SCFA RETIREMENT SUBCOMMITTEE
MINUTES OF MEETING
FEBRUARY 6, 2012

[In these minutes: Period-Ending December 31, 2011 Faculty Retirement Plan (FRP) Investment Performance Results, Tip Sheets for Required Minimum Distribution and Moving Money From One Vendor to Another, Proposed Tiered Retirement Plan]

[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, Nancy Fulton, Joe Jameson, Barry Melcher, Jackie Singer, Chris Suedbeck, Vernon Cardwell, James Cotter, Murray Frank, Kathryn Hanna, Harvey Keynes

REGRETS: Jane Carlstrom, Thomas Schenk, Vernon Eidman

ABSENT: Andrew Whitman

OTHERS ATTENDING: Rosalie O'Brien, counsel to the committee

I). Members unanimously approved the December 5, 2012 minutes with one minor correction.

II). Professor Feeney called on Jackie Singer, director, Retirement Programs, to comment on the period-ending December 31, 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 apologized for the revised results, which had been sent out that morning and explained that the correction was made to the index for the Vanguard Mid-Cap Index Fund. She noted that members would now see that this fund's performance tracked quite closely to the benchmark.

In response to a question from Professor Frank, Ms. Singer stated that she defers to Chris Suedbeck, director of investments, Office of Investments and Banking, to gauge the performance of the international funds in terms of whether there should be concern over their performance. Much of the variation in the Vanguard Emerging Markets Stock Index, for example, is likely attributable to its fee structure. However, there are other funds whose performance deviates substantially from their benchmarks, e.g., Vanguard International Value Fund. The Retirement Plan Fiduciary Advisory Committee (RPFAC) is looking into whether the deviations in performance from the benchmarks are due to the fee structures or something more than that.

Professor Frank reiterated his request from an earlier meeting about providing the committee with some sort of volatility measure associated with each of the funds to make the results easier to interpret. A volatility measure, e.g., standard deviation, helps put the results in context. Professor Feeney stated that this request will be raised with the RPFAC.

In response to a question about volatility and underperformance, Professor Frank explained the relationship between these two factors over the long run. He noted that volatility measures serve to bring to the forefront the fluctuations in performance.

III). Professor Feeney introduced the next agenda item, tip sheets for required minimum distribution (RMD) and moving money from one vendor to another. Ms. Singer reminded members that she had agreed at the last meeting to change the plan provision comparison document language (www.umn.edu/ohr/prod/groups/ohr/@pub/@ohr/@benefits/documents/asset/ohr_asset_059171.pdf - 2012-01-01) so that the RMD information was separated out from other distributions. She turned members' attention to the revised comparison document, and noted that RMDs are now in separate categories based on the plan, and whether the monies are pre-1987 or post-1986 funds. The modified document should help people better understand what their options are for required minimum distributions. Members of the committee liked the new RMD information on the plan comparison document.

Regarding the similar request for a simple, concise explanation of how to move money from one vendor to another, Ms. Singer stated that this, unfortunately, was not feasible because of the number of vendors the University has in its Optional Retirement Plan. Gathering and keeping up-to-date information on multiple vendors' processes and different restrictions in a single document would be extremely difficult to gather and maintain accurately. On the Employee Benefits' website, plan participants who want to move money from one vendor to another are instructed to call Employee Benefits or the vendor that will be receiving the money (the new investment company). By speaking to representatives for assistance, participants can be comfortable that they are receiving the most current information available.

Professor Feeney asked if "old" money (e.g., pre-1989) that is moved to a different vendor maintains its "old" status. Yes, stated Mr. Melcher, but he added that if a plan participant took their 403(b) (Optional Retirement Plan) and rolled it into the FRP, the age stratification of the money would <u>not</u> be maintained; instead it would be considered rollover money. Ms. Singer stated that there are a significant number of different permutations that can result from transferring money. Professor Keynes suggested a tip sheet specifically for plan participants with money in TIAA CREF due to the fact many people have multiple TIAA CREF contracts with different restrictions. After a fair amount of discussion, the committee felt strongly that there needs to be way to let people know that if they rollover money that the younger RMD age applies. The suggestion was made to put a general statement on the Employee Benefits' website as well as in the annual letter making people aware of potential RMD effects when moving money between old and new accounts. Ms. Singer was hesitant to do so because, in her opinion, such a statement could be construed as giving investment/tax advice. In addition, she added that while she likes the idea of giving people information to make informed decisions, she believes the likelihood increases that not all the information to cover every possible scenario would be captured. Mr. Melcher stated that most employees who will be retiring attend the pre-retirement seminar put on by Employee Benefits where RMDs are discussed in length. The balance in the

403(b) account as of December 31, 1986 (pre-1987 accumulated value) is not subject to minimum distribution requirements until age 75. All contributions and earnings credited to the account after December 31, 1986 are subject to minimum required distributions at age 70½.

