SCFA RETIREMENT SUBCOMMITTEE
MINUTES OF MEETING
SEPTEMBER 30, 2013

[In these minutes: Discussion re Due Diligence Analysis Conducted by Securian, Employee Engagement Around Planning for Retirement, Second Quarter 2013 Faculty Retirement Plan Fund Performance Update, Agenda Item for November 4 Meeting]

[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 Doma, Nancy Fulton, Joe Jameson, Stuart Mason, Barry Melcher, James Cotter, Murray Frank, Kathryn Hanna, Merrie Kaas, Albert Tims, Andrew Whitman, Vernon Eidman

REGRETS: Jackie Singer, Rosalie O'Brien, counsel to the committee

ABSENT: Thomas Schenk

OTHERS ATTENDING: Dan Fisher, retirement programs coordinator

I). Professor Feeney convened the meeting, welcomed those presented and called for a round of introductions.

II). Professor Feeney introduced the first agenda item, a discussion of the due diligence analysis performed on the Faculty Retirement Plan (FRP) by Securian last spring, which was sent out with agenda. While the plan appears to be well situated in terms of its overall fund line-up, because the plan has evolved over the years, the committee, on an ongoing basis, takes the time to review the analysis in terms of whether there are funds that should be added or consolidated, stated Professor Feeney.

Professor Feeney then turned to Associate Vice President Stuart Mason from the Office of Investments and Banking to comment on preliminary discussions coming out of the Retirement Plan Fiduciary Advisory Committee (RPFAC). Mr. Mason reported that at the last RPFAC meeting, the committee talked about the pros and cons of hiring a pension fund management consultant. The discussion arose because the RPFAC is asked from time to time by this committee to consider recommending additional funds for the FRP. In light of the number of funds already available through the FRP and the contemplated move to a tiered plan structure, members of the RPFAC reflected that in the long-term best interests of both the University and the participants, it might be prudent to obtain professional advice and to take a more integrated approach to identifying an optimal investment lineup. He reported that the Office of Investments and Banking interviewed two consulting firms to get a better sense of what these firms actually do and to learn about the breadth of services they offer. RPFAC members are also mindful of the resource constraints resulting from the PeopleSoft upgrade, which have been previously communicated to this committee and which may have an impact on when a consultant can be hired. Depending on resource constraints, it could be next spring or summer before an RFP could be issued.

Based on the analysis conducted by Securian, asked Professor Tims, would it be worthwhile to look into where money is being invested in light of fees. Professor Feeney stated that the Retirement Subcommittee looks at the fees every few years, and he believes the last time this was done was about a year and half or so ago. Mr. Melcher added that periodically Ms. Singer, director, Retirement Programs, compiles fee disclosure information, which the Retirement Subcommittee reviews. Professor Tims observed that he would guess that most plan participants do not think nearly as much about fees as they do about plan performance. Professor Feeney stated that it is the committee's goal is to make sure the fees are as low as possible for each particular fund. For the benefit of new members, Professor Feeney took a few minutes to talk about the relationship between the RPFAC and the Retirement Subcommittee.

Professor Frank asked for clarification about why the University would hire a consultant. Mr. Mason stated that the RPFAC discussion about whether or not to recommend obtaining professional advice is ongoing. In the short term, Professor Feeney suggested the committee adopt a wait and see attitude on this matter.

III). Next, the committee talked about employee engagement and how to get employees to pay attention to their retirement account(s) and the plan. The committee has already done a lot when it comes to making various retirement planning tools available to participants, stated Professor Feeney. With that said, he asked what else members think the committee can do to prompt employee engagement.

Professor Tims stated that once he found out he was going to be serving on the Retirement Subcommittee he tried all of the tools and some of them multiple times. While some of tools were useable and others less so, he found they were not useful in terms of "what if" scenarios and they did not allow users to store data in order to compare alternatives. The tools, in Professor Tims opinion, use a one-size-fits-all approach. He suggested conducting focus groups with employees on their experiences with the tools to determine what best practices might look like. In addition, he also suggested that the committee should think about whether the existing tools can be better tailored to the changing needs of employees as they get closer to retirement.

Professor Kaas asked whether the committee knows why people don't use the retirement planning tools. No, stated Professor Feeney, the committee has no hard data about why people don't use the tools, only anecdotal. He added that the committee looks at fund utilization data in an effort to see where people are choosing to invest their money.

In Mr. Jameson's opinion, the average person doesn't have an investment strategy and often become paralyzed when having to make these decisions. A vast majority of people do not regularly monitor their retirement account(s) and this is why people frequently look to an advisor.

Piggybacking off of Professor Tims and Mr. Jameson's comments, Professor Frank stated that the biggest problem for many people is that they need advice, and this committee has regularly steered clear of advice giving tools. There are advice mechanisms that could be put in place for participants such as Financial Engines. In Professor Frank's opinion, giving employees a serious, credible advice mechanism would benefit them. He stated that he wishes more energy and talk would be put into providing advice to plan participants than talking about adding more mutual funds to the plan.

Professor Hanna stated that previously she had suggested establishing a *Check Up on your Retirement Financial Health Day*, as an example. A lot of resources have been put into wellness programming, Beautiful U Day, etc., and planning for retirement is just as important. On a related noted, she voiced her concern about the low participation in the Optional Retirement Plan (ORP). She proposed there be a University-wide effort around financial wellness.

Professor Feeney stated that his understanding regarding Professor Frank's suggestion about an advice mechanism is that the concern is institutional liability. He agreed that investment advice would be helpful and expressed hope that a way could be found for it to be provided through the University.

