

JOINT MEETING OF THE SCFA RETIREMENT SUBCOMMITTEE & THE RETIREMENT
PLAN FIDUCIARY ADVISORY COMMITTEE
MINUTES OF MEETING
AUGUST 13, 2007

[In these minutes: Statement on Accounting Standards (SAS) No. 70 Update, RFP Results for New General Account Vendor]

[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: Michael Murphy, chair, Carol Siegel, William Van Essendelft, Gavin Watt, Nancy Fulton, Joe Jameson, Jackie Singer, Chris Suedbeck, Daniel Feeney, Richard Goldstein, Kathryn Hanna, Kathleen Hansen, Dian Lopez, Stuart Mason

REGRETS: Barry Melcher, Gordon Alexander, Burt Sundquist, Andy Hill, Rosalie O'Brien, counsel to the committee

I). Professor Murphy called the joint meeting of the SCFA Retirement Subcommittee and the Retirement Plan Fiduciary Advisory Committee to order.

II). Stuart Mason called on Jackie Singer to provide the committee with information on the University's retirement vendors Statement on Accounting Standards (SAS) No. 70 report summaries. She noted that the SAS No. 70 is an external auditors report. Auditors review and test the effectiveness of a provider's internal controls based on the American Institute of Certified Public Accountants (AICPA) Statement of Accounting Standards No. 70. Two types of audits can be conducted, a Type 1 Audit in which case auditors issue an opinion on the design of a provider's internal controls, or a Type 2 Audit where auditors look at both the design of a provider's controls and their effectiveness.

Type 2 Audits are very useful for benefit plans that are required to file a Form 5500 with the Department of Labor. In the case of a Type 2 Audit, auditors have actually done sample testing on various transactions to make sure that a provider's controls are working the way they are intended to. A Type 2 Audit saves individual plan sponsors time and money because they do not have to conduct these tests themselves.

The types of opinions that result from these two types of audits are either "qualified" or "unqualified". In their reports, auditors describe whether the provider's controls are presented fairly, whether they are designed effectively, whether controls were in operation as of the testing date (Type 1 Audit), and whether the controls operate effectively overtime (Type 2 Audit). Vendors want to receive an "unqualified" opinion.

Ms. Singer solicited the University's retirement vendors to get the results of their SAS No. 70 reports. Significant findings included:

- "Unqualified" opinions (no exceptions noted, everything was represented fairly and operating effectively) were received by Scudder Investments for the second half of 2006, Fidelity Investments, T. Rowe-Price, Vanguard and Securian. Securian's situation, however, is somewhat different than the other vendors in that while their 401k business is audited every year, their University of Minnesota platform is not. Securian has made arrangements with the University to conduct a SAS No. 70 every 3 years, and the last time this was done it received an "unqualified" opinion, which is good. Aside from Securian conducting a SAS No. 70 every three years, their auditors conduct an annual audit similar to the process required by Sarbanes-Oxley for publicly-traded companies.
- A "qualified" opinion was received on Scudder Investments for the first half of 2006. Scudder in the first half of 2006 did not achieve 2 of their 14 objectives, which tended to be cash reconciliation issues. During the second half of 2006, Scudder received an "unqualified" opinion, indicating these issues had been resolved.
- In terms of TIAA-CREF, results of their SAS No. 70 were provided to Ms. Singer under the terms of confidentiality. At this point the committee went off the record.

III). Mr. Mason called on Ms. Singer to provide the committee with a progress report on the University's efforts to secure another General Account (GA) vendor.

Before issuing the RFP, Ms. Singer reported reviewing a list provided by Securian of the 24 companies they compare themselves against as a way to identify companies that might offer a GA product. Also, Ms. Singer received a list of possible vendors from Watson Wyatt, which she reviewed as well. From these sources, nine organizations were identified and asked to bid on the University's RFP. Unfortunately, the University received no bids.

