2022 Retirement Plan Enhancements

University of Nebraska System

February 23, 2022

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Why the change?

- Provide a lower cost retirement plan for University employees and retirees.
- Provide straightforward, diversified, and efficient investment options for plan participants.
- Provide additional investment options for advanced investors who want to further customize their portfolios.
- Overall, offer a best-in-class retirement plan for our employees and retirees.

What is staying the same?

- There will be ***no changes*** to the 401a basic retirement contribution rates and funds will ***remain 100% vested right away***.
- Further, you may remain invested with ***Fidelity and/or TIAA*** going forward.

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What is changing?

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- Recordkeeping fees will transition to a simple and more transparent ***fixed $/head*** pricing structure.
- The core investment options will be transitioned to a ***streamlined menu*** with low-cost and diversified investment options.
- A brokerage window will be added at TIAA and Fidelity that allows access to thousands of off-menu funds.
- The effective date of these changes is anticipated to be November 1, 2022.

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Why is the retirement plan changing?

- With the help of an ***external consultant***, an ***internal committee of benefits and finance experts,*** and ***extensive benchmarking***, the University has discovered ***~$11M/year*** in aggregate employee/retiree cost savings through the redesign of Nebraska's retirement plan.
  – While the specific plan member savings will vary with account balances and investment allocation, these changes will results in an average savings of $465 per year.
- To achieve these cost savings, we will ***streamline the investment menu*** to lowest-cost, best-in-class investment options.
  – This simpler menu will further help employees and retirees avoid unnecessary confusion and more easily arrive at an appropriate asset allocation.
- Further, the committee performed a ***competitive recordkeeping bid and negotiations***.
  – The new recordkeeping fee structure will be more transparent and equitable.

Who was on the internal committee?

- Doug Ewald, Exec Associate Athletic Director, UNL (also served as UNMC/UNO rep)
- Brian Baugh, Assistant Professor of Finance, UNL
- Ron Yoder, Sr Associate Vice Chancellor, IANR
- Sarah Borchers, Assistant Professor of Accounting, UNK
- Brian Payne, Associate Professor of Finance, UNO
- Nicholas Stark, Director Investment Strategies
- Bruce Currin, Associate VP for HR
- Brian Schlichting, Asst VP/Director of Benefits
- Chris Kabourek, Senior VP/Chief Financial Officer

The committee was assisted by CapTrust, an external 3rd party consultant.

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Where will this $11M/year of savings go?

- ***Plan participants (employees + retirees)*** receive 100% of the benefits of the cost savings
  - The University receives nothing.
- That's ***$110M/decade*** in added aggregate wealth for Nebraska employees!

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Is the updated plan design anomalous?

- There has been a recent trend of modernizing of retirement plans across the country:
  - Lower and more transparent fee structures
  - Streamlining the menu to make prudent investing simpler
- Nebraska's retirement plan changes are similar to recent changes made by the following universities:
  - Harvard
  - Stanford
  - Carnegie Mellon
  - Yale
  - Delaware
  - And many more….

What is the fee structure of the new plan?

- Nebraska is transitioning to a simple and transparent fixed $/head recordkeeping fee, regardless how many accounts an individual has (e.g. 401a, 403b, 457):
  - ***Fidelity*** will charge ***$29/year***.
  - ***TIAA*** will charge ***$38/year***.
  - If you have investment balances with ***both TIAA and Fidelity***, you will be charged ***$67/year*** ($29+$38).

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What if I don't want to double pay for recordkeeping fees?

- To avoid paying double for recordkeeping fees, it would make sense to migrate investments to a single vendor (either TIAA ***or*** Fidelity) going forward.
  - To change the designation of future ***contributions***, please contact your campus benefits office.
  - Transferring existing ***assets*** to Fidelity or TIAA is simple:
    - To transfer ***assets*** to Fidelity:
      - Contact Fidelity at 800-343-0860
    - To transfer ***assets*** to TIAA:
      - Contact TIAA at 800-842-2252

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Why is there a new recordkeeping fee?