IV). Next, the committee spent time thinking about and discussing the tiered retirement plan design that Ms. Singer had raised at last month's meeting. In essence, the proposed plan would have three different types of options 1). target date funds, 2). an array of pre-screened core funds (similar to the current plan but fewer in number), and 3). a self-directed brokerage account.

Professor Feeney said that he is curious about the cost structure of such a plan. He asked Ms. Singer if it was accurate to assume that individuals with self-directed brokerage accounts would be paying retail rates for the funds they purchase and no longer have access to the volume discounts that exist in the current plan. Ms. Singer stated that this is a fair assumption, but that it would ultimately be clarified in the RFP process.

Professor Feeney then asked if participants can do mixed participation, e.g., invest 80% of a participant's account in the middle tier and 20% in a self-directed brokerage account. Ms. Singer stated that based on her knowledge of tiered plans, participants are able to invest in each of the different tiers. Generally speaking, the self-directed brokerage accounts have a minimum deposit to make it worthwhile to set up the account. Ultimately, the vendor and self-directed product that is selected will determine how participants contribute to their account.

Professor Frank voiced concern over the fact that a participant could, in theory, put all their money in a self-directed brokerage account and lose everything. What is the responsibility/liability for the Retirement Subcommittee and/or the institution if this were to happen? Rosalie O'Brien, counsel to the committee, stated that a tiered plan design would not necessarily increase potential liability and could, in fact, decrease it. [Post-meeting note: Ms. O'Brien contacted Professor Feeney, offering to review with the committee its fiduciary responsibility at a future meeting. Professor Feeney will schedule such a review, probably at the April meeting.]

Professor Hanna noted that it is her understanding that the self-directed brokerage accounts the committee is discussing would be limited to mutual funds. Ms. Singer stated that her initial thought is that the self-directed brokerage accounts would be limited to mutual funds, and she would not recommend offering stocks, bonds, exchange-traded funds, etc. in the plan. Ultimately, the plan design will dictate what will be offered through the self-directed brokerage accounts.

The Optional Retirement Plan (ORP), noted Professor Keynes, for all practical purposes operates like a self-directed account and people can invest in gold and other precious metals albeit a very risky choice. Ms. Singer stated that, historically speaking, the FRP has been considered the place where participants keep the bulk of their retirement funds, and the ORP, on the other hand, is where participants put their "extra money." Thus, the FRP was purposefully designed to be more conservative in an effort to protect people from making risky investments and losing all their money. In this sense, the new tiered plan design is a departure from this philosophy. Ms.

O'Brien added that it is important to keep in mind that a tiered plan design allows for the dissemination of information in a more targeted fashion.

Is there as much interest in the tiered plan design as there was for adding a Roth, asked Professor Frank? Regarding the Roth, internal resources and PeopleSoft programming limitations remain an obstacle for offering a Roth as does working with multiple vendors. A decision to only have one vendor at some point in the future would clearly benefit the Roth cause. A tiered plan design would offer a lot of advantages, including, but not limited to, targeted communications, and more efficient, simpler fund transfers. This proposal has been discussed with Vice President Kathy Brown and has been put on the Human Resources radar for resource allocation purposes, stated Ms. Singer. Once she hears about whether resources will be allocated will determine when or if this proposal will move forward. Professor Hanna stated that she would like to remind the administration that they are saving a significant amount of money on the newly structured FRP now that the employer contribution to the FRP has been reduced from 13% to 10% for newly hired employees. These savings could be put towards the resources needed to get this proposal off the ground.

In response to a question about structured reports under a tiered plan, Ms. Singer stated that she envisions the entire plan being handled by one recordkeeping vendor. Thus, recordkeeping would be separate from the actual investments, similar to how Securian keeps records for the Vanguard and Fidelity funds.

Professor Feeney asked about the likelihood of retaining preferred pricing for the mutual funds offerings in the middle tier. Ms. Singer stated that it will depend on how the RFP plays out in terms of how the ORP and Section 457 Deferred Compensation plans are handled. Currently, all this money is in individual contracts with Vanguard and Fidelity. If, during the RFP, it is possible to get the ORP and 457 plans consolidated in the plan, it could be possible to get some leverage from that money in order to reduce the fee structure. Or, if the ORP and 457 contracts could be included in the brokerage accounts, this could also be a way to leverage the fees.

