SCFA RETIREMENT SUBCOMMITTEE
MINUTES OF MEETING
MARCH 4, 2013

[In these minutes: Securian Annual Review, Securian's TargetAge™ Investment Program]

[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, Jackie Singer, Chris Suedbeck, James Cotter, Murray Frank, Kathryn Hanna, Andrew Whitman, Vernon Eidman

REGRETS: Barry Melcher, Rosalie O'Brien (counsel to the committee), Harvey Keynes, Donald Uden

OTHERS ATTENDING: Dan Fisher, Michelle Johnson

GUESTS: Securian representatives: John Leiviska, vice president and portfolio manager, Corporate Bonds (Advantus); Richard Manke, vice president, Securian Retirement; Sean O'Connell, vice president and portfolio manager, Real Estate and Structured Credit (Advantus); Blake Reigert, manager, U of M Retirement Plans; Warren Zaccaro, executive vice president and chief financial officer

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

II). Following introductions, Professor Feeney reminded members that the committee annually meets with Securian (as does the Office of Investments and Banking, which meets twice a year with Securian) to keep a pulse on fund performance and the overall financial strength of Securian. He then welcomed the guests from Securian and turned the meeting over to Dick Manke, vice president, Securian Retirement. Mr. Manke stated that four areas would be covered in today's meeting:

1. 2012 Securian business results.
2. Securian's financial strength.
3. Securian's strategy for managing the General Account.
4. 2012 Securian service highlights.

Mr. Manke began by sharing the 2012 Securian business results. He noted that despite the challenging economic times, 2012 was arguably the best year in Securian's history: total sales exceeded $6 billion; Securian paid out $3.8 billion to its policyholders in the form of death benefits, annuity benefits and retirement benefits; and Securian exceeded all of its 2012 client retention goals. Salient highlights from his presentation included:

Warren Zaccaro, executive vice president and chief financial officer, provided information about Securian's financial strength and highlighted the following metrics:

- Consistently, Securian's annual top-line growth falls in the 8% - 12% range.
- Securian's capital growth industry comparison measure illustrates that Securian has been more successful in growing capital than the industry as a whole. Securian's capital growth has grown organically as opposed to growing because it decided to issue long-term debt.
- The capital and surplus to liabilities ratio shows the extra funds Securian has available to meet its liabilities. Securian has a capital and surplus liability of over 21%, and leads its peer group in this metric.
- The risk-based capital ratio (RBC) compares the capital required for overall business operations with a company's risk profile. For 2011, Securian had a 518 RBC, which basically means it has about five times the amount of capital it needs for the amount of risk it carries. Securian expects its 2012 RBC to be similar to 2011. The 2012 figure will be out later this spring. Securian's three major risk categories are 1) asset risk, 2) underwriting/insurance risk and 3) operational risk. Securian is consistently in the top quartile of its peer group in terms of RBC.

Members' comments/questions included:

- *Has Securian's peer group changed in the past five years?* Mr. Zaccaro stated that the last time Securian's peer group changed was when AIG dropped off in 2008.
- *Since the financial crisis, have the capital requirements and other measures changed for insurance companies?* Mr. Zaccaro stated that the biggest change that Securian has seen is from the rating agencies. The rating agencies have become increasingly tougher when it comes to assets. Securian's position from a rating agency capital perspective since the financial crisis has increased from AA to AAA. There have been no significant changes with the RBC ratio, except for possibly on the mortgage loan side.
- *With respect to capital growth, can Securian provide asset volatility relative to the industry rather than simply averages? Also, please provide Sharpe ratio information. Averages do not help the committee understand the risks like spreads would.* Mr. Zaccaro stated that Securian can provide this information to members after this meeting. In 2008, Securian saw a decrease in capital as the industry had to write off some of its assets. Because Securian in 2007 – 2008 had more investments in equities, it had more of a drop in capital, but ended more relative when compared to 2002 than the industry. Since 2008, Securian has subsequently decreased its investments in equities.

