Nevada System of Higher Education
Second Quarter 2016 Discussion Guide

August 19, 2016

Aon Hewitt
Retirement and Investment

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Discussion Topics

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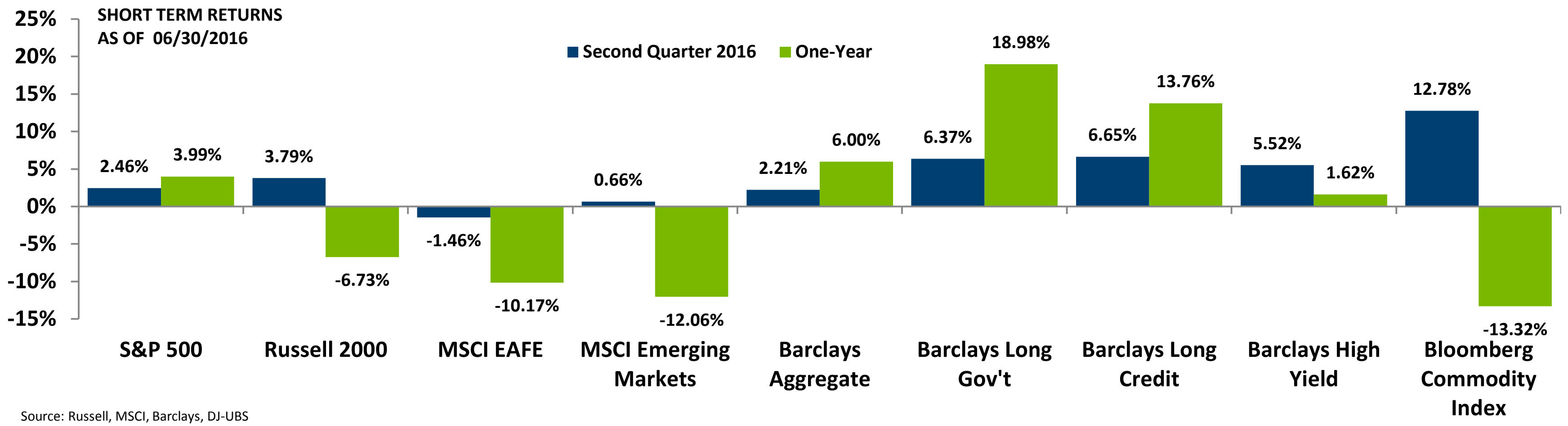
Agenda Tracker

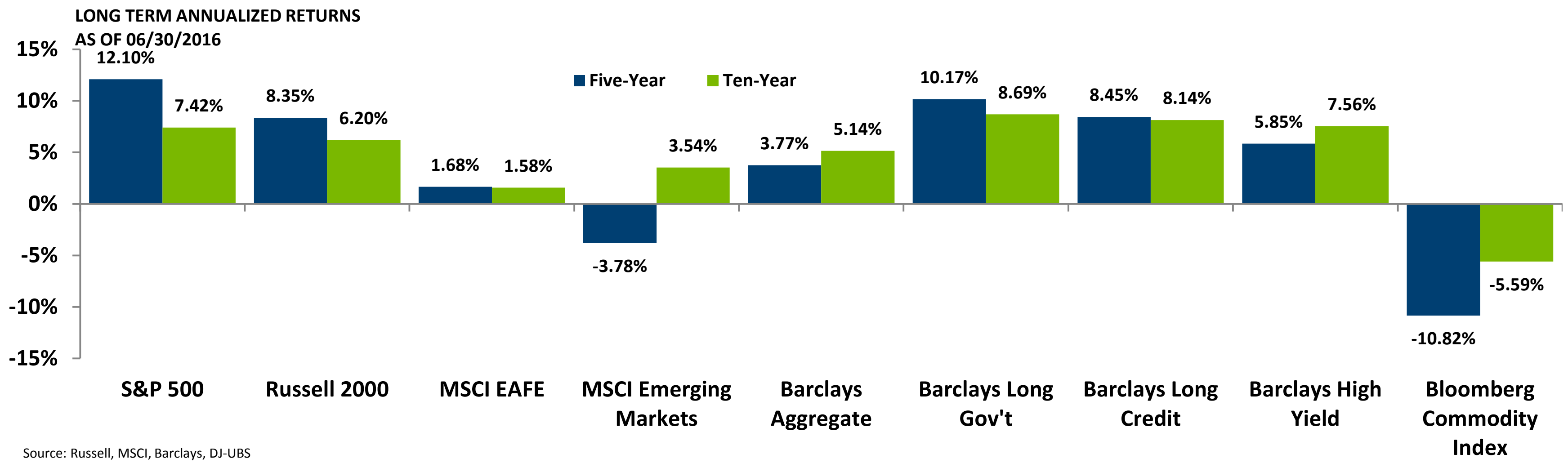
UK Referendum on EU Membership: What has happened?

- 51.9% of UK electorate voted to leave European Union duties.
  - Referendum is “advisory” for UK government
  - Results unexpected, financial markets anticipated a “remain” victory
  - Sterling dropped to 30 year low against US dollar
  - 10 year UK government bonds dropped to 300 year low (but still higher than Germany)
  - Significant declines across global equity markets, especially European bank shares
- Prime Minister, David Cameron, resigned
  - UK Commissioner to EU, Lord Hill, resigned
  - Leader of UK opposition, Jeremy Corbyn, under pressure to resign
- Majority of voters in Scotland and Northern Ireland were in favor of remain
  - Scottish Parliament to put in legislation for another referendum for Scotland to leave UK (and to stay in EU)
- Formal process to leave EU has not yet commenced
  - David Cameron has said his successor should commence this (ie on or after October 2016)
  - Article 50 of EU Lisbon Treaty needs to be triggered in order for UK to exit EU
    - ➢ EU leaders have demanded UK invokes Article 50 swiftly
    - ➢ UK parliamentary approval may be needed
  - After triggering Article 50, UK will then have 2 years to agree exit plan
- UK needs to consider possible options for life outside European Union, including negotiation of trade agreements. Access to internal markets including “passporting” of financial services is a key issue

Market Highlights



Source: Russell, MSCI, Barclays, DJ-UBS



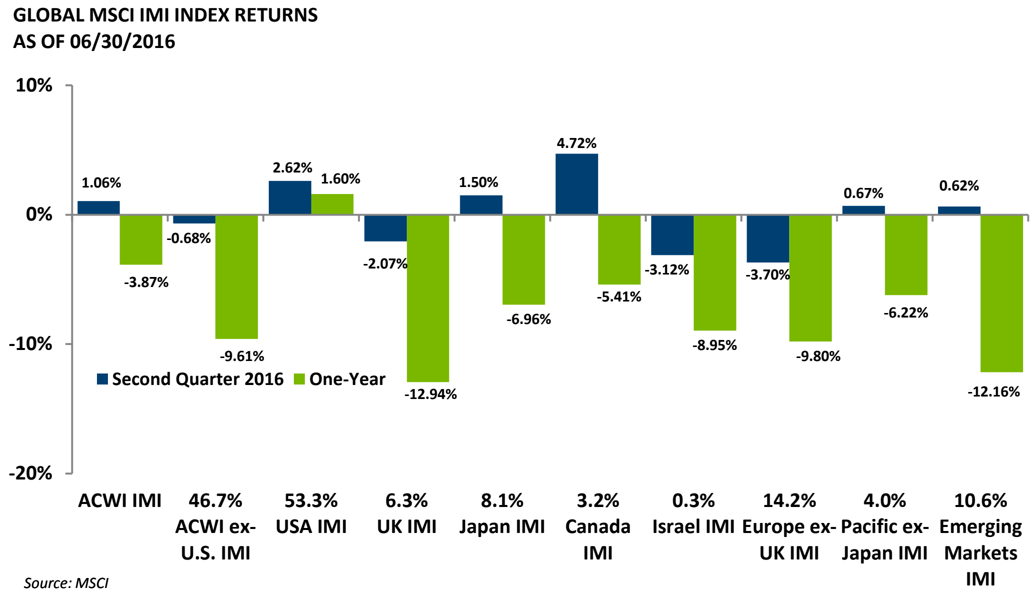
Source: Russell, MSCI, Barclays, DJ-UBS

Market Highlights

Returns of the Major Capital Markets						
						Periods Ending 06/30/2016
	Second Quarter	Year-to-Date	1-Year	3-Year[1]	5-Year[1]	10-Year[1]
Equity						
MSCI All Country World IMI	1.06%	1.36%	-3.87%	6.13%	5.43%	4.48%
MSCI All Country World	0.99%	1.23%	-3.73%	6.03%	5.38%	4.26%
Dow Jones U.S. Total Stock Market	2.61%	3.55%	2.04%	10.99%	11.54%	7.49%
Russell 3000	2.63%	3.62%	2.14%	11.13%	11.60%	7.40%
S&P 500	2.46%	3.84%	3.99%	11.66%	12.10%	7.42%
Russell 2000	3.79%	2.22%	-6.73%	7.09%	8.35%	6.20%
MSCI All Country World ex-U.S. IMI	-0.68%	-0.91%	-9.61%	1.65%	0.39%	2.16%
MSCI All Country World ex-U.S.	-0.64%	-1.02%	-10.24%	1.16%	0.10%	1.87%
MSCI EAFE	-1.46%	-4.42%	-10.17%	2.06%	1.68%	1.58%
MSCI EAFE (Local Currency)	-0.74%	-7.21%	-10.19%	5.78%	6.21%	2.10%
MSCI Emerging Markets	0.66%	6.41%	-12.06%	-1.56%	-3.78%	3.54%
Fixed Income						
Barclays Global Aggregate	2.89%	8.96%	8.87%	2.80%	1.77%	4.40%
Barclays Aggregate	2.21%	5.31%	6.00%	4.06%	3.77%	5.14%
Barclays Long Gov't	6.37%	14.94%	18.98%	10.38%	10.17%	8.69%
Barclays Long Credit	6.65%	13.93%	13.76%	8.70%	8.45%	8.14%
Barclays Long Gov't/Credit	6.55%	14.33%	15.72%	9.32%	9.18%	8.42%
Barclays US TIPS	1.71%	6.24%	4.36%	2.32%	2.64%	4.75%
Barclays High Yield	5.52%	9.06%	1.62%	4.19%	5.85%	7.56%
Citi Group Non-U.S. WGBI	4.04%	13.50%	13.85%	2.36%	0.31%	3.97%
JP Morgan EMBI Global (Emerging Markets)	5.40%	10.90%	10.32%	6.44%	6.25%	7.91%
Commodities						
Bloomberg Commodity Index	12.78%	13.25%	-13.32%	-10.55%	-10.82%	-5.59%
Goldman Sachs Commodity Index	12.67%	9.86%	-26.08%	-19.81%	-14.03%	-10.18%
Hedge Funds						
HFRI Fund-Weighted Composite[2]	2.25%	1.63%	-1.97%	3.05%	2.46%	3.62%
HFRI Fund of Funds[2]	0.75%	-2.40%	-5.23%	1.98%	1.67%	1.60%
Real Estate						
NAREIT U.S. Equity REITS	6.96%	13.38%	24.04%	13.58%	12.60%	7.45%
NCREIF NFI - ODCE[3]	2.13%	4.36%	11.82%	13.00%	12.72%	6.17%
Private Equity						
Burgiss Private iQ Global Private Equity[4]	1.26%	6.37%	6.37%	11.97%	11.22%	10.78%
Infrastructure						
Macquarie Global Infrastructure - North America	8.45%	25.05%	16.26%	10.77%	11.02%	8.69%

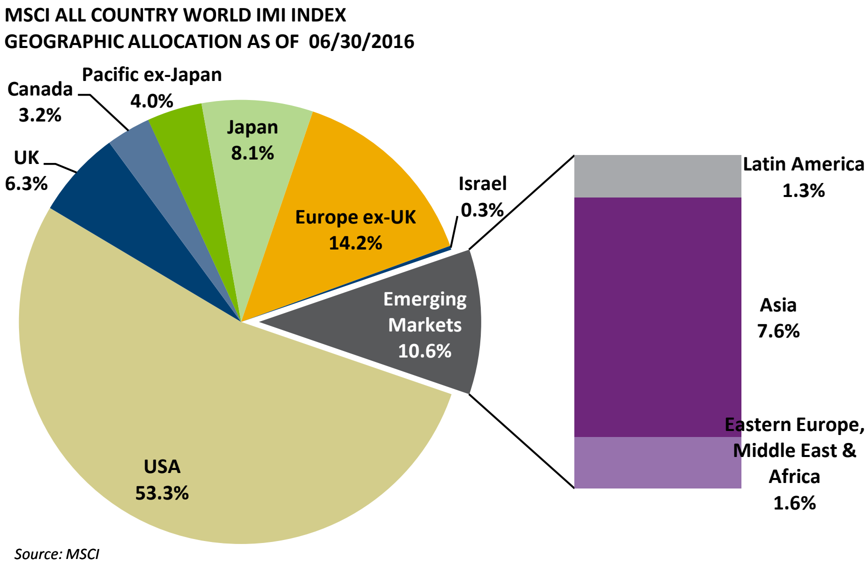
MSCI Indices show net returns.
All other indices show total returns.
[1] Periods are annualized.
[2] Latest 5 months of HFR data are estimated by HFR and may change in the future.
[3] Second quarter results are preliminary.
[4] Source: Burgiss Private iQ. Benchmark is as of 12/31/2015

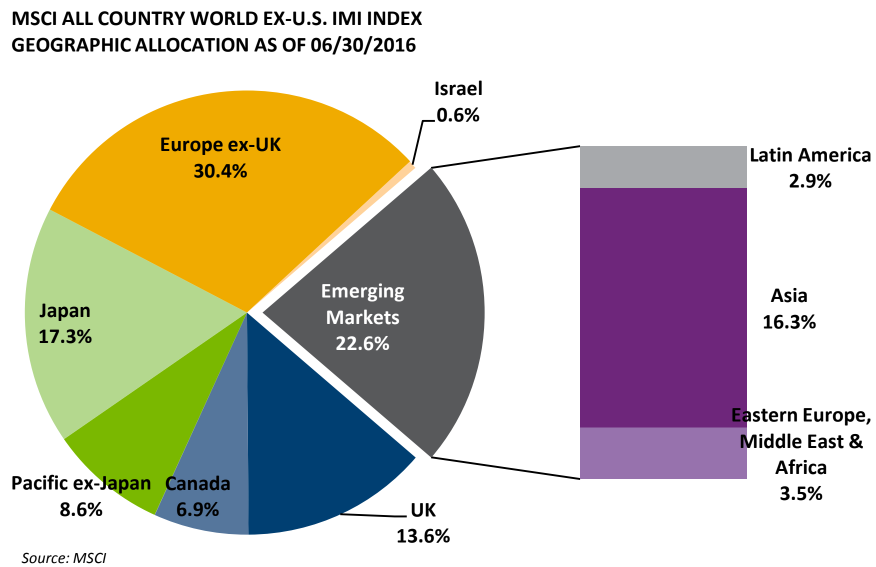
Global Equity Markets



- Despite falling on the news of "Brexit" (the decision by the UK public to leave the EU), global equities rebounded somewhat after a volatile first quarter. Central banks responded to the market's negative reaction to "Brexit" by reassuring markets that they would maintain accommodative monetary policy helping markets recover quickly. However, much uncertainty remains.
- Global equity markets returned 1.06% in Q2 2016 with notable differences in regional returns. Canada continued to be the best performer with a return of 4.72% in Q2 2016. Europe ex-UK was the weakest performer with a return of -3.70% in Q2 2016.

