SCFA RETIREMENT SUBCOMMITTEE
MINUTES OF MEETING
APRIL 1, 2013

[In these minutes: Target Date Funds, New Discovery Fund Update, Faculty Retirement Plan Investment Performance Report for Period-Ending December 31, 2012, Roth Offerings at Peer Institutions, Feedback on Securian Annual Review, Social Security Benefits]

[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, Andrea Backes, Wendy Berkowitz, Thomas Schenk, Nancy Fulton, Joe Jameson, Barry Melcher, Jackie Singer, Chris Suedbeck, Murray Frank, Kathryn Hanna, Harvey Keynes, Andrew Whitman, Vernon Eidman

REGRETS: James Cotter

OTHERS ATTENDING: Dan Fisher, retirement programs coordinator, and Rosalie O'Brien, counsel to the committee

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

II). Members unanimously approved the February 4, 2013 minutes.

III). As follow-up to the target date discussions from the last meeting, stated Professor Feeney, Mr. Manke provided him with fund information (Vanguard and T. Rowe Price) for the committee to consider. The Vanguard product is a collection of index funds that tapers the number of equities over time and the T. Rowe Price product is actively managed. Professor Feeney stated that he informed Mr. Manke that the University was not likely to be interested in Securian's new TargetAge™ investment program because the University does not choose the components of target date funds.

Professor Keynes repeated his concern that it is difficult to evaluate the performance of target date funds without benchmarks. Professor Keynes also noted that he was astonished to see in the most recent payroll contribution summary report that the third largest dollar contribution to the Faculty 401(a) plan was to the Vanguard Prime Money Market Fund Institutional Shares because he does not think this could be an informed investment decision. Professor Keynes stated he thinks every effort should be made to educate plan participants about these funds.

Mr. Schenk stated that he does not necessarily agree with Professor Keynes' views on the target date funds. He thinks that people who choose these funds go into them believing they will be a long-term investment. The think that concerns him about target date funds is that people think they are safe. Since the mid 1980s, bond prices, for example, have steadily declined, and this could translate into people losing a lot of money depending on target date fund's bond weighting.

Mr. Schenk added that he is also concerned that target date funds are the default for individuals who do not make active choices.

Mr. Melcher stated that prior to the target date funds being the default that a money market fund was the default. He speculated that people who are currently contributing to a money market fund may not want to put money in a declining bond market or may not be comfortable in the stock market. Mr. Schenk stated that he would hope that rather than contributing to a money market fund that people would choose to contribute to the General Account. Mr. Melcher stated that the bottom line is that it is unclear why people are contributing to the money market fund given the low interest rates.

Professor Frank stated that when he looks at the number of participants who are contributing to the money market fund and the amount of money that is being put in (fewer people contributing more money), it would suggest to him that these people are not contributing through inertia, but are actively choosing to contribute to the money market fund because they have a different view about what the future holds for this investment option. Ms. Singer reported that when the default was changed from the money market fund, Employee Benefits sent mailings to those contributing to the money market fund reminding them that they were in the fund.

Professor Hanna asked whether the University should continue to offer a money market fund given it has the General Account. The prevailing philosophy of this committee, noted Professor Feeney, has been that for each of the major fund families there needed to be a money market fund so people could move their money to the money market fund before deciding where to invest it.

Professor Whitman stated that in his opinion the discussion should focus on what the default should be. Professor Feeney reminded Professor Whitman that the committee decided 3 – 4 years ago to change the default from the money market fund to the Vanguard target date funds because the target date funds had a mixture of bonds and equities and were actively managed.

Professor Keynes raised the idea of having a balanced fund as the default and suggested considering either Wellington or Wellesley. In Professor Keynes' opinion, on average, either of these funds would out-perform the target date funds over time. Mr. Schenk stated that there are significant differences between target date funds and balanced funds: first, balanced funds have virtually no international investments, and, secondly, their glide paths do not change like target date funds. Professor Feeney pointed out that the target date funds were selected based on new guidelines issued by the Department of Labor for plans covered by ERISA. Ms. O'Brien stated that it is important to remember that the role of the committee and the University is to provide an array of choices and adequate information to plan participants.

Professor Frank stated that he thinks the committee needs to be cautious in how it proceeds. He reminded members that the target date funds are simply defaults, and that people have the choice to select other investment options. Secondly, he feels that without doubt, target date funds are a better default than a money market fund. He added that he does not believe it is in the purview of the committee or the University to be in the business of creating indices. Next, Professor Frank stated that if the default were to change again then employees may assume that the

University is taking over managing their money so they don't have to. He stated that he sees no compelling reason to change the default at this time. Having said all that, he noted that he believes it would be worth the committee's time to find a vendor with a credible index and to track the performance on other target funds.

Professor Hanna concurred with Professor Frank. She then asked about the letters that had been sent to people contributing to the money market fund and whether the letters suggested to plan participants to consider investing in the General Account as an alternative. No, stated Ms. Singer, no alternatives were suggested and that was done purposefully.

