

SCFA RETIREMENT SUBCOMMITTEE  
MINUTES OF MEETING  
MARCH 3, 2014

[In these minutes: Securian Annual Review]

[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, Thomas Schenk, Nancy Fulton, Joe Jameson, Barry Melcher, Jackie Singer, James Cotter, Murray Frank, Kathryn Hanna, Merrie Kaas, Albert Tims, Andrew Whitman, Vernon Eidman

REGRETS: Wendy Berkowitz, Frank Douma

ABSENT: Stuart Mason

OTHERS ATTENDING: Matt Nyman, investment analyst, Office of Investments and Banking; Rosalie O'Brien, counsel to the committee, Office of the General Counsel

GUESTS: Securian representatives: Rick Ayers, vice president; Brandon Bellin, director & senior associate actuary; 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 present and called for a round of introductions.

II). Members unanimously approved the December 9, 2013 and February 3, 2014 minutes.

III). Following introductions and approval of minutes, Professor Feeney reminded members that the committee annually meets with 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. 2013 Securian business results.
2. Securian's financial strength.
3. Securian's strategy for managing the General Account.
4. 2013 Securian service highlights.

Mr. Manke began by announcing that he will be retiring from Securian soon and introduced who would be replacing him, Rick Ayers, vice president, and Brandon Bellin, director & senior associate actuary.

Mr. Manke shared the 2013 Securian business results. He noted that in 2013, Securian surpassed \$1 trillion in insurance in force, and that company assets grew to approximately \$42 billion, which is a 15% increase over 2012.

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

- Over the long run, Securian targets 8% - 12% growth annually. Over the past 4 – 5 years, Securian is averaging roughly a 9% increase every year.
- As of the end of 2013, Securian was ranked “AAA” by the rating agencies and its risk-based capital (RBC) ratio increased 6% to \$2.6 billion. Securian has a regulatory capital ratio of 515%.
- Securian ranks 14<sup>th</sup> among insurers that are rated by all four rating agencies and its goal is to be in the top 25.
- In 2013, Securian updated its peer comparison group making it a financially stronger comparison group.
- Securian's exposure to “2008-like events” is lower now because it reduced its exposure to public equities. If a 2008-like scenario were to unfold again, Securian's capital change would be 80% of what it was then.
- As of September 30, 2013, Securian led its peer group in its capital and surplus-to-liabilities ratio. The larger this ratio, the better positioned a company is to meet its promise to pay.
- As of 2012, Securian continues to be in the top third of its peer group in terms of risk-based capital (RBC) ratio. (2013 RBC numbers are not yet available).

Moving on, Mr. Manke turned members' attention to the most recent quarterly metrics that have already been shared with Stuart Mason, associate vice president, Office of Investments and Banking, for the Securian Financial Group and Minnesota Life's General Account.

Members' comments/questions included:

- *What are examples of liabilities for Securian in terms of its RBC?* Mr. Zaccaro noted that the RBC ratio is a company's actual capital divided by the minimum amount of capital that regulators require. Each of Securian's businesses has different liability characteristics and they each have their own risk rating factors.
- *The committee has been asking for value at risk or similar metrics as well as stress testing results, but has not received this information. Given the committee oversees the plan performance, it should be provided this information every year as part of the annual review. Could you please provide this risk information?* Mr. Manke stated that he will work with Professor Frank to identify the metrics to be included in future annual reviews.
- *What is Securian most worried about related to the company's stability and growth going forward?* Mr. Zaccaro stated that a continued low interest rate environment is always a consideration as well as where interest rates will go in the future. Spiking interest rates,

either up or down, are an important consideration. Lastly, noted Mr. Zaccaro, continued volatility in the market is also something that is watched carefully.

Next, Sean O'Connell, vice president and portfolio manager, Real Estate and Structured Credit (Advantus) and John Leiviska, vice president and portfolio manager, Corporate Bonds (Advantus) provided detailed information about the General Account. Salient highlights from their presentation included:

- The General Account portfolio is well diversified and of high credit quality.
- Approximately 70% of the General Account assets are in corporate bonds and mortgage securities, and another almost 13% of the assets are in commercial mortgage loans.
- The emphasis in the corporate bond portfolio is on utilities (15.8), financials (23%) and consumer non-cyclical (15.1%).
- New since last year in the corporate bond portfolio are municipal bonds (5.5%). The types of municipals that are being bought are not state or city general obligation, but rather essential services, e.g., electricity, water.
- The top ten largest holdings in the corporate bond portfolio represent 2.90% of the total assets.
- The commercial loan portfolio is valued at \$1,762 million with loans ranging from \$3 million to \$15 million (average loan size is about \$4 million). Securian is the senior lender for all its loans. Loans that are avoided are construction, condo, mezzanine and land. Currently, out of 450 loans, there is only one delinquent loan (\$9.1 million) and one real estate owned (REO) property that was foreclosed on (\$5.2 million).
- The value of the Equity and Alternatives Portfolio totaled \$815.0 million at the end of 2013 and was valued at \$785.8 million at the end of 2012. The General Account is comprised of subsidiaries (\$205.7 million), policy loans (\$351.4 million) and a miscellaneous bucket, which includes corporate real estate owned (\$1,063.4 million).
- As of December 31, 2013, 93.7% of the National Association of Insurance Commissioners (NAIC) bonds in the General Account are investment grade and the remaining 6.3% are below investment grade. NAIC category 1 bonds increased by approximately 2% from 2012 and the NAIC category 4 - 6 bonds (below investment grade) remain well under the industry average.
- As of December 31, 2013, there were no bankruptcies in the corporate bond portfolio and only a modest number (five) in the non-agency securities portfolio. The total watch list holdings decreased to \$152 million, a \$26 million reduction from \$178 million as of December 31, 2012. In Mr. Leiviska's opinion, if Securian would sell all the holdings on its watch list, the total unrealized loss would be approximately \$3 million.

