SCFA RETIREMENT SUBCOMMITTEE
MINUTES OF MEETING
MARCH 7, 2011

[In these minutes: Securian Annual Review, Personal Rate of Return Calculator Demonstration, Securian's Political Contributions to Minnesota Forward, General Account "Guarantee"]

[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, Thomas Schenk, Gavin Watt, Joe Jameson, Jackie Singer, Chris Suedbeck, Vernon Cardwell, Kathryn Hanna, Jennifred Nellis, Andrew Whitman, Vernon Eidman

REGRETS: Jane Carlstrom, Barry Melcher, Murray Frank, Harvey Keynes

ABSENT: Nancy Fulton

OTHERS ATTENDING: Michelle Johnson, retirement plan administrator; Rosalie O'Brien, counsel to the committee; Shonna Schroeder, retirement programs coordinator

GUESTS: Securian representatives: John Leiviska, vice president and portfolio manager, Corporate Bonds (Advantus); Richard Manke, vice president, Securian Retirement; Sean O'Connell, vice president and portfolio manager, Real Estate and Structured Credit (Advantus); Blake Reigert, manager, U of M Retirement Plans; Warren Zaccaro, executive vice president and chief financial officer

I). Professor Feeney convened the meeting, welcomed those present, and called for introductions.

II). Professor Feeney stated that today's meeting would be dedicated to a review of Securian's 2010 performance and a demonstration by Securian of a personal rate of return financial calculator. He reminded members that in addition to the committee annually meeting with Securian, representatives from the Office of Investments and Banking periodically meet with Securian to keep a pulse on fund performance and the overall financial strength of Securian. He then turned to Dick Manke, vice president, Securian Retirement, to provide an overview of what would be shared at today's meeting.

Mr. Manke turned members' attention to the agenda and walked them through it. He noted that the economic uncertainty in the market over the last few years has served to validate Securian's conservative investing approach. Securian had a very good year in 2010, and all its business units grew. Mr. Manke shared with the committee several statistical examples of Securian's 2010 growth, among them that it has \$700 billion of life insurance in force, making it the 8th

largest provider of insured death benefits in the United States, and that its assets grew 14% in 2010, to $32 billion.

He then called on Warren Zaccaro, executive vice president and chief financial officer, to provide specific information about Securian's financial strength. Mr. Zaccaro began by taking a few minutes to demonstrate Securian's financial strength by reiterating the statistics previously shared by Mr. Manke. He noted that in addition to having high quality assets, Securian is extremely careful about the liabilities it puts on its balance sheet, which must fit Securian's risk parameters from underwriting, compliance and investment perspectives.

Next, Mr. Zaccaro provided information on a number of equity and capital measures that are used to rate Securian's performance, which included the following:

- In 2010, total Generally Accepted Accounting Principles (GAAP) equity was up 15% to $3 billion.
- Total adjusted statutory capital, a regulatory measure, increased by 12% in 2010 to $2.1 billion, which is above pre-crisis levels and above the AA rating from the crediting agencies.
- Securian had strong enough capital from a risk perspective and an absolute level so that it did not have to raise capital during the crisis nor did it take government funds.
- Securian's financial strength rating increased slightly over last year from 16 to 15 (out of 888), but, more importantly, Securian maintained its AA rating from all the rating agencies.
- As of February 2011, Securian's comdex rating, a composite of all ratings a company receives, was 95 out of 100. During the recent financial crisis, Securian's comdex rating actually increased while a number of its competitor's ratings declined.

Moving on, Mr. Manke briefly shared with members the metrics that are shared with Stuart Mason, associate vice president, and Chris Suedbeck, director of investments, from the Office of Investments and Banking on a quarterly basis. Then, on a semi-annual basis, Mr. Manke noted, these metrics are discussed in more detail with Mr. Mason and Mr. Suedbeck at due diligence meetings, which are held at Securian. Mr. Suedbeck added that the Retirement Plan Fiduciary Advisory Committee also see these metrics.

Next, Mr. Manke called on Sean O'Connell, vice president and portfolio manager, Real Estate and Structured Credit (Advantus) and John Leiviska, vice president and portfolio manager, Corporate Bonds (Advantus), to provide information on the General Account.

Mr. O'Connell began by noting that the General Account is in a stronger position and of a higher quality than before the financial crisis. Diversification has always been a hallmark of the General Account and this continues today. Mr. O'Connell walked members through a series of charts and tables in an effort to demonstrate the strength and quality of the General Account. He pointed out that about 84% of the General Account portfolio is fixed income assets and broke this down for the committee:

- Corporate bonds – 49%.
- Commercial real estate (commercial mortgage-backed securities, and a direct commercial loan portfolio) – 23%.

