Minutes*

Faculty Affairs Committee
Thursday, February 27, 1992
3:15-5:00 p.m.
Regents Room, 238 Morrill Hall

Present: Avner Ben-Ner (chair), Carl Adams, Carol Carrier, Daniel Feeney, Roger Feldman, Richard Goldstein, Audrey Grosch, Steve Laursen, Diane Mulvihill, Donald Rasmusson, George Seltzer, Bernard Selzler, W. Donald Spring, Michael Wade, Gayle Graham Yates

Guests: David Berg (MPIS), Robert Fahnhorst

MINUTES

The February 6 Minutes were approved as presented.

CHAIR'S REPORT

Professor Ben-Ner convened the meeting at 3:15, reviewed upcoming agenda items, and gave a status report of the Health Plans Task Force recommendations.

"WALDORF BILL"--RE STUDENT SUPPORT FORMULA CHANGE

Professor Ben-Ner introduced Mr. David Berg, Director, Management Planning & Information Services (MPIS), who was invited to discuss the implications of the "Waldorf Bill" on the University of Minnesota. Mr. Berg explained that the "Waldorf Bill," authored by Senator Gene Waldorf, and co-sponsored by Senator Mike Jaros, proposes a change in the student funding formula. Further, he noted that the data in the report is calculated on what the proponents say the Bill means--not the way it currently reads, and is based on the assumption that no student's behavior will change if the Bill is approved. [report attached]

Approval of the Bill, he said, would result in the following:

1) State support of instructional costs would be cut from 67% of current instructional costs (73% for the Technical Colleges) to 34% of instructional costs including instructional related debt service
2) assumed tuition revenue would be approximately doubled
3) assumed student aid would be sharply increased
4) the distribution of combined federal and state awards would change
5) living and miscellaneous allowance would move to the 50th percentile of actual and be indexed to the CPI(U).

According to Mr. Berg, Senator Waldorf, a longtime supporter of higher education and the U of M,

---

* These minutes reflect discussion and debate at a meeting of a committee of the University of Minnesota Senate or Twin Cities Campus Assembly; none of the comments, conclusions, or actions reported in these minutes represent the views of, nor are they binding on, the Senate or Assembly, the Administration, or the Board of Regents.

initiated the Bill because he felt it would be many years before the State would be able to put more money into undifferentiated support of higher education (non-need based support). Simply stated, the Bill would double tuition and triple student aid. One major problem with the Bill is that it is designed for undergraduates and overlooks the fact that there are professional and graduate students in the system. Doubling tuition for professional and graduate students would be unthinkable. The University has requested the Bill be amended to distinguish between undergraduate and professional and graduate education. Senator Waldorf has assured the University that should the Bill become active, this correction will be made. Another major problem with the Bill is that its proponents analyze it to mean that the technical colleges would be brought up to the same level of tuition assumption as the collegiate systems.

The Bill, however, does not read that way.

Based on fiscal year 1991, Mr. Berg said, approximately $159 million of instructional appropriation now goes to the University of Minnesota, approximately $86 million is collected in tuition, and the debt service associated with that, which is currently paid by the State, is $17 million. Under the Waldorf Bill, approximately $89 million of instructional appropriations would go to the University, approximately $173 million would be collected in tuition, and there would be zero instructional debt service. The result is a savings for the State and an increased burden to students.

There are pros and cons to the Bill. Arguments in favor include:

- It would maintain the University's spending authority base for undergraduate instruction at about $245 million.

- It directs student aid more carefully toward those who need it.

- It moves the assumption for Technical College tuition to the same level as the assumption for other systems, thus releasing some $14.6 million of spending authority for higher education at no cost to other systems.

- It makes more efficient use of the State's ability/resolution to fund higher education.

Arguments against the Bill include:

- It goes against the populist grain.

- Can a State put this policy into effect in isolation? Should this not be a federal issue?

- Effects on the interstate reciprocity agreements must be considered.

- General elasticity effects are ignored in the present simulations.

- The cost of athletic scholarships would increase sharply.

- The purchasing power of all non-need based scholarships would be diminished by about half.

- Nonresident tuitions at other public research universities might look very attractive to high ability Minnesota students. The University resident tuition would be the highest of any purely public research university in the AAU group.

