

**Nevada System of Higher Education (“NSHE”)  
Minutes of  
Retirement Plan Advisory Committee Meeting  
February 17, 2017**

The Retirement Plan Advisory Committee (“Committee”), the fiduciary committee for the Nevada System of Higher Education Defined Contribution Retirement Plans (“Plans”), met on February 17 2017 (via video conference) at the System Office in Las Vegas, Reno, and Great Basin College in Elko. Present were voting members: Michelle Kelley (Chair), Pat La Putt (Business Center South; “BCS”), Paul Thistle (University of Nevada, Las Vegas; “UNLV”), Cheri Canfield (Nevada State College; “NSC”), Bob Whitcomb (Western Nevada College; “WNC”), Brad Summerhill (Faculty Senate Chair), Migne Valunte (Business Center North; “BCN”), Mark Bowers (Desert Research Institute; “DRI”), Scott Nielsen (Great Basin College; “GBC”), and Daniel Williams (Truckee Meadows Community College; “TMCC”). Voting members Jerry Lockhart (College of Southern Nevada; “CSN”) and Kent Ervin (University of Nevada, Reno; “UNR”) were unable to attend.

Attending the meeting by invitation were Eileen Biosi, Secretary to the Committee (NSHE System Administration); Daniel Pawlisch and Leon Kung of Aon Hewitt Investment Consulting (“AHIC”).

### **Call to Order**

The meeting was called to order at 9:05 a.m. by Kelley.

### **Approval of Minutes from November 18, 2016**

The Committee reviewed the minutes from the previous Committee meeting held on November 18, 2016. La Putt requested minor edits to the minutes. Following discussion, the Committee agreed to approve the minutes, as amended.

### **Executive Officer Report**

Kelley summarized the preliminary results of the recent fiduciary gap analysis conducted by Nixon Peabody. She noted that Nixon Peabody’s findings included many favorable conclusions regarding existing governance practices, including attendance at Committee meetings and robust topical conversations. While no significant concerns were raised, Kelley will inform the Committee of a few modest procedural improvements on administrative reporting that Nixon Peabody has recommended once the report has been finalized.

Kelley provided an update regarding the Nomura high yield bond fund transition. Following the Committee’s November 18, 2016 decision, Kelley sent a memorandum to Vice Chancellor Vaskov on December 9, 2016 recommending the replacement of the Neuberger Berman High Income Bond Fund with the Nomura High Yield Fund (NPHIX). Vice Chancellor Vaskov approved the

recommendation on December 13, 2016. Kelley subsequently notified TIAA of the fund change on December 13, 2016. Since that time, TIAA has been working to add the Nomura fund to their recordkeeping platform. While the initial target date for the fund change was February 2017, the transition has been delayed to June 2017 due to ongoing administrative issues. La Putt inquired if TIAA could be encouraged to add managers more quickly by including such metrics in a service level agreement. Pawlisch indicated that TIAA would likely push back as they are typically unwilling to assume responsibility for negotiations they are unable to control. However, Kelley and AHIC will explore the option further. After thorough discussion, Kelley requested that AHIC confirm whether a fund option is available on the recordkeeper's platform as part of all future manager searches. If the fund option is not currently available on the recordkeeper's platform, AHIC will inform the Committee of the potential administrative delay in changing the fund option, which the Committee could then consider as part of the review when selecting a replacement manager.

Kelley provided an update regarding the System's Voluntary Correction Program (VCP) filing. She reminded the Committee that the RPA changed from a money purchase plan to a profit-sharing plan in 2008 and at the same time changed the eligibility age for in-service distributions to 59 ½; however the money market retirement plan regulations do not allow in-service distributions until age 62. While the new money flowing into the RPA plan from January 2008 was characterized as profit-share retirement plan money, the earlier funds retained the characteristics of the money purchase plan and were still subject to those regulations. Regrettably, approximately 116 NSHE participants have received impermissible in-service withdrawals (83 cash outs / 33 rollovers) totaling \$16.5 million in assets. Following rigorous negotiations with the IRS, Kelley indicated that the System's proposed correction was rejected by the IRS. Alternatively, the IRS is requiring that NSHE communicate via letter to these impacted participants that received the impermissible in-service distributions requesting that the amounts be sent back to the Plan. Kelley indicated that letters will be sent to the impacted participants by April 20<sup>th</sup>, 2017. TIAA has been working with Kelley to identify impacted participants and will be with the corrective process.

Kelley notified the Committee that T. Rowe Price overcharged participants during the fourth quarter of 2016. Specifically, participants were charged \$7.50 when they should have only been charged a \$2.50 administrative fee. T. Rowe Price acknowledged the error and is making the necessary correction during the first quarter of 2017.

Kelley informed the Committee of TIAA's newly implemented loan process that allows participants to apply for loans electronically and requires electronic plan sponsor approval. She indicated that TIAA did not inform NSHE of the new process prior to go-live which has made it difficult for Staff to track new participant loans and collect the NSHE \$50.00 compliance fee. The prior process required a participant to submit a form to the Benefits Office which promoted and facilitated the submission of the NSHE \$50 compliance fee. Benefits staff is now required to identify and reach out to participants rather than having participants come to the Benefits Office and request the approval. La Putt indicated that under the new process there was also a problem with the calculation for the maximum allowable loan, with only the employee money source being available. Kelley informed

the Committee that this issue caused around 7 employees who applied for the maximum loan available to receive a lesser amount than the NSHE Loan Procedures allow. When initially this problem was brought to the attention of TIAA there was a delay in them identifying and correcting the underlying problem, which was a coding error.

