MINUTES

SENATE FINANCE COMMITTEE
December 6, 1984
3:20-4:50
Regents' Room, Morrill Hall

Members present: Mark Brenner, Richard Goldstein, Marilyn Gorlin, Linda Hanson, Becky Hurst (substitute for Klement), Douglas Melby, Irwin Rubenstein, David Storvick, Deon Stuthman (chair), John Sullivan. Wendell Johnson, David Madison.
Guests: Tom Clayton, Jack Darley, Harry Foreman, Jack Merwin, Phil Shively. Interim President Keller joined the meeting at 3:45.

1. Minutes. The minutes of the summer, the October 5, and November 1 meetings and of the summary of summer meetings are now considered a correct record for distribution, subject only to a possible adjustment in October 5 minutes, pending clarification in later discussion today, of the description of the rollover issue.

2. Chair's report.

- The administration's recommendations for prioritization within Cycle III planning, earlier expected for this date, are not yet available for the committee.

- Central administration intends to end early retirement options as of June 30, 1985.

3. Rollover option for retirement funds.

Professor Stuthman reported he had learned this afternoon that the administration would make a negative recommendation to the Regents regarding a rollover option and has already begun a study of other possible options.

Professor Clayton read to the meeting the SCFA motion which the Faculty Senate had approved last May:

> "That the Faculty Senate approve that a faculty member have at the time of retirement, the option of transferring the proceeds of his/her Faculty Retirement Program in the Minnesota Mutual-Northwestern National Plan into an individual retirement account of his/her own choosing."

Professor Foreman, who chaired the SCFA subcommittee, said that subcommittee addressed all aspects of the question they could think of and those raised by Mr. Harold Bernard. They did not want to favor any one group of faculty over any other. The subcommittee met twice with Dean Wahlberg, the vice president of Minnesota Mutual with responsibility for the University contract, who said there would be no adverse consequences for participants remaining in the fund.

President Keller joined the meeting at this point in the discussion. He confirmed that the administration was bringing to the Regents for information on December 13 the action taken by the Faculty Senate proposing that retiring faculty members be allowed to roll over their part of the fund into an IRA. The administration will recommend against that proposal. He described the reasons:

While the administration concluded there was no major financial aspect to the proposed change, to permit rollover would be in effect to change the nature of a pension plan into a deferred compensation plan. He said that would be a large policy change from what was promised faculty members when they came to the University. Mills II, he noted, is designed to accomplish the end of deferred compensation.

Once individuals had moved their monies into an IRA, they would be free to do with them whatever they wanted. The administration thought a few individuals might mismanage and lose all their funds, then come back to the University saying it had given them poor advice and had better take care of them. Similar humanly difficult situations have arisen within the past year, he told the committee. Since the University is unlikely to be willing to turn its back in that situation, it has to recognize the likelihood of some real expenditures.

To what extent does the University have an obligation to act *in loco parentis*, he asked, and to what extent do people have an obligation, as part of the social contract, to make a permanent provision for their future security?

The University learned that no Big Ten university allows such a rollover, he reported, although some have discussed it and decided against it.

The administration realizes the faculty want to be able to do this because they think they could do better financially. But it is a higher risk situation.

The University needs to prevent people from acting imprudently and then becoming a burden on the University. The University, however, can investigate how retiring faculty might do better than the present rules permit, to see if there are alternative investment possibilities in other annuity plans.

Professor Foreman reported that the subcommittee had spent a lot of time on the matter and had addressed all these questions and more. Harold Bernard took part in all the meetings, and the subcommittee met twice with Minnesota Mutual vice president Wahlberg. The subcommittee thought it was developing a proposal on which no faculty members could be hurt while others were being helped. The unisex issue would be very little affected. The subcommittee members appreciate that the University is concerned about its faculty members. Ideally, they would hope the University could index retirement benefits. Since that would likely be too expensive, the subcommittee wanted to do something to provide flexibility for retiring faculty and help them keep up with inflation.

Professor Goldstein reported that his inquiries had revealed that TIAA-CREF has a new plan for a "cashable" pension plan. The University of Southern California now offers it to its employees and about 10 other institutions are negotiating to do the same while numerous others have shown interest in the plan. The new opportunity was prompted by a change in the income tax code in 1982 which allowed rollovers with very little penalty. In addition, the subcommittee has found the other Big Ten universities have assorted very different pension plans from Minnesota's and couldn't adapt to allow a rollover.

