

SCFA RETIREMENT SUBCOMMITTEE
MINUTES OF MEETING
MAY 4, 2009

[In these minutes: First Quarter Investment Returns, TIAA-CREF Response to the University's Request for Financial Information in the Traditional Annuity & TIAA-CREF Meeting Update, Socially Responsible Investment Fund Update, Roth 403(b), Recession Investment Strategies Bar Chart]

[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, Jennifred Nellis, Burt Sundquist

ABSENT: Michael Murphy

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

I). Professor Feeney called the meeting to order and welcomed those present.

II). The committee commended Renee Dempsey, Senate staff, for the support she has provided the committee this year, and the very thorough minutes she writes. Members unanimously approved the April 6, 2009 minutes.

III). Members spent a few minutes reviewing the first quarter Faculty Retirement Plan (FRP) investment returns. A member voiced concern over the performance of the Vanguard Global Equity Fund, and stated that in his opinion better options are available, which should be explored. He added that he felt it is not in the University's best interest to continue offering this fund. In addition, he noted that he thought the Vanguard FTSE Social Index Fund should also be replaced. Professor Feeney stated that these investment options are on the Retirement Plan Fiduciary Advisory Committee's (RPFAC) watch list, and are being monitored. Regarding the Vanguard FTSE Social Index Fund, the RPFAC will hold a conference call later this week to discuss an alternative to this fund. The RPFAC has yet to decide if it will recommend dropping the Vanguard FTSE Social Index Fund altogether or whether to add another socially responsible investment fund, and let people decide between the offerings.

Jackie Singer noted that the RPFAC is watching at least four other funds besides the FTSE Social Index Fund. Regarding the Vanguard FTSE Social Index Fund, the RPFAC is looking at whether the correct benchmark is being used. In addition, the benchmarks for the Vanguard Global Equity Fund, Vanguard Long-Term Investment Grade Fund, and the Vanguard Inflation-Protected Securities will be reconsidered as well. Morningstar rates the Vanguard Global Equity

Fund and the Vanguard Long-Term Investment Grade Fund as both 3 star funds, and the Vanguard Inflation-Protected Securities as 4 stars. Of particular concern, noted Ms. Singer, is the Fidelity Asset Manager, which is performing poorly. Morningstar currently rates this as a 2 star fund.

A member asked about the procedure for taking action on funds on the watch list. Chris Suedbeck stated that procedural guidelines are being discussed. Ms. Singer added that the University of Minnesota Faculty Retirement Plan Investment Policy Statement will serve to guide the RPFAC in this discussion. Professor Feeney stated that prior to the establishment of the RPFAC, this subcommittee, upon reviewing the quarterly investment returns, played an informal role in bringing attention to underperforming funds.

A member noted that several of his colleagues have requested the FRP offer a better range of investment options for inflation protection because they feel that historically, the issuance of large amounts of government debt can result in inflation. Chris Suedbeck stated that the Office of Investments and Banking is currently looking into investment options for inflation protection for the University's endowment. He volunteered to share this information with the committee.

Would an exchange-traded fund (ETF) be an investment vehicle for hedging inflation asked a member? In response, another member cautioned against offering ETFs, which have a bad long-term track record. Mr. Suedbeck stated that the FRP does not have a mechanism in place for buying and selling individual shares of stock. Unfortunately, added Professor Feeney, there is no mechanism to stratify this type of investment option for the more sophisticated investors in the plan.

IV). Copies of the TIAA-CREF response to the University's request for detailed financial information on the Traditional Annuity were distributed to members for their information. Ms. Singer reported receiving this document late Friday evening, and not yet having an opportunity to thoroughly review it.

In addition, Ms. Singer distributed a handout containing comparison information on the interest crediting rates paid by TIAA-CREF and Securian. She noted that across the board Securian's General Account paid a higher interest rate than did TIAA-CREF's Traditional Annuity (GRA). The handout also compared the returns of the TIAA-CREF GSRA with the Securian General Account, and, with the exception of 4 time periods, the Securian General Account paid a higher rate of return than the TIAA-CREF GSRA. Ms. Singer stated that she brought this information to TIAA-CREF's attention at the TIAA-CREF/University of Minnesota meeting, and suggested that as part of their detailed disclosure of their financial information that they look into whether their underlying asset mix was the reason for the different interest rates. Another possible reason mentioned was that the sheer size of TIAA-CREF could result in higher administrative overhead.

