SCFA RETIREMENT SUBCOMMITTEE
MINUTES OF MEETING
MARCH 2, 2015

[In these minutes: Securian Annual Review; Update on Securian Mobile Apps, Calculators and TargetAge Funds; Period-Ending December 31, 2014 Faculty Retirement Plan, Optional Retirement Plan and Section 457 Deferred Compensation Plan Performance Reports]

[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, Frank Douma, Nancy Fulton, Joe Jameson, Jackie Singer, James Cotter, Kathryn Hanna, Merrie Kaas, Albert Tims, Andrew Whitman, Vernon Eidman

REGRETS: Thomas Schenk, Murray Frank, Ken Horstman, Kathy Brown

ABSENT: Stuart Mason

OTHERS ATTENDING: Dan Fisher, retirement programs coordinator, Office of Human Resources; Matt Nyman, investment analyst, Office of Investments and Banking

GUESTS: Securian representatives: Rick Ayers, vice president, Securian Retirement; Brandon Bellin, director & senior associate actuary; Sean O'Connell, vice president and portfolio manager, Real Estate and Structured Credit (Advantus); Blake Reigert, manager, U of M Retirement Plans; Craig Stapleton, vice president, portfolio manager, Quantitative Strategies (Advantus); Warren Zaccaro, executive vice president and chief financial officer

1. **Call to order**: Professor Feeney convened the meeting, welcomed those present, and called for a round of introductions. Before launching into the meeting, Professor Feeney announced that Professor Albert Tims would be chairing the Retirement Subcommittee next year. Members gave Professor Tims a round of applause.

2. **Securian Annual Review**: Following introductions, Professor Feeney reminded members that the committee annually meets with Securian to keep a pulse on fund performance and the company's overall financial strength. He welcomed the guests from Securian and turned the meeting over to Rick Ayers, vice president, Securian Retirement. Mr. Ayers began by turning members' attention to an agenda, which was included in the binder of materials distributed to members.

Securian, noted Mr. Ayers, had a successful year in 2014. All lines of their business had record or near-record years. He highlighted a few of Securian's 2014 business results:

- Surpassed $1 trillion in insurance in force.
- Paid out $4.7 billion in benefits.

- Retirement plans and individual annuities total sales grew to over $1.5 billion.

Next, Warren Zaccaro, executive vice president and chief financial officer, provided information about Securian's financial strength and highlighted the following metrics:

- Top-line revenue growth was at $3.9 billion, which was 12% higher than 2013. Over the past five years, Securian has grown its top-line revenue an average of 10% annually.
- Life insurance in force increased to almost $1.1 trillion, which was an increase of 10%.
- Assets under management increased by 11% to almost $47 billion.
- Securian's risk-based capital (RBC) ratio increased 10% to $2.9 billion and it had a regulatory capital ratio of 527%.
- The rating agencies give Securian high marks for its capital strength, high-quality assets, overall liquidity, complementary businesses and distribution systems.
- As of January 2015, Securian ranked 14th among insurers that are rated by all four rating agencies and its goal is to be in the top 25. Securian had a Comdex score of 92, which was down slightly from 93 in 2013.
- Securian's exposure to "2008-like events" is lower now because it reduced its exposure to public equities. If a 2008-like scenario were to unfold again, Securian's capital change would be 80% of what it was back in 2008.
- As of September 30, 2014, Securian led its peer group in its capital and surplus-to-liabilities ratio. The larger this ratio, the better positioned a company is to meet its promise to pay.

Moving on, Brandon Bellin, director & senior associate actuary, provided information on stress testing. He noted that an important measure of the financial soundness of a life insurance company is the amount of surplus it holds in relation to the risks of the company. The measure used by state regulators to assess the risks of an insurance company is risk-based capital (RBC), and the ratio of surplus to RBC is known as the RBC ratio. Regulators require a RBC ratio above 100% for a company to remain solvent. Anything below 250% requires reporting additional testing results to the state. Securian targets an RBC ratio near 500%. As of December 31, 2014, Securian's RBC was 527%. He noted that Securian regularly stress tests its capital and requires its stress tests keep it at about 400% RBC. During the 2008 financial crisis, Securian's RBC ratio dropped to around 390% at its lowest point. Since that time, Securian has taken management actions to ensure its RBC ratio remain above its target level of 400% even after a stress scenario. Securian regularly tests four market scenarios to evaluate how its capital position would perform in times of severe stress:

1. Equity event: 50% equity market decline.
2. Credit event: 2% of General Account value lost.
3. Equity and credit combination event.
4. Interest rate spike combination event.

