SCFA RETIREMENT SUBCOMMITTEE
MINUTES OF MEETING
FEBRUARY 4, 2008

[In these minutes: Faculty Retirement Plan Letter, Faculty Retirement Plan Investment Performance for Period-Ending December 31, 2007. Health Care Savings Plan Update for Civil Service Employees, Total Compensation Statements Update, Default Fund, Review of SCFA Retirement Subcommittee Charge]

[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, Nancy Fulton, Barry Melcher, Jackie Singer, Chris Suedbeck, Gordon Alexander, Richard Goldstein, Kathryn Hanna, Dian Lopez

REGRETS: Gavin Watt, Joe Jameson, Daniel Feeney, Kathleen Hansen, Burt Sundquist

OTHERS ATTENDING: Stuart Mason; Fred Morrison; Rosalie OÕBrien, counsel to the committee; Shonna Schroeder

I). Professor Murphy called the meeting to order.

II). Copies of the Faculty Retirement Plan (FRP) letter that were sent out to plan participants in February 2007 were distributed to the committee. Professor Murphy solicited members' feedback concerning what changes should be made to the 2008 letter that will be sent out later this month. After some discussion, the committee suggested that the letter should include a sentence or two encouraging participants to revisit their current investment choices in light of recent changes to the list of available funds.

A revised draft of the letter will be circulated to the committee for additional comments prior to being sent to plan participant's homes.

Ms. Singer reported that there are still several issues with the recordkeeping information provided quarterly by TIAA-CREF. For example, the consolidated statements provided by Securian reflected negative TIAA-CREF account balances for approximately 140 participants. In most cases, this was only a rounding error that will be corrected with the next file that TIAA-CREF sends to Securian. Several, however, were due to processing errors, which will be corrected in the current quarter.

A member commented that he received a letter from TIAA-CREF regarding their decision to increase their fees because of higher than anticipated expenses. Ms. Singer stated that she was aware of this.

III). Ms. Singer distributed copies of the Faculty Retirement Plan Investment Performance for period-ending December 31, 2007 for members to review. In her opinion, there was nothing particularly noteworthy with respect to fund performance in this report.

A member suggested that going forward the report include the TIAA-CREF funds that were eliminated along with the performance of the replacement funds. Over time, with this information, the committee would be able to track the performance of the replacement funds as part of its due diligence responsibilities. Ms. Singer stated that this would be done.

IV). ANNOUNCEMENTS:
a). Ms. Singer noted that the Civil Service Committee will meet at the end of February to discuss whether to recommend implementation of a Health Care Savings Plan for Civil Service employees. Ms. Singer reminded members that a Health Care Savings Plan (HCSP) allows employees to save pre-tax money to pay for post employment insurance premiums and other medical expenses.

Professor Murphy mentioned that the Retirement Subcommittee may want to take up the HCSP issue again in the near future.

b). Ms. Singer reported that Employee Benefits is working on compiling total compensation statements for faculty and staff. The goal is to send these statements out by the end of April.

V). Chris Suedbeck distributed copies of the minutes from the December 20, 2007 Retirement Plan Fiduciary Advisory Committee meeting. He reported that another Retirement Plan Fiduciary Advisory Committee meeting will be scheduled for sometime in May. Mr. Suedbeck solicited agenda items from the SCFA Retirement Subcommittee for this upcoming meeting.

Stuart Mason, chair of the Retirement Plan Fiduciary Advisory Committee (RPFAC), reminded the committee that membership on the RPFAC is comprised of himself, Gordon Alexander, Andy Hill, Barry Melcher, Mike Murphy, Jackie Singer, and Chris Suedbeck; Rosalie O'Brien acts as counsel to the committee. The committee was established to provide advice to those who have fiduciary responsibility for University retirement plans.

