SCFA RETIREMENT SUBCOMMITTEE
MINUTES OF MEETING
APRIL 7, 2014

[In these minutes: Committee Business – Announcements, Period-Ending December 31, 2013 Faculty Retirement Plan Performance Report, Fidelity Strategic Advisor Income Opportunities Fund Basis Points Update, Debit Arrangement to Pay for Financial Advice, Employee Education and Engagement Around Retirement Planning, Vision for a Tiered Retirement Plan]

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

ABSENT: Stuart Mason

OTHERS ATTENDING: Kathryn Brown, vice president, Office of Human Resources; Dan Fisher, retirement programs coordinator; Matt Nyman, investment analyst, Office of Investments and Banking; Rosalie O'Brien, counsel to the committee; Office of the General Counsel

I). Professor Feeney called the meeting to order and welcomed those present.

II). Members approved the March 3, 2014 minutes. Ms. Berkowitz abstained from voting because she was not in attendance at that meeting.

III). Professor Feeney turned members' attention to the materials in front of them and requested that they review this information before the next meeting on May 5th when the committee will continue its discussion on retirement planning tools, education and employee engagement. Professor Feeney asked Vice President Brown if she had anything to add. Vice President Brown reported that she and Jackie Singer, director, Retirement Programs, recently met with the Securian leadership to talk about employee education and engagement among other topics. With that said, she asked members, as they review the materials, to look for content that they like and where they think content might be missing. She reminded members that besides Securian, the University has other vendors, Vanguard and Fidelity, from whom they could get additional educational materials that could be customized for the institution and rolled out over time. Vice President Brown stated that she looked forward to partnering with the committee on their efforts to educate and engage the University population in planning for their retirement.

Professor Feeney thanked Vice President Brown for her comments. He noted that Blake Reigert, manager, University of Minnesota Retirement Plans, Securian, would attend the May 5th meeting to demo the pre-population of data in the retirement planning calculators. This will also be an opportunity for members to talk with him about the educational materials Securian has provided and share their feedback with him. Professor Feeney suggested inviting Vanguard and Fidelity to fall meetings to have a similar discussion.

Before moving on, Professor Feeney noted that Securian sent an email response to the stress-testing question that came up during the Securian annual review at the March meeting. If members have questions about the response, they should send their questions to him and he will forward to Dick Manke and Rick Ayers. Vice President Brown requested that her office be kept in the loop on these questions as well, and Professor Feeney said was happy to oblige.

IV). Professor Feeney asked Dan Fisher, retirement programs coordinator, to comment on the December 31, 2013 period-ending Faculty Retirement Plan (FRP) performance report. Mr. Fisher stated that there are two things to take note of:

1. Because the Fidelity Strategic Income Fund benchmark does not seem to accurately reflect the funds performance, a secondary benchmark has been added for monitoring purposes.
2. The Vanguard International Explorer Fund's performance is on the Retirement Plan Fiduciary Advisory Committee (RPFAC) watch list.

Regarding the Fidelity Strategic Advisor Income Opportunities Fund, which the committee noticed had a 1,083 basis point fee last fall, Mr. Fisher reported that Fidelity is waiving 1,002 basis points of that fee and so the net fee is 81 basis points. This is standard industry practice for a newer fund like the Strategic Advisor Income Opportunities Fund.

Professor Feeney reviewed the RPFAC criteria for its watch list:

- Actively managed equity funds that trail their benchmark by 200 basis points over a three-year period.
- Passively managed equity funds that trail their benchmark by 75 basis points over a three-year period.
- Fixed income funds that trail their benchmark by 100 basis points over a three-year period.

Professor Tims asked if a fund is on the RPFAC watch list whether it is flagged anywhere online so members of the University community would know it is being monitored. Professor Feeney stated that if the performance of a fund on the watch list continued to deteriorate, a decision would likely be made to stop contributions into the fund. Professor Feeney noted that the period-ending performance reports are public information and are posted on the Human Resources website so this information is available to the community.