Following Mr. Bellin's presentation, Sean O'Connell, vice president and portfolio manager, Real Estate and Structured Credit (Advantus) and Craig Stapleton, vice president, portfolio manager, Quantitative Strategies (Advantus), provided detailed information about the General Account. Salient highlights from their presentation included:

- The Minnesota Life General Account is comprised of three types of assets 1) fixed income (80%), 2) equities (9%), and 3) other investments (11%). The General Account portfolio is well diversified and of high credit quality.
- With regard to the fixed income assets (corporate bond holdings and structured securities), only one half of one percent of these assets are on a watch list.
- The strength of the fixed income corporate bond investment portfolio can be attributed to Advantus' research culture. In addition, this portfolio is highly diversified.

Member question/comments included:

- What is Advantus' perspective on the commercial real estate market at this time? This is a fair question, said Mr. Stapleton, particularly when talking about the gateway markets, e.g., Seattle, San Francisco, Los Angeles, New York City, Boston. For example, New York City office towers are valued higher than they were at the peak. Advantus does not in general invest in the gateway markets. He noted that Advantus is diversified by geography and property type. Members' attention was turned to a chart that detailed this information.
- Does Advantus have seismic insurance for its real estate in earthquake prone areas? Yes, Advantus requires seismic insurance after a maximum probable loss study has been conducted by a seismic engineer.
- Another asset class that has gotten a fair amount of financial press recently is sub-prime automobile loans. Does Advantus invest in this type of asset class? No, said Mr. Bellin, it does not, but it has an analyst that covers the auto lending space. Advantus does own some senior investment grade or non-sub-prime loans.

Blake Reigert, manager, U of M Retirement Plans, went on to provide the committee with a service update. He began by highlighting a few service statistics to illustrate the types of interactions Securian has with participants:

- There were nearly 20,000 service interactions with participants, which involved interactions where Securian helped people with their accounts.
- Over 260 in-person retirement plan review meetings were conducted.
- Account consolidation assistance was provided, e.g., processed 544 rollovers.

Next, Mr. Reigert mentioned recent website enhancements, which included:

- Launched a new 401(a) online enrollment site. Prior to this change, about 20% of enrollments were done online versus now when approximately 70% of 401(a) enrollments are done online.
- Enhanced beneficiary management by putting this process online, which has resulted in three times as many beneficiary forms being completed.
- Offered seven new interactive workshops.
- Launched a new mobile app that is optimized for handheld devices.

Mr. Reigert then took a few minutes to talk about future enhancements, which included:

- Retirement planner tool, which will be launched later this summer. Not only is the tool an interactive way to engage participants, but a way for them to save and track their progress as well.

- Age-based education that will focus on getting the right information in front of a person at the right time.
- TargetAge™, which is an allocation service. This is a lower cost, fiduciary-friendly alternative to target date retirement funds that utilizes the popular General Account Limited option.
- Website redesign.

Member questions/comments included:

