

SCFA RETIREMENT SUBCOMMITTEE
MINUTES OF MEETING
NOVEMBER 3, 2014

[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.]

[In these minutes: Structure of the University's Retirement Plans, Discussion with Fidelity about the Retirement Planning Tools and Resources, Retirement Plans Participation and Fees, Retirement Plan Options]

PRESENT: Daniel Feeney, chair, Frank Douma, Nancy Fulton, Joe Jameson, Ken Horstman, Jackie Singer, James Cotter, Murray Frank, Kathryn Hanna, Albert Tims, Andrew Whitman

REGRETS: Wendy Berkowitz, Thomas Schenk, Merrie Kaas, Vernon Eidman

ABSENT: Stuart Mason

OTHERS ATTENDING: Dan Fisher, retirement programs coordinator; Matt Nyman, investment analyst, Office of Investments and Banking; Rosalie O'Brien, counsel to the committee; Office of the General Counsel

GUESTS: Fidelity representatives: Bill Hochleitner, vice president and regional manager, Retirement Services, and Patrick Vaughan, vice president and managing director, Personal and Workplace Investing

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

1. **Approval of Minutes:** Members unanimously approved the October 6, 2014 minutes.

2. **Structure of Retirement Plans:** Professor Feeney called on Jackie Singer, director, Retirement Programs, to provide an overview of the University's current retirement plan structure. Ms. Singer walked members through the structure documents for the Faculty Retirement Plan (FRP), the Optional Retirement Plan (ORP), Section 457 Deferred Compensation Plan, and the 415(m) Retirement Plan that were sent to members prior to the meeting. She commented that the current plan structure is quite complicated.

For the FRP, there are four vendors doing recordkeeping for the plan. While Securian does the consolidated recordkeeping, the other vendors, TIAA CREF (now frozen), Vanguard and Fidelity, do the recordkeeping for their own funds and send these files to Securian quarterly so Securian can issue consolidated statements to participants.

In terms of the ORP, and the question about why a Roth 403(b) cannot be offered is particularly relevant. Besides the issues surrounding the current payroll system, the ORP structure is problematic for being able to offer a Roth 403(b) because money and records would have to be

able to transfer back and forth, and currently this is problematic. For example, if someone has Roth money and wants it to move from Vanguard to Fidelity, not only does a check have to be cut and sent from Vanguard to Fidelity, but transaction data has to also transfer. Currently, there is no mechanism in place to make sure the data is transferred and relayed properly. A single recordkeeper would eliminate this data transfer issue.

Theoretically, said Professor Hanna, wouldn't it be possible to identify just one vendor that could offer a Roth 403(b)? Ms. Singer said choosing one vendor would mean participants could never transfer their Roth 403(b) money to another vendor. This would not be appropriate. Professor Hanna said her suggestion seems like a feasible option and she would like to revisit the Roth 403(b) discussion at some point. Ms. O'Brien, counsel to the committee, said this is a perfect illustration of why the Retirement Plan Fiduciary Advisory Committee (RPFAC) and the administration have decided to retain a consultant who can bring their expertise to render advice on how to improve the structure of the current retirement plans.

In response to a question from Professor Hanna about the 415(m) plan, Ms. Singer explained that it is the non-qualified, top hat plan for some executives. There are approximately 10 people in this plan, and is done by special contract.

Ms. Singer said at the next meeting she would share her vision for a tiered structure plan.

3. Fidelity – Retirement Planning Tools and Resources: Professor Feeney welcomed Fidelity representatives Bill Hochleutner, vice president and regional manager, Retirement Services, and Patrick Vaughan, vice president and managing director, Personal and Workplace Investing, who were invited to talk about the retirement planning tools and resources that Fidelity offers.

Mr. Vaughan began by providing information about other Fidelity higher education clients that have undergone radical plan changes. He noted that first and foremost it is important to streamline the retirement planning messaging to make sure it is consistent and will engage faculty and staff. He then turned members' attention to a PowerPoint presentation and highlighted the following:

- Currently, 4,329 University of Minnesota employees are using Fidelity with over \$450 million in assets.
- The University offers an all-Fidelity funds line-up of K shares, which include about 25 funds that have a lower share class. Top holdings by assets include Contrafund K, Freedom K, Growth Co K, Magellan K and Low-Priced Stock K.
- Sixty-seven percent of participants are invested in institutional share classes and the remaining 33% are invested in retail funds.

