

SCFA RETIREMENT SUBCOMMITTEE
MINUTES OF MEETING
DECEMBER 4, 2007

[In these minutes: Roth 403(b), TIAA-CREF Status Update]

[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, Gavin Watt, Barry Melcher, Jackie Singer, Gordon Alexander, Dian Lopez, Michael Murphy, Burt Sundquist

REGRETS: Richard Goldstein, Kathryn Hanna

ABSENT: Chris Suedbeck

OTHERS: Joe Jameson

GUESTS: Securian representatives: Dick Manke Blake Reigert, and Tim Soldan

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

II). Professor Feeney asked Dick Manke from Securian to provide the committee with an industry update on the Roth 403(b), a retirement savings option available for public education organizations and other groups.

Dick Manke asked members to open the packets they were given as he could walk them through the contents. Next, he turned members' attention to the following exhibit, "Roth 403(b) versus Traditional 403(b)". From this exhibit Mr. Manke highlighted the following:

- To date, the Roth 403(b) adoption rate has been low with only 5% of the plans and 8% of participants within plans adopting a Roth. This translates into approximately 1/2 of 1% of all participants adopting a Roth.
- A likely reason for the slow adoption rate has to do with the complexity of the Roth 403(b).
- For plans that have added a Roth 403(b), this investment option has not attracted more participants to these plans.
- There are added costs in offering a Roth e.g. modifying payroll systems, answering employees' questions, etc.
- The Pension Protection Act has made the Roth permanent, but this has not impacted the adoption rate thus far.

Tax implications:

- Traditional 403(b) – Contributions are made on a pretax basis. Withdrawals are subject to income tax.
- Roth 403(b) – Contributions are made on an after-tax basis. Withdrawals are tax-free. In order to not be subject to the lifetime required minimum distribution (RMD) rules, the Roth 403(b) must be rolled into a Roth IRA.

For most people there is no simple answer in deciding the best combination of retirement accounts. Many factors must be taken into consideration: tax rates (pre and post retirement), income needs, investment time horizons, etc. For those that contribute the maximum to a Roth, and assuming the tax rate at retirement is equal to or more than the current tax rate, an individual would be better off investing in a Roth. Mr. Manke provided members with a couple examples, which illustrated that depending on each individual's unique situation, they could be better off with either a Traditional IRA or a Roth IRA; there are a lot of variables to consider. Members were referred to a free website <http://www.fincalc.com/> and instructed to follow the link to the "ConsumerCalcs" module where they will find numerous financial calculators to help them with their investment strategies.

Questions/comments from members following Mr. Manke's presentation included:

- Are there limits to rolling over into a Roth IRA? Yes, there are currently limits, but those limits will expire as of 2010. At present the combined limit is \$100,000. Also, for clarification, in terms of withdrawals being tax-free, this is for qualifying distributions only, stated Mr. Soldan.
- Is there is a restriction on withdrawing from a Roth 403(b) until a plan participant turns 59 ½ years old? Yes, stated Mr. Soldan. The plan works the same as a Traditional 403(b) and has all the same rules associated with it. Simply because a person turns 59 ½ years old and his/her account has been in existence for 5 years does not mean the money can be withdrawn, it depends on the plan provisions.
- Is the alternative minimum taxable? Mr. Soldan noted that these monies are considered part of a person's income when calculating the alternative minimum tax. To the best of Mr. Soldan's knowledge, adjustments have been made to the tax brackets.
- In light of rising national debt, tax brackets in all likelihood could easily rise. In this case, a Roth IRA could be a very beneficial investment option for individuals.
- Is the Roth 403(b) subject to the lifetime required minimum distribution rules? The Roth 403(b) is subject to the same RMD rules as the Traditional pre-tax account. The difference between the Traditional IRA and the Roth 403(b) is that the Roth IRA does not have lifetime minimum distribution, but it does have a post-death minimum distribution.
- Can other non-Roth accounts be rolled into a Roth IRA? So far, yes, stated Mr. Soldan. Currently, non-Roth 403(b) monies can be rolled into a Roth IRA by first going into a Traditional IRA and then converting to a Roth IRA; it is a two-step process. With the legislation change that will take effect in 2010 under the Pension Protection Act, these monies will then be able to be rolled directly into a Roth IRA.
- Has the private sector version of PeopleSoft been programmed to accommodate the requirements of the Roth 403(b)? No, not to Mr. Manke's knowledge.
- Are more small organizations electing to offer a Roth 401(k) as opposed to larger organizations? Not necessarily, stated Mr. Manke. He noted that Securian will continue to monitor the industry and keep the University informed.

