KANSAS BOARD OF REGENTS
Retirement Plan Committee
MINUTES
March 10, 2015

The March 10, 2015, 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	President Schulz, KSU
Michele Sexton, PSU	Ed Wilson, KMC
Madi Vannaman, KBOR	

Also present were Segal Rogerscasey's Craig Chaikin; Voya's Bernie Heffernon, Sr. Vice President, Tax Exempt Markets; John O'Brien, Regional Vice President; and Cindy Delfelder, Key Account Manager; TIAA-CREF's Nicolette Dixon, Relationship Manager; Tom Carmody, Senior Director Retirement Plan Sales and Strategy and Adam Polacek, Managing Director Client Portfolio Management. Because of schedule conflicts Theresa Schwartz, KBOR's Associate General Counsel, was unable to attend.

Minutes

The minutes from the September 16, 2014 and October 9, 2014 meetings were approved unanimously.

Segal's Semi-Annual Review Through December 31, 2014

Craig Chaikin provided an overview of the role Segal performs for the Retirement Plan Committee with regard to the selection, ongoing monitoring and due diligence related to the Mandatory Plan's investment options. Mr. Chaiken then highlighted some matters evidenced by the current review and noted that because of strong equity markets, assets increased. Some investment managers did struggle, a lot because of style or energy related issues and some growth managers underperformed. However, for the KBOR retirement plan investment options Mr. Chakien stated that there were currently no long-term concerns with any of the results or funds.

Fund Line-up Recommendations

1. TIAA-CREF did not make any formal recommendations for change. TIAA-CREF is introducing multiple share classes of the CREF Accounts on April 24, 2015. Because of its asset size, the KBOR retirement plan is eligible for the lowest share class, R3, and the funds will automatically be moved to the lower share class. The expense ratio for all eight CREF Accounts will decline:
    a. CREF Stock (0.455% to 0.370%)
    b. CREF Global Equities (0.465% to 0.390%)
    c. CREF Growth (0.415% to 0.335%)
    d. CREF Equity Index (0.391% to 0.305%)
    e. CREF Bond Market (0.450% to 0.370%)
    f. CREF Inflation-Linked Bond (0.405% to 0.325%)
    g. CREF Social Choice (0.405% to 0.340%)
    h. CREF Money Market (0.395% to 0.320%)

Craig Chaikin stated that the revenue credit has been funded, in large part, by the CREF accounts. The required revenue equates to 11 basis points, and excess revenue was 5.7 basis points (approximately $1.9 million). With this change, the revenue requirement will still be 11 basis points but the revenue credit is estimated to drop to 1.7 basis points (approximately $550,000 in excess revenue).

2. Voya's PIMCO Total Return - Segal RogersCasey concurs with Voya's recommendation to keep the fund on the watch list at this time. While outflows have been significant, the level was not unexpected and PIMCO has maintained sufficient liquidity. Personnel turnover has also not been outside of norms. Craig Chaikin stated that an October conference call was held shortly after Bill Gross' departure from PIMCO and discussed the fund's performance struggles in the prior few years. There were concerns about outflows and ongoing performance and personnel turnover. There are no personnel changes to note aside from Mark Sidner, who was part of the investment committee and who left before Gross did but who has since returned to the firm. The fund had a balance in September 2014 of $224 billion and as of February 2015 it was $124 billon. The funds went to the Vanguard index fund and into managers like Western Assets, DoubleLine but not into the Janus fund run by Gross. There are no current concerns regarding performance.

3. Voya provided two pricing scenarios for consideration:
   a. Reduce Voya's revenue target from 0.30% to 0.28% by reducing the add-on to the Vanguard Target Retirement Funds from 0.35% to 0.15%.
   b. Reduce Voya's revenue target from 0.30% to 0.18%, move to the Voya Fixed Account with a guaranteed minimum floor of 1.0% (Voya would guarantee rates for 2015 and 2016 of 3.0% and 2017 of 2.75%), move to lower share class for several investment options and reduce the add-on to the Vanguard Target Retirement Funds from 0.35% to 0.15%.
   c. Segal RogersCasey recommends the second pricing scenario for the following reasons:
      i. Participants receive lower, overall fees with the reduction in Voya's required revenue and subsequent expense ratio reduction. 12 basis point decline lowers the overall weighted average expense ratio from 60 basis to 52 basis points which is significant to participants. Cost savings outweighs the current 3% floor.
      ii. Voya is guaranteeing competitive rates for the next three years; rates are expected to increase over that time, so the Large Case Credit in 2018 may not be as badly impacted.
      iii. The 1.0% minimum guarantee is consistent with new industry standards.
      iv. Funds with lower share classes would be:
         1. VY T. Rowe Price Capital Appreciation (0.90% to 0.65%)
         2. American Funds Fundamental (0.66% to 0.36%)
         3. VY FMR Diversified Mid Cap Portfolio (0.90% to 0.65%)
         4. American Century Mid-Cap Value (1.26% to 0.81%)
         5. American Beacon Small Cap Value (1.20% to 0.84%)
         6. American Funds EuroPacific Growth (0.85% to 0.55%)

