

SCFA RETIREMENT SUBCOMMITTEE  
MINUTES OF MEETING  
OCTOBER 4, 2010

[In these minutes: Letter to Securian, Update on Stress Test Meeting with Securian, Retirement Subcommittee Charge, Financial Calculators/Tools]

[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, Nancy Fulton, Joe Jameson, Barry Melcher, Chris Suedbeck, Vernon Cardwell, Murray Frank, Kathryn Hanna, Harvey Keynes, Jennifred Nellis, Vernon Eidman

REGRETS: Gavin Watt, Jackie Singer, Andrew Whitman

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). Copies of the September 14, 2010 minutes were distributed to members who then took a few minutes to review them. Professor Feeney asked members if anyone had any comments, concerns or corrections regarding the minutes. Professor Keynes stated that he does not believe the last paragraph in section IV, which talks about Securian not holding all the investment options for the University's retirement plans belongs in the minutes. According to Professor Keynes, the fact that the University also has Fidelity and Vanguard investments where people can put their money has nothing to do with the committee's discussion about whether it should write a letter to Securian about its political action committee (PAC) contribution. After some discussion, a majority of members believed the paragraph should stay in the minutes, and members unanimously approved the minutes as written.

III). Professor Feeney thanked members who contributed to the Securian letter, which serves to convey the displeasure of some members of the University community concerning Securian's contribution to Minnesota Forward.

Professor Cardwell asked why the letter refers to a political action committee (PAC) rather than naming Minnesota Forward. Professor Feeney stated that the committee did not feel it was appropriate to name names, and decided to consciously take a more generic approach.

Professor Feeney asked for a motion to approve the letter, which the committee went on to approve. He noted that the letter would officially become part of today's minutes. (The letter is below referenced as Exhibit A.)

Joe Jameson asked about Professor Morrison's comment at the last meeting having to do with if the University is unhappy with how Securian management is running the company that the University should vote its shares accordingly. Mr. Jameson proposed looking into putting forward a shareholder resolution at Securian's annual meeting. Chris Suedbeck, Office of Investments and Banking, cautioned that before doing this the University would need to find out where the contribution actually came from, the Securian corporate entity or pooled donations from Securian employees. In the case of Target Corporation, noted Mr. Suedbeck, their PAC contribution was not corporate monies, but rather pooled employee dollars, which were donated. Professor Keynes stated that putting a resolution up for a vote is actually more difficult than one would expect, but beyond that doing so puts the University in a position of taking a stand on this matter, which he stated he is not comfortable with. Professor Frank added that anecdotally he has heard of members of the University community who are supportive of Securian's contribution to Minnesota Forward. As a result, taking a stand on this issue could create dissension within the University. The purpose of the letter, recalled Professor Frank, was to inform Securian that there are a lot of different views about its Minnesota Forward contribution within the University community, and that it created controversy. Hopefully, the letter will make them think about whether creating controversy is really what they want to do.

Professor Feeney went on to reiterate a point made by Mr. Suedbeck that the Office of Investments and Banking is voting all the University's shares of stock in various investments on behalf of the University's trustee, Vice President Pfitzenreuter. Professor Feeney stated that he was pleased to know the University's shares were being voted.

Also, based on a comment by Professor Hanna, Professor Feeney stated that a potential future agenda item for the committee would be to look into the gender diversity of the various boards of trustees of the financial companies the University does business with.

Professor Feeney concluded by stating that the letter to Securian would be sent today electronically to Mr. Manke, and that Professor Kate Vandenbosch, chair, Faculty Consultative Committee (FCC), and Professor George Sheets, chair, Senate Committee on Faculty Affairs, would be copied on it. He then asked members whether they thought the letter should be sent to the Senate for information. At the suggestion of Professor Cardwell, the committee decided to forward the letter to the FCC for a decision about whether it should go to the Senate for information.

IV). Professor Feeney provided the committee with an update on the September 21, 2010 stress test meeting at Securian. He noted that both he and Mr. Suedbeck attended this meeting. In Professor Feeney's opinion, Securian is doing quite severe stress testing, which appears to be more stringent than many other organizations. Professor Feeney stated that he would distribute the summary of this meeting to members via email.

