TIAA-CREF Retirement Plan Updates

Multiple Employer Plan (MEP) Options and Savings

Presented by Joe Miller AIF, AIFA

Miller Financial Services

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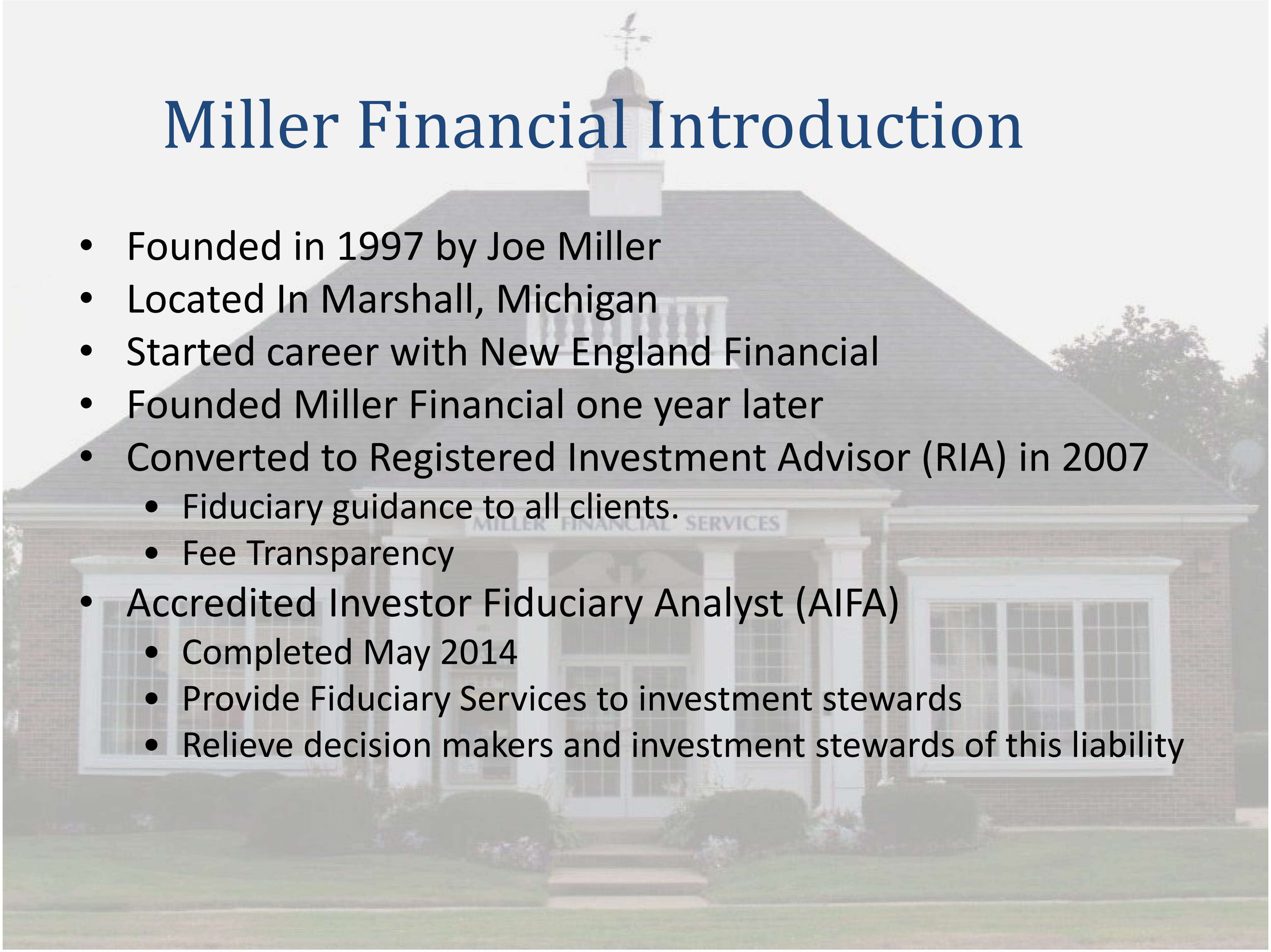
Miller Financial Introduction



- Founded in 1997 by Joe Miller
- Located In Marshall, Michigan
- Started career with New England Financial
- Founded Miller Financial one year later
- Converted to Registered Investment Advisor (RIA) in 2007
  - Fiduciary guidance to all clients.
  - Fee Transparency
- Accredited Investor Fiduciary Analyst (AIFA)
  - Completed May 2014
  - Provide Fiduciary Services to investment stewards
  - Relieve decision makers and investment stewards of this liability

Miller Financial Team

- Joe Miller - President and Owner of Miller Financial Services.
- BA in Economics and Business Administration from Kalamazoo College.
- Battle Creek Community Foundation Finance Committee.
- Homer Community Foundation Board.

