

SCFA RETIREMENT SUBCOMMITTEE
MINUTES OF MEETING
DECEMBER 3, 2007

[In these minutes: Roth 403(b), Employee Retirement Education and Services, SCFA Retirement Subcommittee Charge, Post Retirement Health Care Savings Plan for Civil Service Employees, Topics for February 4, 2008 Meeting]

[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, William Van Essendelft, Nancy Fulton, Joe Jameson, Barry Melcher, Jackie Singer, Chris Suedbeck, Gordon Alexander, Daniel Feeney, Kathryn Hanna, Kathleen Hansen, Dian Lopez, Burt Sundquist

REGRETS: Gavin Watt, Richard Goldstein

ABSENT: Carol Siegel

OTHERS ATTENDING: Rosalie O'Brien, counsel to the committee, Shonna Schroeder, retirement programs coordinator

GUESTS:

I). Professor Murphy called the meeting to order, and asked those present to introduce themselves. He also welcomed Shonna Schroeder, the newly hired retirement programs coordinator.

II). Members voted to unanimously approve the November 5, 2007 minutes.

III). Professor Murphy introduced the next agenda item, the Roth 403(b). He reminded members that the committee had previously discussed whether it should recommend that the University offer a Roth 403(b) to its retirement fund line-up. Advantages of offering a Roth 403(b) were highlighted:

- A Roth 403(b) does not have the income limits of a Roth IRA.
- Contributions into a Roth 403(b) are after tax; as a result, qualified distributions are tax-free.
- There are no required minimum distributions (RMD) while the account owner is alive.
- Beneficiaries are also able to take qualified distributions tax-free.
- Individuals would be able to contribute pre-tax to the Optional Retirement Plan (ORP), in addition to after-tax Roth 403(b) contributions, with combined contributions subject to the limitations found in IRC 402(g). Contributions into a Roth 403(b) do not affect an individual's ability to put additional money in the 457 Deferred Compensation Plan.

- The Pension Plan Protection Act of 2006 made the Roth 403(b) permanent, unless further legislation is enacted.

Next, reasons why the University may not want to offer a Roth 403(b) were mentioned:

- The nationwide adoption rate of the Roth 403(b) thus far is quite low.
- The University's current retirement options already offer a level of choice that can be intimidating to the typical investor.
- PeopleSoft is currently unable to handle a Roth 403(b) transaction. In order to offer a Roth 403(b), PeopleSoft will need custom programming, which can be expensive. Additionally, there could be other recordkeeping costs associated with offering a Roth 403(b).
- Current 403(b) income limits could restrict participation by some employees.
- Given the likelihood of a significant financial investment in PeopleSoft, there exists a fair amount of uncertainty when it comes to knowing how many employees will elect a Roth 403(b).

Members' questions/comments from this discussion:

- What would be the implications for the University's contribution to the Faculty Retirement Plan (FRP) should it move forward with offering a Roth 403(b)? Ms. Singer stated that there would be no implications for the University because the FRP is a 401(a) plan, and a Roth 403(b) cannot be added to this plan. If the University decided to offer a Roth 403(b) it would be a choice in the ORP.
- Will employees be permitted to roll their existing ORP/403(b) funds into a Roth 403(b)? No, stated Ms. Singer, only new money going forward can be put in the Roth 403(b). She added that on a payroll deduction basis, the payroll status (pre-tax or after tax), has to be set before the money is put in the account.
- Which of the University's retirement plan vendors offer a Roth 403(b)? Ms. Singer distributed a handout to supplement her response to this question, and highlighted the following:
 - No Big 10 institutions currently offer the Roth 403(b).
 - In terms of the top ten public institutions, one vendor (AIG Valic) at the University Florida offers a Roth 403(b) and the University of Texas system offers it.
 - All of the University's retirement plan vendors offer a Roth 403(b).

In Ms. Singer's opinion, one of the reasons participation in the University's ORP is so low is because there are already so many options to choose from. Having said this, adding yet another option would add yet another layer of complexity to a plan that already has significant choice. Another factor to consider is that transferring Roth 403(b) money from one vendor to another will require a manual transaction to calculate the cost basis for the money being transferred. (This needs to be done to make sure it doesn't get taxed twice upon distribution). All four vendors would need to agree to the same manual process, and to strictly adhere to the process. Finally, the PeopleSoft issue remains. Adding a Roth 403(b) to the ORP would require PeopleSoft be custom programmed.

- In terms of complexity, whether there are a few investment options or several, there will always be people that will find the prospect of managing their retirement investments confusing. With this said, people that actively manage their retirement investments

should not be denied another investment choice. Ms. Singer stated that in her opinion, the current ORP design has enough choice to be intimidating to a typical employee. She suggested a systematic review of the University's current retirement options. Even if a Roth 403(b) were added, consideration should be given to reducing the number of choices in the 403(b) and 457 plans so it is not so overwhelming for people.

