

SCFA RETIREMENT SUBCOMMITTEE
MINUTES OF MEETING
APRIL 2, 2007

[In these minutes: Securian Annual Review, TIAA-CREF Update, Miscellaneous Business]

[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, Barry Melcher, Jackie Singer, Chris Suedbeck, Gordon Alexander, Dian Lopez, Michael Murphy, Burt Sundquist

REGRETS: Gavin Watt, Fred Morrison

ABSENT: Richard Goldstein, Kathryn Hanna

OTHERS: Joe Jameson, Rosalie O'Brien, counsel to the committee

GUESTS: Securian representatives Dick Manke, Vice President, Securian Retirement; Lynn Mills, Advantus Senior Vice President, Portfolio Manager Minnesota Life General Account; Blake Reigert, Manager, U of M Retirement Plans; Greg Strong, Senior Vice President, Chief Actuary & Treasurer; Randy Wallake, Vice Chairman & Executive Vice President

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

II). Professor Feeney welcomed today's guests from Securian who were invited to provide the committee with an annual investment review. Dick Manke highlighted the topics that would be covered in this review:

- Securian structure
- Advantus overview and General Account review
- Financial strength
- Plan assets
- Retirement industry outlook

To begin, Randy Wallake turned members attention to the Minnesota Mutual Companies, Inc. organizational chart. He noted that Minnesota Mutual Companies, Inc. (parent company) was formed in 1998 when it converted from a mutual company to a mutual holding company under State of Minnesota legislation. Minnesota Mutual Companies, Inc. has two holding companies, Securian Holding Company and Securian Financial Group, Inc. Securian Financial Group, Inc. is the primary holding company of which Advantus Capital Management, Inc. is a subsidiary.

Companies under the Minnesota Mutual Companies, Inc. umbrella that would be of interest to the University include:

- Minnesota Life Insurance Company – This is the company that issues the University’s annuity contracts and the operating company that has the vast majority of Minnesota Mutual Companies, Inc. life and annuity business.
- Securian Financial Services, Inc. – A Minnesota corporation organized primarily for the purpose of conducting business as a registered broker/dealer.
- CNL Financial Corporation – A Georgia corporation organized for the purpose of holding subsidiary corporations.
- CRI Securities, LLC – A Minnesota limited company organized primarily for the purpose of conducting business as a registered broker/dealer.
- Personal Finance Company, LLC – A Delaware limited liability company organized for the purpose of engaging in the consumer finance business.

A member asked whether Minnesota Mutual Companies, Inc. was a privately held company. Mr. Wallake stated that members own Minnesota Mutual, some of whom are policyholders. State legislation defines what is meant by a member as not all policyholders are considered members. The owner of the FRP is the University of Minnesota but individual policyholders are the members when it comes to the Optional Retirement Plan and the 457 plan.

Do Minnesota Mutual members ever vote on anything asked a member? Yes, stated Mr. Wallake, at the company’s annual meeting when, for example, members vote for the Board of Directors. Proxies are sent out in advance of this meeting. Mr. Wallake stated that votes are not weighted by assets under management. A member pointed out that while Minnesota Mutual has roughly 6 million members, the University, despite having significant assets under management at Minnesota Mutual, only has one vote.

A member asked who at the University receives the University’s proxy? A couple members who participate in the ORP reported never having received a proxy from Minnesota Mutual. Dick Manke volunteered to check into both these matters and report back to the committee.

A member requested additional information on the Personal Finance Company, LLC and asked whether this company is doing any sub prime lending and whether default rates are increasing. Greg Strong reported that Securian has very few mortgage related loans. The loans they do have are home equity loans and represent 2% of its holdings, and their regular loans are under \$5,000 signature loans generally secured by furniture or appliances. Default rates on these regular loans are staying consistent at about 3%.

What percentage of Securian’s business does the University of Minnesota represent asked a member? It was reported that Securian’s total assets are approximately \$24 billion of which the University makes up \$2 billion of the total. Dick Manke asked members to keep in mind that a significant amount of the \$2 billion is for recordkeeping, which is going to Vanguard and Fidelity.

Next, Advantus Senior Vice President Lynn Mills provided the committee with an Advantus update and highlighted the following:

- Advantus had another record sales year in 2006.

- Assets under management continued to grow with approximately \$18 billion under management, which is up from \$16.4 in 2005.
- Advantus investment professionals have the extensive experience needed to deliver outstanding investment performance. Eighty four percent of its investment professionals hold CFA designations, advanced degrees or both.
- The organization has been relatively stable in terms of personnel.

