

The Defined Contribution Plans Advisory Committee met on December 6th with the following members present:

IN ATTENDANCE

Brett Hayes, Chair
The Honorable J. Brandon Bell, II
Robert Carlson
Allan Carmody
Ravindra Deo
Shannon Irvin
Rick Larson
Margaret Maslak
David Winter

O'Kelly McWilliams, VRS Board of Trustees

Attending from VRS were Trish Bishop, Steve Cerreto, Jeanne Chenault, Michael Cooper, Pam Elam, Andy Feagans, Kelly Hiers, KC Howell, Robert Irving, Ciara Lawson, Taylor Melton, Rebecca Nicholas, Andrea Peeks, Laura Pugliese, Michael Scott, Jillian Sherman, Jennifer Schreck, Virginia Sowers, Peter Thompson, and Cindy Wilkinson.

CALL TO ORDER AND WELCOME

Mr. Hayes called the meeting to order at 10:31 a.m. and welcomed the Committee and attendees.

**ADOPTION OF THE MINUTES
FROM THE SEPTEMBER 20, 2018
MEETING**

On a motion by Mr. Carlson and a second by Mr. Winter, the September 20, 2018 meeting minutes were approved.

ADMINISTRATION

Annual Review of DC Plans Administrative Expense Report for Fiscal Year 2018

Pam Elam, VRS Business Performance Analyst, provided an overview of the Administrative Expense Report for the DC Plans for FY 2018, as required annually by the DCPAC Charter. Ms. Elam discussed participant counts and reviewed expenditures and the cost trend analysis by individual DC plan over the five-year period from FY 2014 to FY 2018. In regard to the cost trend analysis, it was noted that shifts in costs were attributed to several factors. The Committee inquired if staff could provide a summary of total costs for each DC plan over the five-year period from FY 2014 to FY 2018. Staff indicated this information would be provided before the next DCPAC meeting.

Andrea Peeks, VRS Budget and Performance Reporting Manager, provided an overview for the Committee related to ORPHE per participant costs. Ms. Peeks provided background information on the current \$110 per participant ORPHE rate, first implemented in FY 2016 with the intent to smooth out costs over the five-year period from FY 2016-FY 2020. She noted that actual ORPHE program costs are anticipated to exceed revenue forecasts by the end of FY 2020 and discussed the factors that contributed to the revenue shortfall, which include one-time costs attributable to significant program improvements as well as the withdrawal of the College of William and Mary, which reduced program enrollment by 20%. Staff recommended an increase in the annual ORPHE per participant rate to \$160, beginning in FY 2021. This increase would recover the balance, reapportion costs after the College of William and Mary's withdrawal from the plan and account for future cost increases such as those associated with inflation. The rate increase also assumes no unanticipated changes. Ms. Peeks advised that the timing of this discussion is to allow higher education institutions sufficient time for planning and budgeting of the proposed rate increase prior to the start of the FY 2021-2022 biennium. Ms. Peeks shared with the Committee that beginning in FY 2021, the annual per participant rate would be re-evaluated every two years in conjunction with the state budget cycle in order to appropriately respond to changes in program status or other factors that may impact cost.

The Committee inquired if it were feasible to ascertain how the recommended rate increase would influence another higher education institution's decision to opt out of the ORPHE. Ms. Peeks responded that the total annual cost impact to all 38 participating institutions is approximately \$210,000, with two institutions incurring 40% of this increase, while the remainder is shared by the remaining 36 institutions. Staff also noted that in its discussions with VRS, William and Mary representatives did not cite this cost as the main driver in their decision to opt out.

Administrative Reports and Communications

Kelly Hiers, VRS Defined Contribution Plans Administrator, provided an update for the third quarter of 2018. Ms. Hiers shared the total assets under management across all DC plans, as well as an overview of unique participant counts for the unbundled plans. She provided an update on plan adoptions and transitions, as well as a historical overview of the number of plan

adoptions and transitions over the five-year period from FY 2014 to FY 2018. Ms. Hiers discussed communication initiatives completed in the third quarter of 2018, including the new Account Aggregation feature, the Retirement Withdrawal Calculator available for COV 457 and Virginia Cash Match plan participants, the SmartStep feature and updated Paycheck Calculator for COV 457 Plan participants, and the Peer Savings Video that would be available mid-December.