- The existing plan design collected fees exclusively through the fees ("expense ratios") of the underlying investments.
  - For example, the existing Target Date Funds at Fidelity and TIAA charge around 0.50% per year in fees.
- The new plan will charge a modest fixed $/head recordkeeping fee and lowest-in-class investment fees.
- As shown below, the cost savings of the new plan can be substantial for the average plan participant.

Balance	Old Fee Structure (e.g. 0.5%)	New Fee Structure			Annual Cost Savings of New Plan
		Record-keeping ($29)	Fund Fee (0.045%)	Total Fees	
$10,000	$50	$29	$5	$34	$17
$100,000	$500	$29	$45	$74	$426
$1,000,000	$5,000	$29	$450	$479	$4,521

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What does the recordkeeping fee pay for?

- The $29 (Fidelity) or $38 (TIAA) annual fee pays for:
  - On-campus retirement reps from TIAA/Fidelity
  - Core Administrative Services:
    - Enrollments
    - Distributions
    - Investments (buy/sell, custody)
    - Websites and participant portals
    - Phone support
    - Investment advice and education
    - Statements and tax documents

What will the streamlined menu look like?

- There will be a harmonized menu at Fidelity & TIAA:
  - **Vanguard Target Retirement Date Funds**
  - **Vanguard Total U.S. Stock Market Index Fund**
  - **Vanguard Total International Stock Market Index Fund**
  - **Vanguard Total U.S. Bond Market Index Fund**
  - **Vanguard Federal Money Market Fund**
  - A **brokerage account** for access to ***thousands*** of off-menu funds.
    - ***Including any mutual fund you currently are invested in!***

- At TIAA only:
  - **TIAA Traditional Annuity**

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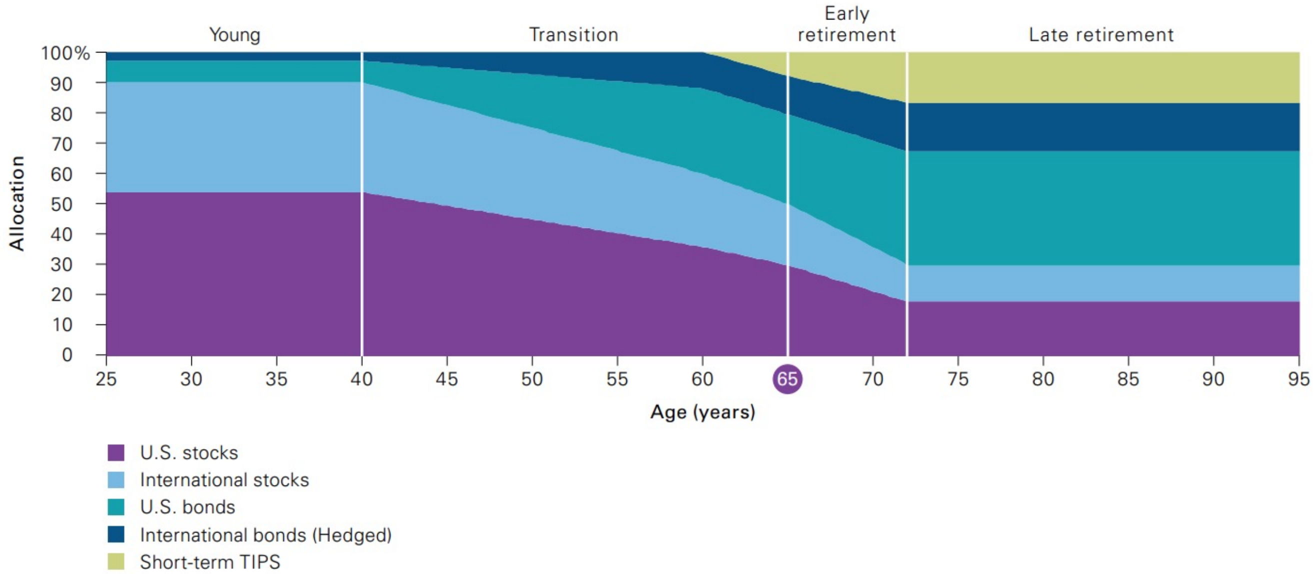
How do Vanguard's Target Date Funds invest?



