SCFA RETIREMENT SUBCOMMITTEE
MINUTES OF MEETING
MARCH 2, 2009

[In these minutes: *The Value of Staying Invested* Communication Piece, Draft Letter to TIAA-CREF and Securian, Discussion on Adding Another General Account Vendor, Post Retirement Mathematics and Taxes, Health Care Savings Plan]

[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, Jackie Singer, Chris Suedbeck, Murray Frank, Kathryn Hanna, Kathleen Hansen, Michael Murphy, Jennifred Nellis, Burt Sundquist

REGRETS: Gavin Watt, Barry Melcher, Fred Morrison

ABSENT: Harvey Keynes

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

I). Chair pro tem, Professor Michael Murphy, called the meeting to order and welcomed all those present. He noted that Professor Feeney is running a few minutes late, but requested the meeting get underway, and he would arrive shortly.

II). Members unanimously approved the February 2, 2009 minutes.

III). At an earlier meeting this year, noted Ms. Singer, a member asked whether it would be possible to develop a communication piece that looked at the consequences of staying in the market versus getting out of the market in difficult economic times. The University approached Securian to see if this is something they could produce, and they did. Ms. Singer turned members' attention to a handout, *The Value of Staying Invested.* This communication piece will be sent out in the Faculty Retirement Plan (FRP), Optional Retirement Plan (ORP), and the 457 first quarter statements. It was noted that a possible criticism of this communiqué is that history does not prove anything; what is taking place in the market today could be a different kind of downturn. It was pointed out that the document itself has a disclaimer - "Past performance is not indicative of future results."

IV). Next, a draft copy of the letter that will be sent to Securian and TIAA-CREF was distributed to members for review and input. At the committee's February meeting, members agreed they would ask Securian and TIAA-CREF to respond in writing to questions regarding their financial health as part of a decision by the committee to conduct a periodic comparative due diligence review of these firms, as well as the two general account products offered in the

University's retirement plans, the Minnesota Life General Account and the TIAA Traditional Annuity.

A member noted that because Securian has already provided the University with some of the information requested in this letter, should they be notified that this formal letter is being sent. Ms. Singer stated that she has already informed Mr. Manke about the letter.

Members were asked to review this letter following today's meeting, and to send their comments and/or proposed changes to Jackie Singer via email by Friday, March 6th.

V). Professor Feeney reported having a discussion with Dick Manke, vice president, Securian Retirement, about the University's desire to offer another general account product. Mr. Manke was asked why a company would or would not decide to bid on this type of RFP. To summarize their discussion, Professor Feeney stated that in order for a vendor to bid on such an RFP they would need to benefit from such an arrangement. It is important to remember, he added, that fewer and fewer companies are offering general account type products, and, probably more importantly, that insurance companies like single client relationships. Insurance companies do not like to compete against each other, particularly on guaranteed products.

Professor Feeney noted that during his conversation with Mr. Manke, the topic of reinsurance was raised. Mr. Manke speculated that there might be a handful of insurance companies that would consider reinsurance. Whether these insurance companies have the capacity to reinsure Securian or the willingness is unknown at this time.

Professor Feeney asked members their thoughts on how to proceed. A member asked whether Vanguard or Fidelity offer a general account product. Ms. Singer stated that Vanguard and Fidelity do not offer general account products. She added that Mr. Manke makes a good point about anti-selection. Most University plan participants are happy with Securian; hence, a new vendor coming in might feel that it would face an up hill battle in terms of attracting participants to invest in their product. The University's goal is to simply offer plan participants a choice, which is not a particularly persuasive reason for another insurance company to offer a general account product at the University.

A member stated that reinsurance would likely be quite expensive, but it is an option that should be explored. It was agreed that the Retirement Plan Fiduciary Advisory Committee (RPFAC) would be asked to explore the reinsurance option further.

In a reinsurance situation what would happen if Securian were unable to meet its payout obligations to University plan participants? Would the combined financial strength of the reinsurer and Securian be responsible for meeting these obligations or would the State of Minnesota step in? Ms. Singer stated that she believes the combined forces of the insurance companies would be responsible for meeting these obligations before the state would get involved. Rosalie O'Brien, counsel to the committee, agreed to look into the State of Minnesota guarantee and report back to the committee.