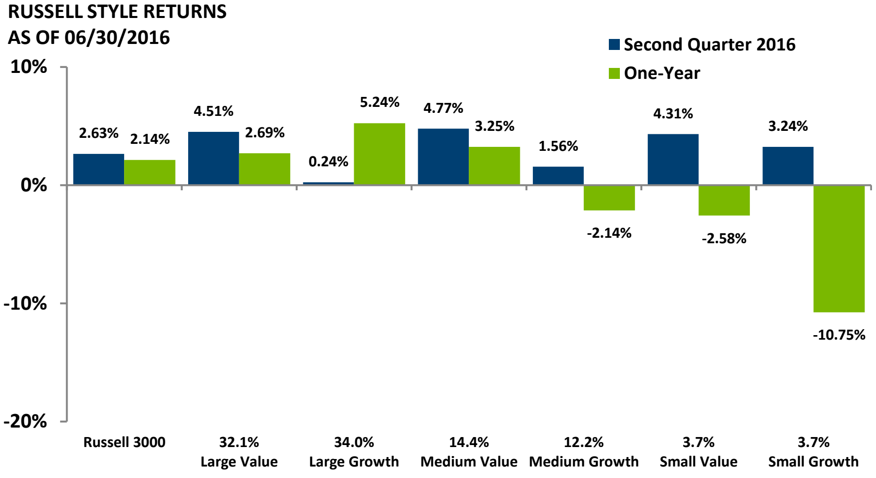
Global Equity Markets



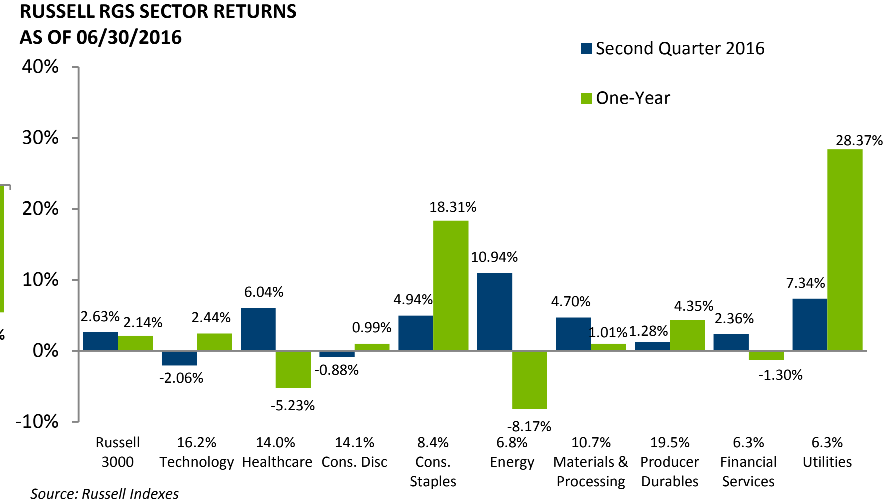


- The two exhibits on this slide illustrate the percentage that each country/region represents of the global equity market as measured by the MSCI All Country World IMI Index and the MSCI All Country World ex-U.S. IMI Index, respectively.

U.S. Equity Markets



Source: Russell Indexes

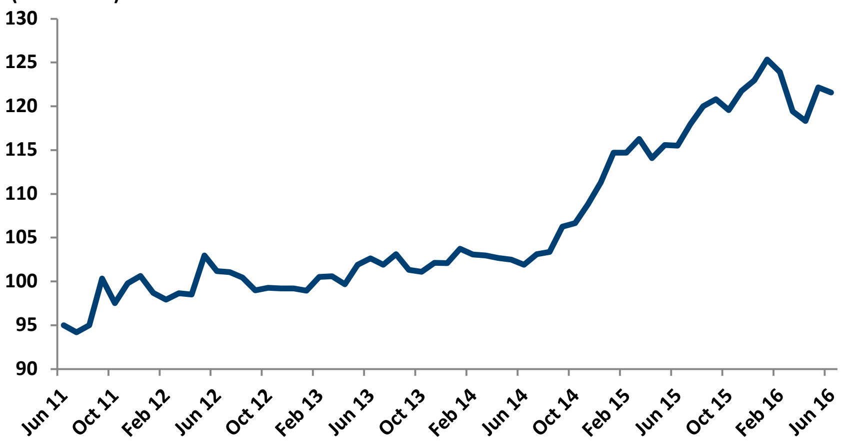


Source: Russell Indexes

- The Russell 3000 Index returned 2.63% during the second quarter and 2.14% over the trailing one-year period.
- During the second quarter, the energy sector was the strongest performer, posting returns of 10.94%. The technology and consumer discretionary sectors were the weakest performers, producing returns of -2.06% and -0.88%, respectively.
- Performance across the market capitalization spectrum was positive during the quarter. Medium cap stocks outperformed both the larger and smaller segments in Value stocks. Small cap stocks outperformed the other segments in Growth stocks.

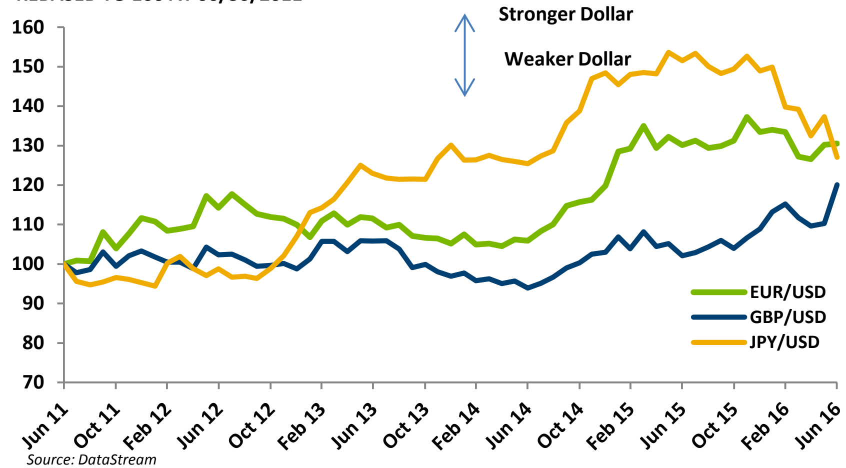
Currency

TRADE WEIGHTED U.S. DOLLAR INDEX
(1997 = 100)



Source: Federal Reserve

U.S. DOLLAR RELATIVE TO EUR, GBP AND JPY
REBASED TO 100 AT 06/30/2011

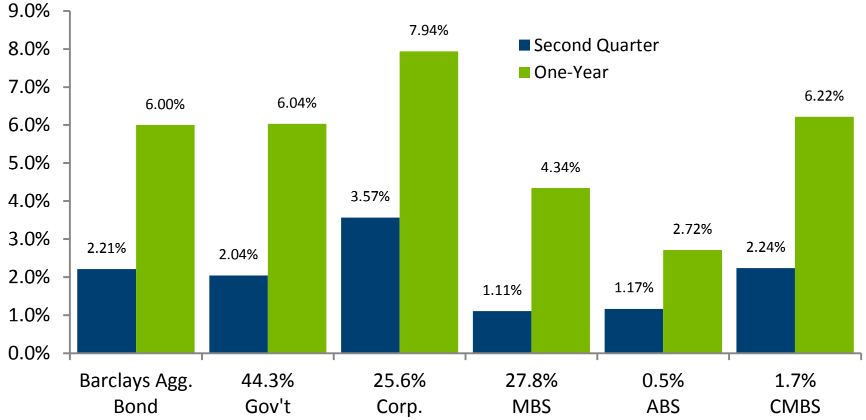


Source: DataStream

- As measured through the broad trade weighted U.S. dollar index, the U.S. dollar generally strengthened during the second quarter of 2016.
- The US dollar appreciated sharply against the pound and the euro but depreciated against the yen. The pound weakened on confirmation of Brexit and ensuing speculation over a cut by the Bank of England (BOE). The yen appreciated sharply against the dollar as the Bank of Japan (BOJ) kept the monetary policy unchanged over the quarter, contrary to expectations.

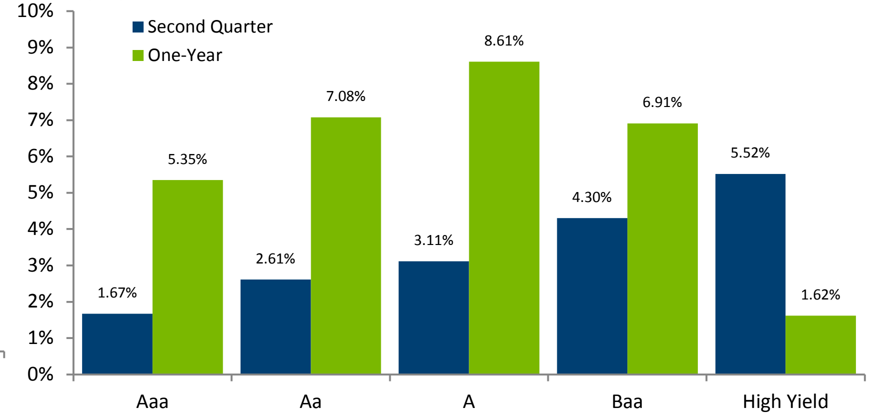
U.S. Fixed Income Markets

BARCLAYS AGGREGATE RETURNS BY SECTOR
AS OF 6/30/2016



Source: Barclays Live

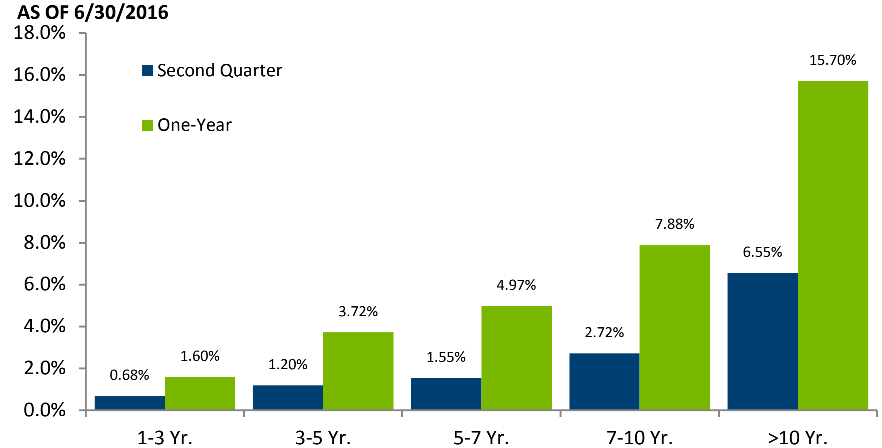
BARCLAYS AGGREGATE RETURNS BY QUALITY AND HIGH YIELD RETURNS
AS OF 6/30/2016



Source: Barclays Live

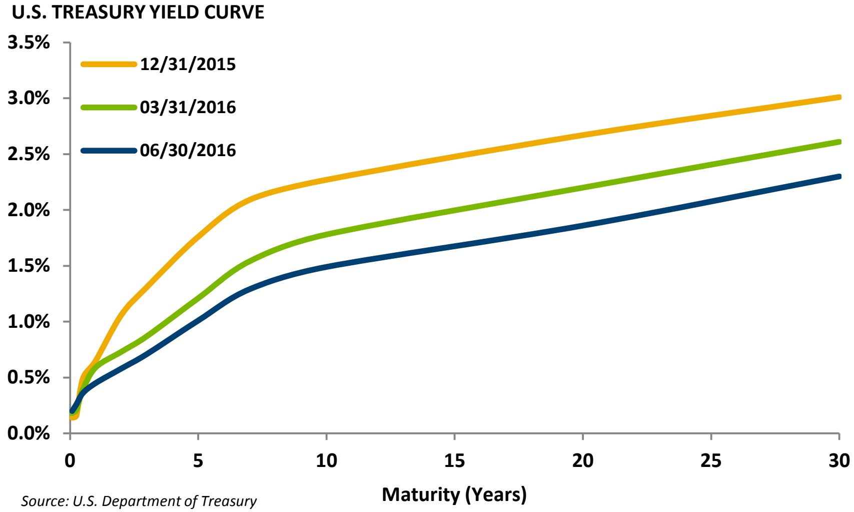
- The Barclays Aggregate Bond Index returned 2.21% during the second quarter.
- Corporate bonds were the strongest performing index segment, returning 3.57%.
- High yield bonds outperformed investment grade corporate bonds in all different credit qualities.
- Longer duration bonds outperformed shorter duration bonds.

BARCLAYS AGGREGATE RETURNS BY MATURITY
AS OF 6/30/2016

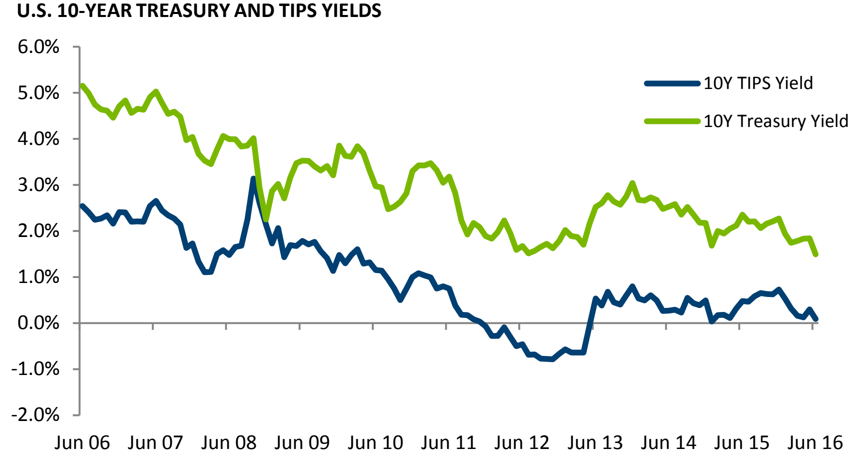


Source: Barclays Live

U.S. Fixed Income Markets



Source: U.S. Department of Treasury



Source: U.S. Department of Treasury

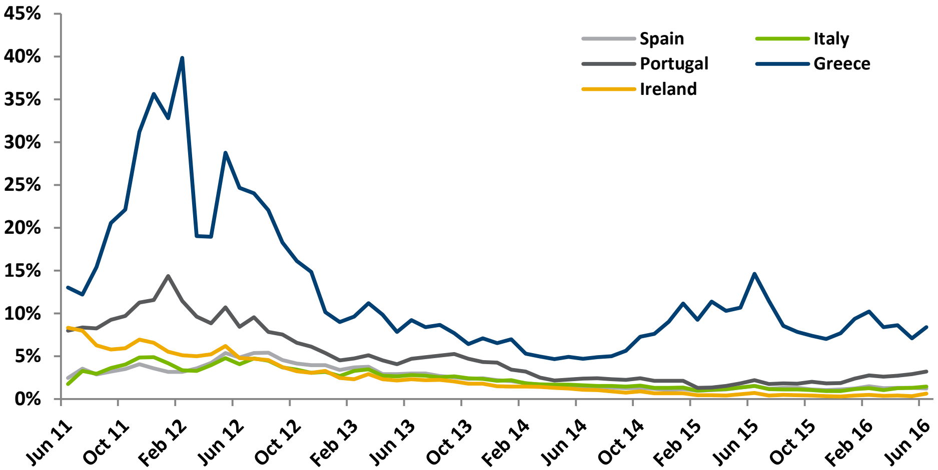
- The Treasury yield curve shifted downwards over the second quarter with yields falling across most maturities. The yield curve flattened over the quarter, driven by long maturity bonds falling.
- The results of the “Brexit” referendum was the main driver behind the collapse of yields over the quarter.
- The 10-year U.S. Treasury yield ended the quarter at 1.49%, 29 basis points lower than its level at the beginning of the quarter.
- The 10-year TIPS yield fell by 7 basis points over the quarter and ended the period at 0.09%.

