SCFA RETIREMENT SUBCOMMITTEE
MINUTES OF MEETING
NOVEMBER 4, 2013

[In these minutes: Period-Ending September 30, 2013 FRP Performance Report, Improvements to the FRP Enrollment Process, Plan Types and Required Minimum Distributions, Full Fee Disclosure Analysis, Advice Checklist and Employee Engagement Around Planning for Retirement]

PRESENT: Daniel Feeney, chair, Wendy Berkowitz, Frank Douma, Thomas Schenk, Nancy Fulton, Barry Melcher, Jackie Singer, James Cotter, Murray Frank, Kathryn Hanna, Matt Nyman for Stuart Mason, Albert Tims, Andrew Whitman, Vernon Eidman

REGRETS: Joe Jameson, Stuart Mason, Merrie Kaas

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

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

II). Members unanimously approved the September 30, 2013 minutes.

III). Professor Feeney called on Dan Fisher, retirement programs coordinator, to provide a period-ending September 30, 2013 Faculty Retirement Plan (FRP) performance report. Mr. Fisher began by reminding members about the benchmarks that are used to determine if a fund is put on the Retirement Plan Fiduciary Advisory Committee's (RPFAC) watch list. The two funds for third quarter 2013 that are underperforming, noted Mr. Fisher, are:

1. Fidelity Strategic Income Fund.
2. Vanguard International Explorer Fund.

He noted that the RPFAC will be taking a closer look at these funds at their next meeting.

Professor Frank asked whether this report is produced manually. Yes, stated Mr. Fisher. Professor Frank reiterated his earlier requests that the report be automated and include standard deviations. It is difficult to know how to interpret these numbers without knowing the deviations, stated Professor Frank. Professor Feeney reminded Professor Frank that this information can be found on the Securian website.

IV). Next, Professor Feeney called on Jackie Singer, director, Retirement Programs, to provide information about improvements to the FRP enrollment process. Ms. Singer stated that in conjunction with the Enterprise System Upgrade Project (ESUP), time has been spent thinking about how to improve different processes. With regard to the current FRP enrollment process, Ms. Singer took a few minutes to explain how it works. She was happy to report that the enrollment process would be moved from a manual, paper process to online enrollment in early 2014.

Professor Feeney asked if online enrollment would only be for the FRP. Yes, stated Ms. Singer, and noted that because the Optional Retirement Plan (ORP) has four vendors, there currently is not a way to implement online enrollment for the ORP.

Ms. Singer added that great strides have also been made as it relates to the verification process for employees in the Minnesota State Retirement System (MSRS). While MSRS does not have the same problem with investment elections as the FRP, the issue with MSRS has been verification of employees' I9 information. This process will be streamlined and automated as well.

Professor Feeney asked if these enhancements are tied to the same timeline as the ESUP upgrade. No, stated Ms. Singer, these changes should be implemented by early next year.

Professor Tims asked whether the ORP could be upgraded to enable employees enrolled in the plan to make online contribution rate changes. Unfortunately, stated Ms. Singer, the University does not have the ability to split between enrollments and contribution rate changes in terms of online access. For example, because ORP enrollments need to be done on paper, contribution changes need to be done on paper.

V). Professor Feeney introduced the next agenda item, information on the various plan types and required minimum distributions (RMD). Mr. Fisher turned members' attention to the plan comparison document that had been sent out with the agenda, and which can also be found on the web at:
http://www1.umn.edu/ohr/prod/groups/ohr/@pub/@ohr/@benefits/documents/asset/ohr_asset_059171.pdf. He then walked members through the document and highlighted the following:

- The contribution rate for the MSRS plan (Civil Service and labor represented employees) is 5% by the employee and a 5% by the employer. This is a defined benefit plan.
- The FRP [401(a) post 1989 and the 403(b) pre-1989] is a defined contribution plan, and is the mandatory plan for faculty and P&A employees. For employees who were employed by the University before January 1, 2012, the employee contribution rate is 2.5% and the employer contribution rate is 13%. For employees hired January 2, 2012 and after, the employee contribution rate is 5.5%, and the employer contribution rate is 10%.
- All employees who are interested can also contribute to the ORP or the 457 Deferred Compensation Plan. These plans are classic deferral plans. They allow employees to defer up to $17,500 if they are under age 50 with the ability to add additional amounts depending on age and deferrals in previous years.
- While the ORP and 457 Deferred Compensation Plan are similar, offering both plans allows employees to contribute the annual maximum in both plans without going over their limit.

