

Report of the 2020-2021 Financial Affairs Committee (April 11, 2021)
Professors Margaret Gorman-Kirchoff, Blaine Saito, Yustianto Tjiptowidjojo, Ed Wertheim, Gary Young, Deb Copeland (Chair)

Charges from the Senate Agenda Committee to the 2020/21 Financial Affairs Committee (FAC):

1. Considering the yearly increases in the cost of living and the special circumstances induced by the COVID-19 pandemic the Committee shall (a) examine the total faculty compensation, (b) review of match-mate institution data and compare salary raises, and (c) make recommendations for 2021 merit raises for full time faculty. (Report, Senate Minutes, February 3, 2021)
BE IT RESOLVED that the recommended full-time faculty raise pool for merit and equity for the FY 2022 be 4.0% of continuing salaries starting on July 1, 2021 (Resolution passed 31-0-2, February 3, 2021)
2. The committee shall review the costs and custodian selections for fund selections in the retirement accounts, assess these in comparison to those offered by peer institutions, and provide recommendations to improve the selections to enable better faculty retirement account growth unhampered by high expenses.
3. The Committee, in collaboration with the FT-NTT-FC, shall (a) inquire and examine the granular match-mate data for FT-NTT faculty salaries that have been obtained by the university leadership from the Colonial Group, and (b) make recommendations regarding FT NTT faculty compensation.
4. In order to improve our competitiveness in attracting and retaining superb faculty members, working with appropriate units in the administration, the Committee shall continue to explore mechanisms and opportunities to provide subsidized housing to new and existing faculty.
5. The Committee shall provide an evaluation plan for the newly implemented equity process and its implementation.

Charge #2 The committee shall review the costs and custodian selections for fund selections in the retirement accounts, assess these in comparison to those offered by peer institutions, and provide recommendations to improve the selections to enable better faculty retirement account growth unhampered by high expenses.

WHEREAS upon opening a Northeastern Retirement Plan (403(b)) should a staff/faculty member not select an investment option, they are placed into a (TIAA or Fidelity) Lifecycle Fund based on their current age, which is known as the Default Option, and

WHEREAS these Lifecycle Funds are also one of the most popular investment choices, and

WHEREAS the Vanguard Target Retirement Funds with similar strategies are very popular, with strong performance and have the lowest expense ratios in this family of funds

BE IT RESOLVED that the Senate recommends that the University as Plan Manager offer Vanguard Target Retirement Funds, and

BE IT FURTHER RESOLVED that the Senate recommends that the Default Option for those who do not specify a particular investment upon opening their 403(b) account be the age-appropriate Vanguard Target Retirement Fund.

DISCUSSION

Expense Ratio Issue

I. The current choices are not the lowest cost funds in their class, particularly the default Target Retirement types of funds.

The funds offered by Northeastern's retirement plans are not the lowest cost funds in their class. In particular, the default funds that people tend to invest in, target retirement or lifecycle funds that adjust the investment mix as one ages, are not the lowest cost in their class.

This particular discussion is not about the choice of custodians that Northeastern has, which the Committee understands has undergone a competitive bid and has chosen custodians with the lowest custodial fees. Rather the only focus of the discussion is about the expense ratios of the fund choices selected by Northeastern for plan participants.

A. High expense ratios hurt employees' retirement savings.

The costs related to a fund is in a somewhat obscure number called the expense ratio. The expense ratio is the total fund costs/total assets. Unlike the fees for the custodial records, which you see in some statement at the University, expense ratios are a somewhat hidden fee. Rather than going to the custodian, the fees go to the fund's management. Expense ratios are problematic, because they are hidden, and their effect on people's retirement savings can be quite significant. This situation is particularly acute in the default fund selection, a so-called Target Date or Lifecycle fund, which tries to automatically balance one's risk exposure based on a retirement. These Target Date funds are the default for most investments by employees at Northeastern.

In the Northeastern Retirement plans, we have a choice of account custodians between Fidelity and TIAA. Depending on the custodian selected, you have access to a different set of funds for investment. Thus, if you select Fidelity, the default selection is Fidelity's Target Date fund, which is called the Fidelity Freedom Fund. If you select TIAA, the default selection is TIAA's Target Date fund, which is called the TIAA-CREF Lifecycle Fund.

