SCFA RETIREMENT SUBCOMMITTEE
MINUTES OF MEETING
OCTOBER 3, 2011

[In these minutes: Personal Rate of Return Demonstration, FRP Investment Performance for Period Ending June 30, 2011 & Updating Performance Benchmarks, Adding Funds, Continued Discussion of “Guarantee” Language to Describe General Accounts]

[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, Wendy Berkowitz, Jane Carlstrom, Thomas Schenk, Nancy Fulton, Joe Jameson, Barry Melcher, Chris Suedbeck, Vernon Cardwell, James Cotter, Murray Frank, Kathryn Hanna, Andrew Whitman, Vernon Eidman

REGRETS: Jackie Singer, Harvey Keynes

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

GUESTS: Dick Manke, vice president, Securian Retirement and Blake Reigert, manager, Special Retirement Plans, Securian

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

II). Members unanimously approved the May 31, 2011 minutes.

III). Professor Feeney welcomed today’s guests from Securian, Dick Manke, vice president, Securian Retirement, and Blake Reigert, manager, Special Retirement Plans, who were invited to give the committee a demonstration of Securian’s personal rate of return calculator.

Mr. Manke began by reporting that the personal rate of return calculator was launched approximately one month ago. To date, 1,000 Securian participants have accessed the site. Securian has received very positive feedback from participants who have used the calculator. The new calculator has been communicated to plan participants via the Securian website as well as in a recent educational mailing. There will also be information about the new calculator included in the third quarter statements.

Mr. Reigert provided members with a demonstration of the personal rate of return calculator and highlighted various features of the calculator, which included but were not limited to:

- The calculator default is 10 years worth of data.

- The calculator is customizable. For example, participants can view just one of their plans or all plans. In addition, participants can look at their account by individual investment options or over a specific time period.
- The calculator gives participants the ability to view their personal rate of return information using a number of different formats - month-to-month, quarterly, year-to-date, individual fund holdings, asset classes, etc.

Members' questions and comments included:

- Will the calculator default always be a 10-year rolling window? According to Mr. Reigert, at this point, the default will be a rolling 10-year period.
- What data from what accounts is included in these calculators? Mr. Reigert stated that Securian data from all the plans are included.
- If a participant wanted to estimate his/her future rate of return, which period, does the research show, is most representative of the past? According to Mr. Reigert, Securian will launch another tool this fall, a Monte Carlo-type simulation, which would be a better tool for getting at historical market information rather than using the personal rate of return calculator. The personal rate of return calculator provides a good recap of investment performance over a specified period, rather than projecting future performance.
- Will the Monte Carlo-type simulation be based on benchmarked market performance? If so, will it be benchmarked to the funds participants have in their portfolios or will it use an overall benchmark? Mr. Reigert stated that the Monte Carlo-type simulation will not take into account a participant's specific holdings/funds but rather will use an overall benchmark based on asset classes.
- Does the calculator allow participants to see their personal rate of return down to the fund level? Yes, participants can see their returns for each of the funds they are invested in.
- Are the funds allocated to a particular class versus breaking down the assets that the fund is actually holding because a significant number of funds include multiple asset classes within a single fund? Mr. Manke stated that the funds are allocated to the asset category described by the fund.
- Does the personal rate of return calculator provide information on rates of return participants can expect in order to know how long their money will last? Retirement decisions are always based on how long the money will last. No, stated Mr. Reigert, the calculator gives investors a historical snapshot of what has happen in their account over the last ten years; this is not a tool that projects forward. Mr. Suedbeck added that Securian has other calculators on their website that plan participants can use to get at this information, e.g., How Much Do I Need?, Will I Be Able To Retire?, etc.
- When will the Monte Carlo-type simulation be rolled out? Mr. Reigert stated that Securian has a target rollout date of December 31, 2011.

Professor Feeney thanked Securian for the calculator demonstration. He then invited Securian back in February, after the Monte-Carlo-type simulator has been out for some time, to provide another demonstration. Mr. Reigert offered to put together different scenarios (withdraw phase, pre-retirement phase and accumulation phase) and walk members through how plan participants might use the tools available through Securian.

Professor Frank stated that when Securian returns in February he will be asking what assumptions were built into the simulator about clustering of volatility and what assumptions were made about inter-temporal correlations. He added that whatever assumptions have been built in, he will want to make sure that the empirical inter-temporal dependence of returns, and the correlation structure of the data is reflected in the Monte Carlo. Mr. Manke requested Professor Frank email him the questions he plans to ask to make sure Securian is prepared to answer.

Professor Whitman noted that the financial planning community assumes a 4% - 4.5% payout. He asked Employee Benefits and Securian about their experience with retirees who ask about how much they can take out and still have their retirement account last and how many of these types of inquires they get. Mr. Reigert stated that there are a lot of variables that need to be taken into account when making such an assumption. Securian does not and cannot legally tell participants what assumptions they should use. Mr. Melcher stated that Employee Benefits' response is similar. Mr. Reigert agreed to talk with his team to get an idea about the number of such calls and report back to the committee.

Again, Professor Feeney thanked Mr. Manke and Mr. Reigert, and noted that he was very impressed by the personal rate of return calculator. With that said, he suggested Securian explore expanding the 10-year rolling window of data. Mr. Reigert stated that Securian will do some load tests to see how long it would take to get information that goes back further than 10 years because this will ultimately factor into the feasibility of expanding this window.

IV). Copies of the FRP investment performance for period ending June 30, 2011 were distributed to members. Professor Feeney stated that the Retirement Plan Fiduciary Advisory Committee (RPFAC) has created a watch list for funds that have been underperforming their benchmarks. Two funds the RPFAC are currently watching are the Vanguard Windsor II Fund and the Vanguard International Value Fund. Professor Feeney called on Chris Suedbeck from the Office of Investments and Banking to talk about the watch list.

