

SCFA RETIREMENT SUBCOMMITTEE
MINUTES OF MEETING
OCTOBER 4, 2004

[In these minutes: Call for Agenda Items, Meetings with Minnesota Life, Fiduciary Responsibility, Fund Additions to FRP Update, FRP Investment Performance, Exchange-Traded Funds (ETF), Roth 403b]

[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: Daniel Feeney, chair, Carol Siegel, Gavin Watt, Barry Melcher, Jackie Singer, Gordon Alexander, Kathryn Hanna, Jean Kinsey, Michael Murphy, Herbert Pick

REGRETS: Richard Goldstein, Dian Lopez, Fred Morrison

ABSENT: Chris Suedbeck

OTHER: Joseph Jameson

I). Professor Feeney called the meeting to order and asked those present to introduce themselves.

II). Professor Feeney asked members, besides the list of agenda items distributed on September 27th, does anyone have other items they would like addressed this year. A member suggested receiving information about Health Savings Accounts (HSA), mentioned in the Medicare Act of 2003.

Gavin Watt, chair of the Benefits Advisory Committee, noted that HSAs are being looked at as part of the UPlan for 2006. Ms. Singer added that a current requirement to participate in a HSA is that individuals must be in a high deductible health care plan. Definity would be the only plan under the current UPlan that qualifies as a high deductible plan. It was also mentioned that a shortcoming of HSAs is that there is a limit on how much a person can contribute to their account. A HSA is not a venue for saving large amounts of money for post retirement health care costs.

Professor Feeney stated that he will add this item to the list of future agenda topics.

II). Professor Feeney asked for member's input on how they would like to have the meetings with Minnesota Life structured and who should be invited. Members agreed that one of the two yearly meetings should include the full contingency of Minnesota Life representatives and then the second meeting of the year should be a smaller, more intimate meeting.

For the November 1, 2004 meeting with Minnesota Life it was decided that the following Minnesota Life representatives should be in attendance: Greg Strong, Lynne Mills, Dick Manke, Laurie Pierson. Members felt it was optional for Dianne Orbison and Randy Wallake to attend. Professor Feeney asked Jackie Singer to contact Minnesota Life and invite these individuals.

Members went on to discuss what is the Subcommittee's role in terms of fiduciary responsibility to plan participants. Ms. Singer stated because the Faculty Retirement Plan is a governmental plan it is not subject to ERISA (Employee Retirement Income Security Act). Therefore, the University's fiduciary responsibility falls under the jurisdiction of State law, which is a much greyer area. In terms of the Retirement Subcommittee, Ms. Singer is under the impression that the Board of Regents has not specifically delegated any fiduciary responsibility to the Subcommittee. She suggested, however, that it would probably be a good idea to double-check the Delegation of Authority Policy to verify this. She went on to add that the Retirement Subcommittee's role is that of an advisor.

Professor Feeney posed the question, does the Retirement Subcommittee have any fiduciary responsibility to inform other relevant Senate committees that Minnesota Life has been downgraded twice in the last two years. It was decided that Professor Feeney would share this information with Professor Morrie Kleiner, chair of SCFA, and invite him to the November 1st meeting with Minnesota Life. Ms. Singer also suggested inviting Associate Vice President of Asset Management Stuart Mason to this meeting. Additionally, Ms. Singer agreed to mention the downgrades to Vice President of Human Resources Carol Carrier to find out if it should be brought to the attention of the Board of Regents, and, if so, how such a matter would work its way through the system to get there.

A member suggested that research be done to investigate why Minnesota Life has been downgraded twice in two years. Ms. Singer stated she would follow-up with Chris Suedbeck of Asset Management to see what information he may have on this. Another member suggested distributing objective information to plan participants on the strengths and weaknesses of the different investment options in the Faculty Retirement Plan.

Ms. Singer noted that the Faculty Retirement Plan website (<http://www1.umn.edu/ohr/eb/frp/options.htm>) was recently rewritten to include all the funds. While the language in the past used to describe these accounts has been 'guaranteed accounts', a concerted effort is being made to change this language to 'general accounts'. Additionally, wherever the 'guaranteed accounts' language is retained it is being qualified by a statement which states that these accounts are guaranteed by the full-faith and credit of the company issuing the fund.

Related to the University's fiduciary responsibility to Faculty Retirement Plan participants, it was agreed that Ms. Singer and Mr. Suedbeck would draft a newsletter for plan participants addressing the issue of risk. This document will be distributed as an insert with the quarterly statement ending December 31, 2004. As a courtesy, this document will be shared with Minnesota Life and TIAA CREF before it is sent out.

III). Jackie Singer reported on the addition of funds to the Faculty Retirement Plan. She distributed a copy of the communication piece that will be sent out the with Faculty Retirement Plan statements announcing these additions.

Members agreed that it would be wise to review on an annual basis investment options within the Faculty Retirement Plan.

IV). Ms. Singer distributed a handout, which contained information on the investment performance of the Faculty Retirement Plan for period ending June 30, 2004. It was noted that this information can be found on the web at: <http://www1.umn.edu/ohr/eb/uplan/investres.htm>

Ms. Singer also reported that she is in the process of drafting an Investment Fund Policy. She stated that the draft of this policy would be shared with this Subcommittee before it goes to the Board of Regents in the spring.

V). Professor Feeney introduced the next topic, Exchange-Traded Funds (ETF). He noted that a plan participant has requested that this feature be made available to

all Faculty Retirement Plan participants. Members debated the pros and cons of offering such a feature. It was noted that in the past the Subcommittee has taken the position that it is not interested in promoting the rapid turn over of funds/'day-trader' mentality.

Issues related to ETFs that were discussed included:

- Retirement funds are being monitored very closely for violations of frequent trading rules. ETF accounts specifically encourages this behavior; does the University want to promote this?
- ETFs have higher transaction costs because they trade like stocks.
- Recordkeeping is not set up to handle ETF transactions because they trade like stocks. All of the recordkeeping arrangements currently available are geared to trade mutual funds.
- From an administrative perspective, a brokerage window arrangement would need to be set up.
- Investment firms do not set up brokerage windows for specific funds; rather these windows are only opened for broad groups of funds and stocks. How much more choice should plan participants have? Are plan participants already overwhelmed with the number of investment options they currently have?
- What role would the University play in educating participants about ETFs and how would this information be communicated to participants?

For the time being members concluded their deliberations on this topic. Additional information on ETFs will be collected and shared with members before a final decision is made on how to proceed.

VI). Professor Feeney referred members to the Roth 403b information supplied by Minnesota Life, which was attached to the October 4 agenda. Members agreed to have Minnesota Life devote approximately 10 minutes at the November 1st annual investment review meeting to learn more about the advantages and disadvantages of Roth 403b accounts.

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

Renee Dempsey
University Senate