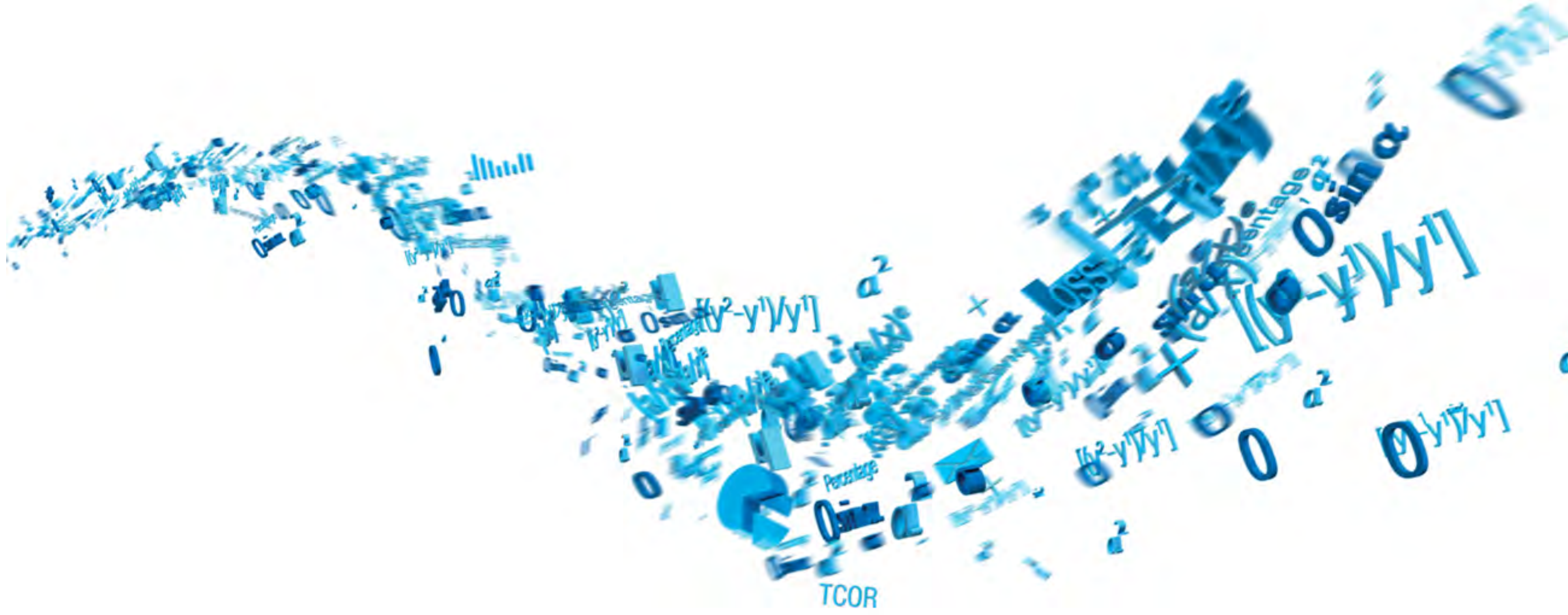

Nevada System of Higher Education

Fourth Quarter 2015 Discussion Guide

March 4, 2016

Aon Hewitt

Retirement and Investment

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Discussion Topics

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200 E. Randolph Street

Suite 1500

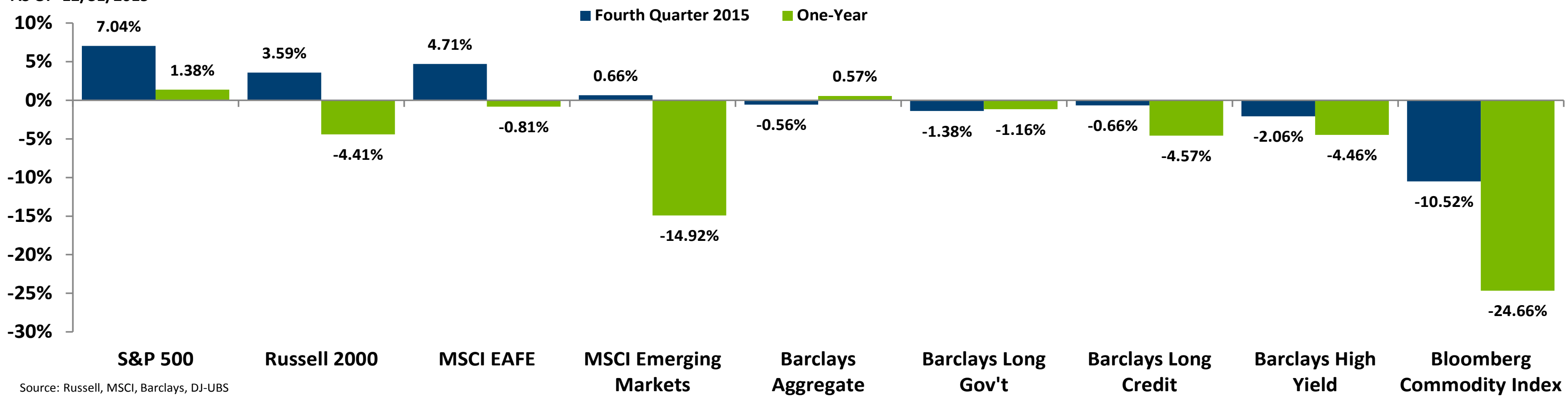
Chicago, IL 60601

ATTN: AHIC Compliance Officer

Agenda Tracker

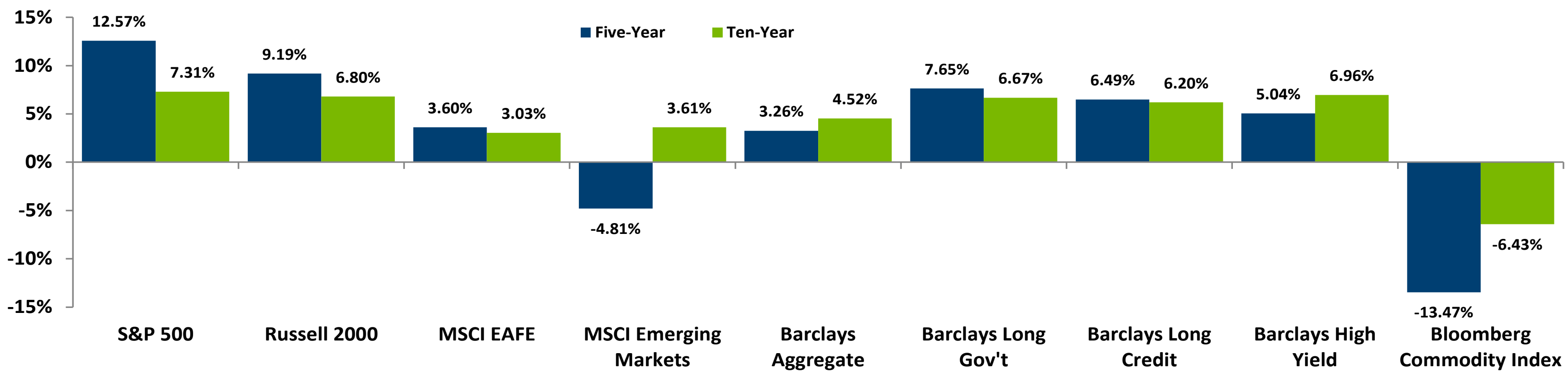
Market Highlights

SHORT TERM RETURNS
AS OF 12/31/2015



Source: Russell, MSCI, Barclays, DJ-UBS

LONG TERM ANNUALIZED RETURNS
AS OF 12/31/2015



Source: Russell, MSCI, Barclays, DJ-UBS

Market Highlights

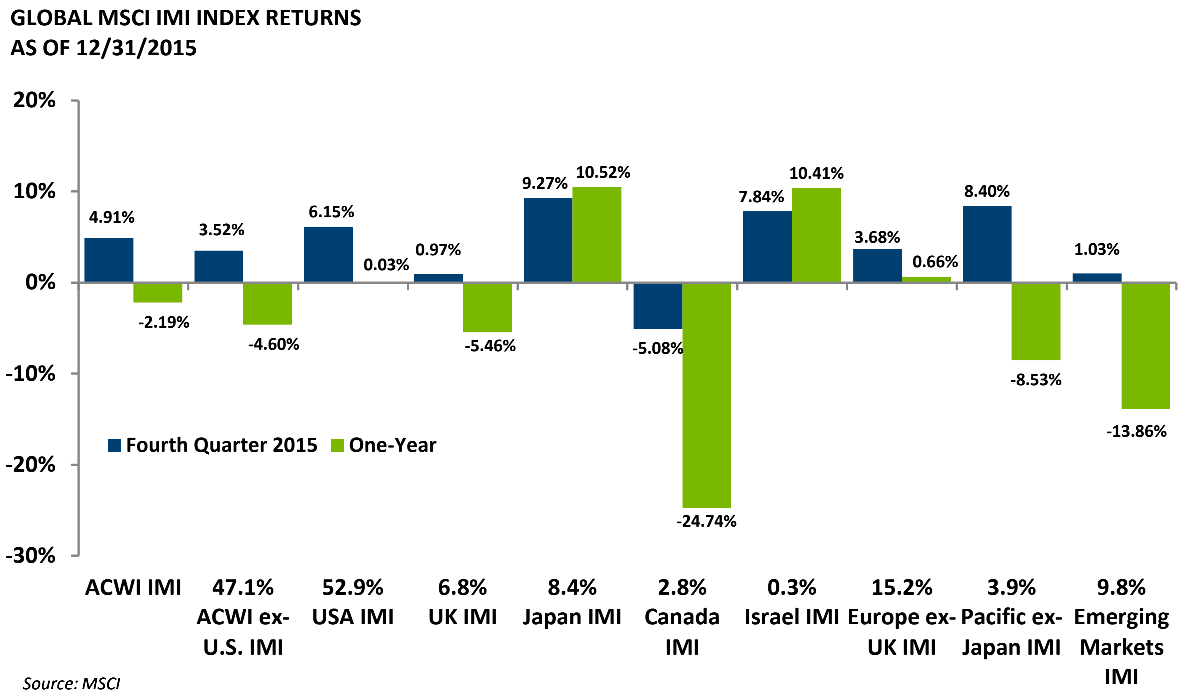
Returns of the Major Capital Markets						
						Periods Ending 12/31/2015
	Fourth Quarter	Year-to-Date	1-Year	3-Year[1]	5-Year[1]	10-Year[1]
Equity						
MSCI All Country World IMI	4.91%	-2.19%	-2.19%	7.86%	6.11%	4.99%
MSCI All Country World	5.03%	-2.36%	-2.36%	7.69%	6.09%	4.76%
Dow Jones U.S. Total Stock Market	6.27%	0.44%	0.44%	14.67%	12.14%	7.48%
Russell 3000	6.27%	0.48%	0.48%	14.74%	12.18%	7.35%
S&P 500	7.04%	1.38%	1.38%	15.13%	12.57%	7.31%
Russell 2000	3.59%	-4.41%	-4.41%	11.65%	9.19%	6.80%
MSCI All Country World ex-U.S. IMI	3.52%	-4.60%	-4.60%	2.02%	1.27%	3.18%
MSCI All Country World ex-U.S.	3.24%	-5.66%	-5.66%	1.50%	1.06%	2.92%
MSCI EAFE	4.71%	-0.81%	-0.81%	5.01%	3.60%	3.03%
MSCI EAFE (Local Currency)	6.34%	5.33%	5.33%	12.30%	7.85%	3.23%
MSCI Emerging Markets	0.66%	-14.92%	-14.92%	-6.76%	-4.81%	3.61%
Fixed Income						
Barclays Global Aggregate	-0.93%	-3.17%	-3.17%	-1.74%	0.89%	3.74%
Barclays Aggregate	-0.56%	0.57%	0.57%	1.45%	3.26%	4.52%
Barclays Long Gov't	-1.38%	-1.16%	-1.16%	2.55%	7.65%	6.67%
Barclays Long Credit	-0.66%	-4.57%	-4.57%	1.22%	6.49%	6.20%
Barclays Long Gov't/Credit	-0.94%	-3.31%	-3.31%	1.70%	6.98%	6.45%
Barclays US TIPS	-0.64%	-1.42%	-1.42%	-2.26%	2.56%	3.93%
Barclays High Yield	-2.06%	-4.46%	-4.46%	1.70%	5.04%	6.96%
Citi Group Non-U.S. WGBI	-1.38%	-5.54%	-5.54%	-4.27%	-1.30%	3.05%
JP Morgan EMBI Global (Emerging Markets)	1.55%	1.23%	1.23%	-0.07%	5.11%	6.72%
Commodities						
Bloomberg Commodity Index	-10.52%	-24.66%	-24.66%	-17.29%	-13.47%	-6.43%
Goldman Sachs Commodity Index	-16.63%	-32.86%	-32.86%	-23.71%	-15.18%	-10.56%
Hedge Funds						
HFRI Fund-Weighted Composite[2]	0.99%	-0.85%	-0.85%	3.67%	2.35%	4.09%
HFRI Fund of Funds[2]	0.63%	-0.36%	-0.36%	3.91%	2.08%	2.26%

MSCI Indices show net returns.
All other indices show total returns.

[1] Periods are annualized.

[2] Latest 5 months of HFR data are estimated by HFR and may change in the future.

Global Equity Markets

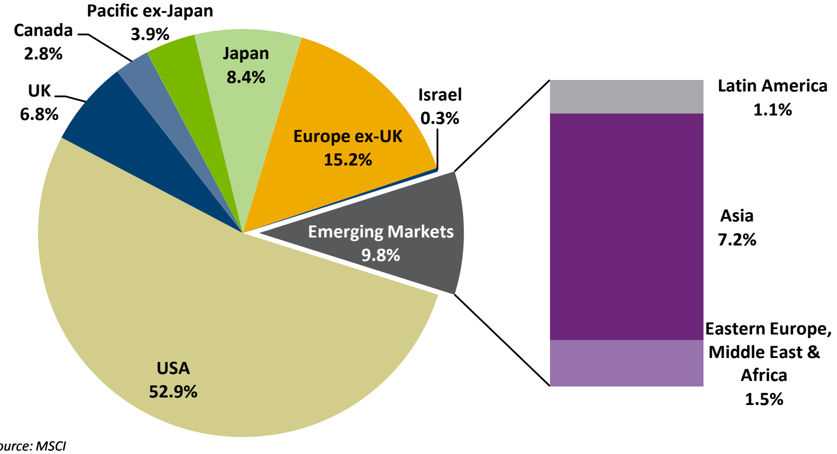


Source: MSCI

- Global equity markets returned 4.91% during the fourth quarter of 2015. Markets were supported by economic data from the Eurozone and the U.S. Federal Reserve's vote of confidence to raise short-term interest rates. However, concerns regarding growth in China remained.
- With the exception of Canada, equity markets rose across the globe. Canadian equities declined due to falling energy and commodity prices. Canadian dollar weakness also detracted from returns in U.S. dollar terms.
- Japan was the best performing country with a return of 9.27% helped by better than expected economic data and an agreement being reached regarding the Trans-Pacific Partnership.

Global Equity Markets

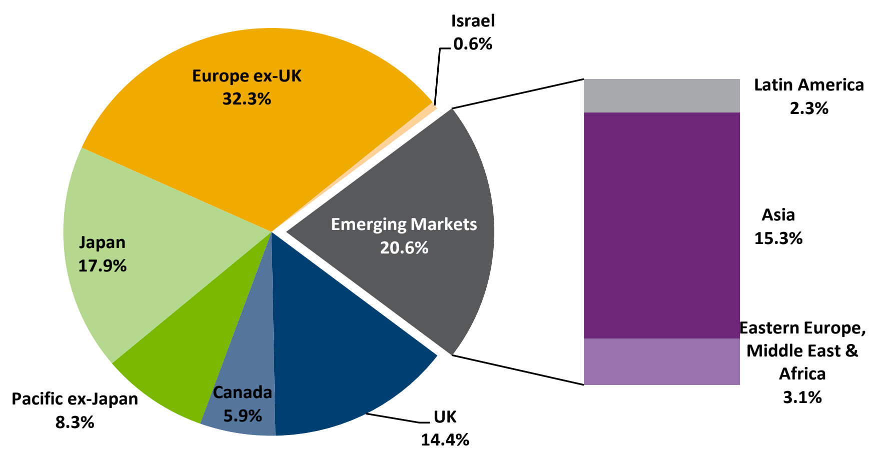
MSCI ALL COUNTRY WORLD IMI INDEX
GEOGRAPHIC ALLOCATION AS OF 12/31/2015



Source: MSCI

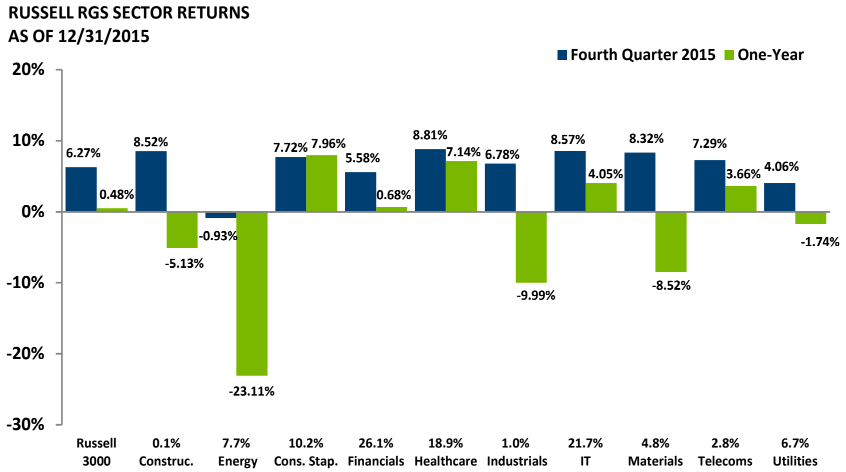
- The two exhibits on this slide illustrate the percentage that each country/region represents of the global equity market as measured by the MSCI All Country World IMI Index and the MSCI All Country World ex-U.S. IMI Index.

