UofA
UNIVERSITY OF ARKANSAS

Employee Benefits and Risk Management

University Retirement Plan Changes and Reminders

In recent years, several improvements have been made in the University Retirement Plan. Changes have included the establishment of a System-wide Retirement Committee, the selection of a Plan consultant, establishment of a required employee contribution schedule, simplification of the vesting schedule, periodic lowering of fund expense ratios, creation of a new core fund lineup, fund mapping, and brokerage windows.

With every change the University has focused on improved Plan efficiency, reduced costs and improved retirement outcomes for participants, compliance, and industry best practices. In implementing the Plan upgrades described below, the University Retirement Plan will have reached major design goals and will represent one of the most progressive and efficient plans available in higher education.

What's NOT Changing?

There are no changes in the vesting schedule, employer basic contributions and maximum employer matching contributions, your voluntary contribution options, your ability to select and manage your investment fund choices, or in the Plan recordkeeper/vendors.

What IS Changing?

- In April, some funds will move to further lower plan expense ratios.
- The University will implement a new fee structure for participants.
- In July, the final 1% increase to 5% required employee contributions will occur.
- And, in support of reduced participant fees, inactive small-balance accounts of former employees will be moved from the Plan.

More information on these changes is provided below.

What do I need to do?

Nothing. All upcoming changes will be managed through TIAA and Fidelity, your campus HR Office, and the UA System Office. No action is required on your part.

Fund Changes

As in the past, in April some fund options will be closed and replaced by lower-cost funds, either a different share class of the same fund or in some cases replaced by different funds. You will receive detailed notification from TIAA and Fidelity for all fund changes applicable to your accounts. And as in the past, you will have opportunity to direct your balances into different fund options before or at any time after the scheduled transfer. Examples of fund changes include CREF Money Market replaced by Vanguard Money Market and JP Morgan Value Advantage Fund replaced by JP Morgan Equity Income Fund.

Recordkeeping Fees

Across all upcoming actions the most noticeable for employees is a move to a new recordkeeping fee structure which will apply a uniform per-participant annual fee to all Plan participants. Recordkeeping fees pay Fidelity and TIAA for their administration of the plan including maintaining the website and call centers, quarterly and annual reporting mailed to all members, managing loans and distributions, one-on-one counseling services and similar administrative functions.

Currently TIAA and Fidelity cover their recordkeeping expenses through revenue credits generated on some, but not all, investment selections. Revenue credits are paid to TIAA and Fidelity by various investment funds such as JP Morgan, Blackrock, MassMutual, or TIAA Annuities when those funds are included in the TIAA and Fidelity investment options lineups. These fees are built into the operating expenses of the funds and while they are not prominently disclosed and not often discussed, they do have a cost to participants in the form of reduced investment earnings. Participants with accounts at TIAA and at Fidelity are subject to these expenses with both recordkeepers.

Much differently than the revenue credit process, in a transparent, straightforward, and equitable manner, the new uniform per-participant fee will be charged quarterly to your retirement account. Regardless of account balance and investment selections, the fee will be $35 per year for participants with TIAA (charged at $8.75 per quarter) and $44 per year (charged at $11 per quarter) for participants with Fidelity. The difference in pricing for TIAA and Fidelity is driven primarily by participant counts and account volumes. **Please Notice**- Just as in the current structure, participants with accounts at TIAA and at Fidelity will pay the new fixed annual recordkeeping fee to each.

Why change the existing fee structure?

It isn't sustainable.

Several of the most popular investment options generate no revenue credits. Target date funds are popular, and participants increasingly select those fund options. Brokerage accounts also generate no revenue credits. Today about 40% of all participants are enrolled at some level in target date funds that generate no revenue credit. A participant with 100% of investments in target date funds or in brokerage contributes nothing toward plan recordkeeping fees. With the popularity of these and other funds that generate no revenue credits, projections indicate that by mid-2022 revenue credits at Fidelity will not cover the recordkeeping expenses.

It isn't equitable for members.

All members have access to the same services and receive the same level of recordkeeping support from TIAA and Fidelity. At the same time, based upon the investments chosen and their account balances, expenses paid by participants vary widely. As an example, a participant with $100,000 in brokerage or in target date funds is paying $0 in recordkeeping fees while a participant with that same $100,000 balance in annuity funds could be paying $150 or more per year. Within TIAA alone, 38% of participants pay $0 per year, 50% pay between $1 and $200 and 12% pay over $200 with some of those paying over $1,000 per year in recordkeeping fees.

In terms of the new $35 TIAA fee, those participants currently paying more than $35 in annual revenue credit expenses are paying some of the recordkeeping fees for the participants paying less than $35 and all recordkeeping fees for those currently paying $0.

Inequities also exist in the current distribution of excess revenue credits. In the current structure when revenue credits received are greater than administrative costs, that excess is available to the plan administrator to pay other plan expenses or distribute back to participants. Participants with the University Plan have received three separate distributions since TIAA, and Fidelity began sharing the excess credits. However, with participants entering and leaving the plan and with movement of balances between fund options, distributing the excess only to participants who generated those credits has not been possible. With the new structure, when revenue credits exceed the new required fixed fees the excess will be returned to the participant accounts that generate those excess credits. A Fidelity participant whose account currently generates $150 in revenue credits will see a net credit of $106 ($150 in revenue credits less the $44 fixed fee). And a participant with excess revenue credits at both TIAA and Fidelity will see a net credit with each.

Clearly, with the transition to the new fee structure some participants will pay more than they are paying today, and some will pay less. But on an ongoing basis the uniform per-participant fee structure will be more equitable for all. And rather than closing or limiting access to funds that don't generate revenue credits, the new fixed rate fee structure will allow participants to continue to have the option to select among the investment lineups.

<u>When will the new fee structure begin?</u>
Application of the new fee structure is scheduled to begin on July 1st with fees clearly displayed on the quarterly participant statements distributed in October.

Required Contribution Increase

Due to the many disruptions associated with the COVID pandemic, the July 2020 scheduled increase in required employee contributions was delayed. In July 2021 that final step will be completed with the minimum required employee contribution increasing from the current 4% to 5%. The transition to uniform required contributions began in 2016 with a 1% required employee contribution. With this last required increase all participants will receive total contributions of at least 10% (5% employee and 5% employer) into their retirement account.

Other than for those contributing at 4% only, the required increase will not change the total employee contribution. An employee contributing a total of 7% (4% required and 3% voluntary) will be adjusted to 5% required and 2% voluntary.

There is no change in the <u>employer</u> base or matching contribution formula.

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Closing the Inactive Small Balance Accounts of Former Employees

Within the University Plan there are several thousand inactive, small-balance accounts belonging to former employees. Most belong to individuals who worked a very short time with the University and never withdrew the small balance accrued to their retirement account. There are also former employees who, due to the timing of a final contribution or application of interest earnings, did not withdraw 100% of their account balances. Many of these accounts hold less than $50. Because TIAA and Fidelity are required to provide recordkeeping services for all accounts regardless of balance, the program to remove these small balances will reduce their expenses and thereby reduce the recordkeeping fees to active participants to the new levels as outlined above.

With the program, all former employees with account balances of less than $5,000 will be given an opportunity to take a distribution. If the participant does not elect a distribution, their vested account will be transferred from the Plan to an IRA in the name of the participant.

Inactive accounts of $5,000 and more are not included in this program. Accounts of any size belonging to current employees are not included. And accounts of former employees having distributions or other active use within the last 12 months are not included.

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