Mr. Mason noted that one of the pension fund management consultants who were interviewed expressed his opinion that the University should be more proactive in terms of making investment advice available.

Mr. Douma stated that he would like to see if it would be possible for plan participants to receive an individualized benchmark of where they stand on their quarterly statement or getting this information on the Securian website. Having access to this information may get peoples' attention. He added that he liked Professor Hanna's suggestion about periodic financial health check ups.

Mr. Jameson suggested having Securian put on the quarterly statements how an individual's performance compares to the entire University portfolio. Getting this information may spur people into looking at their performance and possibly make some changes.

Professor Tims suggested setting up a study group or hiring a consultant to look at communication tools for retirement plans. Professor Feeney asked Mr. Mason whether the consultants that were interviewed had strategies for communicating with plan participants. Mr. Mason confirmed that they do.

Professor Tims asked whether there is any data on plan participants who are nearing retirement age and whether they are adequately funded or at risk of not being adequately funded in retirement. This is a very open-ended question, stated Mr. Melcher, and given the way the plan is structured with multiple vendors makes it difficult if not impossible to answer. He also noted that Civil Service employees retirement plan is with the Minnesota State Retirement System (MSRS), a defined benefit plan, which is very different from the FRP, a defined contribution plan. Mr. Melcher stated that using a calculation of a multiple of a person's income to determine whether they are adequately funded for retirement is not helpful because it is based on the incorrect assumption that a person's current salary has some fixed relationship to his or her needs in retirement. There are so many other factors that come into play in determining whether someone is adequately funded for retirement.

Did the consulting firms that the Office of Investments and Banking interviewed know of any educational institutions who they felt were doing a good job of providing advice, asked Professor Eidman? This question did not specifically come up because it was a higher-level discussion, stated Mr. Mason. Each firm, however, provided a list of their clients, which included a number of similar higher-education institutions across the country.

Professor Feeney asked Mr. Mason whether he thought the Retirement Subcommittee should initiate conversations with CFO Pfutzenreuter and/or General Counsel Donohue about providing investment advice through the University. Mr. Mason reported having spoken with CFO Pfutzenreuter who was open to the idea of hiring a consultant to work through the various issues.

Advice, stated Professor Tims, raises a lot of red flags for people, e.g., the University is telling people where to invest their money. It might be a better strategy to start focusing on employee education and employee literacy and have people understand why it is important to look at the correlation between their investments relative to their goals or helping them set their goals, e.g., what should someone in their early career be thinking about when it comes to retirement.

Given the administration's concern about financial advice, Mr. Mason suggested hiring a consultant on a special project basis to provide best practice information and to hear what other institutions are doing. He believes it would be worthwhile to hear what the options are rather than simply doing nothing.

Professor Kaas asked if the University has any diversity data as it relates to retirement. People from different cultures have different ideas about retirement. If the committee really wants to educate plan participants in order to get more engagement on their part, this information would be useful.

Mr. Jameson reiterated his earlier request to have Securian put information on the quarterly statements about how an individual's performance compares to the entire University portfolio. Mr. Mason cautioned about drawing conclusions based on a broader average. How someone is doing performance-wise is somewhat subjective depending on the goals they have set for themselves, level of risk, etc. Mr. Jameson stated that the University's inability to provide any advice is not helpful at all. Professor Feeney stated that he would talk to Dick Manke at Securian to see if they have this information or maybe some career benchmarking information.

At the end of the discussion, the consensus of the committee was that members wanted to move forward with looking into providing plan participants with some sort of advice mechanism/tool. In the meantime, Professor Feeney suggested, the committee pursue what kind of advice is reasonable. He also suggested at the next meeting, the committee continue to talk about the advice issue and to start developing a checklist.

Professor Feeney asked members whether they wanted to put forward a motion to recommend that the University hire a consultant on a special project basis to provide advice best practice information and to learn what other institutions are doing in terms of their retirement communications. Professor Whitman stated that he would prefer an ad hoc committee of this committee be formed, like Professor Tims suggested earlier, to look at all the suggestions that were made at today's meeting. He added that he does not want to wait until a consultant can be hired. Professor Feeney stated that he sees a parallel track unfolding, which includes the committee discussing what it can do while at the same time the committee supporting the idea of pursuing advice for plan participants. In Professor Feeney's opinion, based on today's discussion and discussions in the RPFAC, it feels like headway is being made around the advice issue. Professor Feeney stated that this discussion will be continued at the November 4 meeting, and, in the meantime, he would talk with Mr. Manke about what information Securian may already have related to advice.

IV). Professor Feeney turned to Dan Fisher, retirement programs coordinator, for a second quarter FRP fund performance update. Mr. Fisher reported that for second quarter-ending June 30, 2013, the only fund that is of some concern is the Fidelity Strategic Income Fund. He, however, reminded members that there are unique characteristics around this fund because the benchmark Fidelity uses does not accurately reflect what the fund invests in. Fidelity may change this benchmark. This fund is currently on the University's watch list. Mr. Mason added that the benchmark (Merrill Lynch U.S. High-Yield Bond Index) is a collection of global bonds and high-yield (non-investment grade) investments. Benchmarking the Fidelity Strategic Income Fund against the Merrill Lynch U.S. High-Yield Bond Index does not make sense in Mr. Mason's opinion.

V). Professor Feeney stated that as part of the checklist discussion at the November meeting, there will also be some discussion about required minimum distribution (RMD) calculations, including a refresher on how the various retirement plans at the University are affected by RMDs.

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

Renee Dempsey
University Senate