MSCI ALL COUNTRY WORLD EX-U.S. IMI INDEX
GEOGRAPHIC ALLOCATION AS OF 12/31/2015

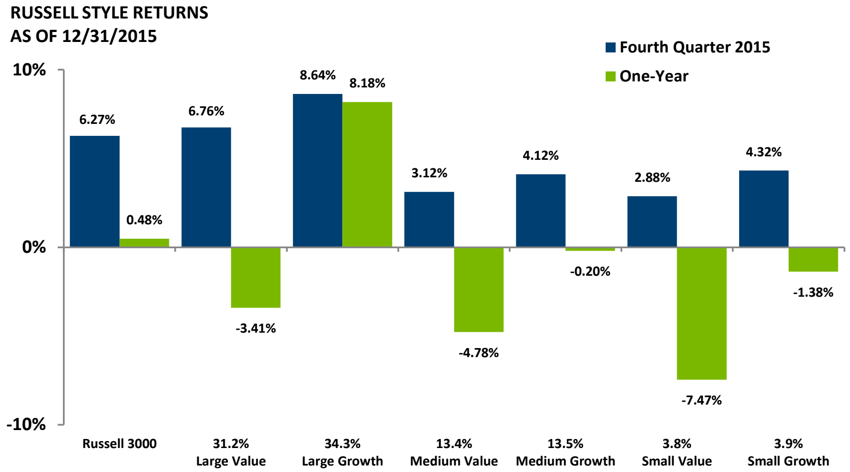


Source: MSCI

U.S. Equity Markets



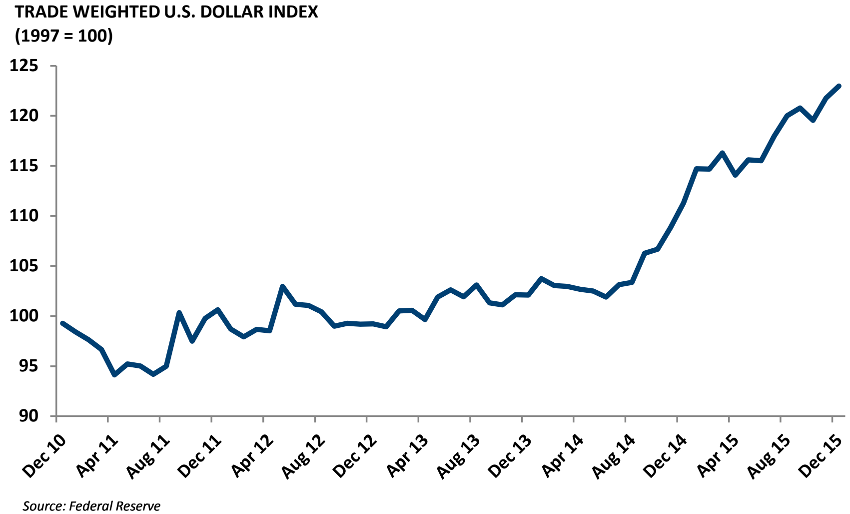
Source: Russell Indexes

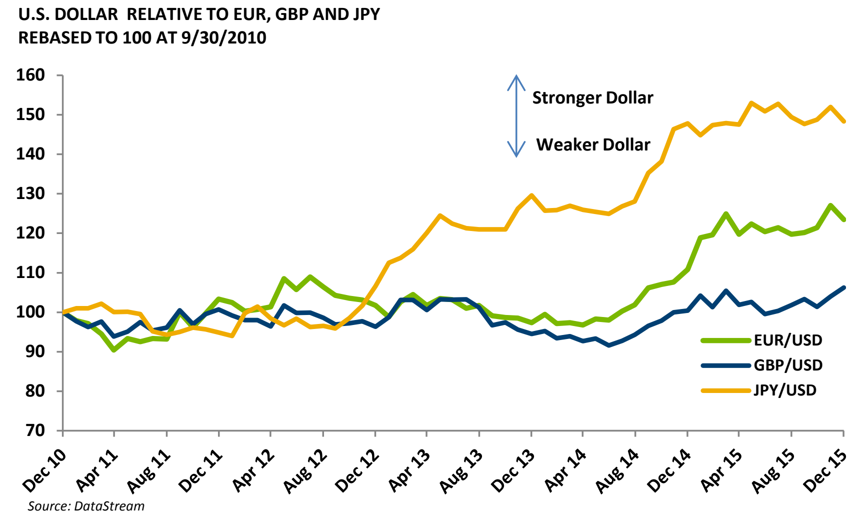


Source: Russell Indexes

- The Russell 3000 Index returned 6.27% during the fourth quarter and 0.48% over the trailing one-year period.
- During the fourth quarter, health care was the strongest performing sector, posting a return of 8.81%. The energy and utilities sectors were the weakest performing sectors, producing returns of -0.93% and 4.06%, respectively.
- Performance across the market capitalization spectrum was mixed during the quarter. Large cap stocks outperformed the smaller segments of the market while growth outperformed value across all of the capitalizations.

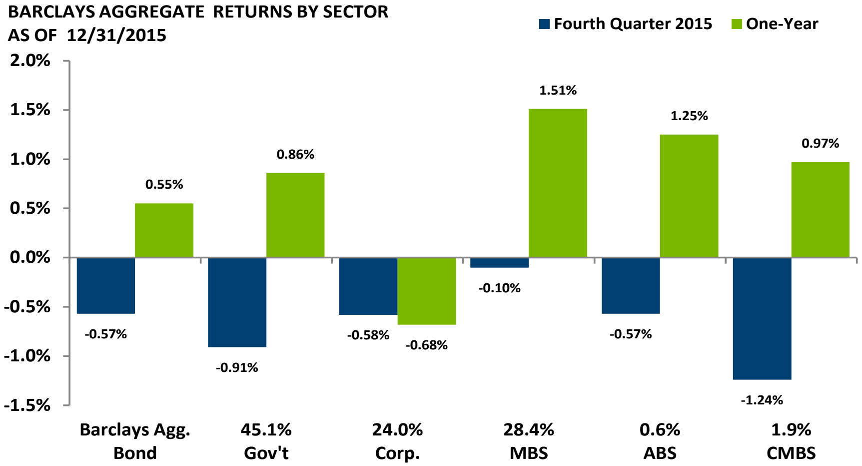
Currency



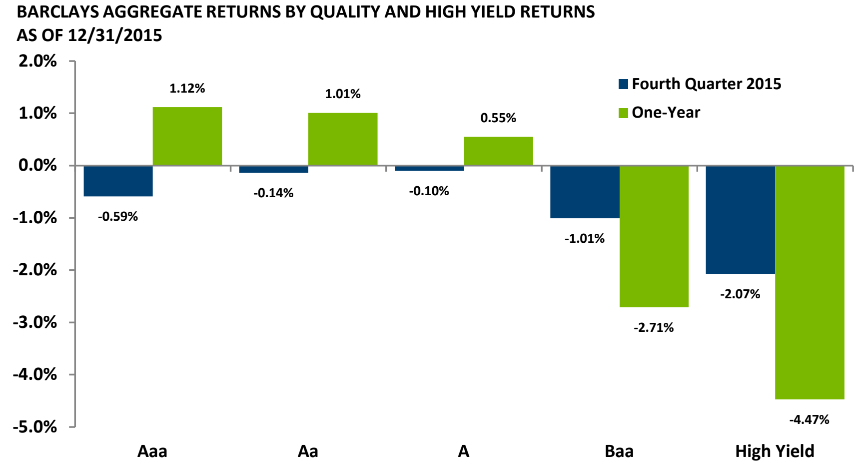


- The U.S. dollar strengthened during the quarter as measured through the broad trade weighted U.S. dollar index.
- The U.S. dollar appreciated against all the major currencies owing to the monetary policy divergence between the U.S. and the other developed markets.

U.S. Fixed Income Markets

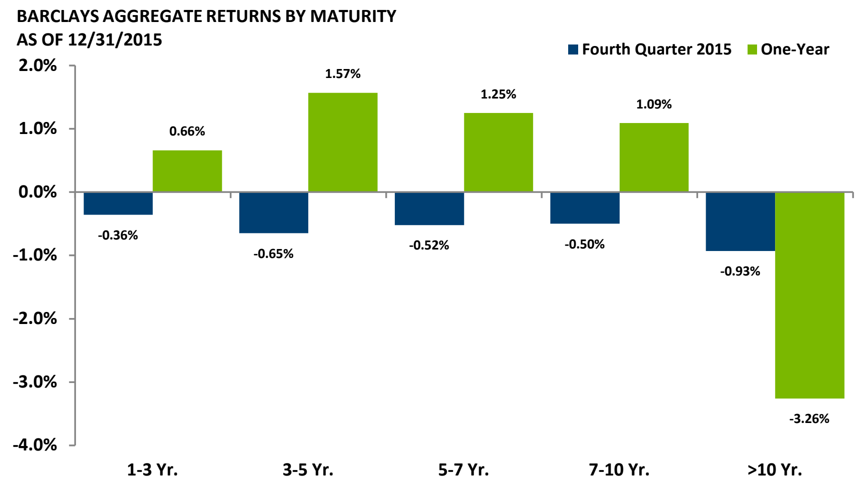


Source: Barclays Live



Source: Barclays Live

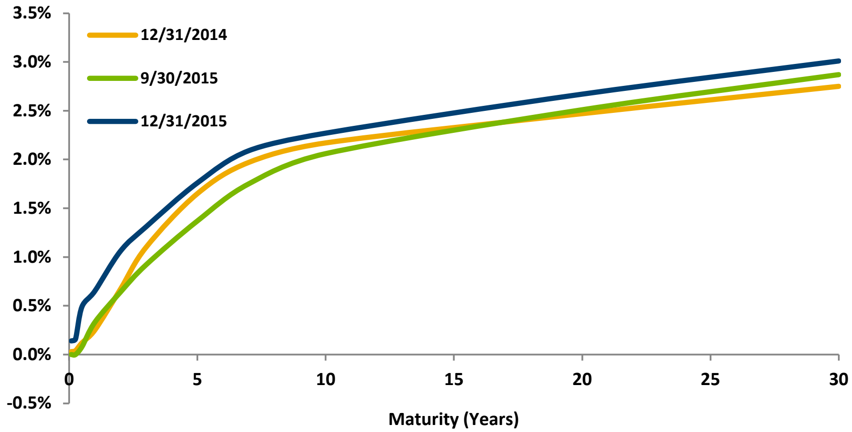
- The Barclays Aggregate Bond Index returned -0.57% during the fourth quarter. MBS bonds were the strongest performing sector, declining by only 0.10%.
- Investment grade corporate bonds outperformed high yield bonds.
- Shorter duration bonds outperformed longer duration bonds.



Source: Barclays Live

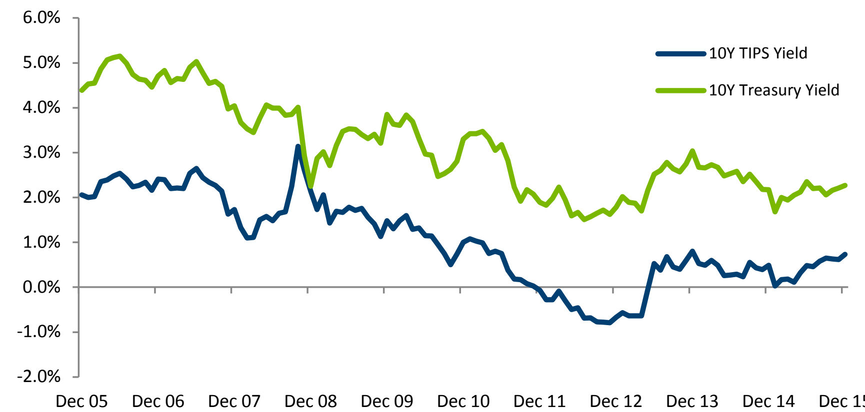
U.S. Fixed Income Markets

U.S. TREASURY YIELD CURVE



Source: U.S. Department of Treasury

U.S. 10-YEAR TREASURY AND TIPS YIELDS



Source: U.S. Department of Treasury

- The Treasury yield curve shifted upwards during the fourth quarter, as yields rose across all maturities.
- The 10-year U.S. Treasury yield ended the quarter at 2.27%, 21 basis points higher than its level at the beginning of the quarter.
- The 10-year TIPS yield rose by 8 basis points during the quarter, ending the period at 0.73%.

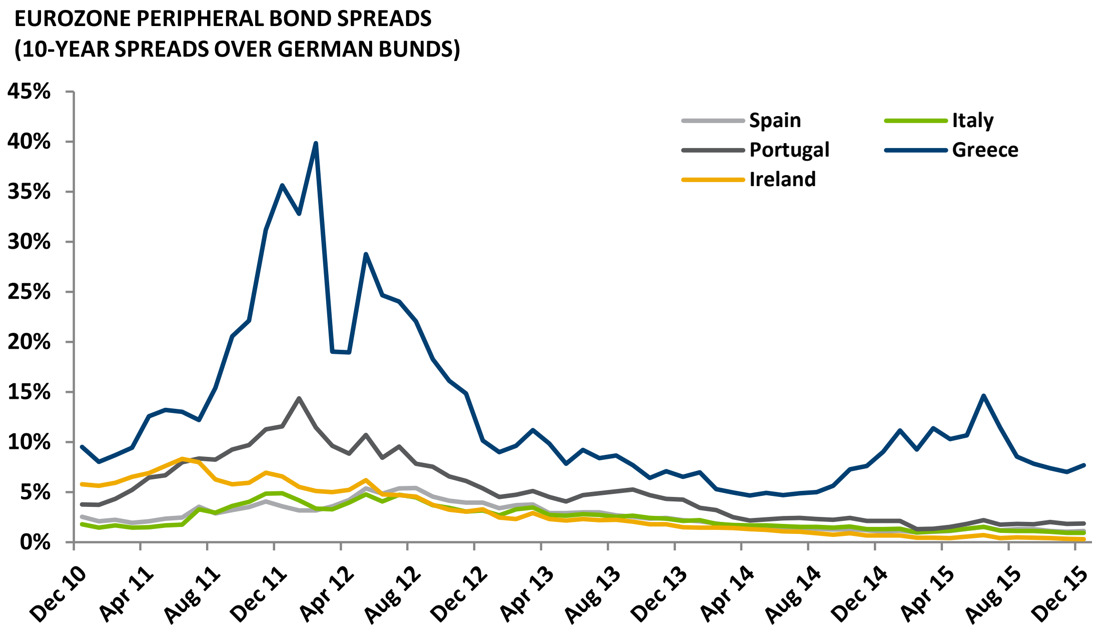
Credit Spreads

Spread (bps)	31/12/2015	30/09/2015	31/12/2014
U.S. Aggregate	56	59	48
Long Gov't	4	4	4
Long Credit	225	230	185
Long Gov't/Credit	138	143	119
MBS	24	31	27
CMBS	121	108	98
ABS	72	69	58
Corporate	165	169	131
High Yield	660	630	483
Global Emerging Markets	389	418	365

Quarterly Change (bps)	1-Year Change (bps)
-3	8
0	0
-5	40
-5	19
-7	-3
13	23
3	14
-4	34
30	177
-29	24

- Credit spreads were mixed across all areas of the bond market during the fourth quarter.
- High yield spreads (+30 basis points) rose by the most during the quarter, followed by CMBS spreads (+13 basis points).

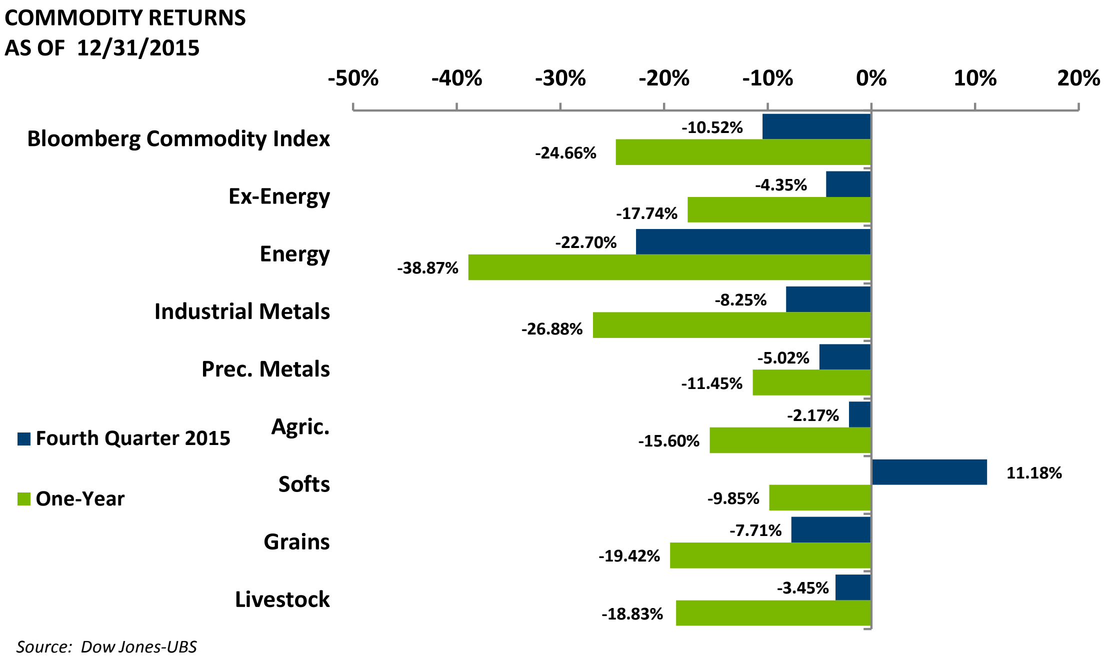
European Fixed Income Markets



Source: DataStream

- In the Eurozone, bond spreads tightened during the fourth quarter . Core bond yields rose while peripheral bond yields fell, with the exception of Portugal. Portuguese government bond yields were pushed higher at the beginning of the quarter by political uncertainty before reversing course.
- European government bond yields rose towards the end of the quarter as additional monetary stimulus from the European Central Bank (ECB) fell short of market expectations while the U.S. Federal Reserve hiked interest rates.

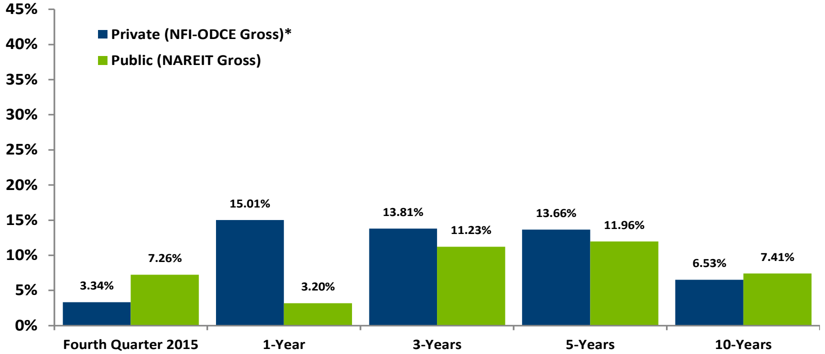
Commodities



- The Bloomberg Commodity Index declined 10.52% during the fourth quarter.
- The best performing sector, and the only segment which generated positive returns, was softs with a return 11.18% during the quarter.
- Energy was the worst performing sector of the market with a return of -22.70% during the quarter.

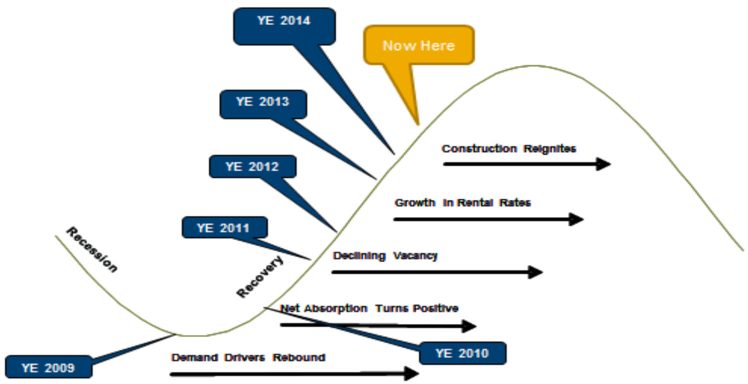
U.S. Commercial Real Estate Markets

PRIVATE VS. PUBLIC REAL ESTATE RETURNS AS OF 12/31/2015



Fourth **quarter returns are preliminary*
Sources: NCREIF, NAREIT

Stages of Fundamental Recovery in the Real Estate Market Cycle
SOURCE:AON HEWITT 9/30/2015



- The U.S. REIT market rallied in 4Q gaining 7.3%, bringing the year's total return to 3.2%. While REITs outperformed the broader equity market, which gained only 1.4% (S&P), 2015 was characterized by high volatility. U.S. growth, interest rate movements, the outlook for oil/commodities and the economic issues in China and Greece were the main contributors. Capital investment is continuing to be seen disproportionately deployed to private real estate versus listed real estate resulting in strong asset valuations in direct property markets as shown above. As of year-end, REITs trade at roughly a 5% discount to private market net asset valuations. Additionally, REITs' dividends of 3.9% are 165 bps over the 10-Year U.S. Treasury yield.
- The U.S. real estate cycle continues on its path of maturing, with some property types and markets now entering a new construction phase as shown above. Apartments and CBD office lead in maturity, with Industrial catching up quickly in key markets. Retail and suburban office continue to lag, though both have shown measurable improvement year over year.

