SCFA RETIREMENT SUBCOMMITTEE
MINUTES OF MEETING
DECEMBER 7, 2009

[In these minutes: Minutes Protocol, Faculty Retirement Plan Investment Performance for Period Ending September 30, 2009, Formal Advice Giving Services, Roth 403(b)]

[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: Murray Frank, chair, Jane Carlstrom, Thomas Schenk, Gavin Watt, Nancy Fulton, Joe Jameson, Barry Melcher, Jackie Singer, Kathryn Hanna, Kathleen Hansen, Jennifred Nellis, Burt Sundquist

REGRETS: Harvey Keynes

ABSENT: Chris Suedbeck, Daniel Feeney

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

GUESTS: Vice President for Human Resources Carol Carrier

I). Professor Frank convened the meeting, and welcomed all those present.

II). Members unanimously approved the October 5, 2009 minutes.

III). Copies of the September 30, 2009 investment returns and asset breakdown by investment manager were distributed to members for their review. Jackie Singer drew members' attention to two funds that are underperforming, the Vanguard GNMA Fund and the Vanguard Intermediate-Term Investment Grade Fund. Their underperformance is likely the result of the state of the bond markets. While these funds are not of great concern, Ms. Singer stated, they are on the Retirement Plan Fiduciary Advisory Committee (hereafter RPFAC) watch list. Members of the RPFAC are paying close attention to all the University's funds, but particularly the fixed income/bond market funds. On the whole, funds in the Faculty Retirement Plan (hereafter FRP) are doing quite well.

Ms. Singer turned members' attention to the TIAA-CREF comparison handout, and noted that an area of concern is the Vanguard FTSE Social Index fund. This fund has been frozen to future contributions, and the PAX World Balanced Fund has been successfully added to replace the Vanguard FTSE Social Index fund beginning December 1, 2009.

Lastly, Ms. Singer highlighted the investment breakdown by investment provider and plan, which she noted is being provided at the committee's prior request as an information item only.

Ms. Singer stated that overall the plan is doing well. She was pleased that the Vanguard FTSE Social Index fund was replaced, and intends to monitor the funds that flow into the replacement fund, the PAX World Balanced Fund.

Professor Frank stated that the University has several large providers in its investment line-up, and a handful of smaller providers. Having said this, should anything be done with the smaller providers? Ms. Singer noted that this poses a twofold question, should something be done and can something be done. Any changes to the University's relationship with its providers will depend on the investment contracts and the plan itself. For example, investments in T. Rowe Price are individual contracts in the 403(b) plan. There remains some question as to whether the University has any control over the funds invested at T. Rowe Price, as the contracts appear to be between the investment provider and the employee.

Professor Frank asked if the University incurs significant costs in carrying the smaller plans. Not particularly, stated Ms. Singer. A majority of the cost associated with carrying these plans is the University's time to manage the vendors. In terms of costs to participants, this is reflected in different class shares, which do not, however, necessarily impact all vendors. While there is an increased cost to participants who have individual contracts in the Optional Retirement Plan (hereafter ORP), there is also a benefit. The benefit is that the participant has a significant amount of control over their contract. Based on her observations, Ms. Singer stated that the 401(k) environment is geared more like the FRP where pools of money are invested to leverage an organization's buying ability as opposed to individual contracts. She noted that recent legislation appears to be restructuring 403(b) plans to make them more similar to 401(k) plans. It will be interesting to see if Congress continues to move in this direction.

IV). Professor Frank introduced the next agenda item, the costs and benefits associated with having the University provide access to formal advice giving services. There are a number of plan providers who also provide different forms of advice. Two prominent examples are Financial Engines - http://corp.financialengines.com/ and ESPlanner - http://www.esplanner.com/. Professor Frank asked members if they would be interested in exploring these services further.

Ms. Singer stated that based on her research, University vendors who offer this type of service will only offer the service on the funds they have on their platform. Therefore, providing this type of service would only benefit participants who strictly want to invest in funds on a particular vendor's platform. In Ms. Singer's opinion, this type of tool would be more useful if it covered all the funds that are available. She also noted that in order to offer this tool, the University would need to set up daily feeds to the vendor's products to make this work. The way the University's 403(b) fund is currently set up, vendors can add funds on any business day. The University currently has about 300 funds available, and market values can change each business day. If the University purchased Financial Engines, but did not have the daily feeds coming in from its vendors, participants would have to enter this information themselves just to use the product. In order for this tool to be used more effectively, some sort of mechanism would need to be set up so that it would be easy for people to use. This issue combined with the fact that the final regulations concerning investment advice were never finalized due to concern over the potential for conflict of interest with mutual funds providing investment advice, it is unclear what the future of investment advice will look like.

A member asked Ms. Singer about the feasibility of providing a list of preferred financial planners that would provide investment advice to participants at a discounted rate. Ms. Singer stated that historically, the Board of Regents has not considered it appropriate for the University to express any endorsement of specific providers of such services. Currently, when Employee Benefits receives calls inquiring about financial planning services, it refers participants to the Certified Financial Planner website - http://www.cfp.net/.