Ms. Singer went back to these 9 organizations to find out why they chose not to bid and of the organizations that responded their reasons included:

- Unable to provide the services the University requested.
- Only interested in full-service, single vendor relationships, and, therefore, not interested in offering multi-vendor services.
- Limited product offerings for Minnesota and/or no appropriate products that match what the University is looking for.

Ms. Singer went on to note that she heard from Watson Wyatt who reported hearing from a number of organizations that a GA offering is an outdated investment product that is not broadly offered in the marketplace.

Ms. Singer solicited members' opinions on what steps should be taken next. Mr. Mason added that while the results of the University's RFP to secure a new GA vendor were enlightening, it left the University empty-handed. Options open to the University include:

- Do nothing, which means continue offering the Securian GA product, but do not look for a second vendor. If the University ends up with only the GA at Securian, it will want to be very clear in its communications with plan participants about what a GA is and what the GA guarantee means.
- Reissue the RFP and open it up to other types of accounts, such as stable value, fixed value, asset allocation funds, individual annuities, or other appropriate types of accounts, including options for people that are risk adverse or who do not want to have to think

about their retirement money. Ms. Singer noted that adding a stable value account/ fixed value account may not necessarily be the answer because the University's retirement plan already contains fixed income products.

- Stop all contributions to the GA if this product is that outmoded.

In Ms. Singer's opinion, she is not as concerned about the lack of competition issue with only one GA vendor because TIAA-CREF is still providing a GA product, just without the benefit of ongoing investments. The University will continue to monitor TIAA-CREF's returns against Securian's returns and will, therefore, have a good indication if either vendor's rates drop as compared to the other.

Questions/comments from members included:

- If GA products are being phased out, what are they being phased out in favor of? Ms. Singer stated generally fixed value products/stable value accounts. Mr. Suedbeck noted that stable value accounts are essentially a step up from a money market account. The objective is to maximum income, while stabilizing value. The mix of investments is different than that of the GA. Mr. Mason added that a stable value account is a managed fund, and not a guarantee by the insurance company like the GA, nor is it a commingled fund with the insurance company.
- Was AIG invited to bid? No, stated Ms. Singer.
- Consider offering asset allocation accounts, which would give individuals a reasonable degree of blend and financial stability.
- Is the University prohibited from using institutional money through an institutional product to buy individual annuities? If not, consider issuing an RFP for individual annuities. Ms. Singer was uncertain whether this is prohibited by law, but noted that individuals cannot purchase stocks and bonds this way. She added that it has been her experience that most individual annuity products require a lump sum purchase as opposed to contributing to the annuity fund on an on-going basis. Assuming this was legal, recordkeeping could be a significant issue.
- What percentages of plan participants invest a majority of their money in the GA account? Ms. Singer did not have this information available, but noted that University plan participants have \$1.1 billion invested in Securian's GA and \$163 million invested in TIAA-CREF's GA. Overall, plan participants are quite risk-averse.
- Where have people that previously put their money in the TIAA-CREF GA account put their money since future contributions and rollovers have been terminated at TIAA-CREF? Knowing this may give the committee a feel for the type of investment accounts that should be more seriously explored. Ms. Singer stated that she does not have the detail of this information yet; it is still too early to know. The first report that will shed light on this question will be the September 30th quarter-end report.
- Do other Big 10 schools, or schools similar to the University offer GA accounts? Has there been any discussion among the Big 10 schools of establishing a consortium and offering a GA product through the consortium? Ms. Singer noted that most of the GA contracts are individual contracts so there is not a volume-pricing incentive.
- Do any of the University's current providers offer stable value funds? In Ms. Singer's opinion it is likely the University's current providers would offer this type of account. However, she is concerned that in terms of cash flows in the traditional annuity, it is

uncertain whether there is enough money there for vendors to create this product for the University.

