

OREGON UNIVERSITY SYSTEM
RETIREMENT PLAN REDESIGN
FACULTY ADVISORY COMMITTEE
FEBRUARY 24, 2007
Minutes
Adopted April 14, 2007

Committee: Jeff Vermeer (EOU); Richard Bailey (OIT); Alan Acock (OSU); Starr McMullen (OSU); John Settle (PSU); Ray Johnson (PSU); Kip Sigetich (SOU); Larry Dann (UO); Joe Stone (UO); Tom Burrell (WOU)

Visitors: Mina Carson

OUS: Jay Kenton, Denise Yunker, Mike Green, Howard Biggs (Arnerich Massena)

Review of Other Retirement Plan Websites

Committee members who viewed sample websites of other organizations commented that OUS and vendors would need to customize considerably to guide people through the pages.

Committee Comments and Campus Reports

Committee members reported communications with their campuses and questions that they have received. At PSU, retention of TIAA-CREF generated about half of the comments committee members heard, based on participants' satisfaction with costs and the convenience of single statements that consolidate accounts from multiple institutions nationwide. There were questions about fees associated with a central recordkeeper. Preference to retain current vendor relationships, with one-on-one interaction with plan representatives, was noted by both TIAA-CREF and AIG VALIC participants. Others expressed a preference to retain Fidelity as provider, and there were questions about what funds would be available in the mutual fund window. Some participants noted there are differences in annuity contracts in the marketplace, and others have concerns how they will consolidate their investments after retirement without incurring additional costs.

To a question about OUS authority to transfer assets to new investment providers, OUS' consultant outlined the interaction of IRS regulations that provide participants tax-exempt contributions and earnings in exchange for the plan sponsor serving as the owner of those assets until the participants take taxable distributions. Participants not have constructive receipt, or direct use of the funds, without tax implications, so, technically, the employee does not own the asset until (s)he takes a taxable distribution. Until funds are distributed, the plan sponsor is responsible to hold the all deductions and earnings under rules of a plan document and trust, as the legal owner of the assets, with responsibility to manage them on the behalf of individual participants and of all of the members of the plan. This isn't the general sense that people have with the way plans work, but is the basis for an employer's authority to map assets to appropriate new investments adopted by a retirement plan.

Some members had questions about the business reasons for redesigning the plans, and how the changes will economically benefit participants. The consolidation of services was seen, on one campus, as a reduction in competition, though subsequent discussion by the committee noted competition can be a focal point event that is designed to bring each vendor's best efforts to the bid process, rather than relying on daily competition for individual clients to capture market share.

The committee clarified that selection of investments is not at the discretion of the recordkeeper, but of the plan. In this case, the Investment Committee and investment advisory firm, use the guidelines of an Investment Policy Statement in a manner that delivers high quality funds at costs negotiated to the lowest levels necessary to cover operating expenses.

Consolidation of TDI and ORP

Vice Chancellor Kenton opened discussion on consolidation of the investment menu and recordkeeping services by asking for a consensus recommendation whether to include the ORP in the redesign. The committee noted that 100% agreement by all members on all campuses was unlikely, but the advisory committee would work toward developing generally acceptable recommendations.

Discussion about inclusion of ORP assets in the overall plan redesign addressed economies of scale that result from combining the assets of both plans. If the plans were bid separately for the same services, they would have a less advantageous economic profile, with higher recordkeeper costs to participants. In addition, the consolidation would allow OUS to provide more direct education and an investments selection with the same standards of care for both plans.

Committee comments from their campuses indicate, however, a strong preference to not include TIAA-CREF in the redesign, noting strong sentiment in favor of preserving the career-long, plan level reporting for faculty working at other institutions of higher education nationwide. By removing TIAA-CREF from the plan design, current costs for TIAA-CREF administration will not decrease, but will be bundled into each investment's expenses paid by individual participants, as they are currently.

TIAA-CREF and AIG VALIC annuity contracts would require changes to operate in within a consolidated investment menu. The willingness and ability of the bidding recordkeepers to service these investment products and participants in that environment requires additional exploration. In the case it proves problematic to modify contracts to operate in consolidated plan design, OUS' consultant pointed out, cost reduction may be less critical than other design issues, including strong contract holder preferences. A possible scenario would be to keep TIAA-CREF separate from the main platform, and to continue work with AIG VALIC on their proposal to place products in the new investment menu.

If TIAA-CREF is split out of the consolidated menu, it creates a two-recordkeeper environment. Administration streamlining would be less complete, in acquiescence to participants' sentiments about retaining a bundled service arrangement with TIAA-CREF. The committee discussed impacts on plan administration and compliance, current vendor utilization patterns by TDI

participants, and making the two options – TIAA-CREF and the new investment platform - mutually exclusive choices as part of implementing a two-recordkeeper system.

