SCFA RETIREMENT SUBCOMMITTEE
MINUTES OF MEETING
APRIL 4, 2011

[In these minutes: Revised Committee Charge, "Guarantee" Language Used to Describe the General Accounts, Retirement Incentive Option (RIO) Update, Proposed Changes to the Faculty Retirement Plan, Proposed Changes on FRP Statements, Additional Financial Calculator Suggestions, FRP Stylebox Analysis]

[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, Joe Jameson, Barry Melcher, Jackie Singer, Vernon Cardwell, Kathryn Hanna, Harvey Keynes, Jennifred Nellis, Vernon Eidman

REGRETS: Gavin Watt, Murray Frank

ABSENT: Nancy Fulton, Chris Suedbeck, 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). Members approved the March 7 minutes, with Jane Carlstrom abstaining.

III). Professor Feeney called on Rosalie O'Brien to discuss the revised committee charge. A copy of the charge with the changes tracked was distributed to members who took a few minutes to review it.

Professor Hanna asked whether the Retirement Subcommittee should be responsible for monitoring the performance of the Health Care Savings Plan that some employee groups participate in given that it is an investment option. Ms. Singer explained that it is not a separate investment option, but rather a separate plan. Because the Health Care Savings Plan is handled through bargaining union and other formalized agreements, she would hesitate to include it in the committee's charge unless there was broad participation across all employee groups at the University. The reason that the University monitors the performance of MSRS is because it's a defined benefit plan with broad University employee participation; therefore, the University monitors the funding of the plan.

Members unanimously approved the revised charge as written.

IV). Regarding the topic of the "guarantee" language used to describe the General Accounts, Professor Feeney stated that it seems unlikely that Securian will change its guarantee description. Securian's legal counsel has weighed in and takes the position that "guarantee" is a commonly used descriptor in this case. With that said, how far do members want to push this issue, asked Professor Feeney? He added that the member who first raised this as a concern was Professor Frank and because he has a teaching conflict this semester, he is unable to be here today. Professor Feeney suggested tabling this discussion until Professor Frank can be in attendance.

Rosalie O'Brien, counsel to the committee, agreed that it would be good to have Professor Frank included in the discussion. She recalled that Professor Frank's concern was that using the word "guarantee" typically implies an independent third party providing the guarantee. In this case, however, it is only Securian promising to pay. In response, Professor Feeney stated that Securian may buy cross insurance to protect itself, but this is not known to be for sure. The other concern about cross insurance, as has been played out in other situations in the news, is that it is like David insuring Goliath, which makes it not particularly useful.

Barring any objection, Professor Feeney proposed tabling this item until June when Professor Frank can participate in the discussion.

IV). Professor Feeney called on Jackie Singer to provide a Retirement Incentive Option (RIO) update. The current RIO, noted Ms. Singer, while similar in many respects to previous incentive options, has some differences. The RIO was opened February 15, 2011 and will close on May 15, 2011. The last day for employees to retire who elect the RIO will be January 11, 2012, which coincides the end of fall semester for B terms.

Ms. Singer then outlined the criteria for eligibility:

- Age 50, with a minimum of 15 of service; age 55, with a minimum of 5 years of service, or thirty years of service without regard to age.
- Actively employed at 75% time or greater and hold an appointment term of nine months or greater on the last day of employment.
- Currently enrolled in UPlan (or federal benefits) and receiving the University subsidy for those benefits.
- Employees who elect the RIO will not be eligible for rehire for three months following their retirement date, and, if rehired, can only be hired into non-benefits-eligible positions of no more than 19.5 hours per week.

Unlike previous RIO offerings, federal employees are eligible to elect this RIO. The reason federal employees are eligible is because this retirement window comes with a Health Care Savings Plan deposit. This lump sum deposit will be roughly based on two years of subsidy rather than three years as has been the case with previous RIO offerings. Another change from previous RIOs is that this RIO will be funded by the department/unit/college versus the fringe pool.

To date, there has been a significant amount of interest in this new offering. The administration is hopeful that the RIO will reduce the number of employees who may need to be laid off in light of the budget challenges facing the University.

For more information about the current RIO, members were directed to the following on-line resources:

- http://www1.umn.edu/ohr/benefits/rio/index.html
- https://umconnect.umn.edu/vrp/

In response to a question about the RIO, Ms. Singer explained that the lump sum deposit into an employee's Health Care Savings Plan is not insignificant with the range being anywhere from $12,000 to $33,000. The monetary amount is calculated based on a person's 2011 coverage level (employer's contribution to health and dental coverage) and location, e.g., Twin Cities, or Greater Minnesota.

