KANSAS BOARD OF REGENTS
Retirement Plan Committee (RPC)
MINUTES
October 17, 2023

The October 17, 2023, meeting of the Kansas Board of Regents Retirement Plan Committee was called to order at 12:30 p.m.

Members Participating in person:

Regent Ice, Chair	Dipak Ghosh, ESU	Ted Juhl, KU
Jay Stephens, KSU	Madi Vannaman, KBOR	

Members Participating by video conference:

Doug Ball, PSU	Emily Breit, FHSU	Werner Golling, WSU
Adrienne Kordalski, KUMC	President Muma, WSU	

Participating from Advanced Capital Group were consultants Brad Tollander, Senior Investment Consultant; Justin Dorsey, Principal, Senior Relationship Manager; and Patrick Larson, Principal, Director of Institutional Investment Management. Participating from TIAA were Blake Earl, Senior Relationship Manager; Kelli Jordan, Director, Advocacy Delivery; and Matt Dicroce, Senior Director, Lifetime Income Default Specialist. Participating from Voya were John O'Brien, Regional Vice President; and Cindy Delfelder, Relationship Manager. And participating from the Board Office were Gage Rohlf, John Yeary and Elaine Frisbie.

Introductions

Regent Ice was introduced as the new RPC chair, and committee members and vendor representatives introduced themselves.

Minutes

Dipak Ghosh moved to approve the March 21, 2023, minutes. Following a second by Jay Stephens, the motion carried.

Recordkeeper Presentations

TIAA and Voya representatives shared information about their respective companies and how they interact with KBOR faculty and staff participants.

ACG semi-annual investment review, as of June 30, 2023

Brad Tollander provided an executive summary and highlighted information for the Mandatory and Voluntary Plans.

TIAA – Watch List review (both Mandatory and Voluntary Plan Lineups)

A. **Royce Small-Cap Opportunity Institutional** has been on the Watch List since Fall 2021 because the entire management team departed to work for a competitor firm in April 2021.

ACG's recommendation: remove from the Watch List. The Portfolio Management Team has been in place for over two years. During this time, it has consistently applied the investment process used by the previous lead portfolio manager. Although ACG remains critical of the fund's overall expense ratio at 1.12%, the fund maintains a high active share of 87 which suggests management is not an index-hugger. Professor Juhl previously voiced concern about the expense ratio. KBOR is currently in the lowest cost share class of the fund.

B. **Allspring Growth Institutional** has been on the Watch List since Fall 2022 because of long-term risk-adjusted performance in the bottom quartile of the peer group.

ACG's recommendation: keep the fund on the Watch List. The investment approach, which prioritizes high-growth companies while also being open to paying a premium for such growth, along with a significant allocation to small and mid-cap companies, has adversely affected the overall performance of the fund. On a positive note, the Plan offers two other large-cap growth options, allowing participants to reallocate their investments accordingly. ACG has advised the RPC to remain patient when it comes to funds on the Watch List. Unfortunately, given the level of underperformance and two solid large cap growth alternatives, ACG suggests a recommendation to remove the fund from the investment lineup is imminent unless there is a substantial improvement in relative performance compared to the fund's benchmark and the median peer group over the coming months. Participants have other large cap growth options. ACG will be prepared to explore alternatives with the Committee at the Spring 2024 RPC meeting.

C. **TIAA-CREF Mid-Cap Growth Institutional** has been on the Watch List since Fall 2022 because of manager departure and near-term performance and long-term performance relative to peers.

ACG's recommendation: keep the fund on the Watch List. Many of the fund's longer-term performance issues can be attributed to previous portfolio managers of the fund. Terrance Kontos took over Lead Portfolio Manager responsibilities in April 2022. Performance results thus far are an improvement over those of previous managers. ACG will review the fund at the Spring 2024 RPC meeting.

Chair Ice asked how long funds remain on the Watch List. Brad Tollander responded that they are patient with funds when incremental progress is seen.

Dipak Ghosh moved that the RPC approve ACG's Watch List recommendations for all three of the foregoing TIAA funds. Following a second by Werner Golling, the motion carried.

TIAA's Proposed Share Class Changes

At the Spring 2023 RPC meeting, TIAA proposed moving from the R3 share class to a lower cost R4 share class in the following CREF Variable Annuities. The main difference would be eliminating the recordkeeping offset that is currently being rebated back to participants invested in funds' R3 share class in favor of a lower prospectus net expense ratio in the R4 share class.