A member stated that theoretically the best option for a second general account provider would be TIAA-CREF. Having said this, is the University continuing to monitor the performance of TIAA-CREF? Ms. Singer stated that she continues to track TIAA-CREF's reporting and transactional performance, and significant errors continue to be made. Ms. Singer stated that as long as transaction problems continue to occur, she could not in good conscience recommend that the University reinstate its relationship with TIAA-CREF. A member asked about Securian's accuracy in terms of their reporting and transactional performance to which Ms. Singer replied that Securian does a good job in this area.

Professor Feeney asked Ms. Singer if she is aware of other insurance companies that provide general account type products. While Ms. Singer noted that she is keeping the lines of communication open with other institutions, she has not heard anything that this committee hasn't already discussed.

Professor Feeney reiterated that the issue of identifying another general account vendor would be brought to the RPFAC. He asked that the minutes reflect that this is an important issue that the committee continues to struggle with, but at this time the committee does not have a solution. The committee will, however, continue to work to identify a viable alternative to the Securian General Account in order to give plan participants choice.

A member voiced concern over finding a company with the financial strength to offer the University a reinsurance product. Professor Feeney acknowledged that this is not an easy situation to resolve. Another member noted that Securian is heavily exposed to the real estate market. Therefore, when looking for a reinsurance company, the goal would be to look for a company that does not have the same real estate exposure, but another kind of exposure.

VI). Professor Feeney introduced the next agenda item, post retirement mathematics and taxes. He thanked Thomas Schenk for raising this issue at the last meeting. Handouts to facilitate this discussion were distributed to members. Mr. Schenk reiterated his interest in having the University offer a Roth 403(b). Using a couple scenarios, Mr. Schenk illustrated the tax benefit having a Roth 403(b) has on taxable income. He noted that many people are under the assumption that only up to 50% of an individual's Social Security benefit is taxable, but that is inaccurate. Actually, up to 85% of an individual's Social Security benefit can be taxed.

A member asked whether there are income restrictions in terms of how much money an individual is able to rollover from a Traditional IRA to a Roth 403(b). Another member stated that starting in 2010, unless the Federal government changes the law, there would be no income restrictions on rolling over a Traditional IRA to a Roth 403(b). Mr. Schenk stated that, unfortunately, if an individual wants to roll this money from an annuity as opposed to a Traditional IRA, there are age restrictions.

A member stated that he liked the idea of the University offering a Roth 403(b) as another retirement planning tool for employees.

Following a brief discussion on the taxable implications for retirement income, Professor Feeney asked the committee what next steps they would like to take. He proposed inviting a tax expert to attend a future meeting to provide information on a Roth 403(b). Alternatively, Securian could be asked to provide different scenarios to the committee. In these challenging economic times, the committee will need to make a strong argument to the administration for spending a minimum of $100,000 in programming fees to offer this retirement planning tool. An argument that could be used, if true, is the potential for avoiding significant amounts of tax liability if a Roth 403(b) were to be offered.

A member asked whether the implementation costs would be the same if plan participants were allowed to choose a combination of pre-tax 403(b) and Roth 403(b) in the same plan versus choosing **either** a Roth IRA **or** a pre-tax 403(b), and NOT a combination of the two in the same plan. Ms. Singer stated that deductions would still need to be set up, which would need to be fed to all the University's vendors, and communication and enrollment materials would still need to be updated. There are also roughly 9 different customized retirement programs within PeopleSoft that would need to be updated to accommodate an additional deduction. In addition, whenever there is a new PeopleSoft module updates, each of the nine retirement programs would need to be modified again.

Have other comparable institutions started offering the Roth 403(b) option? Ms. Singer stated that she has heard of a few institutions offering a Roth 403(b). Another consideration to keep in mind is that all of the University's vendors would have to have the ability to maintain this type of money so that it could be transferred from vendor to vendor.

A member asked whether it would be possible to avoid the reprogramming costs given that Vanguard and Fidelity already have the ability to offer a Roth 403(b) to their clients. Unfortunately, no, stated Ms. Singer, and this is for two reasons. First, because the University has a multiple vendor environment, University employees cannot call the vendors directly to enroll in a Roth 403(b). Employees must enroll through the University system because the elections must be taken here and then pushed out to the vendors. Secondly, because this deduction is a payroll deduction, the University needs to take the deduction and not the vendors. The problem of offering a Roth 403(b) does not reside with the vendors, but rather it is a PeopleSoft programming issue.