Member questions/comments included:

- *Are there any plans to change the ratio of investment grade to below investment grade bonds in the corporate bond portfolio?* There are has no plans to change this ratio, stated Mr. O'Connell. Securian is an investment grade organization.
- *The Fed seems to be easing back on the stimulus. As this happens, interest rates may start to rise, affecting the yield curve. How sensitive is the funding to parallel shifts in the yield curve? How sensitive is it to flattening or steepening?* Mr. O'Connell stated that he and Mr. Leiviska have been charged with not speculating about interest rates. They manage the duration of the asset side of the balance sheet in line with the liability

duration. *From an oversight perspective, stated Professor Frank, it would be helpful to have some ability to understand what would happen to the portfolio under this scenario.* Mr. O'Connell added that this is done internally and Mr. Manke will be able to provide this information to the committee.

Hearing no further questions, Mr. Manke asked Blake Reigert, manager, U of M Retirement Plans, to provide the committee with a plan service update. Mr. Reigert explained that he has five staff on his team that handle all aspects of servicing the University's retirement plan.

Metrics and key service highlights for 2013 included:

- There were over 15,000 plan participants with Securian in 2013 as compared to just 9,200 in 2003, which is an increase of 67%.
- Given a number of plan participants have multiple retirement plans, Securian serviced almost 20,000 retirement plans.
- There were 1,360 new plan enrollments, which is an increase of 146% over 2003. The large number of new plan enrollments may, in part, be attributable to the IT Job Family Study when a number of Civil Service employees moved into the P&A employee group and were then eligible to participate in the Faculty Retirement Plan.
- Of the 8,776 inbound participant calls handled by Securian in 2013, the average wait time was less than four seconds. These inbound calls represent about 70% of the calls Securian handles, the other 30% are outbound calls made by Securian.
- Securian conducted 289 one-on-one participant meetings. These participant meetings are also held on the system campuses. For example, Securian will be going to Duluth in late April for two days of meetings with plan participants. These meetings are free.
- Website usage increased to 39% in 2013 as compared to 20% in 2003.
- Securian had 17,703 participant service interactions, all of which are recorded.
- Five hundred and seventy rollover/asset transfer contributions were processed on behalf of University participants, resulting in \$22 million in total contributions.
- A number of calculators were added to the Securian website, and, additionally, a number of calculators have been pre-populated with plan participant's Securian account information.
- Securian enhanced its online investment fact sheets by adding a number of risk measures, which this committee requested, e.g., standard deviation, beta, Sharpe ratio.
- Securian enhanced its systematic withdrawal service to allow participants to select the "30<sup>th</sup> of the month" as an option to receive systematic withdrawals. This is in addition to the existing 10<sup>th</sup> and 20<sup>th</sup> of the month options, plus a customized date can be chosen to meet an individual's cash flow needs.
- Securian worked with Employee Benefits to automate Securian's quarter-end reporting to the University, improving efficiency and the overall reporting process.
- A project is underway to streamline the Faculty 401(a) enrollment process, including a new online enrollment service.

Securian provides retirement plan education to participants throughout the year using a variety of methods to help increase their financial wellness and retirement readiness, e.g., statement inserts (the last two years of statements are up on the Securian website), direct mail, in-person education, online content and tools.

Professor Kaas asked if Securian has non-English educational materials. No, stated Mr. Reigert, currently Securian does not have any non-English educational materials.

Professor Hanna asked what percentage of the General Account does University contributions represent. Mr. Manke stated that University contributions make up around 9% - 10% of the General Account.

Professor Tims asked how the University's participation in the 457 and 403(b) plans compares with other institutions that offer these plans. He added that he is concerned that not enough people are aware of and being educated about these plans. Mr. Manke stated that it is difficult to do an industry comparison because a lot of 403(b) participants are state employees who are in a defined benefit plan. Ms. Singer stated that University participation in the 457 plan is roughly 3.5% and participation in the voluntary plans as a whole [457 and 403(b)] plans is about 20% - 25%. Mr. Reigert stated that Securian often sees participants enrolling in a 457 plan after they have reached their maximum contribution amount in their 403(b) plan (max 403(b) contribution limit is \$17,500). Opening a 457 plan, gives individuals who want to save above the \$17,500 cap an avenue for doing so.

Hearing no further questions, Professor Feeney thanked Securian for their presentation and reiterated the earlier request that Mr. Manke provide stress-testing information to the committee. The meeting was then adjourned.

Renee Dempsey  
University Senate