One committee member uses TIAA for my Northeastern Retirement. The expense ratio for the TIAA CREF Lifecycle 2045 Fund is 0.56% gross and 0.47% net.¹ On research done by the committee, the Fidelity Freedom 2045 Fund has a 0.75% expense ratio, both gross and net.²

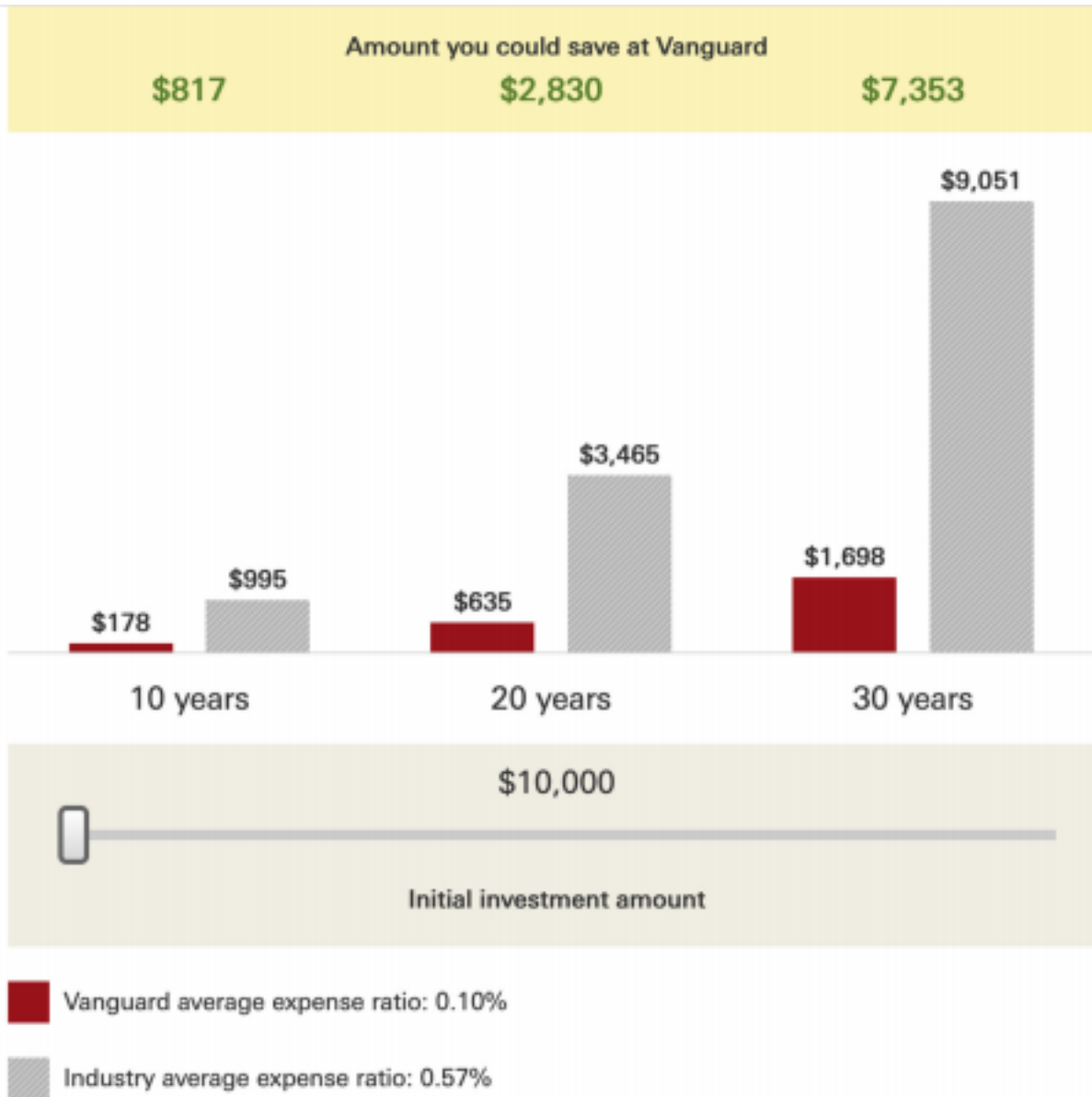
But the lowest expense ratio funds in this class of which committee is aware are the Vanguard Target Retirement Funds. The expense ratios 0.09% for these funds. One committee members currently uses Vanguard for both my retirement accounts from when he was a fellow at Harvard and for a personal Roth IRA that he has.

