
Minutes

The Defined Contribution Plans Advisory Committee of the VRS Board of Trustees met on November 7, 2019 in Richmond, Virginia with the following members present:

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

Members of the Board of Trustees:

O’Kelly McWilliams, III

VRS Staff:

Rory Badura, Trish Bishop, Steve Cerreto, Jeanne Chenault, Michael Cooper, Sara Denson, Pam Elam, Jordan Evans, Kelly Hiers, Robert Irving, Mohamed Kambal, Ciara Lawson, Rebecca Nicholas, Andrea Peeks, Laura Pugliese, Ian Rose, Kristy Scott, Michael Scott, Jillian Sherman, Jennifer Schreck, Ashley Spradley, Peter Thompson, and Cindy Wilkinson.

Joint Legislative Audit and Review Commission: Lauren Axselle and Jamie Bitz

Virginia Governmental Employees Association: Rick Fowler

Mr. Hayes called the meeting to order at 10:29 a.m.

APPROVAL OF MINUTES

Upon a motion by Mr. Deo, with a second by Mr. Bell, the minutes of the September 5, 2019 meeting were approved.

ANNUAL ADMINISTRATIVE EXPENSE REPORT FOR FISCAL YEAR 2019

Pam Elam, VRS Business Performance Analyst, provided an overview of the annual costing update for FY 2019 as required annually by the DCPAC Charter, and a reminder of the ORPHE cost rate increase effective July 1, 2020. Ms. Elam shared a summary overview of the DC Plan participant counts and expenditures for FY 2019.

Andrea Peeks, VRS Budget and Performance Reporting Manager, provided a summary overview of the cost trend analysis over the five-year period from FY 2015 to FY 2019. Ms. Peeks advised that the change in total cost in FY 2019 was driven by an amendment to the cost allocation process for Investment staff’s contributions to DC Plans intended to flatten annual rates and make costs level on a per-participant basis across each of the DC Plans. She noted that the change in FY 2019 was a one-time change and should remain relatively constant going forward. Ms. Peeks shared the year-over-year decrease in total

costs for the ORPHE and informed the Committee that effective July 1, 2020 (FY 2021), the ORPHE per-participant rate will increase from \$110 to \$160 for several reasons; namely, to recover costs associated with program service enhancements effectuated during the five-year rate period, future cost increases associated with inflation, and consideration of the FY 2018 withdrawal of the College of William and Mary, which reduced program enrollment by 20%. Ms. Peeks noted that because a large portion of costs are fixed, the withdrawal of the College of William and Mary led to a smaller population base over which to distribute costs and is a primary factor in the significant increase. She shared that these factors, combined with the Investment cost reallocations, helped to mitigate the potential for higher per participant costs. Ms. Peeks shared with the Committee that the annual per-participant rate would be re-evaluated on a biennial basis to ensure the rate is sufficient. She advised the Committee that the affected institutions have been made aware of the rate increase and, to date, have expressed no concerns.

The Committee thanked Ms. Peeks for her presentation.

VRS STAFF REVIEW OF ORPHE PEER CONTRIBUTION RATE REPORT

Rory Badura, Senior Staff Actuary, presented an overview of the Optional Retirement Plan for Higher Education (ORPHE) contribution level review as of June 30, 2019. He informed the Committee that the review is conducted at least once every six years as required by §51.1-126 of the Code of Virginia, with the last review based on information available as of June 30, 2013. Mr. Badura informed the Committee of the factors that went into the study, including the methodology and peer institutions, and also provided an overview of the contribution rates as well as the replacement ratios the plans generate. Mr. Badura reported to the Committee that the analysis showed that the contribution rates for ORPHE Plan 1 and Plan 2 are in line with the average contribution rates from the peer institutions identified by SCHEV and have not materially changed compared to the 2013 analysis. He provided a comparison of the replacement ratios of the VRS retirement plans based on varying assumed rates of return for the ORPHE plans. He noted that the current 10.4% employer contribution rate for ORPHE Plan 1 members exceeds the peer group average rate of 8.8%. Mr. Badura also highlighted that the 8.5% employer contribution rate for ORPHE Plan 2 members was slightly higher than public institution peers and slightly lower than private institution peers.

The Committee thanked Mr. Badura for his presentation.