Credit Spreads

Spread (bps)	06/30/2016	03/31/2016	06/30/2015	Quarterly Change (bps)	1-Year Change (bps)
U.S. Aggregate	55	56	51	-1	4
Long Gov't	3	4	4	-1	-1
Long Credit	215	223	202	-8	13
Long Gov't/Credit	130	136	128	-6	2
MBS	27	22	26	5	1
CMBS	98	109	101	-11	-3
ABS	61	74	62	-13	-1
Corporate	156	163	145	-7	11
High Yield	594	656	476	-62	118
Global Emerging Markets	345	382	328	-37	17

- During the second quarter, credit spreads fell across all the areas of the bond market with the exception of MBS spreads.
- High yield spreads (-62 basis points) fell by the most over the quarter, followed by Global Emerging Markets spreads (-37 basis points) and ABS (-13 basis points).

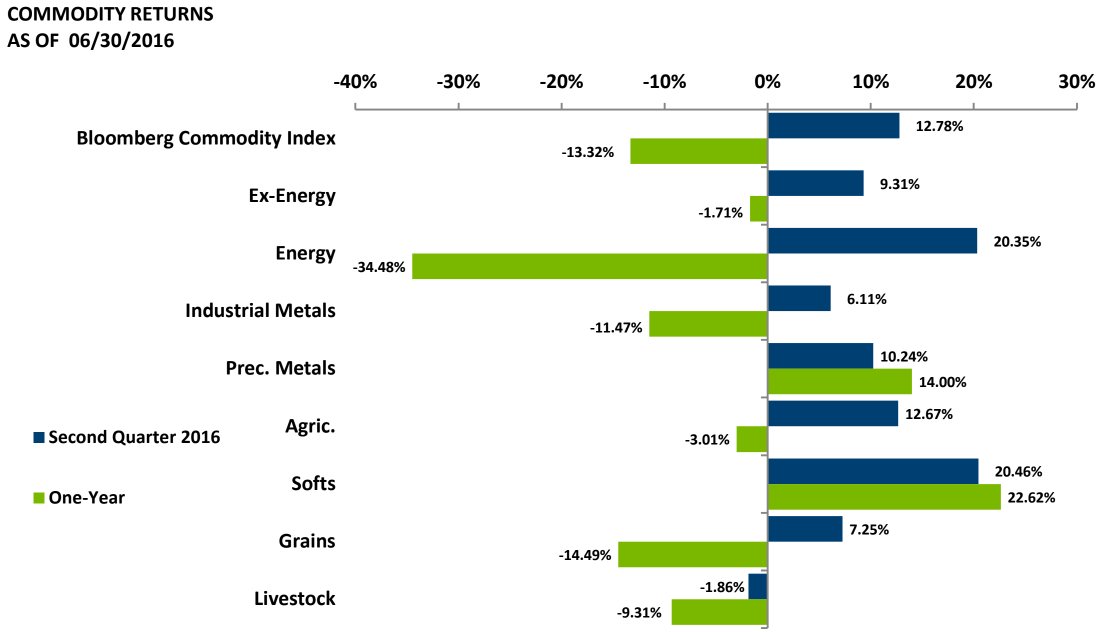
European Fixed Income Markets



Source: DataStream

- In the Eurozone, bond spreads widened during the second quarter of 2016 as core bond yields fell and the peripheral bond yields were mixed. German bund yields fell to negative territory towards the end of the quarter as investors sought safe haven bonds amid growth concerns caused by Brexit.
- Italian government bond yields rose sharply in the beginning of the quarter driven by the country's troubled banking sector due to a heavy load of non-performing loans on their balance sheets.
- Portuguese bond yields rose over concerns of the country's sovereign debt losing its last investment grade credit rating, which would result in the country's debt being disqualified from the European Central Bank's asset-purchase program.

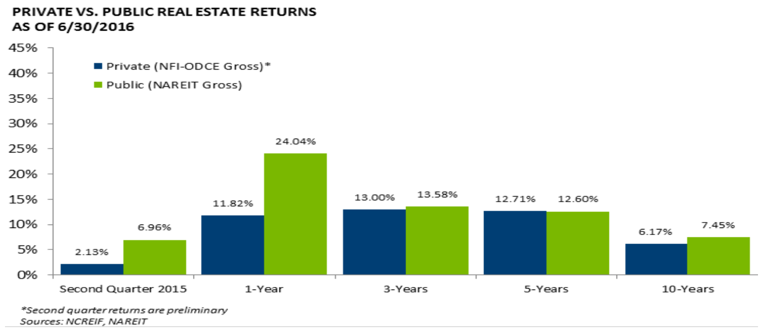
Commodities



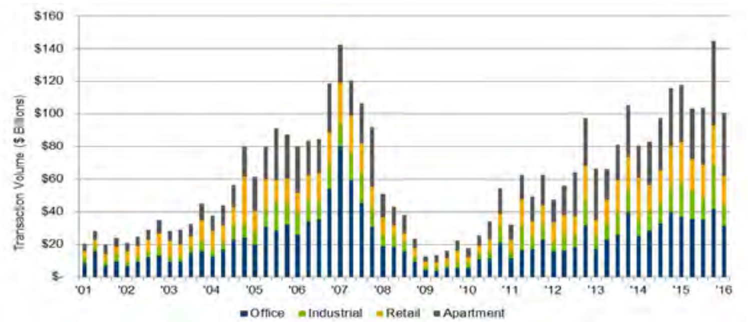
Source: Dow Jones-UBS

- The Bloomberg Commodity Index rose sharply during the second quarter, returning 12.78%.
- During the quarter, the best performing segment was softs with a return 20.46%.
- Livestock was the worst performing sector during the quarter with a return of -1.86%.

U.S. Commercial Real Estate Markets



CRE TRANSACTION VOLUME - QUARTERLY
SOURCE:RCA, AON HEWITT 3/31/2016

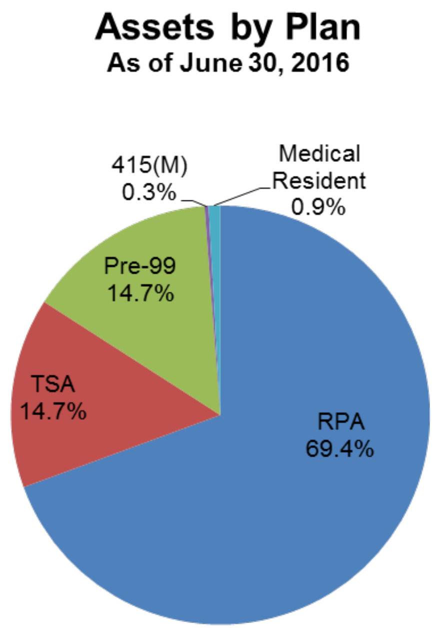


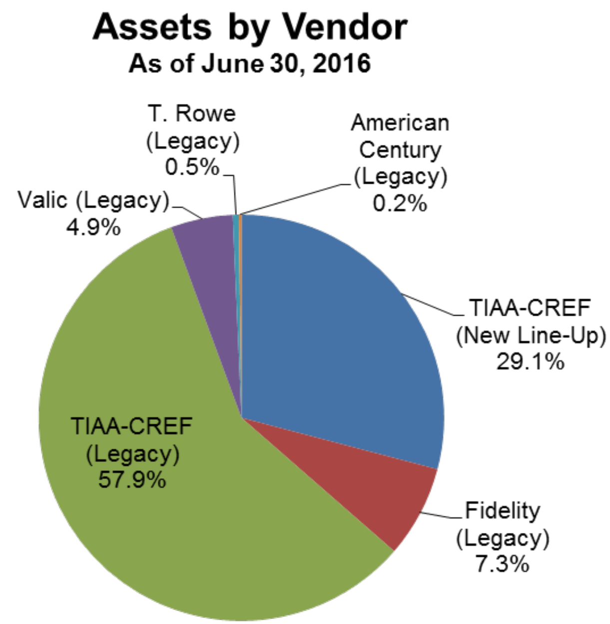
- U.S. real estate is now in a fairly mature stage of its cycle, with sector returns expected to be roughly in line with long-term averages this year. That said, real estate fundamentals remain positive and are expected to continue to support above average income growth across most property types. Pricing, meanwhile, is experiencing investor uncertainty due to current pricing levels and multiple global events. Attractive relative net operating income growth is expected to be the leading driver of returns at this point in the U.S. cycle.
- The U.S. REIT sector gained 7.0% in second quarter (FTSE NAREIT Equity REIT Index); marking a 13.4% gain year-to-date (YTD). Operating fundamentals and asset values remained strong, with U.S. REITs ending the quarter trading at premiums to NAVs. This represents an abrupt turnaround from 1Q, when REITs trading at discount to NAVs were signaling a disconnect with private market fundamentals. The lower global yields following Brexit has made the U.S. property market a favorable place for stability and yield. Significant volatility is expected to remain in public market pricing.

*Indicates preliminary NFI-ODCE data gross of fees

Agenda Tracker

Asset Allocation





As of 6/30/2016

Plan	RPA		TSA		Pre-99		415(M)		Medical Resident		Total	
	$	%	$	%	$	%	$	%	$	%	$	%
TIAA-CREF (New Line-Up)	$ 572,469,656	32.6%	$ 131,136,593	35.3%	$ 13,214,053	3.6%	$ 4,890,757	64.3%	$ 13,515,672	59.1%	$ 735,226,732	29.1%
Fidelity (Legacy)	$ 143,273,904	8.2%	$ 34,083,887	9.2%	$ 5,967,360	1.6%	$ 1,168,941	15.4%	$ 779,233	3.4%	$ 185,273,326	7.3%
TIAA-CREF (Legacy)	$ 941,854,547	53.7%	$ 175,452,452	47.2%	$ 346,118,002	93.1%	$ 1,506,350	19.8%	$ 187,807	0.8%	$ 1,465,119,158	57.9%
Valic (Legacy)	$ 86,108,492	4.9%	$ 30,545,311	8.2%	$ -	0.0%	$ 39,311	0.5%	$ 8,370,724	36.6%	$ 125,063,838	4.9%
T. Rowe (Legacy)	$ 5,977,114	0.3%	$ 231,682	0.1%	$ 5,774,305	1.6%	$ -	0.0%	$ -	0.0%	$ 11,983,101	0.5%
American Century (Legacy)	$ 4,707,619	0.3%	$ -	0.0%	$ 654,503	0.2%	$ -	0.0%	$ -	0.0%	$ 5,362,122	0.2%
Total	**$ 1,754,391,333**	**100.0%**	**$ 371,449,926**	**100.0%**	**$ 371,728,222**	**100.0%**	**$ 7,605,358**	**100.0%**	**$ 22,853,437**	**100.0%**	**$ 2,528,028,277**	**100.0%**
Other Assets*											$ 1,055,620	0.0%
Grand Total	**$ 1,754,391,333**	**69.4%**	**$ 371,449,926**	**14.7%**	**$ 371,728,222**	**14.7%**	**$ 7,605,358**	**0.3%**	**$ 22,853,437**	**0.9%**	**$ 2,529,083,897**	**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			
							2nd Quarter 2016	1st Quarter 2016	4th Quarter 2015	3rd 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	No	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.

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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 2nd Quarter 2016	1st Quarter 2016	4th Quarter 2015	3rd 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	No	No	No	No	No (Buy)	No				
Vanguard Target Retirement 2050	No	No	No	No	No (Buy)	No				
Vanguard Target Retirement 2055	No	No	No	No	No (Buy)	No				
Vanguard Traget Retirement 2060*	No	No	No	No	No (Buy)	No				

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

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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

	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			
							2nd Quarter 2016	1st Quarter 2016	4th Quarter 2015	3rd Quarter 2015
Vanguard Total Bond Market Index Fund	No	No	No	No	No (Buy)	No				
Vanguard Total Stock Market Index Fund	No	No	No	No	No (Buy)	No				
Vanguard Institutional Index Fund	No	No	No	No	No (Buy)	No				
Vanguard Extended Market Index Fund	No	No	No	No	No (Buy)	No				
Vanguard Total International Stock Index	No	No	No	No	No (Buy)	No				
Vanguard Developed Market Index Fund	No	No	No	No	No (Buy)	No				
Vanguard Emerging Markets Stock Index Fund	No	No	No	No	No (Buy)	No				
Vanguard Federal Money Market Fund	Yes	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				
PIMCO Total Return Fund	Yes	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				
T. Rowe Price Instl. Large Cap Growth Fund	No	No	No	Yes	In Review	No				
Diamond Hill Large Cap*	Yes	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	Yes	Yes	No	No	No (Buy)	No				
Dodge & Cox Global Stock Fund	No	Yes	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				
Laudus Mondrian Emerging Markets Instl.	No	No	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 6/30/2016

	Allocation		Performance(%)							
	Market Value ($)	%	1 Quarter	Year To Date	1 Year	3 Years	5 Years	10 Years	Since Inception	Inception Date
Total Plan	**2,529,083,897**	**100.0**								**03/01/2014**
Tier I (a)	**328,087,062**	**13.0**								**03/01/2014**
Vanguard Target Retirement Income Trust II	3,176,583	0.1	2.0 (13)	4.3 (1)	3.4 (1)	5.0 (52)	5.1 (53)		4.9 (56)	03/01/2008
Vanguard Target Income Composite Index			*1.9 (15)*	*4.2 (2)*	*3.4 (1)*	*5.1 (49)*	*5.1 (52)*		*4.9 (55)*	
Vanguard Target Retirement 2010 Trust II	7,931,099	0.3	2.0 (58)	4.2 (25)	3.0 (11)	5.6 (12)	5.6 (20)		5.1 (6)	03/01/2008
Vanguard Target 2010 Composite Index			*1.9 (62)*	*4.2 (28)*	*3.1 (10)*	*5.7 (8)*	*5.7 (18)*		*5.0 (7)*	
Vanguard Target Retirement 2015 Trust II	25,827,554	1.0	1.9 (70)	3.9 (28)	2.1 (30)	6.3 (4)	6.2 (6)		5.4	03/01/2008
Vanguard Target 2015 Composite Index			*1.9 (77)*	*3.9 (40)*	*2.1 (30)*	*6.4 (4)*	*6.3 (6)*		*5.3*	
Vanguard Target Retirement 2020 Trust II	39,429,158	1.6	2.0 (54)	3.8 (34)	1.6 (31)	6.9 (3)	6.7 (4)		5.5 (1)	03/01/2008
Vanguard Target 2020 Composite Index			*1.9 (62)*	*3.7 (42)*	*1.6 (31)*	*7.0 (3)*	*6.9 (3)*		*5.6 (1)*	
Vanguard Target Retirement 2025 Trust II	39,519,664	1.6	2.0 (53)	3.6 (45)	0.9 (37)	7.1 (3)	7.0 (7)		5.5 (1)	03/01/2008
Vanguard Target 2025 Composite Index			*1.9 (72)*	*3.4 (48)*	*0.9 (37)*	*7.2 (3)*	*7.2 (4)*		*5.6 (1)*	
Vanguard Target Retirement 2030 Trust II	45,021,087	1.8	1.9 (59)	3.3 (45)	0.2 (39)	7.4 (8)	7.3 (7)		5.5 (13)	03/01/2008
Vanguard Target 2030 Composite Index			*1.8 (71)*	*3.1 (51)*	*0.2 (39)*	*7.5 (6)*	*7.5 (4)*		*5.6 (9)*	
Vanguard Target Retirement 2035 Trust II	54,176,996	2.1	1.8 (56)	3.0 (40)	-0.5 (26)	7.6 (5)	7.5 (8)		5.7 (4)	03/01/2008
Vanguard Target 2035 Composite Index			*1.7 (73)*	*2.8 (49)*	*-0.6 (31)*	*7.7 (3)*	*7.7 (6)*		*5.7 (1)*	
Vanguard Target Retirement 2040 Trust II	52,263,085	2.1	1.8 (58)	2.7 (40)	-1.3 (37)	7.6 (6)	7.6 (8)		5.8 (7)	03/01/2008
Vanguard Target 2040 Composite Index			*1.6 (68)*	*2.5 (47)*	*-1.3 (36)*	*7.8 (3)*	*7.9 (6)*		*5.8 (7)*	
Vanguard Target Retirement 2045 Trust II	38,228,855	1.5	1.8 (52)	2.6 (39)	-1.4 (32)	7.6 (9)	7.6 (13)		5.7 (6)	03/01/2008
Vanguard Target 2045 Composite Index			*1.6 (77)*	*2.4 (46)*	*-1.3 (32)*	*7.8 (3)*	*7.8 (9)*		*5.8 (1)*	
Vanguard Target Retirement 2050 Trust II	16,832,473	0.7	1.8 (55)	2.6 (42)	-1.5 (34)	7.6 (15)	7.6 (13)		5.8 (1)	03/01/2008
Vanguard Target 2050 Composite Index			*1.6 (67)*	*2.4 (48)*	*-1.3 (32)*	*7.8 (10)*	*7.8 (9)*		*5.8 (1)*	
Vanguard Target Retirement 2055 Trust II	4,116,711	0.2	1.8 (52)	2.7 (36)	-1.5 (28)	7.5 (14)	7.6 (15)		10.7	09/01/2010
Vanguard Target 2055 Composite Index			*1.6 (69)*	*2.4 (45)*	*-1.3 (27)*	*7.8 (11)*	*7.8 (9)*		*10.9*	
Vanguard Target Retirement 2060 Trust II	1,563,798	0.1	1.8 (42)	2.7 (35)	-1.5 (27)	7.5 (14)			8.3 (18)	04/01/2012
Vanguard Target 2060 Composite Index			*1.6 (69)*	*2.4 (45)*	*-1.3 (27)*	*7.8 (11)*			*8.4 (15)*	

