

RECOMMENDATION TO THE BOARD OF TRUSTEES
CONCERNING RETIREMENT INVESTMENT OPTIONS

Approved by Personnel Committee – May 13, 2010

Approved by Board of Trustees – June 10, 2010

Recommendation

The President recommends:

That the University provide additional retirement investment options to employees through its existing 403(b) Retirement Plan and the adoption of a new 457(b) Retirement Plan, effective July 1, 2010, at no cost to the University, as described below.

Background

The University of Louisville, through its Board of Trustees, has adopted a public 403(b) Retirement Plan that permits employees to invest in retirement annuities and equity funds, subject to the provisions and limitations of IRS regulations. The University does not currently have its own 457(b) Plan, but offers a Plan through the State of Kentucky.

I. Permit IRA Rollovers into Employee 403(b) Retirement Accounts

Our current retirement plan document permits pre-tax contributions from earned income derived from University sources only; however, IRS regulations permit IRA rollovers into employees' individual retirement accounts, upon approval of the University. When individuals leave their previous employer, they often affect a rollover from prior institutional retirement accounts to individual retirement accounts. Permitting such employees to roll existing IRAs into their UofL retirement accounts would enable employees to consolidate investment accounts and more effectively manage total investment funds. IRA funds would remain segregated from UofL employer retirement contributions within employee accounts.

II. Permit After-Tax Contributions to Roth IRAs within Employee 403(b) Retirement Accounts

Traditional retirement planning is predicated on making pre-tax contributions now, subject to taxable withdrawals during retirement based on the assumption that current income tax rates are higher than they will be during retirement. By contrast, Roth IRAs permit after-tax contributions now, with tax-exempt withdrawals during retirement. For many employees, this strategy may be more suitable for near-term retirement planning or augment traditional retirement planning strategies. IRS regulations permit after-tax contributions to employees' 403(b) retirement accounts, upon approval of the University. Employee after-tax Roth IRA contributions would remain segregated from UofL employee pre-tax and employer retirement contributions within employee accounts.

III. Adopt a University of Louisville 457(b) Retirement Plan

The University currently offers a 457(b) plan through the State of Kentucky, but the State plan enrollment process is paper-driven, its service record is uneven, and administrative fees (at 0.35% up to \$25,000) are high in relation to commercial vendors offering similar 457(b) plans. Reasonable access to 457(b) retirement accounts is critical for higher-compensated employees who are trying to maximize retirement contributions, because 457(b) contribution limits are independent of and in addition to 403(b) contributions limits. However, cumbersome enrollment processes and service delivery issues with the State plan often discourage employees from participating in the State 457(b) retirement plan.

Human Resources believes that many employees would prefer to make 457(b) contributions through the University of Louisville, so the 457(b) Plan is fully integrated with the University's existing benefit framework. A UofL 457(b) Plan would augment and not replace the State 457(b) Plan, which would continue to be available.

These recommendations have been endorsed by the Executive Committees of the Faculty and Staff Senates, as well as Vice Presidents & Deans. No additional costs will be incurred on the part of the University. If approved by the Board of Trustees, the Vice President of Human Resources, with the review and concurrence of General Counsel, will execute an Addendum to the January 1, 2009 403(b) Retirement Plan Document and a new 457(b) Retirement Plan Document, with both documents being effective July 1, 2010. One or more 457(b) Plan vendors would then be selected consistent with University Purchasing requirements.

COMMITTEE ACTION

PASSED _____

DID NOT PASS _____

OTHER _____

DATE _____

BOARD ACTION

PASSED _____

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OTHER _____

DATE _____

ASSISTANT SECRETARY

ASSISTANT SECRETARY