

SCFA RETIREMENT SUBCOMMITTEE
MINUTES OF MEETING
OCTOBER 6, 2014

[In these minutes: Vanguard – Retirement Planning Tools/Resources, Ad Hoc Committee Updates, New Retirement Options, Second Quarter Faculty Retirement Plan Fund Performance]

[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, James Cotter, Murray Frank, Kathryn Hanna, Merrie Kaas, Albert Tims, Andrew Whitman, Vernon Eidman

REGRETS: Frank Douma, Jackie Singer

ABSENT: Stuart Mason

OTHERS ATTENDING: 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; Andrew Parks, portfolio manager, Office of Investments and Banking

GUESTS: Vanguard representatives Lance Grenier and Nick Tylawsky

1. Professor Feeney convened the meeting, welcomed those present and called for a round of introductions.
2. As background information, Professor Feeney said the committee has been working on trying to improve employee engagement in planning for retirement. Last year, members decided to meet with the major vendors to see their retirement planning tools. He then welcomed Lance Grenier and Nick Tylawsky from Vanguard.

Following a few introductory remarks by Mr. Grenier, the meeting was turned over to Nick Tylawsky. Mr. Tylawsky began by providing information on Vanguard's educational approach. He said that Vanguard has a Center for Retirement Research, which looks at participant behaviors across all of its clients. This information allows Vanguard to broadly look at participant behaviors and draw conclusions about where it should focus its educational efforts.

Mr. Tylawsky turned members' attention to a PowerPoint presentation in front of them. He noted that while participant education is important, plan design is even more important. Plan design dictates participant behavior. While most participants have good intentions when it comes to planning for retirement, turning their intentions into action is often challenging. For example:

- Sixty-eight percent of employees know they need to save more for retirement.
- Twenty-four percent of employees plan to save more.
- Three percent of employees actually follow through on their plan.

Four common mistakes in retirement planning are:

1. Not join the plan soon enough.
2. Not save the right amount.
3. Not chose the right investments.
4. Not know how to turn savings into spending.

Vanguard uses behavioral finance as its primary driver for creating a balanced plan design with multi-channel communications. Mr. Tylawsky walked members through the PowerPoint and highlighted examples of communication strategies Vanguard uses:

- Make it easy for people to participate in the plan by making the welcome experience a positive one.
- Content personalization.
- Meaningful segmentation of information.
- Peer-effect messaging.
- Webinars.
- Targeted email messages.
- On-demand and in-person meetings.
- Newsletters.

Mr. Grenier said that frequently competing interests prevent people from participating in a retirement plan, e.g., saving for a college fund. Vanguard communications help participants deal with competing interests.

Member questions/comments included:

- How does University of Minnesota retirement participation compare to other Vanguard clients? Overall, participants across the board have similar behaviors and the University is no different, replied Mr. Tylawsky. Core behaviors are primarily age and life-event driven. Mr. Grenier reminded the committee that Vanguard has more data on the Optional Retirement Plan because Securian is the recordkeeper for the Faculty Retirement Plan (FRP). It is difficult for Vanguard to extrapolate data from the limited information it gets on the FRP. He added that Vanguard would like to work with the University and its other vendors to get at general data to help identify trends, etc.
- Can participants aggregate their other investments using Vanguard's retirement planning tools? Assets from other providers can be aggregated but this would be a manual process, said Mr. Tylawsky. Mr. Grenier noted that Vanguard's recordkeeping structure is open architecture and does not require only Vanguard funds on their recordkeeping platform. Vanguard has many other company's funds on its recordkeeping system, which creates a more integrated view.
- Please provide information about Vanguard's advice options. Mr. Grenier said Vanguard offers independent, third party advice. [Note: This is a service offered

by Vanguard outside the FRP to all who wish to purchase it on an individual basis. Participants may, of course, always purchase financial advice from whomever they wish.] The outcome is dependent upon making the advisor aware of all the investments a participant has. There is a clear distinction between advice and education. Advice involves telling someone what to do and this should never be done with partial information. Alternatively, Vanguard has certified financial planners on staff who can work with participants to gather all their investment information. Once all the information is pulled together, the financial planner assesses it and provides a written financial plan, including specific plan investments. This is an interactive and personal service offered by Vanguard. Mr. Grenier said he would get back to the committee with information about the fee for this service. Participants who do not need this level detail could instead chose to have a one-on-one consultation with a Vanguard retirement planning counselor, and there is no charge for this service.

