Optional Retirement Plan for Higher Education

ORPHE 2020 Overview Faculty Outreach

Fall 2019
Agenda

- ORPHE Overview
  - Management and Oversight
  - Performance, Fees and Services
- ORPHE 2020 Updates
  - Overview of goals and timelines
- Key Date Review
Terms to Know

**ORPHE**
- Optional Retirement Plan for Higher Education.
  - Administered by Virginia Retirement System (VRS).
  - For teaching, research and administrative faculty.
- Contributions levels are determined by the General Assembly, not by VRS.
- Separate from your 403(b) plans.

**Plan Sponsor**
- The entity responsible for managing the plan.
  - VRS is the plan sponsor for ORPHE.
  - Your employer is the plan sponsor for your 403(b) plan.

**Record Keeper**
- The entity responsible for providing record-keeping services for the plan.
  - Managing participant accounts.
  - Processing contributions.
  - Quarterly statements.
- They also typically provide administrative services.
  - Call center
  - Communications and education.
- The terms record keeper and provider are often used interchangeably.

Note: There are several public institutions in Virginia that administer their own Optional Retirement Plan for Higher Education. These include the University of Virginia, Virginia Tech, the College of William & Mary, Virginia Commonwealth University, and George Mason University.
Management and Oversight of ORPHE
VRS Management & Fiduciary Duties

VRS Board of Trustees

Defined Contribution Plans Advisory Committee
Includes nine members who represent:
- VRS Board of Trustees (2)
- Investment Expertise (2)
- DC Plan Administration Expertise (2)
- Higher Education (1)
- Local School Divisions (1)
- Local Government (1)

DC Plans Investment Oversight

DC Plans Administration

Key Fiduciary Duties

Duty of Loyalty
steadfast commitment to stay focused on the interests of VRS members and beneficiaries.

Duty to Follow Plan Documents: Adherence to state laws and administrative rules

Duty of Prudence: Requires expertise and more than a good-faith attempt to do the right thing.

Governing Documents available online: orphe.varetire.org
- Master Trust
- Investment Policy Statements
- Plan Document
Oversight of VRS

- Joint Legislative Audit and Review Commission (JLARC)
  - Publishes an information guide for legislators
  - Prepares biennial status report

- Auditor of Public Accounts (APA)

- Internal Audit VRS
  - Reports directly to VRS Board of Trustees
### TABLE 2

**Investment performance of VRS defined contribution plans**

<table>
<thead>
<tr>
<th>Options available for all plans</th>
<th>1 year</th>
<th>3 years</th>
<th>5 years</th>
<th>10 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Target-date portfolios</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Met or exceeded benchmark</td>
<td>10</td>
<td>10</td>
<td>9</td>
<td>9</td>
</tr>
<tr>
<td>Total number of options</td>
<td>10</td>
<td>10</td>
<td>9</td>
<td>9</td>
</tr>
<tr>
<td>Individual options</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Met or exceeded benchmark</td>
<td>9</td>
<td>10</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Total number of options</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>10</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Additional option under the higher education plan</th>
<th>TIAA</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Met or exceeded benchmark</td>
<td>4</td>
<td>4</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Total number of options</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>10</td>
</tr>
</tbody>
</table>

| Fidelity                                          |      |       |       |       |
| Met or exceeded benchmark                        | 5    | 11    | 8     | 11    |
| Total number of options                          | 24   | 24    | 23    | 22    |

**SOURCE:** VRS investment department data.

**NOTE:** (1) Options at top are available to all plan participants. (2) Total number of investment options reported for a given period can change because longer-term performance data is not available for newer options. (3) Performance of target-date and individual options is reported net of investment fees but not administrative fees. Performance of the additional options under the higher education plan is reported net of investment and embedded record-keeping and plan administration fees, where applicable. (4) Some funds are passively managed. Passively managed investment options are expected to track their benchmarks by the expense ratio (fees) charged by the investment managers. Actively managed options are expected to outperform the market and were measured against the benchmark net of investment fund fees. Capital preservation investment options, such as stable value and money market funds, are expected to generate returns at or above zero and were assessed relative to that benchmark. (5) VRS Board of Trustees selected Fidelity as a provider for new hires effective June 1, 2019 and for existing participants effective January 1, 2020.

http://jlarc.virginia.gov
Performance, Fees and Services
Understanding Investment Performance

Your Personal Rate of Return

- Will not match provider fund returns
- Based on timing and amount of contributions and transactions specific to your personal account