Kelley updated the Committee regarding potential discussion topics for the 2017 Legislative Session, including a hybrid retirement plan. She indicated that she was aware that some members of the Committee were interested in exploring the potential for de-linking RPA contributions from NV PERS, however this will have to be a future topic as bills for the 2017 Legislative Session had to be submitted by September 2016. Summerhill indicated that since the NV PERS rate was not increasing in this biennium that there was no urgency to the matter, however he did wish for the Committee to discuss the issue at a later meeting as he was concerned about the impact to Faculty of any future increases to the NV PERS contribution rate. After thorough discussion, Kelley indicated that additional time would be spent discussing this item during the May strategic planning session.

## **Staff Reports**

Williams joined the meeting at 10:10 a.m

La Putt commented on the challenges resulting from the loan process recently implemented by TIAA. She also emphasized the need for communication and education to help the impacted participants who will be receiving the NSHE letter indicating that they received an impermissible in-service distribution.

Valunte informed the Committee of participant frustrations regarding the new loan process. She also continues to receive inquiries regarding ETFs as an available investment option and including real estate and socially responsible investment options. Valunte has continued to direct participants to the self-directed brokerage window to access these types of specialty funds.

## **Quarterly Investment Review**

Pawlisch reviewed the previously distributed report titled "Nevada System of Higher Education Fourth Quarter 2016 Discussion Guide." Referring to Section 1 of the Discussion Guide, he commented on the current state of the overall economy, the domestic and international equity markets, and the fixed income markets.

Referring to Section 2 and 3 of the Discussion Guide, Kung provided an update on the Plans' asset allocation and manager performance. He noted and discussed situations in which there were exceptions to, or comments on, the targeted performance, company structure, or other relevant aspects of the funds offered against the Plans' Investment Policy Statement. After discussion and review of the materials provided, the Committee members agreed to the following.

Add to the "watch" list:

- Diamond Hill Large Cap Fund
- Cohen & Steers Institutional Realty Shares Fund

Maintain on the “watch” list:

- Neuberger Berman High Income Bond Fund
- T. Rowe Price Institutional Large Cap Growth Fund

Remove from the “watch” list:

- William Blair Small/Mid Cap Growth Fund

In regards to the T. Rowe Price Institutional Large Cap Growth Fund, Kelley questioned whether a manager should be placed on watch for simply announcing an impending portfolio manager change even if the effective change has not yet taken place. Pawlisch indicated that he would modify the existing practice to only add a manager to the watch on the effective date of the portfolio manager change.

Pawlisch informed the Committee that the previously requested quarterly participant transfer table was missing from Section 3 of the Discussion Guide. Pawlisch explained that TIAA was unable to provide the necessary data in time for the meeting. As a result, he will provide the information as a follow-up to the meeting.

Referring to Section 3 of the Discussion Guide, Kung noted that Vanguard recently announced upcoming changes to their Target Retirement Fund series. During the third quarter of 2017, the 2010 Fund will be merged into the Income Fund and a new 2065 Fund will be launched. Following discussion regarding the changes and the affects they would have on the Plans’ participants, the Kelley requested AHIC to provide a review of the Vanguard Target Retirement suite, including the glide path, at the May Committee meeting to ensure the Vanguard options remains appropriate for participants.

## **Other Business**

Kung reviewed the previously distributed report titled “Nevada System of Higher Education, Monthly Investment Review, January 31, 2017.”

Kung reviewed the previously distributed report titled “Nevada System of Higher Education, Legacy Defined Contribution Plan Review, Fourth Quarter 2016.” He reviewed the Watch List discipline and highlighted the number of legacy funds on “watch” due to both quantitative and qualitative reasons. After thorough discussion and review of the materials provided, the Committee requested that the VALIC fee table be updated with pricing information on their Guided Portfolio Services Fee. Kelley informed the Committee that the full report will be posted to the NSHE website for participant viewing. Kelley also suggested that at the strategic planning meeting in May the Committee discuss alternative options for mapping the legacy vendor assets, including at the plan level for the Medical

Resident/Post-Doctoral Plan, rather than just constraining the discussion to the mapping at the vendor level.

Pawlisch, referring to Section 4 of the Discussion Guide, led a discussion of the new Department of Labor fiduciary rules and how they will impact the services provided by TIAA. He shared that based on the current legislative landscape there remains uncertainty around the rule and the current scheduled effective date of April 10, 2017. Pawlisch will continue to monitor the status of the rule and advise the Committee as any developments occur.

Pawlisch led a discussion about a new lawsuit against TIAA over 403(b) participant loans. The lawsuit alleges the practice used by TIAA to credit portions of interest payments made by participants on loans taken from their own retirement accounts back to the firm—rather than to the borrowing participant—violate the Employee Retirement Income Security Act (ERISA). Pawlisch will continue to monitor the status of the litigation and advise the Committee as any developments occur. Kelley indicated that she will reach out to TIAA regarding the interest rate that is paid on collateralized loan balances held in TIAA Traditional.

Kelley led a discussion in regards to the agenda and logistics for the May 18<sup>th</sup> Strategic Planning Meeting. She also discussed potential topics and meeting dates in 2017 for the quarterly RPAC meetings.

There being no further business before the Committee, the meeting was adjourned at 11:55 p.m.

Minutes approved:



Michelle Kelley, RPA Executive Officer

5/19/17

Date Signed

Reviewed by:



Nicholas G. Vaskov, Vice Chancellor for Legal Affairs

6/12/17

Date Signed