

Tax-Sheltered Annuity Review Committee

Minutes

April 25, 2003

Members Present: *Kevin Bahr, Linda Boelter, *Robert Carney, *Ron Crabb, Howard Erlanger, Kathleen Kelley, Richard Marcus, Lucretia Mattson, Lori Worm

Members Absent: Randall Ryder (Ex-officio)

Staff: *Mary Anglim, *Rose Stephenson

TSA Vendors: *Jeff Janechek, American Express/IDS; *Duane Hettlinger, AUL; Rob Phillips, Dreyfus; *Betty Custer, Lincoln; *Ian McConnel, Strong Investments; *Mike Mitchell, *Bernadette Davis, TIAA-CREF.

Guests: *Kara Webber Schiro, UW Processing Center

*Starred individuals were present at 780 Regent Street; others attended by teleconference.

Kate Kelley called the meeting to order at 9:30.

- 1. Approval of Minutes:** Dick Marcus moved approval of the minutes of the November 1, 2002 TSARC meeting as submitted. Bob Carney seconded. Motion passed.
- 2. Annual Report of the TSA Program:** Mary Anglim presented the Annual Report. Although there was a nice increase in contributions, there was a decline in assets and in participation, problems seen around the country in voluntary retirement plans. The percent of income deferred is holding up well: 9.2% of income is deferred on average. A larger number people are able to make larger deferrals. TSA participants are on average a little bit older and make a little bit more money and have a little bit more WRS service than people who don't participate in the plan. A study Mary did showed that new people coming into the plan, both unclassified and classified, tend to join when they have six years of service.

In looking at changes in participation, terminations are a stable number, discontinuances are up a little this year as compared to past years, but the number of new-hires and existing employees who have joined the plan is markedly down in 2002.

Turning to allocations, there was a shift away from large-cap stocks and a very large increase in money-market and fixed accounts. In looking at the top 50 funds based on contributions, last year the top 12 funds accounted for 50% of contributions; this year the top 10 funds account for 50% of the contributions; the top 50 funds account for 78% of contributions.

Prior to the meeting Mary distributed a ranking of the top 50 funds comparing this year to last year. Although the top 12-14 funds swapped places slightly with each other, other differences were more striking: Fidelity's Low-Priced Stock was 15 this year but 31 last year, the CREF Money Market was 19 this year but 40 last year; Fidelity Cash Reserves was 26 this year but 36 last year; Fidelity Value was 33 this year but not on the list last year. This shows clearly that participants are looking at the list of funds and making some new choices.

- 3. Strong Investments website for the UW TSA Program:** Mary Anglim introduced Ian McConnel, Strong Investments. Referring to the paper copy of the home page included with the meeting materials, Ian described the UW 403b web site at stronguw403b.com, a first step in moving toward the paperless environment with a goal of having on-line enrollment in the future. The phone number on the home page sends the caller to the phone center but identifies the caller as being in a 403 plan.

4. Presentation by TIAA-CREF regarding:**“Investment Solutions” – mutual fund offerings proposed for inclusion in the TSA Program**

Mary next introduced Mike Mitchell of TIAA-CREF, and Mike introduced Bernadette Davis, who manages the team of consultants that oversees the Wisconsin territory. Mike explained TIAA-CREF would like to make “Investment Solutions” – nine retirement-class mutual funds – available to the university, to complement the ten TIAA-CREF investment options currently available. Mike noted that it is more expensive to add variable annuity options than mutual fund options, since to add new variable annuity options, TIAA-CREF would have to file with the insurance departments in all 50 states. The new mutual funds (listed in the materials mailed out prior to the meeting) would allow investors to customize their portfolios and focus on specific market segments and have exposure to sub-assets classes if they want it. These are a retirement-class share of mutual funds, started in the fall of 2002, which shadow or mirror the retail funds that have been available for some time.

Mike noted that in order to get started in this program three requirements would have to be met: 1) a new custodial agreement would have to be signed because offering mutual funds places TIAA-CREF under different regulatory requirements 2) electronic data transmission would have to be used 3) the contributions would need to be sent electronically. Although we currently transmit the data electronically, under our present payroll system a paper check is sent to the TIAA-CREF lockbox, and it is not possible to transfer funds electronically.

Mary observed that TIAA-CREF has six of the top ten funds in our plan and eight in the top thirteen and asked whether we really needed to offer any new TIAA-CREF options. Mike responded that there is a value to having a small line-up of broad-based funds, but TIAA-CREF has heard from constituents that they wanted to control the amount of specific types of funds they own, for example of large-cap value or mid-cap growth.

Kevin Bahr inquired about the number of funds typically owned by a TSA investor. TIAA-CREF now offers a number of pie-charts with different asset allocations as part of the enrollment form, so if a participant chooses one of those he or she would have three to five different funds. Longtime participants originally only had a choice of TIAA-CREF stock fund and traditional and many have stayed with that asset allocation pattern. Since participants can split their deferrals between many different investment companies, it would be very difficult to determine how many funds participants typically contribute to.

Mary commented that since the payroll system is not currently able to transfer funds electronically, the committee has some time to decide this question. Bernadette Davis explained that with the regulations governing mutual funds, the money must be invested within 24 hours. All vendors currently get paper checks. Mutual fund companies may have staff to process the mail quickly in order to comply with the regulations, but TIAA-CREF as an insurance company does not.

Howard Erlanger questioned what drawbacks there would be to including these funds, and Mary noted that at issue is our traditional unwillingness to permit our annuity providers to also offer mutual funds. Bob Carney asked about the expense ratios for the mutual funds compared to the annuity expense ratios – they are similar. Kate questioned whether there was language in our plan document that prevented our adding mutual funds from annuity providers; Mary did not believe there was. Mike Mitchell added that over time the other big ten universities will add these mutual funds and participants coming from other schools may be disappointed if our plan does not offer them.

