Impact of Governance Structure Changes

OUS Governance and Policy Committee

July 2012
What are the Impacts of Separating Retirement Plans?

- **Potential for increased record keeping costs**
  - Larger plans typically benefit from economies of scale
    - Record keepers have a combination of fixed and variable costs associated with each plan – the larger the plan, the lower the average cost to administer each participant’s account
    - For smaller plans, these costs are spread over a smaller participant count and asset base and therefore average costs are increased

- **Potential for increased staff and operational costs**
  - OUS has centralized many administrative and payroll functions
    - E.g., payroll feeds, vendor management, compliance, transaction approvals, legal filings, investment committee support, participant communication/services coordination, training, etc.
  - Separate plans will likely need at least part-time dedicated staff support these functions

- **Potential for increased compliance risks**
  - Tax-qualified plans are subject to complex IRS rules
    - Failure to meet these requirements may result in penalties (and interest) for employer and/or disqualification of the plan (i.e., immediate taxation to participants)
  - Both new (separate) and remaining OUS plans must be operated in compliance with these rules
  - Multiple employer plan structure may have advantages
    - Each separate employer agrees to abide by the terms of a common plan, and must assure compliance with those terms
## Cost/Risk Evaluation of Various Alternatives

<table>
<thead>
<tr>
<th></th>
<th>Continue current situation (i.e., one system)</th>
<th>One legal entity with local institutional boards</th>
<th>Separate legal entities with local boards</th>
<th>Current situation with options for more efficiencies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increased recordkeeping costs</td>
<td>No</td>
<td>No (1)</td>
<td>Yes (2)</td>
<td>No</td>
</tr>
<tr>
<td>Increased staff and operational costs</td>
<td>No</td>
<td>No (1)</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Increased compliance risk</td>
<td>No</td>
<td>No (1)</td>
<td>Yes</td>
<td>No</td>
</tr>
</tbody>
</table>

(1) Assumes local boards are not granted authority to adopt institution-specific plans and the institutions continue to participate in the OUS retirement plans
(2) Record keepers may give the individual institutions partial aggregate pricing breaks if a Multiple Employer Plan structure is adopted
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