- Select the fund that aligns with the year in which you turn 65
- They adjust your risk exposure automatically over time as you approach retirement.

Why are there so few funds on the new menu?

Each of the included funds on the menu was selected to offer low-cost investments and broad diversification:

- **Vanguard Target Date Funds** (0.045% fee)
  - Holds >10,000 stocks (U.S. + Int'l) and >15,000 bonds (U.S. + Int'l).
- **Vanguard Total U.S. Stock Market Index Fund**
  - Holds >4,000 U.S. stocks.
- **Vanguard Total International Stock Market Index Fund**
  - Holds >7,750 international stocks
- **Vanguard Total U.S. Bond Market Index Fund**
  - Holds >10,000 U.S. bonds.

The selection of these funds in the University's investment menu has been recommended by the internal committee. University leadership, an external third-party consultant, and finance faculty across the three Nebraska campuses have expressed support for these investment funds.

What are the core menu's fund fees?

Fund	Investment Fees	
	CIT (401a & 457)	Mutual Fund (403b)
Vanguard Target Retirement Funds	0.045%	0.080%
Vanguard Total Stock Index	0.014%	0.02% - 0.03%
Vanguard Total International Index	0.059%	0.07% - 0.08%
Vanguard Total Bond Index	0.024%	0.03% - 0.035%

- The fees in the 401a and 457 have already been negotiated with Vanguard.
- The fund fees in the 403b have a small range of possible outcomes. If we reach >$100M of assets in a given fund, we will be charged the lower fee. Otherwise, with < $100M of assets in a given fund, we will be charged the slightly higher fee.
  - The amount of assets in each fund will be determined after the transition to the new plan.

