SCFA RETIREMENT SUBCOMMITTEE
MINUTES OF MEETING
OCTOBER 1, 2012

[In these minutes: Monte Carlo-Type Simulation Demonstration, Target Date Funds, Retirement Plan Fiduciary Advisory Committee Update, FRP Investment Performance Period Ending June 30, 2012, Retirement Programs Coordinator Position Posted, Securian's Two-Step Approach to Selecting and Monitors Funds in the 457 and 403(b) Plans]

[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, Andrea Backes, Wendy Berkowitz, Thomas Schenk, Nancy Fulton, Joe Jameson, Barry Melcher, Jackie Singer, Chris Suedbeck, Vernon Cardwell, Murray Frank, Kathryn Hanna, Harvey Keynes, Andrew Whitman, Vernon Eidman

REGRETS: James Cotter

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

GUESTS: Blake Reigert, manager, U of M Retirement Plans (Securian)

I). Professor Feeney convened the meeting, welcomed those present, and called for introductions.

II). Professor Feeney announced that the May 7, 2012 minutes would be approved via email.

III). Professor Feeney welcomed Blake Reigert, manager, U of M Retirement Plans (Securian) who had been invited to provide the committee with a demonstration of the Monte Carlo-type simulation developed by Securian - https://umnplans.securian.com/UofMWebDyn/faces/jsp/public/retiretool2.jsp. Mr. Reigert began by reporting that this tool is now live on the Securian website and available for participants to use. He then walked members through three different scenarios using the new calculator, a flat dollar contribution, a percentage contribution and an in-retirement example (zero contribution).

Members' questions/comments included:

- Is the simulation programmed to assume that withdrawals will begin when an individual retires? Yes, stated Mr. Reigert, but there is a way to work around this if an individual does not plan to take contributions for a specified number of years after retirement.
- What confidence intervals are used in the calculator? Mr. Reigert stated that the confidence intervals are currently set at 70%.
- Please consider programming the calculator to plot the distribution of the final points. Mr. Reigert agreed to take this suggestion back to the programmers.

- For the sake of clarity and ease of use of the calculator, consider using the same verbiage that is used on participant's statements to describe their investment options, e.g., money market, fixed income, balanced funds, domestic equities and international and global funds.
- Are users able to refine their selection of funds in the asset allocation section and actually select the funds in a participant's portfolio? Mr. Reigert stated that from a legal standpoint, Securian cannot allow users to select the return of one fund, for example, and use it as a basis for a 25-year projection. Legally, the calculator needs to take into account broad categories and historical time periods to come up with the hypothetical possibilities. The equity assumption used in the calculator represents the S&P 500 over an 80-year period.
- Securian will need to add target date funds to the calculator at some point, which are fairly difficult to benchmark. Mr. Reigert agreed and stated that a limitation of the current calculator is that it is static, meaning that once a participant sets his/her allocation, this is what his/her allocation will be. Securian has talked about the possibility of having a pre-retirement allocation and an in-retirement allocation.
- Consider including in the calculator a warning/alert to users that their age should reflect their investment distribution. Mr. Reigert stated that he would bring the suggestion of including a built-in glide path back to the programmers as well.
- Put "years from now" on the horizontal axis of the graph.
- Can the assumptions used in the calculations be based on a shorter period of time rather than the 80-year assumption that is being used? Mr. Reigert stated that using shorter time period assumptions produces very unrealistic results. The 80-year assumption is a much more conservative approach.
- What is Securian planning to do to publicize this calculator? There is currently a banner on the Securian website, noted Mr. Reigert, about the availability of the new calculator. He also suggested having Securian could include a blurb about the calculator in plan participant's quarterly statements, assuming there is an interest on the part of the University. A member also suggested putting an announcement in the *Brief*, the University's official news digest for faculty and staff statewide. Ms. Singer volunteered to look into having the announcement put in the *Brief.*
- Will Securian track the calculator's usage? Yes, stated Mr. Reigert, Securian tracks the usage of all its calculators. This information will be reported back to the committee.