- Austin Rinard - Investment Advisor Representative.
- Joined Miller Financial Services in 2012.
- Finance Degree from Northwood University.

Miller Financial Team

- Mindy Saunders - Office Manager.
- Joined Miller Financial Services in 2013.
- Bachelors degree in Advertising, Marketing, and Management from Northwood University.

- Taiber Kosmala - Consulting firm
- Defined Contribution Consulting Services
- Over $4.0 Billion in assets nationwide
- Mainly pension plans and non-profits as clientele.

Miller Financial Principles

Fiduciary to all Clients

- Align our interests with our clients
- Disclose any conflicts of interest
- Strong Ethical and Moral Standards

Full Fee Disclosure and Transparency

- Full disclosure of all fees from all vendors
- Prefer flat/level fees for most services

No Proprietary Products

Paid on Advice and Investment Management Only

AIFA Designation

- Created by the Center For Fiduciary Studies
- Founded in 1999. Website: www.cefex.org
- Most investment stewards (those responsible for managing investments within retirement plans) do not realize they are fiduciaries and have liability.
- Investment stewards are facing heightened scrutiny from plan participants, beneficiaries, and state and federal regulators.
- AIFA designees operate and are bound by the fiduciary standard: **to act solely in the best interests of and with undivided loyalty to the plan or fund and its beneficiaries.**
- One of 14 AIFA designees in the state of Michigan.

AIFA Continued

- Many plan sponsors or advisors may call themselves a fiduciary but a fiduciary is determined by actions not by title.
- Only those who have earned the AIFA designation are formally recognized by the Center for Fiduciary Studies for demonstrating a full understanding of how to implement those processes to help institutional clients fulfill their fiduciary obligations.
- ISO like process and can perform fiduciary assessments.
- With the AIFA training we are:
  - Following a disciplined process to employ the “gold standard” of fiduciary excellence in our business practices.
  - We believe the AIFA process that Miller Financial has adopted shows our fiduciary commitment to our clients.

Miller Financial Consulting Roles

Fee and Service Negotiation

- Recommended every 3 years
- Includes Record-Keepers, TPAs, Custodians, and Investment Mgrs.

Full Plan Design

- Plan Document Reviews
- Investment Policy Statements
- Loans and Hardship Distributions
- Roth Deferrals & Auto Escalation

Investment Selection and Monitoring

- Unbiased Selection of all Plan Investments
- Prefer Institutional/Non Revenue Sharing Funds
- Quarterly Monitoring Report of All Investments
- Serve as a 3(21) or 3(38) Fiduciary to all Plans
- Ability to create and maintain model portfolios

Plan and Participant Education

- Group Employee Plan Education Meetings
- One-on-One Employee meetings
- Proactive Employee Account Management elected on an individual basis

Michigan Community College Retirement Plan Facts

- Current plans are a 403(a), 403(b), and 457. We are focusing on the 403(a) which is referred to as the Optional Retirement Plan (ORP).
- Currently there are 28 community colleges in the MCCBOA.
- 27 colleges have ORP with TIAA-CREF.
- 3 colleges (Bay, Gogebic, and Lake Michigan) have unique fund line ups.
- No data for Henry Ford or Kirtland colleges.
- 23 have same investment lineups in all plans offered by the colleges (ORP, 403(b), and 457 plans).

Community College ORP Facts

- Created by the State with the Optional Retirement Act of 1967.
- Community Colleges started using the ORP as an alternative to MPSERS on July 1, 1996 according to some sources.
- All plans are treated as individual plans with TIAA-CREF, yet majority have the same investment options.
- 19 plans have R1 share class pricing which is the most expensive.

