KANSAS BOARD OF REGENTS
Retirement Plan Committee
MINUTES
September 16, 2014

The September 16, 2014, meeting of the Kansas Board of Regents Retirement Plan Committee was called to order by Regent Murguia at 12:35 p.m.

Members Participating:

Regent Ann Brandau-Murguia, Chair	Regent Kenny Wilk
Mike Barnett, FHSU	Dr. Dipak Ghosh, ESU
Theresa Gordzica, KU	Dr. Rick LeCompte, WSU
Gary Leitnaker, KSU	Madi Vannaman, KBOR

Also present were Segal Rogerscasey's Craig Chaikin; Voya's Brian Merrick, Strategic Relationship Manager; John O'Brien, Regional Vice President and Cindy Delfelder, Key Account Manager; TIAA-CREF's Nicolette Dixon, Relationship Manager; Tom Carmody, Senior Director Institutional Retirement Plan Sales and Michael Thomas, Senior Manager Communications Consultant . Michele Sexton, PSU, participated by conference call. Because of schedule conflicts, President Schulz, KSU, and Theresa Schwartz, KBOR's Associate General Counsel, were unable to attend.

<u>Minutes</u>
The minutes from the March 11, 2014 meeting were approved unanimously.

<u>Segal's Semi-Annual Review Through June 30, 2014</u>
Mr. Craig Chaikin provided an overview of the role Segal performs for the Retirement Plan Committee with the selection, ongoing monitoring and due diligence related to the Mandatory Plan's investment options. In reviewing the lineup, Segal makes recommendations and brings to the forefront red flags or points of interest that the Committee needs to know.

Regarding the review of the investment options, Mr. Chaikin stated that the lineup, as a whole, performed well and in-line with expectations. There has been some short-term underperformance largely due to stock selection. Ideas that had worked well in the first quarter did not work in the 2nd quarter as the market rotated. Despite the short-term numbers, there are no long-term concerns. PIMCO continues to be watched because of the turnover at the top of the organization, the abrupt departure of the co-CIO in the first quarter of 2014 and significant level of outflows. However, the firm has a deep, experienced team and can handle these departures at this time. The outflows, at this point, are not concerning to Segal because the fund is very big.

Dr. LeCompte asked about the Wells Fargo Advantage Growth fund that was added approximately two years ago to replace another underperforming fund. Mr. Chaikin stated that underperformance was so drastic in 2014 that it has significantly impacted the trailing numbers. Short-term results are mainly due to stock selection but consistent with the Fund's style. Up until this last six-month period, the results have been good. Segal will continue to monitor the fund.

<u>Action items from the March 11, 2014 meeting</u>
1. TIAA-CREF provided an update about their "**Low Fee's Campaign**" effort in October 2012 to reach out to participants with the deselected KBOR Mandatory Retirement Plan providers, Security Benefit Group and Lincoln National. Ms. Nicolette Dixon stated that the next step is to

offer counseling sessions with TIAA-CREF financial consultants to the 297 employees currently contributing to the Mandatory Plan who have assets with the deselected vendors.

Regent Murguia asked what the normal course of action is to reach out to participants and Ms. Dixon responded that there are ongoing communication campaigns and outreaches, typically cobranded with KBOR, throughout the year. Participants are also provided the opportunity for one-on-one counseling sessions with TIAA-CREF representatives who will provide advice to participants.

2. Mr. Michael Thomas of TIAA-CREF provided an update about their "**Diversification/Money Market Campaign**" to participants with 80% of their assets, or greater, in the money market fund**.** A total of 4,172 communication pieces were distributed by direct mail (1,694) or email (2,478). A total of 57 participants made asset reallocations: 17 (or 30%) were direct mail recipients and 40 (or 70%) were email recipients.

Mr. Thomas stated that diversification is the big message for overall retirement readiness for this multi-touch campaign. Personalized communication was sent to those with 1-4 investments and 5+ investments. Because there are less than 200 people with 100% in Money Market fund, this is not a big problem for the KBOR plan. The $53 million in the Money Market fund comprises 2% of the total allocation.

Email communication resulted in a better engagement rate and asset reallocation was completed by 57 or 2.3% who received communication pieces. There was a decrease of $1.6 million in the Money Market fund over the year and this campaign will continue.

TIAA-CREF

1. **Revenue Credit Funding** – the revenue credit balance, as of June 30, 2014, for the Mandatory and Voluntary retirement plan is $1,204,559. The calendar year 2013 revenue credit was distributed to participants mid-September 2014.