Following Mr. Badura's presentation, Mr. Bell moved, with a second by Mr. Deo, to accept the VRS staff report and recommend approval of the following action to the full Board:

RBA: ACCEPT ORPHE PEER CONTRIBUTION RATE REPORT

Request for Board Action: *The Board accepts, after considering the recommendation of the Defined Contribution Plans Advisory Committee (DCPAC), the VRS staff report entitled "Optional Retirement Plan for Higher Education Review of Contribution Rates."*

CASH MATCH PLAN OPT-OUT POLICY

Cindy Wilkinson, Policy and Compliance Director, provided an overview of the cash match plan opt-out policy that would permit an agency of the Commonwealth of Virginia that is eligible to offer a 403(b) to establish a separate cash match plan, in lieu of participation in the cash match plan established by VRS pursuant to § 51.1-608(A) of the Code of Virginia (the “VRS Cash Match Plan”). Staff advised that agencies that maintain a 403(b) program may consider this option for administrative ease, rather than sending some contributions to their 403(b) program and some funds to the VRS Cash Match Plan. Staff confirmed it would change where contributions are directed, but not impact employee contribution amounts.

Following Ms. Wilkinson’s presentation, Mr. Bell moved, with a second by Mr. Deo, to recommend approval of the following action to the full Board:

RBA: APPROVE CASH MATCH PLAN OPT-OUT POLICY

Request for Board Action: *The Board adopts the attached “Agreement for Consent to Establish Separate Cash Match Plan” and authorizes the VRS Director to provide consent for an eligible agency of the Commonwealth to establish a separate cash match plan if it signs the Agreement.*

ADMINISTRATIVE REPORTS AND COMMUNICATIONS UPDATE

Kelly Hiers, DC Plans Administrator, provided an update of the VRS Defined Contribution Plans for the third quarter ending September 30, 2019. 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 and recent plan adoptions.

DC Plans and Hybrid Plan Update

Ms. Hiers provided an update on total assets and accounts in the COV 457 and Virginia Cash Match plans through September 30, 2019, as well as an overview of cash flow from the COV 457 and Virginia Cash Match plans. Ms. Hiers provided a review of total assets and accounts in the Hybrid Retirement Plan for the third quarter of 2019. She also presented 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 updated the Committee on the Hybrid 457 voluntary participation and contribution election rates for the third quarter of 2019. She also informed the Committee of the next auto-escalation increase set to occur January 1, 2020, and provided a status of participant and employer activity through October 30, 2019.

Ms. Hiers provided an overview of the DC Plans goal to increase contributions and enrollments for the third quarter 2019. She noted COV 457 Plan participation by enrollment type and employer type in comparison to overall participation. Ms. Hiers shared with the Committee recent plan adoptions and provided an overview of active and eligible participants as well as participant deferral amounts to the COV 457 Plan, highlighting the analysis between average annual and per pay period deferrals and noting

several initiatives to increase enrollment and contributions among COV 457 Plan participants. She provided an overview of the percentage increase in active voluntary contribution elections among hybrid plan members by employer type for the year over year periods January 2017 to January 2018, and October 2018 to October 2019, respectively. Ms. Hiers highlighted several enhancements launched in the past to increase enrollments and contributions to the Hybrid Retirement Plan.

ORPHE Update

Ms. Hiers provided an overview by provider of total ORPHE assets, participants and average balances for the third quarter of 2019. She also gave an update on ORPHE provider selections and provider initiatives for the third quarter of 2019. Ms. Hiers shared an update of the ORPHE 2020 changes, including an overview of the ORPHE timeline and outreach initiatives through October 30, 2019. She advised the Committee of Fidelity participant activity and other open enrollment activity.

The Committee thanked Ms. Hiers for her presentation.

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 26, 2019.

DC PLANS INVESTMENTS UPDATE

Laura Pugliese, Portfolio Manager, Defined Contribution Plans, provided an overview of the September 30, 2019 performance reports. Ms. Pugliese informed the Committee that the Target Date 2020 Portfolio in the unbundled DC Plans investment lineup would be folding into the Retirement Portfolio on November 15, 2019, and the Target Date 2065 Portfolio would be introduced in January 2020.

CEM Defined Contribution Plans Survey

Ms. Pugliese presented to the Committee the 2018 CEM Defined Contribution Plans Survey results that included 108 corporate and 24 public DC Plans representing \$1.0 trillion in assets.

Ms. Pugliese informed the Committee that the survey results included the unbundled DC Plans supplemental 457 Deferred Compensation Plan, in addition to the bundled TIAA and Fidelity programs for ORPHE. She also noted the TIAA and Fidelity information was based solely on the “selected” plan investment options.

