SCFA RETIREMENT SUBCOMMITTEE
MINUTES OF MEETING
APRIL 2, 2012

[In these minutes: Review of Legal Responsibilities for Committee Members, Status of Retirement Plan Contributions, Update on Tiered Plan Design, Action on Pending Fund Additions]

[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, Thomas Schenk, Nancy Fulton, Joe Jameson, Barry Melcher, Jackie Singer, Chris Suedbeck, James Cotter, Murray Frank, Kathryn Hanna, Harvey Keynes, Andrew Whitman, Vernon Eidman

REGRETS: Jane Carlstrom

ABSENT: Vernon Cardwell

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

I). Members unanimously approved the February 6 and March 5, 2012 Retirement Subcommittee minutes.

II). The committee went off the record and Rosalie O'Brien, counsel to the committee, reviewed the legal responsibilities of committee members.

III). Professor Feeney encouraged members to read the fine print on the new Wellness Program disclosure that participants must agree to in order to participate in the programming. The fine print talks about indemnifying the vendor (StayWell) who is managing the program. He stated that he categorically objects to this and has notified Vice President Kathryn Brown of his objections. Professor Feeney stated that he does not see any reason why participants in a plan that is being recommended by the institution should be required to agree to indemnification of a vendor. It is Professor Feeney's understanding that the University is looking into renegotiating the language in this disclosure. He added that he also informed Professor Cramer, FCC chair, and Professor Sheets, SCFA chair, about his concerns.

IV). Professor Feeney introduced the next agenda item, status of retirement plan contributions. Based on information provided from Securian, roughly 60% of new Faculty Retirement Plan (FRP) participants are defaulting into the target date funds. With that said, it is important for the committee to be aware of the fund choices participants are making, knowing that a lot of the enhancements the Retirement Committee is exploring are for more sophisticated investors.

Professor Feeney then turned members' attention to materials provided by Securian at the March meeting that shows where money is being invested in the University's various retirement plans: Faculty 403(b) and 401(a) Plans, Optional Retirement Plan and the Section 457 Deferred Compensation Plan. The materials are sorted alphabetically as well as by asset order and contribution order. He pointed out that the General Account Limited (GAL) and General Account (GA) rank one and three, respectively, in terms of asset order and contribution order, which represents just under 60% of all FRP investments. In addition, just over 25% of all new money is being invested in the GA and GAL.

Ms. O'Brien stated that it has been her impression that a number of participants are under the assumption that the guaranteed interest rate on the GAL is higher than the GA. To be clear, the GA and GAL both have a 3% minimum guarantee. Over the years, a number of participants have come to expect that the GAL will pay a higher interest rate. She asked members their thoughts on this matter and whether they think it is an issue.

Professor Feeney reported recently talking with Mr. Manke, vice president, Securian Retirement, and asking him whether there is any expressed or implied higher guarantee level with the GAL. Mr. Manke verified that the contract stipulates a 3% minimum guarantee for both the GA and GAL, but that Securian tells participants that there will usually be a higher rate of return on the GAL due to the restrictions on the money in terms of moving money in and out of the GAL.

Ms. O'Brien stated that the reason she raised this issue is in response to Mr. Suedbeck's comments at the last meeting when he voiced concern about the low GA and GAL interest rates. Mr. Suedbeck made the comment that given the low interest rates in the market, which are expected to stay low, it will be difficult for Securian to replace some of the yields on the longer dated positions that will be rolling off the General Account portfolio. He also noted that participants should expect to see their higher yields (on older deposits of funds) going down for a period of time.

Professor Hanna suggested that if the GA and GAL interest rates converge that the University should have a conversation with Securian about reducing the restrictions on the GAL. Ms. O'Brien stated that in her opinion this conversation should happen before the rates converge rather than after. Professor Whitman suggested putting a statement on the Securian website about the contractual interest rates for the GA and GAL. Professor Feeney suggested that since Securian will be at the May meeting to demo the Monte Carlo-type simulation that the GA and GAL limited issue also be put on the agenda. Professor Feeney stated that he would contact Mr. Manke and layout the issue in preparation for the discussion. Ms. O'Brien stated that the question has to do with disclosure and participants' expectations regarding the GAL interest rate.

Returning to the materials provided by Securian showing where money is being invested, Professor Hanna asked what percentage of the Optional 403(b) and 457 Deferred Compensation plans are being invested at Securian versus Fidelity and Vanguard. Ms. Singer stated that she did not have this information with her but that she has it and will share it with the committee. Professor Feeney asked Ms. Singer to also provide information about where plan participants are putting their money in the Fidelity and Vanguard investment options. Ms. Singer stated that she can easily get at the by investment provider information, but getting at individual funds by investment provider is more difficult. Ms. Singer agreed to prepare the 2011 investments by provider for the optional plans for the May meeting.

V). Moving on, Professor Feeney asked Ms. Singer to provide the committee with a status update on the tiered plan design. Ms. Singer reported reading in *Pensions & Investments* (http://www.pionline.com/article/20120305/PRINTSUB/303059967/michigan-states-403b-plan-sheds-options-record-keepers) that Michigan State University recently moved to a tiered plan similar to what the committee has been discussing. She took a couple minutes to share information from the article with members.