Provider Fund Performance

- Rate of return over a specific period
- Includes capital appreciation (price changes) and income
Performance data
- Historical performance data over separate periods of time (i.e., 1-, 5-, and 10-year returns)

Benchmark information
- Name and returns of an appropriate broad-based securities market index over the same periods of time

Fee and expense information
- Total annual operating expenses expressed as a percentage of assets and a dollar amount per $1,000 invested
- Any trading restrictions or transactional fees
Plan-related fees cover a variety of costs:

**Investment Management**
- Generally charged as % of assets
- Investment management activities
- Portfolio accounting
- Custodial services

**Record-keeping/Administration**
- Can be embedded with the investment management costs or charged separately
  - If embedded, a revenue credit can be negotiated to refund of all of or a portion of these fees
- Covers a variety of participants/sponsor services (statements, call center, education, communications, contribution/distribution processing, etc.)

**Other Types of Fees**
- 12b-1 distribution fees
- Surrender/Transfer fees
- Mortality and risk fees
- Acquired fund fees
- Short-term trading/redemption fees

**Fee Characteristics**
- Transactional or ongoing
- Charged as a % or $
- Implicit or explicit

View the ORPHE Annual Fee Disclosure at [orphe.varetire.org](orphe.varetire.org)
Why Do Fees Matter?

- Long-term impact on your retirement savings
- Participants often unaware of how much they pay

Investor A
*Contributes $200 a month over 40 years
*6% annual return on investment
*0.5% annual participant cost

$349,600

Investor B
*Contributes $200 a month over 40 years
*6% annual return on investment
*1.5% annual participant cost

$268,700

The difference is $80,900 or 30%.

To be equally profitable:
The higher-cost fund would have to earn 17% more annually than the lower-cost fund.

Example provided by https://www.forbes.com/sites/johnscott/2018/11/16/small-fees-can-have-a-big-impact-on-retirement-accounts/#57e482bd7e30
## Fee Comparison – Money Market Funds

### Money Market Fund (BlackRock) = Expense Ratio 0.08%

<table>
<thead>
<tr>
<th></th>
<th>Investment Management Expenses</th>
<th>Plan Administration &amp; Record-Keeping Expenses</th>
<th>Other Fees &amp; Expenses</th>
<th>Total Annual Participant Costs*</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$80</td>
<td>$30.50/year (flat fee)</td>
<td>$0.50</td>
<td>$111</td>
</tr>
</tbody>
</table>

### Fidelity Government Money Market Fund = Expense Ratio 0.42%

|                | $220                             | $60 (includes revenue credit of $200) | $0                    | $280                            |

### CREF Money Market Account (GRA Contract) = Expense Ratio 0.23%

|                | $25                              | $145 (revenue credit not applicable) | $55                   | $225                            |

### CREF Money Market Account (RC Contract) = Expense Ratio 0.23%

|                | $25                              | $111 (includes revenue credit of $100) | $55                   | $191                            |

- Examples based on an account balance of $100,000 and expense ratios as of May 31, 2019.
- Fees will vary based on individual investment(s) selected. Investment management expenses may include other related fees.
ORPHE Plan Servicing

Participant Education
- In-person
- Online
- Phone

Robust Participant Resources
- Calculators and tools
- Self-Directed Brokerage Window

Reporting
- Participants statements
- Investment performance
- Data exchange

Customized Educational Materials
- Timely
- Relevant

Account Access
- Online
- Mobile
- Phone

Service options may vary from one provider to another.
Plan Portability

- Determined by plan type, not provider
- Allows assets to be consolidated across providers and employers’ plans*
- Rollovers allow assets to remain tax-deferred
- Certain types of investments may have restrictions and/or additional fees

* Participant must be otherwise eligible for a distribution from the plan.
ORPHE 2020 – Overview of Upcoming Changes
VRS has a fiduciary responsibility to continuously review ORPHE performance.

Maximize services available to participants

Minimize costs and improve transparency (Record-keeping and Investment related)

Provide updated investment menu focusing on fund structure, performance and fees

Consider recruitment and retention needs of higher education community

Maintain open lines of communication with employers and impacted faculty
ORPHE Timeline Overview

- October 2018: Employer Outreach Meetings
- March 2019: Faculty Outreach Meetings
- April-May 2019: Recommendations approved by VRS DCPAC and Board of Trustees
- May 2019: Initial notification mailed to faculty
Considerations

How did we arrive at our decisions?