Professor Feeney recalled asking Dick Manke, vice president, Securian Retirement, about this, and that Mr. Manke stated that top management at Securian believes the higher rates of return are a function of the quality of their investments.

The committee agreed that given this document should be included in the minutes. Regarding the comparison data, a member made the following observations:

- In its general account, TIAA-CREF is managing approximately \$179 billion. Comparatively, Securian is managing roughly \$12 billion in its general account. In each case, University participants' accounts are only a fraction of these total assets.
- It would be helpful to compile the data from Securian and TIAA-CREF and do some further comparisons, especially around the portfolio make-up.

Ms. Singer stated that TIAA-CREF has offered to come in and do a presentation on the Traditional Annuity. She reminded members that the reason the committee asked for this data was to be comfortable with the security of the accounts as opposed to comparing one account with the other. Ms. Singer stated that she would be happy to invite TIAA-CREF to do a presentation, but would be hesitant to compare one account to the other because it could imply that one company is preferable to the other, and, in her opinion, this is not the case. To date, the University is very comfortable with the returns and stability of each company. Professor Feeney commented that an invitation to provide information is limited by its terms and does not constitute an exception to the University's obligation to consider new vendors only in the context of an RFP.

Interest Crediting Rate Comparison (5/1/09)
 - Traditional Annuity and General
 Account Products

Dates of Deposit	TIAA-CREF GRA	Minnesota Life General Account Limited	Difference*	TIAA-CREF GSRA	Minnesota Life General Account	Difference*
2/1/09 and Later	4.00%	5.25%	-1.25%	3.00%	3.25%	-0.25%
11/1/08 to 1/31/09	4.50%	5.40%	-0.90%	3.00%	3.40%	-0.40%
10/1/08 to 10/31/08	4.50%	5.40%	-0.90%	3.50%	3.40%	0.10%
8/1/08 to 9/30/08	5.00%	5.40%	-0.40%	4.25%	3.40%	0.85%
7/1/08 - 7/31/08	5.00%	5.20%	-0.20%	4.25%	3.65%	0.60%
5/1/08 - 6/30/08	4.75%	5.20%	-0.45%	4.00%	3.65%	0.35%
2/1/08 - 4/30/08	4.25%	5.20%	-0.95%	3.50%	3.65%	-0.15%
1/1/07 - 1/31/08	4.25%	5.25%	-1.00%	3.50%	3.85%	-0.35%
10/1/06 - 12/31/06	4.00%	5.25%	-1.25%	3.25%	3.85%	-0.60%
4/1/06 - 9/30/06	4.25%	5.25%	-1.00%	3.50%	3.85%	-0.35%
2/1/06 - 3/31/06	3.75%	5.25%	-1.50%	3.00%	3.85%	-0.85%
1/1/03 - 1/31/06	3.75%	4.65%	-0.90%	3.00%	3.45%	-0.45%
11/1/02 - 12/31/02	4.00%	4.65%	-0.65%	3.25%	3.45%	-0.20%
1/1/02 - 10/31/02	4.00%	5.45%	-1.45%	3.25%	4.15%	-0.90%
11/1/01 - 12/31/01	4.25%	5.45%	-1.20%	3.50%	4.15%	-0.65%
1/1/00 - 10/31/01	4.25%	5.85%	-1.60%	3.50%	4.50%	-1.00%
8/1/99 - 12/31/99	3.75%	5.85%	-2.10%	3.00%	4.50%	-1.50%
Pre - 8/1/99	3.75%	5.60%	-1.85%	3.00%	4.30%	-1.30%

*Negative and yellow indicates that Minnesota Life is crediting a higher rate for contributions deposited between the dates indicated.

GRA accounts are available in the Faculty Retirement Plan (FRP) and Optional Retirement Plan (ORP). The General Account Limited is available in the FRP, ORP and 457 Deferred Compensation Plan (457 Plan). These accounts have limited access to transfers and withdrawals and, in return, have higher returns than the GSRA and General Account.

The GSRA accounts are available in the ORP and 457 Plan. The General Account is available in FRP and ORP. They have no liquidity restrictions and, as a result, pay a lower return than the GRA and General Account Limited.

Please note that this analysis is not intended to imply that the General Account and General Account Limited have performed at higher rates over all past time periods. This analysis simply compares crediting rates in place as of a single point in time – May 1, 2009. For historical fund investment performance, please see the Employee Benefits Web Site at http://www1.umn.edu/ohr/prod/groups/ohr/@pub/@ohr/documents/asset/ohr_asset_092676.xls, and the TIAA-CREF Web Site at www.tiaa-cref.org.