Professor Feeney asked Ms. Singer about the acceptance rate, and she said it will be very interesting to see what the acceptance rate actually ends up being given that this RIO is being rolled out in rather close proximity to the last two RIOs (2003 and 2008). With that said, based on what she is seeing, there is quite a bit of interest among eligible employees.

What was the acceptance rate for the 2003 and 2008 RIOs, asked Professor Hanna? Ms. Singer stated that the 2003 acceptance rate was 6.5% and the 2008 rate was 8.3%. Assuming a 7% acceptance rate for the current RIO would mean that approximately 400 employees would retire. The retirement report for 2010 that was recently completed, noted Ms. Singer, indicated a sharp decline in the number of people who retired in 2010. For example, on average 300 – 350 employees retire every year, but in 2010 only about 170 employees retired.

V). Ms. Singer went on to provide information about proposed changes to the Faculty Retirement Plan (FRP). She noted that Employee Benefits will meet with the Faculty Consultative Committee (FCC) on Thursday, April 7 to discuss a proposal to reduce the employer contribution to the FRP from 13% to 10% for newly hired employees. She reminded members that she had brought this proposal to the committee last fall to discuss. This same proposal will also be shared with the Faculty Senate at the next meeting on April 14, 2011. Under this proposal, the employer contribution for existing employees would not change, and would remain at 13%. As far as Ms. Singer is aware, this is the only change being proposed to the FRP at this time.

Professor Feeney asked whether under this proposal if the employee's contribution would remain the same at 2.5% or whether it would it increase. Ms. Singer stated that it is her understanding that this is still open for discussion. In her opinion, there are pros and cons on both sides of this issue. While some people believe the FRP retirement contribution should remain whole at 15.5%, there are others who do not like the idea of making employees pay 5.5% into their retirement plan. Keep in mind, however, noted Ms. Singer, that the University's Civil Service and bargaining unit employees are already contributing 5% to MSRS.

Professor Hanna asked about the amount the average person would need in their retirement portfolio (defined contribution plan) in order to be able to retire at age 65 or 70. Not requiring faculty to contribute an adequate amount into the plan so that they can retire at age 65 or 70 is doing them a disservice in the long run. The University should require an adequate contribution so there is a reasonable probability that employees can retire.

In response to this comment, Professor Keynes highlighted a recent Wall Street Journal article, *Why Your Nest Egg May Not Last* by Tom Lauricella, which he shared with members. Based on the analysis in this article, there is really no answer to Professor Hanna's question, stated Professor Keynes. He added that it is for this reason also that he has a problem with the financial calculators, which take a very complex analysis and make it simple because people want easy answers.

After some discussion, Professor Cardwell stated that in his opinion the administration should require faculty impacted by the proposed change to the FRP to increase their share of the contribution from 2.5% to 5.5%. Professor Keynes agreed and stated that he would even go so far as to say the employee contribution amount should be even higher.

Professor Hanna made a motion that total contributions (employer and employee) to the FRP not go below 15.5%. To illustrate, the employer/employee contribution rate for existing employees would remain at 13%/2.5%, and for new employees the contribution rate would be 10%/5.5%, respectively. Professor Cardwell seconded the motion and a discussion ensued. Professor Hanna asked Ms. Singer whether the current plan designates how much an employee must contribute to the plan. Ms. Singer stated that both the employer and the employee contribution rates are specified in the FRP.

Professor Hanna stated that the rationale for this motion is to help newly hired faculty build a big enough portfolio in order to be able to retire one day. A total contribution of 12.5% into the plan does not seem adequate and even 15.5% is questionable. Retirement will likely not get any cheaper.

As a point of information, Professor Feeney noted that when the current FRP was originally put in place back in the 1960s, the employer and employee contribution rates were inadequate. As a result, the University is providing supplemental retirement contributions for this closed group of persons who participated in the RFP prior to 1963. Ms. Singer stated that there are over 200 people in this pool and the University pays out over $800,000 to these retirees yearly. This example should serve to reinforce the importance of mandating that the total employer/employee contribution in the FRP not go below 15.5%.

Professor Keynes stated that mandating this change could mean that any future FRP changes could result in an increase in the employee contribution. Professor Cardwell agreed and stated that the only caveat to this motion is will it incent the University not to contribute as much to the FRP going forward knowing that the employee's contribution could be raised to make up the difference.