Discussion moved to adding AIG VALIC products to the central investment menu, and the effect it would have for current contract holders and other participants. The consultant cautioned that the plan generally would not, as a fiduciary, entertain contracting with a vendor if it raised costs to other participants who are not using a costlier vendor's services or products. The plan could consider various payout rates to preserve compensation for individual plan representatives' one-on-one client relationships, but needs to accomplish that in the framework that isn't counter to the responsibility to manage the plan in the interest of what's best for all the participants.

Recordkeeping and Other Expenses

The process of reducing participants' costs, beginning with recordkeeping fees, was discussed at length. The committee reviewed share class cost differences for a widely used investment, the American Funds Growth Fund of America, as an illustration of variations in overall cost attributable to selection of share classes (Attachment 1). Over time, as plan assets accumulate, the plan would strive to select increasingly lower cost shares to further decrease participants' fees.

The committee was advised that the absence of TIAA-CREF assets under the consolidated recordkeeper is expected to have minimal effect on pricing because the illiquidity of their products is well known in the industry. However, OUS was advised to consider re-contracting with TIAA-CREF to require unallocated annuity products that would permit greater participation in a consolidated recordkeeping environment in the future. The committee concurred, noting that much of the discussion has centered on the interests of current participants, but the plan and OUS need to focus, as well, on the interests of employees newly joining the plans, who will be using the products and plan over the long term.

The committee requested a summary of current investment costs, including recordkeeping, as a before and after representation. OUS and Arnerich agreed to provide a comparison of new costs, compared to current ORP costs for services.

The committee developed a working model to accommodate the current major annuity vendors, TIAA-CREF and AIG VALIC. TIAA-CREF would continue to operate as a separate entity, with bundled, plan level, nationally-uniform reporting to participants, and AIG VALIC annuities would be incorporated as a discrete part of the investment menu under a consolidated recordkeeper.

Advisory Committee Recommendations

The committee developed formal recommendations on plan design for OUS and Arnerich and OUS to take back to the bidders to confirm their commitments, pricing, and ability to deliver on the desired level of educational services. The committee's recommendations will be shared among the campus community as the preferred direction the committee would like to see in plan design negotiations. OUS committed to exploring the committee's recommendations. (Attachment 2)

Investment Menu Construction

The committee deferred to the Investment Committee for final selection of asset categories to be included on the core investment menu. Discussion of the proposed menu addressed key types of investments, and how participants would access them through the recordkeeper. Besides the core menu, including asset allocation funds – possibly both age-based (target retirement date) and risk-based sets of funds – actively managed funds, and passively-managed index funds, there will be two sub-sets not advised by the Investment Committee. The mutual fund window will be available through the recordkeeper’s list of alliance and non-alliance funds, at a participant’s discretion. Similarly, the Investment Committee will not monitor or maintain responsibility for annuity products made available on the consolidated menu. Using the mutual fund window and annuity products will require a participant’s acknowledgment of personal responsibility when accessing these products. Committee members and staff expressed some concern about unrestricted access to unmonitored investment products, and resolved that participants should be clearly advised when they choose the self-directed mutual funds or annuities they rely on their own knowledge and experience or that of their own retirement advisors, and are solely responsible for investment results associated with the choices.

