CMU Retirement Committee Meeting Minutes, October 22, 2018

Committee Members Present:

Meghan Bissonnette | Laura Glatt
Jeffrey Doyle | Jill Knuckles

Committee Members Absent:

Jared Workman
Tom Benton

Others Present:

Kevin Price, Insight Financial Solutions
Jason Stanfield, Insight Financial Solutions

The meeting convened at 9 am.

Approve Minutes

Approval of the 7/19/18, 7/24/18 and 8/30/18 minutes were delayed until the next meeting due to lack of members present.

Fund Mapping

The committee discussed the pros/cons of mapping assets from the old plan to the new plan either as a like-to-like asset class transfer or to move the funds to a target date fund. Kevin said that in more traditional plans moving like-to-like is a more common approach; however, given the number of funds within each current asset class this approach becomes more difficult at CMU. Also, he noted that based on the one-to-one meetings held to date with participants it is clear that it is a good time for participants to revisit their allocations. Given some have not rebalanced their portfolios for some time now they can unknowingly be exposed to more risk than they care to be. In response to a question, Kevin said that moving to a target date fund would likely be a reduction in risk for many participants due to lack of rebalancing. Furthermore, for those participants who want to park their funds somewhere and not be bothered with managing them overtime, target date funds are a better solution.
It was noted that regardless of which approach CMU selects, employees will have an advance window to make another selection, but if they opt not to, the funds would automatically roll to the target date funds. Participants will have an opportunity thereafter to reallocate the funds should they want to.

Kevin said they have been advising TIAA participants that if they want to move their TIAA funds, excluding the TIAA Traditional fund, to TIAA's mutual funds they will automatically roll over to the new lineup, without additional steps on behalf of the participant.

<u>It was unanimously endorsed by the committee to map old plan assets to the new target dates funds as part of the transition.</u>

Standard vs. Enhanced Brokerage Window

Chris McClure from TIAA joined the meeting via WebEx to present a demonstration of the standard and enhanced brokerage window options.

Kevin led off the presentation by pointing out that under current federal law, only mutual funds can be offered in a brokerage window in the 403b.

The table below summarizes the differences.

	Standard	**Enhanced**
	All asset classes available, including stocks, ETFs, options, mutual funds, etc.	Only mutual funds available to participants
	Must move money to a money market (can be set up electronically), and then transact in a separate brokerage window	Can transact in single window—plan and brokerage activities; money moves seamlessly
Required		403b required
Available	401a	401a

- If use enhanced for the 403b plan, as required by law (403b funds can only be invested in mutual funds through a brokerage window), and use the standard window for the 401a, a participant who accesses a brokerage account in both plans will have a different user experience. Meghan noted that based on the demo both models are similar to other brokerage windows she has seen and used. Even though the standard window isn't as seamless, committee members believe that the sophisticated participants who want to use the brokerage window(s) will learn and understand them.
- Enhanced: integration between plan and brokerage window is seamless. Can transact all in one place.
- In either window there are over 7000 mutual funds available, 60% of which require a transaction fee of $35, which applies to one off purchases and sales. The fee is not assessed for adding additional salary dollars to the fund. The remaining 40% of the funds have no transaction fees. In response to a question, Chris said participants are told at least 2x there is a fee assessed before completing the transaction. It was noted that in one transaction, a participant could get hit with both a sell & buy fee (sell fidelity→buy vanguard) for a total of $70.00 in fees.

ETFs, individual stock assess a $7.95/trade fee on web trades. If call a TIAA consultant to make the trade, the fee is $55.00/trade. Chris said the participant can call TIAA and get guidance/walk through, but complete the trade on-line and pay $7.95.

- It was noted that given all the options available in the window, the participant could inadvertently choose the wrong share class and, as a result, pay higher fees. Chris noted that TIAA makes many research tools available on-line for participants in an attempt to minimize the risk.
- There is no added or differential cost to CMU or the participant for either the standard or enhanced window. TIAA had earlier agreed to waive the $50 participant fee for brokerage window access.

- In response to a question, Kevin said TIAA will auto open the new plan accounts for current participants, so participant would only have to modify for the brokerage window option.
- Kevin noted the restrictions on plan participant assets which may be moved to the brokerage window (limited to 33% of 401a fund and 95% of 403b plan assets). He said these limits are applied to the current account balance at any one-time. Thus, if a participant had a $100k account balance and moves 33% to brokerage window that leaves a new account balance of $67k. If the brokerage account performs poorly the participant could come back in and move additional funds of the remaining $67k and so on. There does not appear to be a way to restrict this from happening.