KBOR Mandatory and Voluntary Plans

Proprietary Funds: Current & Alternate Share Classes, Expense Ratios, & Record Keeping Offset

A	B	C	D	E	F
Investment Product Name	Ticker	Share Class	Record Keeping Offset (bps)	Prospectus Net Expense Ratio	NET COST (E - D)
CREF Money Market	QCMMIX	R3	0.10	0.18	0.08
CREF Money Market	QCMMFX	R4	0.00	0.06	0.06
CREF Core Bond Account	QCBMIX	R3	0.10	0.22	0.12
CREF Core Bond Account	QCBMFX	R4	0.00	0.10	0.10
CREF Inflation-Linked Bond	QCILIX	R3	0.10	0.17	0.07
CREF Inflation Linked Bond	QCEQFX	R4	0.00	0.05	0.05
CREF Social Choice	QCSCIX	R3	0.10	0.19	0.09
CREF Social Choice	QSCCFX	R4	0.00	0.07	0.07
CREF Stock	QCSTIX	R3	0.10	0.23	0.13
CREF Stock	QCSTFX	R4	0.00	0.11	0.11
CREF Growth	QCGRIX	R3	0.10	0.21	0.11
CREF Growth	QCGRFX	R4	0.00	0.09	0.09
CREF Equity Index	QCEQIX	R3	0.10	0.16	0.06
CREF Equity Index	QCILFX	R4	0.00	0.04	0.04
CREF Global Equities	QCGLIX	R3	0.10	0.22	0.12
CREF Global Equities	QCGLFX	R4	0.00	0.10	0.10

To move from the R3 to the R4 share classes in the Mandatory Plan the following will need to occur:

- There will need to be a contract change from the Group Retirement Annuity (GRA) to the Retirement Choice Annuity (RC).
- The TIAA Traditional would switch from a 3% minimum annual interest rate to a floating guaranteed rate

between 1% and 3%.
- The CREF monies in the old GRA contract would stay as-is. Participants would be able to transfer their balances across contracts (from GRA to the RC) but KBOR cannot require balances from CREF to be moved.

ACG's recommendation: This proposal should be tabled for now and discussed at a future RCP meeting with respect to both the Mandatory and Voluntary Plans.

Although Voluntary Plan participants' balances in the R3 share class can be mapped to the R4 share class, as noted the Mandatory Plan would require contract changes and balances cannot be mapped. Although the R4 share class is cheaper than the R3 share class, since recordkeeping offsets are rebated back to the participants that generate them, the savings is 2 basis points. ACG recommends waiting for a decision on the Mandatory Plan before deciding on the share class change for the Voluntary Plan. That way if the RPC decides to move forward with the required contract change to the Mandatory Plan, the share class changes can occur in the Voluntary Plan at same time. This should help to reduce any participant confusion since the changes would also be communicated at the same time.

[Developments shared by ACG after the RPC meeting: On Wednesday, October 18th TIAA notified ACG the CREF account were repriced on May 1, 2023, and, as a result, the fee savings (after recordkeeping offsets) moved from 2 basis points to 4 basis points compared to the R3 share class utilized by both the KBOR Mandatory and Voluntary Plans. ACG states that this development does not change its recommendation to the Committee. The fact remains that the Mandatory Plan would need to change contracts and switch from the 3% minimum guaranteed TIAA Traditional to the 1% – 3% floating guaranteed TIAA Traditional. The table provided to the RCP on Tuesday was from the Spring 2023 meeting held on March 21, 2023. ACG will investigate take-up rates and update the Committee at the Spring RPC meeting.]

Blake Earl confirmed that with clients of comparable asset size, there has not been a lot of movement for this share class change as they, too, are waiting and watching. [After the meeting, Blake provided this supplemental information: The decision to move to CREF R4 class varies by client. Some clients do not meet the requirement of having the Retirement Choice and Retirement Choice Plus annuity contracts plus fee leveling. For those that do, across all plans, TIAA has seen some clients make the transition; however, not all. One of the reasons is CREF R4 class is only eligible on the Retirement Choice and Retirement Choice Plus annuity contracts while the Legacy contracts remain in the R3 class.] Werner Golling commented that the change to a floating rate instead of the guaranteed 3% rate could cause a lot of consternation and significant participant education would be required. Matt Dicroce agreed, stating there are a few differences between the legacy contracts and RC contracts. Specific to the guaranteed minimum crediting rates, the legacy contracts all have a 3% floor whereas the RC contracts have a minimum that can float between 1% and 3%. Because the potential liability of a 1% minimum is less than a 3% minimum, in most rate environments TIAA can reserve less and credit higher rates to the RC contracts than to their legacy counterparts. The core tradeoff, with respect to the minimum, is potentially higher actual rates, but also potentially lower guaranteed rates in the RC contracts. The RC contracts allow the plan sponsor to map assets, whereas the legacy contracts are individually owned and not mappable at the plan level.

