MSU Retirement Plans - Redesign Summary

Background:
- The Internal Revenue Service issued new Regulations relating to Section 403(b) plans and was the most far-reaching changes to the regulations since 1964.
- As stated in the preamble to the new Regulations, one goal is to impose significant 403(b) plan oversight responsibility on the employer sponsor, similar to private sector 401(k) plans.
- MSU, as a public body, is not subject to Title I of the Employee Retirement Income Security Act (ERISA) and thus not subject to some of these additional responsibilities.
- However, outside legal counsel has advised MSU to follow ERISA as a best practices model.
- Consequently, a consultant was hired to assist MSU in a comprehensive review of our retirement vendors and investments. This review focused on the following:
  - Protecting the University by decreasing the number of current investment choices in accordance with the ERISA best practice of fiduciary oversight.
  - Reducing the total investment expense for employees (a combination of both the investment management fee and the administrative cost).
  - Providing to employees a smaller group of “best-in-breed” fund choices for better long-term performance.
  - Offering access to unbiased retirement education and advice.

Comprehensive Review:
- During the review process, we found the following:
  - There are over 550 investments from the 6 retirement vendors.
  - 2 investments (TIAA Traditional Annuity and CREF Stock Fund) have about 63% of all the Retirement Plans (the MSU 403(b) and 457(b) Plans) assets.
  - About 90% of all the Retirement Plans assets are in only 28 investment choices.
  - Over 93% of all the Retirement Plans assets are with two vendors (Fidelity & TIAA-CREF).
  - Over 87% of the contributions made in 2009 were made to Fidelity & TIAA-CREF.
  - The average 401(k) plan provides 18 investment choices.
  - The average MSU participant has about 5 investment choices in their account (TIAA-CREF = 5.4, Fidelity = 4.3, Vanguard =3.0).
  - Some MSU faculty, staff and retirees are paying an average total investment expense as high as 2.23% (AXA Equitable) and 1.74% (VALIC).
  - Individual annuity contracts/custodial agreements and retail investment products traditionally offered in higher education 403(b) plans are administratively more expensive than group annuity contracts/custodial agreements and institutional investment products.
  - Other universities have already reduced the number of vendors and investments for their faculty and staff (Purdue, North Carolina, Stanford) and many are in the review process.
  - The MSU Retirement Investment Advisory Service (StraightLine) has been on campus since August of 2008, yet many faculty and staff are not familiar with their independent education and advice.
Recommended Changes:

- Based on the comprehensive review findings and best practices, our consultant recommended that MSU implement the following changes to the 403(b) Retirement Plan and the 457(b) Deferred Compensation Plan for future contributions only effective December 1, 2011:
  - Reduce the number of retirement vendors from six down to two with Fidelity and TIAA-CREF remaining.
  - Reduce the current 550 investment choices to a tiered core investment menu of 20 investment choices, including Target Date Retirement funds, Index funds, and Professionally Managed funds.
  - Move to group annuity contracts/custodial agreements and institutional investments to lower administrative expenses, provide better service and offer better performance.
  - Include a Self Directed Brokerage Account that would offer over 4,500 additional mutual funds. Additional fees to employees could apply.
  - Retirees would not be affected. However, they could transfer their balances to the new investments.
  - StraightLine (MSU’s Retirement Investment Advisory Service) would continue to be available to assist faculty, staff, and retirees on choosing the right investment mix for their individual goals.

Impact on Faculty and Staff:

- Approximately 13% of all the MSU Retirement Plans contributions in 2009 were made to the four vendors (AXA Equitable, Lord Abbett, VALIC, and Vanguard) that were not recommended to remain. About 1,500 individuals would be directly affected and would need to pick either Fidelity or TIAA-CREF for future contributions. For those that did not actively pick one of the two approved vendors, an account would be opened with Fidelity and their contributions would automatically be directed to an age-appropriate Target Date Retirement fund.
- Those individuals who are already with Fidelity and TIAA-CREF could review their investment choices to match them with the new core menu for future contributions. If individuals did not adjust their investments for future contributions, those contributions going to unapproved investment choices would automatically be directed to an age-appropriate Target Date Retirement fund.
- Over 90% of employees currently contributing would save on administrative expenses and investment fees with the changes. Those currently contributing with AXA Equitable, Lord Abbett, and VALIC would likely have average annual savings from $225 to $750, while those with Fidelity and TIAA-CREF would likely save about $20.
- Less than 10% of all employees are currently with Vanguard and would possibly see an increase of about $250 annually on average. However, the fee increase could be minimal for some because the new core investment menu would include some Vanguard investments at lower investment expenses as compared to the current Vanguard investment choices.
- The core investment funds would be monitored quarterly by our consultant for performance, fees, appropriateness, and other criteria. The goal is to provide employees with access to the best (top quartile) fund choices available for better long-term investment performance at a lower cost.

Next Steps:

- Human Resources will work with the University Committee on Faculty Affairs, the Coalition of Labor Organizations, the Union of Nontenure-track Faculty, the MSU Retirees Association, and other key constituents this winter and spring to continue discussions on the recommended changes and provide an opportunity for feedback.
- Formal communications are planned for the fall of 2011, including numerous educational group seminars and individual counseling sessions that would be available for faculty, staff, and retirees to learn about the changes.
- The changes would only affect future contributions made on or after December 1, 2011. All previous account balances, vendors and investments would not be affected.