Mr. Mason stated that the majority of the December meeting was spent discussing FRP default fund options. The five options that were considered included:

1. "Life cycle" funds
2. "Balanced fund"
3. Actively managed account
4. Money market fund option for 120 days; then, after 120 days, the balance is rolled into one of the above three options
5. Money market fund

The FRP's current default fund, a money market fund, noted Mr. Mason, is not considered a best practice under guidelines recently promulgated by the U.S. Department of Labor for plans governed by ERISA. Although the FRP is not subject to ERISA, ERISA nevertheless serves as an important reference for retirement plan decision-making. Mr. Mason reported after a thorough discussion, the RPFAC voted to recommend that the University adopt a "life cycle" fund as its default fund option. Generally, a "life cycle" fund invests in a mixture of stocks and bonds that is changed from time to time to reflect industry consensus as to which kinds of investments are appropriate in light of a participant's age and estimated retirement date. The RPFAC is in the process of gathering information about "life cycle" fund options. Currently, "life cycle" fund options are available through the 403(b) plan, but not in the 401(a) plan; therefore, this would be new offering in the 401(a) plan.

A member asked whose "life cycle" funds will be offered? Mr. Suedbeck stated that before a decision can be made about which vendor's funds would be offered, vendor performance, fees and implementation issues would need to be evaluated. A member also noted that assuming "life cycle" funds become the default fund, a decision about retirement age, e.g. 60, 65, will need to be made. A suggestion was made to use FRP participants' median age of retirement as the retirement age.

Professor Murphy asked members if they had specific recommendations in terms of a vendor for "life cycle" funds. A member voiced a preference for Vanguard because of its low fees.

A member asked Ms. Singer whether the majority of University employees that are invested in the default fund are new employees. Ms. Singer stated that a majority are new employees but that there has been an influx of employees in the default fund as a result of the TIAA-CREF decision. While Ms. Singer did not have the current number of employees in the default fund offhand, she reported that over $400,000 per pay-period goes into the default fund.

If a decision is made to move forward with changing the default fund to a "life cycle" fund, when could this change take place asked a member? Implementation would depend on when Securian could make programming changes; no PeopleSoft programming changes would be required. Generally, Securian requests 90 days notice to make programming changes. The University would need also to change its communication materials, websites, and enrollment kits.

Based on recommendations from the RPFAC, changing the default fund could be a possible action item for the May Retirement Subcommittee meeting noted Professor Murphy.

VI). The committee spent the remainder of this meeting reviewing its charge. A revised copy of the charge was distributed to members for their comment/input.

A member voiced confusion regarding the Retirement Subcommittee's relationship to the Retirement Plan Fiduciary Advisory Committee. It was agreed that this relationship needed to be clarified in the charge. It was further noted that the reporting lines of each committee needed to be better defined.

After discussion within the committee, Professor Murphy asked that Rosalie O'Brien, counsel to the committee, in consultation with Professor Morrison, to suggest revisions to this draft and bring these changes back to the committee for discussion and approval.

VII). Professor Murphy reminded members that the entire April 7th meeting would be devoted to a Minnesota Life/Securian annual review. Professor Murphy stated that he has asked them to explain what happens to a mortgage after it is issued and solicited input from those present about what they would like Securian to address. Members agreed they wanted the Securian discussion to focus on sub-prime loans and their impact on rating agency rankings. They also requested that Securian bring hard numbers to the meeting and address how the sub-prime loan crisis is likely to affect other elements of their portfolio, including exposure due to possible indirect effects of investments directly related to sub-prime mortgages. Mr. Mason added that there is a growing concern in the financial community concerning certain bond insurers that are struggling. In addition, the underlying ratings of Securian's fixed income portfolio were requested. Members specifically requested straightforward information on the underlying assets of the General Account and General Account Limited from Securian rather than a presentation developed for the primary purpose of characterizing Securian in the best possible light. It was suggested that the question be put to Securian that if they were sitting in the University's shoes, but knew what they know, what would be the questions that the University should be asking.

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

Renee Dempsey
University Senate