SCFA RETIREMENT SUBCOMMITTEE
MINUTES OF MEETING
FEBRUARY 7, 2011

[In these minutes: Financial Calculators Update, Faculty Retirement Plan (FRP) Investment Performance Results for Period Ending December 31, 2010, Fund Utilization, Committee Charge, Minnesota Life & Health Insurance Guaranty Association Guarantee for the General Account and General Account Limited Options]

[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, Thomas Schenk, Nancy Fulton, Barry Melcher, Jackie Singer, Chris Suedbeck, Kathryn Hanna, Harvey Keynes, Jennifred Nellis, Vernon Eidman

REGRETS: Jane Carlstrom, Gavin Watt, Joe Jameson, Murray Frank

ABSENT: Vernon Cardwell, Andrew Whitman

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

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

II). Members unanimously approved the amended December 6 minutes.

III). Professor Feeney reported that Securian is working diligently on the enhanced financial calculators that the University has requested. The Securian annual review has been scheduled for the March 7 meeting. Following the review, Securian will demo the calculator enhancements they are working on. The plan is to rollout the calculator improvements in stages with the personal rate of return feature being first in the queue. The time line for completing all the enhancements is the end of 2011.

IV). Professor Feeney called on Jackie Singer to provide information on the period-ending December 31, 2010 Faculty Retirement Plan (FRP) investment performance results. Ms. Singer pointed out that the Vanguard Emerging Markets Stock Index and the Vanguard International Explorer options are both included in the handout, which was electronically distributed to members prior to the meeting along with the agenda.

In terms of these results, noted Ms. Singer, it is worth keeping an eye on the performance of some of the fixed income options, particularly the Vanguard Long-Term Investment Grade Fund. Chris Suedbeck, director of investments, Office of Investments and Banking, stated that he is also watching the Vanguard Windsor II Fund, which is an actively managed fund.

Mr. Suedbeck went on to bring up the end-of-the-year statement error that impacted individuals who put money into one of the new fund offerings. He stated that he immediately contacted Securian when he realized the problem and was told that the transfers went through without a problem, but that the new fund offerings didn't get picked up on the statements. This was simply a statement error and none of the behind the scenes movement of money was impacted. The problem impacted roughly 150 people, and Securian personally contacted all these individuals to explain what happened. Members of the committee agreed that Securian handled this issue very well. To be clear, noted Professor Feeney, this was not a recordkeeping or a crediting error, but rather a transfer of data error, which is quite different.

Professor Keynes voiced concern about paper statements being issued each time plan participants elect a fund with a fee. Issuing a new statement each time wastes paper. Professor Hanna added that it is also a waste of postage, and suggested Securian include this transaction information on the quarterly statement. Professor Keynes stated that when he called Securian to talk with them about his concerns that he was told that programming changes could be made to turn off this feature if the University so chooses. Mr. Suedbeck stated that there are some new legal requirements related to showing fees and reporting fees back to participants, which may be the reason Securian is issuing these statements. Professor Feeney stated that the committee can discuss this matter with Securian at the March meeting.

V). Professor Feeney introduced the next agenda item, fund utilization. Ms. Singer turned members' attention to a handout and walked them through it. Included in the handout was:

- Asset breakdown in the defined contribution retirement plans by plan and investment provider. Currently, the plans' assets total approximately $3.4 billion.
- Snapshot of asset breakdown by asset class in the FRP as of September 30, 2010, e.g., 35% is invested in equities, 46% is invested in the General Accounts, which includes the General Account, General Account Limited, and traditional annuities.
- Snapshot of contributions by investment for 4th quarter 2010. As of 4th quarter 2010, about 40% was invested in equities, 15% in blended funds, which are the default options. (Approximately 40% of all new enrollees default.)
- Snapshot over time (1st quarter 2009 – 4th quarter 2010) of contributions by investment. Based on this snapshot, it is clear that there is not a lot of variation by investment when it comes to contributions by participants.

Professor Feeney stated that there appears to be a trend that participants are moving away from investing exclusively in the General Account and General Account Limited options. It is encouraging to see participants increasing their diversification.

Regarding the investment options available in the Optional Retirement Plan (ORP) that have small dollar amounts, why are they even being offered, asked Professor Keynes? Ms. Singer asked members to keep in mind that participation in the voluntary plans is about 25% of the active University population. With that said, it is not surprising that some of the options do not have significant volume. It was also noted that some of the accounts in the ORP are frozen to new contributions, e.g., T. Rowe Price, American Century.

Thomas Schenk noted that another reason that people may be reluctant to invest with multiple companies is the amount of paperwork involved. Ms. Singer stated that besides the fact that only about 25% of the active population participates in the ORP, a lot of these people elect to invest with only one vendor rather than multiple vendors, which serves to further dilute the amount invested in the various funds.