President Schulz asked if this will be a new option for participants and Craig Chaikin responded that this would replace the current stable value option. John O'Brien stated that Voya will work with clients to transition them to the new offerings which will be the same funds but with different expense ratios.

President Schulz asked how the change to the guaranteed minimum would affect those nearing retirement. John O'Brien stated that it will be important to communicate with participants to help them understand what has happened and why, as well as the implications to their retirement plan. Beginning in 2018, Voya will evaluate the interest rate environment and offer the highest crediting interest rate which Voya offers to their large case clients. Voya's large case crediting rate is typically 25 basis points above their standard crediting rate. The crediting rate is determined and communicated to clients at the beginning of each year and is determined based upon the current interest rate environment. Craig Chaikin stated that in the current low interest rate environment 2.25% is being credited to large case clients.

President Schulz commented about how complex financial and retirement information has become and that the voluminous amount of information is confusing and difficult to comprehend. Because participants need interpretation and advice, he asked "are we helping our employees prepare for retirement and to make good decisions about investment options?"

Regent Murguia stated that she had expressed a similar concern, at her first RPC meeting, about the reported number of employees who do not meet with their retirement company regularly to be briefed and updated. Nicolette Dixon responded that the companies are sending more targeted messages with calls to action (attend a seminar or individual meeting) but they have found that incentives, such as wellness points, really help incentivize people take advantage of opportunities. Regent Murguia responded that the average person needs something that would spark their attention, such as when there is a change in family status -- a quick check list that would indicate a need for action or attention.

Dr. Ghosh stated that employees are not very knowledgeable or interested and provided an example of a business faculty. A lot of times there is one spouse who handles retirement or financial decisions and responsibilities. Requiring attendance at a retirement planning session and incorporating the requirement into the annual performance review process would, as a practical matter, require changes to employment and tenure policies and might have to be done school by school and would be fairly complicated. Dr. LeCompte shared that he has taught certified financial planning for years and those who are under age 60 tend not to pay attention to retirement information, whereas those age 58-65 look but are not concerned until there is a serious life-impacting event. In his opinion, the two retirement plan companies are doing a good job communicating and providing information and opportunities but every employer and retirement company wants to increase participation and engagement.

Regent Murguia wondered if there is a way to present this as an opportunity to review retirement information. Regent Wilk shared that as a former employer, with a defined contribution plan, the employees were presented with individual, annual statements that included information about the value of the compensation and benefits package provided by the employer and information about the retirement plan balances and projections of future balances based on hypothetical contribution changes. Madi Vannaman stated there is a statute that requires state agencies to provide annual total compensation summaries that show an employee the value of employer provided benefits and that the retirement companies provide quarterly and annual statements that show account balances and projections of future balances based on hypothetical contribution changes.

Regent Murguia asked that a separate meeting be scheduled to discuss this topic further – how to provide information to KBOR plan participants and how to engage them so that more of them take advantage of opportunities to review their retirement plan.

Motion:
President Schulz's motion to recommend Voya's pricing scenario was seconded by Mike Barnett and passed unanimously. The recommendation will be presented to the Board of Regents and, if approved, would be effective July 1st or the earliest date thereafter.

Craig Chaikin mentioned that Vanguard made relatively significant changes to its Target Date funds. Allocation between domestic equity and international was at 70-30 and will be moved to a 60-40 split. Fixed income allocation was 80-20 domestic and international and will be moved to a 70-30 split. These changes make the Target Date funds more in line with what is seen in the market.