RPC document updates

Gage Rohlf presented proposed amendments to the Retirement Plan Committee Charter and the Vendor Management Document. The amendments are non-substantive, corrective changes to include appropriate references to the Voluntary Plan. The Charter is framed as covering both plans, but its text mistakenly omits necessary references to the Voluntary Plan in a couple places. The proposed amendments correct those omissions. The Vendor Management Document is currently framed as a governing document for the Mandatory Plan vendors alone. In practice, the timelines and procedures set out in the Vendor Management Document apply to both the Mandatory and Voluntary Plans and the amendments are intended to bring the document in line with that practice.

Jay Stephens moved that the proposed amendments for the Charter and the Vendor Management Document be approved. Following a second by Ted Juhl, the motion passed. The amendments will be presented to the Board of Regents for final approval in November.

<u>Plan document updates</u>
Gage Rohlf presented information about recommended, required, and optional changes to the Retirement Plan documents. Outside legal counsel, Ice Miller, LLP, has drafted comprehensive updates to the Mandatory Plan and Voluntary Plan documents that incorporate prior plan amendments, refresh the language to reflect new guidance and model plan language, and incorporate new mandatory provisions. In addition to those comprehensive updates, nine optional plan provisions require individual decisions by the Committee. Those optional provisions were proposed by outside legal counsel, proposed by Board staff, or were impacted by new federal legislation.

The Committee first determined whether to adopt the provisions that required individual attention.

Plan document changes proposed by outside counsel

1. Automatic beneficiary designation – the Plans would provide that a participant's surviving spouse, or their estate if there is no surviving spouse, is a "default" beneficiary.

2. Automatic spousal beneficiary revocation – the Plans would include language automatically revoking a participant's former spouse's status as beneficiary upon divorce from the participant. Emily Breit asked who the default beneficiary would be if the divorced spouse was removed. Gage Rohlf stated the funds would go into probate and then would follow statutory distribution provisions. He also shared that Kansas law addressing the rights of ex-spouses designated as beneficiaries provides a safe-harbor provision to protect the Plans if assets are distributed without knowledge of a divorce, along with other flexibility that might be lost if this provision is included. The Committee noted that it is difficult to know a participant's intent, especially from inaction alone.

Plan document changes proposed by Board staff

3. Former employee rollover contributions – Former employees who have funds in the Mandatory or Voluntary Plans would be permitted to make rollover contributions to their accounts. Jay Stephens stated that this would also allow participants to leverage the lower fee structure found in the KBOR Plans. Chair Ice noted that new plan provisions should be beneficial or at least neutral for current employees. Cindy Delfelder confirmed that this feature would not add administrative burdens.

4. 15-years-of-service catch-up contribution limitation – The Voluntary Plan would prohibit 15-years-of-service catch-up contributions for employees whose prior contributions cannot be adequately documented to properly apply the statutory limits on the allowable catch-up contribution amount. Emily Breit asked for clarification whether the contribution would still be allowed for employees whose prior contributions can be documented, and Gage confirmed that is the intent. Chair Ice questioned why documentation would ever not be available. Madi Vannaman explained that this is a function performed by each individual campus. Gage stated that the limitation would protect the plan in terms of operational compliance and protect participants by shielding them from excessive contributions. Gage said that the limitation could be implemented through language in employees' salary reduction agreements. Madi noted that including the limit in the plan language would be preferred over the salary reduction agreements which are completed by the individual employee.

SECURE 1.0 and SECURE 2.0 optional provisions

5. Expanded fund availability for hardship withdrawals – Earnings on contributions would be available for participants' authorized hardship withdrawals from Voluntary Plan accounts.

6. Self-certification of hardship withdrawals – The Voluntary plan would permit participants to self-certify that they meet hardship withdrawal requirements, rather than submitting documentation for review and determination. Outside counsel's draft comprehensive plan updates include language that permit this

function to be turned on or off at the Committee's discretion. Chair Ice suggested that the RPC be careful about being paternalistic but also acknowledged that it is not difficult to obtain the certification needed for hardship withdrawal. Once sufficient information is available to address liability, including any IRS guidance, this provision may be revisited, and the Plan language could be modified at a future date.

7. Qualified disaster recovery distributions – The Voluntary Plan would permit participants to withdraw, without penalty, up to $22,000 if affected by a federally declared disaster. The amount withdrawn is included in gross income over a three-year period and may be repaid within three years.

