

SCFA RETIREMENT SUBCOMMITTEE  
MINUTES OF MEETING  
NOVEMBER 13, 2006

[In these minutes: Meeting with CFO Pfutzenreuter regarding Retirement Accounts in the Faculty 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, Carol Siegel, William Van Essendelft, Gavin Watt, Barry Melcher, Jackie Singer, Chris Suedbeck, Gordon Alexander, Kathryn Hanna, Dian Lopez, Michael Murphy, Burt Sundquist

REGRETS: Richard Goldstein

OTHERS: Dann Chapman, Fred Morrison

GUESTS: Rosalie O'Brien, Richard Pfutzenreuter

I). Professor Feeney called the meeting to order.

II). The committee met with Richard Pfutzenreuter, the University's trustee and chief financial officer to discuss TIAA-CREF. Professor Feeney reminded those present that both this subcommittee and the Retirement Plan Fiduciary Committee recommended that the University cease future contributions to TIAA-CREF.

Vice President Pfutzenreuter reported since he received this recommendation, Jackie Singer, director of Retirement Programs, Stuart Mason, chief investment officer, Rosalie O'Brien, associate general counsel and he met several times to discuss the matter. Since the recommendation, there has also been one face-to-face meeting with representatives from TIAA-CREF to communicate the University's concerns.

Vice President Pfutzenreuter noted he brought their recommendation to the attention of the President, a few Board members and some senior academic leaders who cautioned him to be sure that all aspects of ceasing future contribution to TIAA-CREF were thoroughly considered. He added that the issues that have been identified could be grouped into four categories:

1. Operational
2. Audit findings
3. TIAA-CREF governance
4. Fees and performance

Vice President Pfutzenreuter does not think that the TIAA-CREF fee increases are out of line in comparison with other financial institutions. Members noted that their concern had more to do

with the way TIAA-CREF raised its fees and with fees having been raised in light of its operational issues. Without defending TIAA-CREF, Vice President Pfutzenreuter noted that TIAA-CREF believes its fee increases are justifiable for the following reasons:

- Their fees have been below market averages.
- They need to invest in technology, which has not been upgraded for quite some time.
- They need to hire more qualified investment personnel.

In the committee's opinion, stated Professor Feeney, TIAA-CREF's fees were out of line in relationship to the services being delivered to the University e.g. on-going participant transaction and transfer mistakes and reporting errors. Another concern has had to do with what appears to be a change in the TIAA-CREF business philosophy, which has been demonstrated by TIAA-CREF's partial withdrawal from selected state's 529 (education planning services) business as well as long-term care business.

Professor Morrison stated that part of the increased fees issue is related to TIAA-CREF's new governance structure and the fact that TIAA-CREF can no longer be considered an academic retirement association. TIAA-CREF is simply another mutual fund. With this said, the University needs to compare TIAA-CREF with other retirement funds.

In terms of audit findings and TIAA-CREF's governance structure, Vice President Pfutzenreuter pointed out that these issues occurred in the past. He stated while he understands the committee has looked at all the problems related to TIAA-CREF in their totality and come to the conclusion that future contributions should be ceased, each issue should be evaluated for accuracy and given appropriate weight.

Another concern expressed by the committee had to do with the recruitment of Elizabeth Monrad from the General Re Corporation to serve in the capacity of executive vice president and chief financial officer of TIAA-CREF. Shortly after assuming this position she was indicted on charges of participation in a fraudulent scheme to manipulate AIG's financial statements while with General Re. This situation raises the question of whether TIAA-CREF properly evaluates the people it hires. TIAA-CREF's response to this indictment was virtually non-responsive and raises the question of whether TIAA-CREF's ethical standards coincide with that of the University.

The primary issue for Vice President Pfutzenreuter has to do with TIAA-CREF's operational issues, which include its on-going participant transaction and transfer mistakes and reporting errors. TIAA-CREF has had similar operational issues for some time, and while it has corrected specific occurrences that have been identified, the same kinds of issues have continued to occur. Professor Feeney raised the question of the University's fiduciary responsibility given its knowledge of TIAA-CREF's on-going operational issues and apparent inability to correct the underlying causes of these problems.