DC Plans and Hybrid Plan Update

Ms. Hiers provided an update on total assets in the COV 457 and Virginia Cash Match plans, as well as new enrollments in the COV 457 and automatic enrollment snapshot for the 3rd quarter 2018. She also shared with the Committee an overview of cash flow from the COV 457 and Virginia Cash Match plans.

Ms. Hiers provided a review of total assets in the Hybrid Retirement Plan for the third quarter of 2018, including the assets, accounts and average account balances in the Hybrid 401(a) and Hybrid 457 Deferred Compensation Plan. She also gave the Committee an overview of the cash flow from the defined contribution component of the Hybrid Retirement Plan, including contributions, withdrawals and net cash flow. Ms. Hiers presented an update on the Hybrid 457 voluntary participation and contribution election rates for the third quarter of 2018. She also delivered an update on utilization of the SmartStep, Enhanced Active Choice and GoHybrid features available to hybrid plan members to increase voluntary participation for the third quarter of 2018.

Ms. Hiers provided an overview of the DC Plans goal to increase contributions and enrollments for the third quarter 2018. She noted the distinction between eligibility for the COV 457 Plan by employer type compared to the percentage of total participation. Further, Ms. Hiers shared with the Committee participant deferral amounts to the COV 457 Plan for the five-year period from FY 2014 to FY 2018, highlighting the trend analysis between average annual deferrals and average per pay period deferral. Ms. Hiers noted several initiatives to increase enrollment and contributions. She also delivered an overview of hybrid plan member enrollment and participation, as well as the voluntary contribution participation by employee type and initiatives to increase enrollments and contributions to the Hybrid Retirement Plan. Ms. Irvin inquired if any consideration had been given to

scheduling participant outreach initiatives during the summer months when teachers are traditionally out. Ms. Hiers advised that ICMA-RC plan specialists conduct group meetings and individual appointments after normal business hours and on the weekend, but welcomed the opportunity to explore participant outreach initiatives during non-peak and off-season periods.

ORPHE Update

Ms. Hiers provided an overview by provider of total ORPHE assets, participants and average balances for the third quarter of 2018. She also gave an update on ORPHE provider selections and provider initiatives for the third quarter of 2018.

Ms. Hiers reviewed ORPHE employer outreach initiatives completed in the third quarter of 2018 and employer feedback related to ORPHE changes. She also shared with the Committee next steps to engage faculty representatives and employers, as well as a timeline to present DCPAC with staff recommendations and Committee recommendations to the Board for approval.

Mr. Carmody shared his interest in the DCPAC because of its focus on participant engagement and inquired if VRS had established specific measurable goals for participation rates the agency sought to achieve. Ms. Hiers noted the agency's general goals and highlighted the challenge in establishing specific goals as metrics would vary among each plan. She also advised that the third-party providers each have specific performance goals that align with the overall plan goals.

ORPHE Annual Employer Report

Mr. Rick Larson, DCPAC Committee member representing higher education, presented his report to the Committee on the ORPHE Annual Employer Update hosted by VRS Defined Contribution Plans on Thursday, September 27, 2018.

INVESTMENTS

Laura Pugliese, Portfolio Manager, Defined Contribution Plans, provided an overview of the October 31, 2018 performance reports. Ms. Pugliese shared with the Committee that the unbundled DC Plans performance was tracking as expected for the period ending October 31, 2018. She also noted the bundled TIAA ORPHE near- and long-term investment option performance is underperforming. She reminded the Committee the embedded

TIAA record keeping and administrative costs within TIAA propriety funds contribute to fund underperformance. Ms. Pugliese discussed the continual challenges staff has in working with Fidelity to obtain accurate performance return information.

CEM Defined Contribution Plans Survey

Ms. Pugliese presented to the Committee the 2017 CEM Defined Contribution Plans Survey results that included the unbundled DC Plans supplemental 457 Deferred Compensation Plan in addition to the bundled TIAA and Fidelity plans for the ORPHE.