Tier I Performance Summary

As of 6/30/2016

	Allocation		Performance(%)							
	Market Value ($)	%	1 Quarter	Year To Date	1 Year	3 Years	5 Years	10 Years	Since Inception	Inception Date
Tier I	**56,863,964**	**2.2**								**02/01/2014**
Vanguard Target Retirement Income - Instl.	869,873	0.0	1.9 (31)	4.3 (1)	3.3 (1)	4.9 (57)	5.0 (60)	5.5	5.2	11/01/2003
Vanguard Target Income Composite Index			*1.9 (15)*	*4.2 (2)*	*3.4 (1)*	*5.1 (49)*	*5.1 (52)*	*5.5*	*5.3*	
Vanguard Target Retirement 2010 - Instl.	2,732,041	0.1	1.9 (65)	4.2 (26)	2.9 (11)	5.5 (14)	5.6 (22)	5.4	5.4	07/01/2006
Vanguard Target 2010 Composite Index			*1.9 (62)*	*4.2 (28)*	*3.1 (10)*	*5.7 (8)*	*5.7 (18)*	*5.5*	*5.5*	
Vanguard Target Retirement 2015 - Instl.	9,352,749	0.4	1.9 (73)	3.9 (40)	2.0 (37)	6.2 (4)	6.2 (12)	5.6	6.0	11/01/2003
Vanguard Target 2015 Composite Index			*1.9 (77)*	*3.9 (40)*	*2.1 (30)*	*6.4 (4)*	*6.3 (6)*	*5.6*	*6.0*	
Vanguard Target Retirement 2020 - Instl.	8,263,942	0.3	2.0 (55)	3.8 (40)	1.4 (37)	6.8 (3)	6.7 (4)	5.7 (1)	5.7 (1)	07/01/2006
Vanguard Target 2020 Composite Index			*1.9 (62)*	*3.7 (42)*	*1.6 (31)*	*7.0 (3)*	*6.9 (3)*	*5.8 (1)*	*5.8 (1)*	
Vanguard Target Retirement 2025 - Instl.	7,464,756	0.3	2.0 (62)	3.5 (46)	0.8 (39)	7.0 (3)	6.9 (9)	5.7	6.3	11/01/2003
Vanguard Target 2025 Composite Index			*1.9 (72)*	*3.4 (48)*	*0.9 (37)*	*7.2 (3)*	*7.2 (4)*	*5.8*	*6.4*	
Vanguard Target Retirement 2030 - Instl.	6,477,573	0.3	1.9 (57)	3.2 (46)	0.1 (40)	7.3 (12)	7.2 (8)	5.7 (12)	5.7 (12)	07/01/2006
Vanguard Target 2030 Composite Index			*1.8 (71)*	*3.1 (51)*	*0.2 (39)*	*7.5 (6)*	*7.5 (4)*	*5.8 (1)*	*5.8 (1)*	
Vanguard Target Retirement 2035 - Instl.	5,626,715	0.2	1.8 (60)	2.9 (43)	-0.7 (41)	7.5 (7)	7.4 (9)	5.7	6.7	11/01/2003
Vanguard Target 2035 Composite Index			*1.7 (73)*	*2.8 (49)*	*-0.6 (31)*	*7.7 (3)*	*7.7 (6)*	*5.9*	*6.8*	
Vanguard Target Retirement 2040 - Instl.	4,629,588	0.2	1.8 (55)	2.7 (41)	-1.4 (39)	7.5 (10)	7.6 (20)	5.8 (12)	5.8 (12)	07/01/2006
Vanguard Target 2040 Composite Index			*1.6 (68)*	*2.5 (47)*	*-1.3 (36)*	*7.8 (3)*	*7.9 (6)*	*6.0 (3)*	*6.0 (3)*	
Vanguard Target Retirement 2045 - Instl.	5,547,748	0.2	1.8 (50)	2.6 (41)	-1.5 (34)	7.5 (13)	7.6 (15)	5.8	6.9	11/01/2003
Vanguard Target 2045 Composite Index			*1.6 (77)*	*2.4 (46)*	*-1.3 (32)*	*7.8 (3)*	*7.8 (9)*	*6.0*	*7.1*	
Vanguard Target Retirement 2050 - Instl.	5,117,811	0.2	1.8 (52)	2.6 (43)	-1.5 (34)	7.5 (21)	7.6 (16)	5.8	5.8	07/01/2006
Vanguard Target 2050 Composite Index			*1.6 (67)*	*2.4 (48)*	*-1.3 (32)*	*7.8 (10)*	*7.8 (9)*	*6.0*	*6.0*	
Vanguard Target Retirement 2055 - Instl.	520,334	0.0	1.8 (50)	2.6 (37)	-1.6 (33)	7.5 (21)	7.6 (17)		10.7	09/01/2010
Vanguard Target 2055 Composite Index			*1.6 (69)*	*2.4 (45)*	*-1.3 (27)*	*7.8 (11)*	*7.8 (9)*		*10.9*	
Vanguard Target Retirement 2060 - Instl.	260,833	0.0	1.8 (51)	2.6 (41)	-1.6 (31)	7.5 (18)			9.3 (24)	02/01/2012
Vanguard Target 2060 Composite Index			*1.6 (69)*	*2.4 (45)*	*-1.3 (27)*	*7.8 (11)*			*9.5 (16)*	

Tier II Performance Summary

As of 6/30/2016

	Allocation		Performance(%)							
	Market Value ($)	%	1 Quarter	Year To Date	1 Year	3 Years	5 Years	10 Years	Since Inception	Inception Date
Tier II	**346,595,157**	**13.7**								**03/01/2014**
Vanguard Total Bond Market Index Fund	17,772,075	0.7	2.4 (48)	5.5 (23)	6.1 (12)	4.0 (38)	3.7 (53)	5.2 (46)	5.5 (22)	10/01/1995
Performance Benchmark			*2.3 (54)*	*5.5 (24)*	*6.1 (12)*	*4.1 (33)*	*3.8 (47)*	*5.2 (46)*	*5.6 (19)*	
Vanguard Total Stock Market Index Fund	23,482,024	0.9	2.7 (25)	3.6 (26)	2.1 (31)	11.1 (35)	11.6 (27)	7.6 (29)	6.6 (24)	08/01/1997
Performance Benchmark			*2.7 (24)*	*3.7 (26)*	*2.1 (31)*	*11.1 (34)*	*11.6 (27)*	*7.5 (29)*	*6.6 (25)*	
Vanguard Institutional Index Fund	52,271,542	2.1	2.4 (29)	3.8 (25)	4.0 (18)	11.6 (26)	12.1 (17)	7.4 (32)	9.4 (34)	08/01/1990
S&P 500 Index			*2.5 (29)*	*3.8 (24)*	*4.0 (18)*	*11.7 (25)*	*12.1 (16)*	*7.4 (32)*	*9.4 (34)*	
Vanguard Extended Market Index Fund - Instl.	17,771,402	0.7	3.4 (20)	2.5 (22)	-5.4 (44)	8.5 (50)	9.4 (36)	7.5 (44)	7.7 (48)	08/01/1997
Performance Benchmark			*3.4 (22)*	*2.4 (23)*	*-5.6 (46)*	*8.4 (53)*	*9.3 (36)*	*7.4 (45)*		
Vanguard Total International Stock Index	3,945,652	0.2	0.2 (30)	0.1 (18)	-9.1 (28)	2.0 (37)	0.6 (71)		2.7 (75)	12/01/2010
Performance Benchmark			*-0.5 (39)*	*-0.8 (24)*	*-9.4 (32)*	*2.0 (38)*	*0.6 (71)*		*2.6 (77)*	
Vanguard Developed Market Index Fund	14,092,269	0.6	-0.2 (35)	-2.2 (32)	-8.4 (23)	2.8 (17)	2.1 (22)		4.5 (24)	02/01/2010
Performance Benchmark			*-1.4 (59)*	*-4.1 (63)*	*-9.7 (36)*	*2.2 (30)*	*1.7 (33)*		*4.1 (40)*	
Vanguard Emerging Markets Stock Index Fund - Instl.	10,465,152	0.4	2.3 (44)	7.8 (39)	-12.1 (69)	-0.7 (33)	-3.5 (52)	3.6 (42)	6.8 (52)	07/01/2000
Performance Benchmark			*1.7 (57)*	*7.9 (38)*	*-12.2 (70)*	*-0.8 (36)*	*-3.3 (47)*	*3.8 (38)*	*6.7 (57)*	
Vanguard Federal Money Market Fund	12,733,639	0.5	0.1 (22)	0.1 (22)	0.2 (23)	0.1 (22)	0.0 (30)	1.1 (29)	3.1 (26)	11/01/1989
Citigroup 3 Month T-Bill			*0.1 (30)*	*0.1 (30)*	*0.1 (30)*	*0.1 (27)*	*0.1 (23)*	*1.0 (61)*	*3.0 (46)*	
TIAA Traditional - RC	41,794,989	1.7	1.1 (2)	2.1 (3)	4.3 (1)	4.4 (1)	4.4 (1)	4.5 (1)	4.5 (1)	08/01/2005
Hueler Stable Value Index			*0.4 (21)*	*0.9 (21)*	*1.8 (17)*	*1.7 (23)*	*1.9 (29)*	*2.9 (38)*	*3.1 (33)*	
TIAA Traditional - RCP	28,633,229	1.1	0.9 (3)	1.8 (3)	3.5 (1)	3.6 (1)	3.6 (1)	3.8 (2)	3.8 (2)	06/01/2006
Hueler Stable Value Index			*0.4 (21)*	*0.9 (21)*	*1.8 (17)*	*1.7 (23)*	*1.9 (29)*	*2.9 (38)*	*2.9 (33)*	
PIMCO Total Return Fund	11,655,903	0.5	2.1 (79)	3.9 (92)	4.3 (84)	3.5 (76)	3.7 (55)	6.3 (1)	7.6	06/01/1987
Barclays Aggregate Index			*2.2 (63)*	*5.3 (39)*	*6.0 (16)*	*4.1 (33)*	*3.8 (48)*	*5.1 (48)*	*6.7*	
DFA Inflation-Protected Securities Portfolio	5,891,360	0.2	1.7 (38)	6.8 (14)	4.8 (8)	2.5 (9)	2.8 (7)		4.7 (10)	10/01/2006
Barclays U.S. TIPS Index			*1.7 (40)*	*6.2 (25)*	*4.4 (17)*	*2.3 (20)*	*2.6 (19)*		*4.5 (24)*	
Neuberger Berman High Income Bond Fund	8,481,320	0.3	4.5 (38)	7.5 (29)	0.4 (49)	3.5 (50)			2.7 (48)	04/01/2013
Barclays Corporate High Yield Index			*5.5 (17)*	*9.1 (8)*	*1.6 (26)*	*4.2 (23)*			*3.4 (21)*	
T. Rowe Price Instl. Large Cap Growth Fund	12,248,585	0.5	0.0 (60)	-6.4 (91)	-3.1 (68)	12.6 (34)	12.3 (21)	9.0 (14)	8.3 (6)	11/01/2001
Russell 1000 Growth Index			*0.6 (42)*	*1.4 (11)*	*3.0 (13)*	*13.1 (22)*	*12.3 (19)*	*8.8 (21)*	*6.8 (35)*	

Tier II Performance Summary (cont'd)

As of 6/30/2016

	Allocation		Performance(%)							
	Market Value ($)	%	1 Quarter	Year To Date	1 Year	3 Years	5 Years	10 Years	Since Inception	Inception Date
Diamond Hill Large Cap	11,850,853	0.5	1.1 (83)	2.3 (60)	-0.4 (49)	9.1 (33)			13.1 (40)	01/01/2012
Russell 1000 Value Index			*4.6 (9)*	*6.3 (18)*	*2.9 (22)*	*9.9 (19)*			*14.0 (16)*	
William Blair Small/Mid Cap Growth Fund	7,757,955	0.3	4.1 (47)	1.1 (32)	-2.9 (18)	11.0 (8)	10.4 (9)	9.1 (11)	9.7 (9)	01/01/2004
Russell 2500 Growth Index			*2.7 (69)*	*0.0 (47)*	*-7.7 (39)*	*9.1 (21)*	*9.3 (23)*	*8.0 (30)*	*8.6 (25)*	
DFA U.S. Targeted Value	18,756,311	0.7	1.4 (56)	4.0 (75)	-5.7 (77)	7.1 (44)	8.9 (35)	6.2 (64)	11.0 (12)	03/01/2000
Russell 2500 Value Index			*4.4 (13)*	*7.8 (28)*	*0.2 (34)*	*8.1 (31)*	*9.6 (28)*	*6.5 (60)*	*10.0 (24)*	
Dodge & Cox Global Stock Fund	16,248,658	0.6	0.9 (50)	-0.5 (63)	-10.5 (92)	5.3 (59)	6.1 (47)		3.0 (62)	05/01/2008
MSCI AC World Index (Net)			*1.0 (43)*	*1.2 (43)*	*-3.7 (57)*	*6.0 (55)*	*5.4 (64)*		*2.7 (68)*	
Harding Loevner International Equity Instl.	4,499,885	0.2	2.9 (3)	3.6 (3)	-3.1 (12)	4.8 (4)	3.2 (9)	4.9 (1)	5.8	06/01/1994
MSCI AC World ex USA Growth (Net)			*0.5 (21)*	*0.1 (13)*	*-6.2 (15)*	*3.1 (32)*	*1.5 (56)*	*2.8 (51)*		
MFS International Value Fund	10,957,381	0.4	2.2 (4)	4.9 (5)	5.7 (1)	8.9 (1)	9.2 (1)	6.6 (1)	6.5 (1)	06/01/2006
MSCI AC World ex USA Value (Net)			*-1.8 (75)*	*-2.2 (43)*	*-14.3 (94)*	*-0.8 (94)*	*-1.4 (95)*	*0.9 (84)*	*0.8 (85)*	
Laudus Mondrian Emerging Markets Instl.	1,203,508	0.0	2.3 (45)	9.4 (24)	-9.4 (43)	-4.8 (84)	-3.7 (55)		-2.2 (54)	05/01/2008
MSCI Emerging Markets Index (Net)			*0.7 (80)*	*6.4 (52)*	*-12.1 (68)*	*-1.6 (52)*	*-3.8 (56)*		*-1.9 (49)*	
Cohen and Steers Instl. Realty Shares	14,081,468	0.6	5.7 (47)	9.8 (70)	21.6 (49)	13.6 (23)	11.6 (58)	7.6 (24)	13.1 (7)	03/01/2000
FTSE NAREIT Equity REIT Index			*7.0 (13)*	*13.4 (10)*	*24.0 (13)*	*13.6 (27)*	*12.6 (10)*	*7.4 (27)*	*12.7 (38)*	