Moving on, Ms. Mills provided the committee with a 2006 General Account (GA) update and reported that:

- Individuals investing in the General Account are investing in the financial strength of Minnesota Life.
- The General Account's investment philosophy emphasizes high quality assets, diversification, competitive return, asset allocation and dynamic balance.
- A bulk of the assets in the GA are fixed income in nature, e.g. bonds, mortgages, cash. Statutory capital in the account was almost \$2 billion at the end of 2006. The GA's asset mix does not change much from year to year.
- Bond portfolio statistics:
 - There are slightly over 500 separate credits in the bond portfolio.
 - Average exposure is just shy of \$13 million.
 - The 10 largest credit exposures in the bond portfolio represent 2.5% of total assets.
 - Largest sector exposures include the mortgage-backed arena encompassing residential securities and commercial mortgage bonds, industrials and finance.
- The corporate bond portfolio is diversified and total \$3.3 billion at the end of 2006. The largest exposure in the portfolio is in financials.
- One bond in the GA bond portfolio was in default as of 12/31/06.
- As of 12/31/06, there were 4 credits on the internal watch list totaling \$12.9 million. Credit losses in 2006 totaled \$1.5 million, which is very low.
- The commercial mortgage portfolios totals slightly over \$1 billion and contains 303 loans. Currently, this portfolio has no delinquencies.
- Real estate exposure in the GA account (broadly defined) totals \$4.5 billion.
- Elements of the surplus capital investment strategy include diversification, and long-term growth. The result of this investment strategy has been a 7.3% compound statutory capital growth over the last 10 years.
- Minnesota Life continues to invest in and expand its knowledge base and use of derivatives both to support the products of the company and to more efficiently manage the assets in the GA.
- Fourth quarter Gross Domestic Product (GDP) was 2.5%. The economy has been growing and this slow growth trend is expected to continue in 2007. The U.S. economy is currently very consumer driven.
- Inflation is not expected to be much of a problem in the near future. There are two powerful forces that are keeping inflation in check, globalization and continued investment in technology.
- In terms of the federal fund rate, unless the economy slows significantly from where it is now, short-term rates will likely stay high.

- The historical yield curve indicates that long-term rates have drifted up a little over the past year. It is anticipated that this trend will continue and rates will stay low.
- Advantus Capital Management outlook:
 - Economic growth will be moderate with below long-term trend over the next four quarters.
 - Inflation is trending toward 2.0% in late 2007 (Fed range 2.2% - 2.4%).
 - Not much change in rates.
 - Single digit market returns for both fixed income and equities.

Questions/comments from members:

- What percentage of the GA bond portfolio are BBB bonds? Ms. Mills stated that 30% of the bond portfolio is made up of BBB bonds, and the remaining 67% of the bond portfolio is comprised of single A and higher bonds.
- Is the decrease in the number of bonds on the bond portfolio internal watch list attributable more to the economy than Minnesota Life's bond picking ability? Ms. Mills stated that historically Minnesota Life has maintained a higher quality bond portfolio than the industry, however, there is no doubt that Minnesota Life has been influenced by the general economic environment where corporate credit quality is quite good.
- How are safety and yield balanced? Is it possible to get information comparing the GA yield with that of other insurance companies? Ms. Mills noted that she is responsible for managing assets in such a way that would support the overall financial strength of Minnesota Life. Naturally, quality is paramount, but a competitive return is also very important. Yield information for other insurance companies is not publicly available. Greg Strong added that total GA information is available, but this information does not give enough detail to look at specific investment types. He added that in terms of yield comparisons, it is important to compare similar plans. Mr. Wallake suggested that the best way to benchmark the University's GA would be to compare it to a specific security, for example, a 10 year treasury note, and track the returns.
- Does Minnesota Life compare asset allocation information among the different insurance companies? It would be good to share this information with the committee. Minnesota Life looks at its peer groups when it is able to get this information.
- Has quality become more important since Minnesota Life's ratings have declined? Is it likely that Minnesota Life's rating will increase in the future? According to Greg Strong, overall industry ratings have declined over the past 6 – 7 years. Minnesota Life's relative ratings have remained fairly stable compared to its competitors. Minnesota Life compares itself to companies that subject themselves to being rated by all four of the major rating agencies, A.M. Best, Moody's, Standard & Poor's and Fitch. Ratings are all voluntary (with the exception of Best who rates everyone) and some companies choose not to be rated by all the agencies. There are 16 company groups that have Minnesota Life's ratings or higher from all four rating agencies (out of roughly 820 company groups in total). The vast majority of the companies with a higher rating than Minnesota Life are much larger. For Minnesota Life's size, it has higher relative ratings than any other company of a similar size. One of the best measures of relative safety is a company's capital to liabilities ratio. This ratio is the measure of capital adequacy used by the National Association of Insurance Commissioners. Minnesota Life's capital represents a 25% safety cushion on all its liabilities; this is the highest percentage among

Minnesota Life's 19 peer companies. Rating agencies, however, do not rate solely on relative safety, but consider several other factors including size and breadth of product offerings (Minnesota Life is very specialized in its product offerings). Both of these elements factor significantly into a company's overall rating. It is Minnesota Life's goal to be in the top 25 companies that are rated by all four rating agencies.