Segueing into the update concerning the April 23rd meeting with TIAA-CREF, Professor Feeney stated that he was under the impression that TIAA-CREF understands that it has issues, which need to be addressed. Professor Feeney asked for additional comments regarding the meeting with TIAA-CREF from others who were in attendance.

Mr. Suedbeck stated that the TIAA-CREF asset make-up, which is outlined in their report, confirms that its asset make-up is significantly more aggressive than that of Securian in terms of investments in mortgage loans and collateralized commercial mortgages. Mr. Suedbeck stated that these two sectors have dropped considerably in market value, which may account for the variances in the interest crediting rates.

Another member who attended the April TIAA-CREF meeting stated that TIAA-CREF admitted to having issues after having adamantly denied any problems previously. Naturally, they are good sales people; very convincing. Roger Ferguson was also quite impressive.

V). Chris Suedbeck reported that the Retirement Plan Fiduciary Advisory Committee (RPFAC) will meet later this week via conference call to decide which socially responsible investment (SRI) fund should be recommended for addition to the Optional Retirement Plan (ORP). The decision about which fund the RPFAC recommends will be reported to the committee this fall. Professor Feeney reminded the committee that the new fund would be a blended fund. The current Vanguard FTSE Social Index Fund is a pure index/equity fund.

Professor Feeney asked whether Securian has been contacted to determine if they will be able to work with the firm that is chosen. Ms. Singer stated that she has notified Securian, and they are discussing with their legal department what it would take to establish a relationship with the companies being considered.

A member asked why the new fund would be a blended versus an equity fund. Mr. Suedbeck and Professor Feeney stated that the decision to go with a blended fund was based on the parameters outlined by Social Concerns Committee members who serve on the SRI Subcommittee. This decision was made for volatility and diversification reasons.

Once a new SRI fund is added, will the current Vanguard FTSE Social Choice fund be eliminated asked a member? Professor Feeney and Mr. Suedbeck stated that no decision has been made yet. Further discussions need to take place around the funds that are underperforming, and what should, if anything, be done with these funds. Professor Feeney added that eventually as new funds are added, other funds will need to be eliminated. The elimination of funds will be governed by two factors:

1. Performance.
2. Participation.

Once the decision has been made to offer another SRI fund, suggested a member, those currently invested in the Vanguard FTSE Social Choice fund should be notified that there is another fund available to them. Ms. Singer stated that if the Vanguard FTSE Social Choice fund were underperforming simply because it was an equity fund she would still expect the Morningstar rating to be acceptable; however, Morningstar now rates this as a 1 star fund. This raises

concerns over the viability of this fund, stated Ms. Singer. Having said this, from a fiduciary standpoint, the decision about whether this is an acceptable fund to offer needs to be made. In response to this possible scenario, a member put forward another possible scenario, which makes him somewhat nervous. Suppose, for example, Vanguard changes fund managers after the University eliminates this fund, and the fund outperforms the new SRI fund being offered.

Rosalie O'Brien, counsel to the committee, stated that the University is responsible only for offering a range of viable investment options to plan participants, monitoring the performance of such options, and assuring that participants receive sufficient information to make informed decisions; it cannot guarantee that the investment options are the best-performing options at all times. Ms. Singer noted that because fund performance can be turned around, funds are on the watch list for more than just one quarter.

Professor Feeney asked Ms. Singer when she expected to hear back from Blake Reigert, manager, U of M Retirement Plans – Securian, regarding this matter. Ms. Singer stated that Mr. Reigert did not specify a specific time, but simply stated as soon as he could.

VI). Professor Feeney thanked Thomas Schenk and Barry Melcher for their expertise around the Roth 403(b). Based on the scenarios that have been reviewed and discussed by the committee, he invited discussion as to whether a good argument can be made to administration that it should spend the money on reprogramming PeopleSoft in order to be able to offer a Roth 403(b).

A member stated that while the Securian scenario may be representative of a certain percentage of the University community, there remain a significant portion of the University community that will not retire at anywhere near the level of income in their scenario. The Securian example is in no way indicative of the salary level that a majority of the University community will retire at.

A member reported that Ameriprise Financial offers a Roth option to their employees, and they use PeopleSoft. If Ameriprise Financial can offer a Roth why can't the University? Ms. Singer explained that they use the corporate version of PeopleSoft and the University uses the higher education version. These versions are completely different, and the higher education version requires reprogramming, which would cost approximately \$100,000.