Next, John Leiviska, vice president and portfolio manager, Corporate Bonds (Advantus) and Sean O'Connell, vice president and portfolio manager, Real Estate and Structured Credit (Advantus) provided information on the General Account. Using four key words, Mr. Leiviska described how Securian manages the General Account:

- Prudent – Understands its client's needs, keeps its promises, and protects and grows the capital in the account.
- Thorough – Uses fundamental, bottom-up analysis to ensure a sound understanding of what is being invested in.
- Vigilant – After an investment is made, monitors it. Make certain it is valid and be on guard to minimize any losses.

- Value – Maximize relative returns by being prudent, thorough and vigilant to create value and make certain all promises are kept.

Mr. Leiviska turned members' attention to the fourth quarter 2012 asset quality overview, and walked members' through it. Regarding diversification, there are a few different ways to diversify:

1. By maturity.
2. By asset class.
3. By ratings.

In terms of bond quality in the General Account, bond quality is diversified by category, maturity and quality. Most of the bonds in the General Account are rated A or higher, and the corporate bond portfolio is diversified across sectors of the economy.

Mr. O'Connell then spent time sharing information on the commercial real estate portfolio. The commercial loan portfolio consists of high quality commercial mortgages in all regions of the country and is managed by a seasoned lending team. The portfolio is 54% loan to value. Commercial loan property types include industrial, retail, apartments and miscellaneous other facilities. The portfolio is comprised of just over 450 loans with an average loan size of just over $3 million.

Mr. Leiviska asked Mr. O'Connell to talk about where areas where Securian has exposure. Mr. O'Connell noted that Securian does not invest in land, condominiums, construction or development loans. Securian is a long-term lender and not an equity player.

Securian has been in the commercial real estate market for over forty years, stated Mr. O'Connell. The reason that Securian invests in commercial real estate is because it earns a higher interest rate than corporate bonds and because it has staff who specialize in this asset class. Securian visits the companies it invests in and meets the company owners and managers, and studies the local market. In addition, Securian's in-house legal counsel sets up and closes its loans.

Members' comments/questions included:

- *What are the coupons that Securian is getting on their loans?* Mr. O'Connell stated that the coupons range from 3.5% - 4.5%. The loan market follows very closely to the corporate bond market.
- *How much equity is Securian putting in its loans?* Mr. O'Connell stated that typically Securian lends approximately $6 for every $10 of property value with the equity owner putting in $4. This means that Securian has a $4 "cushion" if the loan were to go bad.
- *Regarding the spread compression issue that has taken place over the last eight months or so, has this factor changed how Securian issues new loans?* Mr. O'Connell stated that in a perfect world it would be great to be able to do that, but Securian is selling a lot of policies that are being priced in this rate environment. The money that is coming in is being invested in corporate bonds as well as commercial mortgages. Securian cannot afford to sit on cash because cash earns nothing; therefore, Securian needs to be fully invested.

Blake Reigert, manager, U of M Retirement Plans, took a few minutes to talk about Securian's 2012 service highlights. He noted that Securian has a team solely dedicated to servicing the University's retirement plan. Securian values the collaborative partnership it has with the Retirement Subcommittee as well as Employee Benefits. Mr. Reigert shared key service metrics and highlights from 2012:

- University of Minnesota participants with Securian total approximately 14,000 and these participants have over 17,000 retirement plan accounts at Securian.
- Securian had 16,800 service interactions with participants.
- New plan enrollments totaled 940.
- Securian handled 8,800 participant calls.
- Securian conducted over 340 one-on-one participant meetings.
- Securian attended the University's benefits fairs on the Minneapolis, St. Paul, Duluth, Crookston and Morris campuses.

Mr. Reigert then highlighted four Securian 2012 deliverables for the University:

1. Added six new investment options from the American Funds to the Optional 403(b) and 457 Deferred Compensation retirement plans.
2. Developed a Monte Carlo website calculator.
3. Conducted over 340 one-on-one retirement plan review meetings with University participants.
4. Enhanced the website investment fact sheets, e.g., added standard deviation, beta, Sharpe ratio, to name a few.