Ms. Pugliese shared the survey results, representing 103 corporate and 23 public DC Plans. She highlighted the differences in plan size and participant account balances between the plans used in the benchmark data, limitations of comparing plan costs to other plans and the purpose for which CEM calculates a plan specific benchmark cost.

For the calendar year ending 2017, CEM found the following:

- The 457 Deferred Compensation Plan was ranked a high value added, low-cost plan with a plan cost of 0.22 percent, which was below CEM's calculated 457 Plan benchmark cost of 0.42 percent. Staff noted the 457 Plan predominantly uses passively managed index investment options.
- The TIAA ORPHE program was ranked a high value added, high-cost plan with a plan cost of 0.44 percent, which was slightly higher than CEM's calculated TIAA ORPHE benchmark cost of 0.40 percent.
- The Fidelity ORPHE program was ranked a high value added, high cost plan with a plan cost of 0.58 percent, which was higher than CEM's calculated Fidelity ORPHE benchmark cost of 0.34 percent.

Positive value added indicates that, on average, the plan's investment options are outperforming their benchmark indices, whereas negative value added indicates that they are underperforming. Value add for passive investment is not expected to be significant since the goal of a passive investment is to match the return of the benchmark.

Custom Target Date Portfolio Project Update

Ms. Pugliese provided an update on the custom target date project, noting that fees are an important consideration for any decision related to a custom approach. She shared with the Committee information about what other public-sector plan sponsors are doing related to custom target date funds. Additionally, she provided peer group information related to the fund expense ratios for various asset classes.

OTHER BUSINESS

Code of Ethics and Conduct

Michael Cooper, VRS Chief Operating Officer, provided an overview of the annual VRS Code of Ethics and Standards of Conduct. Each committee member signed the pledge affirming to uphold the Code of Ethics and Conduct.

FOIA Update

Cindy Wilkinson, VRS Policy, Planning and Compliance Director, reviewed with DCPAC the revised FOIA Electronic Meeting Attendance Policy that allows Board and Committee members to participate electronically based on circumstances and timing.

There was no other business to come before the Committee.

PROPOSED 2019 MEETINGS

Mr. Hayes confirmed the DCPAC meeting dates for 2019 following the polling of the Committee. The next meeting of the DCPAC will take place April 25, 2019, from 10:30 a.m. to 1:00 p.m., with remaining meetings on June 6th and September 5th from 1:00 p.m. to 4:00 p.m., and November 7th from 10:30 a.m. to 1:30 p.m. Also, for those Committee members who are interested, the ORPHE Annual Employer Update is scheduled for September 26th, as required by the DCPAC Charter, but is not a meeting of the Committee.

ADJOURNMENT

The Committee adjourned at 12:44 p.m.



Brett Hayes, Chair

Report

The VRS Defined Contribution Plans team hosted the Optional Retirement Plan for Higher Education Annual Employer Update for employers on Thursday, September 27, 2018. The following agenda items were covered:

- Patricia Bishop, VRS Director, welcomed participants and offered opening remarks.
- Peter Thompson, the VRS Defined Contribution Plans Administration and Services Supervisor, provided an overview of plan growth and breakdown of assets and accounts with each provider. Additionally, he provided a review of plan changes that occurred over the past year, including the online plan and provider election process enhancement to myVRS that launched in December 2017, participant communication and engagement initiatives, provider contract changes and employer outreach initiatives.
- Steve Cerreto, the VRS Defined Contribution Plans Officer, presented an administrative update, including updates related to the “Teaching and Research Faculty” and “Administrative Faculty” job name changes implemented July 1, 2018 in myVRS Navigator for faculty employees, and policy updates related to compensation limits. He also reviewed open enrollment process changes, the streamlined acknowledgement process for employers in myVRS Navigator and additional resources for employers.
- Rick Larson, Defined Contribution Plans Advisory Committee Member, provided closing remarks and adjourned the session.

Attendance

Representatives from 21 unique institutions from across the Commonwealth participated via webinar. Those who attended also received plan-related information via email following the webinar.

There were no questions.

That concludes my report on the ORPHE Annual Employer Update.



Rick Larson, SPHR, SHRM-SCP.
Member
VRS Defined Contribution Plans Advisory Committee