

**BOARD OF HIGHER EDUCATION**  
**REQUEST FOR COMMITTEE AND BOARD ACTION**

**COMMITTEE:** Fiscal Affairs and Administrative Policy    **NO.:** FAAP 10-27

**COMMITTEE DATE:** June 8, 2010

**BOARD DATE:** June 15, 2010

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**SELECTION OF PROGRAM PROVIDERS FOR MASSACHUSETTS OPTIONAL  
RETIREMENT PROGRAM**

**MOVED:** In accordance with the applicable provisions of Chapter 15A, Section 40, of the Massachusetts General Laws, as amended, the Board of Higher Education herein confirms and/or selects the following Program Providers for the Massachusetts Optional Retirement Program:

- Fidelity Investments
- Lincoln Financial Group
- Teachers Insurance & Annuity Association of America/ College Retirement Equities Fund (TIAA-CREF)
- Variable Annuity Life Insurance Company (VALIC)

Such procurements will be effective as of September 1, 2010.

**Authority:** Massachusetts General Laws Chapter 15A, Section 40

**Contact:** Peter H. Tsaffaras, Deputy Commissioner for Employee Relations

## **Background**

### **History**

By Chapter 495 of the Acts and Resolves of 1993, on January 14, 1994, the Commonwealth enacted into law the Massachusetts Optional Retirement Program (ORP). The ORP is a defined contribution retirement plan serving as an alternative to the state's traditional pension system. Faculty and certain senior administrators are eligible to participate in the Plan. The purpose of the Program, which operates under Section 401(a) of the Internal Revenue Code, is to assist in and benefit the recruitment and retention of the above-referenced group of employees.

Pursuant to the requirements of the statute, which is Section 40 of Chapter 15A of the Massachusetts General Laws, on April 13, 1995, the Higher Education Coordinating Council (now known as the Board of Higher Education) chose the Lincoln National Life Insurance Company, TIAA-CREF, and the Variable Life Insurance Company as Providers under the Plan.

On October 30, 1995, the Optional Retirement Program first became effective and offered to eligible employees at the community colleges, the state colleges and the University of Massachusetts.

The Optional Retirement Program has grown to the point where today it has approximately 7,000 individuals with funds in the Plan, some 3,100 of whom are Active Participants making current contributions.

Based upon changes in the financial marketplace since the original selection of the Program Providers in 1995, it was believed prudent to engage again in a competitive, nationwide solicitation of Providers to ensure the best offering of products and services to participants and beneficiaries. Pursuant to this determination, the Employee Relations group has for some eleven months engaged in a competitive, nationwide procurement process, the recommendations from which are set forth in the next section of this document.

### **Program Provider Recommendations**

#### **Fidelity Investments**

Fidelity's proposal scored fourth among the eight companies. This score reflects the relatively high quality of responses rather than simple quantity of information.

Fidelity's experience with other, similar plans demonstrates that they can support our business requirements.

The Fidelity fund line-up is attractive for participants for its diversity, flexibility and relatively low expense ratios. Additionally, Fidelity's resources devoted to the oversight and review of mutual fund options (proprietary and non-proprietary) available under the ORP are more robust than all other bidders.

Fidelity would be the first and only non-insurance company Provider under the ORP, which is more aligned with Providers in private sector 401(k) plans. The 401(k) plan structure is typical of the ORP's structure.

Of all companies submitting bids, Fidelity is likely to provide the greatest competition for TIAA-CREF. Fidelity name recognition is equal to or greater than TIAA's across the state.

Fidelity performs well against TIAA-CREF in both the Commonwealth's and University of Massachusetts' 403(b) elective deferral plans.

Equally important, Fidelity is the most common and successful competitor for TIAA-CREF in other large, employer-funded retirement plans of institutions in the Boston area. These include:

- Boston College,
- Boston University,
- Harvard University (including the medical school and its affiliates),
- MIT,
- MITRE Corp., and
- Northeastern University.

### **Lincoln Financial Group**

Lincoln Financial Group should be retained, introducing their mutual fund-based product to replace their current annuity product.

Additionally, Lincoln should be retained with minimum market share growth requirements stipulated for the first two years of this contract, subject to annual reviews by the Plan Administrator. This stipulation will help demonstrate that Lincoln's product and services are viable in a competitive market.

### **TIAA-CREF**

TIAA-CREF should be retained, introducing their mutual fund-based product to replace their current annuity product.

Additionally, TIAA-CREF should be retained with stipulations of administrative standards of performance to be met for the first two years of this contract, subject to annual reviews by the Plan Administrator. These stipulations will help ensure TIAA's continued improvement in the delivery of their services to the Commonwealth.

### **VALIC**

VALIC should be retained, introducing their mutual fund-based product to replace their current annuity product.

Additionally, VALIC should be retained with minimum market share growth requirements stipulated for the first two years of this contract; subject to annual reviews by the Plan

Administrator. This stipulation will help demonstrate that VALIC's product and services are viable in a competitive market.

## **About Retaining the Current Providers**

### Corporate structure, experience and services

The solicitation re-affirms that the current Providers are strong and viable companies that have extensive experience providing qualified retirement plans for public institutions of higher education. The companies provide reliable and accurate recordkeeping and other administrative support services to the Plan Administrator. Additionally, the companies provide high-quality and reliable services to participants through a variety of service delivery models.

The companies provide a good selection of investment funds that a prudent person, familiar with such matters, would select for themselves. Supporting these offerings, the companies will provide annual investment reviews for the Commonwealth, ensuring proper oversight of the funds available under the Plan. Especially important, the decisions to either retain or remove individual funds under the Plan will be made by the Commonwealth and (generally) not by the Providers, which is typical under the current annuity products.

### Competitive Scoring

In the absence of any distinguishing proposals, there is no compelling reason to replace any of the current Providers. All three companies scored in the top five of eight bidders\*:

- TIAA: #1
- VALIC: #2
- Lincoln: #5

\*Fidelity scored #4.

The eight proposals for products and services delivered to the Department of Higher Education are essentially the same:

1. the bidding firms offer similar Internet-based and direct services to the Department of Higher Education as the Plan Administrator;
2. the bidding firms offer similar Internet-based and direct services to participants; and
3. the bidding firms offer "Open Architecture" investment choices (mutual funds drawn from a universe of thousands of funds across all asset classes, complemented by a fixed annuity for basic income security).

### Fund Expenses

The three Providers' new products offer an investment fee structure that can be adjusted as fund balances grow to reflect the Plan's actual experience and the firm's minimum revenue requirements. The Fidelity fund line-up is attractive for participants for its diversity, flexibility and relatively low expense ratios.