Ms. Singer noted that as of right now, there are no resources for this project. Vice President of Human Resources Kathryn Brown continues to be very interested and supportive, but this project has not yet been given priority status. She added that it is probably very unlikely that any resources will be allocated this calendar year. Ms. Singer stated that she continues to discuss this project with Vice President Brown on a regular basis because she truly believes that it fits very well with Human Resource's strategic positioning initiative.

Professor Feeney mentioned that Professor Frank had previously suggested starting out cautiously and introducing the tiered plan design in the optional plans first before opening it up to the Faculty 403(b) and 401(a) plans. As a point of information, Ms. O'Brien noted that should the University at some point offer self-directed brokerage windows that it can place restrictions on the proportion of their accounts participants can invest through these windows as well as limit the number of trades participants can make. Professor Frank stated that before this plan design is offered through the FRP he would like to have a much clearer, empirical sense of what is likely to happen; thus, his suggestion to start with the optional plans. Professor Hanna disagreed and stated that she believes the optional plans are already similar in many respects to the tiered plan design being discussed. Professor Keynes added that his concern with starting with the optional plans is that he thinks those invested in the optional plans are more savvy investors and not representative of the faculty in general. Professor Feeney reminded members that a decision was made not to offer a Roth 403(b) because of expected low participation rates, and based on information from Securian from the 401(k) side of their business, the participation in brokerage accounts is lower than Roth 403(b) participation.

Professor Feeney stated that every effort has been and continues to be made to keep the cost of the plans low in order to get the highest possible rates of return for participants. Having said that, do the institutions that have moved to a tiered plan design know what this will do their plan costs? Ms. Singer stated that according to the Michigan State University article, costs are expected to drop.

Ms. Singer stated that her concern with starting the tiered plan in the optional plans is twofold:

1. Doing so limits the University's ability to look at the whole plan from a comprehensive approach and design a comprehensive communication and advice plan.
2. It also limits the RFP to only the assets in the optional retirement plan, which would prevent the University from going out to bid to get the best pricing possible from the assets in all the retirement plans.

Professor Hanna suggested the committee consider drafting a resolution asking the administration to allocate resources for offering both a tiered plan design as well as a Roth 403(b). Professor Frank stated that if the University is willing to provide resources, his preference would be to have the institution offer a Roth 403(b) and financial advice, e.g., Financial Engines. Ms. Singer stated that she agrees, but without implementing a consolidated plan design first, given the way the University's plan is currently structured, it would make it extremely difficult to offer a Roth 403(b). She added that she also would like to explore the possibility of offering investment advice, but this would require approval by the Board of Regents in light of existing Regents Policy. Prepopulating Financial Engines with the University's fund information in light of how the plans are structured would make getting feeds in place virtually impossible. Currently, the University's fund offerings can change on a daily basis. It is for these reasons that Ms. Singer believes it is important to get some rational structure around the plans and identify a provider that is able to work with the University strategically.

Professor Hanna asked members their thoughts about her earlier suggestion of drafting a resolution. Professor Feeney suggested that it might be more effective to simply invite Vice President Brown to talk about having the University offer a tiered plan design, Roth 403(b), and financial advice tools. Professor Feeney asked Renee Dempsey, Senate staff, to invite Vice President Brown to the May 7 meeting.

VI). Professor Feeney reminded members that the committee decided previously to hold on pursuing offering an international bond fund and a managed small cap fund until a decision had been made about whether the University's retirement plan design would change. Given Ms. Singer's earlier update about no resources for the tiered plan design through at least the calendar year, Professor Feeney asked members their opinions about moving ahead and asking the Retirement Plan Fiduciary Advisory Committee (RPFAC) to pursue adding an international bond fund and a managed small cap fund. He added that although the committee had also talked about adding a REIT, until the University's investment policy is revised, a REIT cannot be added because it is considered a sector fund, which is prohibited in the current investment policy. Professor Hanna made a motion to forward the recommendation to the RPFAC to add an international bond fund and a managed small cap fund to the FRP. Professor Frank seconded this motion.

In response to a question about which funds are being considered, Professor Feeney stated that he recalls the RPFAC had suggested either Invesco or Royce Funds for the small cap managed fund and for the international bond fund, Wells Fargo Advantage and Templeton Global Advantage were being considered. After some discussion, the committee voted to ask the RPFAC to move forward with adding an international bond fund and a managed small cap fund to the FRP.

Professor Keynes also suggested that the committee ask the RPFAC to explore adding high yield funds. Professor Feeney stated that while the committee talked about that earlier this year, the committee never voted to send the high yield fund request to the RPFAC for due diligence. Mr. Suedbeck recalled that the RPFAC decided not to pursue the REIT because it was a sector-specific fund that participants can access through the Optional Retirement Plan, and the same is true for a high yield option.

VII). Professor Feeney reminded members that besides the information Ms. Singer is bringing to the committee at the May meeting that there will also be another Monte Carlo-type simulation demo from Securian as well as a discussion about the GA and GAL. He requested Ms. Dempsey notify Mr. Reigert from Securian about this, and added that he would talk with Mr. Manke as well.

Hearing no further business, Professor Feeney adjourned the meeting.

Renee Dempsey
University Senate