
Minutes

The Defined Contribution Plans Advisory Committee of the VRS Board of Trustees met April 25, 2019 in Richmond, Virginia with the following members present:

Brett Hayes, Chair

The Honorable J. Brandon Bell, II

Robert Carlson

Allan Carmody

Ravindra Deo

Shannon Irvin

Rick Larson

Margaret Maslak

David Winter

Board members present:

Mitchell L. Nason, VRS Chair

William H. Leighty

Also present:

Kelvin Allen, Erica Billingslea, Trish Bishop, Keela Butler, Dorothy Camp, Steve Cerreto, Jeanne Chenault, Michael Cooper, Marcia Edmonds, Andy Feagans, Josh Fox, Kelly Hiers, KC Howell, Robert Irving, Ciara Lawson, Rebecca Nicholas, Teresa Nguyen, Greg Oliff, Andrea Peeks, Laura Pugliese, Kristy Scott, Michael Scott, Jennifer Schreck, Jillian Sherman, Virginia Sowers, Ashley Spradley, Peter Thompson, Bridgette Watkins, Rachel Webb and Cindy Wilkinson of the VRS Staff;

Lauren Axelle of the Joint Legislative Audit and Review Commission Staff; and

Adam Rosatelli of Senate Finance Committee Staff

The meeting convened at 10:29 a.m.

Approval of Minutes

Mr. Carlson moved to approve the minutes of the December 6, 2018 meeting with a second by Mr. Bell. The Committee approved the minutes unanimously.

Administrative Reports and Communication Update

Ms. Hiers, Plan Administrator for the VRS Defined Contribution Plans, provided the Committee with an administrative update for the fourth quarter ending December 31, 2018.

DC Plans and Hybrid Plan Update

Ms. Hiers provided an update to the Committee of total assets under management across all DC plans, including an overview of unique participant counts for the unbundled plans and new plan adoptions for the fourth quarter of 2018. She noted ICMA-RC communication initiatives, including the recent RealizeRetirement Time Machine Tour stop at VRS. Ms. Hiers provided an overview of other ICMA-RC communication and education initiatives, including updated videos, Account Aggregation, SmartStep and GoHybrid features for the fourth quarter of 2018. She noted recent enhancements and launch of the SmartStep feature and Paycheck Calculator for COV 457 participants. The Committee inquired about specific data that points to increased SmartStep contributions among hybrid plan members by age cohort in an effort to engage younger employees and encourage saving more for retirement. Ms. Hiers shared that DC Plans does have access to and uses specific data, such as average age and salary, in developing communications to participants with the goal of emphasizing the importance of saving more.

Ms. Hiers shared with the Committee that DC Plans was the recipient of the 2018 NAGDCA Leadership Award in the plan design and administration category for the Optional Retirement Plan Online Election. She also shared that VRS was selected as a finalist for the 2019 Plan Sponsor of the Year awarded by PlanSponsor. Ms. Bishop, Director, noted VRS also received the top award in the category of financial wellness for public plans this past March at the 2019 annual Eddy Awards sponsored by Pensions & Investments.

Ms. Hiers provided an update on total assets in the COV 457 and Virginia Cash Match plans, as well as the number of accounts and average balance in the plans for the fourth quarter of 2018. She shared with the Committee an overview of the 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 fourth quarter of 2018, including the assets, accounts and average account balance in the Hybrid 401(a) and Hybrid 457 Deferred Compensation Plan. Similarly, she gave the Committee an overview of cash flow from the defined contribution component of the Hybrid Retirement Plan, including contributions, withdrawals and net cash flow.

Ms. Hiers provided an update on the hybrid voluntary contribution elections and participation rates, including the auto-escalation population and number of participants making the maximum voluntary contribution for the fourth quarter of 2018. She noted the Hybrid 457 voluntary participation active election rate was 24.5% for the period ending December 31, 2018, and approximately 25.5% as of the first quarter 2019. Ms. Hiers provided an update on the Active Choice Splash Screen for the Hybrid 457 Plan and communication initiatives related to Auto Escalation 2020. Ms. Hiers advised the Committee that statutory auto-escalation will occur again in January 2020 and will follow the same process as 2017.

She shared an update on communication initiatives, eligible and ineligible hybrid plan members and the opt-out window. Staff shared an update regarding ongoing discussions regarding acceleration of the schedule and potential increase in the auto-escalation amount. The Committee inquired about employer participation in communicating auto-escalation and the importance of saving more for retirement to hybrid plan employees. Ms. Hiers noted several factors, including employer size and staff levels, which impact the level of employer participation and engagement in communicating the benefits and features of the hybrid plan to members. Staff also advised of VRS' efforts to develop communication materials intended to address the challenges, such as an updated hybrid plan features and benefits video series, and special outreach initiatives to more effectively engage specific employer groups this auto-escalation cycle.