Regent Murguia asked how the Committee knows whether the fees and revenue credit are appropriate. Mr. Chaikin responded that the fee that is paid includes all of the services that TIAA-CREF T-C provides including communication, education, and participant services and that some level of margin is encompassed in their fees. The revenue credit is generated between what the fund lineup generates and what the record keeper needs to perform its services. Information is shared, by both companies, with Segal, for review and to determine appropriateness of fees and costs. Fees for both companies have been decreasing over time. Mr. Tom Carmody, TIAA-CREF, stated that because they value the relationship with KBOR they want to keep the costs in line and they need to be competitive by providing reasonable cost. Plan economics are reviewed annually to look at all of the revenue, new capabilities and technologies that improve efficiencies, including participant and plan sponsor tools and services.

2. **Enhanced Pricing for KBOR** – Ms. Dixon reported that the revenue requirement for the current fee structure will be reduced, retroactive to January 1, 2014, from 13.5 basis points (bps) to 11 bps for the KBOR Plans, which will result in an increase in the projected 2015 Revenue Credit from $1 million to $1.8 million. The revised pricing is a result of TIAA-CREF's enhanced internal

efficiency gains, plan growth and implementation of TIAA-CREF institutional share class mutual funds.

The KBOR plan is one of TIAA-CREF's top clients - number 13 and the KBOR plan continues to offer the lowest available share class for funds and expenses.

Mr. Mike Barnett asked about Voya's expenses and revenue. Mr. John O'Brien responded that Voya will review the profile of the client, which includes total plan assets, asset allocation, average account balances, as well as specific plan and participant services provided, in order to develop a revenue target. Annually, Voya evaluates KBOR during the first quarter to determine whether they are meeting target revenue requirements and if there is any ability to proactively adjust plan expense ratios and revenue requirements. The current revenue target is approximately 30 bps. In addition to Voya reviewing the KBOR plan against Voya's current revenue requirements, they also compare current pricing with other competitive bids which have similar participant and plan services. This ensures KBOR is always receiving the most competitive pricing available based on the services provided. Mr. O'Brien also referenced the plan review provided by Segal, which indicated the average participant expense ratio for the TIAA-CREF investment menu is 0.49% as compared to 0.58% for the Voya investment menu. Although the revenue requirements for each firm are different based on the services provided, the average participant expenses are closely aligned. Both investment providers are offering a very competitive pricing structure according to Mr. O'Brien. Both TIAA-CREF and Segal agreed with that assessment. Dr. LeCompte stated that plan expenses for both vendors have been dropping over time.

Mr. O'Brien also stated that based on a point in time scenario, in the current low interest rate environment it is a challenging proposition to lower plan level expenses specifically for the mutual fund investments without consideration for the assets in the Fixed Account, as it relates to achieving overall target revenue requirements.

An example provided by Mr. O'Brien is that KBOR participants utilizing the Fixed Account are receiving a crediting rate higher than the current market benchmarks for guaranteed investments. Voya's product offering, in the KBOR plan, offers a Fixed Account with a contractual minimum guarantee credit rating of 3%. So, regardless of the interest rate environment the crediting rate for the Voya Fixed Account is guaranteed not to credit less than 3%. This guaranteed interest rate crediting is very attractive for plan participants in the current interest rate environment as they are able to receive above market interest crediting for their guarantee assets.

Mr. O'Brien stated that utilizing the 10 year treasury as a simple benchmark, the current 10 year treasury crediting rate has been ranging between 2.4% - 2.7%. So, when crediting a minimum guaranteed rate of 3%, the ability to achieve targeted revenue requirements are certainly a consideration as it relates to the participant expense level.

In consideration of lowering plan level expenses, both the assets in the mutual fund investments as well as the assets invested in the Fixed Account are considered together. Mr. O'Brien said this consideration is due to an effort to achieve a reasonable and competitive participant expense to support the participant services provided in relationship to an associated revenue requirement.

3. **2013 Communication Education & Advice Core Campaign Results and 2014 Program Offer** – Mr. Thomas provided results of the 2013 campaign. The core objectives of the program were to:

a. Increase retirement plan awareness through engaging employee education that drives action.
b. Engage individuals with relevant, segmented messaging based on their specific needs.
c. Drive healthy retirement plan behaviors and actions.

Mr. Thomas stated that the 2014 campaign will continue with target campaign messages of Save More, Financial Education, and Diversification and there will be more information in the coming months about the 2015 campaign.

Regent Murguia asked how often a participant should make changes to his/her retirement plan. Mr. Thomas responded that they encourage participants to look at their plans and to review beneficiary designations at least annually, and also when major life events occur such as marriage, divorce, milestone birthdays, birth, and death of a loved one.

VOYA

1. Mr. Brian Merrick provided information about Voya's **2015 Marketing/Communication Plan** with objectives to increase contribution amounts, consolidate accounts and increase diversification of participant assets; the new Voya rebranding and enhanced web experience.

Next RPC meeting:

The next RPC meeting is tentatively scheduled for 12:30 p.m. on Tuesday, March 10, 2015, in the Board Room.