- Will the retirement planner tool allow users to incorporate investments that are outside of Securian, asked Professor Whitman? Mr. Reigert said that participants will be able to manually enter and save outside investment information, but this tool will not automatically pull the data in.
- Professor Feeney explained that the retirement planner tool will have two phases, the accumulation phase and distribution phase. The accumulation phase tool will be demonstrated to the committee at the May meeting and the distribution phase of the tool will probably not be ready until fall.
- Professor Whitman said he is interested in having Securian develop more tools targeted at retirees. With that said, he asked Mr. Reigert his opinion about which of Securian's tools would be most helpful to retirees. Mr. Reigert said all the tools on the website would be helpful, but probably the most helpful would be to schedule a one-on-one retirement plan review with a Securian representative.
- Professor Cotter commented that the 260 plus in-person retirement plan review meetings that were conducted in 2014 seems low. He wondered whether this might be because participants could be worried that if they meet with someone that that person will try to sell them something. Absolutely not, said Mr. Reigert. These meetings are education-focused and he volunteered to provide a typical agenda, which members were interested in receiving. Mr. Bellin added that unlike others in the retirement plan provider industry, Securian does not rely on revenue from IRA rollovers, which generally comes with a sales pitch. Securian has taken a deliberate approach of not creating these types of conflicts.
- Professor Whitman said Securian's process for converting rollovers is more complicated that other vendor's processes. Are there plans to improve Securian's process? Mr. Reigert said he would be happy to sit down with Professor Whitman to hear about his experience and noted that Securian is interested in making this process as easy as possible.

At the conclusion of the discussion, Mr. Reigert said Securian is committed to developing custom solutions for the University to meet its changing needs. He also turned members' attention to the remaining materials in the booklet that was distributed that he will not go over, but that members can review after the meeting and these included 1) copies of the materials provided to Stuart Mason and Matt Nyman from the University's Office of Investments and Banking who recently met with Securian representatives and 2) plan assets by fund and the number of participants in each fund.

What would it take for Securian to increase or decrease the interest rates on the General Account and General Account Limited, asked Professor Hanna? Mr. Bellin said both the accounts have a

3% guarantee, but Securian tries to have a differential between the two accounts (General Account 3% and General Account Limited 3.5%) to encourage and reward those investing the in the General Account Limited given its more restrictive transfer provisions. In recent years, there has been a sustained low interest rate environment, and this is where the guarantees become valuable. When interest rates go up, the crediting rates will follow.

In response to a question by Professor Whitman on Securian's mortality assumptions on annuities, Mr. Bellin explained it is gender-neutral and does not discriminate in anyway against the University's population. Securian uses the same annuitization and mortality basis that it uses with its corporate clients. Mr. Bellin said he is not aware of any public websites that compares mortality assumptions, but there are tools available for financial advisers to help them advise on whether a person should consider annuitizing or not. Mr. Reigert added that his staff can produce annuity quotes for anyone interested in annuitization.

3. **Period-ending December 31, 2014 Faculty Retirement Plan, Optional Retirement Plan and Section 457 Deferred Compensation Plan performance reports**: Professor Feeney called on Dan Fisher, retirement programs coordinator, Office of Human Resources, for an update. Mr. Fisher noted that attached to the agenda were the performance figures for the Faculty Retirement Plan (FRP), Optional Retirement Plan (ORP) and Section 457 Deferred Compensation Plan for fourth quarter 2014. He said he noticed the benchmarking sheet was missing but that he would get that to Renee Dempsey, Senate staff, for distribution. These documents will be reviewed next week at the Retirement Plan Fiduciary Advisory Committee meeting.

Professor Feeney asked about fund usage in the plans. Ms. Singer, director, Retirement Programs, said there are very few people participating in the American Century funds, but that eliminating them would significantly reduce the return. She noted her office can conduct a fund utilization analysis and look into this for the FRP once the Fee Report is done in the beginning of April.

Professor Feeney asked Mr. Nyman if he or CIO Mason have identified any asset class(es) that would be worthwhile adding to the basic plan. Mr. Nyman said the plan has a lot of funds, and a number of them overlap on a correlation basis so it may give the allure of diversification among the different funds when in fact there is not. Mr. Mason has suggested looking into this further to make sure there is an appropriate balance of diversification. On the endowment side, said Mr. Nyman, there is more freedom to find additional asset classes, but they are just not available on the mutual fund side.

What will replace the terminal agreement plan that ends in 2016, asked Professor Tims? As of right now, said Ms. Singer, there is nothing planned to replace the terminal agreement, which was used infrequently. Professor Tims speculated that the lack of use of the terminal agreement could have, in part, been due to the lack of awareness of this option.

4. **Adjournment**: Hearing no further business, Professor Feeney adjourned the meeting.

Renee Dempsey
University Senate