V). Professor Feeney introduced an issue that the committee previously discussed, which was revising the committee's charge. He noted that the Retirement Plan Fiduciary Advisory Committee (RPFAC) was created a few years back, and given the realignment of the Senate structure to include Professional and Academic (P&A) and Civil Service employees, it may be appropriate to revise the charge in accordance with the committee's current membership and

responsibilities. Professor Feeney requested Rosalie O'Brien, counsel to the committee, to review the charge and propose any necessary revisions. Ms. O'Brien said that she would do so and would confer with Professor Morrison. The revised charge would then be brought back to the committee for discussion and approval.

Mr. Suedbeck commented that the committee has tended to focus its discussions on plans that are administered by the University. With respect to the addition of Civil Service members to the committee whose retirement plan is Minnesota State Retirement System (MSRS), what ability does the committee have to oversee this plan given it is not administered by the University? Nancy Fulton noted that the University's contribution constitutes approximately 20% of the MSRS general fund, which is significant.

Ms. Fulton also volunteered to find out whether the University has any representation on the MSRS Board of Directors, and report back through Renee Dempsey, Senate staff, who will share this information with members. Mr. Jameson stated that he does not believe the University has a representative on the MSRS Board of Directors. He suggested that the committee may want to explore the possibility of getting more University employees with the necessary experience on the ballot. While the University may not necessarily be able to influence decisions concerning MSRS investments, it can still monitor and discuss the plan. Ms. Schroeder, retirement programs coordinator, noted that either she or Jackie Singer regularly attends the MSRS Board of Directors meetings.

At the conclusion of the discussion, Professor Feeney stated that the committee can talk further at a future meeting about whether there is something more this committee should be doing with respect to MSRS.

VI). Professor Feeney stated that the last agenda item is a discussion regarding whether additional financial calculators and educational materials should be made available for faculty and staff. While the committee recognizes it cannot provide financial advice to employees, this does not mean that resources to help participants manage their investments should not be made available. Professor Feeney reported talking with Mr. Manke about having an asset allocation calculator that would work with the different FRP fund categories. Mr. Manke spoke with his actuarial, legal and compliance people at Securian about this, and, at first blush, they were not in favor because such a calculator could be misleading with respect to managed funds (versus the current calculators, which use only indexed funds).

If an asset allocation calculator is not going to work, Professor Feeney proposed a calculator that was strictly based on historical data with multiple disclaimers that investing in the future based on past performance has its limitations. He further suggested putting a one-page flyer in with the quarterly statements dealing with different topics having to do with planning for retirement, e.g., interest, dollar cost averaging, the role of target funds in retirement accounts, dialing down risk when nearing retirement. The goal would be to get people to look at their asset allocation categories and have them think about whether they are properly diversified in order to meet their retirement goals.

Professor Frank stated that financial calculators are deeply misleading in terms of presenting risk to users. He noted that he worries that calculators will give people the impression that they are able to do better with their investments than what is actually the case. The treatment of risk in many calculators is misleading because, for example, they do not have variance or co-variance. A majority of calculators simply give users an average or expected value, but not a clear sense of the likelihood of not having enough money to retire on. Professor Feeney acknowledged Professor Frank's concern, but added that he believes the committee would be remiss if it did nothing.

Professor Frank stated that the concept of diversification is all about financial risks off-setting one another. Having said that, many financial calculators use an expected value approach in which case the concept of risks off-setting one another are often missing. Diversification is at the heart of portfolio formation. For example, noted Professor Frank, over the last hundred years or so the average person would have been better off with equities rather than debt; however, this was definitely not the case in the last decade. The notion of portfolio formation is built around variances and co-variances. Given that many calculators do not properly treat risk, and then to layer on even more risk is moving in the wrong direction.