For the calendar year ending December 31, 2018, CEM reported the following:

- The 457 Deferred Compensation Plan was a low-value added, low-cost plan. Total 457 Plan costs of 0.21% were below CEM’s calculated VRS 457 Plan benchmark cost of 0.39%. (Note: The investment lineup is predominately passively managed.)
- The TIAA ORPHE program was a low-value added, high-cost plan. Total TIAA plan costs of 0.42% were slightly higher than CEM’s calculated TIAA ORPHE benchmark cost of 0.40%.
- The Fidelity ORPHE program was a low-value added, high-cost plan. Fidelity Total plan costs of 0.55% were higher than CEM’s calculated Fidelity ORPHE benchmark cost of 0.35%.

CEM calculates a plan-specific benchmark cost to help plan sponsors determine if their costs are reasonable after adjusting for plan size, asset mix, and average account balance. Positive (high) value added indicates that, on average, the plan's investment options are outperforming their benchmark indices, whereas negative (low) value added indicates that investments are not outperforming benchmark indices net of investment and plan administration costs. Plans having a majority of passively managed funds tend to be low value added plans because passively managed funds typically track their benchmark indices minus fund expense ratios.

DC Plans Investment Policy Statements

Ms. Pugliese provided an overview of recommended changes to the VRS Investment Policy Statement for An Unbundled Defined Contribution Plan Structure and the VRS Investment Policy Statement for A Bundled Defined Contribution Plan Structure. Staff affirmed the proposed wording changes do not reflect changes in responsibility but provide clarification, consistency with language found within the VRS defined benefit plan policy statement, where practicable, as well as changes to the Optional Retirement Plan for Higher Education (ORPHE). Staff noted the default investment option change within the updated TIAA investment menu to BlackRock's LifePath Index Funds and the removal of Fidelity Investments as a provider option in the ORPHE.

Upon a motion by Mr. Bell, with a second by Mr. Winter, the Committee voted to recommend approval of the following action to the full Board:

RBA: APPROVE AMENDMENTS TO DC PLANS INVESTMENT POLICY STATEMENTS

Request for Board Action: *The Board approves amendments to the Unbundled Defined Contribution Plan Structure Investment Policy Statement and the Bundled Defined Contribution Plan Structure Investment Policy Statement to make refinements to the policy statements and address changes being made to the VRS Optional Retirement Plan for Higher Education (ORPHE) effective January 2020.*

OTHER BUSINESS

Code of Ethics and Conduct

Michael Cooper, VRS Chief Operating Officer, informed the Committee that an email notification would be forthcoming that includes instructions and a hyperlink to a learning module on the Board of Trustees' Code of Ethics and Standards of Conduct; an annual requirement of VRS advisory committee members. Staff shared that Committee members will be able to send certification electronically for acknowledgement of the policy upon review of the recorded webinar.

DCPAC Appointments

Trish Bishop, VRS Director, informed the Committee of the retirement of Margaret Maslak and Allan Carmody from the DCPAC, effective at the end of the calendar year. Both Committee terms expire on June 20, 2020. The Committee reviewed the biography of Brenda O. Madden, who is recommended for appointment to fill Ms. Maslak's unexpired term and to a new term to begin June 20, 2020. A recommendation has not yet been received to fill Mr. Carmody's unexpired term, but will be brought to the Committee at its next meeting.

Upon a motion by Mr. Winter, with a second by Mr. Bell, the Committee concurred in the nomination of Ms. Madden and moved to present the nomination to the Administration and Personnel Committee.

RBA: APPOINTMENT OF DCPAC MEMBER

Request for Board Action: The Board appoints Brenda O. Madden to fill the unexpired term of Margaret M. Maslak, which ends June 20, 2020, and reappoints Ms. Madden for a two-year term ending June 20, 2022.

Mr. Hayes thanked Ms. Maslak and Mr. Carmody for their service to the DCPAC.

UPCOMING DEFINED CONTRIBUTION PLANS ADVISORY COMMITTEE MEETINGS

Mr. Hayes confirmed the DCPAC meeting dates for 2020 following the polling of the Committee.

The next meeting of the DCPAC will take place March 12, 2020, from 1:00 p.m. to 4:00 p.m., with remaining meetings on June 4th from 10:30 a.m. to 1:30 p.m., and August 27th and November 19th from 1:00 p.m. to 4:00 p.m. Also, for those Committee members who are interested, the ORPHE Annual Employer Update is scheduled for September 24th, as required by the DCPAC Charter, but is not a meeting of the Committee.

ADJOURNMENT

There being no further business, Mr. Hayes adjourned the meeting at 12:45 p.m.



Brett Hayes, Chair
Defined Contribution Plans Advisory Committee