- TIAA-CREF has much higher ratings than does Minnesota Life and they are in the annuity business. Randy Wallake noted that this is because TIAA-CREF is the number one annuity writer in a very specialized market in the country. Mr. Strong added that the retirement market is not viewed the same as the individual annuity market; it is a much higher quality business in the eyes of the rating agencies.
- How does Minnesota Life set its targeted return for the GA? During the asset allocation process noted Ms. Mills, discussions take place around expected returns. Additionally, Minnesota Life's actuaries provide input during this process.
- Are more companies offering Roth 403(b)s to their employees? Mr. Manke stated that now that legislation has made the Roth 403(b) permanent, Minnesota Life is seeing an increased interest around the 403(b); however, this has not yet translated into an increase in the number of companies adding the Roth 403(b) to their offerings. Should the University decide to offer a Roth 403(b), Minnesota Life would be able to accommodate this request.
- How does Securian get paid for handling the University's consolidated recordkeeping? Six basis points are shaved off the returns given to the participants and this pays for the Securian consolidated recordkeeping services. (100 basis points equals 1%). Fidelity acknowledges that Securian is doing some of its recordkeeping work, and they give Securian 4 basis points, which is called revenue sharing. Securian passes this revenue sharing onto participants, thus reducing participants' basis points to 2. While most funds do some sort of revenue sharing, Vanguard does not. However, as 401(a) funds reach a certain level in the plan, Securian negotiates with Vanguard for admiral share pricing.
- In going out to bid for a new GA, what should the University consider? According to Mr. Manke, issues to consider include a vendor's ability to do data feed to Securian for consolidated recordkeeping purposes and to look at how they credit interest.

Next, Blake Reigert walked members through plan assets for the Faculty 403(b) Plan prior to July 1, 1989, Faculty 401(a) Plan after July 1, 1989, Optional 403(b) Plan and the 457 Deferred Compensation Plan.

A member asked whether Securian has control or ownership over the Vanguard or Fidelity securities in the plans. Mr. Wallake noted that these assets are held in a separate account that is appropriately named because they are separate from the GA. The money is actually with the fund management company and Securian cannot touch these assets.

Professor Feeney thanked the Securian representatives for their presentation.

III). Jackie Singer updated the committee on what has transpired since the University's decision to terminate contributions to TIAA-CREF. To date, Ms. Singer reported meeting with the following groups regarding this decision:

- CAPA Benefits and Comp, CAPA Exec and full CAPA
- Civil Service Comp and Benefits and full Civil Service
- SCFA
- Coordinate campus Chancellors
- Twin Cities Deans
- Benefits Advisory Committee

Dann Chapman, director of Employee Benefits, will also be going to Duluth to address UEA regarding this decision.

A member requested that the minutes reflect that at the SCFA meeting, certain faculty spoke very disrespectfully to staff providing an update on this issue. Faculty would never tolerate being spoken to by staff in this same manner.

Ms. Singer reported that MnSCU recently hired TIAA-CREF to provide their deferred compensation recordkeeping as a sole provider. A few days after the University's decision to terminate contributions to TIAA-CREF, MnSCU posted on its website a series of questions and answers and a personal email from their TIAA-CREF client account manager to all MnSCU participants. In certain instances, the Q&A appeared as if the University responded to the questions. As a result, Ms. Singer contacted her MnSCU counterpart requesting that information concerning who drafted the Q&A be referenced on the site as well as a disclaimer that the answers do not represent the views of the University of Minnesota.

In light of the TIAA-CREF decision, all enrollment kits have been updated, Securian applications have been updated, and all communication pieces have gone out. The corrected Securian forms are almost done and work on the RFP to secure another GA vendor continues.

A member asked whether Herb Allison, TIAA-CREF's chairman of the board, visited the University. Ms. Singer reported that Mr. Allison along with TIAA-CREF's CFO and the head of their institutional client services group visited the University. The committee briefly went off the record to discuss this meeting.

Then, after a fair amount of discussion about fee analysis, members passed a motion directing Ms. Singer to request a full fee disclosure from the University's retirement plan vendors so that a total revenue analysis can be conducted.

Additionally, the committee unanimously voted to attach the letter Professor Feeney drafted to SCFA to its website.

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

Renee Dempsey
University Senate