*Indicates preliminary NFI-ODCE data gross of fees

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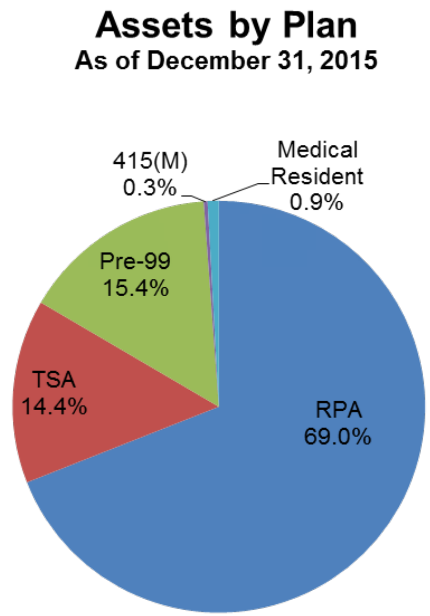
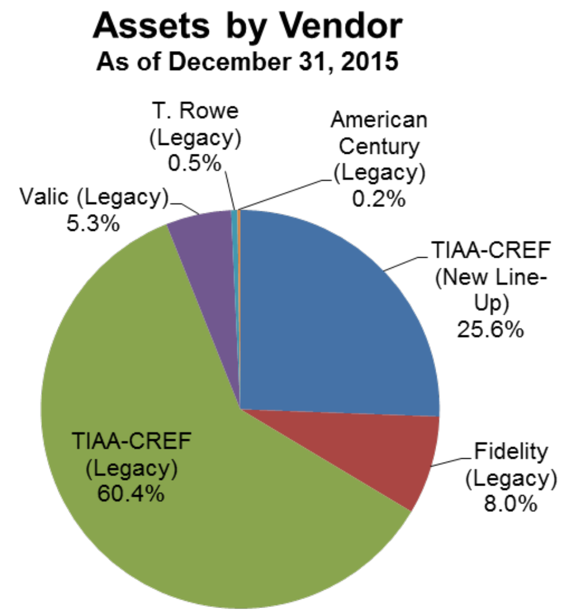
Agenda Tracker

Asset Allocation





As of 12/31/2015

Plan	RPA		TSA		Pre-99		415(M)		Medical Resident		Total	
	$	%	$	%	$	%	$	%	$	%	$	%
TIAA-CREF (New Line-Up)	$ 489,075,095	29.1%	$ 107,214,870	30.5%	$ 11,155,708	3.0%	$ 4,541,539	61.4%	$ 11,972,143	56.4%	$ 623,959,355	25.6%
Fidelity (Legacy)	$ 150,460,188	8.9%	$ 36,380,124	10.3%	$ 6,172,394	1.6%	$ 1,300,734	17.6%	$ 781,961	3.7%	$ 195,095,400	8.0%
TIAA-CREF (Legacy)	$ 942,849,982	56.0%	$ 176,731,319	50.2%	$ 351,132,082	93.6%	$ 1,518,855	20.5%	$ 183,869	0.9%	$ 1,472,416,108	60.3%
Valic (Legacy)	$ 89,781,740	5.3%	$ 31,379,233	8.9%	$ -	0.0%	$ 38,137	0.5%	$ 8,306,316	39.1%	$ 129,505,426	5.3%
T. Rowe (Legacy)	$ 6,239,225	0.4%	$ 257,712	0.1%	$ 6,035,548	1.6%	$ -	0.0%	$ -	0.0%	$ 12,532,484	0.5%
American Century (Legacy)	$ 4,765,557	0.3%	$ -	0.0%	$ 705,083	0.2%	$ -	0.0%	$ -	0.0%	$ 5,470,640	0.2%
Total	**$ 1,683,171,786**	**100.0%**	**$ 351,963,258**	**100.0%**	**$ 375,200,815**	**100.0%**	**$ 7,399,265**	**100.0%**	**$ 21,244,290**	**100.0%**	**$ 2,438,979,413**	**100.0%**
Other Assets*											$ 1,032,216	0.0%
Grand Total	**$ 1,683,171,786**	**69.0%**	**$ 351,963,258**	**14.4%**	**$ 375,200,815**	**15.4%**	**$ 7,399,265**	**0.3%**	**$ 21,244,290**	**0.9%**	**$ 2,440,011,630**	**100.0%**

*Other Assets includes Loans and TIAA-CREF Money Market-Instl.

Tier I(a) Watch List

Tier I (a)

	1. Underperformed During Trailing 5 Years	2. Underperformed in 3 of 4 Trailing Calendar Quarters	3. Diverged from Strategy and/or Portfolio Characteristic	4. Adverse Change in Portfolio Manager	5. Weak Manager Research Rating	6. Significant Organizational Change	Watch List Status: 4th Quarter 2015	Watch List Status: 3rd Quarter 2015	Watch List Status: 2nd Quarter 2015	Watch List Status: 1st Quarter 2015
Vanguard Target Retirement Income Trust II	No	No	No	No	No (Buy)	No				
Vanguard Target Retirement 2010 Trust II	No	No	No	No	No (Buy)	No				
Vanguard Target Retirement 2015 Trust II	No	No	No	No	No (Buy)	No				
Vanguard Target Retirement 2020 Trust II	No	No	No	No	No (Buy)	No				
Vanguard Target Retirement 2025 Trust II	No	No	No	No	No (Buy)	No				
Vanguard Target Retirement 2030 Trust II	Yes	No	No	No	No (Buy)	No				
Vanguard Target Retirement 2035 Trust II	No	No	No	No	No (Buy)	No				
Vanguard Target Retirement 2040 Trust II	Yes	No	No	No	No (Buy)	No				
Vanguard Target Retirement 2045 Trust II	No	No	No	No	No (Buy)	No				
Vanguard Target Retirement 2050 Trust II	No	No	No	No	No (Buy)	No				
Vanguard Target Retirement 2055 Trust II	No	No	No	No	No (Buy)	No				
Vanguard Traget Retirement 2060 Trust II*	No	No	No	No	No (Buy)	No				

Negative tracking of greater than 0.2% constitutes underperformance for the Plan's target date retirement funds.

- **Notes on Table:** Changes in Watch List designations from the previous quarter are highlighted in red.
- **Yellow-Level Watch List.** An investment fund goes on the Watch List with a yellow designation when two of the above occur, or when item numbers 4, 5, or 6 occur.
- **Orange-Level Watch List**. An investment fund goes on the Watch List with an orange designation when it has been on the yellow watch list for two consecutive quarters or when three of the above occur.
- **Red-Level Watch List.** An investment fund goes on the Watch List with a red designation when it has been on the orange watchlist for two consecutive quarters or when four of the above occur. When an investment fund is placed on the Watch List with a red designation, a formal fund review will be conducted and a recommendation for action will be made.

* Since-inception returns were used since this fund does not have a trailing five-year return.

Tier I Watch List

Tier I

	1. Underperformed During Trailing 5 Years	2. Underperformed in 3 of 4 Trailing Calendar Quarters	3. Diverged from Strategy and/or Portfolio Characteristic	4. Adverse Change in Portfolio Manager	5. Weak Manager Research Rating	6. Significant Organizational Change	Watch List Status			
							4th Quarter 2015	3rd Quarter 2015	2nd Quarter 2015	1st Quarter 2015
Vanguard Target Retirement Income	No	No	No	No	No (Buy)	No				
Vanguard Target Retirement 2010	No	No	No	No	No (Buy)	No				
Vanguard Target Retirement 2015	No	No	No	No	No (Buy)	No				
Vanguard Target Retirement 2020	No	No	No	No	No (Buy)	No				
Vanguard Target Retirement 2025	Yes	No	No	No	No (Buy)	No				
Vanguard Target Retirement 2030	Yes	No	No	No	No (Buy)	No				
Vanguard Target Retirement 2035	Yes	No	No	No	No (Buy)	No				
Vanguard Target Retirement 2040	Yes	No	No	No	No (Buy)	No				
Vanguard Target Retirement 2045	Yes	No	No	No	No (Buy)	No				
Vanguard Target Retirement 2050	Yes	No	No	No	No (Buy)	No				
Vanguard Target Retirement 2055	No	No	No	No	No (Buy)	No				
Vanguard Traget Retirement 2060*	Yes	No	No	No	No (Buy)	No				

Negative tracking of greater than 0.2% constitutes underperformance for the Plan's target date retirement funds.

- **Notes on Table:** Changes in Watch List designations from the previous quarter are highlighted in red.
- **Yellow-Level Watch List.** An investment fund goes on the Watch List with a yellow designation when two of the above occur, or when item numbers 4, 5, or 6 occur.
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* Since-inception returns were used since this fund does not have a trailing five-year return.

Tier II and III Watch List

Tier II & III

	1. Underperformed During Trailing 5 Years	2. Underperformed in 3 of 4 Trailing Calendar Quarters	3. Diverged from Strategy and/or Portfolio Characteristic	4. Adverse Change in Portfolio Manager	5. Weak Manager Research Rating	6. Significant Organizational Change	Watch List Status			
							4th Quarter 2015	3rd Quarter 2015	2nd Quarter 2015	1st Quarter 2015
Vanguard Prime Money Market Fund	No	No	No	No	No (Buy)	No				
TIAA Traditional - RC	No	No	No	No	No (Buy)	No				
TIAA Traditional - RCP	No	No	No	No	No (Buy)	No				
Vanguard Total Bond Market Index Fund	No	No	No	No	No (Buy)	No				
PIMCO Total Return Fund	No	No	No	No	No (Buy)	No				
Vanguard Total Stock Market Index Fund	No	No	No	No	No (Buy)	No				
Vanguard Total International Stock Index	No	No	No	No	No (Buy)	No				
Dodge & Cox Global Stock Fund	No	Yes	No	No	No (Buy)	No				
DFA Inflation-Protected Securities	No	No	No	No	No (Buy)	No				
Neuberger Berman High Income Bond Fund*	Yes	Yes	No	No	No (Buy)	No				
Vanguard Institutional Index Fund	No	No	No	No	No (Buy)	No				
T. Rowe Price Instl. Large Cap Growth Fund	No	No	No	Yes	In Review	No				
Diamond Hill Large Cap*	No	No	No	No	No (Buy)	No				
Vanguard Extended Market Index Fund	No	No	No	No	No (Buy)	No				
William Blair Small/Mid Cap Growth Fund	No	No	No	No	No (Buy)	No				
DFA U.S. Targeted Value	No	No	No	No	No (Buy)	No				
Vanguard Developed Market Index Fund	No	No	No	No	No (Buy)	No				
Harding Loevner International Equity Instl.	No	No	No	No	No (Buy)	No				
MFS International Value Fund	No	No	No	No	No (Buy)	No				
Vanguard Emerging Markets Stock Index Fund	No	No	No	No	No (Buy)	No				
Laudus Mondrian Emerging Markets Instl.	Yes	Yes	No	No	No (Buy)	No				
Cohen & Steers Instl Realty Shares	Yes	No	No	No	No (Buy)	No				

Negative tracking of greater than 0.1% for domestic equities and fixed income or 0.3% for non-U.S. equities constitutes underperformance for the Plan's index funds.

- **Notes on Table**: Changes in Watch List designations from the previous quarter are highlighted in red.
- **Yellow-Level Watch List.** An investment fund goes on the Watch List with a yellow designation when two of the above occur, or when item numbers 4, 5, or 6 occur.
- **Orange-Level Watch List.** An investment fund goes on the Watch List with an orange designation when it has been on the yellow watch list for two consecutive quarters or when three of the above occur.
- **Red-Level Watch List.** An investment fund goes on the Watch List with a red designation when it has been on the orange watchlist for two consecutive quarters or when four of the above occur. When an investment fund is placed on the Watch List with a red designation, a formal fund review will be conducted and a recommendation for action will be made.

* Since-inception returns were used since this fund does not have a trailing five-year return.

Tier I(a) Performance Summary

As of 12/31/2015

	Allocation		Performance(%)						
	Market Value ($)	%	1 Quarter	1 Year	3 Years	5 Years	10 Years	Since Inception	Inception Date
Total Plan	**2,440,011,630**	**100.0**							**03/01/2014**
Tier I (a)	**293,662,308**	**12.0**							**03/01/2014**
Vanguard Target Retirement Income Trust II	2,924,371	0.1	1.2 (72)	-0.1 (48)	3.8 (74)	5.0 (66)		4.7 (63)	03/01/2008
Vanguard Target Income Composite Index			*1.4 (67)*	*0.1 (9)*	*3.9 (71)*	*5.1 (63)*		*4.7 (62)*	
Vanguard Target Retirement 2010 Trust II	7,577,318	0.3	1.4 (74)	-0.2 (16)	4.9 (30)	5.6 (21)		4.8 (8)	03/01/2008
Vanguard Target 2010 Composite Index			*1.6 (51)*	*0.0 (7)*	*5.1 (24)*	*5.7 (20)*		*4.8 (13)*	
Vanguard Target Retirement 2015 Trust II	23,998,792	1.0	2.2 (33)	-0.4 (22)	6.3 (7)	6.3 (15)		5.2 (1)	03/01/2008
Vanguard Target 2015 Composite Index			*2.4 (15)*	*-0.2 (16)*	*6.5 (4)*	*6.4 (12)*		*5.1 (1)*	
Vanguard Target Retirement 2020 Trust II	34,987,836	1.4	2.7 (28)	-0.6 (38)	7.3 (3)	6.9 (15)		5.4 (1)	03/01/2008
Vanguard Target 2020 Composite Index			*3.0 (6)*	*-0.4 (30)*	*7.5 (3)*	*7.1 (4)*		*5.5 (1)*	
Vanguard Target Retirement 2025 Trust II	36,722,338	1.5	3.1 (29)	-0.7 (39)	8.0 (6)	7.3 (17)		5.4 (6)	03/01/2008
Vanguard Target 2025 Composite Index			*3.4 (9)*	*-0.6 (31)*	*8.2 (4)*	*7.5 (8)*		*5.5 (1)*	
Vanguard Target Retirement 2030 Trust II	38,656,617	1.6	3.5 (33)	-0.9 (44)	8.6 (19)	7.6 (18)		5.5 (13)	03/01/2008
Vanguard Target 2030 Composite Index			*3.8 (19)*	*-0.8 (40)*	*8.8 (8)*	*7.9 (12)*		*5.6 (11)*	
Vanguard Target Retirement 2035 Trust II	48,452,096	2.0	3.9 (38)	-1.1 (41)	9.2 (18)	8.0 (19)		5.6 (9)	03/01/2008
Vanguard Target 2035 Composite Index			*4.3 (20)*	*-1.0 (40)*	*9.5 (9)*	*8.2 (14)*		*5.7 (6)*	
Vanguard Target Retirement 2040 Trust II	47,482,196	1.9	4.3 (37)	-1.5 (53)	9.6 (21)	8.2 (21)		5.8 (13)	03/01/2008
Vanguard Target 2040 Composite Index			*4.7 (9)*	*-1.2 (51)*	*9.9 (11)*	*8.5 (16)*		*5.9 (11)*	
Vanguard Target Retirement 2045 Trust II	33,801,066	1.4	4.3 (42)	-1.5 (48)	9.5 (15)	8.2 (20)		5.8 (13)	03/01/2008
Vanguard Target 2045 Composite Index			*4.7 (11)*	*-1.3 (45)*	*9.9 (8)*	*8.4 (14)*		*5.9 (7)*	
Vanguard Target Retirement 2050 Trust II	14,359,720	0.6	4.3 (47)	-1.5 (57)	9.5 (18)	8.2 (23)		5.8 (15)	03/01/2008
Vanguard Target 2050 Composite Index			*4.7 (13)*	*-1.3 (48)*	*9.9 (11)*	*8.4 (13)*		*5.9 (9)*	
Vanguard Target Retirement 2055 Trust II	3,411,847	0.1	4.3 (52)	-1.7 (64)	9.5 (21)	8.2 (26)		11.2	09/01/2010
Vanguard Target 2055 Composite Index			*4.7 (21)*	*-1.3 (51)*	*9.9 (9)*	*8.4 (17)*		*11.5*	
Vanguard Target Retirement 2060 Trust II	1,288,112	0.1	4.3 (55)	-1.6 (63)	9.5 (21)			8.7 (19)	04/01/2012
Vanguard Target 2060 Composite Index			*4.7 (21)*	*-1.3 (51)*	*9.9 (9)*			*8.9 (14)*	

Tier I Performance Summary

As of 12/31/2015

	Allocation		Performance(%)						
	Market Value ($)	%	1 Quarter	1 Year	3 Years	5 Years	10 Years	Since Inception	Inception Date
Tier I	**53,080,912**	**2.2**							**03/01/2014**
Vanguard Target Retirement Income	887,406	0.0	1.2 (73)	-0.2 (53)	3.7 (76)	4.9 (67)	5.0	5.1	11/01/2003
Vanguard Target Income Composite Index			*1.4 (67)*	*0.1 (9)*	*3.9 (71)*	*5.1 (63)*	*5.0*	*5.2*	
Vanguard Target Retirement 2010	3,010,466	0.1	1.4 (76)	-0.2 (18)	4.9 (31)	5.6 (22)		5.3	07/01/2006
Vanguard Target 2010 Composite Index			*1.6 (51)*	*0.0 (7)*	*5.1 (24)*	*5.7 (20)*		*5.3*	
Vanguard Target Retirement 2015	9,369,757	0.4	2.1 (39)	-0.5 (25)	6.2 (16)	6.3 (15)	5.4	5.9	11/01/2003
Vanguard Target 2015 Composite Index			*2.4 (15)*	*-0.2 (16)*	*6.5 (4)*	*6.4 (12)*	*5.4*	*5.9*	
Vanguard Target Retirement 2020	7,552,237	0.3	2.7 (28)	-0.7 (47)	7.2 (3)	6.9 (16)		5.6 (1)	07/01/2006
Vanguard Target 2020 Composite Index			*3.0 (6)*	*-0.4 (30)*	*7.5 (3)*	*7.1 (4)*		*5.8 (1)*	
Vanguard Target Retirement 2025	7,104,544	0.3	3.1 (36)	-0.8 (40)	7.9 (15)	7.2 (19)	5.5	6.2	11/01/2003
Vanguard Target 2025 Composite Index			*3.4 (9)*	*-0.6 (31)*	*8.2 (4)*	*7.5 (8)*	*5.7*	*6.3*	
Vanguard Target Retirement 2030	5,626,771	0.2	3.5 (35)	-1.0 (49)	8.5 (20)	7.6 (20)		5.6 (21)	07/01/2006
Vanguard Target 2030 Composite Index			*3.8 (19)*	*-0.8 (40)*	*8.8 (8)*	*7.9 (12)*		*5.8 (5)*	
Vanguard Target Retirement 2035	5,132,936	0.2	3.9 (38)	-1.3 (45)	9.2 (19)	7.9 (23)	5.8	6.7	11/01/2003
Vanguard Target 2035 Composite Index			*4.3 (20)*	*-1.0 (40)*	*9.5 (9)*	*8.2 (14)*	*5.9*	*6.8*	
Vanguard Target Retirement 2040	4,550,789	0.2	4.3 (39)	-1.6 (60)	9.5 (22)	8.1 (26)		5.9 (23)	07/01/2006
Vanguard Target 2040 Composite Index			*4.7 (9)*	*-1.2 (51)*	*9.9 (11)*	*8.5 (16)*		*6.0 (8)*	
Vanguard Target Retirement 2045	4,951,840	0.2	4.3 (47)	-1.6 (52)	9.5 (17)	8.1 (24)	5.9	7.0	11/01/2003
Vanguard Target 2045 Composite Index			*4.7 (11)*	*-1.3 (45)*	*9.9 (8)*	*8.4 (14)*	*6.1*	*7.2*	
Vanguard Target Retirement 2050	4,281,567	0.2	4.3 (47)	-1.6 (58)	9.5 (19)	8.1 (25)		5.9	07/01/2006
Vanguard Target 2050 Composite Index			*4.7 (13)*	*-1.3 (48)*	*9.9 (11)*	*8.4 (13)*		*6.0*	
Vanguard Target Retirement 2055	369,804	0.0	4.3 (59)	-1.7 (70)	9.4 (26)	8.2 (31)		11.2	09/01/2010
Vanguard Target 2055 Composite Index			*4.7 (21)*	*-1.3 (51)*	*9.9 (9)*	*8.4 (17)*		*11.5*	
Vanguard Target Retirement 2060	242,794	0.0	4.3 (54)	-1.7 (65)	9.4 (23)			9.8 (32)	02/01/2012
Vanguard Target 2060 Composite Index			*4.7 (21)*	*-1.3 (51)*	*9.9 (9)*			*10.1 (19)*	