Professor Feeney thanked Mr. Reigert for the demo, and suggested having Securian back in April after members and other plan participants have had an opportunity to use the calculator.

IV). Professor Feeney introduced the next agenda item, target date funds, the current default for plan participants who do not make their own Faculty Retirement Plan (FRP) election. He then called on Professor Keynes to share his concerns about the target date funds.

Professor Keynes stated that this discussion was supposed to have already begun with the Retirement Plan Fiduciary Advisory Committee (RPFAC), but for a variety of reasons that committee has not met recently. He noted that his concern about the target date funds stems from two primary factors:

1. Over 60% of new FRP participants are defaulting into the target date funds.

2. Lack of target date fund performance benchmarks as compared to other types of funds.

After conducting some research, Professor Keynes stated that it is clear that there are a variety of different views on target date funds. With that said, he stated that he would like the RPFAC to set some benchmarks for the FRP target date funds. He then distributed a few articles that he came across while researching this issue to help illustrate his point. Professor Keynes pointed out:

- Target date funds are inconsistent in the way they approach their objectives.
- Target date funds are interesting in that they actively manage passive investments (typically index funds).
- Some target date funds are more actively managed than others.

Professor Keynes noted that he has been giving this issue a great deal of thought and wonders whether employees' best interests are being served by offering target funds as the FRP default option. Despite the fact that target date funds are frequently sold as an investment option for investors who do not want to have to think about choosing their own investments, the reality is that target date funds still require individual management. Professor Keynes noted that employees should understand that target funds are <u>not</u> "set it and forget it" funds.

Professor Keynes turned members' attention to a Wall Street Journal article and noted that the three target date funds discussed in the article, which are offered at the University vary significantly in their performance. Professor Feeney stated that it is important to remember that the performance noted in the article is just one point in time. He added that the assumption with the target date funds is that there is at least a person watching over the fund's balances and allocations, and that their performance will likely be better than someone who throws darts. Professor Keynes agreed with Professor Feeney, and that this is the reason he feels so strongly that the FRP target date funds need to be benchmarked. He proposed that the RPFAC:

- Investigate and recommend performance benchmarks.
- Review the Vanguard funds against benchmarks and review other possible options within the FRP fund line-up.
- Provide more detailed information to plan participants about the pros and cons of investing in target date funds.
- Revisit other possible FRP default options, e.g., index fund, S&P 500, balanced fund.

Another aspect of target date funds that does not seem to be well known, stated Professor Keynes, is that they go beyond an individual's retirement and allocations are changed in post-retirement years.

After Professor Keynes outlined his concerns about target date funds, Professor Feeney opened up the topic for discussion. He reminded members that the University does not recommend any particular fund that is offered as an investment alternative.

Ms. Singer stated that the University made the decision to have target date funds as its default fund after the Department of Labor came through with guidance that money market accounts did not meet the safe harbor definition under ERISA for a "qualified default investment option." Ms. Singer reminded members that although as a governmental entity the University is not subject to ERISA, ERISA requirements are considered in administering its retirement plans. She stated that she will look into the Department of Labor's approved communication for qualified default investments, which the University may want use as a guide in developing its own communication piece. She also noted that she was supportive of exploring performance benchmarks for the target date funds.

Professor Frank stated that while in his opinion target date funds are certainly not perfect, they are a significant improvement over the previous default option, a money market account.

Professor Keynes stated that as a member of the RPFAC he feels that it is important that the performance of the target date funds be evaluated.

Professor Feeney thanked Ms. Singer for agreeing to look into the Department of Labor's approved communication for qualified default investments, and noted that Professor Keynes point about evaluating/benchmarking the performance of the target date funds is well taken. Mr. Suedbeck stated that the problem with doing this is that while a peer group can be established for the purposes of evaluating the performance of each target fund, it will create a situation in which the return of the previous year's winner will be chased, and may not necessarily get a better result. In response, Professor Feeney proposed using a rolling average to evaluate fund performance.