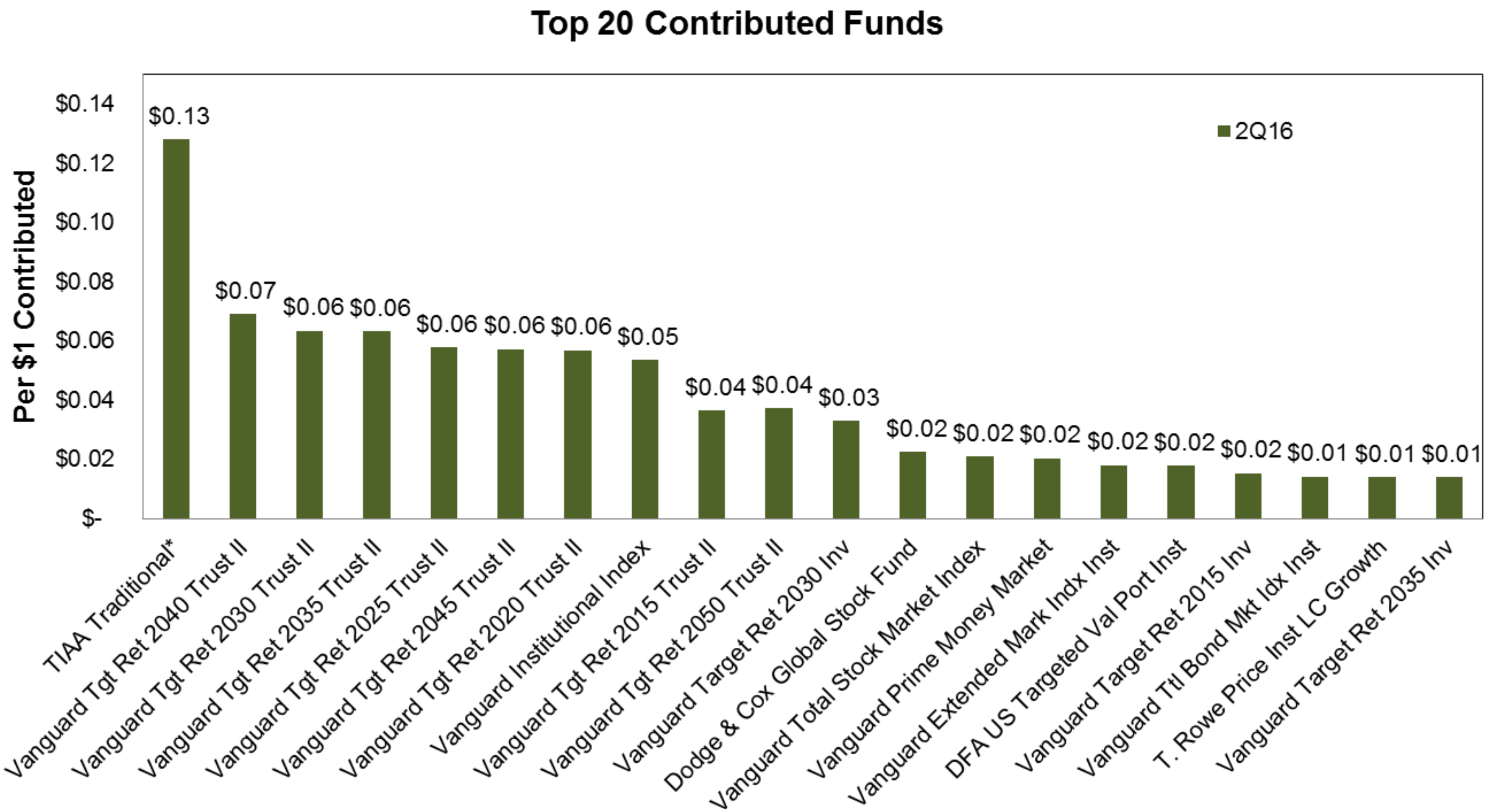
Tier III and Other Assets

As of 6/30/2016

	Allocation		Performance(%)							
	Market Value ($)	%	1 Quarter	Year To Date	1 Year	3 Years	5 Years	10 Years	Since Inception	Inception Date
Tier III	**3,680,549**	**0.1**								**03/01/2014**
Mutual Fund Window	3,680,549	0.1								03/01/2014
Orphan Accounts	**1,792,801,545**	**70.9**								
Fidelity Orphan Accounts	185,273,326	7.3								
TIAA-CREF Orphan Accounts	1,465,119,158	57.9								
T. Rowe Price Orphan Accounts	11,983,101	0.5								
VALIC Orphan Accounts	125,063,838	4.9								
American Century Orphan Accounts	5,362,122	0.2								
Other Assets	**1,055,620**	**0.0**								**03/01/2014**
Loans	429,768	0.0								03/01/2014
Loans Deemed Distributed	327,830	0.0								03/01/2014
Plan Loan Default Fund	60,860	0.0								07/01/2014
TIAA-CREF Money Market-Instl.	237,162	0.0	0.1 (20)	0.1 (22)	0.2 (24)	0.1 (27)	0.0 (29)	1.1 (16)	2.0 (12)	08/01/1999
iMoneyNet Prime Institutional Average			*0.1 (29)*	*0.1 (30)*	*0.2 (26)*	*0.1 (22)*	*0.1 (22)*	*1.1 (26)*	*1.9 (31)*	

Top Contributed Funds

As of 6/30/2016



Source: As reported by TIAA-CREF

* TIAA Traditional Contribution Split: RC = 30% / RCP = 70%

Ibbotson Model Portfolios – Performance

As of 6/30/2016

	Performance(%)				
	1 Quarter	Year To Date	1 Year	Since Inception	Inception Date
RC					
Very Conservative	1.8	3.5	3.7	3.8	01/01/2014
Very Conservative Benchmark	*1.6*	*3.2*	*2.2*	*2.4*	
Conservative	1.9	3.6	2.5	3.8	01/01/2014
Conservative Benchmark	*1.8*	*3.7*	*1.6*	*2.8*	
Moderately Conservative	2.0	3.5	1.9	4.2	01/01/2014
Moderately Conservative Benchmark	*2.0*	*3.9*	*1.5*	*3.3*	
Moderate	2.1	3.6	0.9	4.2	01/01/2014
Moderate Benchmark	*2.1*	*3.9*	*0.4*	*3.2*	
Moderately Aggressive	2.1	3.1	-0.3	4.0	01/01/2014
Moderately Aggressive Benchmark	*2.2*	*4.0*	*-0.2*	*3.3*	
Aggressive	1.9	2.2	-1.8	3.7	01/01/2014
Aggressive Benchmark	*2.2*	*3.8*	*-1.3*	*3.1*	
Very Aggressive	2.0	2.2	-3.7	2.7	01/01/2014
Very Aggressive Benchmark	*2.2*	*3.8*	*-2.3*	*2.8*	
RCP					
Very Conservative	1.7	3.3	3.4	3.5	01/01/2014
Very Conservative Benchmark	*1.6*	*3.2*	*2.2*	*2.4*	
Conservative	1.9	3.5	2.2	3.5	01/01/2014
Conservative Benchmark	*1.9*	*3.8*	*1.7*	*2.8*	
Moderately Conservative	2.0	3.5	1.7	4.1	01/01/2014
Moderately Conservative Benchmark	*2.1*	*4.2*	*1.8*	*3.4*	
Moderate	2.2	3.7	0.8	4.1	01/01/2014
Moderate Benchmark	*2.3*	*4.2*	*0.6*	*3.3*	
Moderately Aggressive	2.1	3.3	-0.3	4.0	01/01/2014
Moderately Aggressive Benchmark	*2.3*	*4.2*	*-0.1*	*3.3*	
Aggressive	1.9	2.2	-1.8	3.7	01/01/2014
Aggressive Benchmark	*2.2*	*3.8*	*-1.3*	*3.1*	
Very Aggressive	2.0	2.2	-3.7	2.7	01/01/2014
Very Aggressive Benchmark	*2.2*	*3.8*	*-2.3*	*2.8*	

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%	-

Annual Fee Transparency – As of June 30, 2016

Investment Option	Market Value	Mgmt. Fee (%)	Mgmt. Fee ($)	Revenue Sharing (%)*	Revenue Sharing ($)	Total Expense (%)**	Total Expense ($)
Vanguard Target Retirement Income Trust II	$3,176,583	0.08%	$2,541	0.00%	$0	0.08%	$2,541
Vanguard Target Retirement 2010 Trust II	$7,931,099	0.08%	$6,345	0.00%	$0	0.08%	$6,345
Vanguard Target Retirement 2015 Trust II	$25,827,554	0.08%	$20,662	0.00%	$0	0.08%	$20,662
Vanguard Target Retirement 2020 Trust II	$39,429,158	0.08%	$31,543	0.00%	$0	0.08%	$31,543
Vanguard Target Retirement 2025 Trust II	$39,519,664	0.08%	$31,616	0.00%	$0	0.08%	$31,616
Vanguard Target Retirement 2030 Trust II	$45,021,087	0.08%	$36,017	0.00%	$0	0.08%	$36,017
Vanguard Target Retirement 2035 Trust II	$54,176,996	0.08%	$43,342	0.00%	$0	0.08%	$43,342
Vanguard Target Retirement 2040 Trust II	$52,263,085	0.08%	$41,810	0.00%	$0	0.08%	$41,810
Vanguard Target Retirement 2045 Trust II	$38,228,855	0.08%	$30,583	0.00%	$0	0.08%	$30,583
Vanguard Target Retirement 2050 Trust II	$16,832,473	0.08%	$13,466	0.00%	$0	0.08%	$13,466
Vanguard Target Retirement 2055 Trust II	$4,116,711	0.08%	$3,293	0.00%	$0	0.08%	$3,293
Vanguard Target Retirement 2060 Trust II	$1,563,798	0.08%	$1,251	0.00%	$0	0.08%	$1,251
Vanguard Target Retirement Income	$869,873	0.14%	$1,218	0.00%	$0	0.14%	$1,218
Vanguard Target Retirement 2010	$2,732,041	0.14%	$3,825	0.00%	$0	0.14%	$3,825
Vanguard Target Retirement 2015	$9,352,749	0.14%	$13,094	0.00%	$0	0.14%	$13,094
Vanguard Target Retirement 2020	$8,263,942	0.14%	$11,570	0.00%	$0	0.14%	$11,570
Vanguard Target Retirement 2025	$7,464,756	0.15%	$11,197	0.00%	$0	0.15%	$11,197
Vanguard Target Retirement 2030	$6,477,573	0.15%	$9,716	0.00%	$0	0.15%	$9,716
Vanguard Target Retirement 2035	$5,626,715	0.15%	$8,440	0.00%	$0	0.15%	$8,440
Vanguard Target Retirement 2040	$4,629,588	0.16%	$7,407	0.00%	$0	0.16%	$7,407
Vanguard Target Retirement 2045	$5,547,748	0.16%	$8,876	0.00%	$0	0.16%	$8,876
Vanguard Target Retirement 2050	$5,117,811	0.16%	$8,188	0.00%	$0	0.16%	$8,188
Vanguard Target Retirement 2055	$520,334	0.16%	$833	0.00%	$0	0.16%	$833
Vanguard Target Retirement 2060	$260,833	0.16%	$417	0.00%	$0	0.16%	$417
Vanguard Total Bond Market Index Fund	$17,772,075	0.05%	$8,886	0.00%	$0	0.05%	$8,886
Vanguard Total Stock Market Index Fund	$23,482,024	0.04%	$9,393	0.00%	$0	0.04%	$9,393
Vanguard Institutional Index Fund	$52,271,542	0.04%	$20,909	0.00%	$0	0.04%	$20,909
Vanguard Extended Market Index Fund - Instl.	$17,771,402	0.07%	$12,440	0.00%	$0	0.07%	$12,440
Vanguard Total International Stock Index	$3,945,652	0.10%	$3,946	0.00%	$0	0.10%	$3,946
Vanguard Developed Market Index Fund	$14,092,269	0.07%	$9,865	0.00%	$0	0.07%	$9,865
Vanguard Emerging Markets Stock Index Fund - Instl.	$10,465,152	0.12%	$12,558	0.00%	$0	0.12%	$12,558
Vanguard Federal Money Market Fund	$12,733,639	0.11%	$14,007	0.00%	$0	0.11%	$14,007
TIAA Traditional - RC & RCP	$70,428,218	0.40%	$281,713	0.15%	$105,642	0.55%	$387,355
PIMCO Total Return Fund	$11,655,903	0.46%	$53,617	0.00%	$0	0.46%	$53,617
DFA Inflation-Protected Securities Portfolio	$5,891,360	0.12%	$7,070	0.00%	$0	0.12%	$7,070
Neuberger Berman High Income Bond Fund	$8,481,320	0.62%	$52,584	0.00%	$0	0.62%	$52,584
T. Rowe Price Instl. Large Cap Growth Fund	$12,248,585	0.56%	$68,592	0.00%	$0	0.56%	$68,592
Diamond Hill Large Cap	$11,850,853	0.60%	$71,105	0.00%	$0	0.60%	$71,105
William Blair Small/Mid Cap Growth Fund	$7,757,955	0.95%	$73,701	0.15%	$11,637	1.10%	$85,337
DFA U.S. Targeted Value	$18,756,311	0.37%	$69,398	0.00%	$0	0.37%	$69,398
Dodge & Cox Global Stock Fund	$16,248,658	0.53%	$86,118	0.10%	$16,249	0.63%	$102,367
Harding Loevner International Equity Instl.	$4,499,885	0.69%	$31,049	0.15%	$6,750	0.84%	$37,799
MFS International Value Fund	$10,957,381	0.69%	$75,606	0.00%	$0	0.69%	$75,606
Laudus Mondrian Emerging Markets Instl.	$1,203,508	1.20%	$14,442	0.00%	$0	1.20%	$14,442
Cohen and Steers Instl. Realty Shares	$14,081,468	0.75%	$105,611	0.00%	$0	0.75%	$105,611
Mutual Fund Window	$3,680,549	0.00%	$0	0.00%	$0	0.00%	$0
Total	$735,226,732	0.19%	$1,429,860	0.02%	$140,278	0.21%	$1,570,138
Without Brokerage	$731,546,183	0.20%	$1,429,860	0.02%	$140,278	0.21%	$1,570,138

