SCFA RETIREMENT SUBCOMMITTEE
MINUTES OF MEETING
NOVEMBER 5, 2007

[In these minutes: Follow-up from Securian Update, FRP Investment Returns for Third Quarter 2007, Default Fund, Future Agenda Items]

[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, Gavin Watt, Nancy Fulton, Barry Melcher, Jackie Singer, Chris Suedbeck, Gordon Alexander, Daniel Feeney, Kathryn Hanna, Kathleen Hansen, Dian Lopez, Burt Sundquist

REGRETS: Joe Jameson, Richard Goldstein

ABSENT: William Van Essendelft

OTHERS ATTENDING: Rosalie OÕBrien, counsel to the committee; Renee Dempsey, committee support specialist

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

II). Members unanimously approved the October 1, 2007 minutes.

III). Professor Murphy solicited member's comments regarding the Securian update from the committee's October 1st meeting.

A member commented that the University's decision to stop all future and rollover contributions to TIAA-CREF has been a windfall for Securian. Perhaps now would be a good time to talk to Securian about the fees it charges the University and try to get them lowered. Ms. Singer stated that she asked Securian about this when the TIAA-CREF announcement was made. Securian told her that because more contributions would be coming to Securian, the University would hit its breakpoints faster, which would reduce its costs. Ms. Singer reminded members that Securian reduces its recordkeeping fees when the University hits certain specified breakpoints. (Breakpoints are based on money that is being put into non-Securian funds, e.g. Vanguard and Fidelity).

In terms of the General Account (GA), Securian has been handed a windfall noted a member. It makes no sense that they only reduce the recordkeeping fees in the non-Securian accounts.

A member asked Ms. Singer what dropping a basis point means in terms of dollars. Ms. Singer reported that the last time the University dropped a basis point it saved the plan about $53,000.

Another item for discussion, noted Professor Murphy, stems from a conversation he had with Securian prior to their presentation at last month's meeting when Securian shared information about the services they provide the University. Professor Murphy posed the question of whether the University should consider foregoing some of the services provided by Securian in an effort to reduce plan costs.

Alternatively, noted a member, rather than cutting services, the University could ask Securian to increase the rate it pays on the General Account. Ms. Singer stated that she will continue to get the GA rate information from TIAA-CREF which will enable her to benchmark Securian's rates to make sure that Securian is paying a competitive rate.

IV). Ms. Singer distributed copies of the Faculty Retirement Plan (FRP) investment returns for period-ending September 30, 2007. Turning members' attention to the handout, she noted that there was not a lot to comment on other than the fact that the Fidelity funds performed exceptionally well this quarter and year to date.

A member requested that in the future Ms. Singer add the money market and GA rates to this handout. Ms. Singer stated that she can do this going forward. She noted that the money market and GA information has historically been reported separately. This information is on the web.

V). Professor Murphy provided the committee with some basic information on default funds. He prefaced his remarks by saying that the information he was about to share is based on guidelines promulgated by the U.S. Department of Labor under ERISA (The Employee Retirement Income Security Act of 1974). While the University is technically not bound by ERISA, it is the best reference for law covering pension plans and standards of conduct for plan fiduciaries.

Professor Murphy stated that under ERISA a plan sponsor (the University) has increased fiduciary responsibilities for plan assets when a participant fails to exercise control over available investment options. Under Section 404c of ERISA, if a participant exercises control over his/her account, and the plan complies with applicable regulations, the plan sponsor's fiduciary exposure is limited, though not eliminated completely. Professor Murphy stated that it appears to be in the best interest of the University to have plan participants make an active decision about where to invest their retirement money.

Do employees, as part of their employment agreement with the University, have to sign a form saying that they have been given an opportunity to decide where to invest their retirement income, and if they do not decide then this money will be put in the default fund asked a member? Ms. Singer stated that the whole issue with the default fund is that employees are put in this fund because they have not returned their paperwork.

Professor Murphy highlighted certain requirements outlined in a regulation recently promulgated by the U.S. Department of Labor that provides safe harbor relief from fiduciary liability for investment outcomes:

- Default assets must be invested in a QDIA as defined in the regulation.

- Participants and beneficiaries must have been given an opportunity to provide investment direction. A notice generally must be furnished to participants and beneficiaries in advance of the first investment in the QDIA and annually thereafter.
- Participants and beneficiaries must have an opportunity to direct investments out of the default option as frequently as from other plan investments, but at least quarterly.
- A broad range of investment alternatives must be made available to participants and beneficiaries. (The University offers a sufficient number of investment alternatives.)

Ms. Singer added that the annual notice regarding investment in the "QDIA default investment alternative" is a new provision under ERISA. Historically, the University has not had to provide participants and beneficiaries with an annual notice even though they receive a quarterly statement, which serves this purpose.