This difference in expense ratios is quite extreme. This website at Vanguard helps show that problem. <https://investor.vanguard.com/mutual-funds/low-cost>. Under that, assume an annual return of about 6% per year in a fund and an initial investment of \$10,000. The Vanguard funds have an expense ratio of

¹ Gross expense ratios are the ratios of the total expenses. A net expense ratio takes into consideration the waiver of trading fees and rebates.

² The expense ratios for the Fidelity Funds may be reduced by the fact that we are likely using institutional investment funds, but it is unlikely to go much below that of the TIAA-CREF Lifecycle 2045 Fund.

0.10% while the industry average is about 0.57%. After ten years, one would save \$817 using the lower expense Vanguard funds. After twenty years the amount saved is about \$2,830. After thirty years the amount saved using a lower expense ratio fund swells to \$7,353, which is shockingly close to the initial investment amount, and it fits the general time horizon for these investments.



This hypothetical illustration assumes a 6% return for all examples. Rate is not guaranteed. If the rate of return were altered, results would vary from those shown. The final balance shown is after costs. This example doesn't represent any particular investment and doesn't account for inflation.

Figure 1. Hypothetical costs related to expense ratios of a \$10,000 initial investment, assuming 6% return, Vanguard expense ratio of 0.10%, and Industry average expense ratio of 0.57%.

