings while also providing broader choice, and lower costs. Participants naturally have had questions about this process. From my perspective as a member of the RPAC, I'll present an overview here about the RFP process. I am enthusiastic about the prospect for improving our retirement program and the retirement outcomes for participants.

**Why now?** Best fiduciary practice is for plan sponsors to go out for bid every five years to ensure that a plan is getting the best available services at reasonable cost, but NSHE last did a RFP in the 1990s. I started as UNR's faculty representative on the RPAC in 2006-7, when the committee did a 5-year review of the three service providers. The RPAC asked lots of questions about services and investments—but basically we just got sales presentations from the vendors. We thought that our retirement plan was too complicated for many participants and knew it was more expensive than it ought to be, but we also realized that we needed to learn much more about the retirement plan market in higher education even to ask the right questions. Therefore, the faculty members on the RPAC spent several years doing a strategic review. The RPAC has also gathered participant input through surveys and open meetings. We are now finally in a position to move forward.

**What can be improved?** The retirement plan industry has become more competitive in recent years, so higher service levels and broader investment choices are available at lower cost. For instance, plans are no longer restricted to the proprietary investment products from each vendor. Rather, NSHE should offer the highest quality investments from the entire universe of mutual funds through any service provider (so-called open architecture). For participants who want more choice, a mutual fund brokerage window can be made available. A program of our size warrants more local representatives—across the state—to help participants than some of our providers are currently supplying. Moreover, for many years we have paid retail prices for account services and investment management even though we have \$1.9 billion in plan assets and over \$100 million/year in contributions—NSHE has failed to utilize its leverage in the market to obtain lower pricing. Finally, key issues are improving communications about the plan and retirement planning, providing retirement income options, contracting for service guarantees, and ensuring that NSHE's fiduciary obligations to monitor the plan and investments are met.

**What is not affected?** The RFP will not affect the RPA defined contribution rate and 100% vesting. The nonparticipation in PERS for most faculty and nonparticipation in Social Security will not be addressed, because those policies are set by the Nevada State Legislature. Regardless of any possible changes in the retirement plan going forward, you will be able to keep existing assets in funds you have selected in your accounts with current providers if you so choose.

**What is the process?** The RFP questionnaire will gather information from current and other major providers in the market and discover what they can offer. The advisory committee's recommendations to the Chancellor, who makes the final decisions, will depend

on the proposed services and costs and the best interests of participants, which NSHE is required to uphold as fiduciary. As one committee member, I am firmly committed to achieving the best possible deal *both* for future contributors *and* for holders of assets in existing assets with current providers.

**How can you benefit?** A direct benefit is that lower expenses will increase your retirement savings, compounding over time. Do you know how much are you paying now for your NSHE retirement account? It’s not free! But the administrative fees are hidden in the total expense ratios of the funds along with the investment management expenses, and those vary with each fund. Table 1 shows typical fees for a \$100,000 account balance, near the median for active RPA participants. If you are near retirement with a large balance, you may be paying much more. If you invest in a variable annuity product, you are paying insurance-type fees that very few people ever benefit from. We need lower and more transparent and equitable fees.

**Table 1. Average annual expenses per \$100,000 account balance [1]**

Fee Category	Fidelity	TIAA-CREF	VALIC	Peer Plans [2]
Investment Management Fees	\$371	\$261	\$487 [3]	\$230
Administrative & Other Fees	\$110 [4]	\$185 [4]	\$540	\$70
Total	<b>\$481</b>	<b>\$446</b>	<b>\$1,027</b>	<b>\$300</b>

[1] As of 12/31/2012, weighted by fund assets as invested by participants. Your individual fees vary by fund. [2] Hewitt EnnisKnupp 2011 benchmark for plans of similar size. [3] Does not include Guided Portfolio Service management fee (add \$450). [4] After negotiated reductions. Sources: NSHE quarterly performance report and Hewitt EnnisKnupp plan review.