With the exception of an abstention by Thomas Schenk, members voted to endorse the motion that the total contributions (employer and employee) to the FRP not go below 15.5%. Mr. Schenk explained that his decision to abstain from voting was based on the principle that there are some people who would invest their money in investments, e.g., property, that would increase the value of their retirement portfolio.

In response to a question from Professor Hanna about legislation that could impact the FRP, Ms. Singer stated that at the last MSRS board meeting she attended, numerous pieces of pending legislation were reviewed. She then shared a couple pieces of legislation to illustrate the spectrum of what is being considered. For example, there is legislation that would abolish public pensions all together. In addition, there is another piece of legislation that would shift 3% of the University's MSRS contribution to employees, which would mean the current employer/employee contribution rate of 5%/5% would change to a 2% employer contribution and an 8% employee contribution. Changing the contribution structure would have cost implications for MSRS because when that much money is shifted to employee contributions it increases the cost of the plan. It is unclear whether this was understood when this legislation was brought forward. Ms. Singer added that there is also a bill that would permit early retirement for state employees, but it does not apply to University employees. This legislation started as a Rule of 70 and was extraordinarily expensive, but has since been pared down simply for this reason.

Professor Feeney asked whether most state employees participate in MSRS. Ms. Singer stated that the two largest retirement plans are MSRS and PERA (Public Employees Retirement Association), and there is also TRA (Teachers Retirement Association of Minnesota), which is a fairly large plan. The benefits under MSRS and PERA for the general plans are the same, but the contribution rates are different because the plans have made changes to their contribution rates at different times in their funding patterns.

Professor Keynes asked if the University's budget ends up being worse than initially thought, could the University further reduce its contribution without consulting with faculty. Ms. Singer stated that it is her understanding that the University is currently planning for the worse case scenario. If this is indeed the case, then further reductions should not be necessary for this year.

Professor Feeney requested Renee Dempsey, Senate staff, to send an email to Professor VandenBosch, chair, FCC, and Professor Sheets, chair, SCFA, to inform them about the motion that the committee passed today.

VI). Professor Feeney reported meeting with Dick Manke, vice president, Securian, and asking whether it would be possible to include on the quarterly statements how much money FRP participants have at each of the different interest rates in the General Accounts. Without this information, it is extraordinarily difficult to know one's personal rate of return for each of these categories. Mr. Melcher stated that this information is available on-line by logging into a participant's account detail and clicking on the 'General Account Limited.' Professor Feeney thanked Mr. Melcher for this information; however, stated that it would still be helpful to have this information on the paper statements. He agreed to report back on whether it will be possible once he hears back from Mr. Manke.

VII). Professor Feeney asked members whether anyone had any additional ideas for inclusion in the financial calculators that Securian is working on. Professor Cardwell suggested a section of the calculator be dedicated to addressing retirement and health care planning. It is imperative that plan participants think about the portion of their retirement portfolio that they will need be spend on health care. The current percentage spent on health care by the average person during retirement is projected to increase substantially. Professor Keynes added that another cost that people need to think about as they plan for retirement is long-term care. This is a future cost that should also be built in to the calculators.

In response, Ms. Singer who manages the disability and retirement plans stated that she finds that rather than planning for the future, people frequently choose to do something else with their money rather than buying disability insurance, for example. Long-term care is similar in many respects because it not an easy topic to understand and it is a topic that people simply don't want to think about when they are young enough to make it affordable. With that said, however, stated Professor Feeney, these are costs that people should be thinking about as they plan for their retirement.

Professor Feeney suggested putting this topic on the May 2 meeting for further discussion. He also stated that he would bring these suggestions to Mr. Manke's attention as well.

VIII). Professor Feeney reported that Ms. Singer is doing a stylebox analysis, which will be brought to the committee in June. He added that Securian has, per a discussion with Professor Feeney, conducted a free due diligence analysis of the University's account. Professor Feeney noted that according to Mr. Manke, while the FRP is a solid plan, there are some redundancies in its line-up. With that said, he asked members to start giving this some thought to the fact that Securian now offers the American Funds should the University want to make any changes to investment alternatives offered under its plans. He encouraged members to look at the stylebox for the American Funds in preparation for the June meeting.

Professor Feeney requested Ms. Dempsey make sure that a June meeting has been scheduled.

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

Renee Dempsey
University Senate