- Does Vanguard have a planning tool for people who are close to retiring to make sure they have the right asset mix, etc. Mr. Tylawsky referred members to an online tool developed by Vanguard:
https://retirementplans.vanguard.com/ekit/pmed/retirement_income_center/index.html.
- How does Vanguard evaluate its financial planners? This is a fiduciary issue for a number of Vanguard's clients, said Mr. Grenier. While their qualifications are important, the due diligence around any financial planner starts with the company they are employed by. It is important they are with a solid company and that their advice is independent/non-partial. Vanguard does not have commissioned sales people who push products. Financial planners need to put the participants' needs first and accumulate the necessary data to give effective advice. Vanguard stresses a long-term investment strategy when planning for retirement. Trying to time the market is not recommended. Any credible financial planner does not make decisions simply based on the market, and factors in risk-aversion.
- Does Vanguard sell long-term care insurance? No, said Mr. Tylawsky.
- It would be helpful if Vanguard employees knew the details of the University's retirement plan and what Securian offers as well as be able to answer questions on estate planning, long-term care insurance, etc.
- Please explain what factors are taken into consideration in Vanguard's retirement income modeler tool, e.g., Social Security, minimum required distribution. Mr. Tylawsky explained that all factors are taken into consideration, but, unfortunately, he did not have this particular presentation on his computer today. He agreed to get back to the committee with this information.
- What is the University's rate of participation in the 457 and 403(b) plans? Mr. Tylawsky said this is hard to answer because Vanguard does not know how many people are eligible to participate.
- Why aren't the Vanguard investment options for the 457 and 403(b) plans on the Securian portal? Not all investment options that are available to participants are on the Securian portal and this is troubling. Mr. Grenier said that Vanguard feeds Securian information about the FRP, but not the 457 and 403(b) plans. Vanguard would be delighted to feed Securian information about the other plans as well. He

reminded members that Vanguard has an open architecture recordkeeping system, which allows it to put other vendors' funds on its system. Vanguard would be happy to have a discussion with the University about creating a more consolidated view of funds available to participants. Professor Feeney noted that this seems to indicate there is a lack of understanding about individual contracts because the 457 and 403(b) plans are individual contracts.

- Fidelity recently opened another office in the Twin Cities, has Vanguard ever thought of opening an office here? Mr. Grenier said it is not the Vanguard business model to have satellite offices. It is an expensive business model to have satellite offices. Vanguard's business model is to grow its business by word of mouth and the reason it has been successful has to do with objective performance fueled by low costs.
- Please provide the committee with a clear understanding of what advice giving options are available, and the associated costs. Mr. Grenier said he would send that information to Professor Feeney for dissemination to the committee.

Professor Feeney thanked Mr. Grenier and Mr. Tylawsky for a good discussion, and Mr. Grenier and Mr. Tylawsky in turn thanked members for their time.

3. Next, the committee spent time receiving updates on the progress made by the three ad hoc committees that were formed last spring:

- Aggregation of Useful Reference Materials Work Group.
- Engagement/What Faculty and Staff Want Work Group.
- Retirement Planning Tools/Calculators Work Group.

Regarding the Aggregation of Useful Reference Materials Work Group, reported Professor Hanna, the work group met once, but needs to reconvene. Professor Whitman said he drafted a summary of what the work group discussed and will share it with the committee.