To begin, Mr. Suedbeck stated that the University does not set the benchmarks for the various funds, but rather uses the benchmarks that the funds themselves have set. Therefore, the University judges the funds on the criteria they have set forth for themselves. Periodically, the RPFAC verifies each of the benchmarks to confirm they are still current. Up until recently, the most widely used developed market benchmark was the MSCI EAFE Index, but that is changing with most clients now using the All Country World Index (ACWI) instead. The main difference between the MSCI EAFE Index and ACWI is that the ACWI contains an emerging markets component. Emerging markets currently make up approximately 20% of the overall global market cap. With that said, the RPFAC is in the process of updating the fund benchmarks. Starting with the FRP investment performance for period ending September 30, 2011, the RPFAC will judge each fund based on the ACWI.

Professor Frank asked Mr. Suedbeck to talk a bit about why the State Street Private Equity Index is the benchmark for the Vanguard International Explorer Fund. Mr. Suedbeck stated that this is an error. The State Street Private Equity Index is a private LP database and should not be included here. He agreed to bring this error to the attention of the RPFAC.

V). Professor Feeney reminded members that at the end of last year the committee discussed adding funds and specifically talked about adding a managed small cap fund, a real estate investment trust (REIT), and a global bond fund. These recommendations were forwarded on to the RPFAC for action.

Professor Feeney and Mr. Suedbeck informed the committee that while looking into adding these funds, the RPFAC noted that it was unclear whether the Faculty Retirement Plan Investment Policy statement would accommodate the addition of a REIT. Jackie Singer, director, Retirement Programs, and Rosalie O'Brien, counsel to the committee, agreed to review the policy statement and report to the RPFAC on this question. Please know, stated Professor Feeney, work on adding funds continues; however, as it turns out, adding certain sector funds has not proven to be a simple matter.

VI). The committee moved on to the next agenda item, continuing a discussion it started a few years back regarding the guarantee language used to describe the General Accounts. Professor Feeney recalled from last spring that members tended to hold one of two main positions on the topic:

1. The use of the term guarantee is misleading and implies a third party guarantor such as the FDIC.
2. With adequate footnoting, clearly denoting that guarantee means guarantee to pay based on the full faith and credit of Securian only, it would be acceptable to use the term.

Professor Feeney requested that the committee come to a conclusion and decide whether the term guarantee needs to be eliminated altogether or whether it can be used to describe the General Accounts as long as there is a clear definition of what is really meant by the term. Rosalie O'Brien, counsel to the committee, added that the General Accounts basically accounts on which interest is paid at a fixed rate established by Securian from time to time, and there is nothing guaranteed about them other than Securian's promise to pay the stated rate. The insurance industry's practice of using the word "guarantee" to describe these types of accounts is one factor to be considered, but another important question to ask is whether or not the term is misleading to University participants.

Members' comments included:

- Oftentimes footnoting is at the bottom of a document in very small print. Rather than using a footnote, a headnote should be used so it is more visible.
- Rather than using the term guarantee, use "Securian promises" with a footnote that says Securian's promise to pay is backed by Securian's financial security and the Minnesota Life & Health Insurance Guaranty Association, subject to the statutory limitation. The use of "guarantee" in the insurance industry is very misleading.
- Use of the term guarantee should be avoided because it implies more than it really is. Ask Securian if they have any suggestions to propose.
- When referring to the guarantee, use it in quotes.

- Some people are under the impression that the interest rate in effect at the time they put money into their account is guaranteed to remain the same, but this is not true and needs to be clarified. Participants need to know that the interest rates are subject to adjustment by Securian.

Professor Feeney asked Ms. O'Brien to work with Securian representatives Mr. Manke and Mr. Reigert on the suggestions that have been proposed by the committee. Once new language has been crafted, it will be brought back to the committee for review and approval.

VII). The committee spent the remainder of the meeting talking about what it can do to make people more aware of the risks associated with different funds. Professor Frank stated that in his opinion that simplicity is extremely important when trying to communicate risk to plan participants. He suggested providing participants with the average daily standard deviation, a statistical measurement that sheds light on historical volatility, over a specified period, e.g., quarter, year, etc. This information could be put on the web for participants to access.

Along the lines of simplicity, Professor Cardwell suggested that rather than calculating the range of risk for each investment option that the risk be calculated for the various investment categories, e.g., fixed income, blended funds.

Professor Frank further suggested that the FRP period ending reports that the committee reviews include not only standard deviation but a correlation matrix. In response to a question about how the correlation matrix would be used, Professor Frank explained that it would be helpful to have as the committee assesses items on the watch list, for stylebox analysis purposes, and as the committee looks at individual funds and what they are contributing to the plan.

Professor Cotter suggested putting risk information at the point of purchase on the web as participants are about to buy funds.

Professor Whitman suggested including coefficient of variation. Despite the fact that many people may not understand coefficient of variation, it is a much better measure of variation.

In light of time, Professor Feeney suggested that the committee review the Securian website at the next meeting to determine what risk information is currently available. Additionally, the committee will review the September 30, 2011 investment performance results.

Professor Feeney asked for other agenda items for the year. Professor Hanna suggested that it would be helpful to provide participants in the plan, particularly those who have been in the plan for many years, information on where to find out if the money they contributed early on was invested on a pre or post tax basis, and also information on required minimum distribution (RMD) requirements. Mr. Melcher stated that pre 1987 403(b) money (FRP or Optional Plan) is not subject to RMD until age 75. Professor Hanna suggested consolidating important tips for participants with pre 1987 money. Professor Feeney stated that the committee will put this on the agenda for the November 7 meeting and refine what important information would be helpful for participants to have.

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

Renee Dempsey
University Senate