SCFA RETIREMENT SUBCOMMITTEE
MINUTES OF MEETING
OCTOBER 6, 2008

[In these minutes: Roth 403(b), Plan Document Reinstatement Summaries, Plan Provision Comparison Chart, FRP Investment Returns for Period-Ending June 30, 2008/Exchange Traded Funds – ETFs, New Default Funds, General Account Update, Retirement Subcommittee Charge, New On-Line Calculators, New Default Process, Formal Process for Adding Funds to the Plan, 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: Daniel Feeney, chair, Jane Carlstrom, Thomas Schenk, Gavin Watt, Nancy Fulton, Joe Jameson, Barry Melcher, Jackie Singer, Chris Suedbeck, Murray Frank, Kathryn Hanna, Kathleen Hansen, Harvey Keynes, Michael Murphy, Jennifred Nellis, Burt Sundquist

REGRETS: Rosalie OÕBrien, counsel to the committee, Fred Morrison

OTHERS ATTENDING: Shonna Schroder

I). Professor Feeney called the meeting to order, welcomed those present, and asked members to go around the room and introduce themselves.

II). Professor Feeney began by noting that the committee has been looking at the Roth 403(b) issue on and off for several years now. He asked Jackie Singer to provide the committee with the most recent update on this topic. Ms. Singer noted that last year the committee requested the administration consider adding a Roth 403(b) to the Optional Retirement Plan (ORP). At that time, PeopleSoft did not have an off-the-shelf solution for handling this transaction, and, to date, this has not changed. This means, in order to add a Roth 403(b), customized programming would be required. Last year, given the resources that were being dedicated to the Enterprise Financial System (EFS), it was impossible to get a programming estimate. However, since EFS has now been implemented, a programming estimate has been requested and should be available early next year. Once the estimate is received, a decision can be made regarding the viability of a custom Roth 403(b) programming module.

In speaking with an employee from another university, Ms. Singer learned of a possible alternative way to add a Roth 403(b). This institution found that when they explored adding a Roth 403(b) on PeopleSoft version 8.9 that it was somewhat easier to implement (and likely less costly) if, rather than permitting faculty to choose a combination of pre-tax 403(b) and Roth 403(b) in the same plan, that faculty would be required to choose **either** a Roth 403(b) **or** a pre-tax 403(b), and NOT a combination of the two in the same plan. For example, a faculty member could either contribute to the Roth 403(b) in the ORP, or he/she could contribute to the 457

Deferred Compensation Plan on a pre-tax basis. Given this is another possible option, Ms. Singer wanted to share it with the committee.

While a member voiced concern over hating to see the University design programs based on computer software issues, overall members felt this would be a reasonable option for those who really want to participate in a Roth 403(b).

Professor Feeney summarized the discussion by saying that the committee would like Ms. Singer to explore both options:

1. Adding a Roth 403(b) to the ORP.
2. Adding a Roth 403(b) option to the ORP and offering a choice between either the pretax ORP or the Roth ORP for any individual participant knowing that the 457 Deferred Compensation Plan has a pre-tax option for those who want to contribute to both a pre-tax 457 and a post-tax Roth 403b in the ORP.

Professor Feeney reported not hearing any significant objections from the committee about having the Roth 403(b) be an individual choice either/or option in the ORP versus not being able to offer the Roth 403(b) option all.

III). Ms. Singer distributed plan document restatement summaries to members. She noted that Employee Benefits is in the process of restating its retirement plan documents. The catalyst for this project was the new 403(b) regulations that will become effective January 1, 2009. The new 403(b) regulations state that all 403(b) plans must have a plan document as of January 1, 2009. In addition to restating the 403(b) Plan, the Faculty Retirement Plan (FRP) and 457 Deferred Compensation Plan documents are being restated as well. Ms. Singer highlighted the following changes in the FRP:

- Article 1, Section 1.10 changes the age at which an active employee can withdraw retirement funds from age 55 to age 62. The new IRS regulation states that unless an organization can prove by their data set that it had employees actually retire at age 55, which is not the case at the University, it cannot set a normal retirement age less than age 62. (In early October, the IRS released Notice 2008-98, which extended the effective date of these regulations to 2011. As a result, this change will not be implemented in the restatement that will be effective January 1, 2009).
- Article II, Section 2.01(b) incorporates language that permits the University to contribute and take contributions for 9/12 academics prior to the date of eligibility due to the prepayment of 9/12 salaries, and for those amounts to be returned or forfeited if the employee is terminated prior to the eligibility date.
- Article III, Section 3.04 incorporates all of the language formerly included in the "Retirement Benefits During Unpaid Leave" policy document previously posted on the Employee Benefits website, including the retirement benefits language during sabbaticals, professional development leaves, etc.