- The fact that Securian will have no GA competition is of concern. Ms. Singer stated she would be more concerned if all the GA money had been taken out of TIAA-CREF. Because there is still \$163 million invested in the TIAA-CREF GA, the University will continue to receive reports, which will allow it to monitor TIAA-CREF's rates and compare them to Securian's rates.
- When will Enterprise Financial System (EFS) be implemented and how long is it expected to take? Implementation is expected to start April 1, 2008 and last at least a year, noted Ms. Singer. Ms. Singer reminded members that once the EFS project is underway it would be impossible to put a new vendor in place until this project is complete
- The committee needs to have a presentation on other investment account options and how they compare to the GA. If the GA is truly outmoded then the University needs to explore finding a new option.
- Last year the committee discussed asset allocation funds, but decided not to pursue this option until RFP results were received. Should the committee continue to discuss trying to replace the GA, or should it look at products that are somewhat similar to the GA product such as a stable value fund, or should the committee look at asset allocation funds?
- What is an asset allocation account? It was noted that the asset allocation of participants' account balances varies by age and this asset mix changes as the individual ages. Inherent in the asset allocation theory is that asset performance varies from year to year. With this said, it is recommended that an individual have a variety of different asset classes in order to meet his/her investment return objectives.
- It seems that a lot of people invest in the GA not because they are risk adverse but because they don't know where to invest their money. What can be done to help people understand their options? Members agreed that the September 30th quarter-end report data would provide the committee with insight into where plan participants are putting their money since the decision was made to terminate all future contributions and rollovers to TIAA-CREF as of July 1, 2007.
- Ideally, the committee would like advice products to be available to plan participants for all the University's investment options. Ms. Singer stated that in the current environment, it is unlikely that the University would be able to get advice product information on all the options available to the University's plan participants.
- Is it the committee's responsibility to stop plan participants from making bad investment choices? No, it is the University's responsibility to ensure, to the extent possible, that appropriate investment options are offered. Based on today's discussion regarding the outmoded GA, it might not be a bad idea to find a replacement for it.
- Look into the Vanguard asset allocation account that is not age adjusted like most, but instead the asset mix shifts based on what is happening in the market. Wellington also has a similar fund.
- What affect will implementation of EFS have on the selection of a default account? Ms. Singer noted that if the University decides to add an investment fund from one of the University's current investment providers there would be no problem. The problem with the GA was that the University was looking to go outside its current vendor line-up, which meant infrastructure issues and PeopleSoft programming issues.

Professor Murphy asked members if they felt there was a need for a September SCFA Retirement Subcommittee meeting. Currently, the next scheduled meeting is for October 1st. Members agreed that unless there was pressing business, there is no need to convene until October.

In terms of agenda items for the October meeting, Professor Murphy suggested discussing the best way to inform the University community about the outcome of the RFP. Other ideas generated by members for future agendas included:

- Exploring the possibility of a new default option.
- Look into asset allocation funds.
- Receive information regarding where plan participants are investing their money now that future contributions and rollovers to TIAA-CREF have been terminated.
- Brainstorm tangible ways the committee can educate plan participants on their investment options without crossing the advising line.

Professor Murphy asked members between today and the next meeting to think about other things the committee would like to accomplish this year.

Ms. Singer summarized what information she would be responsible for bringing back to the committee at its October 1st meeting. She mentioned the following:

- The breakdown of the money market account based on age distribution.
- Aggregate allocations on where contributions are going in the FRP.
- Suggestions for how best to communicate RFP results to the University community.

Then, as soon as the 3rd quarter financial reports are summarized, Ms. Singer noted that she would bring back information on how plan participants are actually transferring money now that future contributions and rollovers to TIAA-CREF have been terminated.

Professor Murphy stated he would be inviting Dick Manke from Securian to provide a brief report to the committee about their experience since the July 1 cut off of future contributions and rollovers going to TIAA-CREF.

IV). Professor Murphy welcomed a new committee member to today's meeting, Professor Kathleen Hansen. He asked that she introduce herself.

V). Hearing no further business, Professor Murphy adjourned the meeting.

Renee Dempsey
University Senate