Tier II and III Performance Summary

As of 12/31/2015

	Allocation		Performance(%)						
	Market Value ($)	%	1 Quarter	1 Year	3 Years	5 Years	10 Years	Since Inception	Inception Date
Tier II	**122,252,410**	**5.0**							**03/01/2014**
Vanguard Prime Money Market Fund	9,273,148	0.4	0.0 (10)	0.1 (12)	0.1 (12)	0.1 (14)	1.4 (4)	3.3 (1)	11/01/1989
Citigroup 3 Month T-Bill			*0.0 (32)*	*0.0 (33)*	*0.0 (24)*	*0.1 (22)*	*1.2 (61)*	*3.1 (45)*	
TIAA Traditional - RC	30,978,730	1.3	1.0 (1)	4.2 (1)	4.4 (1)	4.3 (1)	4.5 (1)	4.5 (1)	08/01/2005
Hueler Stable Value Index			*0.4 (9)*	*1.8 (10)*	*1.8 (18)*	*2.0 (35)*	*3.1 (38)*	*3.1 (33)*	
TIAA Traditional - RCP	19,499,379	0.8	0.9 (1)	3.5 (1)	3.6 (1)	3.5 (1)		3.8 (2)	06/01/2006
Hueler Stable Value Index			*0.4 (9)*	*1.8 (10)*	*1.8 (18)*	*2.0 (35)*		*3.0 (33)*	
Vanguard Total Bond Market Index Fund	15,583,688	0.6	-0.6 (56)	0.4 (46)	1.3 (53)	3.2 (61)	4.5 (47)	5.4 (21)	10/01/1995
Performance Benchmark			*-0.6 (59)*	*0.4 (43)*	*1.4 (47)*	*3.2 (56)*	*4.5 (46)*	*5.5 (18)*	
PIMCO Total Return Fund	6,922,960	0.3	0.5 (1)	0.7 (25)	1.1 (68)	3.5 (38)	5.8 (1)	7.6	06/01/1987
Barclays Aggregate Index			*-0.6 (49)*	*0.5 (34)*	*1.4 (38)*	*3.2 (56)*	*4.5 (46)*	*6.6*	
Vanguard Total Stock Market Index Fund	18,135,540	0.7	6.3 (54)	0.4 (50)	14.7 (43)	12.2 (36)	7.5 (30)	6.6 (30)	08/01/1997
Performance Benchmark			*6.2 (54)*	*0.4 (50)*	*14.7 (43)*	*12.2 (36)*	*7.5 (30)*	*6.6 (30)*	
Vanguard Total International Stock Index	3,392,605	0.1	2.7 (79)	-4.2 (81)	1.9 (84)	1.3 (84)		2.9 (83)	12/01/2010
Performance Benchmark			*3.6 (54)*	*-4.3 (81)*	*2.3 (79)*	*1.5 (82)*		*3.0 (81)*	
Dodge & Cox Global Stock Fund	18,466,360	0.8	3.5 (61)	-8.0 (79)	9.4 (41)	7.0 (42)		3.3 (50)	05/01/2008
MSCI AC World Index (Net)			*5.0 (36)*	*-2.4 (55)*	*7.7 (60)*	*6.1 (57)*		*2.7 (56)*	
Tier III	**152,247,056**	**6.2**							**03/01/2014**
DFA Inflation-Protected Securities Portfolio	4,163,405	0.2	-1.1 (90)	-1.2 (30)	-2.5 (51)	2.7 (8)		4.2 (14)	10/01/2006
Barclays U.S. TIPS Index			*-0.6 (43)*	*-1.4 (33)*	*-2.3 (26)*	*2.5 (10)*		*4.1 (25)*	
Neuberger Berman High Income Bond Fund	6,645,554	0.3	-1.7 (52)	-4.7 (69)				0.6 (57)	04/01/2013
Barclays Corporate High Yield Index			*-2.1 (66)*	*-4.5 (65)*				*0.8 (50)*	
Vanguard Institutional Index Fund	43,350,034	1.8	7.0 (5)	1.4 (14)	15.1 (5)	12.5 (5)	7.3 (4)	9.4	08/01/1990
S&P 500 Index			*7.0 (8)*	*1.4 (11)*	*15.1 (1)*	*12.6 (1)*	*7.3 (4)*	*9.4*	
T. Rowe Price Instl. Large Cap Growth Fund	12,188,540	0.5	8.8 (24)	10.1 (12)	20.0 (5)	14.9 (9)	9.3 (13)	9.2 (4)	11/01/2001
Russell 1000 Growth Index			*7.3 (65)*	*5.7 (49)*	*16.8 (45)*	*13.5 (37)*	*8.5 (27)*	*7.0 (48)*	

Tier III Performance Summary (cont'd)

As of 12/31/2015

	Allocation		Performance(%)						
	Market Value ($)	%	1 Quarter	1 Year	3 Years	5 Years	10 Years	Since Inception	Inception Date
Diamond Hill Large Cap	8,397,691	0.3	6.0 (25)	-0.7 (11)	14.6 (9)			14.2 (31)	01/01/2012
Russell 1000 Value Index			*5.6 (31)*	*-3.8 (58)*	*13.1 (32)*			*14.2 (31)*	
Vanguard Extended Market Index Fund - Instl.	17,046,059	0.7	3.2 (30)	-3.2 (38)	12.9 (15)	10.5 (22)	7.8 (33)	7.8 (77)	08/01/1997
Performance Benchmark			*3.1 (33)*	*-3.4 (40)*	*12.8 (19)*	*10.4 (27)*	*7.7 (37)*		
William Blair Small/Mid Cap Growth Fund	6,157,626	0.3	2.9 (47)	4.7 (8)	17.3 (5)	12.6 (12)	9.5 (9)	10.0 (10)	01/01/2004
Russell 2500 Growth Index			*3.8 (32)*	*-0.2 (31)*	*14.5 (23)*	*11.4 (21)*	*8.5 (24)*	*9.0 (21)*	
DFA U.S. Targeted Value	13,459,351	0.6	2.0 (58)	-5.7 (41)	11.6 (43)	9.2 (46)	6.7 (56)	11.1 (12)	03/01/2000
Russell 2500 Value Index			*2.8 (24)*	*-5.5 (38)*	*10.5 (56)*	*9.2 (45)*	*6.5 (71)*	*9.8 (25)*	
Vanguard Developed Market Index Fund	11,226,302	0.5	3.9 (37)	-0.2 (26)	4.8 (19)	3.6 (32)	3.2 (39)	3.7 (52)	02/01/2001
Performance Benchmark			*4.9 (20)*	*-0.4 (31)*	*5.0 (16)*	*3.6 (32)*	*3.0 (46)*	*3.6 (57)*	
Harding Loevner International Equity Instl.	3,047,674	0.1	6.6 (6)	-1.6 (69)	3.3 (86)	3.7 (53)	5.3 (15)	5.8	06/01/1994
MSCI AC World ex USA Growth (Net)			*5.0 (30)*	*-1.3 (67)*	*3.5 (80)*	*2.1 (87)*	*3.7 (58)*		
MFS International Value Fund	7,721,143	0.3	5.5 (9)	6.9 (5)	11.5 (1)	9.6 (1)		6.3 (1)	06/01/2006
MSCI AC World ex USA Value (Net)			*1.4 (84)*	*-10.1 (93)*	*-0.6 (96)*	*-0.1 (89)*		*1.1 (71)*	
Vanguard Emerging Markets Stock Index Fund - Instl.	7,019,280	0.3	-0.3 (60)	-15.3 (57)	-6.8 (50)	-4.8 (50)	3.4 (42)	6.5 (61)	07/01/2000
Performance Benchmark			*0.3 (49)*	*-15.5 (58)*	*-6.5 (46)*	*-4.6 (44)*	*3.7 (35)*	*6.4 (63)*	
Laudus Mondrian Emerging Markets Instl.	1,009,441	0.0	-1.2 (74)	-19.4 (84)	-10.6 (86)	-5.5 (63)		-3.5 (56)	05/01/2008
MSCI Emerging Markets Index (Net)			*0.7 (46)*	*-14.9 (53)*	*-6.8 (50)*	*-4.8 (51)*		*-2.8 (45)*	
Cohen and Steers Instl. Realty Shares	10,814,957	0.4	7.9 (12)	5.2 (9)	12.3 (7)	11.8 (43)	8.0 (18)	12.9 (7)	03/01/2000
FTSE NAREIT Equity REIT Index			*7.3 (45)*	*3.2 (50)*	*11.2 (38)*	*12.0 (34)*	*7.4 (45)*	*12.2 (39)*	

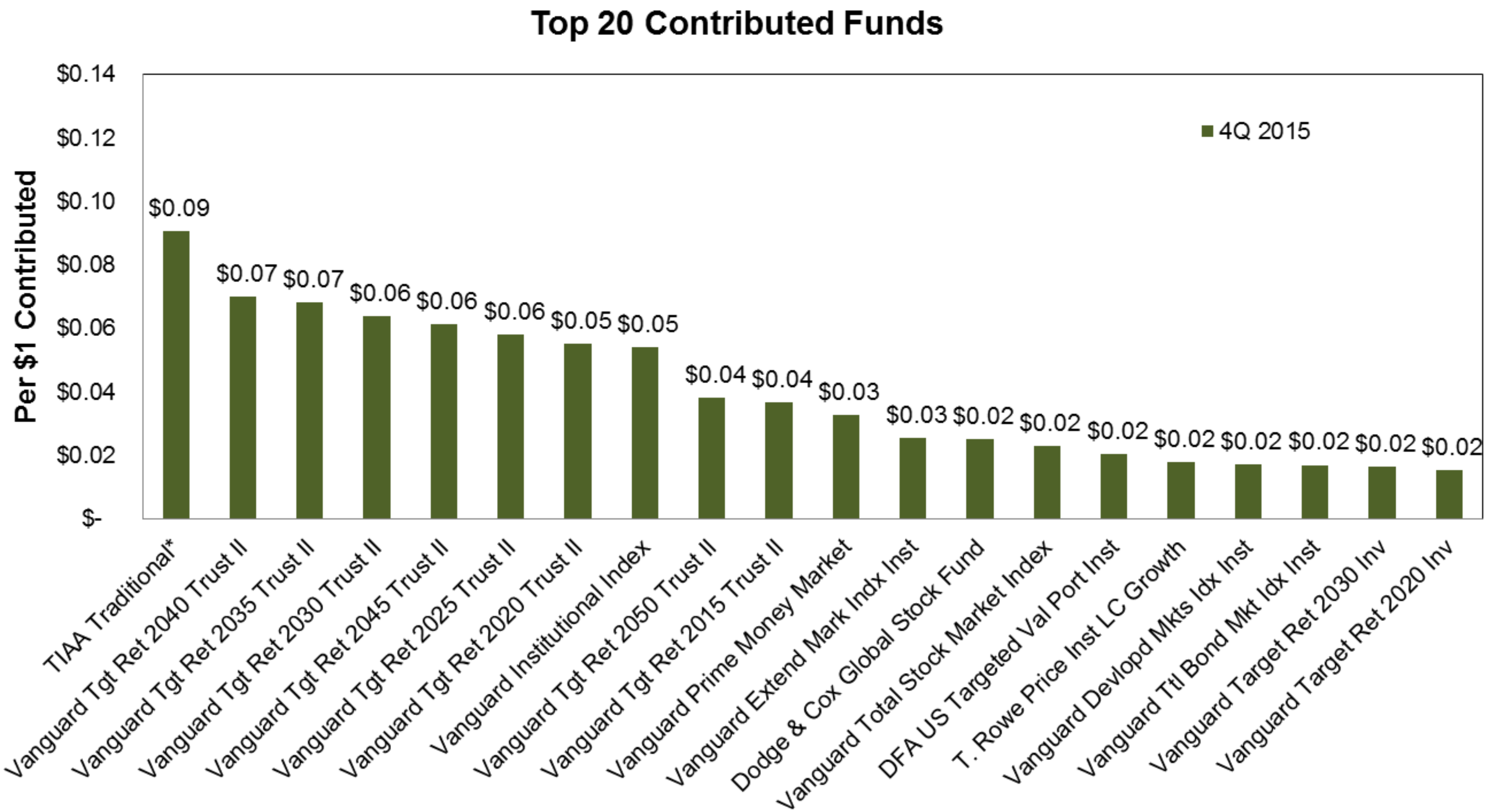
Tier IV and Other Assets

As of 12/31/2015

	Allocation		Performance(%)												
	Market Value ($)	%	1 Quarter		1 Year		3 Years		5 Years		10 Years		Since Inception		Inception Date
Tier IV	**2,716,670**	**0.1**													
Mutual Fund Window	2,716,670	0.1													
Orphan Accounts	**1,815,020,058**	**74.4**													
Fidelity Orphan Accounts	195,095,400	8.0													
TIAA-CREF Orphan Accounts	1,472,416,108	60.3													
VALIC Orphan Accounts	129,505,426	5.3													
T. Rowe Price Orphan Accounts	12,532,484	0.5													
American Century Orphan Accounts	5,470,640	0.2													
Other Assets	**1,032,216**	**0.0**													
Loans	528,223	0.0													
Loans Deemed Distributed	310,967	0.0													
Plan Loan Default Fund	45,574	0.0													
CREF Money Market		0.0													05/01/1988
iMoneyNet Prime Institutional Average			*0.0*	*(25)*	*0.0*	*(25)*	*0.0*	*(23)*	*0.0*	*(23)*	*1.3*	*(27)*	*3.4*	*(24)*	
TIAA-CREF Money Market-Instl.	147,452	0.0	0.0	(26)	0.0	(33)	0.0	(37)	0.0	(30)	1.4	(16)	2.0	(12)	08/01/1999
iMoneyNet Prime Institutional Average			*0.0*	*(25)*	*0.0*	*(25)*	*0.0*	*(23)*	*0.0*	*(23)*	*1.3*	*(27)*	*1.9*	*(34)*	

Top Contributed Funds

As of 12/31/2015



Source: As reported by TIAA-CREF

* TIAA Traditional Contribution Split: RC = 62% / RCP = 38%

Annual Fee Transparency

Investment Option	Market Value	Mgmt. Fee (%)	Mgmt. Fee ($)	Revenue Sharing (%)*	Revenue Sharing ($)	Total Expense (%)**	Total Expense ($)
Vanguard Target Retirement Income Trust II	$2,924,371	0.11%	$3,217	0.00%	$0	0.11%	$3,217
Vanguard Target Retirement 2010 Trust II	$7,577,318	0.11%	$8,335	0.00%	$0	0.11%	$8,335
Vanguard Target Retirement 2015 Trust II	$23,998,792	0.11%	$26,399	0.00%	$0	0.11%	$26,399
Vanguard Target Retirement 2020 Trust II	$34,987,836	0.11%	$38,487	0.00%	$0	0.11%	$38,487
Vanguard Target Retirement 2025 Trust II	$36,722,338	0.11%	$40,395	0.00%	$0	0.11%	$40,395
Vanguard Target Retirement 2030 Trust II	$38,656,617	0.11%	$42,522	0.00%	$0	0.11%	$42,522
Vanguard Target Retirement 2035 Trust II	$48,452,096	0.11%	$53,297	0.00%	$0	0.11%	$53,297
Vanguard Target Retirement 2040 Trust II	$47,482,196	0.11%	$52,230	0.00%	$0	0.11%	$52,230
Vanguard Target Retirement 2045 Trust II	$33,801,066	0.11%	$37,181	0.00%	$0	0.11%	$37,181
Vanguard Target Retirement 2050 Trust II	$14,359,720	0.11%	$15,796	0.00%	$0	0.11%	$15,796
Vanguard Target Retirement 2055 Trust II	$3,411,847	0.11%	$3,753	0.00%	$0	0.11%	$3,753
Vanguard Target Retirement 2060 Trust II	$1,288,112	0.11%	$1,417	0.00%	$0	0.11%	$1,417
Vanguard Target Retirement Income	$887,406	0.16%	$1,420	0.00%	$0	0.16%	$1,420
Vanguard Target Retirement 2010	$3,010,466	0.16%	$4,817	0.00%	$0	0.16%	$4,817
Vanguard Target Retirement 2015	$9,369,757	0.16%	$14,992	0.00%	$0	0.16%	$14,992
Vanguard Target Retirement 2020	$7,552,237	0.16%	$12,084	0.00%	$0	0.16%	$12,084
Vanguard Target Retirement 2025	$7,104,544	0.17%	$12,078	0.00%	$0	0.17%	$12,078
Vanguard Target Retirement 2030	$5,626,771	0.17%	$9,566	0.00%	$0	0.17%	$9,566
Vanguard Target Retirement 2035	$5,132,936	0.18%	$9,239	0.00%	$0	0.18%	$9,239
Vanguard Target Retirement 2040	$4,550,789	0.18%	$8,191	0.00%	$0	0.18%	$8,191
Vanguard Target Retirement 2045	$4,951,840	0.18%	$8,913	0.00%	$0	0.18%	$8,913
Vanguard Target Retirement 2050	$4,281,567	0.18%	$7,707	0.00%	$0	0.18%	$7,707
Vanguard Target Retirement 2055	$369,804	0.18%	$666	0.00%	$0	0.18%	$666
Vanguard Target Retirement 2060	$242,794	0.18%	$437	0.00%	$0	0.18%	$437
Vanguard Prime Money Market Fund	$9,273,148	0.10%	$9,273	0.00%	$0	0.10%	$9,273
TIAA Traditional - RC & RCP	$50,478,109	0.40%	$201,912	0.15%	$75,717	0.55%	$277,630
Vanguard Total Bond Market Index Fund	$15,583,688	0.06%	$9,350	0.00%	$0	0.06%	$9,350
PIMCO Total Return Fund	$6,922,960	0.46%	$31,846	0.00%	$0	0.46%	$31,846
Vanguard Total Stock Market Index Fund	$18,135,540	0.04%	$7,254	0.00%	$0	0.04%	$7,254
Vanguard Total International Stock Index	$3,392,605	0.12%	$4,071	0.00%	$0	0.12%	$4,071
Dodge & Cox Global Stock Fund	$18,466,360	0.55%	$101,565	0.10%	$18,466	0.65%	$120,031
DFA Inflation-Protected Securities Portfolio	$4,163,405	0.13%	$5,412	0.00%	$0	0.13%	$5,412
Neuberger Berman High Income Bond Fund	$6,645,554	0.62%	$41,202	0.00%	$0	0.62%	$41,202
Vanguard Institutional Index Fund	$43,350,034	0.04%	$17,340	0.00%	$0	0.04%	$17,340
T. Row e Price Instl. Large Cap Grow th Fund	$12,188,540	0.56%	$68,256	0.00%	$0	0.56%	$68,256
Diamond Hill Large Cap	$8,397,691	0.65%	$54,585	0.00%	$0	0.65%	$54,585
Vanguard Extended Market Index Fund - Instl.	$17,046,059	0.08%	$13,637	0.00%	$0	0.08%	$13,637
William Blair Small/Mid Cap Grow th Fund	$6,157,626	0.95%	$58,497	0.15%	$9,236	1.10%	$67,734
DFA U.S. Targeted Value	$13,459,351	0.37%	$49,800	0.00%	$0	0.37%	$49,800
Vanguard Developed Market Index Fund	$11,226,302	0.07%	$7,858	0.00%	$0	0.07%	$7,858
Harding Loevner International Equity Instl.	$3,047,674	0.71%	$21,638	0.15%	$4,572	0.86%	$26,210
MFS International Value Fund	$7,721,143	0.69%	$53,276	0.00%	$0	0.69%	$53,276
Vanguard Emerging Markets Stock Index Fund - Instl.	$7,019,280	0.12%	$8,423	0.00%	$0	0.12%	$8,423
Laudus Mondrian Emerging Markets Instl.	$1,009,441	1.20%	$12,113	0.00%	$0	1.20%	$12,113
Cohen and Steers Instl. Realty Shares	$10,814,957	0.75%	$81,112	0.00%	$0	0.75%	$81,112
Mutual Fund Window	$2,716,670	0.00%	$0	0.00%	$0	0.00%	$0
Total	$623,959,355	0.20%	$1,271,560	0.02%	$107,991	0.22%	$1,379,551
Without Brokerage	$621,242,686	0.20%	$1,271,560	0.02%	$107,991	0.22%	$1,379,551