For the record, Professor Tims then took a minute to thank Vice President Brown and Ms. Singer for seriously pursuing the committee's recommendation that the University do more to educate and engage its employees around retirement planning. Professor Feeney concurred and added that Securian has been very helpful in providing materials/information. Vice President Brown also credited Professor Feeney for his involvement in this area. She added that she would like the committee and the Office of Human Resources to continue to work together on this initiative.

Professor Feeney added that the Vanguard study on practices that can boost portfolios (http://www.investmentnews.com/article/20140310/FREE/140319995?template=printart) is another example of the type of educational material that could be helpful for plan participants. He reiterated his earlier suggestion about inviting Vanguard and Fidelity to a fall committee meeting to talk about what the University is doing in terms of employee education and engagement in retirement planning.

V). Professor Feeney reported that he received a message from a St. Paul campus faculty member inquiring about whether the committee is aware of a debiting method that pays for personal financial planning services at other institutions. After a number of e-mail exchanges, it came out that the University of Michigan has such an arrangement with Filbrandt & Company. Professor Feeney asked Ms. Singer if she would care to comment on this information. Ms. Singer stated that she would like to have time to look into this further and do more research. However, having said that, Ms. Singer stated that if she recalls correctly, all plans do not permit this kind of debiting arrangement, and believes that it is only permitted in 403(b) plans.

Professor Feeney requested Ms. Dempsey, Senate staff, put this down as a future agenda item once Ms. Singer has had time to look into it further. Professor Tims requested Ms. Singer contact the University of Michigan to find out more specifics about this arrangement and how widely it is used, etc.

In response to a question about the benefit of this type of arrangement, Professor Feeney replied that it allows people to get outside financial advice. The comment was then made that people can hire a financial advisor and pay for it out of their pocket rather than depleting their retirement fund.

Professor Hanna requested further discussion on this topic because she would be interested in hearing the pros and cons of such an arrangement and Professor Whitman concurred. Vice President Brown stated that from an administrative perspective, it would be helpful to know whether system modifications would be required because this could be an expensive proposition.

Before moving on to the next agenda item, Professor Feeney mentioned that Northstar Financial Corp has an "are you ready for retirement" analytical tool of some sort. Assuming this ends up being a worthwhile tool, noted Professor Feeney, the committee should have a discussion with the administration to see if there is any way the University would cover the cost if people were interesting in using it. Vice President Brown stated that she is happy to look into this, but reminded the committee about the Enterprise System Upgrade Program (ESUP) that is underway. She added that, rather than the University signing a contract with Northstar Financial Corp, it could simply advertise the tool and individual people could pay the price if they are interested in using it rather than the University covering the cost.

Mr. Jameson stated that he would like to see more OHR resources and initiatives earmarked for staff retirement as opposed to primarily faculty retirement. Vice President Brown acknowledged the comment, but noted that a big difference between staff and faculty is that faculty have tenure and staff do not, and the tenure piece plays a significant role in faculty making retirement decisions. Financially, there are not the same incentives when it comes to staff retiring as faculty.

Professor Tims asked whether the University could establish an age threshold that would incentivize faculty to retire sooner rather than later. Vice President Brown stated that there are federal age discrimination laws that the University needs to abide by, which would constrain what it can do along these lines.

VI). The next agenda item was to be a discussion about employee engagement and retirement planning, which the committee has already talked about somewhat today. Professor Feeney reminded the committee that this discussion will occur in more depth at the May 5th meeting after members have had time to review the materials from Securian.

Ms. Singer stated that as members review the material provided by Securian in preparation for next month's meeting that they should prioritize the marketing campaigns that they think are most important. The reason behind this, noted Ms. Singer, is because each marketing campaign covers a 12 – 18-month timeframe. These messages are not communicated just once over this period but multiple times and in different ways. After the May meeting, the committee should try to reach a consensus on its recommendation for the initial campaign focus. Vice President Brown agreed.