A member noted that there are two different types of participants, those who are actively engaged in their financial planning, and others who just want basic/simple information. In light of the fact the University cannot provide financial advice to participants, it is unfortunate that it cannot recommend an option for people who do not want to have to think about planning for their retirement. There are a lot of people who get confused by the amount of information they receive about retirement planning, and, as a result, they become paralyzed and do nothing with the information.

Can the University's retirement funds be categorized as high-risk, medium-risk, and low-risk, asked a member? Ms. Singer stated that Employee Benefits compiles a return spreadsheet (http://www1.umn.edu/ohr/benefits/retiresave/perform/index.html) every quarter. This spreadsheet contains the Morningstar category for each fund, e.g., income fund, international fund, large value fund, which allows participants to sort by fund category. In response, this same member suggested sending all retirement plan participants an email with this information each quarter.

The problem with mutual funds, noted a member, is that participants are inclined to choose investment options that have the highest returns, but doing so is not necessarily the right this to do.

In the interest of time, Professor Frank recommended the committee keep this issue on the table, and discuss it further at the February 1 meeting.

V). Professor Frank welcomed Vice President Carol Carrier, who was invited to participate in a discussion about the possibility of the University offering a Roth 403(b). Then, Thomas Schenk, chair, Roth 403(b) Ad Hoc Committee, began by stating that a Roth 403(b) saving option offers a number of potential benefits to participants. While the committee recognizes there is a cost to the University to add a Roth 403(b) to its current retirement benefit options, it recommends the University do so.

Vice President Carrier stated that she reviewed the ad hoc committee's report and agrees there are a lot of good reasons for offering a Roth 403(b). She asked Ms. Singer whether it is possible to get data from other institutions that offer a Roth 403(b) about their participation rates. No, stated Ms. Singer, but from the University's vendors she learned that of the few organizations offering a Roth 403(b), participation is relatively low. Optimistically, the University would be looking at a 10% or less participation rate. Vice President Carrier stated that she would really like to get more information from other institutions on their participation rates, etc.

A member stated that based on her research, offering a Roth 403(b) is a fairly new option. Like anything else that is new, with time it will catch on. She anticipates an increasing number of institutions will offer this savings option in the future. For the University to offer a Roth 403(b) would serve to increase its institutional competitiveness.

Vice President Carrier stated that the committee's recommendation to add a Roth 403(b) should remain under consideration, but given the University's current financial constraints, the cost of implementation, and the apparently low rate of participation in such plans at other institutions, she cannot say when the University would be in a position to implement it.

Members engaged in a thoughtful discussion with Vice President Carrier about the about the potential benefits for adding a Roth 403(b). Several arguments for offering a Roth-style plan were cited including, but not limited to:

- Increased tax diversification.
- Reduced taxes on Social Security benefits.
- Advantages for estate planning.
- Reduced exposure to the Alternative Minimum Tax.
- Less tax consequence when making large withdrawals in retirement.

Again, Vice President Carrier stated that offering a Roth 403(b) has its arguments, and it is on the University's radar; however, the University needs to find the right moment of opportunity to implement this savings option. The University currently does not have the financial resources to put this investment tool in place today.

What can the committee do to help make sure this issue does not fall off the University's radar, asked Professor Frank? Vice President Carrier stated that Ms. Singer regularly brings this issue forward, and will not let it be forgotten.

Given that a Roth 403(b) module is available in PeopleSoft's commercial line, is there any move to pressure PeopleSoft to make a module for higher education, asked a member? Ms. Singer stated that the University is able to set a Roth 403(b) up as a general after tax deduction. The problem is with all of the custom feeds and custom-limit programming that is required. Another member suggested asking the PeopleSoft Higher Education User Group (HEUG) to spearhead this cause.

Vice President Carrier thanked the ad hoc committee for all their work on this topic. In turn, members thanked Vice President Carrier for attending this meeting.

VI). Other business: A member asked for clarification on the earlier discussion concerning investment advice services. Ms. Singer explained that these services provide actual financial advice as opposed to simply guidance.

Professor Frank asked Ms. Singer if she knew how much this type of service would cost. She stated that she does not recall specifically, but to the best of her recollection it was relatively expensive on a per person basis, however, not hugely so when compared to other financial planning services.

A member asked Ms. Singer whether the University would consider offering a defined contribution plan. Ms. Singer stated that she has not heard of any movement to mandate participation in the ORP.

Changing the subject, a member suggested the committee endorse the Roth 403(b) Ad Hoc Committee report, and write a formal letter to either Vice President Carrier and/or President Bruininks about the committee's recommendation that the University should offer a Roth 403(b) savings option. Doing so would serve to keep issue on the administration's radar. Members voted unanimously to support the recommendation coming out of the Roth 403(b) Ad Hoc Committee that the University offer a Roth 403(b). Professor Frank volunteered to craft a short note to Vice President Carrier about this recommendation and have it serve as an official part of the record.

In closing, Professor Frank thanked members for attending, and he extended a special thanks to members of the Roth 403(b) Ad Hoc Committee for all their hard work.

VII). Hearing no further business, Professor Frank adjourned the meeting.

Renee Dempsey
University Senate