Ibbotson Model Portfolios – Performance

As of 12/31/2015

	Performance(%)			
	1 Quarter	1 Year	Since Inception	Inception Date
RC				
Very Conservative	0.8	1.7	3.0	01/01/2014
Very Conservative Benchmark	*0.3*	*-0.2*	*1.4*	
Conservative	1.9	0.8	2.9	01/01/2014
Conservative Benchmark	*1.2*	*-1.0*	*1.6*	
Moderately Conservative	2.6	0.2	3.6	01/01/2014
Moderately Conservative Benchmark	*2.0*	*-1.2*	*2.1*	
Moderate	3.0	-0.5	3.5	01/01/2014
Moderate Benchmark	*2.6*	*-1.8*	*2.0*	
Moderately Aggressive	3.7	-1.3	3.4	01/01/2014
Moderately Aggressive Benchmark	*3.2*	*-2.4*	*2.1*	
Aggressive	4.4	-1.4	3.5	01/01/2014
Aggressive Benchmark	*3.7*	*-3.0*	*1.9*	
Very Aggressive	4.6	-3.1	2.3	01/01/2014
Very Aggressive Benchmark	*4.3*	*-3.6*	*1.7*	
RCP				
Very Conservative	0.7	1.4	2.7	01/01/2014
Very Conservative Benchmark	*0.3*	*-0.2*	*1.4*	
Conservative	1.7	0.4	2.6	01/01/2014
Conservative Benchmark	*1.2*	*-1.1*	*1.6*	
Moderately Conservative	2.5	-0.2	3.3	01/01/2014
Moderately Conservative Benchmark	*1.9*	*-1.3*	*2.2*	
Moderate	2.9	-0.9	3.2	01/01/2014
Moderate Benchmark	*2.5*	*-2.0*	*2.1*	
Moderately Aggressive	3.6	-1.5	3.3	01/01/2014
Moderately Aggressive Benchmark	*3.1*	*-2.5*	*2.1*	
Aggressive	4.4	-1.4	3.5	01/01/2014
Aggressive Benchmark	*3.7*	*-3.0*	*1.9*	
Very Aggressive	4.6	-3.1	2.3	01/01/2014
Very Aggressive Benchmark	*4.3*	*-3.6*	*1.7*	

Ibbotson Model Portfolios – Allocations

RC

Fund Name	Very Conservative	Conservative	Moderately Conservative	Moderate	Moderately Aggressive	Aggressive	Very Aggressive
TIAA Traditional	40%	34%	30%	22%	15%	7%	-
Cohen & Steers Instl Realty Shares	-	-	3%	3%	3%	3%	3%
DFA Inflation-Protected Securities I	7%	7%	6%	4%	3%	-	-
DFA US Targeted Value I	-	3%	-	-	-	-	-
Diamond Hill Large Cap Y	-	-	3%	5%	6%	8%	4%
Dodge & Cox Global Stock	-	3%	14%	15%	22%	27%	27%
Harding Loevner International Eq Instl	-	7%	4%	-	-	-	-
MFS International Value R5	3%	-	-	5%	5%	7%	-
Neuberger Berman High Income Bond R6	7%	8%	6%	6%	3%	-	-
PIMCO Total Return Instl	28%	14%	5%	-	-	-	-
T. Rowe Price Instl Large Cap Growth	-	-	-	-	-	6%	-
Vanguard Developed Markets Idx Instl	-	-	-	-	-	-	11%
Vanguard Emerging Mkts Stock Idx I	-	-	-	3%	3%	4%	6%
Vanguard Extended Market Idx I	3%	3%	5%	11%	12%	13%	18%
Vanguard Institutional Index I	3%	13%	16%	18%	23%	20%	31%
Vanguard Prime Money Market Instl	6%	4%	-	-	-	-	-
Vanguard Total Bond Market Index I	3%	4%	8%	8%	5%	5%	-

RCP

Fund Name	Very Conservative	Conservative	Moderately Conservative	Moderate	Moderately Aggressive	Aggressive	Very Aggressive
TIAA Traditional	40%	32%	25%	16%	10%	5%	-
Cohen & Steers Instl Realty Shares	-	-	3%	3%	3%	3%	3%
DFA Inflation-Protected Securities I	7%	7%	6%	4%	3%	-	-
DFA US Targeted Value I	-	3%	-	-	-	-	-
Diamond Hill Large Cap Y	-	-	3%	5%	6%	8%	4%
Dodge & Cox Global Stock	-	4%	14%	15%	22%	27%	27%
Harding Loevner International Eq Instl	-	6%	4%	-	-	-	-
MFS International Value R5	3%	-	-	5%	5%	7%	-
Neuberger Berman High Income Bond R6	7%	8%	6%	6%	3%	-	-
PIMCO Total Return Instl	28%	14%	6%	3%	-	-	-
T. Rowe Price Instl Large Cap Growth	-	-	-	-	-	6%	-
Vanguard Developed Markets Idx Instl	-	-	-	-	-	-	11%
Vanguard Emerging Mkts Stock Idx I	-	-	-	3%	3%	4%	6%
Vanguard Extended Market Idx I	3%	3%	5%	11%	12%	13%	18%
Vanguard Institutional Index I	3%	13%	16%	18%	23%	20%	31%
Vanguard Prime Money Market Instl	6%	4%	-	-	-	-	-
Vanguard Total Bond Market Index I	3%	6%	12%	11%	10%	7%	-

Ibbotson Model Portfolios – Benchmarks

RC Contract Portfolio Benchmarks

Index	Very Conservative	Conservative	Moderately Conservative	Moderate	Moderately Aggressive	Aggressive	Very Aggressive
Russell 1000 Growth Index	-	5%	7%	9%	11%	13%	15%
Russell 1000 Value Index	4%	8%	9%	12%	15%	16%	18%
Russell Mid Cap Growth Index	3%	3%	4%	4%	5%	7%	7%
Russell Mid Cap Value Index	-	3%	6%	7%	9%	10%	11%
Russell 2000 Growth Index	-	-	-	3%	3%	4%	4%
Russell 2000 Value Index	-	3%	3%	4%	5%	6%	7%
MSCI All Country World ex-U.S. Index	3%	5%	10%	13%	16%	20%	24%
MSCI Emerging Markets Index	-	3%	3%	5%	6%	8%	10%
FTSE NAREIT Equity REIT Index	-	-	3%	3%	3%	3%	4%
Barclays Corporate High Yield Index	9%	8%	6%	5%	3%	-	-
Barclays U.S. TIPS Index	9%	7%	6%	4%	3%	-	-
Barclays Long-Term Bond Index	6%	5%	4%	3%	3%	3%	-
Barclays Capital US 1-3 Year Government/Credit Bond Index	22%	13%	9%	6%	3%	3%	-
BofA Merrill Lynch US 3-Month Treasury Bill	4%	3%	-	-	-	-	-
Hueler Stable Value Index	40%	34%	30%	22%	15%	7%	-

RCP Contract Portfolio Benchmarks

Index	Very Conservative	Conservative	Moderately Conservative	Moderate	Moderately Aggressive	Aggressive	Very Aggressive
Russell 1000 Growth Index	-	5%	7%	9%	11%	13%	15%
Russell 1000 Value Index	4%	8%	9%	12%	15%	16%	18%
Russell Mid Cap Growth Index	3%	3%	4%	4%	5%	7%	7%
Russell Mid Cap Value Index	-	3%	6%	7%	9%	10%	11%
Russell 2000 Growth Index	-	-	-	3%	3%	4%	4%
Russell 2000 Value Index	-	3%	3%	4%	5%	6%	7%
MSCI All Country World ex-U.S. Index	3%	5%	10%	13%	16%	20%	24%
MSCI Emerging Markets Index	-	3%	3%	5%	6%	8%	10%
FTSE NAREIT Equity REIT Index	-	-	3%	3%	3%	3%	4%
Barclays Corporate High Yield Index	9%	8%	6%	5%	3%	-	-
Barclays U.S. TIPS Index	9%	7%	6%	4%	3%	-	-
Barclays Long-Term Bond Index	6%	6%	6%	5%	4%	5%	-
Barclays Capital US 1-3 Year Government/Credit Bond Index	22%	14%	12%	10%	7%	3%	-
BofA Merrill Lynch US 3-Month Treasury Bill	4%	3%	-	-	-	-	-
Hueler Stable Value Index	40%	32%	25%	16%	10%	5%	-

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Agenda Tracker

Vanguard Target Retirement Funds

- All of the Vanguard Target Date Retirement Funds posted positive returns during the fourth quarter as the global equity markets became calmer and recovered from the volatile, negative third quarter
  - The longer dated Funds, with their greater exposure to equities, posted the strongest absolute returns
    - U.S. equities outperformed non-U.S. equities amid continued growth concerns in China and sliding oil and commodity prices
  - The shorter-dated funds, with their greater fixed income exposure, posted lower absolute returns as the Federal Reserve instituted the first increase (of 0.25%) in short-term interest rates in a decade
    - U.S. fixed income saw modest losses as the Barclay's Aggregate Bond Index returned -0.6% during the quarter
    - International bonds outperformed U.S. bonds (+0.4%)
    - Treasury Inflation-Protected Securities performed in line with its benchmark (-0.4%)
- For the trailing one-year period, all of the Target Retirement Funds posted modestly negative returns, ranging from -0.2% for the Retirement Income Fund to -1.7% for Target Retirement 2060 Fund
- Longer-term results continued to closely track their benchmarks and rank favorably among their respective peer-groups

Vanguard lowered the fee for its Target Retirement Trust II class shares from 0.11% to 0.08% on January 1, 2016

Vanguard Group Inc.

- Over the past year, there have been several articles in the press regarding a former Vanguard tax lawyer who claims that:
  - Vanguard provides services to its mutual funds at below the market price for such services, which leads to lower income and lower taxes paid
  - If Vanguard had charged market rates for its services to its mutual funds, it would have generated more income and paid out more in taxes during his tenure at Vanguard (2008-2013).
- In November 2015, the New York Supreme Court dismissed the “Whistle Blower” lawsuit
  - The Court agreed with Vanguard’s position that the former employee violated attorney-client privilege and New York state ethics rules in bringing the claim
- In December 2015, Vanguard agreed to pay $2.3 million in back taxes to the State of Texas
  - The payment was in response to a standard audit and was *not* related to the whistle blower case
- Following a recent due diligence discussion, Aon Hewitt’s Global Operational Due Diligence team:
  - Does not have information that suggests any imminent risk or anticipate an outcome that would trigger liquidation exposure for Vanguard
  - Does not perceive any imminent impact on the firm’s ability to operate as a going concern, or an investor’s ability to liquidate their investments in an orderly manner.
- Our overall ratings for Vanguard’s mutual funds remain unchanged and we recommend the Committee take no action at this time
- A Flash report detailing our observations is included in Section 4 of this presentation

Dodge & Cox Global Stock Fund

- The Fund underperformed its benchmark, MSCI All Country World Index, by 1.5 percentage points during the fourth quarter
- The Fund's underperformance was primarily attributable to:
  - An overweight allocation to emerging markets
  - Holdings within the financials sector; specifically Barclays (-12%), Kasikornbank (-12%), and Credit Suisse (-7%)
  - Negative stock selection within the health care sector; specifically Sanofi (-10%) and Novartis (-6%)
- Partially offsetting negative results was an overweight allocation and positive stock selection within the information technology sector
- For the trailing one-year period, the Fund generated a return of -8.0% versus the benchmark's return of -2.4%
  - Relative returns in the financials sector, especially in emerging markets, detracted from performance
- Longer-term results continued to remain favorable
- The strategy remains "Buy" rated by our Global Investment Management Research Team

Dodge & Cox Funds

- In January, Dodge & Cox announced a number of role changes that pertain to its Investment Policy Committee (IPC) and the Global Stock Investment Policy Committee (GSIPC)
  - Kathleen G. McCarthy, Vice President, joined the IPC effective January 15, 2016. Ms. McCarthy joined Dodge & Cox in 2007 and is a shareholder of the firm
  - David C. Hoeft, Director, joined the GSIPC effective January 15, 2016. Mr. Hoeft joined the Firm in 1993, he is a shareholder of the Firm, and has been a member of the IPC since 2002
  - Roger Kuo has been elected to the Dodge & Cox, Inc. Board of Directors. Mr. Kuo joined the Firm in 1998 and is a member of the firm’s International Investment Policy Committee and GSIPC
- These incremental changes are the result of the pending retirements of Greg Serrurier, effective June 30, 2016, and John Gunn, effective December 31, 2016, both of whom are stepping off the IPC effective March 31, 2016 and May 31, 2016, respectively
- Aon Hewitt’s Global Investment Management (GIM) team continues to believe that Dodge & Cox’s investment team contains a large number of high quality, experienced, and tenured individuals
  - Following these changes, the IPC and GSIPC will have average tenures of 23 years and 20 years, respectively
- Aon Hewitt’s Global Investment Management (GIM) team recommends the Committee take no action with respect to the global equity strategy, which remains “Buy” rated
- Flash reports detailing our observations is included in Section 5 of this presentation

DFA Inflation-Protected Securities Portfolio

- The Fund underperformed its benchmark, the Barclays U.S. TIPS Index, by 0.5 percentage points during the fourth quarter
- The Fund’s underperformance was primarily attributable to:
  - An underweight allocation to the short end of the yield curve which experienced the largest increase in yields
  - The impact of pricing variations between the Fund and the index
- Partially offsetting negative results was an underweight allocation to the long end of the yield curve as long-term maturities underperformed in the U.S.
- For the trailing one-year period, the Fund generated a return of -1.2% versus the benchmark’s return of -1.4%
- Longer-term results continued to remain favorable
- The strategy remains “Buy” rated by our Global Investment Management Research Team

Neuberger Berman High Income Bond Fund

- The Fund continued to register "Red" on the Watch List during the fourth quarter
  - Due to the manager's historical underperformance relative to its benchmark over the trailing five-year period and in three of the four most recent trailing calendar quarters
- While negative in absolute terms, the Fund outperformed its benchmark, the Barclays Corporate High Yield Index, by 0.4 percentage points during the fourth quarter
- The Fund's outperformance was primarily attributable to:
  - Positive security selection within the energy sector
  - An underweight allocation to the metals/mining and steel sectors
- Partially offsetting the period's positive results was security selection within the media-broadcast, telecommunications, and banking sectors
- For the trailing one-year period, the Fund generated a return of -4.7% versus the benchmark's return of -4.5%
- At the November 2015 RPAC meeting, members concluded that it would be in the best interest of the Plans' participants and beneficiaries to make no changes to the investment line-up after comparing the Neuberger Berman High Income Bond Fund against alternative "Buy" rated high yield managers
- The strategy remains "Buy" rated by our Global Investment Management research team

T. Rowe Price Instl. Large Cap Growth Fund

- The Fund registered “Yellow” on the Watch List during the fourth quarter
  - Due to an adverse change in portfolio management talent
- On February 1, 2016, T. Rowe Price announced that Rob Sharps, lead portfolio manager for the Institutional Large Cap Growth Fund, will relinquish his responsibilities on January 1, 2017 to assume a new role as the firm’s Co-Head of Global Equity
  - Taymour Tamaddon, portfolio manager for the Health Sciences Equity strategy and leader of the firm’s health care sector team has been named as Mr. Sharps’ successor
  - Mr. Tamaddon will transition to the Large Cap Growth strategy on June 30, 2016 and will not oversee buy and sell decisions for the Large Cap Growth strategy until January 1, 2017
- As a result of this announcement, AHIC’s Global Investment Manager research team changed its rating for the strategy from “Buy” to “In Review”
  - While the strategy has benefited from the broader resources of the firm, we recognize that the strength of its track record is enhanced by the investment acumen and experience of Rob Sharps
  - While Mr. Sharps’ successor, Mr. Taymour Tamaddon, has demonstrated success in his tenure at T. Rowe Price, his portfolio management experience has been limited to sector portfolios
- We recommend the Committee take no action at this time given that the transition is not scheduled to occur until the beginning of 2017
  - We are continuing to monitor the situation closely and will keep the Committee informed of any change in our views
- A Flash report detailing our observations is included in Section 6 of this presentation

William Blair Small-Mid Cap Growth Fund

- The Fund underperformed its benchmark, the Russell 2500 Growth Index, by 0.9 percentage points during the fourth quarter
- The Fund's underperformance was primarily attributable to:
  - Unfavorable stock selection within the healthcare and information technology sectors
  - Underweight allocation to biotechnology and pharmaceuticals
- Partially offsetting negative results was positive stock selection within the consumer discretionary and financial sectors
- For the trailing one-year period, the Fund generated a return of 4.7% versus the benchmark's return of -0.2%
- Longer-term results continued to remain favorable
- In December 2015, the SEC sent William Blair a Wells Notice, which is a notification that SEC Staff intends to recommend enforcement action to SEC Commissioners
- Based on the information it has, William Blair believes the SEC's intended actions are without merit and it will continue to defend itself
- A Flash report detailing our observations is included in Section 7 of this presentation
- The strategy remains "Buy" rated by our Global Investment Management Research Team

DFA U.S. Targeted Value Fund

- The Fund underperformed its benchmark, the Russell 2500 Value Index, by 0.8 percentage points during the fourth quarter
- The Fund's underperformance was primarily attributable to:
  - An overweight allocation and poor stock selection within the consumer discretionary sector
  - An underweight allocation to REITS and poor stock selection within the utilities sector
  - An overweight allocation within the energy sector
- Partially offsetting negative results was favorable stock selection within the information technology and materials sectors
- For the trailing one-year period, the Fund generated a return of -5.7% versus the benchmark's return of -5.5%
- Longer-term results continued to remain favorable
- The strategy remains "Buy" rated by our Global Investment Management Research Team

Laudus Mondrian Emerging Markets Instl.

- The Fund registered “Yellow” on the Watch List during the fourth quarter
  - Due to the manager’s historical underperformance relative to its benchmark over the trailing five-year period and in three of the four most recent trailing calendar quarters
- The Fund underperformed its benchmark, the MSCI Emerging Markets Index, by 1.9 percentage points during the fourth quarter
- The Fund’s underperformance was primarily attributable to:
  - An overweight allocation within the telecommunication services sector
  - An underweight allocation within the information technology sector
  - An underweight allocation to Korea and China
- Partially offsetting negative results was favorable stock selection within the health care sector and overweight allocation within consumer discretionary
- For the trailing one-year period, the Fund generated a return of -19.4% versus the benchmark’s return of -14.9%
- We continue to closely monitor the Fund’s positioning and performance but recommend the Committee take no action
- The strategy remains “Buy” rated by our Global Investment Management Research Team

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Agenda Tracker

Flash Report

Vanguard Group Inc. – Whistle Blower Cases and Agreement to Pay Texas Taxes

Recommendation

Aon Hewitt's Global Investment Manager research team recently held a conference call with representatives from Vanguard to discuss the recent news of the firm agreeing to pay $2.3 million in back taxes to the State of Texas and to address the ongoing "Whistle Blower" headlines in the press. Vanguard commented that the payment of back taxes to Texas is not related to the Whistle Blower Cases, but instead was the outcome of a standard audit. Furthermore, Vanguard indicated that the complaint filed in New York by the Whistle Blower, an ex-lawyer from Vanguard, was dismissed after a justice found that the individual had improperly shared confidential company information as part of his filing. Additionally, Vanguard is not aware of any other outstanding cases involving the Whistle Blower at this time.