Mr. Schenk volunteered to prepare a chart comparing the performance of some of the top targeted funds in order to provide the committee with the information it needs to adequately assess the performance of the Vanguard target date funds. Professor Feeney thanked Mr. Schenk for volunteering to do this and said that he looked forward to receiving the information.

Professor Feeney asked if the University moves to a tiered retirement plan, will it still be possible to offer a General Account-like product in the plan. Ms. Singer stated that this is something that would need to be answered during the RFP process. She is aware of other higher education institutions that offer annuities in their tiered plans. If the University ends up with a master recordkeeper that cannot handle a General Account-type offering, then the University could decide to go with two vendors, one that keeps all the records for everything but the General Account and another that just keeps the records for the General Account.

Professor Feeney asked Ms. Singer if she has heard anything about when Human Resources will hire a consultant to explore a tiered plan option for the University. Ms. Singer stated that she has heard nothing. Currently, the focus is on the PeopleSoft upgrade.

IV). As follow-up from the last Retirement Plan Fiduciary Advisory Committee (RPFAC) meeting, Professor Feeney asked Mr. Suedbeck about the status of the analysis that Anthony Quill was going to do comparing a DFA Fund with a T. Rowe Price Fund. Mr. Suedbeck stated that Mr. Quill has not yet completed this analysis. Professor Feeney requested Mr. Suedbeck to ask Mr. Quill to complete this analysis because he was under the impression that it was going to be completed shortly after the RPFAC meeting in December.

Ms. Singer reported that Fidelity will not allow the University to add the New Discovery Fund to the Faculty Retirement Plan (FRP). In fact, Fidelity has indicated that no Fidelity retail plans can be added to the Faculty 401(a) plan.

Ms. Singer also announced that she is still looking into which vendor might be able to add the new funds to the pre-89 fund lineup in order to keep parity between the pre-89 and post-89 fund offerings. She hopes to be able to update the committee at a future meeting.

V). Next, Ms. Singer distributed copies of the FRP investment performance report for period-ending December 31, 2012 and noted that the performance of three funds were looked at more closely at the last RPFAC meeting and these included:

1. Vanguard PRIMECAP.

2. Fidelity Strategic Income Fund.
3. Vanguard Intermediate-Term Investment Grade Fund.

With that said, no new funds were added to the watch list at this point.

Mr. Suedbeck noted that the Office of Investments and Banking had proposed that the RPFAC adopt specific criteria for determining when a fund should go on the watch list. Focusing on the three-year performance mark, the criteria are:

- Actively managed equities – a deviation of 200 basis points from the benchmark.
- Passive equities – a deviation of 75 basis points.
- Actively managed fixed income – a deviation of 100 basis points.

Professor Feeney stated that the RPFAC continues to discuss the benchmark for the Fidelity Strategic Income Fund. Mr. Suedbeck stated that he believes the existing benchmark is an appropriate benchmark for what Fidelity is trying to achieve.

VI). Professor Feeney called on Ms. Singer to provide information about Roth offerings at the University's peer institutions. Ms. Singer noted that Ohio State, the California system and the University of Minnesota currently do not offer a Roth option in their voluntary plans. Roth options are available at the other peer institutions. She then briefly summarized the idiosyncrasies of the peer institution plans related to their Roth offerings.

Professor Feeney asked Ms. Singer whether a Roth option is still on the table for the University. Ms. Singer stated that in order for the University to offer a Roth two things would likely need to happen:

1. PeopleSoft would have to be able to handle Roth transactions.
2. The University would have to move to a single vendor platform or devise a process for handling this complex transaction in a multi-vendor environment.

Currently, the University's retirement plans are treated differently, e.g., FRP is treated differently than the Voluntary Retirement Plan. Ms. Singer stated that she would like the University's retirement programs to be designed to help people plan for their retirement, and shared her vision for how offering a Roth option would work in a tiered plan.

Professor Hanna commented on the number of peer institutions that offer a Roth option, and stated that this puts the University in a comparatively unfavorable position. Ms. Singer stated that while it is true that the University is in the minority, she does not hear candidates offering the lack of a Roth 403(b) as a reason for declining job offers at the University of Minnesota. While it would be wonderful to offer Roth to participants, she does not believe it significantly harms recruiting efforts.

How is the University structured that makes it difficult to offer a Roth option, asked Mr. Jameson? Ms. Singer stated that institutions are increasingly going with a master recordkeeper, streamlining their investment options and/or offering tiered plans, all of which would make offering a Roth option much easier.

Professor Whitman asked whether it would be possible to phase in a Roth option by offering it first in the FRP and then rolling it out in the other retirement plans later. Ms. Singer explained that a Roth option cannot be offered in a 401(a) plan. It could be offered in a 403(b) plan, but the University's 403(b) plan in the FRP is not an active plan, which means the University does not contribute to the plan.