Professor Feeney thanked Professor Keynes for his input and the committee for a good discussion.

V). Next, Professor Feeney called on Mr. Suedbeck to provide a RPFAC update. Mr. Suedbeck noted that in addition to the regular list of items the RPFAC reviews, there are a couple of additional agenda items for the next meeting:

1. Explore target date fund performance benchmarks.
2. Addition of two new funds, a global bond fund and a small cap fund.

A lot of work has been put into identifying the top global bond and small cap funds and this information will be reviewed with the RPFAC membership. Mr. Suedbeck added that the September RPFAC meeting was cancelled because of the two vacant seats on the committee, the Civil Service seat and the P&A seat. He added that Associate Vice President Stuart Mason, Office of Investments and Banking, has been communicating with the leadership of these two employee groups about filling their open seats on the RPFAC.

Professor Feeney reported that he has asked Renee Dempsey, Senate staff, to find out the appropriate Civil Service and P&A contacts who should be notified of these open seats so that they can be filled as soon as possible.

VI). Professor Feeney called on Ms. Singer to share information on the FRP investment performance for period ending June 30, 2012. Copies of the second quarter FRP investment performance were distributed to members. Ms. Singer noted that overall fund performance looked good, but a few of the funds were somewhat lagging in their performance (Vanguard PRIMECAP, Fidelity OTC Portfolio, Vanguard Global Equity Fund, Vanguard International

Value Fund, Vanguard International Explorer and Fidelity Strategic Income Fund), and, as a result, are being monitored.

Professor Feeney thanked Ms. Singer for this update, and noted that not only the Retirement Subcommittee, but the RPFAC regularly look at the FRP's investment performance. He added that both committees also regularly review and discuss whether funds should be eliminated or if fund substitutions are necessary.

Mr. Schenk commented that in his opinion the Bank of America ML U.S. High Yield Constrained fund is not an adequate benchmark for the Fidelity Strategic Income Fund because the Fidelity Strategic Income Fund has an international component and other allocations as well. Mr. Suedbeck agreed with Mr. Schenk and explained that when the investment performance report was developed, the benchmarks that are used are the benchmarks that the funds themselves use to benchmark their performance against. The Office of Investments and Banking annually reviews the benchmarks, and will be doing so again relatively soon, stated Mr. Suedbeck. While typically funds do not change their benchmarks, it is possible that over time, as more and more indexes become available, they could potentially change their benchmark. Professor Feeney asked that the minutes reflect that there is an annual expectation that the Office of Investments and Banking review the benchmarks each fall to make sure they are current. Professor Keynes agreed that it is of utmost importance for a variety of reasons that the benchmarks be annually reviewed.

VII). Other business:
a). Ms. Singer announced that she recently posted the retirement programs coordinator position that Shonna Schroeder had previously held. She asked that if members know of anyone who is interested in the position to have them contact her for more information.

b). By way of disclosure, Professor Feeney reported that he had lunch with Mr. Manke, vice president, Securian Retirement, last week. At this lunch meeting Professor Feeney asked Mr. Manke who oversees the funds Securian offers, particularly in the 457 and 403(b) plans. Mr. Manke looked into this, and reported back that Securian uses a two-pronged approach:

1. Securian has an internal due diligence committee that looks at the fund families and the funds within each family in terms of performance, fees, performance against benchmarks, etc.
2. Securian also contracts with Towers Watson who conducts an annual evaluation of the fund offerings within the plans.

Professor Feeney stated that he was happy to learn about Securian's two-step process for overseeing the fund offerings.

Professor Feeney proposed an item for the November 12th agenda, the new American Funds added by Securian. He asked Ms. Dempsey to obtain from Mr. Reigert the list of American funds in time for the next meeting. Another item for the November agenda will be a continued discussion of the target date funds. Professor Feeney asked members if they had other items. Hearing none, he requested that members email him or Ms. Dempsey if they think of items.

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

Renee Dempsey
University Senate