Fidelity believes employee engagement around retirement planning is important because it generally leads to appropriate behavior. One of the first things Fidelity looks at is whether there is an age appropriate asset allocation. For example, the Fidelity target-date funds roll down, which means they are more aggressive for younger employees and become more conservative for older employees. Fidelity has determined an age appropriate asset allocation to be plus or minus 10% of that number. Currently, 24% of University employees invested with Fidelity have an age appropriate asset allocation. Because the University has multiple vendors, this means that

employees could be invested elsewhere. Having said that, for higher education clients, Fidelity believes the age appropriate asset allocation should be in the 50% - 60% range, which means the University has room for improvement.

In response to a question about how Fidelity determines what investments are age appropriate and has it changed its thoughts on this over the course of the last five to ten years, Mr. Vaughan said Fidelity has changed its modeling around what it considers age appropriate assets, and is now more aggressive than in the past. Changing the fund line-up (plan design), reducing the number of providers, and streamlining communications all serve to drive behavior.

Professor Whitman asked whether it is possible for people who have assets with Securian or Vanguard to populate this information into the Fidelity tools so a person can see their total asset allocation. Mr. Vaughan explained that beginning in early 2015 Fidelity is moving to a new platform called Full View®, which is a scraping technology that allows users to pull in assets from other places. He noted that he would demonstrate this a little later in the meeting.

Mr. Vaughan reported that just under 10% of University employees had a guidance interaction with Fidelity in the past year. He asked Mr. Hochleitner to provide more information about what Fidelity offers in terms of guidance. Mr. Hochleitner began by asking who in the room has had a guidance interaction with Fidelity in the past year, and who has not, and, of those who have not, why. Professor Tims said he has not sought guidance because he does not want Fidelity to try and sell him funds. Mr. Hochleitner then shared information about Fidelity's planning and guidance consultants. He noted that the consultants are Financial Industry Regulatory Authority (FINRA) registered and licensed, and are full-time Fidelity employees who are on a non-commissioned-based compensation plan. The consultants offer unbiased solutions, are product agnostic, and use Fidelity's proprietary planning tools when they meet with clients to help devise a model portfolio. For clients who are closer to retirement, the consultants will help them think through their retirement income plan. For example, the plan would help clients figure out where to withdraw their retirement funds from first, and how to continue growing the money they have amassed. Fidelity's guidance offering is unique and customized and uses an interactive model. There are no fees for working with a planning and guidance consultant.

Does Fidelity have data that would allow the University to compare itself against other universities, asked Professor Whitman? Mr. Vaughan said that Fidelity would be happy to share the benchmarking information it has as the University looks at restructuring its retirement plans.

Mr. Hochleitner strongly encouraged members to meet with a Fidelity planning and guidance consultant to get a firsthand experience of what a meeting entails. Professor Hanna suggested Fidelity do more to advertise this service. Mr. Vaughan said all communications to University Fidelity ORP clients go through the University of Minnesota.

Professor Tims asked who receives the email announcements about setting up a meeting with a Fidelity planning and guidance consultant? Ms. Singer explained that these messages are sent to people who have ORP or Section 457 Deferred Compensation Plan accounts. Because Fidelity does the recordkeeping and investments for these plans, Fidelity has the email addresses for

these individuals. In the FRP, on the other hand, Securian is the recordkeeper, and, therefore, they would not advertise guidance offerings for Fidelity.

Next, Mr. Vaughan demonstrated Fidelity's online guidance platform, which he had mentioned earlier. To reiterate, beginning in 2015, Fidelity's new platform will use Full View® (<https://www.fidelity.com/cash-management/faqs-full-view>) technology, a scraping technology that allows users to pull in assets from other places. Full View® allows clients to manage all their personal finances by bringing their online financial accounts onto a single, fully customizable web page allowing users to see their complete financial picture. Mr. Vaughan demonstrated a sample scenario.