Ms. Hiers provided an overview of the ICMA-RC annual service review. She informed the Committee that DC Plans conducted outreach to similarly structured industry peers to identify key metrics and measurable goals that could be modeled with respect to increased enrollment. She also highlighted general plan goals ICMA-RC is required to meet. Ms. Hiers advised additional information and suggestions would be provided to the Committee at the next meeting and also solicited feedback from the Committee regarding specific items to be measured and reported. She noted the ICMA-RC annual service review was conducted this past March 2019, and shared with the Committee that all performance standards were met for 2018. She shared highlights from the annual service review with ICMA-RC, and provided an overview of future initiatives related to asset retention efforts, investment education, online distributions and financial planning.

ORPHE Update

Ms. Hiers provided an overview of total ORPHE assets for the fourth quarter of 2018, and assets by plan provider. She also shared with the Committee an update on ORPHE enrollment and new provider selections based on newly-eligible employees among the three providers for the fourth quarter of 2018.

Investments

Performance Reports

Ms. Pugliese, Portfolio Manager, Defined Contribution Plans, provided an update on equity markets to the Committee, noting positive returns across various asset classes including the S&P 500 up approximately 17%, the Russell 2500 up 19%, and the MSCI ACWI ex-U.S. (International equity) up 13% year to date as of April 24, 2019. She also noted positive returns in the fixed income space and continued growth of participant balances as a result of the current market environment.

Ms. Pugliese shared with the Committee upcoming allocation changes to the BlackRock LifePath Target Date Portfolios as the result of their research findings related to the relationship among inflation, human capital and financial assets, particularly for younger investors. The changes are focused on reducing the allocation percentage to global REITS with corresponding increases across U.S. and

international equities in the portfolios furthest from the target retirement date as well as reducing exposure to commodities across the portfolios.

Unbundled Plans

Ms. Pugliese provided an overview of the unbundled plans performance report for the period ending February 28, 2019 and noted funds are performing as expected.

Bundled Plans

Ms. Pugliese advised the Committee that an update of investment performance for TIAA and Fidelity would be provided as part of discussions related to ORPHE restructure recommendations.

Custom Target Date Evaluation Project Update

Ms. Pugliese informed the Committee that staff continues to monitor developments in the custom target date fund area, particularly as it relates to advances in technology and data aggregation. At this time, however, staff's primary focus is centered on working on the upcoming changes to the ORPHE through second quarter 2020.

Other Business

RBA: Request for Board Action Regarding Reappointment of DCPAC Members

Ms. Bishop provided an update to the Committee regarding the Request for Board Action (RBA) for reappointment of DCPAC members, effective June 20, 2019.

Four Committee seats will be open as of June 20, 2019. The Committee reviewed biographies of Mr. Carlson, Ms. Irvin, Mr. Larson and Mr. Winter who currently serve on the DCPAC and are recommended for reappointment to a two-year term.

Mr. Hayes then moved, with a second by Mr. Deo, the Committee concurred with the nominations and moved to present the nominations to the Administration and Personnel Committee for consideration for the recommended appointments to the Committee, all from June 20, 2019 to June 19, 2021.

Review of Plan Documents

Ms. Wilkinson, VRS Policy, Planning & Compliance Director, informed the Committee that, in conjunction with outside benefits counsel, VRS is undergoing a review of plan documents and master trusts. Ms. Wilkinson shared that all six plan documents and three master trusts were last reviewed when the Hybrid Retirement Plan was implemented. She also noted the discontinuation of the IRS determination letter program for retirement plans as another reason for the review process with outside counsel. Any proposed changes will be discussed by the Committee and shared with the Board for approval.

ORPHE Restructure Recommendations

Ms. Hiers provided a summary overview of the key issues and overall restructure goals in ORPHE as well as the outreach initiatives undertaken with employers and faculty members to collect feedback on the possible recommendations. She highlighted the concerns taken into account and addressed as part of the recommendations, including aligning with industry best practices, the level of services provided across providers, inclusion of administrative record-keeping fees embedded in fund expense ratios, higher cost investments and underperforming investments. Ms. Hiers also advised the Committee of the restructure goals of maximizing services available to participants, minimizing costs and improving transparency. She noted that additional goals included providing an updated investment menu, improved performance and lower fees, while considering the recruitment and retention needs of the higher education community and maintaining open lines of communication with employers and affected participants.

Ms. Bishop informed the Committee of recent litigation in the higher education 403(b) arena and noted that institutions across the commonwealth are currently evaluating their 403(b) plans and provider offerings.