Other than these changes, the plan was simply updated for current law, e.g. non-spousal beneficiaries, rollovers to Roth IRAs.

Highlighted changes from the ORP included:

- Article 3, Section 3.10, 3.19 and 3.22 incorporate minor definition clarifications, e.g. Section 3.10 – Compensation – severance has been excluded, but vacation payouts may still be deferred.

Other than these definition changes, the changes to this document were simply an update for current law.

Highlighted changes from the 457 Deferred Compensation Plan included:

- Section 3, Section 3.3.1 – Contributions – the timing of increases or decreases must be identical to the timing of enrollments; that is, the elections must be made in the month prior to the month in which the changes are to take effect.

Ms. Singer stated that she has redlined copies of these documents for members that are interested in reviewing them. Members were encouraged to review the documents following the meeting and, if there are concerns, members were instructed to email Renee Dempsey, Senate staff, so this item can be put on the November 10th agenda. No concerns, noted Professor Feeney, will signal that members are satisfied with the documents as written.

IV). Professor Feeney reported having asked Ms. Singer to craft a plan provision comparison chart that outlines the plan differences between the FRP, ORP, and 457 Deferred Compensation Plan. Ms. Singer distributed a draft plan comparison chart and noted that it is a high level overview of the differences between the plans. Next, she reviewed the document with members highlighting the plan differences.

Professor Feeney requested the final draft of this document be posted to the University Retirement Savings Plans' website as well as the Securian website. A member requested that the plan provision comparison chart also include MSRS. Ms. Singer stated that once Barry Melcher and Rosalie O'Brien, counsel to the committee, have reviewed the chart it would be posted to the respective websites.

For new members of the committee, Professor Feeney reported that Rosalie O'Brien serves as counsel to the SCFA Retirement Subcommittee. She is not an ex-officio member of the committee because in order to be counsel to the committee she cannot serve in any capacity on the committee.

V). Ms. Singer distributed copies of the FRP investment returns for period-ending June 30, 2008, and a document comparing the TIAA-CREF funds that are no longer available to plan participants with the new funds that replaced the TIAA-CREF funds. Ms. Singer noted that with the exception of the Vanguard FTSE Social Index fund, the newly added funds are doing well.

A member stated that many people are talking whether the future is in mutual funds or exchange traded funds (ETFs). Having said this, has any thought been given to adding ETFs? Ms. Singer stated that for individual investing, ETFs have a lot to recommend, but retirement plan investing is intended to be more long term investing. From an ETF perspective, there is more of a short-term outlook.

Professor Feeney stated that the ETF issue could in many ways take on a life similar to the Roth 403(b). Historically speaking, noted Professor Feeney, the greatest number of requests for ETFs have come from individuals who are more or less interested in day trading. This is not to say, however, that everyone interested in ETFs is interested in day trading. He added that Employee Benefits already receives a fair number of complaints about the plan's complexity. The committee needs to be very judicious in its decision about whether to add ETFs. Professor Murphy recalled also that in a public fund, like the 403(b), individuals are not permitted to own individual stocks, which ETFs align more closely with than mutual funds.

Is it true that ETFs have lower expense ratios asked a member? Chris Suedbeck stated that ETFs are always mapped to indexes; therefore, if individuals want to do active management, ETFs would not be an option. Opening up the plan to a brokerage account that would allow individuals to trade stocks, to the best of Mr. Suedbeck's knowledge, is not possible given there is no program that allows individuals to only trade ETFs. In terms of the costs associated with trading ETFs, they are trading about the same as Vanguard, which is very low because they are index funds. ETFs would be a little higher than the institutional rates the University is getting now, but they are comparable to an index fund. Mr. Melcher also noted that ETFs are subject to brokerage fees.

VI). Ms. Singer provided the committee with an update on the new default funds. She noted that on September 1, 2008, nine new Vanguard target retirement funds were added to the FRP. These funds serve as the default funds for any individuals who enter the FRP after September 1, 2008, and who do not make an active fund election. In addition, these funds are available for general investment by other participants in both the 401(a) and 403(b) portions of the plan. A handout to supplement this update was distributed to members, which outlines the funds. Ms. Singer stated that if a new participant fails to make a fund election in a timely manner, his/her contributions will be deposited in one of the target retirement funds based on the participant's date of birth. The funds were selected by Securian according to instructions from the University.