Currently, the Aon Hewitt Global Operational Due Diligence team does not have information that suggests any imminent risk or anticipate an outcome that would trigger liquidation exposure for Vanguard. In these situations, the Global Operational Due Diligence team makes an assessment of whether they perceive any imminent financial risk to investors, as well as an assessment of the range of outcomes and how they may impact a firm or fund's ability to operate as a going concern, or an investor's ability to liquidate its investment in an orderly manner.

Our overall ratings for Vanguard's mutual funds remain unchanged and we recommend clients should take no action at this time.

Background

There have been several articles in the press over the past year regarding a former Vanguard tax lawyer who has alleged that Vanguard provides services to its mutual funds at below the market price for such services, which leads to lower income and lower taxes paid. The ex-lawyer has claimed that if Vanguard had charged market rates for its services to its mutual funds, it would have generated more income and as a result paid out more in taxes during his tenure at Vanguard (2008-2013). He claims that Vanguard has underpaid its taxes by tens of billions of dollars. The ex-lawyer made these allegations in claims filed with the IRS and the SEC, as well as with tax authorities in Texas and California.

Disclaimer

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THE FEELING ISN'T MUTUAL

By not earning profits, Vanguard has earned the wrath of the IRS, and investors may end up paying the price

IF YOU ARE AMONG the 20 million Americans saving for retirement through Vanguard, you may be in for an expensive shock. The nation's largest mutual fund company is under fire for not taking more of your money. That sounds ridiculous, but based on arcane provisions of the endlessly complex U.S. tax code, the Pennsylvania-based company may soon be forced to pay a staggering amount of back taxes because of the famously low fees it charges to manage your nest egg.

Two years ago, David Danon, a former Vanguard tax lawyer who is now a whistleblower no one would ever confuse with Erin Brockovich, filed formal complaints with the Internal Revenue Service and many state taxing agencies claiming that Vanguard's low fees are an illegal tax dodge. He argues that Vanguard should have charged investors an extra $19.8 billion in investment fees this year alone and owes almost $35 billion in taxes, interest and penalties since 2007. Under a 2006 law, a tax whistleblower may get 15 to 30 percent of what the IRS collects, which means Danon could be heading for a $10 billion payday.

Vanguard insists it does not owe any corporate income taxes, but Danon just collected a $117,000 whistleblower bounty from Texas, which suggests the company paid that state at least $2.3 million in taxes based on his information, because the reward rate there is 5 percent. Texas audited Vanguard four times last year, finding taxes owed in each case, public records show without revealing the amounts. In November, the California Franchise Tax Board sent Danon an email saying his complaint against Vanguard warranted assigning criminal investigators. Vanguard could be on the hook for about $750 million there.

If Danon wins in other courts—and tax law seems to be on his side—people investing through Vanguard would accumulate much less money in their accounts because higher fees would cut into their investment gains. One of the most widely read tax scholars in America, professor Reuven Avi-Yonah of the University of Michigan Law School, says the case against Vanguard is clear-cut. "The IRS will win in court if it challenges Vanguard's" policy of not earning profits, he tells *Newsweek*.

There is a double whammy here for Vanguard's customers: Raising fees to cover those taxes could require quadrupling its average fee, according to Avi-Yonah, who is working with Danon on this issue. Increasing Vanguard's average annual fee of $2 per $1,000 invested to the industry average would mean a fee of $8.20. If the stock market goes up by 5 percent, or $50 for every $1,000 invested with Vanguard, the amount investors keep after fees would drop from $48 to less than $42. Over time, that smaller return takes a larger and larger bite from investors because there is less money to reinvest.

The paradox behind this dispute is that federal tax law assumes for-profit corporations like

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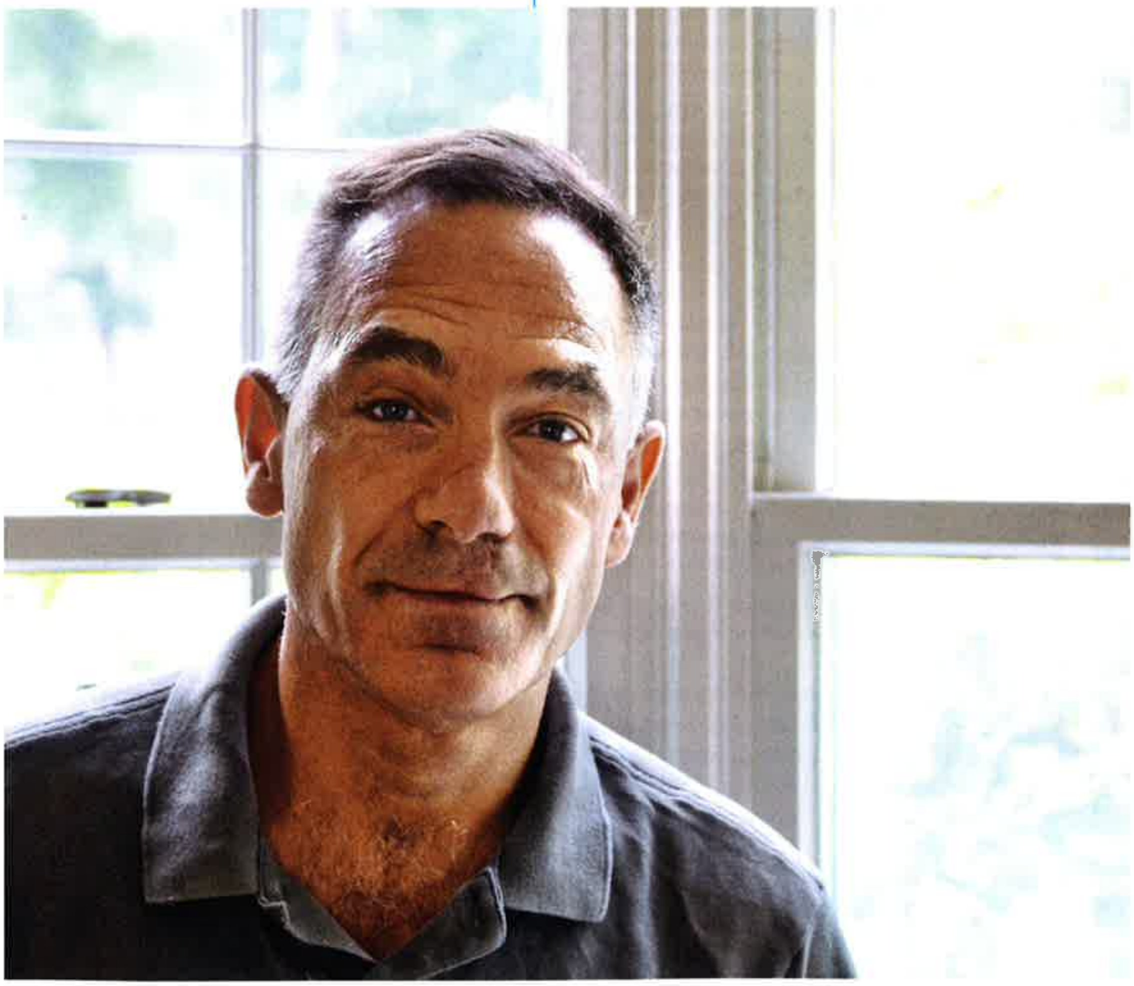
Vanguard Group Inc. earn a profit. But by design, the Vanguard Group does not earn any profits, even though every other major mutual fund company does. Congress has carved out 29 exceptions to taxing corporate profits under Section 501(c) of the tax code—it authorizes tax-exempt electric power cooperatives and even small nonprofit insurance companies—but there is no exception authorizing a company investing mutual fund money to operate without profits.

And why would a company do that? Most mutual funds are sold by an investment company created to make a profit by managing investors' money. These companies buy and sell stocks and bonds, keep records and do other work. They charge investors annual fees to cover their costs and generate a hefty profit. Industry records indicate that more than 30 cents out of each dollar in mutual fund fees goes for profits. That's extraordinarily profitable—the 100,000 or so largest companies in America typically keep as profit less than 7 cents out of each dollar they collect from customers.

Vanguard Group does not take a profit from the mutual funds it manages because of its unique structure. The Vanguard Group is not an independent company; it is owned by all the investors in Vanguard mutual funds, and one board of directors oversees both. Vanguard Group founder Jack Bogle has said his motive in creating the Vanguard mutual funds was to maximize returns to investors through lower

A WHISTLEBLOWER MAY GET UP TO 30 PERCENT OF WHAT THE IRS COLLECTS SO DANON COULD BE HEADING FOR A $10 BILLION PAYDAY.



EN VANGUARD! Danon says the mutal fund company fired him after he alleged it was using an illegal tax dodge; he's now pursuing complaints against it with the IRS and several states.

TOM GRALISH/PHILADELPHIA INQUIRER/MCT/NEWSCOM costs, not to maximize profits for the managers of those funds. Charging yourself a profit makes no sense, Bogle explained long ago.

Bogle also says the profit motive creates a conflict of interest between the investment company managers, who want to make as much as they can, and the mutual fund investors, who want to keep as much of their investment gains as they can. He maintains that eliminating the profit motive eliminates that conflict. It can also eliminate a huge tax bill, as Danon argues.

Making a profit matters because of a widely used tax dodge involving related companies, known as transfer pricing. Consider a company that manufactures shoes in Asia at a cost of $2 a pair. While the shoes are on a ship crossing the Pacific, the company's manufacturing subsidiary in Asia transfers ownership of the shoes to a sister company in the Cayman Islands that exists only on paper. The Caymans subsidiary pays $52 for the shoes, then resells the shoes to American retailers for $60, producing gross profit of $58. (And you pay $120 at the register.)

Of the $58 gross profit, $50 was taken in the Caymans, where no tax is imposed. Edward Kleinbard, who for years was a prominent designer of tax shelters before he began exposing such techniques, says the goal of such maneuvers is earning "stateless income," so-called because no government taxes the profit.

To limit such ploys, Congress requires that internal company transactions be at *arm's length*. That means charging for all goods and services at close to what an independent company would demand.

But in Vanguard's case, there are no profits hidden offshore. Instead, investors keep more of what the market generates and, when they withdraw their money, pay higher taxes only because they have earned more money.

Danon's lawyer for his whistleblower claims, Stephen Sorensen, argues that under Section 482 of the tax code, "you are not allowed to offer services internally at cost except for a few truly administrative things." The Vanguard setup, he says, "clearly does not qualify."

Sorensen acknowledges that "this is not the prototypical Section 482 case," in which tax havens are used to hide profits offshore, because Vanguard seeks no profits.

Sorensen and others say Congress could resolve Danon's complaint in several ways and allow Vanguard to stick with its low fees. One would be to add a line to Section 482 explicitly exempting from tax any mutual fund investment management company owned by the mutual funds it serves. That would surely set off a huge lobbying blitz by other mutual funds, which would like to see Vanguard forced to raise its fees and thereby lose its huge competitive advantage.

Another solution would be to add a 30th exemption to the list of nonprofit activities allowed in the tax code.

If Congress bails out Vanguard with either of those moves, it could add a requirement that Vanguard disclose how much it pays its executives and money managers, perhaps all those making $1 million or more. "Nobody has any idea what anyone at Vanguard makes," Sorensen says. "They can pay themselves whatever they want because it's kind of a black box without any disclosures, and no one [who invests through them] cares because Vanguard's fees are so low."

DANON ARGUES THAT VANGUARD SHOULD HAVE CHARGED INVESTORS AN EXTRA $19.8 BILLION IN INVESTMENT FEES.

Even with those low fees, those managers' pay could be significant since the Vanguard Group manages more than $3 trillion, a fifth of all American mutual fund assets. Given how much Congress has expanded disclosures of executive pay at both nonprofits and publicly traded companies, requiring such disclosures for mutual fund companies is likely to enjoy broad political support.

Or Congress could do nothing and see if the IRS smacks Vanguard with a $35 billion tax bill. That would make for a lot of unhappy Vanguard investors, but for all those competing companies charging higher fees, the news would be glad tidings of great joy.

Agenda Tracker

Flash Report

Changes to the Investment Policy Committee (IPC) and the Global Stock Investment Policy Committee (GSIPC)

Background

Dodge & Cox has informed us of a number of role changes that pertain to the Investment Policy Committee (IPC) and the Global Stock Investment Policy Committee (GSIPC).

- Kathleen G. McCarthy, Vice President, joined the IPC effective January 15, 2016. Ms. McCarthy joined Dodge & Cox in 2007 and is a shareholder of the firm.

- David C. Hoeft, Director, joined the GSIPC effective January 15, 2016. Mr. Hoeft joined the Firm in 1993, is also a shareholder of the Firm and has been a member of the IPC since 2002.

- Roger Kuo has been elected to the Dodge & Cox, Inc. Board of Directors. Mr. Kuo joined the Firm in 1998 and is a member of the firm's International Investment Policy Committee and GSIPC.

These changes appear incremental in nature and take place as a result of the pending retirements of Greg Serrurier, effective June 30, 2016, and John Gunn, effective December 31, 2016, both of whom are stepping off the IPC effective March 31, 2016 and May 31, 2016 respectively.

Recommendation

Aon Hewitt's Global Investment Management (GIM) team recommends that clients take no action with respect to both the U.S. Equity and Global Equity strategies, both of which remain "Buy" rated. We have historically noted and continue to believe that Dodge & Cox's investment team contains a large number of high quality, experienced, and tenured individuals. Following these changes, the IPC and GSIPC will have average tenures of 23 years and 20 years, respectively.

Please reach out to your local GIM contact if you have any questions.

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Flash Report

Retirement of Gregory Serrurier a member of the Investment Policy Committee (IPC) & International Investment Policy Committee (IIPC) effective June 30, 2016

Dodge & Cox has informed us of Gregory Serrurier's upcoming retirement from the Firm effective June 30, 2016. Mr. Serrurier joined Dodge & Cox in 1984 and has over 30 years of investment experience. Mr. Serrurier is currently a member of both the IPC and the IIPC, the decision making bodies responsible for the U.S. Equity and International Equity strategies respectively. Mr Serrurier will resign from both the IPC and IIPC effective March 31, 2016. There is no set target number of individuals required for each investment committee, however, the Firm reassesses the membership of every committee at each year end and any changes are communicated in the following January or February.

Aon Hewitt's Global Investment Management (GIM) team recommends that clients take no action with respect to both the U.S. Equity and International Equity strategies, both of which remain "Buy" rated. We have historically noted and continue to believe that Dodge & Cox's investment team contains a large number of high quality, experienced, and tenured individuals.

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Flash Report

T. Rowe Price Associates– Portfolio Management Transition for the Institutional Large Cap Growth Strategy

Recommendation

As a result of this announcement, the rating for the T. Rowe Price Institutional Large Cap Growth strategy will move from Buy to In Review. While the strategy has benefited from the broader resources of the firm, we also recognize that the strength of its track record is enhanced by the investment acumen and experience of Rob Sharps. Furthermore, while Mr. Sharps' successor, Mr. Taymour Tamaddon, has demonstrated success in his tenure at T. Rowe Price, we acknowledge this portfolio management experience has been limited to sector portfolios. In the coming months, we will meet with Mr. Sharps to gain additional insight into the transition as well as with Mr. Tamaddon to discuss his approach to managing a broader market portfolio.

We have not modified the ratings of the other strategies within the T. Rowe Price family of US large cap growth strategies, such as the T. Rowe Price Large Cap Core Growth strategy and corresponding Blue Chip Growth Fund or the Growth Stock Fund. There are no anticipated changes within the portfolio management teams directly associated with these strategies.

Background

On February 1, 2016, T. Rowe Price announced that Rob Sharps, lead portfolio manager for the Institutional Large Cap Growth strategy, will officially relinquish his current role on January 1, 2017 to assume a role as the firm's Co-Head of Global Equity. As a result of this announcement, T. Rowe Price has named Taymour Tamaddon, portfolio manager for the Health Sciences Equity strategy and leader of the firm's healthcare sector team, as Mr. Sharps' successor. While Mr. Tamaddon has not managed a broader market portfolio during his tenure at T. Rowe Price, his selection as Mr. Sharps' successor was driven by the strength of his track record as both an analyst overseeing the healthcare sector (to which the Institutional Large Cap Growth strategy has been heavily allocated in varying periods) and portfolio manager for the Health Sciences Equity strategy. Furthermore, Mr. Tamaddon and Mr. Sharps have worked closely in the due diligence of healthcare companies and possess similar research methodologies.

Mr. Tamaddon will transition to the Large Cap Growth strategy on June 30, 2016. However, he will not be managing the Health Sciences Equity strategy concurrently and will transition his portfolio management duties to Ziad Bakri, who is a member of the firm's healthcare research team, on July 1, 2016. Furthermore, Mr. Tamaddon will not oversee buy and sell decisions for the Large Cap Growth strategy until January 1, 2017.

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Flash Report

William Blair & Company, L.L.C.

SEC Investigation Update – Wells Notice

Recommendation

In December 2015, the SEC sent William Blair & Company, L.L.C. (William Blair) a Wells Notice, a notification that SEC Staff intends to recommend enforcement action to SEC Commissioners. We spoke with Compliance at William Blair for an update on the ongoing SEC investigation.

Due to the non-public nature of this investigation, William Blair is not able to divulge specific details. At the same time, the SEC has also not officially detailed what it intends to pursue. Counsel for both William Blair and the SEC have been in communication. Based on the information it has, William Blair believes the SEC's intended actions are without merit and it will continue to defend itself.

William Blair responded to the Wells Notice in January 2016 and is waiting to hear from the SEC. We recommend clients take no actions at this time. We will monitor the situation closely as additional details arise.

Background

Below is a brief timeline of SEC's investigation:

- William Blair was notified in Q2 2013 of an SEC Sweep Exam. Multiple people from multiple SEC offices were onsite during Q2 2013. There were no communications between William Blair and the SEC until December 2013 when the manager received a follow up request for additional information.
- Subsequently in 2014, William Blair received eight additional requests.
- In November 2014, William Blair received notice that SEC referred certain items to its enforcement division.
- In December 2015, William Blair received a Wells Notice.
- This is a non-public investigation. So William Blair can't divulge specific details. At the same time, SEC has not officially detailed out what they're pursuing. But based on conversations between both sides, William Blair believes they have an understanding of what SEC is looking for. According to William Blair, "… the investigation relates only to administrative fees paid on N and I shares and does not involve the investment management operations of the firm or the funds."
- William Blair has elected to respond to the Wells Notice based on what it believes SEC is pursuing.
- William Blair believes there is no merit to the SEC's actions.
- Next steps, the SEC to respond to William Blair.

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1st Quarter 2016

Quarterly Update

Aon Hewitt Retirement Legal Consulting & Compliance

In this Issue

Prior Issues

We are happy to report that prior issues can be found on **aon.com**.

Four most recent issues - **Click here**
Select "Newsletters"

Older editions - **Click here**
Select "Retirement Practice Legal Consulting & Compliance Quarterly Update" in the Newsletters section.

