SCFA RETIREMENT SUBCOMMITTEE
MINUTES OF MEETING
MAY 2, 2011

[In these minutes: Report to Senate Committee on Faculty Affairs, Faculty Retirement Plan (FRP) and Optional Retirement Plan (ORP) Fund Offering Discussion, Financial Calculator Module on Retirement Planning for Health Care and Long-Term Care]

[These minutes reflect discussion and debate at a meeting of a committee of the University of Minnesota Senate; none of the comments, conclusions or actions reported in these minutes represent the views of, nor are they binding on, the Senate, the Administration or the Board of Regents.]

PRESENT: Daniel Feeney, chair, Jane Carlstrom, Thomas Schenk, Nancy Fulton, Barry Melcher, Jackie Singer, Chris Suedbeck, Vernon Cardwell, Harvey Keynes, Andrew Whitman, Vernon Eidman

REGRETS: Gavin Watt, Joe Jameson, Murray Frank, Kathryn Hanna, Jennifred Nellis

OTHERS ATTENDING: Rosalie O'Brien, counsel to the committee, Shonna Schroeder, retirement programs coordinator

I). Professor Feeney called the meeting to order and welcomed all those present.

II). Members unanimously approved the April 4, 2011 minutes.

III). Professor Feeney reported that at last week's Senate Committee on Faculty Affairs (SCFA) meeting he was invited to provide information on what the Retirement Subcommittee worked on this year. In addition, at this same meeting, SCFA approved the committee's revised charge. In response to a question from Professor Feeney about next steps for the charge, Renee Dempsey, Senate staff, explained that SCFA, the parent committee, has the authority to approve the charge and, therefore, it does not need further action by the Senate.

At the SCFA meeting, a member asked why Securian offers a real estate fund in the Optional Retirement Plan (ORP). Professor Feeney explained that the University is not responsible for managing the Securian selections in the ORP. In addition, Fidelity and Vanguard basically offer all of their funds except for the exchange traded funds (ETF). Following the meeting, Professor Feeney asked Dick Manke, vice president, Securian Retirement, about the criteria Securian uses when deciding which funds to offer in the ORP. Mr. Manke explained that it is Securian's goal to ensure that a broad spectrum of investment options/classes are available in the ORP. With this in mind, Securian regularly evaluates the plan with an eye toward making sure it is offering a continuum of investment options. Given that Securian will be offering the American Funds, it will be re-evaluating its fund offerings for all of its clients.

Thomas Schenk asked if the committee came to the conclusion that it wanted to offer a real estate investment trust (REIT) in the basic plan whether this would be possible. Yes, absolutely, stated Professor Feeney, if the committee feels strongly that a REIT should be offered in the basic plan then it would build a case for this recommendation, and bring it to the Retirement Plan Fiduciary Advisory Committee (RPFAC) for further consideration.

IV). Moving on, as part of the committee's due diligence responsibilities, stated Professor Feeney, the next agenda item is a discussion concerning the fund offerings in both the Faculty Retirement Plan (FRP) and ORP. To facilitate this discussion, a handout outlining all the fund offerings as of March 31, 2011 was distributed as was a stylebox analysis of the FRP as of April 2011.

Professor Feeney turned members' attention to Securian's summary of the evaluation it conducted on the investment options in the basic 401(a) plan. The Securian review concluded that the investment options in the FRP are strong and generally inexpensive, and perform in line with expectations. Professor Feeney took a couple minutes and walked members through the other noteworthy Securian findings:

- There are some minor redundancies in some of the plan's index offerings.
- The basic plan does not currently offer any style-pure actively managed funds in the small or mid cap space.
- The plan has a growth bias at this time.
- Rising interest rates are likely to be an issue for fixed income funds at some point in the future.
- All three balanced funds offered have relatively high exposure to equities relative to fixed income.
- The addition of the Vanguard Target Date series funds may lead to declining usage in the traditional balanced funds.
- The current low interest rate environment is having an adverse impact on the Vanguard Prime Money Market account.

To launch the discussion, Professor Feeney asked members for their thoughts on whether the plan should include any actively managed small or mid cap funds. He also asked for their thoughts on whether there is any interest in changing the plans growth versus value orientation. Professor Feeney acknowledged that any final recommendations the committee makes will ultimately depend on which American Funds Securian decides to offer in the ORP. Members' attention was then turned to the stylebox analysis prepared by Ms. Singer, which visually represents the investment options currently available in the plan and where there are gaps.