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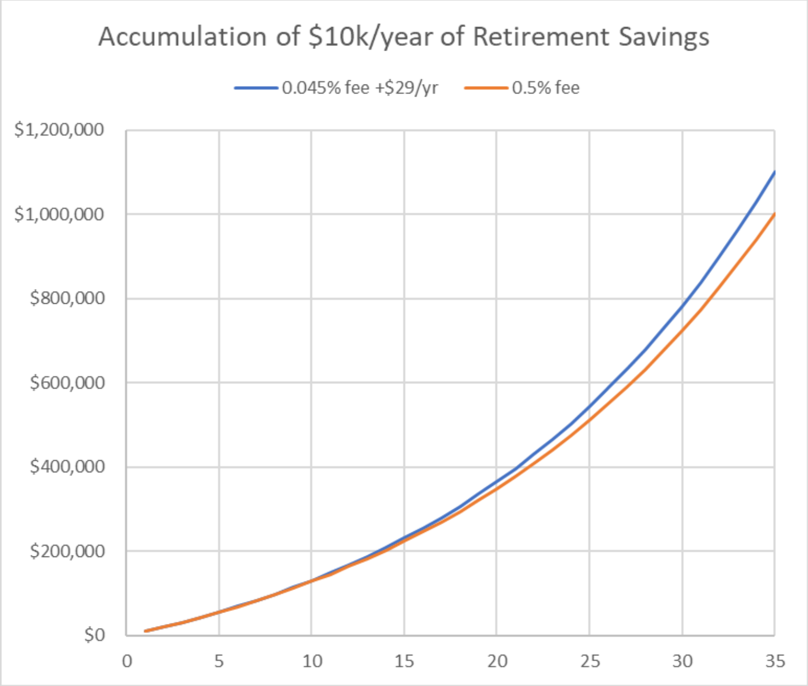
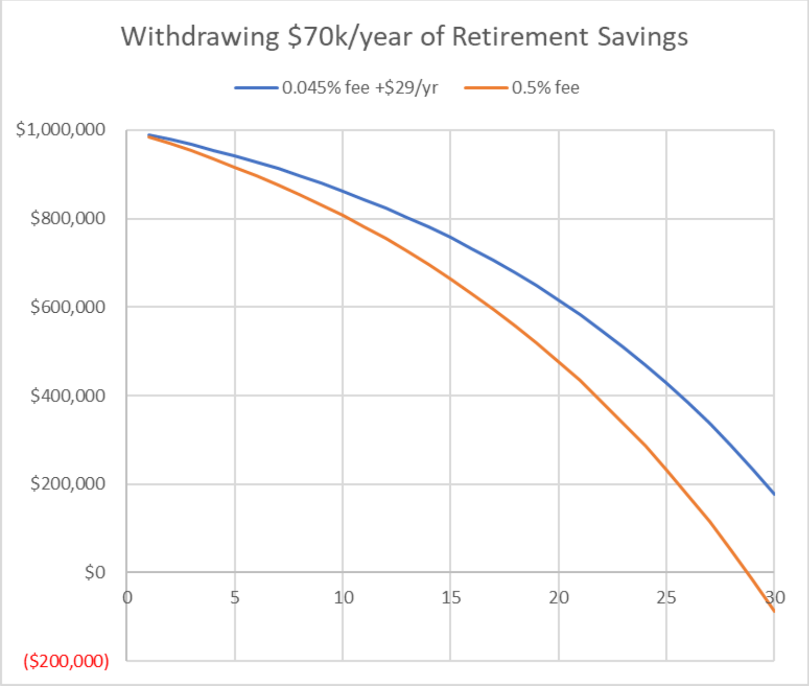
An illustration of 0.45%/year cost savings





- Assumes 6% gross return, $10k/year of contributions, $70k/year of withdrawals

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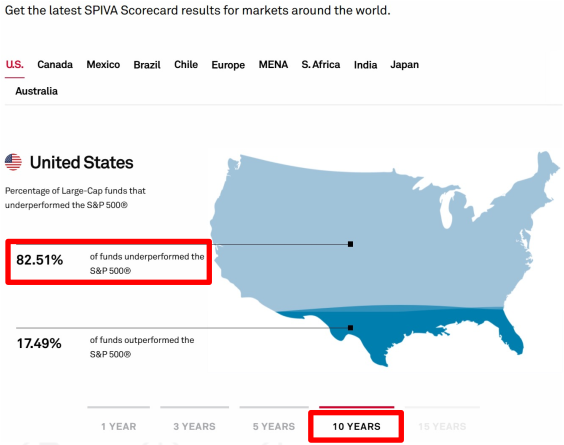
Why index funds?

- They offer broad diversification
- Due to their low costs, they offer higher ***average*** returns than actively managed funds



Presidential Address: The Cost of Active Investing

KENNETH R. FRENCH*

ABSTRACT

I compare the fees, expenses, and trading costs society pays to invest in the U.S. stock market with an estimate of what would be paid if everyone invested passively. Averaging over 1980–2006, I find investors spend 0.67% of the aggregate value of the market each year searching for superior returns. Society's capitalized cost of price discovery is at least 10% of the current market cap. Under reasonable assumptions, the typical investor would increase his average annual return by 67 basis points over the 1980–2006 period if he switched to a passive market portfolio.

https://www.spglobal.com/spdji/en/research-insights/spiva/

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Why index funds?

