

SCFA RETIREMENT SUBCOMMITTEE
MINUTES OF MEETING
FEBRUARY 4, 2013

[In these minutes: Retirement Plan Fiduciary Advisory Committee (RPFAC) Update, Peer Institution Retirement Plan Comparison, Waiting Period for P&A Employees, Benchmarking]

[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: Andrea Backes, Donald Uden

OTHERS ATTENDING: Rosalie O'Brien, counsel to the committee and Dan Fisher, retirement programs coordinator

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

II). Members unanimously approved the December 3, 2012 minutes.

III). Professor Feeney called on Chris Suedbeck from the Office of Investments and Banking to provide a Retirement Plan Fiduciary Advisory Committee (RPFAC) update. Mr. Suedbeck reported that the RPFAC met in December and a number of items were reviewed/discussed. RPFAC members were told about the most recent meeting he and Stuart Mason, chief investment officer, had with Securian to review the General Account, which, by the way, is in good order. Other topics covered at the RPFAC meeting included:

- A discussion on benchmarking.
- Information on the proposed addition of two new funds – Fidelity New Discovery Fund (a U.S. small cap active option) and the Templeton Global Bond Fund.
- A review of the Fidelity Strategic Income Fund as it relates to its benchmark. The benchmark being used is a high-yield benchmark, but the fund is not a true high-yield fund. The fund is actually more of a balanced/multi-sector fixed income option. The RPFAC will continue to monitor this fund's performance.

Regarding the Fidelity Strategic Income Fund, Professor Feeney stated that a number of RPFAC members were concerned that some people might negatively judge the fund because of its lack of correlation to its benchmark. RPFAC members concluded that it is a good fund for what it is designed to accomplish, but, unfortunately, there simply is not a benchmark available that matches with this fund.

Jackie Singer reported that the Fidelity New Discovery Fund closed last Thursday, January 31st. As a result, her office has been talking with Securian and Fidelity to see if there is any way the University will still be able to offer this fund. The fund can be offered in the pre-1989 403(b) plan, however, Fidelity will not allow Securian to add this retail fund to the post-1989 401(a) plan. While the University has some Fidelity retail funds in its products with Securian, Fidelity is taking the position that they will not continue to permit this to occur. Conversations are continuing to see if the fund can be added to the post-1989 401(a) fund, but there are no guarantees at this point. Ms. Singer will keep members informed on the outcome of these discussions. The goal continues to be to add the Fidelity New Discovery Fund, the Templeton Global Bond Fund Class A, the Vanguard Target 2060, and the Vanguard Target Retirement Income Fund at the same time and have the same line-up in both the 401(a) and the 403(b) plans. Ms. Singer added that the Fidelity New Discovery Fund is currently in the Optional Retirement Plan (ORP) and the 457 plan, but not yet in the pre-1989 403(b) plan or the post-1989 401(a) plan.

Professor Feeney asked Ms. Singer if there is a back-up plan in the event that the University is unable to add the Fidelity New Discovery Fund to the 403(b) and the 401(a) plans. Ms. Singer stated that Securian is working hard to get the fund added. She stated that her concern is Fidelity's comments about not allowing retail funds in the University's annuity products at Securian. Hopefully, this can be resolved because it would be unfortunate to have the Fidelity relationship compromised. Professor Feeney asked Ms. Singer to keep the committee posted on any developments related to this issue.

In regard to a question about whether this is a fee issue for Fidelity, Ms. Singer stated that she has asked Fidelity for clarification as to the exact nature of the issue.

Professor Frank asked whether Fidelity is interested in offering the kinds of services (recordkeeping) that Securian provides. Mr. Suedbeck speculated that this might be the case as did Ms. Singer.

IV). Professor Feeney introduced the next agenda item – peer institution retirement plan comparison. Mr. Suedbeck stated the Office of Investments and Banking regularly meets with the chief investment officers of certain peer institutions. Recent topics of discussion at their meetings have included tiered plan designs and consolidated recordkeeping platforms to leverage fees.

Ms. Singer distributed a peer institution retirement plan comparison handout and walked members through it. Members' comments/observations/questions included:

- Of the 11 institutions being compared, only 3 [University of Minnesota, University of Michigan and University of Washington Seattle (academic staff only)] are strictly defined contribution plans. With this said, are the 457 tiered plans at other institutions offered in a different way than the University's 457 plan? Ms. Singer stated that it would depend on how closely the institution is tied to the state. The State of Minnesota, for example, offers a 457 plan, which the University could have participated in if it had chosen to do so, but instead it elected to set up its own 457 plan.