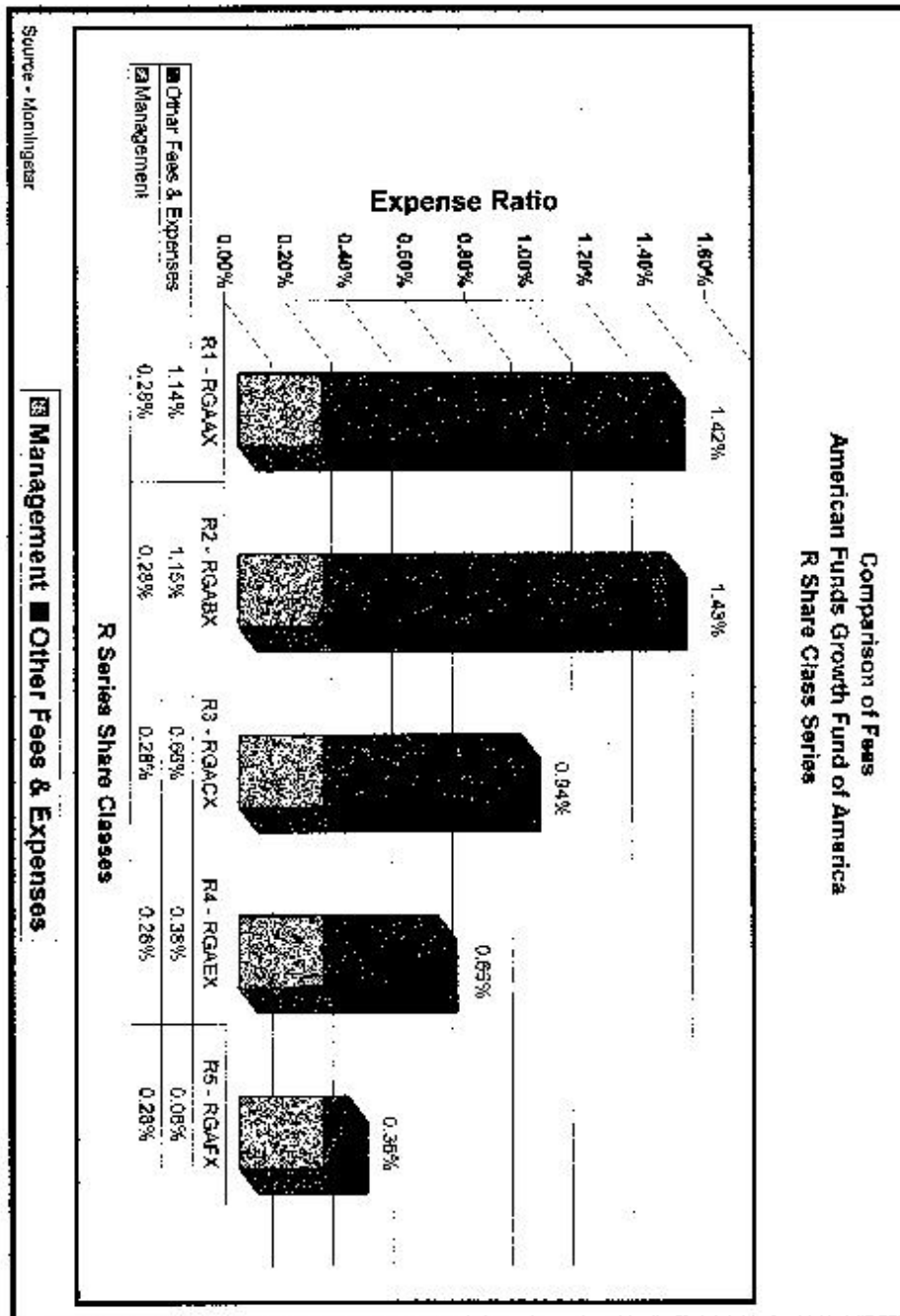
Investments Selection and Monitoring

Vice Chancellor Kenton noted that the charge and composition of the Investment Committee will be revisited as one outcome of work with the advisory committee. OUS’ consultant reviewed typical composition and work of Investment Committees in other plans, and OUS staff discussed the fiduciary role of Investment Committee members. Kenton noted that he will expand the Investment Committee to include four faculty, one classified staff member, one unclassified administrative employee, and one OUS employee. He invited faculty members of the advisory committee to consider serving in this capacity. Kenton note that a representative Investment Committee, including faculty from regional campuses, was important. Current Investment Committee members include Larry Curtis (OSU faculty), Sherry Stahl (UO Resource Management, classified), Deborah Janikowski (PSU Budget, unclassified), and Mike Green (OUS Controller). Kenton further noted that the Investment Policy Statement will be reviewed and amended to reflect investments management tenets that have been clarified through discussion with the advisory committee.

Next Steps

The committee expressed interest in reviewing plan conversion and transition services once a recordkeeper is selected and concurred that OUS should pursue the selection according to terms of their two recommendation and proposed structure. OUS noted that contracting will require a number of months to completes, and a preliminary update on progress would be ready for the committee at the end of March.

No next meeting date was set, to allow OUS and OUS’ consultant to act on the committee’s proposals.



**Advisory Committee on Retirement Plans Redesign
February 24, 2007**

Following in-depth discussion at three meetings from January 20, 2007, to February 24, 2007, the Faculty Advisory Committee made two recommendations on the proposal to redesign the Oregon University System's Tax-Deferred Investment 403(b) Program and the Optional Retirement 401(a) Plan.

Recommendation #1

The committee unanimously adopted the following recommendation:

“The committee recommends converting the ORP and TDI to a consolidated operating environment, contingent on current major vendors' availability to both plans. Those vendors may be accommodated in the structure in a way that is beneficial to participants. In particular, the committee recommends that contingent on successful negotiations with vendors:

- Participants in TIAA-CREF would continue to have direct access to TIAA-CREF investments and multi-employer statements;
- For a given mutual fund, fees will not rise above what they would otherwise be without the plan redesign; and
- The provider(s) will provide timely education and retirement planning services face-to-face, in individual and group meetings.”

Recommendation #2

The committee recommends that a broadly-based Investment Committee, representative of faculty, administrative, and classified staff, and including one OUS member responsible for enactment of decisions related to investments of the plans, should be established to select and monitor investments on the consolidated core investment menu. The Investment Committee appointed by the Board would initially serve staggered terms of 3-5 years, and would act in accordance with the Plans' Investment Policy Statement.

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