

SCFA RETIREMENT SUBCOMMITTEE  
MINUTES OF MEETING  
NOVEMBER 13, 2003

[In these minutes: Call to Order, Follow-Up Discussion to the November 10, 2003 Minnesota Life Annual Investment Review, Possible Investment Additions to the Faculty Retirement Plan, Post Retirement Health Care Savings Plan, Waiting Period for New Faculty to Participate in the Faculty Retirement Plan]

[These minutes reflect discussion and debate at a meeting of a committee of the University of Minnesota Senate or Twin Cities 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.]

PRESENT: Richard Goldstein, Gavin Watt, Barry Melcher, Jackie Singer, Chris Suedbeck, Gordon Alexander, Daniel Feeney, Kathryn Hanna, Jean Kinsey, Herbert Pick

ABSENT: Michael Murphy, Dwight Purdy

REGRETS: Warren Ibele, Fred Morrison

I). Professor Goldstein called the meeting to order.

II). Professor Goldstein asked members what kind of follow-up they would like to see resulting from the annual investment review conducted by Minnesota Life on November 10<sup>th</sup>. In Professor Goldstein's opinion he would like to see:

- Minnesota Life renegotiate their fee structure (the fees that Minnesota Life charges the University to manage its retirement accounts).
- Benchmarks established in order to measure fund performances.

Professor Goldstein requested Jackie Singer provide the Committee with a simple analysis comparing fund performances of Minnesota Life and TIAA Cref using assumed contributions over a period of time. In addition, he

requested Ms. Singer provide the Committee with a rough idea on what Minnesota Life charges the University to manage its retirement accounts.

Next, members shared their impressions of the annual investment review meeting, which took place on Monday, November 10<sup>th</sup>. Overall members thought the meeting went quite well. Minnesota Life, in the end, agreed to:

- Provide Ms. Singer with the Fee Report that was discussed (Laura Pierson).
- Investigate further revenue sharing options for the Fidelity Funds within the 401A Plan (Richard Manke).
- Reconsider the 10 basis point fee on the American Century Funds.
- Look into moving the 401A funds into Admiral Shares.

Members continued their discussion. Highlights from the discussion included:

- According to Ms. Singer, the University should not be incurring basis point fees on our 401(a) assets that are continuing to grow, given the size of the assets under management at Minnesota Life.
- If the University is considering moving its assets from Minnesota Life, it is important to remember there are a lot of restrictions on the current contracts. If the University goes out to bid it would be less attractive than other plans in the market because the University cannot move many of its assets to a new provider, although it can change contributions going forward.
- The question was posed, is combined reporting worth the cost the University is being charged by Minnesota Life?
- Calculations indicate that Minnesota Life holds almost \$1 billion of University retirement plan participant's money, and this represents approximately 15% of their total asset base. As a result, it may be time to renegotiate the fee structure they charge the University. Minnesota Life earns a significant amount of revenue off the University's accounts.
- There are alternatives to moving money out of Minnesota Life. As an example, the University could add another competing plan.

III). Professor Goldstein, with input from committee members, scheduled the Committee's next meeting for Tuesday, December 9<sup>th</sup> from 10:30 -

12:00. Professor Goldstein charged Renee Dempsey, Senate staff, with sending out a meeting reminder and scheduling a room.

IV). Last month the Committee reviewed the University's current Faculty Retirement Plan investment style and discussed the possibility of additions to the investment options. According to Ms. Singer, it is the University's intent to offer a wide range of investment options with reputable representatives in each group e.g. funds that have broad applicability and that are strong performers within their class. At the last meeting, the Committee charged Ms. Singer and Chris Suedbeck with looking into mid cap blends, small cap blends and world bonds that could be added to the investment options in the 401A account.

After much analysis Ms. Singer and Mr. Suedbeck made the following recommendations:

- In terms of a mid cap blend, the Vanguard Mid-Cap Index fund is an attractive option. It performed well, has a high Morningstar rating, high capitalization and low basis point fee structure. Ms. Singer provided members with 'fund fact sheets' on the various options that were considered. She suggested that members read this information before the next meeting and be prepared to discuss it further in December.
- With respect to adding a small cap blend, Ms. Singer and Mr. Suedbeck recommend the Fidelity Low Priced Stock fund. Although it has a higher basis point fee, it has a fabulous rating and the returns are wonderful. Mr. Suedbeck pointed out to the Committee that this fund has a very large capitalization of \$23,529 million. Basically, this fund could determine its own performance by investing and buying companies. The performance of this fund over the past five years has been phenomenal; unfortunately, it is unlikely these returns will continue at this level. Ms. Singer noted that the Vanguard Small-Cap Index returns are also quite good. Therefore, if the Committee decides there is too much risk with the largely capitalized Fidelity Low Priced Stock fund, the Vanguard Small-Cap Index is a viable option. One committee member suggested that both options be offered.
- Ms. Singer and Mr. Suedbeck researched two world bond funds, Minnesota Life's Advantus International Bond and Scudder's Global

Bond. Regarding these world bond funds, while the returns on the Advantus International Bond appear fine, Ms. Singer and Mr. Suedbeck are concerned about the fund's small capitalization. Mr. Suedbeck added that the Advantus team is the group that left Minnesota Life. The other world bond that was looked at is Scudder's Global Bond. This account has consistently performed below the Advantus International Bond. According to Mr. Suedbeck, the Office of Asset Management terminated its relationship with Scudder due to underperformance issues. The Committee asked Ms. Singer & Mr. Suedbeck to pull information on international bond funds to see if there are any viable options in this category.

V). Post Retirement Health Care Savings Plan (PRHCSP) Update - There have been no developments with regard to establishing a Post Retirement Health Care Savings Plan at the University. It was noted that Professor Fred Morrison, in his role as chair of the Benefits Advisory Committee (BAC), may be taking this issue on. Regardless, there are many unresolved issues surrounding the PRHCSP.

VI). Members discussed the waiting period for new faculty in the Faculty Retirement Plan (FRP). Several members voiced concerns over this policy and how it differentially impacts different departments and the impact it has on a department's ability to recruit new instructors. Professor Goldstein asked members if the Committee should pursue this matter further. Dr. Goldstein charged Jackie Singer with sending Renee Dempsey, Senate staff, the data she recently shared with SCFA that compares the University's FRP with other major universities. Once Ms. Dempsey receives this information she will distribute it to the Committee for review. Ms. Singer noted that to date only 8 people (out of 70 tenure-track hires) have been affected by this policy change. Dr. Goldstein requested that Ms. Singer also forward this information to Ms. Dempsey for dissemination to Committee members.

VII). In closing, Ms. Singer recalled the items she was asked to work on. She noted that she would provide Ms. Dempsey with a retirement plan comparison and the SCFA materials, which compare the University's retirement plan with that of other major universities. Once Ms. Dempsey receives this information she will electronically distribute it to the Committee. Then, for the next meeting, Ms. Singer will bring information on

fee breakdowns for the University's retirement plan providers along with breakdowns by manager for the various providers. In addition, she will bring estimates of contributions overtime in the various TIAA CREF and General Account investments. Lastly, she and Mr. Suedbeck will research international bond funds.

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

Renee Dempsey  
University Senate