**How can we collectively benefit?** Currently, we lose purchasing power by dividing assets among multiple similar funds. There are a total of 294 funds in the plans (93 in the RPA). For example, NSHE offers five passively-managed index funds in the Morningstar large-cap blend style category, compared in Table 2. Participants holding the higher-expense funds are losing returns for the same exposure to this market segment. By consolidating future contributions into one or two funds in each category, we can demand the best institutional pricing for the benefit of all participants.

**Table 2. Large-Cap U.S. Equity Index Fund Performance as of 12/31/2012**

Provider	Investment Fund	Target Benchmark Index	Total Expense Ratio	3-yr Annualized Benchmark Index Performance	3-yr Annualized Fund Performance	Annual Under-performance
Fidelity	Spartan 500 Index	S&P 500	0.04%	10.9%	10.8%	-0.1%
Fidelity	Spartan Total Market Index	D.J. US Total	0.07%	11.4%	11.3%	-0.1%
TIAA-CREF	CREF Equity Index	Russell 3000	0.43%	11.2%	10.8%	-0.4%
VALIC	Dreyfus S&P 500 Index	S&P 500	0.50%	10.9%	10.4%	-0.5%
VALIC	SunAmerica Stock Index	S&P 500	1.18%	10.9%	9.6%	-1.3%

Source: NSHE quarterly performance report.

**How can services be improved?** The recent participant survey indicates a large majority of participants are “somewhat” or “very” satisfied with client services from their own current provider, although less satisfied with the investment choices. On the administrative side, NSHE has had compliance or service concerns with each provider at various times, but any of the

major providers can do the record-keeping tasks. The RFP and contracting process will allow NSHE to set and enforce minimum service standards such as availability of local representatives and telephone response times, as well as evaluate proposed plan feature enhancements.

**Could the service providers change?** In the recent survey some participants are passionate in wanting to keep their current provider. The RPAC is certainly sensitive to that and would not recommend changes unless there are clear, demonstrable advantages for participants. The RPAC has discussed the pros and cons of various scenarios (single vs. multiple record-keepers, full vs. limited open architecture), but predictions about the RPAC's recommendations are just speculation until we obtain actual proposals. In any case, the existence of \$1.9 billion in 'legacy' assets—and how those accounts and participants will continue to be served—will necessarily strongly influence the evaluation of the proposals. Current providers should be very competitive if they factor in those assets in their bids. I am convinced, however, that all \$100 million/year in *future* contributions should be placed on the table to attract the vendors' best offers—we wouldn't want to exclude a too-good-to-refuse sole provider offer in advance. If we learn from the RFP that no added value is attainable, we can simply recommend continuing the current contracts. But if major advantages can be obtained by reducing the number of vendors or by selecting a new vendor, it would be in the best interests of the majority of the participants and it would be the fiduciary duty of the RPAC to recommend a change.

**Why are we using a consultant?** The RFP process and the regular quarterly monitoring of investments are major tasks that involve issues beyond the expertise of most faculty members. Our duty as fiduciaries is to seek expert advice when prudent. In the past, we were dependent upon the vendors to make recommendations about their own investment funds and services. The RPAC selected the Hewitt EnnisKnupp consultant team because of their global expertise in investment analysis, past success in assisting public university plans through a RFP process, and because their approach aligned with the vision that the RPAC had already developed in its review process. I have confidence in the expertise that the consultants bring to the table; however, it is the faculty members on the RPAC who are leading the RFP process and the Chancellor who approves the final decisions.

I encourage you to keep informed and become engaged with your retirement plan. Additional town hall meetings will be held as this process moves forward and sessions could be arranged for campus groups upon request. Details of the review and RFP process are available on the [NSHE website \(http://tinyurl.com/RetireNSHE\)](http://tinyurl.com/RetireNSHE), along with quarterly reviews of the investment performance and expenses, the NSHE Investment Policy Statement adopted in 2012, Frequently Asked Questions, and survey results. You may submit comments or questions on the website or contact me or your institutional representative.

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