The Engagement/What Faculty and Staff Want Work Group met at the end of June, reported Professor Kaas, and she has written a report, which she will share with the committee. The work group created a wish list containing four items:

- Embrace retirement health like employee health.
- Serve underserved demographic populations based on culture and/or language and gender/age perspectives.
- Provide engagement strategies for financial literacy to participants and get them the information when they need it.
- Create messaging around retirement planning, e.g., check-in, check-up and checkout for different groups.

Professor Feeney said he and Professor Tims are on the Retirement Planning Tools/Calculators Work Group, which met once. The ideas that came out of this meeting have been sent on to Securian and they will be invited to the February meeting to talk about the tools they will be able to deliver.

Professor Eidman added that he addressed the University of Minnesota Retirees Association (UMRA) members at one of their board meetings and explained what the Retirement Subcommittee was focusing on. Retirement topics that UMRA would be interested in included:

- Offer more socially responsible funds.
- Receive information/offer seminars on managing retirement income when individuals are no longer contributing to the plan.
- Visit with participants who have transferred their money out of Securian to Vanguard and find out why they decided to do this.

Professor Eidman said he would be meeting with UMRA members over the next few weeks to flesh these ideas out.

On a different topic, Professor Tims raised concern about the retirement options that Vice President Brown brought to the committee last spring. He noted there is a lot of confusion around the tenure surrender option. Dan Fisher, retirement programs coordinator, explained that new tenure trade option came about because Human Resources had been getting requests for alternative retirement options to the phased retirement and terminal agreement options. He noted that Ms. Singer would be able to provide more details about the how this option came about at a future meeting.

Professor Tims said that giving up tenure has a lot of implications for senior faculty, e.g., faculty would no longer be able to vote on tenure cases. While the public comment period will have ended before the committee meets again, Professor Feeney said that the implications of this option could still be discussed at a future meeting. In the meantime, he suggested Professor Tims email Vice President Brown to find out under what circumstances this option would be used. Professor Hanna agreed she would be interested in hearing about how this option came about even if the public comment period is over.

Professor Hanna asked for an update on the RFP that was issued to hire a consultant to do an evaluation of the University's FRP. Professor Feeney said it is his sense that the purpose for hiring a consultant is to identify plan design best practices and, at some point in the future, possibly use the consultant to redesign the FRP. The Retirement Plan Fiduciary Advisory Committee (RPFAC) is spearheading this undertaking.

4. Professor Feeney asked Mr. Fisher to go over the second quarter FRP fund performance results. Mr. Fisher said the performance results had been sent out along with the agenda and hopefully members had an opportunity to review them. In terms of the RPFAC watch list, currently there are no funds on the watch list. The Fidelity Strategic Income Fund, which had previously been on the watch list, has since been taken off now that a second benchmark has been established for that fund.

Professor Frank said he has been asking for quite some time that volatility measures, e.g. standard deviation, be included as part of this report rather than just average returns.

Having this information would make the report much more informative. Mr. Fisher said he will check to see if this information can be provided.

Professor Feeney asked members if they would like to see another participation report. Hearing interest from members, Professor Feeney asked if Mr. Fisher could prepare such a report for the November meeting and Mr. Fisher agreed.

Professor Tims noted that there are still some funds that have high basis point fees. Are fees ever reviewed? Yes, said Professor Feeney, fees are reviewed every spring. He asked Mr. Fisher to also report on fees when that report is complete.

Mr. Schenk asked why the decision was made to offer a hybrid social choice fund rather than an equity fund. Professor Feeney explained that this decision came about because participants were unhappy with the volatility of the social choice equity fund that was offered because it did not have the bond buffer in it. As a result, the RPFAC did its due diligence around this issue and a decision was made to offer the Pax World Balanced Fund as the social choice fund.

6. Hearing no further business, Professor Feeney adjourned the meeting.

University Senate
Renee Dempsey