- What would it cost to program PeopleSoft in order to be able to offer a Roth IRA at the University? While the exact figure is unknown stated Ms. Singer, it would be expensive because it would require customized programming. If the time comes when PeopleSoft would offer a "drop-in" programming section that would likely make a difference as to whether the University may be more inclined to offer a Roth 403(b).
- Ms. Singer was asked whether there was any discussion at the CIC meeting she attended this fall on Roth 403(b)s and whether any of these institutions are offering this investment option. No discussion at all, stated Ms. Singer, and she is uncertain whether any of these institutions are offering them. She volunteered to email her CIC colleagues regarding this matter as well as to check with the top ten public research universities to see if they are offering Roth 403(b)s.
- Who would benefit most if the University elected to offer a Roth 403(b) plan? Again, stated Mr. Manke, there is no simple answer to this question. Generally speaking, if an individual contributes the maximum to a Roth and his/her tax rate remains the same or higher in retirement, he/she will be better off investing in a Roth 403(b) versus a Traditional 403(b).
- Some people at first glance may think the Roth 403(b) with its tax-free withdrawals is a great investment when in fact depending on their individual circumstances it may not be in their best interest.
- Is there anyway to pass the PeopleSoft programming costs on to those individuals that would elect to participate in a 403(b) should the University decide to offer this retirement account option? Ms. Singer stated that she did not believe this to be possible.
- The income of University employee's spouses that work outside the University factors into whether a University employee would want to set up a Roth 403(b) account. When making a decision as to whether to offer a Roth 403(b), a University employee's employment income cannot be looked at in isolation; there are many other variables to consider.
- The University should seriously consider offering a Roth 403(b) option to University of Minnesota retirement plan participants, however, if the cost of doing so is too high at this time, due to customizable programming requirements, that the implementation be postponed.
- Would it be possible for people that are interested in setting up a Roth 403(b) account to contract directly with the University's retirement plan vendors? No, stated Ms. Singer because all University of Minnesota retirement plan contributions must be made either pre or post tax on a payroll basis.

To summarize, Mr. Soldan stated that in August 2006 President Bush signed into law the Pension Protection Act. Major provisions of this bill affecting the University's 403(b), 401(a) and 457(b) plans include, but are not limited to:

- EGTRRA (Economic Growth and Tax Relief Reconciliation Act) was made permanent. Starting in 2007, there will be a higher calendar year deferral limit and a separate deferral limit for the 457(b) plan.
- Another intriguing aspect of this bill is that there is potential for additional Required Minimum Distribution (RMD) flexibility depending on the Treasury regulations that are adopted.

- Beginning in 2007 a non-spouse beneficiary can roll over proceeds to an IRA and satisfy minimum distributions from that vehicle.
- Distributions can be rolled directly into a Roth IRA without the intermediary step of rolling into a Traditional IRA for eligible participants.
- Distributions are permitted from IRAs, 401(k), and 403(b) plans to qualified military reservists called to duty for more than 179 days between 9/11/2001 and 12/31/2007. These reservists are exempt from the early distribution tax and a two-year rollover to an IRA is permitted following the end of active duty, which would eliminate the otherwise applicable federal income taxes.
- Rules regarding the purchase of permissive service credits under state and local governmental plans are expanded to include periods of service regardless of whether service was actually performed for the employer during that period.
- For 2006 and 2007, tax-free IRA distributions up to \$100,000 are permitted if made to a charity for IRA owners who are at least 70 ½ years old.
- Compensation thresholds for IRAs will be subject to cost of living increases. Thus, the eligibility for making a deductible IRA contribution will increase.
- 529 qualified tuition plans were made permanent under EGTRRA.

Professor Feeney thanked the Securian representatives for their Roth 403(b) presentation. Following their presentation, members concluded they would be interested in:

- Learning whether any institutions in the CIC or any top 10 public research universities are offering a Roth 403(b) plan or are planning to do so in the future.
- Incorporating a segment in the year-end letter, which is sent out to all Faculty Retirement Plan participants, concerning the Retirement Subcommittee's current position on offering a Roth 403(b) plan at the University.
- Investigating the costs associated with offering a Roth 403(b) e.g. PeopleSoft programming, revising forms and booklets, etc.

Professor Feeney requested that Ms. Singer email her findings regarding whether other institutions offer Roth 403(b) accounts and estimated costs to the committee once she has collected this information. Ms. Singer agreed to do so and added that she would also be electronically distributing a draft of the FRP year-end letter to members once it is completed.

III). Because no decision has been made concerning the status of TIAA-CREF as a FRP vendor, the committee postponed its fund mapping discussion. Since the committee's next meeting is not scheduled until February 5th, a decision was made to schedule a January meeting to review the annual year-end letter, and possibly discuss fund-mapping options pending a decision concerning TIAA-CREF.

Members spent the remaining few minutes of the meeting debriefing from their November 13th meeting.

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

Renee Dempsey
University Senate