TIAA-CREF Revenue Credit
Nicolette Dixon presented information about the KBOR Revenue Credit balance as of December 31, 2014 of $446,728.42 for both KBOR plans. Ms. Dixon also informed the committee that the excess revenue for the period of July-December 2014 was credited to the account in February 2015 bringing the total account balance as of March 5, 2015 to $1,432,887.92.

Segal RogersCasey – Contract Extension
The Kansas Board of Regents (KBOR) contract with Segal RogersCasey runs from December 1, 2010 through November 30, 2015. An optional, five year renewal period that would run from December 1, 2015, through November 30, 2020, is allowed under the contract.

Under the current contract the fees for the extension years 6 to 8 would be $47,000 and for years 9 and 10 would be $48.500. For all years, the contract allows additional charges for crafting new plan documents or related amendments, to be billed at a $300 hourly rate, after the Retirement Plan Committee receives and approves an itemized fee quote.

Segal RogersCasey agreed to lower the fees previously agreed to in the contract. The change in fees is contained in the below chart.

Year	Contract Amount	Proposed Extension
6 – Dec. 2015 to Nov. 2016	$47,000	$41,000
7 – Dec. 2016 to Nov. 2017	$47,000	$42,500
8 – Dec. 2017 to Nov. 2018	$47,000	$44,000
9 – Dec. 2018 to Nov. 2019	$48,500	$45,500
10–Dec. 2019 to Nov. 2020	$48,500	$47,000

Past practice and policy require that the Board itself approve entering into contracts of this nature. If the RPC approves extending the contract with Segal RogersCasey for another five years, at the above stated rates, that recommendation will be presented to the Board.

Mike Barnett asked Madi Vannaman if she had a recommendation and she responded that her recommendation is to extend the contract as the work performed and the information provided by Segal RogersCasey helps the RPC and the Board to meet the fiduciary responsibility for the Plan and to participants.

Motion: Mike Barnett's motion to approve recommending the extension of the Segal RogersCasey contract was seconded by Dr. LeCompte and approved unanimously.

Request for Information (RFI)

Review of the retirement plan and all its components is one of the primary duties delegated by the Board to the RPC. The RPC last conducted a comprehensive review of the Mandatory Retirement Plan in 2006, prior to the consolidation from four to two vendors. These changes became effective January 1, 2007.

Board staff make no recommendation, but believe that the RPC should consider conducting such a review in the near future. One efficient and typical way to begin such a review is to first issue a request for information (RFI) to the current vendors, asking for information on specific topics. Information typically requested would include a review of the vendors' fund lineups, fund and plan expenses, services provided, etc.

The current KBOR contract with Segal RogersCasey includes language that allows the RPC to request that the consultant firm assist in developing and then issuing an RFI to the two Mandatory Plan providers, TIAA-CREF and Voya at no additional charge.

If the RPC wishes to proceed with the RFI process in order to conduct a comprehensive review of the Mandatory Retirement Plan, staff recommends utilizing the assistance of the consultant firm, to first develop the list of information that will be requested, and then to review this information and provide recommendations to the RPC.

Gary Leitnaker asked whether other plan sponsors are getting services from vendors that KBOR is should also be receiving). Craig Chaikin responded that the RFI will provide a further double-check of rates and services and to make sure that new ways of doing things are being taken advantage of, which is something legacy plans do not always get to do. We will be confirming that we are getting everything at the most competitive price.

Motion: Regent Wilk's motion to approve an RFI was seconded by President Schulz and approved unanimously. Dr. Lecompte and Michele Sexton graciously volunteered to serve as part of the RPC subgroup to work on this project.

Voya Announcements – Bernie Heffernon

1. Participant website award – DalBar awarded Voya the 2014 communications seal, representing excellence in financial services communications, for its participant website. Voya ranked number 1 with a score of 91.28 out of 100; the industry average was 76.87.

2. World's Most Ethical Company – for the second year in a row, The Ethisphere Institute, an independent center of research promoting best practices in corporate ethics and governance, Voya was honored as a 2014 World's Most Ethical Company.

3. Ratings Updates – Two primary rating agencies have recently moved Voya's ratings up: Standard and Poore's rating went from an A- to an A and Moody's rating went from A3 to A2.

Next RPC meeting:

A special RPC meeting will be scheduled to address communication to participants and engagement in reviewing retirement information.

The next regular RPC meeting is tentatively scheduled for 12:30 p.m. on Tuesday, September 15, 2015, in the Board Room.