SCFA RETIREMENT SUBCOMMITTEE
MINUTES OF MEETING
DECEMBER 5, 2011

[In these minutes: September 30, 2011 Faculty Retirement Plan (FRP) Investment Performance Results, Target Date Fund Participation and Expense Ratios, Use of Term “Guarantee” for General Accounts, Possible New Retirement Plan Design, Addition of Funds to Plan, Pre/Post 1989 Funds and RMDs]

[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, Wendy Berkowitz, Jane Carlstrom, Thomas Schenk, Nancy Fulton, Barry Melcher, Jackie Singer, Chris Suedbeck, James Cotter, Kathryn Hanna, Harvey Keynes, Andrew Whitman, Vernon Eidman

REGRETS: Joe Jameson, Murray Frank

ABSENT: Vernon Cardwell

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 November 7, 2011 minutes.

III). Professor Feeney called on Jackie Singer, director, Retirement Programs, to provide information on the period-ending September 30, 2011 Faculty Retirement Plan (FRP) investment performance results. Ms. Singer turned members’ attention to the results, which had been distributed along with the agenda. She stated that it is worth noting that the most significant underperforming funds were those that had benchmark changes, particularly the Vanguard Mid Cap Index Fund and all the international funds. Ms. Singer suggested the committee may want to look into the performance of these funds further. Chris Suedbeck, director of investments, Office of Investments and Banking, stated that it is common to have near term dispersions, and, therefore, in his opinion, the committee should focus on longer-term returns, e.g., 3-year and 5-year. With that said, he did agree that the performance of the Vanguard International Value Fund should be monitored.

IV). Professor Feeney noted that at the committee’s request he had asked Securian to pull together information showing where new FRP participants were investing their money. Based on Securian’s analysis, approximately 65% of plan participants are defaulting into the Target Date Funds, and only around 10% - 15% selected their own mix of funds. Dr. Feeney suggested the committee continue to monitor the investment elections of new FRP members in order to understand how participants are using the plan.

Professor Whitman asked about the expense ratios for the Target Date Funds versus other individual funds. Professor Feeney stated that when the committee looked into this awhile back, the Target Date Funds were quite cost effective. He suggested getting this information for a future meeting. As Professor Feeney recalled, when the Retirement Plan Fiduciary Advisory Committee (RPFAC) was looking at changing the default fund to the Target Date Funds, it was very focused on expenses. Professor Whitman stated that he would be interested in having the expense ratios for the Target Date Funds compared to other individual Vanguard funds. Barry Melcher stated that based on the stylebox analysis Ms. Singer conducted last April, the Target Date Fund expense ratios averaged .22% - .25%, which is actually quite low. In Professor Feeney's opinion, the Target Date Fund fees are a relatively small price to pay for a little diversity. He added, to be fair to the Target Date Funds when comparing expense ratios, it will be particularly important to take into account what funds have Admiral and Institutional status, which significantly reduces their cost. Depending on how much money is invested in the Target Date Funds in aggregate in the future will impact the expense status of these funds.

At the conclusion of an informal discussion about expense ratios and costs in general, Professor Whitman proposed that the University talk directly with Vanguard about the Target Date Fund expense ratios and find out when, if ever, the University can expect the ratios to go down. Professor Feeney agreed that it would be worthwhile to find out from Vanguard whether the University will gain anything if the balances in the Target Date Funds grow substantially. Ms. Singer noted that her office does vendor management on a daily basis. Technically speaking, Securian is the customer for the University's Vanguard accounts that are managed at Securian. Professor Whitman stated that he feels strongly that the University should talk directly to Vanguard rather than going through Securian.

V). Professor Feeney called on Rosalie O'Brien, counsel to the committee, to update members on the outcome of discussions with Securian about more clearly communicating interest rates for the General Accounts and what the term "guarantee" really means when referring to these accounts. Ms. O'Brien reported that the term "guarantee" will be removed from all of Securian's printed materials. The description of the plans in Securian's materials will be more straightforward. She then read excerpts aloud:

> "The General Accounts are backed by the financial strength and claims paying ability of the insurance company that offers the accounts. The company promises to pay interest on the principal at a rate stated by the company from time to time that will not decrease below a stated minimum….General Accounts are sometimes said to be 'guaranteed.' This refers to the assurance of the company that it will protect the principal and pay interest at the stated rate based solely on its financial strength and claims paying ability rather than on any back-up support by any third party."

Ms. O'Brien noted that subject to the concurrence of the committee, she had consented to Securian's request to use up their current stock of printed materials. She said that Securian had indicated that the current stock is expected to last only another two or three months.

Ms. O'Brien noted that she was very pleased with the outcome of this endeavor and wanted members to know that the changes involved more than simple redrafting. Because some of Securian's printed materials deal with registered products, they are legally required to get Financial Industry Regulatory Authority (FINRA) approval to change the language. Securian was very cooperative throughout this process.