Ms. Hiers informed the Committee of the outreach efforts to employers and faculty representatives and shared the feedback received. She expressed VRS' commitment to communicate and engage employers and faculty representatives further should the recommendations be approved. She also advised that external stakeholders and third-party administrators were made aware of the recommended changes.

Ms. Hiers outlined the recommendations, which included deselection of Fidelity as a provider option for new hires effective June 1, 2019, deselection of Fidelity for ongoing contributions effective January 1, 2020, and modification of the TIAA investment menu.

Ms. Hiers shared that Fidelity participants would be provided the option to leave their assets with Fidelity, and Fidelity investments would also be available through the self-directed brokerage account with TIAA or DCP. Ms. Hiers also noted that the deselection of Fidelity as a provider in ORPHE does not impact the 403(b) plans offered by the higher education institutions. Staff explained that TIAA assets in the GRA and RA contracts, which comprise more than 80% of TIAA assets, are not affected by changes to the new investment menu and cannot be mapped by VRS.

Ms. Hiers provided an overview of assets and accounts in ORPHE compared to the overall unbundled DC Plans structure for purposes of highlighting the size and impact of the recommendation to deselect Fidelity as a provider. She shared a breakdown of participant status by provider to illustrate the percent of active and separated participants affected by the recommended changes. She also outlined an implementation proposal of the provider changes for each provider based on participant status, including an extended open enrollment period for affected participants and proposed strategic communications plan, pending approval by the Board.

Ms. Hiers addressed the Committee's concern as to how the recommended changes might be received, and reiterated efforts by staff to maintain open lines of communication moving forward with employers,

faculty, and external stakeholders. She added that a postcard mailing would be sent to plan participants notifying them of coming changes, pending Board approval, and noted that additional information would be shared with employers and affected faculty later this fall. She acknowledged that there potentially would be some level of dissatisfaction with the deselection of Fidelity as a provider. Staff advised that participants would have the option to leave assets with Fidelity or to access Fidelity investments through the self-directed brokerage account with the remaining two providers. Similarly, staff shared the likely potential for dissatisfaction with the recommended changes to the TIAA investment lineup, and informed the Committee that multiple communication reminders would be sent to affected participants.

Staff noted the amount of assets with Fidelity as well as ongoing issues related to investment performance reporting and contract changes regarding its guidance model. Staff also informed the Committee of discussions with Fidelity prior to 2015 emphasizing the preference for an unbundled plan model in ORPHE that aligns with the overall DC Plan structure. Ms. Hiers advised the Committee of measures underway to modify the provider selection process in myVRS for ORPHE-eligible new hires starting June 1, 2019, as well as updates to communication materials to assist employers with the new hire onboarding experience.

Ms. Pugliese provided the Committee with an overview of the governing documents, fund structure via expense ratios, and a summary of the ORPHE investment lineup changes, including mapping of existing balances and allocation of ongoing contributions, where applicable.

Ms. Pugliese outlined VRS' authority to act related to investments as set forth in the Master Trust for the ORP for Higher Education as well as the Investment Policy Statement for the Bundled DC Plan Structure and the DC Investment Belief Statements. Ms. Pugliese provided an overview of the various component parts of investment fund expense ratios that, in part, informed the decision to make investment changes to ORPHE, including those fund specific and non-fund specific costs embedded in the fund expense ratios. She informed the Committee that the goal is to increase fee transparency and invest in fund options that contain costs solely specific to a fund's investment management, where applicable. She highlighted examples of fund-level expense ratios on the TIAA investment lineup, noting the different costs embedded in the expense ratios across the various investment options.

Ms. Pugliese provided the Committee with an overview of the TIAA investment menu changes, reiterating that 81% of assets with TIAA remain in the GRA and RA contracts as of March 31, 2019, and cannot be mapped. She informed the Committee only the assets in the RC contract, which represent about 19% of TIAA's total assets and about \$150 million as of March 31, 2019, are subject to the investment menu changes. Ms. Pugliese informed the Committee of the decision process used to determine which fund investment options including TIAA's existing proprietary product offerings that would be included in the updated TIAA investment menu. The Committee noted participants' assets allocated to the Vanguard Balanced Index Fund, the lowest cost investment option on the current investment menu. Ms. Pugliese provided some historical perspective and mentioned the Vanguard Balanced Index Fund had been the default investment option within the TIAA investment menu prior to

the introduction of the RC contract in 2017, and reflects a combination of legacy assets as well as RC contract assets.