Chris said that the vast majority of TIAA clients only offer their participants mutual funds through the brokerage window. He added that sometimes stocks and ETFs will be offered—more ETFs than equities--- and they are offering the enhanced experience.

In order to stay true to CMU's original commitment to participants that they would have access to all types of investments through the brokerage window<u>, the committee unanimously endorsed offering the standard window in both the 401a and 403b plans, but limited the 403b investments to mutual funds only. Further, the committee supported adding restrictions on type of investments available in the 401a to exclude margins; covered calls; nothing priced under a $1; and it must have transparency in the market.</u>

Plan Provisions

The Committee discussed plan provisions including loans, hardships and forced distributions. <u>Recommendation for new plan provisions noted in ***bold/italics,*** as unanimously approved by the Committee:</u>

	401a current	**403b current**	**403b student plan current**
Loans	Not allowed ***(new plan-no change)***	Available to active participants only; Max loan—may not exceed lesser of: • $50k, reduced by the greater of (i) the outstanding balance on any loan from the plan to the participant on the date the loan is made or (ii) the highest outstanding balance on loans from the plan to the participant during the one-year period ending on the day before the date the loan is approved by the Administrator (not taking into account any payments made during such one-year period); or	Not allowed ***(new plan-no change)***

		• One-half the value of the participant's vested account balance (as of the valuation date immediately preceding the date on which such loan is approved by the Administrator) ***Same as existing plan provisions noted above; with the addition of limiting active outstanding loans to not more than two. And, if default on a loan, participant cannot borrow again until all outstanding loans are repaid.***	
Hardships	Not allowed ***(new plan-no change)***	Not allowed ***(new plan-no change***	Not allowed ***(new plan-no change***
Forced distributions (options below)	None ***New Plan: cash out if account is <$1,000; $1000-$5,000 rollover to IRA with negative permission (notice given to participant). Any account over $5,000 would stay in the plan.***	None ***New Plan: cash out if account is <$1,000; $1000-$5,000 rollover to IRA with negative permission (notice given to participant). Any account over $5,000 would stay in the plan.***	Current forms of distribution—not forced <=$1,000: paid lump sum >$1,000: lump sum distribution, partial sum distribution, purchase annuity ***New Plan: cash out if account is <$1,000; $1000-$5,000 rollover to IRA with negative permission (notice given to participant). Any account over $5,000 would stay in the plan.***

Jill suggested CMU explore allowing payroll deduction for loan repayment. We will need to visit with TIAA about this more.

Kevin said old loans will roll to new plan and will count towards the new loan limits, if two is approved. In response to a question about the consequences of loan default, Kevin said the loan becomes a taxable event. Under new 2018 federal tax law 2018, participant has until tax filing deadline of the following year to repay loan without it being subject to tax and penalty.

IRS defines hardships to include such things as: first time home purchase limited to $10k; death/disability; eviction; unreimbursed medical, college expenses. Hardship withdrawal regardless of reason is subject to tax and penalty. Hence, Kevin said they would much prefer participants take out a loan vs. a hardship withdrawal to avoid tax and penalty. And, in a loan situation the plan administrator does not need to make sometimes subjective decisions about whether the participant meets the "hardship" definition or not.

CMU will need to determine how to coordinate information sharing with PERA on outstanding loans, since PERA will not share this information with vendors.

The committee discussed the merits of a forced distribution under all three plans. It was noted that multiple low balance accounts accumulating overtime could drive up recordkeeper fees. They also increase administrative burden for sending notifications, etc. to participants. Thus, the Committee agreed it made sense to apply forced distribution rules across all three plans for low balance accounts.

Insight On-Campus Meetings

Insight reported they have had a full schedule on on-campus meetings with participants. They agreed to develop a Q&A for distribution, based on the common questions that have come out of those meetings. The Q&A would be made available to all participants.

Given employee interest in one-on-one meetings, Insight will begin holding regular on-campus office hours every Monday afternoon starting November 12th. This will be adjusted, as needed, to address increased or decreased demand.

Insight indicated that they will need supplemental "boots on the ground" support from TIAA during the transition period, but will attempt to keep that to a minimum.

Transition Plan and Meeting

Laura noted the draft TIAA transition plan document sent out earlier via email. She said the plan needs to be reviewed to fit within the academic calendar schedule. All committee members are invited to attend the 10/23/18 2-5 pm kick-off meeting with TIAA.

Meeting adjourned at 11:10 pm