Professor Feeney asked about participants in the FRP who are invested in Fidelity funds and whether they would have access to this platform. Yes, said Mr. Vaughan, anyone can use the tools whether they have a Fidelity account or not, but using the tools without an account would be a more manual process.

Professor Whitman asked if a person has an ORP account with Fidelity Contra K funds and an account with another vendor that also has Contra funds whether they could be combined to get the institutional discount? Mr. Vaughan said the Contra K funds are only available to select Fidelity-recordkept clients.

A lot of vendors have retirement planning tools, what makes Fidelity different, asked Mr. Horstman? Mr. Vaughan said that Fidelity is moving away from a lot of different tools and towards a single tool that allows clients to manage all their personal finances. In addition, the services provided by Fidelity's planning and guidance consultants are unique in the industry.

Professor Feeney thanked Mr. Vaughan and Mr. Hochleutner for a good discussion.

4. Retirement Plans Participation and Fees: Professor Feeney called on Dan Fisher, retirement programs coordinator, to provide information on plan participation and fees. Mr. Fisher walked members through spreadsheets containing asset listings as of June 30, 2015 for the various plans, the value of the asset listings, and the number of participants and fund families.

Next, he turned members' attention to the Full Fee Disclosure Analysis memo that was sent out this past summer. Regarding the trend over time, said Ms. Singer, there has been a decline in the overall average basis point fees, particularly since 2010. This is likely attributable, at least in part, to the fee announcements the Department of Labor has required vendors to distribute to participants. The fee disclosure has put pressure on investment managers to be transparent with their fees. In 2010, the University's average basis point fees were 47 and as of 2013 the average basis point fees dropped to 40.

Finally, Mr. Fisher turned members' attention to the FRP Stylebox Analysis document before them. Professor Frank asked about the fluctuations in the average basis points for PAX World. Mr. Fisher said the fluctuations could be tied to asset value. Professor Frank requested a more in depth analysis be conducted of the basis point fluctuations for this fund and that the results be shared at an upcoming meeting.

Professor Feeney thanked Mr. Fisher for the information he provided.

5. Retirement Plan Options: Professor Feeney asked Ms. Singer to provide an update on the retirement plan options for tenured faculty and continuous appointment P&A employees that had been brought to the committee last spring. She provided background information to give context to this update and noted that while the phased retirement option is used quite a bit, the terminal agreement option is rarely used. Given the phased retirement and terminal agreement options were due for a comprehensive review this year, explained Ms. Singer, Employee Benefits decided to also look at the options with an eye toward the Enterprise System Upgrade Project (ESUP) to see if enhancements or changes should be made. Now that the 30-day comment period has ended, it appears the phased and terminal options will be offered but the tenure trade option that had been proposed will not given the lack of interest in this option.

Were there any significant changes made to the phased retirement and terminal agreement options, asked Professor Hanna? Ms. Singer said the cap on the terminal agreement of 175% was reduced somewhat to make it slightly less rich but there were no changes to the phased retirement option. [This has since been adjusted to restore the 175% cap.]

Given the low usage of the terminal agreement option, were there any discussions about making changes to it so it would be more appealing for colleges to use, asked Professor Tims? Ms. Singer said given the latitude of anywhere from 50% - 125% of cash payouts, and moving the post retirement into the health care savings plan, she thinks it simply may no longer be used.

When will the retirement options go into effect, asked Professor Feeney? Ms. Singer said once the final wording is approved, the final drafts will be sent to the Minnesota State Retirement System (MSRS) for approval. Based on this, she estimates the options will go into effect by the end of the year, but maybe as soon as December 1st. Ms. Singer mentioned that unionized faculty in Duluth will still be covered under the old options.

Professor Whitman asked about what is the definition of an active employee for the purpose of required minimum distributions because active status allows faculty to defer taking the required minimum distributions. Ms. Singer explained from an IRS perspective whether someone is an active employee or retired is clear-cut. If someone is actually working and providing services to the University that person can defer their mandatory distributions.

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

Renee Dempsey
University Senate