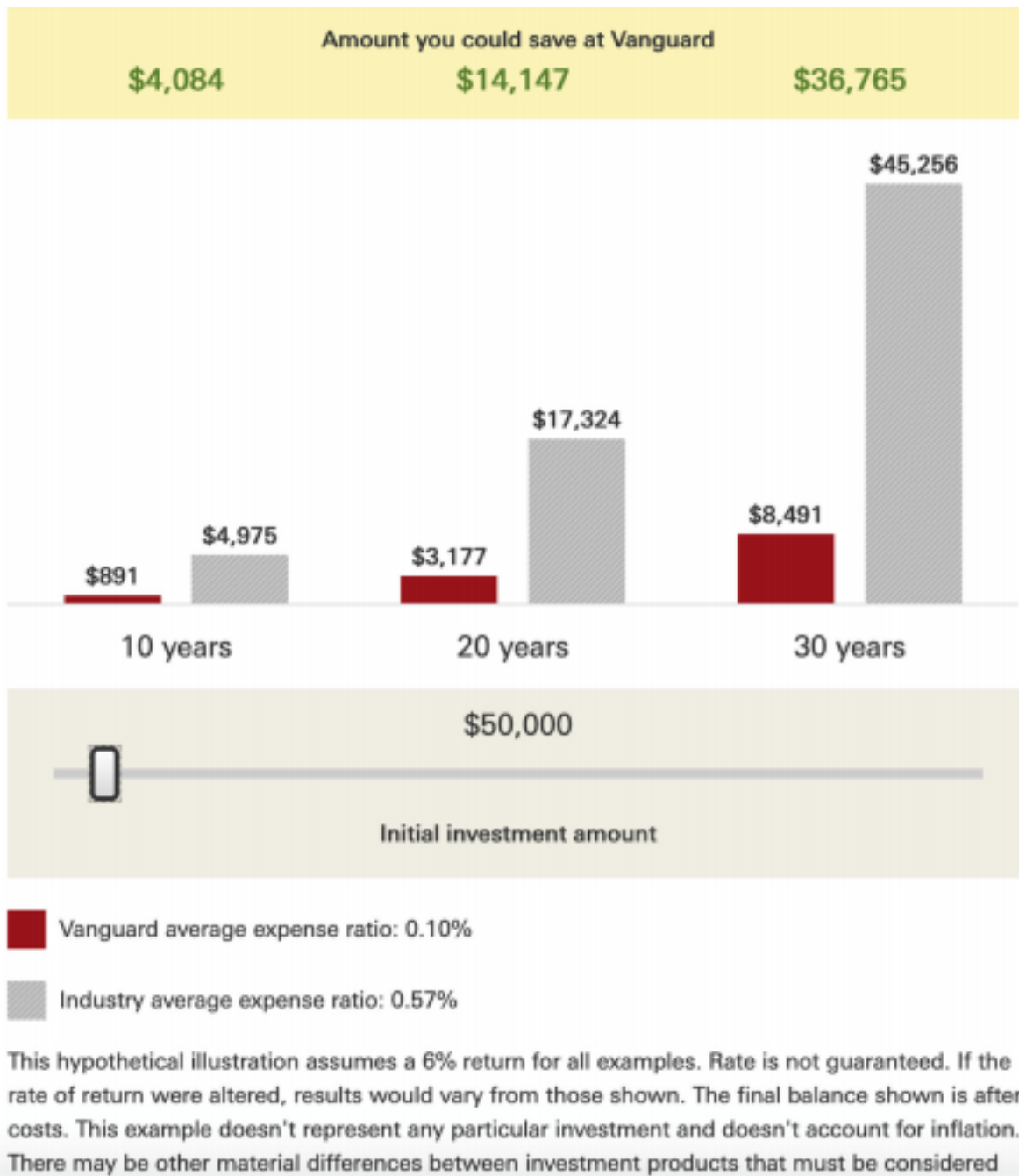


Figure 2. Hypothetical costs related to expense ratios of a \$50,000 initial investment, assuming 6% return, Vanguard expense ratio of 0.10%, and Industry average expense ratio of 0.57%.

While the funds do have some differences in investment mix, the performance is not all that different. In fact, as of August 24, 2020, the YTD return on the Vanguard version was a return of 3.62%. TIAA had a 3.33% return, and Fidelity had a 3.26%. These return rates are net of these expense. Thus, when the expenses are taken into consideration, the performance of the fund is generally better. That in turn further exemplifies the cost savings.

Thus, the fact that we are not using the lowest expense ratio funds in the class, and in particular in the lifecycle/target date fund investments is problematic. It essentially means a good portion of our investments are going to these fund managers somewhat needlessly in a quiet hidden way.

At least one other institution has addressed this problem. Prior to September of this year, Harvard University had for its employees a set of three different custodians: Fidelity, TIAA, and Vanguard. Similar to Northeastern, if one selected Fidelity as one's custodian, the default investment was the Fidelity Freedom Fund. If one selected TIAA as one's custodian, the default investment was the TIAA CREF Lifecycle Fund. If one selected Vanguard, the default investment was the Vanguard Target Date Fund.

In September, Harvard made a significant change in their retirement plans. They chose one custodian, TIAA. Everyone had their accounts migrate then to TIAA.

But more importantly, Harvard changed the investment choices. The default choice, and indeed the only choice for a Target Date or Lifecycle funds offered were the Vanguard Target Date Funds. Thus, while TIAA was the custodian, Vanguard was the investment choice offered. That then created the savings noted from the expense ratios.

Thus, it is also possible for Northeastern to have TIAA and/or Fidelity continue serve as our custodian, which we understand has provided us with the lowest custodial fees, but have the funds be Vanguard Funds. Indeed, going forward, we would urge the University to pay close attention to these expense ratios of the various offerings and seek the lowest ones. Note the committee is not recommending a change in custodians, but just a change in the fund selections to choose the ones with the lowest expense ratio in that class.

The Financial Affairs Committee is willing to work with the University and the various trustees of the retirement plans in trying to work toward a resolution that is beneficial to all who are involved. That could also involve discussions not only with the various retirement account related people but potentially other members of the staff too, whom this matter also affects, as they have the same retirement benefits.

Charge #3 The Committee, in collaboration with the FT-NTT-FC, shall (a) inquire and examine the granular match-mate data for FT-NTT faculty salaries that have been obtained by the university leadership from the Colonial Group, and (b) make recommendations regarding FT-NTT faculty compensation.

The Financial Affairs Committee should continue to meet jointly with the FT-NTT-FC to make progress in obtaining FTNTT salary data by rank and to evaluate any gaps and impact on university rankings given the rising size of FTNTT to include CPS. Further consideration of the cross-over effort by FAC & FTNNT committee should be reviewed.