Professor Hanna suggested only permitting Roth at a single vendor so the University would be able to offer a Roth option. Ms. Singer stated that this would be untenable because plan participants would not be able to transfer their Roth funds to other vendors as there would be no mechanism to transfer records with money.

Mr. Schenk asked how this transaction is any different from rolling over an IRA. It is different than rolling over an IRA, stated Ms. Singer, because the contribution history detail (all the records) must go from vendor to vendor. Offering a Roth would require the vendors to recordkeep this money separately. The records have to follow the money. In Ms. Singer's opinion, she does not believe that people would be interested in a Roth option that required that they stay with the same vendor forever. An individual Roth can be transferred from vendor to vendor, stated Professor Hanna. Yes, stated Ms. Singer, but it also that person's responsibility, as the taxpayer, to make sure the records transfer correctly. If the University is to offer a Roth it would need to make sure that the records would get from one vendor to another.

Professor Feeney asked about Roth participation at peer institutions. Ms. Singer stated that she did not know, but has heard anecdotally that the State of Minnesota's Roth participation rate is around 5% - 6%.

Ms. Berkowitz asked about the advantage of having a Roth at the University versus setting up an individual Roth outside the University. Ms. Singer stated that some people are unable to set up an individual Roth for earning limit reasons, but these same people could set up a Roth if it were offered through the University. Additionally, contribution limits would be much higher through a University plan.

Professor Hanna reported recently listening to a webinar put on by an outside investment institution that mentioned certain benefits of Roth plans, e.g., that because funds have already been taxed, they are not subject to required minimum distribution (RMD) rules. She again voiced her request that the University offer a Roth.

Professor Feeney emphasized the importance of making sure that the upgraded PeopleSoft system has the ability to handle a Roth transaction without having to be reprogrammed at a huge expense. It will be in the University's best interest to think long-term as it relates to the PeopleSoft upgrade.

VII). Professor Feeney asked members if there was any other business. Professor Frank stated that in his opinion, this year's Securian annual review performance was unsatisfactory, and that this feedback should be communicated to them. Professor Feeney stated that he has already communicated this to Mr. Manke. According to Professor Frank, Securian did not seem to take its reporting responsibilities to the University seriously. It felt as if they were making a joke out

of these responsibilities with the report card approach, and not providing much information about risks, peers, internal watch list investments, etc.

Professor Feeney stated that Mr. Manke tried a new approach because of the stratification of the committee and the fact that members have varying levels of expertise in this area. Professor Feeney noted that when he met with Mr. Manke last week he notified him that the committee preferred the old presentation format.

Professor Frank stated that he compared the information Securian provided this year with that of previous years, and, in his opinion, this year's presentation was shoddy. Professor Feeney stated that he does not believe Securian intended it to come off that way, and has told Mr. Manke that the committee prefers receiving too much data rather than not enough.

Ms. Backes stated that as a newer member of the committee she would rather not have Securian dumb down their presentation for her.

On a different subject, Professor Frank stated that he came across a paper about how to maximize Social Security benefits when a person retires - http://siepr.stanford.edu/system/files/shared/Efficient_Retirement_Design.pdf. Depending on a person's financial situation, understanding how to maximize one's Social Security benefits can be worth a lot of money. Professor Eidman suggested including this information in the retirement presentations that Employee Benefits puts on. He recalled that he experienced tremendous pressure from Social Security to start drawing benefits when he signed up for Medicare Part B.

Professor Feeney asked if the committee would like to have a broader discussion about this topic at the next meeting and members agreed. He also suggested looking into putting this information on the Employee Benefits website.

Professor Keynes noted that he has heard that Social Security is looking at changing some of its rules, and make it more difficult for people to maximize their benefits. Any information on websites would need to be kept current.

Mr. Melcher stated that Social Security has a calculator that people can download (http://www.ssa.gov/estimator/) to estimate their Social Security benefits. While the calculator has some limitations, overall it is quite good.

Professor Whitman agreed with Professor Eidman that this information should be shared in the pre-retirement seminars put on by Employee Benefits. He added that he believes this information, however, should not be presented by Social Security, but rather neutral party/independent advocate.

Mr. Melcher stated that it would not be appropriate for the University to inform people about how to manage their Social Security benefits. Instead, the University should provide people with resources for managing the benefits they receive from the University.

Professor Feeney asked members to send any Social Security-related information that may be of interest to the committee to Renee Dempsey, Senate staff, who will send it out to the committee in preparation for the discussion at the May meeting.

Professor Feeney asked Ms. Singer who decides what resources can be put on the Employee Benefits' retirement programs website. Ms. Singer stated that OHR administration would make that decision. She added that she is hesitant to post such information because rather than reading the materials, people would just schedule an appointment with Employee Benefits and expect someone to tell them what they need to know/do. Employee Benefits does not have the resources to consult with people on how to plan for Social Security.

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

Renee Dempsey, University Senate