In terms of the previously voiced concern over the possibility of relatively low participation if the University were to offer a Roth 403(b), Ms. Singer noted that the Optional Retirement Plan has roughly 5,000 contributors, and the 457 Plan has about 800 contributors.

In terms of estate planning, stated a member, the Roth 403(b) offers significant advantages. While a Roth 403(b) may not be for everyone, it offers serious retirement planning benefits.

Professor Feeney stated that the committee should compile a list of pros and cons around offering a Roth 403(b) from which a recommendation to the administration to offer this investment option could be developed. He suggested that members who have ideas for alternative scenarios should contact Mr. Manke and he is confident Mr. Manke would be willing to run alternative scenarios.

A member asked whether it would be possible for participants to convert a traditional Roth to a Roth 403(b). No, stated Ms. Singer, contributing to a Roth 403(b) is unrelated to the ability to convert a traditional IRA to a Roth IRA. Additionally, noted Ms. Singer, the University has no rollover capabilities into the 403(b) plan.

Barry Melcher noted that what is important about 2010 as it relates to the Roth IRA is that the income limits for converting a Roth IRA are eliminated, and people have two years to pay the tax on their contribution. Currently, a person can only convert a traditional IRA into a Roth IRA if his/her modified gross adjusted income is under \$100,000. This income limit lifts in 2010. A traditional IRA is funded with pretax dollars and withdrawals in retirement are taxed. A Roth IRA, on the other hand, is funded with after-tax dollars and withdrawals are tax free in retirement. The 2010 conversion will be included as taxable income in 2011 and 2012, which helps to spread out the tax burden, which is a one-time benefit. Another advantage of the Roth IRA is that there is no required minimum distribution at age 70 ½ like there is with a traditional IRA.

Another consideration, noted a member, is that the University needs to look long-term at the recruiting benefits of offering a Roth 403(b). In order to be competitive the University should offer a Roth 403(b).

Ms. Singer reminded members that it will cost approximately \$100,000 to reprogram PeopleSoft in order for the University to offer a Roth 403(b). She stated that arguably offering a Roth 403(b) would benefit some participants, however, the issue is doing it in a cost effective manner given the current budget challenges. Of the comparable top 10 public institutions, less than half offer a Roth 403(b) at this time, and, of those that do, their participation rate is low, 5% - 6%. If the University had similar participation, this would translate into 200 – 300 people participating.

A member stated that today's world is different than at any other point in time, and serious thought needs to be given to the direction taxes and inflation are likely to go. Plan participants will need to be educated in order to fully understand the benefits Roth 403(b) participation offers. Education will likely increase participation. If the University wants to be viewed as forward thinking, offering a Roth 403(b) is the right thing to do.

At the conclusion of this discussion, Professor Feeney suggested a subcommittee be formed to conduct a risk-benefit analysis of sorts around the University offering a Roth 403(b). Volunteers to serve on the subcommittee included Nancy Fulton, Professor Kathryn Hanna, Harvey Keynes, and Thomas Schenk. The subcommittee will provide a report to the full committee at its first meeting in the fall.

VII). Professor Feeney reported that Professor Michael Oakes who serves on the Faculty Consultative Committee (FCC) expressed concern over the Recession Investment Strategies bar chart that was distributed after the April meeting. At the April meeting, Securian had been asked to extend the Value of Staying Invested bar chart to include the Great Depression and the market decline that followed, and this document was the result of that request.

In Professor Oakes opinion, noted Professor Feeney, the chart was misleading. After a brief discussion, the committee concluded the Recession Investment Strategies bar chart provided by Securian was simply generated in response to the committee's discussion. Mr. Suedbeck noted that while the chart demonstrates the benefits of staying invested under certain circumstances, he cautioned that there are fundamental differences in the markets of the 1920s and today. Another member added that the analysis also assumes that the market is at the bottom, and this has yet to be determined.

After a brief discussion, the committee agreed that given the speculative nature of this document, it does not want to have it distributed further. Professor Feeney stated that as a scientist he sees this document as an attempt to use scientific principles to predict what is not scientific. Given the unpredictable nature of the market, the committee needs to be careful not to create any impression that past performance necessarily indicates future results.

Professor Feeney stated that he would follow-up with the FCC through Gary Engstrand and let them know that the committee does not plan to distribute this document any further, and to let him know that this document was generated by Securian in response to a committee request.

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

Renee Dempsey
University Senate