Professor Foreman noted that, whether the retired faculty member takes the annuity payments in the usual way or transfers the money to an IRA, the insurance company has to transfer the money from the annuity fund into a distribution account.

Professor Rubenstein said there is an increased risk in allowing the rollover, and the SCFA plan asks that the University accept part of that risk.

Professor Foreman pointed out that if things go the way they have in the past, faculty members will continue to be locked to a downward spiral with no method for coping with inflation.

President Keller said the administration's alternative is to look for a rollover into a higher-yielding annuity which would still provide a guaranteed income.

Professor Shively inquired as to whether the administration might allow half the person's fund to be rolled over, suggesting that between Social Security and the remaining half in the annuity fund there would be sufficient security. President Keller said that with Mills II the University has already made a dividing line between what is protected and what is accessible. Professor Foreman told the meeting there are faculty who don't contribute to Mills II because they can't afford to.

Professor Darley inquired further about central administration's position regarding destitute faculty who have acted recklessly. President Keller said there is a handfull of these cases over the year and that the exact number is not relevant.

Professor Goldstein reported learning from USC's employee benefits office that at least 20 major universities permit as one of their options the rollover of one mutual fund's annuities into IRAs. MSU has reportedly joined the plan experimentally for 60 top administrators.

President Keller said he would welcome having a faculty member address the Regents on the question on the 13th. Professor Foreman will do that.

Dr. Keller described the proposal as an extension of the arguments over the suggestion that the University should withdraw from Social Security and make faculty participation optional. He then told SFC he thinks the issue of the declining standard of living is worth discussing.

Professor Foreman argued that the rollover option would give the University an advantage in recruiting. He added that it would be valuable if the University could provide faculty an investment counseling service. President Keller responded that if the Faculty Affairs Committee wanted to recommend that the University reallocate funds to establish an investments counseling office, the proposal could come forward for the Finance Committee to consider as it talks about priorities.

FOLLOW-UP: Professor Stuthman told the president it would be assuring if as a minimum the Finance Committee could expect some alternative proposal from the administration before the end of the academic year, and Dr. Keller called that timing reasonable.

4. Effect on tuition of the supplement, if appropriated.

Professor Stuthman asked the president whether, if the supplementary budget items should be funded ($21 million over the biennium) they would or would not have an impact on tuition.

President Keller said that theoretically one-third of a supplemental O&M appropriation would have to go into tuition increase. But, there are eight or nine factors affecting the calculation of next year's tuition; for example:

- University students now pay in tuition above 33% of instructional cost. When lowering the percentage is balanced against the effects of a declining total number of students, tuition would probably stay about even.
- If the University gets an inflationary increase, tuition would rise somewhat.
- The University is requesting the legislature to allow a decrease for tuition in professional schools.

The administration's initial calculations showed that everything could be satisfied without the University's raising tuition by over 5.5%. It does not look as though getting the supplement would raise that figure because the University does not expect to receive its full request. The very worst scenario would see tuition rising by 3% in addition to the intended 5.5%. But, should that happen, the University would have to return some supplementary money to the legislature because of its commitment not to raise by tuition by 5.5%. All things considered, in the end tuition will probably rise by 5.5%.

5. LCMR-requested report.

Professor Stuthman inquired if the writing of that report was still pending. Dr. Keller reported that Vice President Murthy is convening the LCMR group to do the report.

6. Prioritization.

In answer to Professor Stuthman's question, Dr. Keller said central administration would look at the prioritization of Cycle III planning items in January. Dr. Heydinger is at work on the project.

7. <u>Graduate School work/study funds prospects</u>.

Professor Brenner inquired about this possibility for graduate students. Dr. Keller reported that nothing had come of the administration's effort to get the plan going on a voluntary basis. Dean Holt recently reported that not enough graduate students cooperated. Apparently many did not want to fill out the FAF. Dr. Keller noted that Northwestern requires all graduate students to complete financial needs forms. Those data can be helpful in increasing federal funds.

8. <u>NEXT MEETING</u>: It was noted the Finance Committee must meet on January 3 if it is to see the prioritization recommendations coming from Cycle III planning before they are submitted to the Regents.

The meeting adjourned at 4:50 p.m.

Meredith Poppele,
Recorder

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