Committee members concurred that there was sentiment to further discuss this issue at a later meeting.

Online Enrollment

Bernadette Davis distributed an *Online Enrollment Services Proposal* and went over online enrollment, something the UW had requested. In order to facilitate online enrollment, the UW System would need to 1) enable web center access for UW staff benefits personnel as administrators, 2) establish a unique ID number for online enrollment and 3) recreate the UW Salary Reduction Agreement in electronic format.

The question arose what constituted a “replacement” of an annuity contract. A replacement occurs when a participant switches his future contributions from one annuity contract provider to another. Adding a second annuity provider or switching to a mutual fund provider is not a replacement.

To sign up with TIAA-CREF online, the participant would fill out the Salary Reduction Agreement online, but would need to print it out and take it to his or her benefits office. Kate Kelley inquired about the percentage of participants who use online enrollment at other institutions. Bernadette responded that where online enrollment is used, it is the only method of enrolling. Kate asked whether online enrollment took more time for staff benefits personnel. Bernadette was not aware of statistics, but added that one of the benefits of online enrollment is that it allows the benefits staff at the institution and TIAA-CREF to automatically issue a contract. This may be a time-saving feature. Mary commented that we would like to see online enrollment implemented as soon as possible, certainly by the fall. This will allow employees to take action immediately when they decide that they would like to take part in the TSA program.

5. Update on financial education and trends in employer-sponsored retirement plans:

Mary referred the committee to the materials that were sent out in the packets. She listed a number of problems we have experienced lately:

- There has been more turnover in staff in our mutual fund companies and our relationship managers and educational staff at the mutual fund companies have been spread thinner.
- Mary audits remittance reports and has found mistakes.
- It is possible that we may lose some of our vendors, if we are not cost-effective for them.

Ours is a traditional design for 403b plans. We have formed direct relationships with a number of firms, our participants pay retail prices for their investments, participants get quarterly statements and online access, and in addition, they get some education services from the firms. The firm in return gets regular remittances all in one check and on one list that can be processed efficiently and special access to a relatively affluent customer base.

The question remains whether ours is a model that can persist and whether it is a model that we want to continue to use. Mary listed other models we might prefer:

- We could choose a single record-keeper that offers a whole universe of funds, much like Wisconsin Deferred Compensation. Fund transfers would be much easier and faster, we would have a single remittance point, the participant would get consolidated statements. On the other hand, we’d still have to arrange for education which might be more difficult than it is today. Not all our current vendors would fit in to this model, so we would need to have some stand-alone vendors. We would need to have an RFP process which is very time- and resource-consuming and we may not have the resources right now. Only about 3% of participants in the WDC plan use the brokerage window.
- We might negotiate some price-reductions or institutional pricing on some of our very large funds.
- We could also just leave our structure alone, but identify a few core funds or create asset allocation pie charts with the help of our vendors. We would aggressively push those to potential participants to take some of the burden of fund choice away from them. This step would require us to give more advice about specific funds than we have wanted to do in the past.
- We might also purchase or allow our employees to purchase educational services online and pay for those services through the payroll system, through payroll deduction.

Bob Carney inquired whether any of our vendors has a stochastic modeling program that we could access, since asset allocation decisions are very important. Lincoln has a stochastic modeling service they will be offering through their financial planners. By year end TIAA-CREF plans to introduce an automatic rebalancing service which would rebalance assets on the participant’s birthday, if requested. Mary noted that, through T. Rowe Price, participants have access to Morningstar’s Clear Futures and Portfolio Tracker.

Mary observed that the trouble with online services is that very few people use them. Most people need something much simpler.

Bob Carney inquired about fee negotiation. Mary brought up Wisconsin Deferred Compensation Plan, which has been able to go the Admiral Class share of Vanguard funds. Jeff Janecek explained that that share class is about 7 basis points cheaper than retail shares. The expense ratio is so low already, there is little room for further reduction. Mary asked what the investment companies knew about fee negotiation, and Jeff commented that if we went to a single provider we might be in the ballpark to negotiate fees, but with multiple vendors it would probably not be possible.

Dick Marcus had been approached by representatives from the Equitable AXA advisors, who wanted to be authorized vendors for the TSA Program. Dick mentioned that many of the accounts they want to offer are mutual funds. The question again arises whether we should allow insurance companies to offer mutual funds in our program.

Mary took this as a recommendation that we reconvene the Financial Education Subcommittee over the summer to discuss the issue of whether our insurance companies should be allowed to offer mutual funds and discuss what model we want for our program. Past members of the Financial Education subcommittee are Ron Crabb, Dick Marcus, and Linda Boelter. Anyone interested may participate; Kevin Bahr and Bob Carney expressed interest.

6. **Update on educational initiatives:** Rose referred members to the handout. In spite of the falling enrollments, we've still been busy trying to keep participation up. Hopefully, this has helped stem the tide of desertions and helped get some new participants. TIAA-CREF counseled 852 employees at all UW institutions including many of the two-year campuses. Counting all the investment companies' efforts, there were over 110 days of counseling reaching more than 1,100 employees. Investment companies put on over 25 workshops reaching approximately 600 people. Rose put on 16 workshops at 9 campuses reaching 440 employees. Rose would like to increase our effort to get lower-income and younger employees into the program.

All publications were updated this year. Two new pieces were issued: *How to Choose a Financial Planner* and a yellow postcard to request enrollment kits. Approximately 25 postcards have been returned so far to request enrollment packets.

7. **Fall meeting date:** The fall meeting will be Friday, October 24, 2003.

The meeting was adjourned at 11:40 a.m.