A member asked what fraction, on average, of eligible employees fail to make a FRP election. Ms. Singer stated that recently 60 FRP-eligible employees were defaulted from the newly hired faculty pool; this represents roughly 50% of the eligible pool for that pay period.

Professor Feeney clarified that FRP-eligible employees hired prior to September 1, 2008 that did not make an election were defaulted into a money market account, the previous default fund. Those individuals will remain in the money market account unless they choose to move their account balances to a different fund.

A member voiced concerns about the ignorance of many of the new faculty as it relates to planning for their retirement. The member stated that there has to be a way to educate these individuals about the importance of planning for their retirement. Professor Feeney and other members of the committee concurred, but noted that this has been an issue this committee has struggled with for years. It was noted that the committee has been involved in numerous efforts to make it as easy as possible for people to plan for their retirement. Participants, stated Mr. Suedbeck, have an obligation to take the first step in this planning. A member asked why retirement is not addressed in the New Faculty Orientation. It used to be covered, noted Mr.

Melcher, but then people were not attending because it was too long. Mr. Melcher also reminded members that prior to 1989 the FRP was not mandatory.

VII). Professor Feeney provided the committee with a General Account update. He noted that when new and transfer contributions were suspended to TIAA-CREF, the TIAA-CREF annuity option was no longer available to FRP plan participants. This left participants with only two annuity options, the General Account and the General Account Limited, both offered by Securian. In turn, the University issued a RFP to identify another annuity vendor. Unfortunately, no vendors bid on this RFP.

Professor Feeney called on Mr. Suedbeck to provide information on a possible alternative fund he had mentioned previously, stable value funds. Stable value funds, reported Mr. Suedbeck, attempt to minimize volatility in terms of their price. Many companies offer stable value funds, but might call them by a different name. Generally, stable value funds perform slightly better than money market funds.

How have these funds performed over the last few months given the current economy asked a member? These funds, according to Mr. Suedbeck, overall are performing quite well, especially the funds that have kept their focus and avoided the sub-prime market.

The Treasury Department recently announced, at least temporarily, that it would stand behind money market funds, will they also stand behind these stable value funds asked a member? No, stated Mr. Suedbeck, and this is because they are usually not 287 funds. These funds would be less secure than money market funds.

Professor Feeney asked the committee whether anyone felt that stable value funds should be pursued as an alternative to replace the TIAA-CREF annuity in the FRP. Members considered it, but decided against pursuing this option at this time, particularly given its low yield.

VIII). Professor Feeney asked Ms. Singer the status of the changes that are being made to the Retirement Subcommittee charge. Ms. Singer reported that Rosalie O'Brien, in consultation with Professor Fred Morrison, are working on this, and Ms. O'Brien intends to bring a revised charge to the committee in December.

IX). Professor Feeney reported that there will be a couple of new calculators on the Securian website in early 2009. One calculator will be a withdrawal rate calculator and the other will be an interest rate withdrawal only calculator.

Mr. Suedbeck requested that before these calculators are put up for FRP participants to use that members of the committee test them to make sure they function properly.

A member voiced concern over the built-in assumptions that many calculators are based on. Will the calculator that is being developed account for variability in the market? The simplistic models are very misleading, and do not provide people with the correct information as it relates to long-term historical averages. Bearing in mind that the University cannot give financial advice, noted Professor Feeney, the calculator cannot stipulate what assumptions to use;

however, the other calculators developed by Securian provide users with historical information, which is updated periodically. Ms. Singer stated that these calculators also capped the projected interest rates a participant could use.

X). Ms. Singer introduced the next agenda item, a proposed change to the FRP default process. She noted that there is a contingency of faculty and P&A employees who receive their enrollment kits, but, for one reason or another, do not fill out their enrollment forms. Because the FRP is a mandatory plan, the University is required to go back and make up these contributions. Having said this, Employee Benefits would like to shorten the period that faculty and P&A have to make their retirement elections. The proposal is to shorten the enrollment period to 3 weeks as opposed to the current 45 days. If this change were to be made, rather than having to make up contributions for up to 3 pay periods, at most there would be a need to only make up the contribution for up to one pay period, and possibly none. Defaulted faculty and P&A can always change their election going forward.

Members supported the change to shorten the period that faculty and P&A have to make their elections.

XI). Professor Feeney reported that the Socially Responsible Investment (SRI) Subcommittee of the Social Concerns Committee has expressed concerns about the performance of the Vanguard Social Index Fund. This fund was added to the FRP line-up when the University made the decision to stop all future and transfer contributions to TIAA-CREF. The TIAA-CREF SRI fund was a blended fund, and the Vanguard SRI fund is an indexed equity fund.