- Residential real estate securities (agency, which includes Fannie Mae, Freddie Mac and Ginnie Mae and also non-agency, which include non-guaranteed residential mortgages) – 21%.
- Non-residential asset-backed securities – 2%.
- Governments – 2%.
- Cash – 3%.

Mr. Leiviska then provided information on the General Account's corporate portfolio. He highlighted the top ten largest holdings in the bond portfolio, and noted that as a percentage of total assets, these credit exposures represent only a total of 2.7%.

Diversification within the portfolio is done by name as well as sector, stated Mr. Leiviska. In the financials sector, the portfolio is underweighted to the Barclays Index at 24.8% compared to 40%. Sectors that have increased include utilities, consumer non-cyclical, and energy. In response to a question about the financials being underweighted, Mr. Leiviska noted that coming into the financial crisis, the General Account was modestly underweighted in the financials sector, but since that time this weighting has been decreased even further. He indicated that Securian is comfortable with this position.

With respect to all of the General Account's fixed income investments, 94.2% were deemed investment grade, noted Mr. Leiviska, which compares favorably to the industry metric of 93.1%. This serves to further demonstrate that the quality of the portfolio is being maintained and it will continue going forward.

Mr. Leiviska turned members' attention to a table that breaks down the number of corporate and structured holdings on Securian's internal watch list. On the corporate side, as of December 31, 2009, nine investments totaling $52.5 million were considered troubled. More recently, as of December 31, 2010, there were only six troubled investments totaling $29.9 million. Diversification has clearly served to help weather the recent financial storm. Securian takes an investment view (long-term) rather than a trading view (short-term), and diversification is part of this strategy.

Mr. Suedbeck asked whether any of the below investment grade bonds in the General Account bond portfolio were purchased at below investment grade, or whether these bonds were once investment grade and later reduced to junk bond status. Mr. Leiviska stated that in 2009 a decision was made to take on more credit risk in 2010 where it was warranted. Therefore, Grade 3 BB corporate bonds were purchased. Mr. Manke added that Securian does not purchase bonds at the Grade 4 – 6 level.

Mr. Manke pointed out that Securian's internal watch list is just that, an internal watch list. He asked Mr. O'Connell and Mr. Leiviska to explain how assets come to be put on the list. Mr. O'Connell explained that Securian has staff dedicated to constantly monitoring its current holdings to verify that Securian is still comfortable owning these assets.

Mr. Suedbeck asked whether there would ever be an instance where, for example, Moody's or S&P would put a corporate bond on a negative watch and Securian would not. Mr. Leiviska stated that if a corporate bond was downgraded from investment grade to below investment grade and that bond was purchased as an investment grade bond, it would be put on Securian's internal watch list. However, if a corporate bond is put on negative watch, but not necessarily downgraded, this would be a judgment call by Securian's research group as to whether the bond should be put on the company's watch list.

Regarding the structured assets, Mr. O'Connell reported that year over year there has been improvement. With that said, this is the one part of the market that is still under stress, particularly in the residential housing and commercial real estate markets. As the economy continues to heal, improvements are being realized.

Are structured assets on the watch list weighted more heavily in one category versus another, asked Mr. Suedbeck? Mr. O'Connell stated that the structured watch list is comprised primarily of non-agency residential mortgages.

Moving on, Mr. O'Connell shared information about the General Account's commercial whole loan portfolio. He noted that the portfolio is valued at almost $1.3 billion with no delinquencies. Two commercial whole loans with a total outstanding balance of $8.4 million were taken back last year. It has been 15 years since Securian has had to take back a property, stated Mr. O'Connell, which is indicative of Securian's conservative investment approach. He added that real estate exposures are diversified by collateral and property type, geography, and public and private.

Professor Feeney asked about the impact on the General Account if the questionable credit worthiness and high levels of government debt scenario in the U.S. continues to play out. Mr. O'Connell noted that fortunately Securian has very little invested in treasuries. He added that the portfolio as a whole has a duration of under five years. Commercial mortgages, corporate bonds, the various securities on the fixed income side of the portfolio are also very laddered. With that said, while downgrading U.S. debt on a treasury basis would not have a direct effect on the General Account, it would directly impact rates. Mr. Suedbeck added that if a scenario like this played out, it would have a market-wide impact.