Notes From Your Editor

It's 2016! Cycle E determination letters have all been submitted to the Internal Revenue Service (IRS) and advance planners may want to start thinking about their Cycle A submissions. The IRS is eliminating the current determination letter program and next year's filings will be the last for ongoing plans until we receive new guidance.

In addition to the update on the IRS determination letter program, there are a lot of other interesting topics covered. The Department of Labor (DOL), for example, has issued welcome guidance on investing in economically targeted investments; investments that provide collateral societal benefits in addition to appropriate financial returns for the plan.

The impact of the *U.S. vs. Windsor* decision on qualified plans continues to stay in the news. We discuss a recent U.S. District Court decision where the court refused to dismiss a claim that the Employee Retirement Income Security Act of 1974 (ERISA) required the payment of death benefits to the same-sex spouse of a participant who died prior to Section 3 of the Defense of Marriage Act being declared unconstitutional.

The IRS has further extended the deadline for compliance with much of the final regulations on hybrid plans. For plan sponsors with ESOPs, we have provided information on a recent settlement agreement between a plan sponsor and the DOL regarding how plan fiduciaries should value non-publicly traded stock in an ESOP. While the terms of the settlement are not binding on anyone other than the plan sponsor, they are very enlightening as to the DOL's priorities on this issue.

Finally, Aon Hewitt has produced some great publications since our last issue. These include an update on 2016 compensation and benefit limits for retirement plans, hot retirement topics in 2016, rising retirement ages, and 2016 compliance dates. In this issue we provide highlights of these recent publications along with links for obtaining the complete reports.

If you have any questions or need any assistance with the topics raised, please contact the author of the article or Tom Meagher, our practice leader.

Regards,

Jennifer R Berrian

Jennifer Ross Berrian
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Guidance on Economically Targeted Investments

By John Van Duzer

On October 22, 2015, the Department of Labor's Employee Benefits Security Administration published an Interpretative Bulletin addressing the issue of the fiduciary standard under the Employee Retirement Income Security Act of 1974 (ERISA) in considering "economically targeted investments" (ETIs). In order to understand the significance of this new Bulletin, it helps to review the requirements imposed by ERISA on fiduciaries making investments of pension plan assets.

These requirements include Section 404 of ERISA, which states that a fiduciary must discharge his duties solely in the interest of participants and beneficiaries. More specifically, fiduciaries must act: (1) for the exclusive purpose of providing benefits to participants and beneficiaries and defraying expenses of administering the plan; (2) in a "prudent" manner; and (3) by diversifying investments, unless under the circumstances it is clearly prudent not to diversify. By applying these standards, plan fiduciaries are required to focus on, among other things, the expected financial returns and potential risks to the plan participants.

Over the last 30 years, the Department of Labor (DOL) has occasionally been asked to provide guidance about how the fiduciary rules described above apply to investments in ETIs. These types of investments, sometimes referred to by other names such as "socially responsible investments," typically provide additional "collateral" benefits separate and apart from the financial return. Thus, an investment might provide benefits to the environment or a community, while at the same time generating a significant financial return for the investor.

> "Investing in the best interests of a retirement plan and in the growth of a community can go hand in hand."

An Interpretative Bulletin issued by the DOL back in 1994 (1994 Bulletin) stated that investments in ETIs are not incompatible with the fiduciary obligations imposed by ERISA, provided that the ETI has an expected rate of return that is commensurate to expected rates of return on alternative investments available to the plan. The 1994 Bulletin also made clear, however, that fiduciaries were not permitted to accept lower expected returns or take on greater risks in order to obtain these types of collateral benefits.

In 2008, the DOL decided to replace the long-standing 1994 Bulletin with new guidance that was viewed as being less favorable to ETIs (2008 Bulletin). Although the 2008 Bulletin continued to permit socially responsible investments, the guidance was widely interpreted to require a higher (but unclear) standard as to when these types of socially responsible investments were appropriate. The guidance also stated that consideration of collateral, non-economic factors by a fiduciary should be rare.

The DOL has now become concerned that ERISA fiduciaries are being unnecessarily dissuaded from pursuing investment strategies that consider environmental, social, and governance factors, even though the investment strategies may be focused on evaluating the economic benefits of investments and identifying economically superior investments. In Interpretive Bulletin 2015-01, the DOL withdraws the 2008 guidance in order to correct the misperceptions that have been present for the past seven years. The new guidance reinstates the 1994 language, which was more favorable and conducive to ETIs. It's important to note that none of the DOL guidance issued on this topic over the last 30 years has in any way diminished the need to evaluate expected financial returns and potential risks to plan participants. However, by reverting to the 1994 language, the DOL is signaling to fiduciaries that commercially reasonable investments need not be treated as inherently suspect or in need of special scrutiny merely because they take into account environmental, social, or similar types of factors. In the words of Secretary of Labor Thomas Perez, "Investing in the best interests of a retirement plan and in the growth of a community can go hand in hand."

The DOL also reminds fiduciaries that as a general practice, fiduciaries responsible for investing plan assets should maintain records that are sufficient to demonstrate compliance with ERISA fiduciary provisions. However, when a fiduciary considers ETIs, the DOL says there is no presumption that additional documentation or evaluation is needed.

Clearly the fiduciary requirements relating to plan investment-related activities are significant, and it is important for investment committees to develop and implement procedures to comply with ERISA requirements. Aon Hewitt Investment and Retirement legal consultants are quite familiar with these issues and are available to assist plan sponsors and fiduciaries to evaluate these matters should the need arise.

Additional Revisions to IRS Determination Letter Program

By Dan Schwallie

As previously reported, the Internal Revenue Service (IRS) is eliminating its current determination letter program for individually designed qualified retirement plans effective January 1, 2017 (review our prior article on this topic **here**). In order to assist plan sponsors with this change, the IRS recently issued Notice 2016-3, which modifies existing guidance in the following three respects:

- Expiration dates included in determination letters issued to individually designed plans prior to January 4, 2016 no longer apply, and determination letters issued on and after that date will not contain an expiration date. Future guidance will clarify the extent to which an employer may rely on a determination letter after a subsequent change in law or plan amendment.
- Controlled groups and affiliated service groups that maintain more than one plan will be permitted to submit determination letter applications during the Cycle A submission period beginning February 1, 2016, and ending January 31, 2017, provided that a prior Cycle A election with respect to the controlled group or affiliated service group was made by January 31, 2012.
- Plan sponsors adopting a current defined contribution preapproved plan on and after January 1, 2016, will have until April 30, 2017, to apply for a determination letter (extended from April 30, 2016). This extension does not apply to plans adopted as modifications and restatements of defined contribution preapproved plans that were maintained by the employer prior to January 1, 2016. This extension is intended to facilitate a plan sponsor's ability to convert an existing individually designed plan into a current defined contribution preapproved plan.

Effective February 1, 2016, certain user fees will also be changed. The fee for a determination letter application for an ongoing plan remains at $2,500, but the filing fee for terminating plans will increase from $2,000 to $2,300. Application fees for ongoing and terminating multiple employer plans will change to a flat $4,000, rather than varying in amount with the number of participating employers.

Aon Hewitt's Retirement Legal Consulting & Compliance consultants are available to assist plan sponsors in understanding these changes, filing for a determination letter, and (when possible and desirable) moving to an IRS preapproved plan.

Same-Sex Spousal Benefits Prior to June 26, 2013?

by Jennifer Ross Berrian

The U.S. Supreme Court issued its *U.S. vs. Windsor* decision on June 26, 2013, declaring Section 3 of the Defense of Marriage Act (DOMA) unconstitutional and treating legally married same-sex spouses the same as opposite-sex spouses for purposes of federal law. Since that time, Internal Revenue Service (IRS) guidance has been clear that the change in the law requires qualified retirement plans to apply the same-sex spousal definition prospectively beginning on the date of the Supreme Court's decision.

IRS Notice 2015-86 was extremely clear that plan sponsors are permitted to treat same-sex spouses as married for federal law purposes prior to June 26, 2013, but only if the plan was amended to provide for such benefits before the end of the plan year in which the amendment was effective. Thus, for a calendar-year plan, a plan amendment providing for retroactive application of *U.S. vs. Windsor* was required to be adopted by December 31, 2013, in order to treat same-sex married couples as married for federal law purposes from January 1, 2013 through June 25, 2013. Same-sex spousal benefits could not be provided prior to January 1, 2013 without risking plan disqualification.

It is noteworthy, however, that the Internal Revenue Code is not the only body of law governing qualified retirement plans. The Employee Retirement Income Security Act of 1974 (ERISA) also covers these plans and imposes its own requirements. One of the pension plan requirements is to provide a qualified preretirement survivor annuity (QPSA) to surviving spouses of participants who have not commenced pension payments on their dates of death. Until the *Windsor* decision was issued, these benefits were required to be provided only to opposite-sex spouses—plan sponsors were permitted to design their pension plans to provide survivor annuity (non-QPSA) benefits to same-sex spouses, but such benefits were not required. When the Court ruled that Section 3 of DOMA was unconstitutional, it did not rule that it was only unconstitutional beginning as of June 26, 2013; it ruled that DOMA was unconstitutional when it was enacted in 1996. As a result, an argument can now be made that ERISA required legally married same-sex spouses to be treated as married under federal law prior to June 26, 2013, and thus would arguably be entitled to the ERISA-mandated QPSA.

This issue is no longer hypothetical. Such an issue is currently being litigated in the case of *Schuett vs. FedEx Corporation*. The participant in this case died on June 20, 2013, prior to the *Windsor* decision, and her surviving same-sex spouse filed a claim for a QPSA. The claim was denied throughout the plan's claims and appeals process because the terms of the plan did not provide QPSAs for same-sex spouses until June 26, 2013. The surviving same-sex spouse filed a lawsuit asserting three different theories to convince the court that she is entitled to the QPSA. FedEx filed a motion to dismiss all three theories and was successful in convincing the court to dismiss two out of the three. However, the court declined to dismiss the claim that ERISA—as read without the filter of Section 3 of DOMA—requires the payment of a QPSA to all legally married spouses and that it was a fiduciary breach not to administer the plan accordingly. That issue will be addressed as the litigation proceeds unless the parties choose to settle the lawsuit. We will continue to monitor the matter and update you on further developments.

At this point, plan sponsors appear to be stuck between the metaphorical rock and hard place. As explained above, the IRS has made it clear that treating same-sex spouses as married for federal law purposes prior to June 26, 2013, required a timely adopted plan amendment, or the plan would risk disqualification. On the other hand, the court in the *Schuett* case has indicated there is a reasonable argument that ERISA should be interpreted as if there were never a restriction on providing federally mandated benefits to same-sex spouses.

While it will be interesting to see where the court comes out on this issue (along with any appellate court decision that is sure to follow), there are a few things that plan sponsors can consider to prepare for such a situation:

- Ensure that plan documents are up to date, and clarify the date when treating same-sex spouses the same as opposite-sex spouses became effective.
- Ensure that the plan's claims and appeals procedures are up to date and the plan administrator is granted the maximum amount of discretion possible in interpreting and administering the plan (based on plan terms).
- Assume that all same-sex spousal inquiries will lead to claims, appeals, and ultimately litigation if the claim is denied.
  - Ensure that all written and oral communications are made with awareness that they may be used in future litigation.
- Set up a procedure for handling claims for same-sex benefits prior to June 26, 2013.
  - Have the initial contact gather facts only, and immediately escalate the inquiry to a specially trained person or team.
  - Involve legal counsel from the beginning.
  - Follow the terms of the plan and the plan's claims and appeals procedures.
  - Confirm prior practices to ensure uniform administration of the plan.
  - Start building a record that will support the decisions made if a court action is brought.

Contact any member of the Aon Hewitt Retirement Legal Consulting & Compliance practice for assistance in evaluating existing plan terms or how best to proceed in the event such a same-sex spouse claim should arise.

2016 Limits for Benefit Plans

By Linda M. Lee

Employee benefit plans are subject to many dollar limits established annually by the Internal Revenue Service (IRS). There are limits on the amount of contributions that may be made to defined contribution plans, the annual amount that can be paid from defined benefit plans, the amount of compensation that can be used when calculating benefits, and many more. The limits are updated based upon price and wage inflation and changes in the law. As a result, the administration of qualified retirement plans must be adapted annually to accommodate the applicable limits.

Each year, Aon Hewitt publishes a report that summarizes the new limits and includes additional helpful tax information. Our clients have found this summary to be an extremely useful and easy-to-use reference document.

A copy of the 2016 benefit limits summary (including prior limits for years 2013–2015) can be downloaded **here**.

Dispositions of Employer Stock in ESOPs

by Thomas Meagher

While the general rules under the Employee Retirement Income Security Act of 1974 (ERISA) can be quite helpful in guiding plan fiduciaries when taking specific actions, plan fiduciaries are often looking for more specific guidance on how best to evaluate employer stock that may be used to fund an employee stock ownership plan (ESOP). While every employer situation is different, we have found the Department of Labor's (DOL's) recent litigation settlement with a plan trustee regarding the purchase or sale of non-publicly traded employer stock by an ESOP to be quite instructive.

The settlement agreement was entered into between the DOL and GreatBanc Trust Company (GreatBanc) in the case of *Perez v. GreatBanc Trust Company*. The litigation involved GreatBanc's role as a fiduciary in connection with its advice to an ESOP regarding transactions in which the ESOP was contemplating purchasing non-publicly traded employer securities.

It is noteworthy that the DOL, in reaching a fairly detailed agreement with GreatBanc, made the point that while the terms of the settlement agreement would apply to GreatBanc's role with respect to an ESOP's purchase or sale of employer stock, it was not intended to specify all the trustee's fiduciary obligations—and in no way superseded any of the trustee's obligations under ERISA (or its implementing regulations). The settlement agreement provided that GreatBanc, as trustee, would select and use a qualified valuation advisor, would prudently investigate the valuation advisor's qualifications, and would ensure that the valuation advisor received the complete, accurate, and current information necessary to value the employer securities. (It is also noteworthy that the settlement agreement provided, among other things, that the trustee should not use a valuation advisor for a transaction on which the advisor had previously performed work—including, but not limited to, a "preliminary valuation"—for or on behalf of the ESOP sponsor.)

With respect to the purchase or sale of employer securities that are not publicly traded, the settlement agreement provided that:

- The trustee will request that the valuation advisor document the individuals responsible for any projections, the reasonableness of the projections considered, and—to the extent any metrics are to be disregarded—the reason for such exclusion.
- The documentation should include information supporting any assumptions relied upon, reasons for giving greater weight to some assumptions or metrics over others, an evaluation of plan and loan terms (if any), and their impact on stock distributions and repurchase obligations.
- The evaluation should also consider the employer's financial statements and if the plan sponsor will be able to service any debt assumed in connection with the transaction, as well as determining if the transaction is fair to the ESOP from a financial point of view.

With respect to any transactions completed, the trustee is required to create and preserve, for at least six years, notes and records that document in writing:

- The full name, business address, telephone number, and email address of each member of the trustee's fiduciary committee (whether or not the member voted on the transaction) and any other trustee personnel who made any material decision(s) on behalf of the trustee in connection with the proposed transaction.
- The vote (yes or no) of each member of the trustee's fiduciary committee who voted on the proposed transaction.
- A signed certification by each of the voting committee members and any other trustee personnel who made any material decision(s) on behalf of the trustee in connection with the proposed transaction indicating that they have read the valuation report, identified its underlying assumptions, and considered the reasonableness of the valuation report's assumptions and conclusions.

"The settlement agreement provided that GreatBanc, as trustee, would select and use a qualified valuation advisor, would prudently investigate the valuation advisor's qualifications, and would ensure that the valuation advisor received the complete, accurate, and current information necessary to value the employer securities."

All notes and records created by the trustee in connection with its consideration of the proposed transaction should likewise be retained.

While the above process arose out of litigation and results in a fairly detailed and disciplined fiduciary process that was part of a negotiated settlement, it underscores the DOL's concern with valuations of non-publicly traded employer stock and the importance of plan fiduciaries establishing a very strong record to support the prudence of the actions taken.

IRS Issues Final Hybrid Plan Transition Regulations

By Dan Schwallie

On November 13, 2015, the Internal Revenue Service (IRS) issued final transition regulations on permissible interest crediting rates for cash balance and other hybrid plans. These regulations delay most, but not all, of the required amendments for cash balance and other hybrid plans. They also delay the effective date of the market rate of return transition rules (unless an earlier date is elected by the taxpayer) and certain other rules of the final hybrid plan regulations previously issued in 2010 and 2014.

The delay continues until the day immediately prior to the first day of the first plan year beginning on or after January 1, 2017 (i.e., December 31, 2016, for calendar year plans). A later date may apply for collectively bargained plans, depending on the expiration date of the applicable collective bargaining agreement.

These 2015 final regulations also provide some additional flexibility with regard to how a plan sponsor must change an impermissible interest crediting rate so that it complies with the market rate of return rules. The deadline to amend for the three-year vesting requirement for hybrid plans has not been delayed; the regulations delay only the amendment deadline for the "preservation of capital" rule as it applies to multiple annuity starting dates.

Additional information about the 2015 final transition regulations and delay of effective dates and amendment deadlines can be found at: **2015 Final Hybrid Plan Transition Regulations**.

Aon Hewitt's Retirement Legal Consulting & Compliance consultants are available to assist plan sponsors in evaluating the need for any plan amendments and preparing the necessary documents and notices.

Helping Workers With Finances is a Hot Topic in 2016

By Rob Austin

January always brings resolutions. It seems that as soon as the champagne is popped and the ball drops on New Year's Eve, our thoughts quickly turn to making changes in the upcoming months. For many, improving finances is a top goal—but unfortunately, many individuals struggle with keeping this commitment. 2016 could be different, though, in part because of what employers are doing to help.

According to Aon Hewitt's recently released *Hot Topics in Retirement and Financial Well-Being* study of more than 250 U.S. employers representing nearly 7 million workers, 2016 looks to be a busy year for improving financial well-being and helping workers with their finances. Nearly all employers (89%) responding to our survey indicated they are very or moderately likely to add or expand their financial well-being offerings.

Just over half of all surveyed employers currently offer help to workers in at least one category of financial well-being, such as budgeting, debt management, and health care planning. Another 38% provide help in at least three categories. By the end of 2016, more than three-quarters (77%) of employers will have at least one financial well-being program and more than half (52%) will have at least three.

The reason employers are offering more financial well-being tools might be surprising. When specifically asked for their reasons, the top answer by far (85%) was that "It's the right thing to do." The second most popular response was to help increase employee engagement (80%). Notably absent from the cited reasons was the desire to drive down medical costs. Only one-quarter of employers said the expansion of their offerings was intended to decrease the costs of health care, disability programs, or workers' compensation costs—despite the fact that 80% of employers said they were likely to communicate the link between financial well-being and health and wellness.

"The reason employers are offering more financial well-being tools might be surprising."

Although financial well-being cannot be improved overnight, it is reassuring to know that employers are making it easier for workers to discover how they can achieve better financial footing. See more of the results of the *2016 Hot Topics in Retirement and Financial Well-Being* study **here**.

Will Retirement Ages Continue to Rise?

By Alan Parikh

Over the past 15 years, Aon Hewitt has observed a distinct trend toward later retirements across a large proportion of our client base. In our recent paper, "Past and Future of Retirement" (**click here**), we describe reasons for this trend and explore its implications for employers.

The shift toward later retirements is driven by economic and labor market trends, U.S. population shifts, increased longevity, fewer employer-sponsored pension plans, and higher Social Security retirement ages. Aon Hewitt anticipates that these factors will impact the American workforce over at least the next 15 years.

> "Higher retirement ages will cause the cost of many pension and postretirement benefit programs to fall."