8. Qualified birth and adoption distributions – The Voluntary Plan would permit a participant to withdraw, without penalty, up to $5,000 within one year of a child's birth or legal adoption. The withdrawal may be repaid within three years.

9. Domestic abuse withdrawals – The Voluntary Plan would permit participants to withdraw, without penalty, up to $10,000 within a year of experiencing domestic abuse. The abuse by the spouse or domestic partner is self-certified, and the amount may not exceed 50% of the participants' nonforfeitable accrued benefits' present value. The withdrawal may be repaid over three years.

By consensus, the Committee determined that items 1, 3, 4, 5, 7, 8, and 9 will be incorporated into the Plan documents. The Committee determined that items 2 and 6 will not be incorporated at this time. In addition, the Committee determined that the language granting the Committee discretion to permit self-certification that is currently included in outside counsel's draft comprehensive plan document updates should be stricken.

Plan document updates prepared by outside counsel
After receiving the Committee's determinations on the nine individual plan options, Gage presented restated Mandatory and Voluntary Plan documents to the Committee. The restated documents contain outside counsel's comprehensive updates. Gage highlighted substantive changes within the updates to the plans' required minimum distribution provisions, beneficiary designation language explicitly making designations subject to "applicable state law," a requirement that reasonable attempts will be made to locate missing participants or beneficiaries, and limitations on the forum and time in which to bring legal actions arising out of the plan.

Dipak Ghosh moved to adopt the restated Mandatory and Voluntary Plan documents together with any additional changes necessary to implement the RPC's consensus determinations on the nine individual plan options, as set out above. Following a second by Jay Stephens, the motion passed.

<u>TIAA Lifetime Income Options – TIAA and ACG</u>
Matt Dicroce shared information about TIAA's default investment option solution: a customized portfolio target date fund incorporating an annuity component. With 75% of contributions going to default funds, there is an industry engagement problem. The evolution of default funds went from money markets to target date funds. The latter are solely a function of the participant's age. The future evolution will consider additional factors (such as the participant's other assets) to determine proper allocation consistent with plan goals, combined with a custom recordkeeping product with risk overlays using three glidepaths instead of one. Bond exposure will be replaced with a liquid version of the TIAA Traditional Annuity that does not lock up the funds for 9+ years.

Partial allocations, where contributions are made to target date funds and other funding vehicles, are not optimal, as advice needs to be rendered based on a participant's entire portfolio. Also, legacy contracts with material asset balances are not recognized by target date funds but would be with the TIAA default solution.

Plan sponsors and participants can benefit from i) a decrease in portfolio volatility, ii) potential lower cost with more fiduciary control, and iii) an increase in retirement income with the embedded annuity. An investment consultant could oversee customized glidepath models, at an additional cost of approximately 3 basis points, or TIAA's template could be utilized but it does not take into consideration KBOR participant demographic information. The template version could be used initially with transition, at a later date, to a customized version.

Kelli Jordan presented information about a smooth transition for participants, with little disruption, utilizing website and smart phone applications TIAA has developed in working with over 400 clients for implementation. A new home-page redesign is coming in 2024 which will add more guided assistance as the questionnaires can be difficult for some participants to understand.

Brad Tollander and Patrick Larson shared information about ACG's custom default solution with a proposed glidepath incorporating KBOR's plan circumstances to best suit the needs of KBOR participants. The glidepath utilized twelve models, used for participants ranging 25+ years from retirement to the time of retirement (stepping down in 3-year increments), and two in-retirement portfolios applicable at five and ten years into retirement. Funds utilized in the glidepath would be with the recordkeeper and may not be funds that could be picked by participants (or seen by them) and, trying to minimize expenses by utilizing passive funds the majority of time but supplementing with active funds when appropriate.

Werner Golling asked about the experience for new participants. Matt Dicroce explained that for existing defaulted participants or those who made an active election for the current target date default funds, there could be a full re-enrollment opportunity, or they could mapped into the new default with an opt out opportunity. New participants who do not make an active election would be defaulted into the new default solution. The existing target date funds would be replaced, but those funds could remain in the lineup, if desired.

Chair Ice stated that because this information is brand new to the RPC as a whole (having previously been presented to an RPC subcommittee), additional time would be needed to digest the information before it is discussed further.

Good of the Order
No items were brought forth for discussion.

Next RPC meeting:
The next regular RPC meeting will be scheduled for March 2024, date to be announced, beginning at 12:30 p.m.