Professor Feeney acknowledged that while financial calculators have shortcomings, what tools should be provided to help people plan for retirement? Professor Frank stated that last year he raised the issue of whether the University should explore offering Financial Engines, which would be a way to provide people with a tool for getting relatively low cost financial advice while building in variance and some notion of dynamic decision-making. He stated that he is not comfortable with building too much on any foundation that does not address risk in a reasonable way. Risk has many different definitions depending on how it is being used. A simple and intuitive definition of risk takes into account a downside notion.

Professor Keynes stated that, in his opinion, many financial calculators are depersonalized. A calculator that provides individualized rates of return would be much more helpful for people than calculators that use hypothetical rates. Professor Keynes went on to question the usefulness of hypothetical calculators and noted that in order to have a real impact on people's behavior, people need to see their own performance. Both Vanguard and Fidelity, for example, have calculators that use personalized data. Shonna Schroeder noted that Securian plans to add this type of calculator next year.

Thomas Schenk stated that for people who have no interest in actively planning for their retirement, any tools, print information, etc. is too much, and most will not take advantage of any resources that are made available to them. It is for this reason that he believes these individuals would be better off investing in targeted funds. He also noted that in light of the fact the University cannot give financial advice he believes that simpler/more basic tools and information are better than complex resources for people who clearly are not interested in thinking about their retirement needs.

Professor Feeney summarized the two educational issues that the committee needs to decide on:

1. Should more work be done on the calculators?

2. Should educational materials be sent out to plan participants with their quarterly statements? For example, as Mr. Schenk previously mentioned, should participants get information about the role of targeted funds in a retirement portfolio.

Should an ad hoc committee be established to work with Mr. Manke at Securian to explore the educational issue further and report back to the committee, or should the committee invite Mr. Manke to a meeting to talk about what it wants to accomplish with respect to educational tools and resources, asked Professor Feeney?

Professor Keynes noted that whatever educational materials/tools are being made available to people needs to convey the fact that the information is dynamic and constantly changing. He noted that the one calculator on the Securian website, for example, is out of date in terms of the recommended annuity withdrawal rate. The recommended rate was 5 – 6%, but current recommendations are about 3 – 4%. Having said this, he stated that he would like to have as a future agenda item a discussion about historical financial data versus current.

Professor Hanna stated that she likes the idea of convening a subcommittee to identify the issues. She also requested Professor Keynes share with the committee the performance engine he mentioned earlier in the discussion.

Professor Feeney proposed that at the November 8 meeting the committee continue this discussion and talk about the issues it would like an ad hoc committee to look into in terms of educational materials and resources for retirement planning. It is clear that risk, time periods, etc., are important factors that need to be taken into account. Professor Feeney also asked members to look at the on-line Securian calculators in preparation for the November meeting.

VII). Professor Feeney reminded members that the committee meets on the second Monday in November rather than the first Monday. Hearing no further business, the meeting was adjourned.

Renee Dempsey  
University Senate

Exhibit A:

Richard L. Manke  
Vice President  
Securian Retirement  
400 Robert Street North  
St. Paul, Minnesota 55101-2098

Dear Dick:

Securian and the University of Minnesota have had a long and mutually beneficial relationship. As the subcommittee that is charged with oversight of the University's faculty retirement plans, we appreciate the recordkeeping and other services that Securian provides. We also are grateful for the responsiveness you have shown to our requests for additional financial information or self-help calculators for our participants.

Recently, Securian made a donation to a political action group (PAC). The Retirement Subcommittee is informing you of the great displeasure some members of the University community expressed over the end result of that contribution. We understand that the contribution was not made directly to any candidate, but rather to a group that aggregates funds and characterizes itself as "pro-business." However, that contribution indirectly funded a candidate whose platform is counter to the personal, social and political views of part of the University community. As a public institution, the University embraces inclusiveness. We, as representatives of the University community, respectfully ask you to keep this in mind as decisions for future PAC contributions are made.

Sincerely,

Daniel A. Feeney  
2010-2011 Chair  
Retirement Subcommittee of the Senate Committee on Faculty Affairs  
University of Minnesota

cc: Professor George Sheets, chair, Senate Committee Faculty Affairs  
Professor Kathryn VandenBosch, chair, Faculty Consultative Committee