- It is interesting to see the number of institutions that offer a choice of either participating in a defined contribution plan or a defined benefit plan.
- What is the difference between a defined contribution plan and a defined benefit plan? A defined contribution plan, stated Ms. Singer, promises the money going into the account, but has no guaranteed benefit at retirement. A defined benefit plan, on the other hand, is vice versa, and promises the benefit at retirement.
- Because most of the University's peer institutions offer defined benefit plans, the financial advice/guidance issue is less important because the participant does not bear the investment risk. It would be interesting to know of the institutions that offer both a defined contribution plan and defined benefit plan, how many people are in each plan, and the difference between the advice/guidance that is given for each plan.
- Offering only a defined contribution plan puts a lot of responsibility on plan participants. Of the institutions that only offer a defined contribution plan, it would be interesting to know how they handle the issue of financial advice/guidance. Ms. Singer agreed that the key difference between a defined contribution plan and a defined benefit plan is who bears the risk. In a defined contribution plan, participants bear the investing risk, and in a defined benefit plan, plan sponsors bear the investing risk.
- How well or under-funded are the defined benefit plans at these institutions? Usually with a defined benefit plan, stated Mr. Melcher, only the participant's contributions are their money. When a participant collects a benefit from a defined benefit plan, they usually get a refund of what they paid into the plan or they can take a monthly benefit based on their years of service, average monthly salary, and age. Ms. Singer added that as part of this comparison she did not look into funding ratios.

Members spent a few more minutes talking about the plan offerings at the peer institutions. Ms. Singer stated that in her opinion, the University's peer institutions are taking a wait and see approach in terms of making any substantial changes to their retirement plans. She noted that Purdue recently overhauled its retirement plan and put in a single recordkeeper, tiered its offerings, etc. Ms. Singer speculated whether the University's peer institutions are so tied to their state structures that it is not worth their time to try and make changes, or if they are waiting to see how the rest of the guidance from the government falls out before making any plan changes. Based on the government regulations that have come out over the past 10 years or so, the government appears to be moving 403(b) and 457 plans closer to 401(k) plans.

Professor Feeney commented that there appears to be a series of variables that may affect the University's decision to offer a tiered plan – PeopleSoft, funds to hire a consultant, and future federal regulations. Ms. Singer stated that while it is necessary to comply with regulations, she does not think it is necessary to wait for final regulations before deciding whether to offer a tiered plan.

Professor Feeney asked Ms. Singer if she is continuing to pursue institutional rates for all the plans with the exception of the brokerage window. Yes, stated Ms. Singer.

Going back to an earlier comment about Fidelity not wanting to offer retail funds in an annuity product, Professor Whitman asked Ms. Singer to explain this further. Securian, stated Ms. Singer, basically owns Minnesota Life, an insurance company, and so they do recordkeeping for

annuity products already. Fidelity has no affiliations with insurance companies whatsoever; Fidelity is a completely different kind of company. Ms. Singer stated that it is her understanding that it is the contract between Securian and the investment providers that allows them to trade, e.g., between Securian and Vanguard, Securian and Fidelity. This contractual relationship allows Securian to hold their securities and offer them to the University in an annuity contract.

In closing, Professor Feeney asked Ms. Singer to look into how many of the University's peer institutions offer a Roth and report back at the April meeting.

V). Professor Feeney asked Thomas Schenk to provide background information on the P&A waiting period issue given he had originally brought this to the committee's attention. Mr. Schenk stated that this issue came up at a P&A Senate meeting, and the P&A Senate chair asked him to bring it to the Retirement Subcommittee. The P&A person who raised this issue felt that because P&A employees and faculty benefits are parallel in many respects, why is there still a waiting period for P&A employees to participate in the FRP, but no longer a waiting period for faculty.

Professor Hanna stated that she would be interested in hearing the administration's logic for having a waiting period for P&A employees. Members of the committee agreed that this is a legitimate question. Professor Feeney stated that he would write to Vice President Brown and ask the question.

VI). The last item on the agenda is benchmarking, stated Professor Feeney. He asked Mr. Suedbeck to comment on the benchmark discussions that have and are continuing to take place.

Mr. Suedbeck stated that Vanguard is moving a lot of its benchmarks to a new group of benchmarks that is being produced by the University of Chicago. Plan participants will not notice a lot of difference from a performance standpoint, but doing this will allow Vanguard to "bucket" their different strategies. From an administrative perspective, moving to this new benchmark group will help lower Vanguard's trading and fund expenses, which will be beneficial in the long run. The Office of Investments and Banking annually reviews the benchmarks that the FRP vendors are using.

VII). Before adjourning the meeting, Professor Feeney announced that Securian added the beta, standard deviation, sharp ratios, alpha, etc. information on their fund sites per this committee's request. He commented on Securian's responsiveness to the University's needs and requests.

Hearing no further business, Professor Feeney adjourned the meeting.

Renee Dempsey
University Senate