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Agenda Tracker

Vanguard Target Retirement Funds

- All of the Vanguard Target Retirement Funds posted positive returns which closely approximated their respective performance benchmarks and the median return of their respective peer groups during the second quarter
  - The shorter-dated Funds, with their greater exposure to fixed income, posted the strongest absolute returns
    - The Barclays U.S. Aggregate Float Adjusted Index (+2.3%) and its international counterpart, the Barclays Global Aggregate ex USD Float Adjusted Index Hedged (+2.7%), both outperformed the broad equity markets
  - The longer-dated Funds, with their greater exposure to international equity, posted lower absolute returns
    - The Vanguard Total Stock Market Index Fund advanced 2.7% while the Vanguard Total International Stock Index Fund advanced 0.2%
- For the trailing one-year period, the returns for the Target Retirement Funds varied depending on their maturity
  - The shorter-dated Funds, with their greater fixed income exposure, posted positive absolute returns
  - The longer-dated Funds, with their greater exposure to equities, posted negative absolute returns
- Longer-term results continued to closely track their respective performance benchmarks and rank favorably among their respective peer-groups
- The Vanguard Target Retirement Funds remain "Buy" rated by our Global Investment Management Research Team

PIMCO Total Return Fund

- The Fund continued to register “Yellow” on the Watch List during the second 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’s performance modestly lagged the return of its benchmark, the Barclays U.S. Aggregate Index, by 0.1 percentage point during the second quarter
- The Fund’s underperformance was primarily attributable to:
  - Holdings in U.S. Treasury Inflation-Protected Securities (TIPS) in lieu of nominal Treasuries
  - Long dollar position against the Japanese yen
  - Short duration positioning in the U.K. as interest rates fell
- Partially offsetting negative results was favorable U.S. rate strategies, positions in non-agency mortgage-backed securities, and holdings of municipals and dollar-denominated EMD
- For the trailing one-year period, the Fund generated a return of 4.3% versus the benchmark’s return of 6.0%
  - Duration and yield curve positioning had the largest negative impact on results
- Longer-term results remained mixed relative to the Barclays U.S. Aggregate Index but significantly above the Fund’s peer group average
- We continue to closely monitor the Fund’s positioning and performance but recommend the Committee take no action as the investment team remains consistent and continues to execute on its historic philosophy and process
- The Fund remains “Buy” rated by our Global Investment Management Research Team

Pacific Investment Management Company (PIMCO)

Total Return Fund Guideline Change

- Effective June 13, 2016, PIMCO increased the maximum allowance of high yield securities within the Total Return Fund from 10% of assets to 20% of assets
- Our Global Investment Management Research Team is comfortable with the increase as it should allow the Fund's managers the opportunity to take better advantage of ongoing tactical opportunities within the market
- A Flash report detailing our observations is included in Section 4 of this presentation

Appointment of Chief Executive Officer

- On July 20, 2016, Pacific Investment Management Company (PIMCO) announced that Manny Roman would be the firm's next Chief Executive Officer (CEO) effective November 1, 2016
  - Mr. Roman has nearly three decades of experience in the investment industry
  - He will join PIMCO from Man Group PLC, where he has served as Chief Executive Officer since February 2013
- Following its due diligence review, our Global Investment Management Research Team is comfortable with the reasoning, process, and selection of Mr. Roman as PIMCO's next CEO and recommends that clients take no action
- A Flash report detailing our observations is included in Section 4 of this presentation

Neuberger Berman High Income Bond Fund

- The Fund continued to register “Red” on the Watch List during the second 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 positive in absolute terms, the Fund’s performance lagged the return of its benchmark, the Barclays Corporate High Yield Index, by 1.0 percentage point during the second quarter
- The Fund’s underperformance was primarily attributable to:
  - Negative security selection within the energy, metals & mining, and utilities sectors
  - An overweight allocation to higher quality bonds rated BB and above
- Partially offsetting the period's negative results was positive security selection within the retail and telecommunications sectors and an overweight to allocation to gas distribution companies
- For the trailing one-year period, the Fund generated a return of 0.4% versus the benchmark’s return of 1.6%
- Longer-term results continued to underperform the Barclays Corporate High Yield Index
- As an important part of the ongoing due diligence process, we recommend the Committee initiate a “competitive review” to compare the Fund’s positioning, historical performance, fees, etc. to other viable candidates
- The results of this “competitive review” would be presented at the November 18th RPAC meeting

T. Rowe Price Instl. Large Cap Growth Fund

- The Fund registered “Orange” on the Watch List during the second quarter
  - Due to an “In Review” rating by our Global Investment Management Research Team
- The Fund’s performance lagged its benchmark, the Russell 1000 Growth Index, by 0.6 percentage points during the second quarter
- The Fund’s underperformance was primarily attributable to:
  - Negative stock selection within the industrials and business services sector
    - Notable detractors included American Airlines and Alaska Airlines
  - Holdings within the health care sector
    - Allergan and Alexion Pharmaceuticals detracted from results
- Partially offsetting negative results was positive stock selection within the consumer discretionary and information technology sectors
- Over the trailing one-year period, the Fund generated a return of -3.1% versus the benchmarks return of 3.0%
  - An underweight allocation to the more defensive sectors of the market during a volatile market detracted from results
- Longer-term results continued to remain favorable
- We continue to closely monitor the Fund’s positioning and performance but recommend the Committee take no action at this time

T. Rowe Price Group Inc.

- In June, T. Rowe Price announced that it will reimburse clients for proxy voting errors related to the 2013 leveraged buyout of Dell, Inc. ("Dell")
  - T. Rowe Price voted in favor of the buyout while it intended to vote against the buyout
  - The total reimbursement is expected to be approximately $194 million
- T. Rowe Price utilizes Institutional Shareholder Services Inc. ("ISS"), a third party proxy advisory firm, for services including voting recommendations and the handling of proxy voting responsibilities
- While the proper instructions were initially captured in the ISS voting system, a rescheduling of the shareholder's meeting caused a system failure whereby elections were reverted to default system preferences in favor of the buyout
- Although T. Rowe Price has documented Proxy Voting Policy and Procedures manual that outlines the formal policies and procedures for the voting of client proxies, there was breakdown in this instance
- The Delaware Court of Chancery determined that the "for" buyout vote cost investors approximately 28% of their investment in Dell
  - The T. Rowe Price Instl. Large Cap Growth Fund will receive an additional $0.04 per share
- Aon Hewitt's Global Operational Due Diligence Team recommends that clients take no action at this time as the matter has been closed
- A Flash report detailing our observations is included in Section 5 of this presentation

Diamond Hill Large Cap Fund

- The Fund's performance lagged its benchmark, the Russell 1000 Value Index, by 3.5 percentage points during the second quarter
- The Fund's underperformance was primarily attributable to:
  - Negative stock selection within the consumer discretionary, information technology, and financials sectors
  - Notable detractors included Borg Warner, Goodyear Tire & Rubber Co., Capital One Financial Corp., and Apple
- Partially offsetting the period's negative results was positive stock selection within the health care and energy sectors
  - The portfolio's best performers included Pfizer Inc., Boston Scientific, and Cimarex Energy Co.
- For the trailing one-year period, the Fund generated a return of -0.5% versus the benchmark's return of 2.9%
- Longer-term results continued to underperform the Russell 1000 Value Index
- The strategy remains "Buy" rated by our Global Investment Management Research Team

DFA U.S. Targeted Value Fund

- The Fund continued to register "Yellow" on the Watch List during the second 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 Russell 2500 Value Index, by 3.0 percentage points during the second quarter
- The Fund's underperformance was primarily attributable to:
  - The portfolio's higher allocation to deep value stocks
  - An overweight allocation to the consumer discretionary, industrials, and information technology sectors
  - An underweight allocation to the REITs sector
- Partially offsetting negative results was favorable stock selection within the consumer staples and energy sectors
- For the trailing one-year period, the Fund generated a return of -5.7% versus the benchmark's return of 0.2%
- Longer-term results continued to remain favorable
- We continue to closely monitor the Fund's positioning and performance but recommend the Committee take no action as the investment team remains consistent and continues to execute on its historic philosophy and process
- The strategy remains "Buy" rated by our Global Investment Management Research Team

Dodge & Cox Global Stock Fund

- The Fund’s performance modestly lagged its benchmark, MSCI All Country World Index, by 0.1 percentage point during the second quarter
- The Fund’s underperformance was primarily attributable to:
  - An underweight allocation to the consumer staples and utilities sectors
  - An overweight allocation and negative stock selection within the financials sector
    - Notable detractors included European and UK holdings UniCredit (-38%), AEGON (-27%), Credit Suisse (- 22%), and Barclays (-14%)
- Partially offsetting negative results was the Fund’s holdings within the emerging markets along with holdings in the telecommunication services sector
- For the trailing one-year period, the Fund generated a return of -10.5% versus the benchmark’s return of -3.7%
  - Holdings within the financials sector combined with a higher average weighting had a negative impact on results
- Longer-term results remained mixed
- The strategy remains “Buy” rated by our Global Investment Management Research Team

Harding Loevner

- In July, Harding Loevner announced that Ferrill Roll will become Co-Chief Investment Officer ("Co-CIO"), alongside current Chief Investment Officer Simon Hallett, effective August 1, 2016
  - Mr. Roll will remain as Co-Lead Portfolio Manager for the firm's Global Equity and Non-US Equity strategies as well as lead researcher on select stocks
  - Mr. Hallett will also be maintaining his staff management oversight responsibilities on the other Co-PMs for the firm's Global Equity and Non-US Equity strategies
- Mr. Roll is currently one of four members on Harding Loevner's Executive Committee, which is the firm's management body
- As Co-CIO, Mr. Roll will have oversight responsibilities on the remaining investment team members as well as portfolio risk management for the firm's Emerging Markets, Frontier Markets, and International Small Cap strategies
- This appointment further bolsters Mr. Roll's status within the firm and reinforces his role as the clear leader of the firm's investment team, after Mr. Hallett
- We are maintaining our "Buy" ratings for the Harding Loevner Global Equity, Non-US Equity, and Emerging Markets Equity (which recently soft closed) strategies and recommend clients take no action
- A Flash report detailing our observations is included in Section 6 of this presentation

Cohen and Steers Instl. Realty Shares

- While positive in absolute terms, the Fund's performance lagged the return of its benchmark, the FTSE NAREIT Equity REIT Index, by 1.3 percentage points during the second quarter
- The Fund's underperformance was primarily attributable to:
  - An underweight allocation and negative security selection in industrial property owners
  - Negative stock selection within the health care sector
  - An underweight in specialty REITs further detracted, as did stock selection in shopping centers
- Partially offsetting the period's negative results was an overweight allocation to data centers and positive security selection within office landlords
- For the trailing one-year period, the Fund generated a return of 21.6% versus the benchmark's return of 24.0%
- With the exception of the trailing five-year period, longer-term results remain favorable relative to the FTSE NAREIT Equity REIT Index and peers
- The strategy remains "Buy" rated by our Global Investment Management Research Team

Agenda Tracker

Flash Report

PIMCO – Total Return Fund Increases High Yield Maximum Allowance to 20%

Recommendation

PIMCO recently increased the maximum allowance of high yield securities within the Total Return Fund from 10% of assets to 20% of assets. Given the current market environment, a broader set of assets, including high yield corporates, non-agency mortgages, and emerging market debt, all fall into the below investment grade category. The increase in investment flexibility should allow the Fund's managers the opportunity to take better advantage of ongoing tactical opportunities within the market.

This change also applies to Total Return Fund III (SRI).

The Total Return Fund II (Core) and Total Return Fund IV (no high yield or derivatives) are unaffected by this change.

This change does not alter the Global Investment Management team's overall or underlying ratings for any of the above funds.

Background

PIMCO periodically reviews the guidelines for its funds to ensure alignment between those guidelines, and the goals and objectives for the Funds' investors. The PIMCO Funds Board recently reviewed and approved a change to the high yield exposure limit for the PIMCO Total Return Fund from 10% to 20% of total assets.

The prospectus has been updated and the new limit will become effective as of June 13, 2016.

The Total Return Fund has historically had minimal exposure to high yield corporate debt and we expect this trend to continue. PIMCO does not foresee any wholesale changes in the portfolio allocations due to the change in guidelines.

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Flash Report

Pacific Investment Management Company – Chief Executive Officer Appointment

Recommendation

On July 20, 2016, Pacific Investment Management Company (PIMCO) announced that Manny Roman would be the firm's next Chief Executive Officer (CEO) effective November 1, 2016. Representatives from Aon Hewitt's Global Investment Management (GIM) research team conducted a preliminary call with Jared Gross, Head of Institutional Client Development, later that day. It was followed by conference call with Dan Ivascyn, Group CIO, and Kimberly Stafford, Global Head of Consultant Relations. Both are members of PIMCO's Executive Committee. Based on these discussions, GIM is comfortable with the reasoning, process, and selection of Mr. Roman as PIMCO's next CEO. As a result, our ratings for PIMCO's current strategies remain unchanged and we recommend that clients take no action following this announcement.

Background

PIMCO's Managing Directors have appointed Manny Roman as the firm's next CEO, effective November 1, 2016. Following a well-planned transition, Doug Hodge, current CEO, will assume a new role as Managing Director and Senior Advisor within the firm. Mr. Hodge will work closely with Mr. Roman to ensure a smooth handoff of his executive responsibilities.

Earlier this year, PIMCO assessed its strategic business plan and identified the need for a senior-level executive, including the possibility of a CEO-level hire. Mr. Hodge was in complete agreement with this direction and expressed his willingness to step back from the CEO role at the appropriate time. PIMCO also shared this desire with Oliver Bate of Allianz. PIMCO had the full support of Allianz in this search, but Allianz did not play a role in PIMCO's decision to change its CEO or its ultimate hire.

PIMCO embarked on a confidential search with the retention of two executive search firms. This was not a visible process from the outside, but was a rigorous process within PIMCO. Eventually, the search process led to the appointment of Mr. Roman. Mr. Roman previously worked with numerous PIMCO employees, including Managing Directors Sudi Mariappa and Jamil Baz. There were also numerous ex-PIMCO employees that work at Mr. Roman's current firm, Man Group PLC. They all had a very positive impression of Mr. Roman. In addition, Mr. Bate from Allianz gave his strong approval for hiring of Mr. Roman.

PIMCO has a history of hiring outside CEOs, including Bill Thompson and Mohammed El-Erian. Mr. Roman has nearly three decades of experience in the investment industry. He will join PIMCO from Man Group PLC, where he has served as Chief Executive Officer since February 2013. Prior to Man Group, Mr. Roman spent much of his career in executive leadership positions at Goldman Sachs and GLG Partners, Inc. His experience includes the management of absolute return and long-only investment teams across multiple asset classes, sectors, and geographies, as well as work within the investment banking and capital markets.

Mr. Ivascyn stated that Mr. Roman has a deep respect for PIMCO's diversified global businesses, investment process, and client-service. He believes that Mr. Roman will help lead PIMCO's continued evolution as a provider of investment solutions. Although PIMCO is expected to remain focused on bonds in its product offerings, it is also expected to diversify. Specifically, PIMCO will look for strategies that are complementary to the firm's existing strategies and able to leverage existing resources. However, Mr. Ivascyn noted that the firm will not sacrifice its culture for growth.

Mr. Roman will not have responsibility for any of the firm's fixed income products or teams. There will continue to be separation between the two roles. The CIO, Mr. Ivascyn, will make all decisions on changes to the fixed income team.

Mr. Hodge has made many significant leadership contributions in his nearly 30-year PIMCO career. He will remain with the firm as a key resource for the leadership team through 2017. He will also be involved with strategic clients and special projects at the direction of Mr. Roman.