Chris Suedbeck noted that with respect to active management, particularly in the small cap sector, because investment managers in this sector are incented to outperform benchmarks, they will undoubtedly have biases. With that said, it is likely that there will be periods of underperformance during different times throughout the market cycles. He added that actively managed accounts also mean higher fees. Plan participants electing these funds will need to have discipline to ride through the cycles in order to achieve longer-term returns. The Fidelity Low-Priced Stock Fund is a viable option that the committee may want to consider if it concludes it wants to add this type of fund.

Professor Keynes suggested stopping contributions to the Fidelity Over-the-Counter (OTC) and replacing it with the Fidelity Low-Priced Stock Fund. Doing so would serve two purposes, adding an actively managed small/mid cap fund that is also a value/growth blend.

Jackie Singer asked Barry Melcher whether he has heard of any specific requests from plan participants about adding new funds. No, nothing specific, stated Mr. Melcher. Ms. Singer stated that it is often useful to use participant requests as one gauge for when it is time to add additional funds.

Members then spent time discussing the pros and cons of different funds and fund types for both funds currently in the plan and funds that the committee may want to recommend adding. Acknowledging the FRP does not have any short, intermediate or long-term below investment grade bond options, noted Professor Feeney, is it the sense of the committee that a below investment grade bond fund option(s) be added to the FRP, or whether plan participants who are interested in this type of investment option be directed to the ORP. In Mr. Schenk's opinion, the Fidelity Strategic Income Fund should be re-categorized as an intermediate-term below investment grade option rather than a foreign/world investment option.

Mr. Suedbeck speculated on the usage of new funds if participants are not specifically requesting new funds be added. Professor Feeney stated that this raises a good point, and requested Ms. Singer provide current fund utilization data for the next meeting on May 31, 2011. After reviewing this information, stated Professor Feeney, members may opt to cull less used funds in an effort to reduce the plans complexity by reducing the number of funds participants have to choose from.

Moving on, Professor Feeney asked whether members would propose any changes to the short, intermediate or long-term corporate/investment grade offerings. The sense of the committee was that the current offerings are adequate. Then, he asked about the short, intermediate or long-term government offerings, and the committee again felt the current offerings were sufficient.

Professor Feeney asked members their thoughts on the current small cap offering and whether there should be any changes. Professor Keynes cautioned on the tremendous volatility associated with small cap funds, particularly for less sophisticated investors. Professor Feeney recalled that the current small cap offering, the Vanguard Small-Cap Index Fund, was added in order to offer a small cap that was an index fund in order to limit the volatility. Mr. Schenk stated that in his opinion managed funds should be avoided whenever possible.

In light of time, Professor Feeney requested members come prepared to continue this FRP and ORP fund offering discussion at the next meeting on May 31, particularly related to the large and mid cap offerings.

IV). Next, Professor Feeney turned members' attention to the last agenda item, a discussion about whether the financial calculator should include a module on retirement planning for health care and long-term care. Professor Cardwell stated that he was the person who initially suggested the calculator have a health care component because he believes it would be a huge omission if the calculator did not include it. The absence of a health care and long-term care module would be a significant void if the calculator is to be of real use in helping people plan for their retirement.

Members went on to talk about what role, if any, the committee should play in bringing these issues to the attention of plan participants. While some members felt strongly that these were critically important considerations that plan participants should be made aware of and proposed using statistics as a way of getting their attention, others were less enthusiastic and leery about the use of statistics, particularly as it relates to long-term care. Professor Whitman cautioned that long-term care is frequently sold on the premise of a guaranteed premium, which does not cap the premium. As a result, if the experience of the group is not favorable, the issuing company can increase the premiums on a class basis. This is just one aspect of long-term care that needs to be considered. Professor Whitman added that he would be interested in getting data on the premium and loss ratios for University employees who purchased long-term care. Ms. Singer stated that Karen Chapin, health programs manager, Employee Benefits, is the person who oversees the long-term care insurance program at the University and would be the person to contact to see if this information is available. Professor Whitman volunteered to contact Ms. Chapin.

Professor Keynes stated that his point in raising the issue of long-term care was simply to get people to start thinking about it as they plan for retirement. If people decide they want long-term care coverage, they can look into it further recognizing that they should be careful, and really understand what they are purchasing.

V). In light of time, Professor Feeney again requested members come prepared to continue today's FRP and ORP fund discussion at the May 31 meeting. Hearing no further business, Professor Feeney adjourned the meeting.

Renee Dempsey
University Senate