  Current Assets: $242,285,168
- 4 plans have R2 shares (Grand Rapids, Lansing, Oakland, and Washtenaw). **Current Assets: $109,541,755**
- All 23 plans have T2 Access share pricing which is the second cheapest offering.
- All contracts in these plans are individual annuity contracts.
- All contracts have illiquid fixed account currently. Illiquidity is 10 installments (9 Years and 1 Month) from date triggered.
- **Current Assets: $62,985,873**
- **Total Assets: $351,826,923**

TIAA-CREF Roles and Facts

Provides investment recordkeeping, education, but NOT admin. Also provide employer and employee websites.

- TIAA-CREF is NOT a fiduciary to the plans although most employers believe their vendor accepts full discretion and liability.
- Without being a fiduciary to the plan does TIAA-CREF have the plans best interests in mind? You decide. Here are some inefficiencies:
  - Plans have "R1" shares (19 Colleges) which are the highest cost offering and "R2" shares (4 Colleges) which are second cheapest offerings.
  - All plans (23 Colleges) have T2 Access share classes which are second cheapest. When these were added by TIAA they gave you a "group" rate.
  - Why the group rate on "T2 Access " but not on the "R1" or "R2" classes?
  - Two different real estate fund offerings in both plans.
  - Two different fixed account choices between the plans. ORP has a 10 year liquidation and 403(b) is 100% liquid. Do employees understand the illiquidity of the ORP fixed account? Do they receive proper education?

TIAA

ERISA and Fiduciary Duty for Non-ERISA Plans

- ERISA is the Employee Retirement Income Security Act of 1974.
- Created fiduciary responsibilities for retirement plans.
- ERISA exempts governmental employers which includes state governments and their agencies.
- All community college plans are NOT subject to ERISA.
- However the Supreme Court noted in 1996 that the law that governed most benefits before ERISA applies to non-ERISA plans. This means non-ERISA plan sponsors (community colleges) must look to state laws for their fiduciary rules that apply to their plans.
- As of 2011, Michigan was one of 31 states that have adopted ERISA's "Prudent Man Standard" which apply to non-ERISA Plans.
- M.C.L.A. Section 38.1122(3)(a): "An investment fiduciary shall discharge his or her duties solely in the interest of the participants and the beneficiaries, and shall act with the same care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a similar capacity and familiar with those matters would use in the conduct of a similar enterprise with similar aims."

State Laws and UMPERSA

- Enacted in 1997 and referred to as Uniform Management of Public Employee Retirement Systems Act (UMPERSA)
- Employers/fiduciaries shall invest and manage fiduciary assets solely in the best interest of the beneficiaries. Michigan law Section 700.1506.
- Diversification is required as a duty for prudent fiduciary investing.
- The prudent investor rule requires a standard of conduct, not outcome or performance. Michigan law Section 700.1509.
- In a Drinker Biddle white paper in June 2011 a non-ERISA analysis is below:
- State law states that prudence involves considering all relevant facts and circumstances before making a decision. When an affiliated fund can result in cost savings or other benefits and services for participants, that is a relevant piece of information that fiduciaries should take into consideration in addition to other factors, such as past performance, level of risk, and other points generally included in reviewing investment funds. This holds true regardless of whether the fiduciary duty associated with selecting the funds arises under ERISA or state fiduciary laws.
- Whether by virtue of statutorily imposed prudence rules or the prudent investor rule under general trust law, governmental plan fiduciaries must generally act prudently and in the best interests of their plan participants. As described above, if the fiduciaries know that an affiliated fund can reduce plan fees, the fund is worth considering. Failure to do so could be imprudent. According to the drafters of UMPERSA, "wasting money of participants and beneficiaries is imprudent. This duty is present in every statement of fiduciary duties. Restatement of Trust 2D 404(a)(1)(A)"
- Bottom line is do community colleges have fiduciary duties even though they are not subject to ERISA? **YES**.

TIAA Fixed Account Facts/Issues

- As stated on previous slides there is an illiquid fixed account in the ORP and liquid fixed account in the 457 and 403(b) plans.
- ORP illiquid fixed account has to be liquidated over a 9 year and one month period with no exceptions.
- Due to the above, Plans have a TIAA-CREF money market which costs .64% (R1) and .40% (R2) per year to operate and the returns have been 0% for the last five years. This was done to provide liquidity since the fixed account does not. Plans reviewed had about $800,000 in the money market.
- TIAA-CREF Stable Value fund that guarantees 1% net of fees can replace the money market giving participants a positive return. Why has this not been done?
- In Michigan law section 700.1503 (2)(g): A fiduciary must consider the need for liquidity, regularity of income, and preservation or appreciation of capital.