As background information, Professor Feeney provided information about the creation of the Retirement Plan Fiduciary Advisory Committee (RPFAC), which has been in existence for approximately 2 years. One of the primary reasons for the creation of the RPFAC was that the Retirement Subcommittee had no direct reporting line to the plan trustee, Vice President and Chief Financial Officer Richard Pfutzenreuter. Therefore, at the advice of counsel the RPFAC was established.

Membership on the RPFAC includes:

- Chair of the Faculty Retirement Subcommittee of the Senate Committee on Faculty Affairs;
- Chief Investment Officer of the University;
- Three at-large members to include one each from the faculty, professional and academic (P&A) and civil service units. Each delegate shall also have a background in finance and/or investments;
- Director of Retirement Programs (non-voting); and
- Delegate from the Office of Asset Management (non-voting).

Given the likelihood that additional requests will come forward to the Retirement Subcommittee to add/modify plan funds, there should be a formal process in place for handling these requests. Ms. Singer distributed a draft proposal for such a process, which members reviewed. She noted that in recent years a formal investment policy was developed for the FRP, which the RPFAC approved at their last meeting.

Ms. Singer reviewed the proposed process for adding funds to the plan:

- Determine screening criteria and investment style of fund(s) to be requested. Provide these recommendations to the RPFAC. (Responsible party – requesting party).
- Screen available funds based on the screening criteria and FRP Investment Policy. Consult with the requesting party about whether all screening criteria could or could not be met. Provide fund recommendations to the Retirement Subcommittee.
- The Retirement Subcommittee will review the fund recommendations and approve or request revisions.
- Forward final recommendations to administration (RPFAC and Retirement Subcommittee) for review.
- Administration (Vice President Carrier and Vice President Pfutzenreuter) will review recommendations, consult with Securian, and respond to the RPFAC and the Retirement Committee.

A member suggested contacting the University Foundation, the Medical Foundation, etc. to see if they have policies/processes in place for screening for SRI funds rather than re-inventing the wheel. Mr. Suedbeck explained that these organizations are separate entities from the University. The Office of Investments and Banking is the University department responsible for managing the University's internal endowments and other funds. This office has a seat on the Social Concerns Committee. In addition, the Office of Investments and Banking works diligently to make socially responsible investments for the University, but it does so while working hard to meet its fiduciary obligation to the University, and getting the best possible return on its investments.

The difference between the management of the University's retirement plans and its endowments and other funds has to do with the fact that individuals manage their own retirement accounts. It would be problematic to have one individual enforce their beliefs on an entire group, and, therefore, the need for a formal policy to outline the steps that need to be taken when adding funds. Ms. Singer stated that the endowment can screen investments for individual companies, but this is not possible at a fund level in retirement plans.

Ms. Singer recommended that because interest in socially responsible investing historically has been low (not only in the FRP but the voluntary plans as well) that one fund be added, at least initially. If demand warrants, additional funds can be added in the future.

A member stated that screening fees for some of these funds can be extremely high. Ms. Singer noted that the RPFAC will look at the fees associated with any fund that is being seriously considered as these fees impact the entire plan. Fees are addressed in the investment policy mentioned earlier.

Professor Feeney asked members their opinions on the proposed process for adding funds. Members unanimously approved a motion endorsing a formal process for adding funds to the retirement plans. In terms of next steps, a small group meeting with a couple people from the SRI Subcommittee, Professor Murphy, Professor Feeney, Jackie Singer, and Chris Suedbeck will be convened. Professor Feeney agreed to correspond with Professor Prell about this discussion and the upcoming meeting.

XII). Before adjourning, Professor Feeney encouraged members to bring forward agenda items for the committee to address. A member stated that in his opinion, the University is very exposed to Securian. As a new member this person requested hearing from Securian about their financial strength/condition, especially given the market and what has happened with Lehman Brothers, AIG, etc. It was noted that it would be of particular interest to learn about Securian's exposure to its counterparts, some of which have disappeared. Professor Feeney agreed to extend an invitation to Securian for the December meeting where the committee will ask for a brief summary from Securian about their financial condition and then spend the remaining time allocated to this agenda item in a question and answer session.

Professor Kathryn Hanna, chair, Senate Committee on Faculty Affairs (SCFA), reported that SCFA will be taking up restoring the 0.5% of the 2.5% faculty contribution to the FRP for a Health Care Savings Plan. This issue is coming up again because CAPA (Council of Academic Professionals and Administrators) passed a different version of this same resolution, which leads to an inconsistency between the two employee groups (http://www1.umn.edu/usenate/resolutions/hcspres.html).

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

Renee Dempsey
University Senate