Is it likely in the near future that PeopleSoft will make a programming upgrade so that the University can offer a Roth 403(b) without having to do custom programming? Ms. Singer stated that the University keeps asking for this upgrade and requesting that PeopleSoft keep it on their priority list. She added that PeopleSoft currently is not programmed to handle the 457 catch-up deductions, and this has been in the tax code for many years. All 457 catch-up deductions at the University are processed manually.

A member noted that President Bruininks supports the University offering a Health Care Savings Plan (HCSP), and one of the reasons is the potential tax savings for retirees. It seems like offering a Roth 403(b) falls in this same category. Ms. Singer stated that a difference is that the HCSP would not cost the University anything to set up. A HCSP is simply a pre-tax deduction being sent to a single vendor. A Roth 403(b) deduction, on the other hand, needs to be integrated with IRS limits that change yearly, as well as other permeations, which make offering a Roth 403(b) more complicated than offering a HCSP.

Professor Feeney stated that he, on behalf of the committee, would be willing to get the ball rolling this year in terms of pursing a Roth 403(b) option at the University. He then announced that Professor Murray Frank will chair the committee for the 2009 – 2010 academic year. Professor Feeney asked Ms. Singer who would be the appropriate person in the administration to move this request forward. Ms. Singer stated that given the current budget situation she was unsure who to defer this to. She agreed to go back and try to determine the best venue to push this item forward. Mr. Schenk stated that he realizes that the budget will factor into when a Roth 403(b) can be offered, but he would like the committee to continue to work on this, and ask the administration, when times are better, to offer an Roth 403(b). He noted that offering a Roth 403(b) has never seemed like a high priority for this committee. Ms. Singer stated that the reason there was not a lot of urgency in the past was twofold. One, there was the hope that PeopleSoft would resolve the programming issue, and also, when the committee initially discussed a Roth 403(b) it had a sunset clause on the provision. Therefore, there was not a lot of impetus behind doing a lot of custom programming if the Roth 403(b) provision would sunset.

Members weighed in and were in agreement that the committee should work to get a Roth 403(b) offered at the University. A member suggested getting the PeopleSoft Higher Education User Group involved, which may serve to motivate PeopleSoft to make this programming change sooner rather than later. In addition, another member suggested trying to calculate the potential tax savings to employees, which may motivate the University to pay to custom program PeopleSoft.

Other comments voiced by members related to offering a Roth 403(b) included:

- Besides the tax benefits of offering a Roth 403(b), there are beneficiary benefits, recruitment benefits, etc.
- A Roth 403(b) should be available to all University employees, and not just faculty. Ms. Singer stated that if a Roth 403(b) is added, it would be added in the ORP. She added that it is important to bear in mind that adding a Roth 403(b) adds a level of administrative complexity. For example, contributions into a Roth 403(b) need to be invested for two years before they can be withdrawn, which complicates in-service withdrawals, loans, hardship distributions, etc.
- In order to make a case for offering a Roth 403(b) at the University, the desirability factors should be emphasized. Ms. O'Brien stated that given the size of the University's participant pool, a Roth 403(b) could be a tool that would have value for **some** people.

Rosalie O'Brien, Jackie Singer, and Professor Feeney volunteered to make inquiries/collect information on the pros/cons of offering a Roth 403(b). Professor Feeney encouraged members of the committee who come across information that makes a case for offering a Roth 403(b) to forward it to him. Because the April meeting is more or less devoted to the Securian annual review and calculator demonstrations, continuation of this discussion will be held over to the May meeting. A member stated that in an attempt to garner support for a Roth 403(b) at the University, the committee should think about bringing a resolution forward to the Senate. Assuming the resolution passes, the administration would be required to respond.

VII). Professor Hanna reported that the next Senate meeting is Thursday, March 5th. An action item on the Faculty Senate agenda is the Health Care Savings Plan (HCSP) proposal, which would redirect 2% of the 13% University contribution to the FRP into a HCSP.

A member asked whether the HCSP is a funded or unfunded account. Ms. Singer stated that it is absolutely a funded account. She explained that it is a defined contribution plan that is funded through the Minnesota State Retirement System (MSRS).

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

Renee Dempsey
University Senate