TIAA

TIAA-CREF ORP Current Plan Fee Structure

- Currently all fees are embedded in the expenses of the annuity sub-accounts. In addition those accounts include "revenue sharing" masking the real cost of the plan.
- ***"Revenue sharing" is the practice of padding a mutual fund's expense ratio with general plan administration, marketing and other non-investment related fees, leaving these expenses to be absorbed by participants who choose to invest in that fund.***
- In addition to the revenue sharing TIAA-CREF prices in plan education expenses. This causes ALL participants to pay for this service whether they are using it or not.
- How many of you know what your plan costs?
- What does education cost?
- If you don't know what your plan costs how can you evaluate it?
- Goal of the new plan is to break down ALL fees with specific costs to make the plan the most efficient possible.

TIAA

Multiple Employer Plan (MEP) Options for Community Colleges

- A multiple employer plan is adopted by two or more unrelated employers that do not want the administrative burdens and fiduciary responsibilities of sponsoring a plan themselves.
- Objective is to join up to create economies of scale and buying power. End results are more options and lower fees. All fees would be fully disclosed.
- Ease of administration and employer responsibilities.
- MEP would be created for the ORP plan only. However TIAA would give ORP pricing for each community college that joined the MEP to all TIAA plans (403(b) and 457).
- Fixed account issues would be fixed and we believe it would be liquid.
- New Plan would have institutional class mutual funds eliminating revenue sharing and any conflicts of interest. (Example Vanguard)
- One contact (Miller Financial Services) with an ISO like process to monitor all aspects of the plan including investments, providers, services, education, and costs.

Multiple Employer Plan Pricing for R1 (19 Colleges)

Current Plan Pricing

- Currently have the most expensive "R1" Share classes
- Currently have the second best "T2" Access Share classes
- TIAA-CREF is taking advantage of colleges having separate plans
- Majority of plan Assets are in the "R1" Share classes currently
- Balance in both plans in the "R1" share class is $14,778,863

TIAA-CREF Share Price Comparison:

CREF Stock ($5,000,000 in current plan):	R1: 0.69%	R2: 0.46%	R3: 0.37%
CREF Stock Annual Savings:		**R2: $11,500**	**R3: $16,000**
TIAA Access Gr & Income:		T2: 0.72%	T1: 0.52%

Multiple Employer Pricing

- This comparison assumes we do nothing with the current plan for illustrative purposes
- Would allow all participating colleges to get "R3" and "T1" share classes
  - **This change represents a $40,000 per year savings to this R1 community college that has about $16,000,000 in their ORP and $5,500,000 in their 403(b).**

Multiple Employer Plan Pricing for R2 (4 Colleges)

Current Plan Pricing

- Currently have "R2" Share classes
- Currently have the second best "T2" Access Share classes
- TIAA-CREF is taking advantage of colleges having separate plans
- Majority of plan Assets are in the "R2" Share classes currently
- Balance in both plans in the "R1" share class is $19,280,743

TIAA-CREF Share Price Comparison:

CREF Stock ($6,500,000 in current plan):	R1: 0.69%	R2: 0.46%	R3: 0.37%
CREF Stock Annual Savings:		**R3: $5,850**	
TIAA Access Gr & Income:		T2: 0.72%	T1: 0.52%

Multiple Employer Pricing

- This comparison assumes we do nothing with the current plan for illustrative purposes
- Would allow all participating colleges to get "R3" and "T1" share classes
    - **This change represents a $27,000 per year savings to this R1 community college that has about $22,500,000 in their ORP and $8,500,000 in their 403(b).**

Multiple Employer Plan Pricing for all Community Colleges

Current ORP Assets and Plan Pricing

- Currently 19 have the most expensive “R1” Share classes, and 4 have “R2”
- Currently all have the second best “T2” Access Share classes
- Current total “R1” assets are $242,285,168
- Current Total “R2” assets are $109,541,755
- Current Fixed assets are $62,985,873

TIAA-CREF Share Price Comparison (estimates):

If all colleges join and we go to R3 and T1 Classes:

R1 Savings would be $400,000-$533,000 annually

R2 Savings would be $100,000-$142,000 annually

**Note 403(b) and 457 plans would be on top of this savings with the better pricing.

Multiple Employer Pricing

- This comparison assumes we do nothing with the current plan for illustrative purposes
- Would allow all participating colleges to get “R3” and “T1” share classes
- **There is over $500,000 annual savings to community colleges by joining together**
- **That is $155-$210 annually to each participant based on 3,206 current participants.**