Ms. Pugliese shared TIAA's willingness and ability to add BlackRock funds to the ORPHE investment menu given the current landscape, and stated consideration was primarily given to including passively-managed funds similar to the unbundled DC Plans structure that aligns with VRS' investment philosophy. Ms. Pugliese provided the Committee with an overview of the existing TIAA RC contract investment fund menu and the updated investment menu and explained the strategy for future contribution allocations and the mapping of assets. She informed the Committee that at this time TIAA is unable to white-label the investment fund options similar to the unbundled DC Plans investment lineup, and the funds would retain the BlackRock "proper" fund name until such time TIAA is able to white-label fund options.

With respect to the TIAA Traditional Annuity, Ms. Pugliese shared the decision to retain this fund option, noting the feedback received from employers as it relates to the importance of keeping this investment option on the TIAA lineup for purposes of recruitment and retention of faculty. In light of these recruitment and retention concerns, Ms. Pugliese also shared TIAA is among the highest-rated insurance companies by the rating agencies and that TIAA has \$43 billion in statutory capital as of December 31, 2018. She noted many participants are not aware of the Traditional Annuity's restrictions and limitations during the surrender/distribution period and that contract provisions are different between the legacy contracts and new RC contracts. She informed the Committee TIAA does include information about these restrictions and differences in contract provisions in plan communications but that participants apparently are not reading the finer points outlined in the materials. She expressed efforts to potentially have TIAA develop additional communications for placement on the participant website that would require acknowledgement of these limitations and restrictions.

Ms. Pugliese advised of the decision to retain the TIAA Real Estate Account noting the account has an allocation of about 70-75% to private real estate, resulting in diversification benefits to participants, a lower fund risk profile compare to a fund invested one hundred percent in public REITs and lower expense ratio compared to similar private real estate funds available as part of target date fund solutions found in the defined contribution market. Ms. Pugliese advised the Committee that she asked TIAA to consider the creation of a real estate fund that does not include embedded plan administration and record-keeping fees. She shared with the Committee the rationale for replacing several other TIAA funds with BlackRock funds and informed the Committee that she is working with TIAA to determine if the VRS Investment Portfolio (VRSIP) can be included as part of the updated TIAA investment menu. The Committee inquired about the level of understanding among participants with respect to diversification and asset allocation in selecting TIAA investment options. Staff acknowledged the opportunity to further educate participants about asset allocation and diversification as part of communication and outreach efforts related to the recommended changes.

The Committee sought clarification on the impact of the recommended TIAA investment menu updates under ORPHE to the 403(b) plans administered by higher education institutions. Staff confirmed that the recommended changes are separate from and will not impact an institution's 403(b) plans as VRS does not have oversight of these plans. Staff also informed the Committee that the investment options,

expense ratios, and contract provisions within the 403(b) plans differ among the various institutions, even if the same provider option is offered.

Ms. Pugliese provided an overview of the Fidelity Investment transition, including future contributions and mapping, to replacement funds under the unbundled DCP investment lineup, noting the DCP would serve as the default provider.

Ms. Hiers shared with the Committee the proposed timeline pending approval by the VRS Board of Trustees at its May 13, 2019, meeting. Ms. Hiers outlined the timeline of notifications and communications to employers and participants as well as key dates related to the deselection of Fidelity and updates to the TIAA investment menu.

Mr. Leighty expressed his support for the proposed changes prior to leaving the meeting.

Mr. Hayes summarized the Request for Board Action (RBA) for recommended restructure changes to the Optional Retirement Plan for Higher Education.

On a motion by Mr. Carlson, seconded by Ms. Maslak, the Committee unanimously recommended the VRS Board of Trustees approve the following action:

Request for Board Action: *The Board approves the following changes to the Optional Retirement Plan for Higher Education (ORPHE): deselect Fidelity as a provider option for new hires effective June 1, 2019; deselect Fidelity for ongoing contributions effective January 1, 2020; and change the TIAA ORPHE default investment option to BlackRock LifePath Index Funds O.*

Upcoming Defined Contribution Plans Advisory Committee Meetings

The Committee's next scheduled meeting is June 6, 2019 at 1:00 p.m.

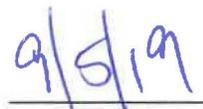
Other meetings remaining on the 2019 calendar are:

- September 5, 2019 at 1:00 p.m.
- November 7, 2019 at 10:30 a.m.

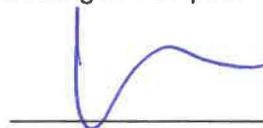
The ORPHE Annual Employer Update is scheduled for September 26, 2019, but this is not a meeting of the DCPAC.

Adjournment

There being no further business, Mr. Hayes adjourned the meeting at 1:17 p.m.



Date



Brett Hayes, Chair