Services provided
• Fidelity no longer supports on-site services for the VRS ORPHE
• Availability of investment performance reports varies

Availability of investments through self-directed brokerage accounts
• Generally, Fidelity funds can be obtained through the brokerage window

Participant status
• Over half of Fidelity participants have separated employment

Provider share of assets and accounts
• Significant difference in asset size among providers
• Less than 23% of ORPHE participant assets are with Fidelity
• Less than 5% of DC Plan assets are with Fidelity

Updated TIAA investment lineup
• Improve investment performance against benchmark
• Improve transparency in fees
• Reduce use of revenue sharing
Review of industry best practices

• Reduction of providers
  • Simplifies participant choices
  • Allows plan sponsors to better leverage plan size
  • Simplifies administrative complexity

• Investments
  • Preference toward investments with expense ratios that only cover fees related to investment management
  • Lower cost investments that consistently meet or exceed the benchmark
  • Reduce the use of revenue sharing

• Plan servicing
  • Ensure that services provided are equal across providers
    • On-site presence
    • Investment performance reporting
* Provider election window closes November 15, 2019. Fidelity Asset Transfer Election Form must be received at VRS by November 30 to indicate a preference to leave balances with Fidelity. For active participants, the form is available within the provider election process in myVRS during the extended open enrollment window. For separated participants, the form was mailed along with transition materials.
Participant Choices

Fidelity Participants

• Option to leave assets with Fidelity
  • **Fidelity Asset Transfer Election Form must be received at VRS by November 30**
    • Active participants - Available in myVRS
    • Separated participants - Included with transition materials
  • Assets left with Fidelity may be transferred at a later date upon request
  • VRS will no longer provide oversight of the Fidelity investment menu or associated fees
• Fidelity investments are available within the self-directed brokerage window at TIAA or DCP
• Investment menu changes only impact the RC contract, which became effective in January 2017
  • Prior contributions went to the GRA/RA contract
• Participants have the option to move assets in the GRA/RA contract to the new investment menu
  • Review plan details to determine if the RC is right for you
Provider Selection – Open Enrollment

Extended Open Enrollment Period October 1 – November 15

• Active participants will use myVRS to select a new provider

• Active **Fidelity** participants need to log into myVRS to select a new provider

• Active **DCP** or **TIAA** participants may log into myVRS if a provider change is desired

• Provider changes become effective January 2020

Email: orphe@varetire.org
ORPHE 2020 Resources

orphe.varetire.org

- Overview
- Timeline
- FAQs
- Recorded webinars
- Updates periodically
<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>Now through <strong>November 15, 2019</strong></td>
<td>Open enrollment period for active participants. You may review and update your provider selection (DCP or TIAA).</td>
</tr>
<tr>
<td>No later than <strong>November 30, 2019</strong></td>
<td>If you are a Fidelity participant and wish you leave your assets with Fidelity, the Fidelity Asset Transfer Election Form must be received at VRS no later than November 30.</td>
</tr>
<tr>
<td>On or about <strong>January 3, 2020</strong></td>
<td>If you chose DCP or TIAA as your new provider, you will be enrolled in your new account. Shortly thereafter, you will receive an enrollment confirmation with important information on making the most of your participation.</td>
</tr>
<tr>
<td></td>
<td>New TIAA investment lineup takes effect. Fund balances in the TIAA RC contracts are transferred to the new TIAA investment menu. Balances in the TIAA GRA and RA contract remain where they are.</td>
</tr>
<tr>
<td><strong>January 16, 2020</strong></td>
<td>First pay date after updates occur.</td>
</tr>
</tbody>
</table>

**Additional Dates for Fidelity Participants with Balances Transferring to a New Provider**

<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>January 31, 2020</strong></td>
<td>Black out period begins</td>
</tr>
<tr>
<td>On or about <strong>February 7, 2020</strong>*</td>
<td>Balances** will transfer to the provider you selected. If you take no action, your primary fund balances will transfer to DCP.</td>
</tr>
<tr>
<td>On or about <strong>February 13, 2020</strong>*</td>
<td>Blackout period ends.</td>
</tr>
</tbody>
</table>

*Dates are contingent upon the transfer depends on the accurate, timely transfer of the data from Fidelity to DCP or TIAA. If this does not occur, there may be a delay.

** Balances invested in the self-directed brokerage account or deselected funds with Fidelity will not transfer automatically.
Thank You!