Benefits of Joining the MEP ISO Like Process

All aspects of the plan are handled by Miller Financial making the plan more efficient on both a cost and benefit front including:

- Relieves the investment stewards (community colleges) of fiduciary liability.
- Prudent selection and monitoring of investments resulting in lower costs and better investment returns over time.
- Disclosure of all fees with specific education to your employees on fees.
- Improved plan design with provisions like Roth deferrals, auto escalation, and professionally managed investment models.
- Negotiation and selection of plan providers (recommended every 3 years).
- Any legal aspects of the plan would be handled and approved by legislative contact of the MCCBOA or MCCA.
- Plan education would be more structured and employees would have one on one access to investment advisors only if chosen by the employee. Employees would hire advisors and pay for that service on an individual elected basis.
- MEP would allow each college to continue their contractual Plan contributions at current percentages.

Why Miller Financial Services

- Extensive background and experienced team.
- Created the concept of the MEP for the community colleges.
- TIAA advisor network member. Will work with TIAA from the creation to the implementation of the MEP.
- One provider to create, educate, operate, and monitor the MEP.
- Fiduciary to all clients. Relieves employer liability.
- Independent/unbiased selection of investments and providers.
- Negotiation of pricing for all providers.
- Onsite annual meetings with both employer and employees if desired.
- MEP is the best option for employers due to the ISO like process being automatically done and monitored.
- MEP is the best option for employees because the end result is the lowest cost Plan available due to bargaining power and investment selection.

MEP Fee Schedules and Pricing

Current ORP Plan Balances

- R1 Share Class: $242,285,168
- R2 Share Class: $109,541,755
- Smallest Plan: $ 2,500,000
- Largest Plan: $70,000,000

Total ORP Balance: $351,826,923

TIAA Pricing (Buying Power)

- $20,000,000 is .20bps
- $50,000,000 is .17bps
- $100,000,000 is .14bps
- $150,000,000 is .11bps
- $200,000,000
- $250,000,000
- $300,000,000
- Alerus (Another Provider): .07bps

Miller Financial Services Fees

- Proposed 7 year contract
- First two years is .25bps
- MFS will not be paid until funds go into the new plan.
- Next five years is .10bps
- Scaled fee allows MFS to be paid for all the work to create, educate, and implement the MEP. No revenue is expected until year 2 at the earliest.

Individual Employee Management Fees

- Elected and paid for on an individual basis.
- Full financial planning for employees and their families.
- Proactive employee account management.
- If elected, MFS plan fees would NOT apply so employees are not double billed.
- Fee ranges from .25 to .90 bps per year depending upon account balance.

MEP Process, Contracts, and How to Join

- MEP would need a sponsor which probably would be the MCCA or MCCBOA.
- A committee would be created to serve on the MEP to adopt the plan provisions and do the ongoing reviews/operations of the plan. This could be done by one member for each college or a more formal board.
- Miller Financial would then get a legal opinion that would be approved by your legislative contact. That would then be forwarded to TIAA-CREF to create the MEP.
- Each college would need to sign agreements with both TIAA-CREF and Miller Financial Services. Once completed the MEP savings would start for each college on all plans.
- Miller Financial Services would be proposing a 7 year contract. This is because we would have 1-2 years to develop, educate, and convert colleges to the MEP.
- Miller Financial would not get paid until the MEP was funded. We see this as up to 2 years for the implementation and then 5 years of monitoring and reviewing the plan. Remember once a college signs agreements their savings would start even through the transition.
- As employers do you have a fiduciary duty to join? You decide.

Timeline and Next Steps

- Complete the enclosed questionnaire on each colleges interest level. Remember the more interest the better pricing will be for all colleges and your other plans as well.
- Timeline before the MEP being ready is probably one year.
- Authorize Miller Financial Services to do a specific review of your college if desired. Can be done on Plan Focus or by email.
- Talk to your TIAA-CREF representative Paul Rogers at your plan review for this year. He will address any questions you may have from TIAA-CREF's point of view. Paul's contact info:

  Paul Rogers: Phone: 734-332-3528 Email: progers@tiaa.org

- I would suggest an update at your July MCCBOA meeting with both Miller Financial and TIAA-CREF where we could talk about contracts and more definite timelines.