- The University should offer a Roth 403(b). Employees need to have both pre-tax and after tax retirement options available to them.
- For FRP participants that already have a Roth 403(b) account with one of the University's vendors, assuming the University decides to offer a Roth 403(b), could contributions be made into the already established account? No, stated Ms. Singer, a plan account needs to be established.
- As Ms. Singer suggested earlier, this committee should comprehensively review the University's retirement options with the idea that a Roth 403(b) should be added.
- The article that was distributed to the committee, *The Complexity of Roth*, (<http://www.pionline.com/apps/pbcs.dll/article?AID=/20071126/PRINTSUB/71121025/1031/TOC>) suggests that an ever increasing number of employers are offering a Roth in addition to a traditional 401(k). Ms. Singer stated that 401(k) plans are different from 403(b) plans. In the marketplace, payroll vendors have accommodated the Roth 401(k) but not the Roth 403(b). Early adopters of the Roth 403(b) in higher education and not-for-profit appear to have had the resources to custom program their payroll systems.
- The University should develop its own custom programming module rather than trying to work with PeopleSoft. Ms. Fulton and Ms. Singer both noted the expense associated with custom programming.
- What is the issue with the PeopleSoft system and the University being able to offer a Roth 403(b)? Ms. Singer stated that the issue evolves around being able to set up an after tax deduction, and being able to integrate the limits of this after tax deduction into the pre-tax limits that are already in the ORP. The pre-tax and after tax options need to be integrated because the maximum contribution this year is \$15, 500 (combined pre-tax and after tax). Therefore, all calculations in PeopleSoft that work off limits to the ORP must be integrated into those limits. The University needs to be able to modify all of its vendor feeds in order to pull this money and send it separately to the vendors each pay period.

Professor Murphy summarized today's discussion by stating that within the committee there was general agreement that the University should offer a Roth 403(b). Costs associated with custom programming PeopleSoft should be explored in addition to trying to figure out what the adoption rate would be by employees if a Roth 403(b) were offered. Ms. Singer stated that once the Enterprise Financial System (EFS) has been implemented (target date July 1, 2008), a cost estimate on programming PeopleSoft should be doable by 4th quarter 2008. The committee went on record that it would like the next version of PeopleSoft to have the ability to handle payroll deductions into a Roth 403(b) account.

Members unanimously voted to recommend to the University that it offer a Roth 403(b) option in the ORP when it can be implemented in a cost effective manner. This motion, agreed members, should be forwarded to the Senate for information and be shared with the Senate Committee on Faculty Affairs (SCFA).

A member asked whether the Roth 403(b) option could be implemented by January 1, 2009. Ms. Singer stated that this would be virtually impossible given that the soonest work on a cost estimate could commence would be the end of 2008. Aside from the cost estimate issue, processes for all 4 vendors to follow would need to be put in place, and the fees would need to be modified. Does the University have to roll the Roth 403(b) out at the beginning of the calendar year or could it be rolled out mid-year asked a member? Ms. Singer stated that it does not necessarily need to be rolled out on January 1, but it is important to remember that if implemented mid year some employees may have already contributed the maximum on a pre-tax basis into their ORP account.

III). Next, the committee discussed what could be done in terms of employee education and services as it relates to planning for retirement. Professor Murphy highlighted ideas that were mentioned in previous discussions:

- Reformat the quarterly FRP statement incorporating a pie chart to help employees visualize their asset allocations.
- Increase communication about the importance of retirement planning and highlight resources/tools that are available to University employees. For example, use the annual letter to FRP participants to share this information.
- Provide participants with specific fee examples (basis points) so they understand the true cost of a particular fund.

The suggestion was made to have Employee Benefits send the annual FRP letter with a list of retirement planning links both electronically and via the mail. Ms. Singer will check with the Office of Information Technology (OIT) to see if the size of this document in terms of space on the server can be sent electronically. Professor Murphy asked Professor Lopez if she would be willing to review the annual letter and add the links as discussed so it could be forwarded to OIT to see if they will send it out. Professor Lopez also requested that the letter from Employee Benefits highlight the major events over the past year, including a TIAA-CREF update.

IV). Other business:

a). It was noted that the revised Retirement Subcommittee charge with its expanded membership and broadened scope of the plans it oversees was not on the committee's website. Renee Dempsey, Senate staff, stated that the updated charge had gone to the Senate awhile back and had been approved. She agreed to follow-up on this, and ensure the updated charge gets posted to the committee's website. A member added that there still might need to be additional revisions to the charge. Professor Murphy stated that the most recent version of the charge would be found and revisited at a future meeting to see if further changes need to be made.

b). Nancy Fulton reported that the Civil Service Committee is exploring offering a Health Care Savings Plan (HCSP) contribution based on vacation payout for Civil Service employees. Currently, the Teamsters have written into their contract that their employees who have at least 10 years of service and 80 hours or more of vacation will have their entire vacation payout put into a HCSP rather than receiving the payout in cash.

The Civil Service Committee is looking into setting up a HCSP for its employees and discussing what the criteria for participation should be. If this were to be adopted, all Civil Service employees would be required to participate.

A member asked whether Civil Service employees could add additional money to this account beyond the vacation payout amount. Ms. Singer stated that this would not be possible as the plan cannot be voluntary and must be mandatory.

c). Professor Murphy announced that the committee's next meeting is scheduled for February 4, 2008. On the agenda for this meeting is a discussion of the default fund. Additionally, Professor Murphy asked that a copy of the FRP annual letter be distributed to members prior to the February 4 meeting so members have an opportunity to review it, and the committee can spend time finalizing the wording at the February meeting.

d). Ms. Singer informed members about the contents of the packet of information she had distributed earlier. She stated that the packet includes:

- Roth 403(b) comparison data
- Securian recordkeeping fee schedule for the FRP (401(a) only)
- Investment funds with purchase of redemption fees (exclusive of short-term trading fees)
- A FRP stylebox analysis
- FRP investment performance for period-ending September 30, 2007
- Comparison report on the performance of the replacement funds for the TIAA-CREF funds

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

Renee Dempsey
University Senate