Mr. Suedbeck asked about the impact a phase-out of Freddie Mac and Fannie Mae would have on the mortgage-backed securities market. How is this type of risk quantified in the portfolio? Mr. O'Connell stated that in the marketplace currently 90% of all mortgages are being bought by Freddie Mac and Fannie Mae. If this were to change immediately, housing prices would go down. From a political standpoint, there are a lot of organizations that want this subsidy continued. In Mr. O'Connell's opinion, if Freddie Mac and Fannie Mae are phased out, it would happen over time versus immediately. He added that discussions are taking place about requiring mortgage originators to pay for a U.S. government-based form of insurance to guard against what happened in 2008 and 2009 from happening again.

On behalf of committee, Professor Feeney thanked Mr. Leiviska, Mr. O'Connell and Mr. Zaccaro for their presentations.

Next, Blake Reigert, manager, U of M Retirement Plans, took a few minutes and shared a handful of the 2010 service highlights:

- Continued tradition of personal, high-touch service exemplified by completing 17,000 individual participant service interactions.
- Conducted 360 one-on-one retirement plan review meetings, which is a 50% increase over 2009.
- Three new funds were added: Vanguard Emerging Markets, Vanguard International Explorer and Vanguard Target 2055. These funds surpassed $4.1 million in total assets and had 190 participants by year-end.
- Distributed an educational newsletter to all participants titled, "*Make the right moves to rebuild your retirement account,*" which was very well received.
- Implemented a number of website enhancements in early 2010, e.g., account summary enhancements, ability to view systematic withdrawals on-line.

Next, Mr. Reigert noted that over the years a number of participants have requested that Securian reduce its paper mailings and "go green." While insurance and securities legislation require Securian to send paper confirmations for one-time transactions, automatic transactions such as payroll and systemic withdrawals are exempt from this legal requirement. Currently, less than 20% of participants who make payroll contributions receive a paper confirmation, and 100% who receive systematic withdrawal payments receive a confirmation. With that said, Securian proposes giving participants the choice to receive or not to receive paper automatic transaction confirmations. Participants will be notified of this change multiple times throughout the remainder of 2011. If participants want to continue to receive paper transaction confirmations, they would simply need to notify Securian. Taking no action automatically enrolls participants. At any point in the future, participants can elect to start receiving paper confirmations again. Securian, noted Mr. Reigert, will continue to generate and mail one-time transaction confirmations and quarterly statements.

Gavin Watt asked about how much Securian spends on sending out paper confirmations and inquired about how much money they would expect to save by not sending them out. Mr. Manke stated that Securian estimates it would save upwards of $30,000 - $40,000 if all paper confirmations were discontinued. He noted that because the University's plan is priced individually, as savings are generated, Securian's actuaries would use this information to adjust the plan's rates going forward.

Professor Hanna also suggested eliminating the fee statements that are generated. Mr. Reigert stated that for participants who elect not to receive paper confirmations, the purchase fee statements would also be eliminated. For participants who want to continue receiving paper statements, Securian will explore the possibility of combining the transaction confirmations and purchase fee statements in the same mailing, noted Mr. Reigert. Mr. Manke agreed and stated that depending on how many people decide to continue receiving paper confirmations and fee statements will influence what changes Securian will implement.

Hearing no objection from members concerning Securian's "green" transaction confirmation proposal, Professor Feeney told Mr. Manke and Mr. Reigert to proceed with the implementation.

He added that it is reassuring to know that Securian has the ability to go back and recreate paper confirmations if necessary.

As background, Mr. Reigert explained that as a result of input from Ms. Singer and her staff, this committee, and plan participants, Securian will be offering new financial calculators as well as enhancements for the existing calculators throughout the course of 2011. The first new calculator, stated Mr. Reigert, is a personal rate of return calculator, which Securian purchased from Daily Vest. Beginning June 30, 2011, this new tool will be available to plan participants on the Securian website. Mr. Reigert then demonstrated different features of the calculator for members.

How far back will participants be able to access their individual contribution data in the system, asked Professor Hanna? Mr. Reigert stated that the data will go back ten years, which is industry standard.

Will investment data from the other plans (e.g., Fidelity, Vanguard) also be downloaded in the system, asked Mr. Suedbeck? No, stated Mr. Reigert, only Securian assets will be downloaded.

Mr. Manke assured the committee that the Securian staff who work with the University of Minnesota account will be intimately familiar with the calculator so they will be able to answer any questions that plan participants may have about using it. Mr. Reigert also noted that in addition to the personal rate of return calculator, Securian plans to add two additional calculators:

1. Market and savings scenario calendar, which will allow users to select "what if" scenarios of saving more or withdrawing less to see the impact on their account balance given the three historical return scenarios (variance).
2. Hypothetical portfolio performance calculator, which will allow users to calculate performance based on existing investment options in the Faculty Retirement Plan (FRP).