Professor Whitman asked for more information about FINRA. Ms. O'Brien explained that FINRA is the largest non-governmental securities regulator in the U.S. FINRA is the successor to the National Association of Securities Dealers, Inc. (NASD).

Ms. Singer added that Employee Benefits will be going to print soon with all their printed retirement materials and the new language will be incorporated. The reworked language comes at a very good time.

VI). Professor Feeney introduced the next agenda item, a discussion about revamping the University's defined contribution retirement plans. He began by providing some background information on how this idea came about. Professor Feeney recalled that at the request of this committee, the RPFAC had begun to explore adding as investment alternatives a managed small cap fund, a real estate investment trust (REIT), and a global bond fund. During its discussions, the RPFAC began to explore whether there would be a way to retain the relative simplicity of the plan for the average participant, yet still allow those who are more sophisticated investors to have access to a broader range of investment choices. One way to do this would be to move from the current structure, under which participants simply choose among the investment choices under each plan to a tiered structure under which participants select the degree of detail with which they wish to direct all or a portion of their investments. Those wishing to have the greatest latitude could open self-directed brokerage accounts, thus gaining access to all of the funds offered by the selected vendor.

According to Ms. Singer, Vice President Kathryn Brown is supportive of the idea of revamping the University's defined contribution retirement plans, but has requested that the timing take into account the strategic positioning initiative currently in process within Human Resources. As part of this initiative, Human Resources is looking at what it is doing and how it is being done from a strategic perspective. Ms. Singer said that she should know more in January about when Human Resources would be able to move this project forward.

Wendy Berkowitz asked who would bear the transaction costs funds are traded. Ms. Singer stated that individuals who trade would pay the transaction costs.

Members spent the next several minutes talking about the proposed restructuring. Ms. Singer stated that she would recommend hiring a consultant to provide advice regarding best practices, etc. Professor Feeney stated that one key consideration, given the higher transaction fees entailed by self-directed accounts, would be the need to consider greater flexibility, which would result in greater cost to participants. Ms. Singer stated that participants will need to decide whether it is in their best interest to elect funds that give them a cost advantage (maintained and monitored by the University) or whether they would be better off setting up an account in the retail market where fees would be higher. By offering different types of accounts, the University will be able to better target its communication to participants based on which tier(s) they participate in.

Are there any special implications for retirees if the University decides to offer different levels of retirement accounts, asked Professor Eidman? Ms. Singer stated that ideally she would like the new plan to apply to all plan participants equally, including retirees.

Professor Hanna asked Ms. Singer to share her thoughts about the scope of the brokerage account the University would offer and what barriers there would be to entry. Ms. Singer stated that the brokerage accounts would be limited to traditional mutual funds. In terms of barriers to entry, Ms. Singer envisions possibly a fee for opening a brokerage account, trading charges, and/or minimum deposit requirements.

How would the General Account and General Account Limited funds fit into this plan design, asked Professor Keynes. Ms. Singer stated that if the General Accounts are retained, it is possible that the University would need two recordkeeping vendors.

Will this type of tiered plan design be more expensive for participants, asked Professor Feeney? Overall, probably not, stated Ms. Singer, except for those who choose to open a brokerage account.

In response to a question about the timeline for moving forward with this initiative, Ms. Singer stated that there would be a possibility of implementation sometime in 2013, if she were able to begin design work this semester.

VII). Next, Professor Feeney asked members for their opinions about adding an international bond fund and a managed small cap fund as investment options under the current structure given the discussions that are taking place around revamping the whole plan design. After some discussion, members agreed to hold off pursuing adding these funds at this time. Nancy Fulton made a motion that the Retirement Subcommittee in conjunction with the RPFAC will postpone looking into adding an international bond fund and a managed small cap fund until a decision is made about whether the University's retirement plan design will change. Members unanimously voted to approve this motion.

VIII). Ms. Singer distributed copies of a plan comparison document for the purpose of talking about the pre-1989 and post-1989 funds as it relates to required minimum distribution (RMD) language. While not specific, the document states that there are different RMD provisions between the 401(a) and the 403(b). The lack of specificity is deliberate and has to do with the multitude of possible ways to address RMDs. The the goal is to have plan participants call vendors with RMD questions.

Professor Hanna suggested adding language that would make people aware that for pre-1989 money the RMD age is NOT 70½. Ms. Singer stated that the vendors send letters out to participants needing to take their RMD. Members agreed that there should be language included in the document making people aware that not all RMDs are the same along with an example and/or some FAQs. Ms. Singer proposed a suggestion for changing the document, which members endorsed.

IX). In light of time, the next agenda item, tips sheets for RMDs and moving money from one plan to another was deferred to the February meeting.

X). Hearing no further business, Professor Feeney adjourned the meeting.

Renee Dempsey
University Senate