Will there be metrics built into the campaign to know whether it has been successful, asked Professor Kaas? There can be, stated Ms. Singer. For example, if the committee decides to focus on whether people are saving enough and the goal is to increase participation in the optional retirement plans, then, before the campaign begins, the number of people in the optional plans and how much they are contributing would be collected and compared to the results at the end of the campaign.

Professor Tims proposed the committee be more systematic in its approach to determining what employees could benefit most from learning about. The committee and OHR may want to consider holding informal focus groups, conduct simple surveys, etc. to get a handle on topics of interest to the University community.

VII). Moving on to the next agenda item, Professor Feeney asked Vice President Brown and Ms. Singer to share their vision of what a tiered retirement plan would look like. Vice President Brown stated that it would not be until at least the summer of 2015 or after that the University would explore offering a tiered retirement plan because the top priority now is the ESUP project. She added that meaningful conversations about a tiered retirement plan would not begin until sometime in FY16 at the earliest. Ms. Singer stated that she has a broad vision for a tiered plan, which would involve hiring a consultant for the project. Then decisions would need to be made about the core mix of funds to offer in the middle tier (number undetermined at this time). The identification of core funds will be a key element because decisions will need to be made about whether the University should go with active or passive account management of funds, what fund groups to cover, etc. The people who will be most impacted most by the brokerage window tier are those who are currently in the voluntary plans because these contracts are individual investor contracts. This would mean that the current array of funds would hopefully still be offered, but within a tiered structure.

Professor Feeney stated that he wanted to know the vision because he would hate to have the committee waste its time on retirement planning education and engagement if only two funds, for example, would be offered in the middle tier. Ms. Singer agreed that a middle tier with only a couple funds would not serve anyone well.

Professor Frank stated that he hears more requests for credible advice than for a tiered plan with a brokerage window. Vice President Brown stated that this is an issue she has also heard repeatedly over the years. The Board of Regents has clearly stated, on multiple occasions, that they do not want to take on fiduciary responsibility for providing financial advice. This is the reason the focus has turned to education to help individuals become more educated about planning for retirement. Professor Frank stated that there is a middle ground on this issue, and that with a little creativity there could be be a way to avoid legal responsibility and still give people what they want. Professor Tims proposed having Securian aggregate employees’ portfolios and provide them with information about their portfolio without giving advice.

Mr. Schenk reported that TIAA-CREF has set up something similar to a wiki where people can go online and ask a question and get answers from others who are following the wiki. While there could be some danger in providing this service, it would seem to eliminate the concern over the University giving financial advice, yet provide people with a way to get their questions answered. This may be worth looking into.

Mr. Douma stated that given people’s busy schedules, there is a need for simplicity when it comes to retirement planning. He likes the target date funds for this reason and thinks they should be promoted for people like himself who do not have time to adequately manage their retirement planning.

Professor Whitman supported Professor Frank’s comment that people want credible direction in planning for their retirement. People want direction on their individual situation.

Mr. Schenk stated that there is no simple way to do retirement planning. Planning for retirement takes time and effort. People need to understand that the return value of the time they spend on retirement planning is extremely worthwhile. There is nothing this committee can do to make retirement planning easy. While the planning calculators are helpful, they are worthless unless people understand the context in which they are being used. If people don't understand their own risk tolerance, they cannot plan for retirement. People have to prepare themselves for the fact that planning for retirement takes work. Professor Feeney agreed but stated that the committee can help by providing resources to facilitate the planning process. He added that while this committee facilitated the development of the calculators, it did not think about how to integrate these tools into the retirement planning process.

Vice President Brown stated that she is committed to getting as much retirement planning information out to people as possible so they have better financial literacy, and, for people who are contemplating retirement, an understanding of their options. She agreed with Mr. Schenk's comments about people either needing to invest the time necessary to plan for their retirement or hiring a financial advisor.

At the conclusion of the discussion, Professor Whitman proposed forming subcommittees to have people to focus on the different topics/issues that the committee feels needs attention. Professor Feeney agreed and stated that subcommittees will be formed at the May meeting.

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

Renee Dempsey
University Senate