Charge #4 In order to improve our competitiveness in attracting and retaining superb faculty

members, working with appropriate units in the administration, the Committee shall continue to explore mechanisms and opportunities to provide subsidized housing to new and existing faculty.

The FAC 2018/2019 report focused on the problems of the high cost of housing in the Greater Boston area and its impact on attracting and retaining faculty. No specific resolution was put forward, but the administration was urged to explore this issue and identify feasible steps to deal with the problem. Focus for this charge was over-taken by factors due to Global Pandemic but remains a critical issue for recruiting and retaining faculty. There are several “open issues” that need to be addressed in future charges.

A number of issues from past Senate approved FAC reports have yet to be addressed by the Administration. The FAC recommends that the Senate continue to monitor progress on these issues as well.

- **Transportation:** the FAC has repeatedly urged the administration to increase support public transportation. We are seriously lagging behind our large neighboring institutions in this regard. Many local Universities provide a subsidy for a T Pass. For example, BU provides a 50% subsidy for the Commuter Rail. MIT offers a 60% commuter rail subsidy and a 50% subsidy for parking at MBTA stations, up to \$100 per month.
- **Parking:** The administration is encouraged to work with MassParc to improve ride share parking spots across all available parking lots/garages.
- **Health Care Plans:** FAC recommended exploring the feasibility of including a “two person” option to the health care plan. The administration rejected the idea but FAC urges the Senate to keep the issue current.
- **Recreation Center Fee:** The University receives about \$40,000 in fees from faculty and staff recreation center fee (\$270). While the fee is reasonable compared to a health or exercise club, this barrier may be counterproductive in terms of the overall health of faculty and staff. One serious preventable illness could completely wipe out all the revenue the University receives from these fees. HRM has numerous programs to improve the health of its employees and, it hopes, to keep medical expenses down. We urge the University to explore a trial of reducing or eliminating the fee while monitoring increased faculty/staff usage of the facilities and the possible improved health of employees and associated reduced medical expenses.
- **Retirement Plan:** The University currently has an “opt in” retirement plan. The participation is high (93%) but it could and probably should be higher. We suggested moving to an “opt out” plan. The administration seems open to the idea.
- **Divestment of University endowment holdings** in fossil fuel industries: The Strategic Committee on Climate Justice appears to be addressing this issue.

FAC's meetings with NU leaders from HR and Finance highlight the value of open communication to continue to share forward thinking strategies to adapt benefits and new working patterns in a post pandemic era.

Charge #5 The Committee shall provide an evaluation plan for the newly implemented equity process and its implementation.

WHEREAS approximately one-half of full time faculty at Northeastern do not receive the information that is required by the Faculty Handbook.

BE IT RESOLVED the NU administration should comply with the equity process as detailed in the Faculty Handbook (e.g., in the context of the equity appeal process all full time faculty should receive salary ranges by rank and by tenure/non-tenure track appointment within their colleges when cell size allows).

Discussion

The Northeastern University Handbook states:

In that same year, University Decision Support will provide the deans of the colleges eligible for equity adjustments with scatter plots of faculty salaries versus years in rank, pooled by rank, along with salary data for college match-mates that were approved by the college faculty and dean. Deans shall provide an abbreviated version of this report to faculty that is redacted or edited to preserve privacy, confidentiality and anonymity but contains sufficient information for faculty to evaluate their own salary in light of the equitable factors listed above.

It is our understanding that many, if not all, FT Tenure-Track faculty receive this information as required. However, FTNTT faculty, who comprise nearly half of our full time faculty, do not receive any information on which to base a request for an equity adjustment.

The Administration, despite effort over the past two years, is not able to provide any useful matchmate information and may not for the foreseeable future. But the University could still provide useful information. Full Time TT faculty get information within their college by rank and by Group/Department where possible. For example, a TT Associate Professor in DMSB/Finance receives information about the salary range of Associate Professors in DMSB/Finance. Other Colleges within NU are similar to DMSB; i.e., have large numbers of FTNTT faculty broken down by rank. For equity, fairness, and transparency, the information that is provided to some faculty should be provided to all FT faculty where cell size allows.