Aon Hewitt also expects further development in the following retirement trends in the coming years:

- The average retirement age will continue to increase. The extent of the increase will vary by company and industry, but many private sector employers will see average retirement ages increase by more than a year by 2030.
- Older workers comprise a larger portion of the overall workforce than ever before, and their proportion will continue to rise as the baby boom generation ages.
- Retirement "cues" or "triggers" will continue to fade as a result of declines in defined benefit and retiree medical plan sponsorship among private sector employers.
- Workers will delay retirement because of smaller retirement benefits, a structural shift to later careers, low interest rates, improving health status, and greater awareness of rising longevity in the U.S.
- Once baby boomers start retiring in earnest, the resulting talent drain will challenge employers to adapt. Industries that employ a higher percentage of soon-to-retire baby boomers will feel this pressure most acutely.

Higher retirement ages will cause the cost of many pension and postretirement benefit programs to fall. Sponsors that properly anticipate this can realize cost savings today by incorporating these expectations into their actuarial assumptions.

More important, the retirement of the baby boom generation will bring rapid transformation across every American industry. Aon Hewitt's retirement, health care, legal, and talent experts can help employers anticipate these changes and the challenges and opportunities they will bring.

The largest baby boom cohort is nearing retirement, with the peak of the boom—those born in 1957—hitting age 62 in 2019, just three years away. Employers that start planning for this transformation will be better positioned to navigate the turmoil ahead.

2016 Compliance Calendar

By Clara Kim and Meghan Lynch

The Aon Hewitt Compliance Calendar is an annual publication intended to alert plan sponsors and other interested parties of some of the more significant Internal Revenue Service (IRS), Department of Labor, and other regulatory agency due dates and deadlines for benefit-related compliance obligations.

Just a few of the topics addressed by the 2016 Compliance Calendar include:

- Timing of participant communications and notices (e.g., summaries of material modifications, pension benefit statements, and summaries of benefits and coverage).
- Plan contribution due dates.
- Filing dates for IRS forms (e.g., Forms W-2, 5300, and 1099-R).

The 2016 Compliance Calendar is also intended to promote discussions between plan sponsors and their consultants that will ensure timely disclosures and compliance with related filing obligations. Download your complimentary copy of the **2016 Compliance Calendar** now.

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About Aon Hewitt

Aon Hewitt empowers organizations and individuals to secure a better future through innovative talent, retirement, and health solutions. We advise, design, and execute a wide range of solutions that enable clients to cultivate talent to drive organizational and personal performance and growth, navigate retirement risk while providing new levels of financial security, and redefine health solutions for greater choice, affordability, and wellness. Aon Hewitt is a global leader in human resource solutions, with over 35,000 professionals in 90 countries serving more than 20,000 clients worldwide across 100+ solutions. For more information, please visit aonhewitt.com.

About Aon

Aon Hewitt, the global talent, retirement, and health solutions business of Aon plc (NYSE:AON)

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Agenda Tracker

Internal Revenue Service

2016 Employee Benefits Limits

On October 21, 2015, the Internal Revenue Service issued cost of living adjustments to the dollar limitations on employee benefits that will apply in 2016.

	2016	2015	2014
401(k), 403(b), 457, Profit-Sharing Plans, etc.			
Annual Compensation	$265,000	$265,000	$260,000
HCE Threshold	120,000	120,000	115,000
Elective Deferrals	18,000	18,000	17,500
457 Elective Deferrals	18,000	18,000	17,500
Catch-up Contributions	6,000	6,000	5,500
Defined Contribution Limits	53,000	53,000	52,000
ESOP Limits	1,070,000	1,070,000	1,050,000
	210,000	210,000	210,000
IRAs			
IRA Contribution Limit	5,500	5,500	5,500
IRA Catch-Up Contributions	1,000	1,000	1,000
IRA AGI Deduction Phase-out Starting at			
Joint Return	98,000	98,000	96,000
Single or Head of Household	61,000	61,000	60,000
SEP			
SEP Minimum Compensation	600	600	550
SEP Maximum Compensation	265,000	265,000	260,000
SIMPLE Plans			
SIMPLE Maximum Contributions	12,500	12,500	12,000
Catch-up Contributions	3,000	3,000	2,500
Other			
Defined Benefit Limits	210,000	210,000	210,000
Key Employee	170,000	170,000	170,000
Taxable Wage Base	118,500	118,500	117,000
Control Employee (board member or officer)	105,000	105,000	105,000
Control Employee (compensation-based)	215,000	215,000	210,000

Source:
http://www.irs.gov/Retirement-Plans/COLA-Increases-for-Dollar-Limitations-on-Benefits-and-Contributions

Agenda Tracker

Current Fiduciary Environment

- U.S. Department of Labor is very active in enforcement; 2015 data shows the following activity[1]:

275 closed criminal investigations	2,441 closed civil investigations, 136 referred for litigation	61 indictments	67.2% of civil investigations closed with fines or corrections

- Forty-six fee litigation suits have been filed to date; December 2015 alone was significant:
  - Deutsche Bank Americas Holding, Corp., Fidelity Management Trust Company, New York Life, Insperity Inc., Prudential (twice), and Anthem
- David Lindorff, a writer in the retirement industry, suggested in 2013 that "…*Tussey et al v. ABB* could trigger a wave of class action lawsuits that will be as big as the wave of asbestos litigation that stated in the 1970s or the wave of tobacco litigation that followed."[2]

[1] Source: US Department of Labor, Employee Benefits Security Fact Sheet at www.dol.gov/ebsa/newsroom/fsFYAgencyResults.html reflecting data for fiscal year ended September 30, 2015 (extracted January 6, 2016)

[2] http://retirementincomejournal.com/issue/march-21-2013/article/401-k-litigation-the-next-asbestos1a#.Vol1ym0fqlzE.email (extracted January 6, 2016)

Current Fiduciary Environment

Following is a partial list of 401(k) fee litigation settlements in 2015[3], including attorneys' fees:

- April 2015 – *Haddock v. Nationwide Financial Services, Inc*.: $140M, including attorney's fees and expenses of over $50M
- July 2015 – *Krueger v. Ameriprise**: $27.5M, including $9.2M in attorneys' fees
- November 2015 – pending approval of the courts, defendants in *Kruger et al., v. Novant Health** and *Spano et al., v. Boeing Company** agreed to settle at $32M and $57M, respectively
- December 2015 – *Tussey v. ABB, Inc*.* awarded $11.6 in attorneys' fees and expenses (not a settlement)

*Plaintiffs attorneys included Schlichter, Bogard & Denton

[3] Source: http://www.proskauer.com/publications/newsletters/erisa-litigation-newsletter-january-2016/ (extracted January 6, 2016)

Current Events–Bell v. Anthem complaint

Bell, et al., v. Anthem Inc., et al. (SD Ind., Dec 29, 2015) – alleges breaches of loyalty and prudence

- Anthem Inc.'s proposed class of approximately 59,000 participants is generating interest because it centers on fees paid to Vanguard (VG) as recordkeeper and trustee
- Defendants are Anthem, Inc.; the Pension Committee; Anthem's Board (BoD); 18 individual BoD members; and John Does 1 – 20
- Anthem's jumbo 401(k) plan
  - Is in the top .08% of all US 401(k)s , based upon assets, at $5B
  - Held Anthem stock, two mutual funds (MFs), 11 VG MFs, and VG target date collective trust funds
- Count I: Prior to late July 2013, Anthem selected high-priced MFs without investigating lower-cost share classes, collective trusts or separate accounts; seven of 12 less expensive choices were available in late 1990s or early 2000s – impact is approximately $18M in fees over 3.5 years
- Count II: VG's recordkeeping fees ranged from $80 and $94 per participant annually 2010-2013 (hard dollar plus revenue sharing), then a flat $42 fee as of September 2013, as compared to a "reasonable outside limit" of $30 – impact is a loss of "millions"
- Count III: Choice of VG's Prime Money Market Fund ("microscopically" low yield) should have been replaced by a stable value fund (SV); the Plan's own SV and all those of merged-in plans were moved to money market – impact is roughly $65M over 5+ years

Current Events–Bell v. Anthem complaint (continued)

Bell, et al., v. Anthem Inc., et al. (SD Ind., Dec 29, 2015) – alleges breaches of loyalty and prudence

- Count IV: Failure to monitor fiduciaries
- Count V: Failure to supply requested information; both written requests by Plaintiff Bell to the Pension Committee at the address listed in SPD were refused upon delivery and returned to plaintiff's counsel.
- Prayer for Relief includes requests to certify the class, find that breaches occurred, determine the accounting method for losses, make Defendants "do the math" on the loss, remove the fiduciaries from their roles, award the Plaintiffs their attorney fees and other costs, make the plan whole, and grant other equitable or remedial relief

Sources: http://www.bna.com/anthem-sued-401k-n57982065742/ (extracted January 6, 2016), and http://www.bloomberglaw.com/public/desktop/document/BELL_et_al_v_ANTHEM_INC_et_al_Docket_No_115cv02062_SD_Ind_Dec_29_?1453830212 (extracted January 6, 2016)

Current Events–Smilow, et al., v. Anthem Life & Disability Co., et al.

Smilow, et al., v. Anthem Life & Disability Co., et al. (N.D. Cal. Nov. 24, 2015)

- Class action lawsuits across country were brought against Anthem and its two plan administrators
- Suits were consolidated by Judicial Panel on Multidistrict Litigation, and the case was heard in Northern District of California
- The crux of the issue was a data privacy breach via cyber-attack in 2014, and whether this was an *independent state law duty* – no such privacy law exists in New York, where suit originally filed
- Judge Koh relied upon U.S. Supreme Court's decision in *Aetna Health, Inc. v. Davila* (2004) to determine that ERISA trumps in any matter where the state law claims are duplicated, supplemented or supplanted by ERISA, by using the Ninth's Circuit's two-part test:
  - Could suit be brought under ERISA 502(a) to recover benefits, obtain rights, etc.?
  - Is there no independent privacy protection under state law?
- Conversely, in *Rose v. HealthComp, Inc*., (disclosure of personal medical information), the Eastern District of California found that the first prong of the test was met, but relied upon the California Constitution which specifically includes privacy provisions
- Probably an evolving area for funded health plans subject to ERISA, impacted by each state's privacy laws

Source: http://www.kslaw.com/imageserver/KSPublic/library/publication/2015articles/12-17-15_Law360.pdf (extracted January 6, 2016)

Current Events–Sulyma v. Intel complaint

Sulyma et al., v. Intel Corporation Investment Policy Committee, et al. (N.D. Calif., Oct. 29, 2015) – alleges a breach for failure to manage/monitor custom target date portfolios (TDPs) and a global diversified fund (global fund), and deficient participant disclosures

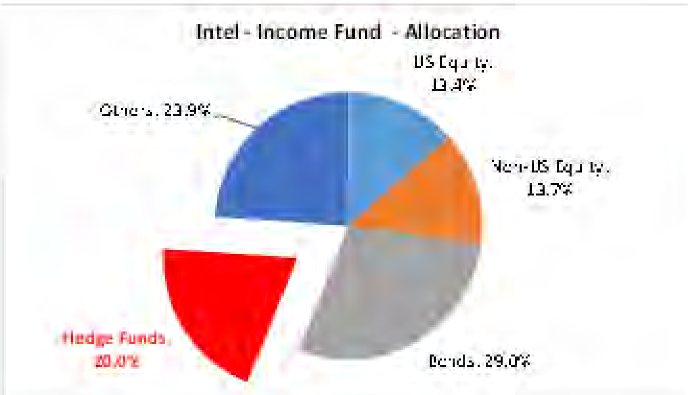
- Defendants include the Investment Policy Committee (John Does 1-20), Finance Committee of Board, Administrative Committee (John Does 21-40), and eight individuals (known members)
- Impacted plans:
  - 401(k) plan has approximately $8B in assets; largest holdings are the TDPs at $3.63B
  - Profit sharing plan has approximately $7B in assets; largest holding is global fund at $5.82B
- Complaint alleges the following:
  - Starting in 2011, allocations to hedge funds in the TDPs increased from $50M to $680M in 401(k) plan
    - The TDPs are the QDIA for the 401(k) plan, and the TDPs underperformed peers by approximately 400 bps annually
    - TDP fees ranged 65-71 bps before the reallocation, and 130-136 bps afterward
  - From 2009-2014, hedge fund allocations to the global fund (held by both plans) increased from $582M to $1.67B, and allocations to private equity rose from $83M to $810M
    - Global fund underperformed peers by approximately 50 bps annually
    - Negative impact of incentive fee and fees inappropriate for assumed risk

Current Events–Sulyma v. Intel complaint (continued)

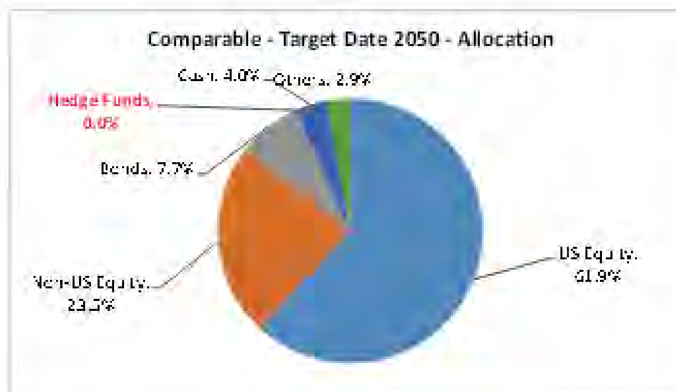
Case 5:15-cv-04977-NC Document 1 Filed 10/29/15

From Exhibit 1 of the Complaint (pages 77 and 80)

Income Fund:



Target Date Fund – 2050



Sources: http://www.napa-net.org/news/technical-competence/erisa/custom-tdf-allocations-draw-401k-lawsuit/ and http://www.plansponsor.com/uploadedFiles/Plan_Sponsor/news/Rules,_Regs/SulymavIntelcomplaint.pdf (extracted January 6, 2016)

Current Events–Becker and Mays-Williams v. Williams

Becker and Mays-Williams v. Williams (9th Cir. Jan. 28, 2015) – participant permitted to designate beneficiary by telephone

- Asa Williams, Sr. (Asa Sr.)
  - Xerox Retirement Income Guarantee Plan
  - Xerox Savings plan
- In 2002, Asa Sr. formally designated his wife Carmen as his beneficiary under the Plans
- Divorced in 2006
  - Following the divorce, Asa Sr. gave telephonic instructions to the Plans' call center on three different occasions to change his beneficiary to his son (Asa Jr.)
  - Subsequent each telephone conversation, Asa Sr. received, but did not sign and return, beneficiary designation forms confirming the change
- Asa Sr. died in 2011
  - Both Carmen and Asa Jr. asserted their right as beneficiary
  - The fiduciary of the Xerox Plans sought determination in federal district court
- The district court ruled the following, after which Asa Jr. appealed:
  - Beneficiary forms were plan documents
  - Asa Sr. was required to sign and return to effectuate the change in beneficiary

Current Events–Becker and Mays-Williams v. Williams

- US Court of Appeals for the Ninth Circuit reversed the district court's decision as follows
  - Beneficiary designation forms are not plan documents
    - Not incorporated into the plan documents; nowhere did they allude to the incorporation of the beneficiary designation forms
    - Beneficiary designation forms would have acted as confirmation of Asa Sr.'s intentions
    - No reference to a beneficiary form for unmarried participants
      - Notable difference in requirements for married and unmarried participants; unmarried participants were instructed to call or visit the website to make changes
  - No exercise of discretion by the Plan Administrator
    - The Ninth Circuit determined that the Plan Administrator did not exercise its discretion to require beneficiary designation forms. It reasoned that by filing the current action, the Plan Administrator impliedly declined to exercise any discretion in determining the validity of Asa Sr.'s telephonic instructions to change the beneficiary

Source: http://us.practicallaw.com/2-598-1825 (extracted January 6, 2016) and http://cdn.ca9.uscourts.gov/datastore/opinions/2015/01/28/13-35069.pdf (extracted January 11, 2016)

Current Events–Dahl v. Aerospace Employees Retirement Plan

Phyllis Dahl V. Aerospace Employees' Retirement Plan of the Aerospace Corp., et al. (U.S. District Court for the Eastern District of Virginia Aug. 13, 2015) – timing of QDRO determination

- Mr. Ronald Goetz
  - Aerospace Employees Retirement Plan (AERP)
  - Phyllis Dahl was his former spouse
- Divorced August 8, 2003
  - Divorce decree gave each party the option to elect the survivor annuity benefit under the other's retirement plan
- Mr. Goetz married Julie Goetz (Mrs. Goetz)
- Mr. Goetz retired July 31, 2014
  - Ms. Dahl not notified of Mr. Goetz's intention to retire
  - Ms. Dahl's counsel submitted draft Domestic Relations Order (DRO) to AERP on Oct. 6, 2014
  - AERP counsel notified Ms. Dahl's counsel that on Mr. Goetz's retirement, Mrs. Goetz (not Ms. Dahl) became vested with a fifty percent survivor annuity
  - Ms. Dahl appealed AERP's decision…her benefits claim was denied

Current Events–Dahl v. Aerospace Employees Retirement Plan

- Ms. Dahl filed suit, arguing
  - Fraud/breach of trust, alleging that Mr. Goetz actively deceived the AERP that there were no court orders requiring any part of his benefit to be paid to any other person
  - Concealment of material fact – failure to notify of retirement
    - Supreme Court in *Free v. Bland* and *Yiatchos v. Yiatchos* were referenced
- AERP and Goetzes moved to dismiss
  - Outcome was that Ms. Dahl lacked standing to bring this claim; her claim fails as a matter of law because the survivor annuity already vested for Mrs. Goetz

Current Events–Dahl v. Aerospace Employees Retirement Plan

- U.S. District Court for the Eastern District of Virginia granted defendants' motion to dismiss Dahl's complaint for failure to state a claim
  - DRO not qualified
    - *Hopkins v. AT&T Global Information Solutions Co., Fourth Circuit* was referenced
      - A DRO is not qualified when not in effect at retirement
      - The benefits vested in Mr. Goetz's current wife at his retirement
  - Court rejected Dahl's argument that the Supreme Court cases *Free* and *Yiatchos* would void Goetz's beneficiary designation as an act of fraud or breach of good faith
    - Both cases concerned US Treasury regulations, not interpretation of ERISA
    - Dahl cited no case law that applied the fraud/breach of trust claim to ERISA

Source: http://law.justia.com/cases/federal/district-courts/virginia/vaedce/1:2015cv00611/319677/21/ (extracted January 6, 2016) and https://docs.justia.com/cases/federal/district-courts/virginia/vaedce/1:2015cv00611/319677/37 (extracted January 11, 2016)

…Stay Tuned for More on These Topics

- The Department of Labor's Fall 2015 Regulatory Agenda priorities–dates are moving [4]:
  - Self-Directed Brokerage fiduciary issues– open as of September 2015 (comments deadline extended)
  - Safe-harbor for annuity assessment–proposed rule targeted for May 2016
  - Lifetime income information reflected on participant statements–was targeted July 2015
- Activity from the Savings & Investment working group of the Senate Committee on Finance [5]
  - One of five bi-partisan working groups, launched by Orrin Hatch, R-Utah (longest-term senator, since 1977) and Ron Wyden (D-Ore.)
  - Recommendations include:
    - Covering part-time employees with 500 hours or more
    - Extended rollover period
    - Tax credits for small employers for offering auto-enrollment
- State-run retirement programs (proposed regs issued November 2015) [6]
  - Intended to cover small employers with no retirement plan, but could impact excludable employees in large companies
  - Some industry concern regarding erosion of ERISA

Sources: 4 http://www.sutherland.com/NewsCommentary/Legal-Alerts/177609/Legal-Alert-DOL-and-Treasury-Update-2015-2016-Regulatory-Agendas-for-Employee-Benefits
5 http://www.americanbenefitscouncil.org/documents2015/taxreform_sfc_report-savings&investment070815.pdf?pass=1453834001367
6 https://www.federalregister.gov/articles/2015/11/18/2015-29426/savings-arrangements-established-by-states-for-non-governmental-employees