Warren Buffet's 2013 letter to shareholders:

I have good news for these non-professionals: The typical investor doesn't need this skill. In aggregate, American business has done wonderfully over time and will continue to do so (though, most assuredly, in unpredictable fits and starts). In the 20th Century, the Dow Jones Industrials index advanced from 66 to 11,497, paying a rising stream of dividends to boot. The 21st Century will witness further gains, almost certain to be substantial. ***The goal of the non-professional should not be to pick winners – neither he nor his "helpers" can do that – but should rather be to own a cross-section of businesses that in aggregate are bound to do well. A low-cost S&P 500 index fund will achieve this goal***.

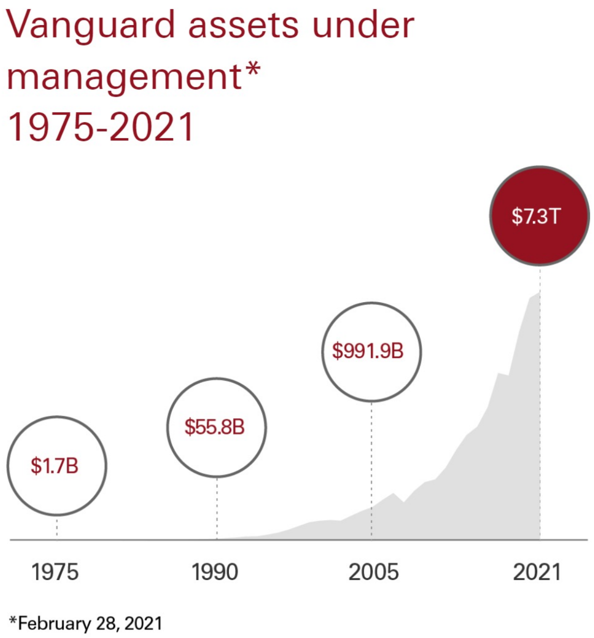
That's the "what" of investing for the non-professional. The "when" is also important. The main danger is that the timid or beginning investor will enter the market at a time of extreme exuberance and then become disillusioned when paper losses occur... The antidote to that kind of mistiming is for an investor to accumulate shares over a long period and never to sell when the news is bad and stocks are well off their highs. Following those rules, the "know-nothing" investor who both diversifies and ***keeps his costs minimal*** is virtually certain to get satisfactory results. Indeed, the unsophisticated investor who is realistic about his shortcomings is likely to obtain better longterm results than the knowledgeable professional who is blind to even a single weakness.

Nevertheless, both individuals and institutions will constantly be urged to be active by those who profit from giving advice or effecting transactions. The ***resulting frictional costs can be huge and, for investors in aggregate, devoid of benefit***. So ignore the chatter, ***keep your costs minimal, and invest in stocks*** as you would in a farm.

My money, I should add, is where my mouth is: What I advise here is essentially identical to certain instructions I've laid out in my will. One bequest provides that cash will be delivered to a trustee for my wife's benefit... My advice to the trustee could not be more simple: Put 10% of the cash in short-term government bonds and ***90% in a very low-cost S&P 500 index fund. (I suggest Vanguard's.) I believe the trust's long-term results from this policy will be superior to those attained by most investors – whether pension funds, institutions or individuals – who employ high-fee managers***.

Why Vanguard funds?

- Best-in-class asset management
- Lowest-in-class costs



What is mapping? What will be mapped?

- "Mapping" is the process by which ***existing assets*** and ***contributions*** are migrated to the new menu.
- Why are my existing balances being "mapped"?
  - To make it easier for plan participants to transition to the new low-cost menu.
- What is the proposed mapping process?
  - On November 1, 2022, all ***future contributions*** will be automatically changed to the age-appropriate Vanguard Target Date Fund.
  - On November 1, 2022, all ***existing assets that are "mappable"*** will be automatically changed to the age-appropriate Vanguard Target Date Fund.
  - Employees will have a 2-month window from Sept-Oct of 2022 to opt out of the above changes!!!!!
- Which existing assets are ***NOT*** mappable?
  - Assets held in a Fidelity 403b.
  - Any TIAA/CREF annuity or variable annuity.