Mr. Berg pointed out that if the Bill is approved, it would provide strong incentives for students of low family incomes to stay in Minnesota and take advantage of the aid. Students from families with higher incomes, who would not qualify for aid, would have no incentive to stay in Minnesota. Since studies clearly show that measured student ability is positively correlated to family income, the Waldorf Bill, in effect, is a bill to retain the least able students in Minnesota and allow the most able to go elsewhere.

A number of committee members expressed agreement that passage of the bill would have disastrous effects not only for the University of Minnesota but for other higher education institutions in the State. It was strongly recommended that students be encouraged to actively lobby against the Bill and that central administration continue to take an active role, perhaps even a pro-active role, in the debate.

FACULTY RETIREMENT PLAN

Professor Goldstein, chair of the Faculty Retirement Plan Subcommittee, reported that he had written to Provost Infante reminding him about eliminating the notch (step) in the Faculty Retirement Plan by having a uniform University contribution of 13 percent to the Basic Plan for all those in the Plan. This will mean a fixed difference of about $525 for each individual into their basic faculty retirement plan.

Professor Goldstein said the role of the Subcommittee has been to generally review the investment performance of the various options on both the Faculty Retirement Plan (also referred to as the Basic Faculty Retirement Plan or MILLS I) and on the Optional Retirement Plan (also referred to as the Optional Tax-deferred Annuities Plan or MILLS II). The Basic Plan is mandatory for all those who are eligible and the Optional Plan is, obviously, optional. Professor Goldstein distributed performance tables on the plans, which were prepared by the Asset Management Office. He expressed appreciation to Roger Paschke, Diane Mulvihill, and Roger Fahnhorst for their invaluable help and support.

Professor Goldstein pointed out that on December 31, 1991, the 403(b) Plan Assets account, which includes all monies invested before July 1, 1989, totalled $622 million. Of that amount, $404 million is in what is referred to as the General Account. The other accounts are either bond portfolios or equity accounts.

Money invested after July 1, 1989, was put into a 401(a) Plan Assets account. As of December 31, 1991, it totalled approximately $79 million, of which $45 million is in the General Account.

Professor Goldstein said it is the Subcommittee's view that younger faculty should consider investing their money in accounts other than the General Account because over the long run, they out-perform the General Account. He distributed a handout showing the relative performance of the various investment options, as of December 3l, 1991, and said the same information is printed quarterly in the Employee Benefits Newsletter.

Responding to a question on the total number of faculty participating in the plans, Professor Goldstein said, all faculty have money invested in the General Account but he does not have an exact total. Figures show, 64 percent of money invested, is being invested in the General Account, 33 percent in the equity accounts, 1 1/2 percent in bond accounts, and 1 1/2 percent in money market accounts. Most money in the General Account is invested in Minnesota Mutual Insurance Company and Northwestern National Life Insurance Company. The General Account currently earns about 8 percent interest.

In view of the large sum of money U of M faculty have invested in Minnesota Mutual and Northwestern National Life and the Subcommittee's concern about the stability of insurance companies in general, it is currently reviewing possible options to assure the safety of those assets.

Professor Rasmusson, member of the Retirement Subcommittee, expressed concern that not enough faculty are taking advantage of available investment opportunities and encouraged broader education. In an endeavor to gain greater participation, Mr. Fahnhorst said the

Employee Benefits Department now meets individually with every new employee to discuss investment options through the University, and for the past 2-3 years, has been periodically holding financial planning seminars. He reminded SCFA members that Employee Benefits can only provide financial planning information and not advice on where one should invest his/her money. He added, that employees who seem most unaware of the performance figures and variety of options are those faculty who have accumulated large sums of money that are invested in fixed assets. Faculty approaching retirement might also appreciate information that would help them make decisions about transferring their investments.

One committee member suggested conducting a survey to determine why more faculty do not take advantage of the University's investment opportunities.

SCFA asked the Subcommittee to review the issue of education and report back to the committee during the Spring Quarter.

In closing, Professor Ben-Ner commended the Subcommittee for its hard work and for the invaluable service it provides to all faculty. As indicated in the report, U of M faculty have invested large sums of money in the retirement program and the Subcommittee is the only faculty group that monitors the plan. On behalf of the faculty and SCFA, he expressed sincere appreciation and gratitude to the Subcommittee.

-- Martha Kvanbeck

University of Minnesota