Professor Frank stated that he is sympathetic to simplifying and streamlining the reporting structure, however, he is concerned about the degree of flexibility a tiered plan would offer participants. There is evidence that a fraction of people with these kinds of plans are at risk for losing all or a significant portion of their money. Professor Feeney asked whether the tiered plan would have limitations on the number of trades people can make. Ms. Singer stated that restrictions are investment-fund based and not Securian based restrictions. Therefore, any mutual funds with trading restrictions would apply.

Professor Hanna asked why the middle tier is even necessary. Ms. Singer stated that, in her opinion, there are participants who do not want the extreme simplicity of the target date funds, but who would be overwhelmed by 4,500 mutual funds. The people in the middle tier would be those that appreciate a pre-screened, smaller group of core funds to choose from.

What percentage of people will likely open a self-directed brokerage account, asked Professor Keynes? Ms. Singer stated that when she worked with this type of plan 10 years ago, only roughly 5% - 10% of people opened a self-directed brokerage account. Professor Feeney reported having asked Dick Manke from Securian this same question and was told that Securian is seeing only about 1% - 2% of people with this type of plan are choosing to open a self-directed brokerage account. Ms. O'Brien added that people who choose to set up self-directed brokerage accounts are self-selected and many have professional guidance.

Professor Frank reiterated his concerns about revamping the FRP and making it a tiered plan. Instead, he suggested starting with the ORP and 457 plans and monitor the behavior of plan participants. Ms. Singer added that if the Board of Regents change their position on the issue of financial advice, the tiered structure would lend itself better to an advice product (online or in person) as opposed to the current plan.

Wendy Berkowitz asked what percentage of University employees participate in the ORP or 457 plans? Ms. Singer stated that currently less than 25% of employees participate in the ORP or 457 plans. Professor Hanna asked for a breakdown by employee groups, and Ms. Singer agreed to bring this information to a future meeting.

Professor Keynes acknowledged Professor Frank's concerns, but also cautioned about putting too many restrictions on the ORP or 457 plans. He then asked about the timeline for implementing a tiered plan. This could be a very slow process, and he said he worries about getting caught up in the process. He reminded the committee that proposed fund decisions (a managed small cap fund, a real estate investment trust (REIT), and a global bond fund) have been deferred pending the outcome of redesigning the FRP. Ms. Singer stated that she hopes to have some idea by the March meeting of whether or not she will be able to hire someone to replace Shonna Schroeder and whether this project will get administrative support/backing.

If the decision is made to implement a tiered retirement plan, asked Professor Feeney, would there always be access to something like the General Account or General Account Limited? According to Ms. Singer, that decision would ultimately be made through the RFP process. Professor Keynes stated that he has serious concerns about the General Account and General Account Limited and the fact that many people are under the assumption that these funds will continue to pay high interest rates. If interest rates continue to be kept low as they have been, the General Account and General Account Limited will create a lot of angst among people when they see the interest rates go down. Professor Keynes stated that this is a product that a lot of employees have and for him it is of greater concern than a lot of other products in the FRP. Professor Feeney reminded the committee that the General Account has a 3% minimum return. With that in mind, Professor Keynes suggested that the Retirement Subcommittee or Employee Benefits should be informing people that these accounts will be producing a 3% return for the near term.

If the General Account and General Account Limited were no longer offered at some point in the future, what could be a conceivable substitute for these accounts for people who want safe investment options, asked Professor Keynes. If the General Account and General Account Limited were no longer offered, stated Professor Keynes, he would expect a fair number of participants to be upset. Ms. O'Brien reminded members that at the last meeting Ms. Singer stated that if there were no bidders in the RFP with a General Account product that it is possible that the University would choose two vendors. Ms. Singer added that while the idea of a tiered retirement plan is still in its infancy, she has not thought of any reason why it should not be pursued at this point.

Speaking of the General Accounts, asked Professor Feeney, have Chris Suedbeck, director of investments, and Stuart Mason, chief investment officer, been periodically meeting with Securian as they had been doing in the past? He said the reason he brings this up is because in a recent conversation with Mr. Manke he said they had not met for awhile, but didn't know what that meant exactly. He requested that this be clarified before the next meeting. Ms. O'Brien agreed to follow-up and report back to the committee. Professor Feeney stated that if these periodic meetings are not happening, the Retirement Subcommittee may need to take this on.

Professor Feeney thanked members for a good discussion and stated that an update on the status of tiered retirement plan project be put on all future agendas.

Before adjourning, Professor Feeney reported receiving a voice mail message from an employee who was very unhappy with the array of Vanguard funds that are in the basic plan. Professor Feeney stated that he has left a message for this individual to get more detailed information about what the issue is.

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

Renee Dempsey
University Senate