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What if I don't want to invest in Vanguard's Target Retirement Funds?

- There will be a transition window in September & October of 2022 during which you may change your allocation of existing ***<u>assets</u>*** and future ***<u>contributions</u>*** to:
  - Any of the ***investment choices on the new menu***, or
  - Any of the ***thousands of mutual funds available in the brokerage window, <u>including any mutual fund you currently are invested in</u>***.

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What about existing TIAA/CREF variable annuity balances?

- Existing ***balances*** in TIAA/CREF annuities (including variable annuities) will ***remain unaffected***:
  - CREF Bond Market
  - CREF Equity Index
  - CREF Global Equities
  - CREF Growth
  - CREF Inflation-Linked Bond
  - CREF Money Market
  - CREF Social Choice
  - CREF Stock
  - TIAA Real Estate
  - TIAA Traditional

- Fidelity 403(b) mutual funds are not available for “mapping” and will remain invested in the current mutual funds. You may move these investments to the new 403(b) mutual fund account or maintain your balances in the “old” 403(b) mutual fund accounts. All future Fidelity 403(b) contributions will go into a “new” mutual fund account with the new investment menu and brokerage account options.
- You can continue to move existing assets among these accounts.
- If you wish to migrate these positions to the new low-cost menu, you must ***manually*** move these assets to the new menu. Detailed instructions on how to do so will follow in August 2022.

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What about future TIAA/CREF variable annuity contributions?

- TIAA/CREF variable annuities ***will no longer be offered for new contributions*** going forward.
- The TIAA Traditional annuity is the only annuity product offered for new money going forward.
  - After extensive deliberation, the investment committee came to the conclusion that the ***fees of TIAA/CREF variable annuity products were prohibitively high*** to justify the continued inclusion on the menu for new contributions.

What changes are being made to the TIAA Traditional annuity?

- ***Existing*** TIAA Traditional Annuity
  - 9 year withdrawal period
  - 3% minimum crediting rate guarantee
  - Current crediting rate is 3.25%

- ***New*** TIAA Traditional Annuity
  - 7 year withdrawal period
  - 1% minimum crediting rate guarantee
  - Current crediting rate is 3.50%

- Lifetime income options remain available on both the existing and new TIAA Traditional annuity contracts

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Comparison of Recent TIAA Traditional Results Avg. Annualized Total Returns

- ***Existing*** TIAA Traditional Annuity
  - 1 year +3.34%
  - 3 year +3.62%
  - 5 year +3.70%
  - 10 year +3.88%

- ***New*** TIAA Traditional Annuity
  - 1 year +3.55%
  - 3 year +3.85%
  - 5 year +3.95%
  - 10 year +4.17%

Note, the new TIAA Traditional Annuity is only available for new contributions starting in the Fall of 2022. Previous contributions will stay with the existing TIAA Traditional fund.

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When will these changes occur?

- **February –** Retirement plan participants informed of the upcoming changes and provide the opportunity for feedback.
- **March to July –** Work on the implementation of the changes to the retirement plan.
- **August –** Communication to retirement plan participants, with the detailed timeline for participants to make changes to their default elections and the opportunity to meet with retirement plan advisors at TIAA and Fidelity.
- **September & October –** Opportunity for participants to make changes to their default elections.
- **November –** Go-live with the new retirement plan recordkeeping and investment options.

What about retirees or separated employees?

- Unless you intervene, ***existing TIAA/CREF (variable) annuity balances*** will remain unaffected.
- Unless you intervene, ***all non-annuity assets*** will map to the low-cost age-appropriate Vanguard Target Date Funds (0.045% in fees).
- The economies of scale achieved from the Nebraska Retirement Plan result in lower fees than could be achieved outside of the plan.
  - Further, retirees in the plan benefit from the continued monitoring and oversight of plan investments.

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What if I have more questions?

- For questions or feedback, please email benefits@nebraska.edu.
- We request your feedback on the new plan design by March 31st.