Before concluding the Securian presentation, Mr. Manke turned members' attention to an overview of the year-end assets in the four retirement plans (Faculty 403(b), Faculty 401(a), Optional 403(b) and 457 Deferred Compensation) and the number of participants in each fund.

As follow-up from today's meeting, Mr. Manke stated that he would provide the committee with information on asset volatility and Sharpe ratios. Professor Eidman also asked Mr. Manke to breakdown the plan participation information into retired [drawing funds out of the plan(s)] versus active employees. Professor Feeney added that he would also be interested in the number of people who are actually contributing to the various funds.

In light of the current low bond interest rate environment, Professor Hanna asked about Securian's bond strategy and whether they hold bonds until they mature or trade them before they mature. Mr. Leiviska stated that the current environment is something that Securian planned for, and it does not project interest rates because Securian does not invest that way. Securian, however, needs assets that match up well with its liabilities. If interest rates go up, bond prices will undoubtedly decline, but, effectively, that liability will be a little less onerous too. Promises to pay in the low rate environment will offset the bonds that were purchased at that time. Securian will then be investing in higher reinvestment income as rates go higher. Securian does not focus a lot on interest rate outlook other than trying to mitigate the effects of low rates; Securian does not speculate in this environment.

Professor Whitman asked what information is on the web for participants about the General Account guarantee. Mr. Manke stated that the General Account is backed by the financial strength of Securian. There is information on the web that talks about Securian's financial strength. He added that the reason Securian meets with Chris Suedbeck and Stuart Mason from the Office of Investments and Banking a couple times each year is to go over the General Account in great detail. Mr. Suedbeck noted that during these meetings, the General Account is scrutinized to make sure there is nothing in the account that is too big of a risk for the University. He then asked whether AIG had a large annuity product such as the General Account. Mr. Manke stated that he would look into this and report back. Professor Feeney added that over the years there has been an increased focus on the General Account and General Account Limited.

Professor Feeney thanked Mr. Zaccaro, Mr. Leiviska and Mr. O'Connell for their presentations.

III). Professor Feeney reported that while Professor Keynes was unable to attend today's meeting, he continues to express concern about the benchmarks used to evaluate the performance of the target-date funds. Professor Feeney then called on Mr. Manke to comment on this matter.

Mr. Manke distributed a handout, *A diversified portfolio avoids extremes,* and noted that there are two primary reasons people do not have enough money when they retire: 1) they have not saved enough and 2) their asset allocation philosophy was too conservative. With that said, Mr. Manke stated that he agrees with Professor Keynes' concerns and stated that it is difficult to benchmark target-date funds. It is for this reason that Securian has formed an industry group to specifically address this issue. Mr. Manke stated that as he hears what is coming out of this group he will share it with the committee.

Securian, stated Mr. Manke, has come out with a new product called TargetAge™. The glide path for this product is based on age rather than a date, and it allows companies to decide what funds to offer. As a result, because clients are able to pick their own funds, they can be benchmarked. Other than saving for retirement, it is very important for people to have the right asset allocation.

In light of time, Mr. Manke offered to come back and provide more information on Securian's new TargetAge™ product. Professor Feeney asked Renee Dempsey, Senate staff, to make a note of this as a possible future agenda item.

Professor Frank asked how the fees are structured in the TargetAge™ investment program. Mr. Manke stated that it is the fees of the individual funds. Mr. Reigert stated that rather than calling TargetAge™ a product, it is actually more of a service. (http://www.prnewswire.com/news-releases-test/securians-new-targetagetm-investment-program-takes-the-guesswork-out-of-retirement-plan-investing-58087637.html)

Professor Feeney thanked Mr. Manke and Mr. Reigert for attending today's meeting.

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

Renee Dempsey
University Senate