- For 2013, the annual maximum contribution for the FRP is $51,000 for those hired before 1996 and $39,525 for those hired after 1996 (15.5% of $255,000 maximum contribution limitation).
- Loans are only available in the ORP through Securian, Fidelity and TIAA-CREF.
- In the FRP [401(a)], withdrawals are permitted after age 55. In the ORP, withdrawals are permitted for any reason after age 59½ or due to financial hardship and in the 457 Deferred Compensation Plan, access to funds while employed is generally only permitted due to an unforeseen emergency or in de minimus amounts after two years with no contributions.
- Because FRP participants are contributing money on a pre-tax basis, earnings are tax deferred. Therefore, the IRS determined that at age 70½, individuals must begin taking RMDs, if they have left University service.

Member questions/comments included:

- Does the active status allow retired employees in the FRP to not take their RMD? If so, this is something that needs to be better communicated to employees because many do not know this. Retired employees who come back to work at the University, stated Mr. Fisher, are considered active employees, and, as a result, do not need to take the RMD from the University plan. However, if this retired University employee were to be employed elsewhere (not at the University), they would have to take the RMD from the University plan.
- Is it true that individuals with pre-January 1, 1987 account balances are not required to take the RMD until April 1 of the year following the later of age 75 or termination of employment? Yes, this is correct, stated Ms. Singer, but this stipulation only covers the account balance as of January 1, 1987, which would not include any dividends, interest or increased fund value that has accrued since then.

Professor Feeney thanked Mr. Fisher for providing this information.

VI). Next, Professor Feeney called on Mr. Fisher to speak to the full fee disclosure analysis that is conducted annually. Copies of the University's 2012 annual fees report were sent out along with the agenda. Mr. Fisher walked members through the report.

Member questions/comments included:

- For the approximately $7.5 million Securian "all in" fees, how does break out for the General Account? Are individuals charged a certain number of basis points? Ms. Singer stated that the bulk of these fees are for the General Account, and the University gets the spread from Securian.
- Without the spread from Securian, what is the average basis point fee cost for just their recordkeeping fee? Would it be accurate to say that the General Account assets subsidize part of the recordkeeping fees? Ms. Singer stated that she would need to check on the underlying numbers.
- Why are Securian's average basis point fees so much higher than Vanguard if the General Account is an index fund? Ms. Singer stated that she would not consider the General Account an index fund. She added that she would also not assume that high average basis points equates to being bad and low average basis points equates to being good.

Vanguard's 17 average basis point fees can be attributed to being index funds. It doesn't mean that 17 basis points is good, it just is what it is. The General Account is not an index fund, and, in fact, is quite actively managed. Professor Feeney added that the General Account and General Account Limited also have a minimum guaranteed rate of return.

- At what point would a basis point figure trigger a review? Concern was voiced over the Fidelity Strategic Adviser Income Opportunities 1083 basis points (almost 11%)? At what point would the University decide not to continue to offer a fund with such high fees? Mr. Fisher stated that this fund is definitely an outlier in terms of basis points. Other members of the committee voiced concern too not only about the fee, but for employees who are invested in the fund who are not paying attention to the high fee. Ms. Singer stated that basis point fees are updated quarterly and are available on the Employee Benefits' website. Mr. Fisher noted that the Fidelity Strategic Advisers Income Opportunities is a new fund, and he does not believe anyone is investing in it at this point. The Strategic Adviser funds have a higher expense ratio than other Fidelity funds.
- Are the fees for the General Account and General Account Limited also on the Employee Benefits' website? Ms. Singer stated that the General Account and General Account Limited fees are not included. These two accounts are set up to promise a return, and Securian is not required to disclose fees for these accounts due to the nature of the product. The General Account and General Account Limited are not mutual funds.
- What is the status of adding Fidelity funds to the FRP? Ms. Singer stated that the University has a different arrangement with Fidelity and Vanguard related to the ORP versus the FRP. Historically, the voluntary plan investment managers can add any funds to the voluntary plans that they deem appropriate for retirement plan investing. Regarding adding a Fidelity fund to the FRP, Ms. Singer stated that she believes it would depend on the fund's share class and the type of fund. For example, the Adviser Share Class funds will not be available in the FRP.