Other concerns/comments mentioned for Vice President Pfutzenreuter to consider as he decides what, if any, action should be taken regarding TIAA-CREF:

- While some FRP participants watch their statements very carefully, there are likely a fair percentage that do not. For those that do not watch their statements closely, how would they know whether a mistake has been properly corrected?
- TIAA accounts are not guaranteed, but simply an obligation by TIAA to pay. There could come a point when TIAA's ability to pay on these accounts could come into question. What is the stability of TIAA in the long run?
- Should the University periodically go out to bid for its retirement plan vendors? The University goes out to bid on all of its other vendor contracts on a regular basis.
- Although no provider is error-free, TIAA-CREF should be accountable for some minimal level of accuracy when it comes to handling participant's accounts and generating reports for the University.
- At what point is it in the best interest of FRP participants that the University add another General Account vendor? Sufficient options should be made available to FRP participants.
- There should be a level of transparency to FRP participants concerning TIAA-CREF issues.
- Simply because TIAA-CREF has been a long-time University vendor, a matter of inertia, does not mean it is the same company that it was when the University contracted with it many years ago. FRP participants could likely be basing their current investment decisions on their understanding of what TIAA-CREF stood for 10, 20 or 30 years ago. Consideration should be given to linking articles in the public domain e.g. Wall Street Journal concerning TIAA-CREF to the committee's website.
- The University should bring all FRP vendors under the same scrutiny.
- If future contributions to TIAA-CREF are prohibited, this would leave Securian as the only General Account vendor. FRP participants need more options.
- From the perspective of the Employee Benefits Department, what information should it be sharing with Retirement Plan participants?
- The change in TIAA-CREF's philosophy indicates that it is not the same company it was from a previous generation.
- What implications are there for the Retirement Subcommittee, the Retirement Plan Fiduciary Committee, the University Trustee and the institution as a whole if the issues surrounding TIAA-CREF are not communicated to FRP participants?
- The Retirement Subcommittee meets with Securian periodically to obtain detailed performance information. The University should be sure to obtain the appropriate level of information on the performance of all providers.
- Multiple committee members expressed concern that the attention of FRP participants is not being directed to important information that could factor into their investment decisions. The information is available, but perhaps additional steps could be taken to encourage participants to be more active and diligent in managing their individual accounts.

The option of putting the University's retirement benefits out for bid was suggested. Ms. Singer stated that this is an option, however, she cautioned because of the way the assets are designed, the problem could be magnified, and it could add another layer of complexity to the Plan. Because of the way retirement plans are funded in the governmental sector, it is not as simple as picking up blocks of money and depositing it with a new provider. Another consideration to

weigh is if an RFP is issued for another General Account vendor, the accuracy of bids would depend on bidders knowing the intended total number of General Account vendors. In response to this statement, the suggestion was made to have vendors bid on a few different scenarios. Ms. Singer added that consolidated statements must also be factored into the equation should the University issue an RFP for another General Account vendor.

Vice President Pfutzenreuter asked Ms. Singer to explain the process for securing another FRP vendor should future contributions to TIAA-CREF be restricted. Ms. Singer stated that in terms of the non-General Account funds, equivalent fund options with other current vendors have been identified. With respect to offering another General Account option, an RFP would need to be issued. She reminded those present that if this were done there would be a period of time before a new vendor is selected and, as a result, Securian would be the only General Account vendor.

Vice President Pfutzenreuter reiterated his major concern with TIAA-CREF is its on-going individual reporting and transaction mistakes.

Professor Feeney stated there have been several issues that have influenced the committee's decision to recommend future contributions to TIAA-CREF be ceased. With this said, at what point should the committee share these issues with the broader University community? The committee's recommendation to cease future contributions were based many issues uncovered by the committee.

Rosalie O'Brien stated there is nothing legally prohibiting the University from ceasing future contributions to TIAA-CREF or refusing to add new TIAA-CREF fund options to the FRP line-up. She cautioned that members of the committee should be careful that any statements they make are factually true or clearly identified as their personal opinions.

The HRMS implications of adding another General Account vendor were briefly discussed.

Professor Feeney thanked Vice President Pfutzenreuter and Rosalie O'Brien for attending today's meeting of the Retirement Subcommittee to hear firsthand the committee's concerns regarding TIAA-CREF.

III). Ms. Singer announced FRP third quarter return and fund mapping handouts were available for members to pick up as they leave. She also reported that the Board of Regents met and approved the elimination of the waiting period that had previously been imposed before assistant professors and instructors could participate in the Faculty Retirement Plan.

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

Renee Dempsey  
University Senate