Mr. Reigert stated that enhancements for the existing calculators are also being developed and will be implemented over the course of 2011.

Lastly, Mr. Reigert turned members' attention to a sample of next quarter's educational statement insert, a copy of the fourth quarter 2010 insert and a schedule of the educational inserts planned through first quarter 2012. In addition, a copy of investment options in the 403(b) and 401(a) plans as of December 31, 2010 was shared with members.

Mr. Manke suggested coming back in front of the committee in the fall to demo the market and savings scenario calendar and the hypothetical portfolio performance calculator as well as the enhancements for the existing calculators that will be implemented.

Professor Feeney commended Securian on the new calculators and existing calculator enhancements, which far surpass the tools that are currently available to plan participants. Mr. Manke stated that Securian works on behalf of the FRP and carefully watches the expenses of the plan.

Professor Hanna used Mr. Manke's last comment as an opportunity to ask about Securian's political contribution to Minnesota Forward. Mr. Manke acknowledged that Securian made a corporate contribution to Minnesota Forward. The purpose behind the contribution, noted Mr. Manke, was to support candidates who promote job growth in Minnesota. Feedback about this contribution from the Retirement Subcommittee and plan participants has been directly shared with Securian's chairman of the board and president. Securian will use the feedback it has received in weighing decisions about whether it will make future political contributions. The University's position on Securian's Minnesota Forward political contribution was heard loud and clear by upper level management at Securian, noted Mr. Manke.

Mr. Watt asked about the amount of money Securian spends on lobbying. Mr. Manke stated that Securian does not spend much money on lobbying. The primary reason Securian lobbies is to protect policyholders against tax laws that would impact them negatively. To the best of Mr. Manke's knowledge, Securian does not have any full-time lobbyist on staff and its presence on the hill is minimal.

Mr. Suedbeck requested that Securian provide the committee with the most frequently asked questions it receives from University plan participants in order to understand where improvements can be made. Mr. Reigert stated that he and his staff talk about common questions or themes that participants call in about during monthly team meetings. For example, the decision to offer a free download of Quicken was in response to requests by participants. Currently, there is nothing in particular that stands out that participants are calling in about. Securian is constantly tweaking its processes to make sure participants are having a good service experience.

Professor Feeney asked Professor Eidman whether he is satisfied with the response he has received from Securian regarding expanding the transaction report to include the change in the market value from the previous month. Professor Eidman stated that Securian is looking into this request to determine if it will be possible given the space on the report is limited. He noted that from his perspective, he is satisfied with Securian's response thus far.

Professor Feeney also shared with Securian that a participant reported experiencing a problem with Securian's website. Mr. Reigert stated he was aware of this concern. He reminded members that if participants ever have a problem with the website that they should not hesitate to call Securian because they are able to perform transactions over the phone.

The remainder of the meeting was spent on the use of the word "guarantee" in communications involving the General Account. Mr. Manke provided a couple examples of how the "guarantee" language had been changed in response to concerns raised at last month's meeting.

Rosalie O'Brien, counsel to the committee, stated that use of the term "guarantee" could be read to imply that third-party credit support exists, which is not the case because the General Account is solely backed by the financial strength of Minnesota Life. In response, Mr. Manke stated that the new verbiage is intended to convey to participants that for every dollar they deposit in the General Account they are being guaranteed that dollar plus a specified rate of interest, which shall not be below 3%. Ms. O'Brien stated that it was her understanding that the concern expressed by an absent member in prior meetings was that the word “guarantee,” as it is being used, implies some sort of independent backing for the General Accounts. To illustrate, she compared the Minnesota Life guarantee with a bank FDIC guarantee, and pointed out that the FDIC guarantee is a guarantee by a separate governmental entity. Minnesota Life’s guarantee, on the other hand, simply promises that participants will get back their principal and interest; this is not a guarantee. Professor Whitman concurred and stated that there is a fundamental problem with using the word “guarantee.” In reality, there is no guarantee per se as people interpret this word. Ms. O’Brien added that the goal is to communicate successfully to participants the nature of the financial strength supporting the General Accounts. The value of the statutory guarantee fund is negligible because it is capped at $10 million per plan and the University has $1.3 billion in the General Accounts.

In light of time, Professor Feeney stated that the committee would discuss this issue further at its next meeting, and follow-up with Securian/Minnesota Life.

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

Renee Dempsey
University Senate