The Fidelity Strategic Adviser Income Opportunities fund with its 1083 basis point fee is troublesome, stated Professor Frank. He proposed sending Fidelity a letter and asking them to provide an explanation about the fee for this fund, which may or may not be an anomaly. Professor Frank also questioned whether the fund is appropriate for a retirement plan offering. Mr. Schenk suggested giving the fund some time, given its newness, to see if the fee normalizes over time. Professor Frank agreed with Professor Hanna's earlier comment that usually vendors will waive fees when a fund is new. Ms. Singer agreed to ask Fidelity asking for an explanation of the 1083 basis point fee for the Fidelity Strategic Adviser Income Opportunities fund.

Professor Feeney asked how frequently the vendors update their fees. Mr. Fisher stated that it depends because the funds have different cutoff dates throughout the year. For due diligence purposes, Professor Feeney requested Renee Dempsey, Senate staff, to put this on the April 7 agenda to see where the fee is at in the spring.

Professor Tims stated that, in his opinion, fees represent an educational/informational opportunity because he believes that a lot of employees probably do not pay attention to them. Professor Feeney acknowledged this point.

VII). Moving on, Professor Feeney introduced the next agenda item, a discussion about developing an advice checklist for employees to use as they plan for their retirement. He stated that since Stuart Mason is just starting discussions with Chief Financial Officer Pfutzenreuter about this idea, the committee will hold off on further discussions on this topic until February or March.

Ms. O'Brien, counsel to the committee, went off the record and briefly summarized from a legal perspective, the University's obligation to employees with respect to retirement planning and the larger context in which retirement plans have evolved from defined benefit plans to defined contribution plans.

Ms. Berkowitz commented that she believes the University has a responsibility, to a degree, to help employees plan for their retirement. As an aside to this comment, Professor Hanna recalled discussions in the late 1970s by the Senate Committee on Faculty Affairs about moving the FRP move from a defined contribution plan to a defined benefit plan. Professor Whitman also remembered these discussions and noted that the faculty voted to not move to a defined benefit plan. He stated that the faculty wanted to retain their independence in terms of retirement planning and were concerned about portability of retirement accounts if they moved to another institution. As she has mentioned a number of times before, stated Professor Hanna, in her opinion, financial health is another form of wellness and there are strategies for encouraging wellness without giving advice. Wellness, in all its forms, is about awareness.

Mr. Schenk reported that when he worked for the University of St. Thomas a number of years ago, the institution brought in a financial planning firm, not to give specific advice, but to educate employees about investing and planning for retirement.

Professor Tims stated that what he took away from last month's discussion was not that the University should provide specific financial advice, but that the institution should aggregate information, provide access to this information and educate employees on planning for their retirement. In his opinion, the existing tools could be better tailored to the changing needs of employees as they get closer to retirement.

Professor Feeney stated that based on his recollection of the October meeting, there were three simultaneous discussions going on 1) hiring a consultant and getting their thoughts on providing advice to plan participants, 2) developing an advice checklist and 3) educating and engaging employees on retirement planning.

Mr. Schenk stated that he uses both Excel and Google Portfolio to track the performance of his investments, and it would be helpful if the University's retirement accounts used a standard symbol, which would make tracking his investments easier. Ms. Singer stated that the FRP accounts that include the recordkeeping fees cannot be priced on the open market because the fees impact the daily prices.

Professor Feeney asked the committee how they want to proceed with this issue. Are members still interested in forming a small ad hoc committee to explore this issue further and bring back recommendations to the full committee? Or, would the committee prefer to continue this discussion at its December meeting?

Professor Tims asked if the University has benchmarked best practices of other R1 universities, e.g., retirement information, resources and tools. This is such a broad question, noted Ms. Singer. She added that the University benchmarks employee benefits against the top ten public institutions at least once a year.

In response to Professor Feeney's earlier question, members decided to continue this discussion at the December meeting. He thanked the committee for a good discussion.

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

Renee Dempsey
University Senate