Biography
Emmanuel (Manny) Roman joins PIMCO from Man Group PLC, one of the world's largest publicly traded alternative asset managers and a leader in liquid, high-alpha investment strategies, where he has served as Chief Executive Officer since February 2013. Mr. Roman became Co-Chief Executive Officer at GLG Partners, Inc. in 2005 and Chief Operating Officer of Man Group in 2010 following the firm's acquisition of GLG. He worked for Goldman Sachs for 18 years where he was Co-Head of Worldwide Global Securities and Co-Head of the European Services Division. He has served as a Trustee of the Hedge Fund Standards Board Ltd. as well as a Trustee of the Paris Review of Books, the Royal Marsden NHS Foundation Trust, the Tate Foundation, and the University of Chicago. Mr. Roman received an M.B.A. in Finance and Econometrics from the University of Chicago in 1987 and a Bachelor's Degree from the University of Paris IX Dauphine in 1985.

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Agenda Tracker

Flash Report

T. Rowe Price Group, Inc.

Proxy voting errors related to the 2013 leveraged buyout of Dell, Inc.

Summary

T. Rowe Price Group, Inc. ("TROW") recently announced that it will reimburse certain clients for proxy voting errors related to the 2013 leveraged buyout of Dell, Inc. ("Dell:) whereby TROW ultimately voted in favor of the buyout while its client base had intended to vote against the buyout; total reimbursement is expected to be approximately $194 million. TROW indicated that the payout will not have a material effect on the firm’s financial condition.

TROW utilizes Institutional Shareholder Services Inc. ("ISS"), a third party proxy advisory firm, for services including voting recommendations, vote execution, reporting, auditing and consulting assistance for the handling of proxy voting responsibility. While correct voting instructions were initially captured in the ISS voting system, these voting preferences were effectively erased due to a system failure in which the rescheduling of the shareholder’s meeting within the ISS system caused elections to revert to default system preferences in favor of the buyout. Furthermore, no one from the TROW proxy voting team verified that the ISS system accurately reflected the proper voting instructions prior to the final vote; as such, votes were cast in favor of the buyout in error.

It should be noted that TROW has a documented Proxy Voting Policy and Procedures manual that outlines the formal policies and procedures for performing and documenting the voting of client proxies that serve to govern TROW’s fiduciary responsibilities to its client base. These circumstances highlight the operational issues that investment managers often face. We equate the cause of this scenario to a breakdown in processes and procedures rather than a systematic problem or issue.

The Aon Hewitt Global Operational Due Diligence Team will monitor the situation and revert at such time that additional details warrant a re-assessment; however, at this time it appears that the matter is closed.

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Flash Report

Harding Loevner – Co-CIO Announcement

Recommendation

Harding Loevner recently announced that Ferrill Roll will become Co-Chief Investment Officer ("Co-CIO"), alongside current Chief Investment Officer Simon Hallett, effective August 1, 2016. Mr. Roll will remain as Co-Lead Portfolio Manager for the firm's Global Equity and Non-US Equity strategies as well as lead researcher on select stocks.

We are maintaining our "Buy" ratings for the Harding Loevner Global Equity, Non-US Equity, and Emerging Markets Equity (which recently soft closed) strategies. In addition, we recommend clients who have exposure to Harding Loevner's equity strategies take no action at this time.

Background

Following news of the Co-CIO announcement, we conducted a conference call with representatives from Harding Loevner to gather further details. Based on the additional information provided and our knowledge of the firm, we are comfortable maintaining our existing ratings.

It is important to note that Simon Hallett is retaining his portfolio risk management responsibilities on the firm's Global Equity and Non-US Equity strategies; those for which Mr. Roll is Co-Portfolio Manager. In addition, Mr. Hallett will also be maintaining his staff management oversight responsibilities on the other Co-PMs for these strategies – Peter Baughan for Global Equity and Alex Walsh for Non-US Equity.

Mr. Roll is currently one of four members on Harding Loevner's Executive Committee, which is the firm's management body. As Co-CIO, Mr. Roll will have oversight responsibilities on the remaining investment team members as well as portfolio risk management for the firm's Emerging Markets, Frontier Markets, and International Small Cap strategies. This appointment further bolsters Mr. Roll's status within the firm and reinforces his role as the clear leader of the firm's investment team, after Mr. Hallett.

Please feel free to contact your Aon Hewitt investment consultant or a local member of the Global Investment Management Research Team should you have any questions.

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Third Quarter 2016

Quarterly Update

Aon Hewitt Retirement Legal Consulting & Compliance

In this Issue

Prior Issues

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

With recent Internal Revenue Service (IRS) guidance eliminating determination letters for ongoing individually designed plans, plan sponsors will need to be more proactive than ever with respect to ensuring that their retirement plans are in compliance with the qualification requirements of the Internal Revenue Code (Code) – both in terms of the plan documents and plan operations. We have an article in this issue that suggests some next steps for employers to consider as year-end approaches.

For employers with nonqualified plans, the IRS has issued new proposed regulations that provide some clarifications to existing guidance. This issue provides some highlights of the regulations and their possible impact on plans subject to Sections 409A and/or 457 of the Code.

On a more recent note, the IRS has modified the Form 5500 instructions and confirmed its intent to require plan sponsors to report unpaid amounts due from retirement plans on Form 5500. Combined with the Department of Labor's (DOL's) investigation into missing participants in large pension plans, it is clear that unpaid amounts are a major focus of regulators. Our article on this topic cautions plan sponsors to take steps to address late payments and missing participants on a regular basis.

In addition to these articles, this issue also covers changes in the wage test for determining who is an exempt employee and how that could impact employee benefit plans; large increases in DOL penalty amounts; a new private letter ruling expanding the circumstances under which a plan sponsor could redeploy VEBA assets; a case law update on multiemployer pension plan withdrawal liability for private equity funds; information about audits of Section 403(b) plans; and new guidance regarding post-normal retirement age benefit increases.

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

Regards,

Jennifer R Berrian

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Determination Letter Program Overhaul

by Tom Meagher and Meghan Lynch

On June 29, 2016, the Internal Revenue Service (IRS) issued Revenue Procedure 2016-37. This revenue procedure provides for extensive changes to the IRS determination letter program and the remedial amendment cycle for qualified retirement plans. The following is a brief summary of the guidance and suggested next steps for plan sponsors in managing their new obligations.

Impact on Individually Designed Plan Sponsors. The changes to the determination letter program primarily impact sponsors of individually designed plans.

- **Changes to the Determination Letter Program.** Effective January 1, 2017, the IRS will generally no longer accept determination letter applications for existing, individually designed plans. Determination letters will continue to be issued for initial plan qualification and for terminating plans; the IRS will consider issuing determination letters in other circumstances. The IRS was silent on what other circumstances may be considered, but noted that these will be disclosed on an annual basis. Cycle A filers (generally, plan sponsors with employer identification numbers ending in "1" or "6") continue to have until January 31, 2017, to file for a determination letter under the prior guidance.
- **Remedial Amendment Period.** As of January 1, 2017, the staggered five-year remedial amendment cycle system for individually designed plans is eliminated, although a transition process will extend the remedial amendment period for some plans to December 31, 2017.
- **Annual IRS Compliance Lists.** The IRS announced that it will issue annual Required Amendments and Operational Compliance Lists to facilitate plan compliance. The Required Amendments List will address changes in qualification requirements for the upcoming year and will provide the deadline for compliant adoption. The Operational Compliance List will identify changes in operational requirements that are effective during the calendar year. The IRS noted that a plan must comply with operational requirements as of their effective date, regardless of whether the requirements appear on the list.

"Plan sponsors should establish a strategy to ensure a thoughtful approach is taken and procedures are implemented to provide for ongoing plan compliance."

Impact on Preapproved Plan Sponsors. Employers who adopt preapproved plans (e.g., master and prototype or volume submitter plans) may apply for determination letters once every six years (generally on the same six-year remedial amendment cycle as the preapproved plan). The remedial amendment cycle is based upon the plan type (defined benefit or defined contribution) rather than the plan sponsor's employer identification number. Interim amendments may generally be required to address new or disqualifying plan provisions and special rules will apply with respect to extensions of the remedial amendment period to address such provisions. The deadline for an employer to adopt a preapproved defined contribution plan (based on the 2010 Cumulative List) and to apply for a determination letter was extended to April 30, 2017. Special rules apply to government and tax-exempt employers.

Next Steps for Plan Sponsors. Plan sponsors should establish a strategy to ensure a thoughtful approach is taken and procedures are implemented to provide for ongoing plan compliance. Plan sponsors should consider taking the following actions:

- Reviewing the status of the most recent determination letter and any post-determination letter plan design or law changes.
- Assessing the need for a document and/or operational compliance review in order to ensure that the plan is in compliance with current law and being operated in accordance with its terms.
- Developing an inventory of plans, adopted amendments, government filings, and participant communications to create a record to support each plan's compliance with the qualification requirements of the Internal Revenue Code.
- Reviewing current service contracts and recordkeeper agreements to confirm responsibility for compliance actions.
- Evaluating whether any plan design changes permitted by Revenue Procedure 2016-37 are desirable (e.g., considering a conversion to a preapproved arrangement).

Aon Hewitt Retirement Legal Consulting & Compliance consultants are ready and able to help clients assess the impact of this IRS guidance on their plans. Our multidisciplinary team of compliance consultants can assist with reviewing the plan and developing a written report that can be relied upon by management and plan fiduciaries to support ongoing document and operational compliance. Please reach out to your Aon Hewitt contact to discuss how we may assist you with confirming qualified plan compliance.

New Proposed 409A Deferred Compensation Regulations

by Dan Schwallie

More guidance on the taxation of nonqualified deferred compensation, in the form of proposed regulations under Internal Revenue Code Section 409A, has been issued by the Internal Revenue Service. These new proposed regulations, published June 22, 2016, provide certain clarifications and modifications to final regulations issued in 2007 and proposed regulations issued in 2008, but are not a general revision of those final and proposed regulations. The proposed regulations are expected to be effective for taxable years beginning on or after the date they are published as final, but taxpayers may rely on the proposed regulations immediately.

> "Though the regulations are not final, we recommend plan sponsors begin evaluating the potential implications to their plans and participants now."

The proposed regulations do the following:

- For plan terminations other than those due to a change in control, confirm prior understanding that employers must terminate all 409A arrangements falling within the same category (e.g., nonaccount balance plans) when a single arrangement in that category is terminated (not just arrangements in which a particular employee participates).
- Restrict an employer's ability to make changes to time and of payment of nonvested benefits.
- Permit employers to pay survivor benefits to beneficiaries of deceased employees or their beneficiaries as late as December 31 of the year following death, as well as permit recipients of such survivor benefits to designate either the taxable year of the death or the following year for payment.
- Permit employers to add provisions regarding the acceleration of benefits upon the death, disability, or unforeseeable emergency of an employee's beneficiary.
- Clarify that, if employees become independent contractors of the employer immediately following their separation from service, and are anticipated to work no more than 20% of the average level of services performed over the preceding 36-month period, they will be treated as having separated from service.
- Expand eligibility for the recurring part year compensation exception, which is typically applicable to educators with contracts spanning tax years.

Though the regulations are not final, we recommend plan sponsors begin evaluating the potential implications to their plans and participants now. Aon Hewitt consultants can assist plan sponsors with their evaluations. For more comprehensive information on these proposed regulations, please click **here** to obtain the full report.

Proposed Regulations on Nonqualified 457 Plans

by Dan Schwallie

Long-awaited proposed regulations on nonqualified deferred compensation plans of state and local governments and tax-exempt organizations were published June 22, 2016. The proposed regulations provide guidance for three broad categories of nonqualified deferred compensation plans: those that are exempted from the requirements of Internal Revenue Code (Code) Section 457, "ineligible" plans subject to Section 457(f), and "eligible" plans subject to Section 457(b). Proposed regulations on nonqualified deferred compensation plans under Code Section 409A were released simultaneously (see the article above). Note that Code Section 409A does not apply to 457(b) plans, but the rules of 409A apply to 457(f) plans separately and in addition to any requirements under Code Section 457(f).

Bona fide severance, death benefit, disability, and sick leave and vacation plans must meet certain criteria to be excluded from coverage under Code Section 457. The requirements for exclusion are similar to the requirements for exclusion under Code Section 409A.

The proposed regulations also provide detailed guidance on conditions that create a substantial risk of forfeiture, which postpones income taxation for 457(f) plans. Special rules apply to noncompetition arrangements, elective deferrals, and extensions of substantial risk of forfeiture. The proposed regulations include separate guidance on the taxation of account balance and nonaccount balance plans when benefits vest and when benefit payments are made. Limited tax relief is provided when the total taxable income exceeds the ultimate benefit paid. A detailed example illustrates the interaction of Code Sections 457(f), 409A, and 72 for purposes of federal income taxation. Eligibility for the recurring part year compensation exception, typically applicable to educators with contracts spanning tax years, is expanded.

The proposed regulations reflect statutory changes for governmental 457(b) plans that involve Roth contributions; death benefits for a participant who dies while performing qualified military service; and special rules for excluding from gross income amounts paid directly from the plan for accident, health, or long-term care insurance premiums, pursuant to an eligible retired public safety officer's election. Also, a severance from employment for purposes of distribution restrictions applicable to 457(b) plans, whether governmental or not, would include an individual being treated as having a severance from employment during any period of services in the uniformed services.

The proposed regulations will be effective for amounts deferred in calendar years beginning after publication of final rules, including deferrals to which a legally binding right arose during prior years, but which were not included in taxable income. Though the regulations are not final, we recommend that plan sponsors begin evaluating the potential implications to their plans and participants now. Our Retirement Legal Consulting & Compliance consultants can assist plan sponsors in their evaluations. For more comprehensive information on these proposed regulations, please click **here** to obtain the full report.

Will Your Form 5500 Trigger an Audit?

by Dick Hinman

Plan sponsors should be aware that certain responses on the Form 5500 annual report could trigger an Internal Revenue Service (IRS), Department of Labor (DOL), or Pension Benefit Guaranty Corporation (PBGC) investigation. Recently, an IRS official noted that IRS audits may be triggered by inconsistent responses, blank responses, or responses that are red flags of possible compliance problems.

In addition, the Form 5000 includes compliance questions that ask whether the plan is administered in accordance with certain specific Internal Revenue Code or Employee Retirement Income Security Act of 1974 requirements. A response noting that the plan does not comply with one or more of these requirements may trigger an audit or investigation. For example, Question 4(l) on Schedule H to the 2015 Form 5500 asks whether "the plan failed to provide any benefit when due under the plan." The instructions for the 2015 filing have been revised to clarify that a failure to provide benefits when due includes a failure to timely start payment of required minimum distributions.

"Plan sponsors should pay special attention to responses that suggest compliance problems (e.g., red flags and unfavorable responses to compliance questions)."

The DOL could use the plan sponsor's response to this question to identify targets for its initiative to investigate the treatment of missing participants by large DB plans. For example, if the DOL sees a large amount of unpaid benefits, then the DOL may choose to investigate. However, a DOL official provided informal guidance to one employer indicating that the DOL did not expect a plan administrator to include missing participants in its responses to Question 4(l) if the plan administrator had taken adequate steps, in accordance with DOL guidance, to locate those missing participants. This official also said that an employer could attach a statement of circumstances to the Form 5500 filing explaining the reasons for the delays in paying benefits.Several employer organizations are attempting to get clarification on the expectations of the DOL with regard to this question.

Plan sponsors should carefully review the draft Form 5500 to avoid mistakes that might trigger an IRS audit or DOL investigation. Plan sponsors should pay special attention to responses that suggest compliance problems (e.g., red flags and unfavorable responses to compliance questions). Plan sponsors should take advantage of the announcement from the IRS that no responses are required for some of the compliance questions included in the 2015 Form 5500 forms. For example, plan sponsors need not answer question 22a on Schedule R, which asks whether all required retirement plan amendments were timely adopted. (Unfortunately, a response is required on the 2015 form to the question of whether benefits were or were not provided when due.) In anticipation of an inquiry from the IRS, DOL, or PBGC, a plan sponsor could initiate suitable corrections of past administrative errors and upgrade relevant administrative procedures to avoid penalties.

