KANSAS BOARD OF REGENTS
Retirement Plan Committee
MINUTES
September 19, 2017

The September 19, 2017, meeting of the Kansas Board of Regents Retirement Plan Committee was called to order by Regent Bangerter at 12:30 p.m.

Members Participating:

Regent Shane Bangerter, Chair	Mike Barnett, FHSU
President Allison Garrett, ESU	Dr. Dipak Ghosh, ESU
Leisa Julian, KU	Dr. Rick Lecompte, WSU
Gary Leitnaker, KSU	Michele Sexton, PSU
Madi Vannaman, KBOR	

Also present were Craig Chaikin, Segal Marco Advisors consultant; from TIAA: Nicolette Dixon, Senior Relationship Manager, Patty Harte, Regional Managing Director, and Tom Carmody, Managing Director, Institutional Sales; from Voya: John O'Brien, Regional Vice President; Cindy Delfelder, Key Account Manager; and Bernie Heffernon, Senior Vice President, Tax Exempt Markets; and from the Kansas Board of Regents Office Theresa Schwartz, Associate General Counsel and Elaine Frisbee, Vice President Administration and Finance.

Also participating by conference call were Regent Joe Bain and Stacy Snakenberg, KU Medical Center Leisa Julian, KU, was not able to attend the meeting.

<u>Introductions</u> –Regent Bangerter introduced Regent Joe Bain who will be serving on the RPC.

<u>Minutes</u>
The minutes from the March 16, 2017, meeting were approved unanimously. Moved by Mike, seconded by LeCompte.

<u>Segal Semi-Annual Review through June 30, 2017</u>
Craig Chaikin reviewed information contained in the June 30, 2017, semi-annual report.

Segal specific recommendations for the following funds:

A. TIAA – Remove Royce Opportunity from the watch list due to competitive peer results. Keep Wells Fargo Advantage Growth on the watch list due to 3 and 5 year under performance.
B. Voya – Place Voya Real Estate on the watch list due to under performance versus both its benchmark and peer group over all time periods.

<u>KBOR Mandatory Plan Fee Overview</u>
Craig Chaikin presented the fee overview materials reviewing fiduciary responsibility, current retirement plan lawsuits and legal environment, options for paying administrative costs, the information reviewed by the sub-committee and next steps for the RPC and Board.

Regarding the fiduciary responsibility for retirement plans, Craig Chaikin stated that non-ERISA plans, including the KBOR plan, may look to best practices where practical and he noted the RPC reviews each aspect of fund performance under the "to act solely in the interests of plan participants and beneficiaries" standard.

Craig Chaikin noted that the initial litigation in this arena was against corporate 401(k) plans but has now moved to private higher education plan sponsors. Allegations range from overpaying for investments, recordkeeping and administration to selection of funds not being solely in the best interest of participants, recordkeepers receiving excessive fees through ERISA prohibited transactions (revenue sharing), and having no prudent process in place to choose investments or to monitor fees.

Gary Leitnaker asked whether the Board's plan has been prudent and Craig Chaikin responded "yes." There is a defined decision making process in place, policies are documented and followed, and regular reviews are made and recorded in the RPC minutes. Even so, this would not preclude a lawsuit, but if one were filed, KBOR's plan would likely be easier to defend because the RPC follows a prudent decision-making process. Craig Chaikin noted that when the lawsuits point to multi-vendor allegations, most have three or more vendors in the retirement plan.

Regent Bangerter asked whether there are many financial institutions following the proposed regulations now or will they wait until the regulations are finalized. Craig Chaikin responded that most of the bigger institutions are trying to implement the provisions because they see them as beneficial for their clients and to their business long-term, but others will wait to make changes until the final rules are published. John O'Brien stated that Voya is ready to comply with the regulation as of April with full compliance required by end of the year. A lot of the fiduciary focus is on ERISA plans and the many of the services provided within the Mandatory Plan such as enrollment and general communication do not fall under the rule. The impact primarily applies to advisors working with participants about moving money out of the plan. Voya will be following the rule and has a best interest contract that will be utilized when the participant is considering moving funds out of the plan. Voya would become a fiduciary for the advice provided to the participant.

Maggie Dehn stated that some of the rule changes are process related: transparency in statements and ensuring a participant understands before recommendations are implemented. TIAA is already putting standards in place and many of the processes will be implemented by April 10th.

Craig Chaikin provided information about the current revenue sharing arrangement utilized to cover administration expenses for Voya and TIAA and alternative options that could be considered for the future including a per participant flat dollar fee, a per participant basis points fee or a combination.

Nicolette Dixon stated that for funds owned individually that are annuity contracts and funds in legacy account, there would be greater complexity as a flat dollar fee cannot be charged to individual contracts.

Several Committee members asked questions regarding the possibility of a per participant fee for the Mandatory program and both TIAA and Voya representatives commented about the transparency of the fee to participants and the flexibility of such fees. Amy Goodale commented that Voya does have the product flexibility to assess a per participant charge as well as other fee structures. It was noted that by instituting a per participant charge, participants with lower average account balances trying to save for retirement are penalized by paying more in fees in proportion to their retirement savings. In addition, it was noted that instituting a per participant charge could ultimately impact the overall servicing structure of the plans.

Amy Goodale and Nicolette Dixon noted that most participants do not currently understand what and how they are paying fees for the retirement plan, and there is a need to educate participants using various communication strategies. President Garrett suggested that if a change is made, providing comparative information to show the total fees paid for the past 2-3 years and what will be paid going forward might help participants understand that fees for administration are not new but that the method of charging fees is being changed. All commenters on this topic agreed that communication was a key component, if the Board changes how the retirement plan participants pay administrative fees.

Craig Chaikin recommended the following: Continue focusing on fiduciary processes; conduct an RFI in order to obtain information; and determine if the Board should make changes in the servicing fee structure at a later date, after more information is available. An RFI would not result in the award of a contract but would provide the RPC additional data on the appropriate servicing model and associated fees.

Regent Bangerter also requested that the RFI process include analyzing the pros and cons of using a single record keeper.

Theresa Schwartz asked about the timeframe to prepare and disseminate the RFI and to receive responses. Craig Chaikin stated that it could take 1 to 2 months to write and publish the RFI and they would normally provide five weeks for responses to be received and then an additional six weeks to consolidate the responses.

Regent Bangerter moved that Craig Chaikin proceed with developing and drafting an RFI to gather information about fees, services and recordkeeping and that Board staff and RPC subcommittee work with Craig Chaikin to finalize the RFI and publish it. The motion was seconded by Mike Barnett and passed with one member, Gary Leitnaker, voting no.

Next RPC meeting:
The next regular RPC meeting is *tentatively* scheduled for 12:30 p.m. on Tuesday, September 19, 2017, in the Board Room.