Professor Feeney asked Ms. Singer about the relative volume of dollars in the new 401(a) versus the old 403(b) basic plan, and Ms. Singer confirmed that the volume in the 401(a) has surpassed the old 403(b) plan. Members of the committee went on to discuss the volume of money in the General Account and General Account Limited. Professor Keynes suggested that the committee should make sure that plan participants are aware of the fact that the crediting rates for these accounts may be lower than when they first invested their money. The principles that people previously used when deciding to invest in the General Account and General Account Limited have changed over time. He added that there is also the issue of no one really understanding how the crediting rates are determined. Professor Feeney suggested putting a brief statement in the annual letter to FRP participants urging them to look at the crediting rates in their different bond funds, which includes the General Account and General Account Limited options. Given the dynamically changing bond market, people should pay attention to what is happening with these funds.

Mr. Schenk asked what influences whether the rates on old money in the General Account and General Account Limited funds goes down. Mr. Suedbeck stated that about half or slightly more of the General Account and the General Account Limited funds are made up of longer term, fixed income bonds. Because companies generally do not issue bonds for longer than 10 years, this means that people's portfolios are in a constant state of flux. In light of the fact that there have been low interest rates for quite some time now and that this trend is expected to continue for awhile causes long-term crediting rates to go down. Mr. Schenk stated that this fact is not made very clear to plan participants. People know what they are getting on new money they invest, but they are never updated on the crediting rates on old money. Barry Melcher stated that participants can access this information on-line.

Based on conversations with other retirees, Professor Eidman suggested that in order for the confirmation/transaction statements to be useful they should include the change in the market value from the previous month. It seems reasonable for these statements to show what a person has earned in interest in a month on their investments. The confirmation/transaction statements need to include the balance from the previous month. Professor Feeney stated that he would talk with Dick Manke, vice president, Securian Retirement, about the request that the previous statement value be included on the next month's confirmation/transaction statements.

VI). Professor Feeney introduced the next agenda item, the committee charge. He asked Rosalie O'Brien, counsel to the committee, to walk members through the draft revised charge. Ms. O'Brien noted that Professor Morrison had also reviewed the document and reflected his thoughts. While reviewing the charge, questions about how members get appointed arose as well as term lengths. Given the relatively steep learning curve on related matters that is helpful for service on the committee and the fact that members are appointed, not elected, it was agreed that it is appropriate that there should be no limit on the number of terms for which a member may serve.

Nancy Fulton, Civil Service representative on the committee, noted that the Civil Service Committee is in the process of transitioning to become a Senate like CAPA (Council of Academic Professionals and Administrators), and this should happen in the next month or two. Assuming this takes place, how Civil Service employees are appointed to Senate committees will change. The decision was made to put the revised charge on hold for a couple months to ensure that the language pertaining to the appointment of members is accurate in order to avoid having to revise the charge again in a few months.

VII). As follow-up from the December meeting, Professor Feeney requested Ms. O'Brien provide information on the Minnesota Life & Health Insurance Guaranty Association (http://www.mnlifega.org/) guarantee for the General Account and General Account Limited options. Copies of the guarantee were distributed to members for their review.

Professor Keynes stated that the notion of this being a guarantee is extremely misleading for participants in the General Account and General Account Limited options. Ms. O'Brien stated that there are two aspects of this issue:

1. On the University website and in the annual letter to FRP participants, the General Account and General Account Limited options are described as "guaranteed accounts," with minimum returns of 3% and 3.5% respectively. It also states that they are backed solely by Minnesota Life's financial strength and credit quality.
2. Chapter 61B of the Minnesota State Statutes, known as the "Minnesota Life & Health Insurance Guaranty Association Act," provides for limited benefits to policyholders, including persons who participate in a covered retirement plan through unallocated annuity contracts, when an insurance company becomes impaired or insolvent.

Ms. O'Brien noted that it may be misleading to use the term "guaranty" in connection with the statutory benefits because they are limited to a maximum of $10 million for each retirement plan. Only if one knows and takes into account that FRP participants have a total of approximately $1.4 billion invested in the General Account and General Account Limited does it become apparent that the "benefit" is less than one percent of the total invested amount.

Professor Keynes suggested removing the "guarantee" language in all communications with plan participants because it may give people a false sense of security. After some discussion, Ms. Singer noted that the term "guarantee" is commonly used in the industry for this type of account, and is always followed by "the promise is backed solely by the institution's financial strength and credit quality." Professor Feeney stated that he would have a conversation with Mr. Manke about removing this language from the portion of the Securian website that relates to University plans.

Members of the committee also stated that the term "promise" may not be appropriate either. They agreed that it is not likely that FRP participants would be aware that the statutory "guarantee" actually translates into less than 1% of the value of the accounts because most participants do not know the aggregate value of these accounts; this needs to be made clear.

At the conclusion of the discussion, it was agreed that Ms. O'Brien and Ms. Singer would propose a revision of the description of the General Account and General Account Limited guarantee language that appears on the University website, and bring it back for discussion at the next meeting.

VIII). Before adjourning, Ms. Singer announced that she and Vice President Carrier are scheduled to present to the Board of Regents' Faculty, Staff and Student Affairs Committee on the academic retirement programs on Thursday, February 10 at 9:45 if any members are interested in attending.

Hearing no further business, Professor Feeney adjourned the meeting.

Renee Dempsey
University Senate