Aon Hewitt's plan administration teams can prepare the Form 5500 filing materials for clients and partner with our Retirement Legal Consulting & Compliance consultants to help plan sponsors address questions that may trigger audits or investigations. To the extent that the Form 5500 responses show potential compliance shortcomings, our legal consultants can help plan sponsors implement appropriate corrections and enhance administrative practices (e.g., missing participant procedures) to minimize future administrative errors.

Impact of New FLSA Overtime Rules on Employee Benefit Plans

by David Alpert

On May 18, 2016, the U.S. Department of Labor (DOL) issued revised rules regarding exemptions from the minimum wage and overtime pay standards of the federal Fair Labor Standards Act (FLSA). The changes, which will be effective December 1, 2016, may impact employee benefit plans.

Exempt Employees. FLSA minimum wage and overtime pay standards apply to employees who are not exempt from the requirements (nonexempt employees). Executive, administrative, professional, outside sales, and skilled computer employees (white collar employees), as well as various other employees, who satisfy certain tests relating to their job duties and wages, are exempt from such standards (exempt employees).

New Rules. The new rules do not make any changes to the job duties test. However, the wage thresholds for determining exempt employees are rising under the new rules.

- **Current Wage Test.** Under current FLSA rules, exempt white collar employees generally must be paid on a salary or (in the case of administrative, professional, and computer employees) fee basis not less than $455 per week (this equates to $23,660 annually) or, for computer employees, not less than $27.63 per hour. Highly compensated employees (HCEs) who meet such standard wage test and earn at least $100,000 in total annual compensation also are exempt if they satisfy a less stringent job duties test. Certain white collar employees are not subject to any wage test.
- **New Wage Test.** The minimum dollar threshold to satisfy the standard wage test for covered white collar employees is raised to the 40th percentile of weekly earnings for full time salaried employees in the lowest-wage Census Region. This new threshold initially is $913 per week, translated into equivalent amounts for periods longer than one week (this equates to $47,476 annually). The new rules do not change the hourly wage threshold for exempt computer employees (it remains at $27.63 per hour).
- **New Annual Compensation Test for HCEs.** The minimum total annual compensation threshold for exempt HCEs is raised from $100,000 to the annualized value of the 90th percentile of earnings for full-time salaried employees nationally. This new annual threshold amount initially is $134,004.
- **Bonus and Incentive Payments.** Employers may use nondiscretionary bonuses, incentives, and commissions that are paid at least quarterly to satisfy up to 10% of the new standard wage test.
- **Threshold Updating.** The DOL will update the exempt employee wage thresholds every three years.

> "Employers should assess now whether their employees are properly classified as exempt or nonexempt and the extent to which the new FLSA rules will have any impact on such classification and on any employee benefit plans."

Benefit Plan Implications. Any reclassification of current exempt employees, or classification of new hires, as nonexempt to satisfy the new rules may have several implications for employee benefit plans.

- **Proper Classification.** Employers should review their payroll and HR systems to ensure that employees are properly classified on an ongoing basis as exempt or nonexempt for all employee benefit plan purposes based on the new rules. Employers also should ensure that employees in each classification receive their proper benefits in accordance with plan provisions.
- **Qualified Plans.** Employers should confirm that any qualified plan offered only to exempt or nonexempt employees continues to satisfy the minimum coverage requirements of Internal Revenue Code (Code) Section 410(b) and (for defined benefit plans) minimum participation requirements of Code Section 401(a)(26). Employers also should confirm that any qualified plan that provides different benefits, rights, or features for exempt versus nonexempt employees will continue to satisfy applicable nondiscrimination requirements under Code Section 401(a)(4).
- **Plan Benefits and Costs.** Employers should review how the new rules will impact plan benefits and costs. To the extent that benefit plans include or exclude overtime from compensation for benefit purposes, any change in overtime wages will have an impact.
- **Nondiscretionary Bonuses and Incentive Payments.** Employers that will include nondiscretionary bonuses and/or incentive payments when determining if the new wage test is satisfied may wish to consider whether the same compensation should be used for benefit plan purposes.

Employers should assess now whether their employees are properly classified as exempt or nonexempt and the extent to which the new FLSA rules will have any impact on such classification and on any employee benefit plans. Applicable state and/or local law requirements may be more restrictive than the FLSA and, therefore, also must be considered when determining whether an employee is exempt or nonexempt. The determination of whether any particular employee is exempt is highly fact specific, and should be made only after all relevant facts have been thoroughly examined in light of applicable rules.

DOL Adjusts Civil Monetary Penalties for Inflation

by Linda M. Lee

The Department of Labor (DOL) recently issued inflation adjusted civil monetary penalties for violations under the Employee Retirement Income Security Act of 1974 (ERISA).

The new penalty amounts are effective for penalties assessed after August 1, 2016 (for violations occurring November 3, 2015 or later). In all, 16 penalty amounts are being increased. Of note, the penalty for failure to file Form 5500 will more than double—from the current $1,000 per day to $2,063 per day (although the DOL rarely enforces the maximum penalty). Other examples of penalty adjustments for violations include, but are not limited to:

- Failure to furnish reports, such as pension benefit statements, to certain former participants and beneficiaries or maintain records under ERISA section 209(b) (penalty increases from up to $11 per employee to up to $28 per employee).
- Failure to notify participants of certain benefit restrictions and/or limitations arising under Internal Revenue Code section 436 (penalty increases from the current $1,000 per day to $2,063 per day).
- Failure to furnish automatic contribution arrangement notices (penalty increases from the current $1,000 per day to $2,063 per day).

After this initial catch-up adjustment, the agencies must adjust their civil monetary penalties annually for inflation. Therefore, beginning in 2017, the DOL will adjust the new ERISA Title I penalty amounts annually for inflation no later than January 15 of each year. Additional information:

- **Frequently Asked Questions: Department of Labor – Inflation Adjustment Act IFR**
- **Fact Sheet: Interim Final Rule Adjusting ERISA Civil Monetary Penalties for Inflation**

More Good News for VEBA Sponsors

by Tom Meagher and Jennifer Ross Berrian

We previously reported that the Internal Revenue Service (IRS) had issued Private Letter Ruling 201530022, which created significant new planning opportunities for employers that wanted to access their otherwise stranded VEBA assets for other permissible benefits (Click **here** to read the prior article). The private letter ruling was particularly timely for employers that had overfunded VEBAs and wanted to redeploy those VEBA assets for other purposes. (In PLR 201530022, the IRS ruled that the amendment of a postretirement health VEBA to provide active health benefits would not result in a disqualified benefit and would not cause the employer to be subject to the 100% excise tax under Internal Revenue Code (Code) Section 4976.)

While this was clearly great news for sponsors of VEBAs with overfunded or stranded postretirement health assets, it did leave several questions unanswered, including whether an employer could transfer amounts in excess of the postretirement health VEBA contributions that it may have deducted in prior years.

The IRS has now answered that question in PLR 201625019. In PLR 201625019, the amount of the one-time postretirement health VEBA transfer exceeded the total amount of previously deducted postretirement health VEBA contributions. In evaluating this issue, the IRS concluded that the employer did not have an "accession to wealth" under Section 61 of the Code, reasoning that the VEBA provisions required the VEBA assets to be used for permissible benefits and prohibited the VEBA from distributing any portion of the VEBA assets to the employer. The provisions precluding the employer from receiving a reversion from the VEBA, coupled with the employer's representation that it did not have any current or future legal obligations to provide benefits or obtain relief from a liability for the benefits funded by the VEBA, resulted in the IRS concluding that the employer would not realize any income by reason of the transfer of amounts in excess of the prior deductions.

While the employer should be able to subsequently deduct the postretirement health VEBA assets that were originally deducted and taken into income at the time of the one-time transfer, the transferred VEBA assets that are in excess of the prior deductions will not be required to be taken into income and, it follows, will not be deductible in the future.

In a companion ruling (PLR 201625018), the IRS indicated to the VEBA trustee that the transaction would not result in prohibited inurement under Section 501(c)(9) of the Code.

While there continue to be some issues that may need to be addressed in future rulings, the above ruling provides helpful guidance. Please note that private letter rulings may not be relied upon, or cited as precedent, by anyone other than the requesting taxpayer. Aon Hewitt is working with several clients to develop these opportunities and would be pleased to assist clients in assessing how best to proceed.

Private Equity Funds—
Part of a Controlled Group of Companies?

by David Alpert and Hitz Burton

Recent court decisions have determined that private equity funds (PEFs) can, under particular circumstances, be part of a controlled group of companies for certain federal law purposes. In *Sun Capital Partners III, LP v. New England Teamsters and Trucking Industry Pension Fund*, a U.S. District Court recently held that two PEFs were responsible for multiemployer pension plan (MPP) withdrawal liability under the Employee Retirement Income Security Act of 1974 (ERISA) that was assessed against their co-owned bankrupt portfolio company Scott Brass, Inc. (SBI). The holding was based on a determination that the entities were all part of the same controlled group. This case follows up on a 2013 decision by the First Circuit Court of Appeals, which held that one of the PEFs was not merely a passive investor in SBI, but rather was a "trade or business" because the PEF was actively involved in the management of SBI under an "investment plus" test. The Court of Appeals had remanded the case to the District Court for a determination as to whether the other PEF was also a trade or business. (Click **here** for a discussion of the Court of Appeals decision.)

On remand, the District Court found that the other PEF was also a trade or business under common control with SBI for MPP withdrawal liability purposes. In that regard, the District Court held that:

- The PEFs and the bankrupt portfolio company constituted a "parent subsidiary group" and, therefore, were under common control within the meaning of applicable Pension Benefit Guaranty Corporation (PBGC) regulations governing plan terminations. Although the two PEFs each owned less than 80% of the bankrupt portfolio company, the court disregarded certain ownership formalities and looked instead to the economic realities of the relationship between the relevant entities to determine that a "partnership-in-fact" existed between the PEFs for purposes of determining common control.
- The PEFs, and the partnership-in-fact between the PEFs, were engaged in a trade or business based on the type of management activities in which the PEFs engaged and the benefit received by the PEFs from certain management fee carryforwards.

This decision raises important implications as to whether (1) PEFs are properly assessing their potential MPP withdrawal liability due to their investments in portfolio companies which participate in an MPP; and (2) portfolio companies owned by a PEF will be treated as a single employer with that PEF under the Internal Revenue Code for purposes of applicable qualified plan requirements (e.g., minimum coverage, nondiscrimination, vesting, etc.) and under comparable provisions of ERISA that are generally applicable to employee benefit plans. There is a risk that any PEFs that together directly or indirectly own or control more than 80% of a portfolio company potentially may be found by a court (whether or not in the First Circuit) or regulatory agency to be part of a single controlled group for qualified plan and ERISA purposes, depending upon the particular facts. There also is a potential risk that the PBGC will move more aggressively to assert that related PEFs have joint and several liability where a single-employer pension plan sponsored by a portfolio company of any such PEF is not fully funded upon plan termination.

PEFs should assess whether any benefit plans that they or their portfolio companies sponsor should take into account employees of any other companies for such purposes. This issue also will be a relevant consideration when a PEF is considering acquiring or disposing of a portfolio company, particularly if that company sponsors a single employer qualified pension plan or contributes to an MPP.

IRS Discusses 403(b) Plan Audits

by Dick Hinman

Plan sponsors of Internal Revenue Code (Code) section 403(b) plans should remain aware of the possibility of IRS audits of their plans. During a May 2016 Internal Revenue Service (IRS) webinar, IRS officials reviewed their current audit programs for 403(b) plans and made the following points:

- Approximately 100 IRS employees work on audits of 403(b) and 457 plans.
- Recently, the IRS completed audits of the 403(b) plans of K–12 public schools focusing on the universal availability rule for 403(b) deferrals. (The universal availability rule requires that all employees be eligible to defer under a 403(b) plan, with certain exceptions. One exception is that employees who normally have fewer than 1,000 hours of service in a plan year need not be permitted to defer in the next plan year.) During an audit, the IRS expects the employer to provide records of the hours worked by employees to verify compliance with the universal availability rule. In addition, the IRS

official noted that if an employee is ever credited with 1,000 or more hours of service during a plan year (or an alternative computation period), then the employer may not exclude the employee from deferring in a later plan year based on the fact that the employee was credited with fewer than 1,000 hours of service in the preceding plan year.

- The next round of IRS 403(b) plan audits will focus on the adequacy of plan documents and whether timely plan amendments have been adopted. In the future, the IRS will issue guidance on the deadlines for adopting 403(b) plan amendments.

Aon Hewitt's Retirement Legal Consulting & Compliance consultants can help plan sponsors ensure their 403(b) plans comply with Code requirements, including the universal availability rule. We can conduct compliance reviews to help 403(b) plan sponsors identify necessary changes in plan administrative procedures and implement those changes.

Benefit Increases Following Normal Retirement Age

by Dan Schwallie and John Van Duzer

One recurring issue that all defined benefit (DB) plan sponsors should address is how to administer benefits when those benefits commence later than the plan's normal retirement age (typically, age 65). Questions may arise when a participant continues to work after turning 65 or, in the case of a terminated vested participant, neglects to request benefit commencement by his or her 65th birthday. In some cases, participants are reemployed by the sponsor after benefits have commenced, which creates other issues.

Ideally, plan documents and summary plan descriptions should include specific rules and procedures for addressing each of these situations. It is important for plan administration to be consistent with the documentation. Sponsors may wish to periodically review and reevaluate their current processes, particularly when circumstances or legal requirements have changed. For sponsors of cash balance and pension equity plans, a change of this type may be occurring as early as January, 2017.

In general, a participant in a DB plan who continues working after normal retirement age must either receive a "suspension of benefits" notice, an actuarially-increased plan benefit, or start receiving benefit payments. Historically, many cash balance plan sponsors have taken the position that interest credits on the cash balance accounts provided sufficient actuarial increases, so no suspension notice or additional actuarial increase was necessary. However, the final hybrid plan regulations indicate this approach may not be adequate.

Final regulations make it clear that, if a participant's benefit does not start by normal retirement age, a cash balance or pension equity plan must either: (1) provide an actuarial increase after normal retirement age (this increase would often be more valuable to the participant than merely receiving interest credits on the cash balance account); (2) satisfy the requirements for suspension of benefits, including providing a suspension of benefits notice; or (3) commence benefits at normal retirement age, regardless of whether the participant terminates employment or continues working. They also state that interest credits count toward an actuarial increase when benefits do not start by a participant's normal retirement age.

> "A participant in a DB plan who continues working after normal retirement age must either receive a 'suspension of benefits' notice, an actuarially-increased plan benefit, or start receiving benefit payments."

For plan years beginning on or after January 1, 2017, if a hybrid plan does not suspend benefits or commence benefits at normal retirement age, the accounts of affected participants must be credited with the greater of the actuarial increase or the amount otherwise required to be credited for the plan year under the terms of the plan. The final regulations provide a special rule that allows any such required additional increases in the cash balance account or pension equity accumulation after normal retirement age to be provided as interest credits without violating the market rate of return requirements.

In light of these new regulations, hybrid plan sponsors may want to consider both amending their plans and changing their administrative practices this year (to the extent necessary) to provide for suspension of benefit notices at normal retirement age, even if they have not provided such notices in prior years. Even if benefits are suspended at normal retirement age and a suspension of benefits notice is provided, actuarial increases are required for benefits that do not commence to an actively employed participant who turns age 70½. Aon Hewitt's Retirement Legal Consulting & Compliance consultants can help plan sponsors address the potential issues raised in this article.

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