A member asked whether at New Employee Orientation employees are urged to invest their retirement money in a fund rather than to let it be defaulted into the money market account. Ms. Singer stated that no investment recommendations are given to employees. Employees are sent a letter at the time they are eligible to participate in the retirement plan. This letter encourages them to attend a workshop where they are given information about the different fund options.

A member asked Rosalie O'Brien, counsel to the committee, what risk does the University run if an employee is defaulted into a money market account, and 20 years later decides to sue the University because he/she did not earn enough of a return on his/her investment to retire. Ms. O'Brien stated that the University's obligation is to comply with applicable law governing its fiduciary duties; it is not the University's obligation to meet the retirement goals of any individual employee.

Based on Professor Murphy's research, the broad categories of default fund options that are "QDIA default investment alternatives" under the Department of Labor regulation discussed earlier include:

- Single balanced fund, e.g. Wellington.
- A fund that takes into account the participant's age and/or retirement date, e.g. lifecycle or targeted retirement date funds.
- Managed account. (This is not an option for the University because it is a professionally managed account).
- Capital preservation product for the first 120 days of participation in the plan.

When making a default fund decision, noted Professor Murphy, the actual decision-making process must be documented. Decisions must be substantively and procedurally prudent.

A member noted that another option for the default fund is to leave it the way it is and continue to have the money market account be the default option. Professor Murphy acknowledged this comment.

A member stated failing to understand why the University does not require employees, as part of its new hire paperwork, to sign a form that says unless an active election is made regarding one's retirement account, the money will be put in a default fund. Ms. Singer noted that not all employees are immediately eligible to participate in the retirement plan. Therefore, to sign a paper 2 – 3 years before one is eligible to participate in the plan may not always make sense. Ms. O'Brien added that having employees sign a form may seem helpful, but it would only serve as evidence that the University provides adequate information about retirement plan benefits, which is already demonstrated by the information provided by Employee Benefits at employee orientation and always available on its website. Professor Murphy added that some employees could be in the money market because this is where they want to invest their money, i.e. an active decision.

The University should step up its educational efforts around retirement investing suggested a member. Professor Murphy asked the committee if they would be interested in looking into this. A member stated that in his opinion he thinks that Employee Benefits already does a lot with education, and he does not think the University is deficient in its retirement planning education efforts. He went on to note that there is a certain segment of the University's employee population that views retirement planning as anathema and regardless of what the University offers in terms of education, they will not participate.

Professor Murphy noted that at an upcoming meeting the committee will get input from the Fiduciary Plan Advisory Committee regarding default funds, and then the committee, based on this information and its discussions, can make an informed default fund recommendation. Whatever decision the committee makes should be supported by facts.

VI). Professor Murphy solicited members' suggestions for future agenda items, and when they should be covered. The following items were mentioned and assigned to future meetings:

- Fund costs. (Bring for information in March 2008 and possible action in May 2008)
- Default fund. (February 4, 2008)
- Roth 403(b) (December 3, 2007)
- MSRS. (March 3, 2008)
- Securian annual review. (April 7, 2008)
- Employee education and services. (December 3, 2007)
    - Reformatting of quarterly statements.
    - On-line seminars/resources.
    - Survey and other educational instruments.

In terms of the Roth 403(b) discussion, if the University will not have the functional capability of offering a Roth 403(b), is now the best time to have this discussion asked a member? Another member stated that by discussing this issue now, should the committee decide to put forward a recommendation that the University offer a Roth 403(b), it could serve as a place marker for incorporation into the design of the financial system. Professor Murphy suggested members, in preparation for the December meeting, review the minutes (http://www1.umn.edu/usenate/committees/retirement.html) where the Roth 403(b) was discussed. Another member recalled that part of the reason the committee did not pursue the discussion of a Roth 403(b) was because it had a sunset clause. Ms. Singer noted that this sunset clause has been revoked and the Roth 403(b) is a permanent provision. She added that she will pull market data on the Big 10, the top 10 public research universities, as well as get information from the University's retirement plan vendors on their book of business regarding the popularity of Roth 403(b)s.

A member asked if the committee decided to vote at its next meeting that the University offer a Roth 403(b) when would be the soonest it could be implemented. Ms. Singer stated it is likely that the soonest plan specifications will be solicited will be the third quarter of 2008. Other considerations, noted Ms. Singer, are that aside from making sure that PeopleSoft can handle these transactions, all the University's 403(b) vendors must be able to handle these transactions identically across the board.

Regarding the MSRS discussion, what are the committee's expectations around this issue asked a member? Another member stated that because a significant number of employees are covered by MSRS, and because the Retirement Subcommittee has members that are either in, or have been in MSRS that the SCFA Retirement Subcommittee should familiarize itself with the issues facing MSRS and its performance as well.

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

Renee Dempsey
University Senate