SCFA RETIREMENT SUBCOMMITTEE
MINUTES OF MEETING
MAY 2, 2005

[In these minutes: Miscellaneous Business, Consolidated Recordkeeping, Retirement/Financial Calculator, Vanguard Share Class Conversions, FRP Investment Performance for Period Ending March 31, 2005]

[These minutes reflect discussion and debate at a meeting of a committee of the University of Minnesota Senate or Twin Cities Assembly; none of the comments, conclusions or actions reported in these minutes represent the views of, nor are they binding on, the Senate or Assembly, the Administration or the Board of Regents.]

PRESENT: Daniel Feeney, chair, Carol Siegel, Gavin Watt, Barry Melcher, Jackie Singer, Chris Suedbeck, Richard Goldstein, Kathryn Hanna, Dian Lopez, Herbert Pick

REGRETS: Gordon Alexander, Michael Murphy, Morris Kleiner

ABSENT: Burt Sundquist

OTHERS: Fred Morrison

I). Professor Feeney called the meeting to order.

II). As follow-up to last monthÕs meeting, Jackie Singer reported on the following:

- The University will be on the new TIAA CREF platform in the fourth quarter of 2005.

- The University paid Minnesota Life/Securian approximately $300,000 in recordkeeping fees for non-proprietary funds in 2004.

- On average, 12% - 15% of all plan transfers between vendors are inaccurate each quarter. Of these inaccurate transfers, TIAA CREF is the biggest offender with Vanguard coming in second.

III). Ms. Singer reported that she contacted Watson Wyatt regarding their thoughts on the likelihood that the University could get a rough estimate on what it would cost to hire a consolidated recordkeeper without going out to bid. Due to the complicated nature of the UniversityÕs retirement plan, Watson Wyatt did not think that any vendor would be willing to hazard a guess. Realistically, the University would need to go out to bid to get this information.

It was noted that if the University decides to retain a recordkeeping-only vendor, it would not solve the TIAA CREF problem whereby they reportedly will not allow another vendor to recordkeep their funds. There is also the issue that whoever is selected as the consolidated recordkeeper would need to be able to program the General Account at Minnesota Life.

Ms. Singer stated that she met with Minnesota Life and TIAA CREF to discuss allowing rollovers into the Faculty Retirement Plan (FRP). She reported that while both vendors were very accommodating and easy to deal with, each has a manual process for handling rollovers. Because neither vendor has an automated system, Ms. Singer does not see this option as resolving the inaccurate transfer issue.

Decisions that the University would need to make if it decided to allow rollovers include:

- Who should be allowed to roll money into the plan?
- What types of plans would be permitted to roll into the Faculty Retirement Plan (FRP)?
- When can people access their rollover money?

Another issue to consider is if rollovers are permitted into the FRP, faculty and P&A would be allowed to roll money in but Civil Service and Bargaining Unit employees would not. As a result, this could lead to increased pressure to offer this same service in the Optional Retirement Plan. Ms. SingerÕs concern is that because there are more vendors to deal with in the Optional Retirement Plan, this could lead to more transaction errors. Professor Feeney suggested starting with the FRP, in terms of allowing rollovers, and then once the bugs have been worked out, discuss allowing rollovers in the Optional Retirement Plan for the other employee groups.

Members continued to debate the pros and cons of going out to bid for a consolidated recordkeeper. After much discussion, members agreed that a meeting with Minnesota Life should be scheduled to relay the UniversityÕs interest in consolidate recordkeeping services as well as a financial planning module. To leverage the UniversityÕs position relative to this request, it will use its willingness to allow rollovers into the FRP as an incentive for Minnesota Life to provide these additional services/tools at no extra charge. Members agreed that if no agreement can be reached, the University should go out to bid for a consolidated recordkeeper. Then, at this same time, plan design changes can be considered as well.

III). Professor Feeney reported that the sample retirement calculator, which was presented to the committee at its last meeting, will be used as a working model to develop a financial calculator for University employees.

IV). Jackie Singer reported that two share conversions occurred on March 23, 2005; Vanguard MidCap and Vanguard SmallCap Index both went from Investor Shares to Admiral Shares, which translates into a saving of between 9 – 10 basis points for each fund. It took a relatively short amount of time for these conversions to happen, which goes to validate that these funds were definitely warranted.

VanguardÕs Extended Market Index will also experience a class conversion from Admiral Shares to Institutional Shares, which will translate into a 7 basis point fee reduction. A date for this conversion has not yet been determined.

Other funds, which will be monitored for class conversions include:
GNMA Fund
Institutional Index Fund (basis points on this fund are already very low)
Long-Term Investment-Grade Fund
Prime Money Market Fund
Wellington Fund
Windsor II Fund
Calvert Social Index (this class conversion will likely take time because the fund balance is quite low)

V). As discussed earlier this year legislation, which goes into effect on January 1, 2006, would permit the University to add another type of contribution to its Optional 403(b) plan, a Roth 403(b). A major difference between the Roth 403(b) and the Optional 403(b) is the tax treatment. In exchange for giving up the tax deduction at the time of contribution, withdrawals from a Roth 403(b) are tax-free both at the State and Federal level for all qualifying distributions.

Members concluded that because the subcommittee is working on several other initiatives (e.g. rollovers, consolidated recordkeeping and a financial calculator), and because offering a Roth 403(b) would add another layer of decision making onto an already very complex retirement plan, that further discussions around offering a Roth 403(b) should be suspended at this time. Professor Feeney suggested, however, putting Post Retirement Health Care back on the agenda for the 2005 – 2006 academic year.

VI). Ms. Singer distributed the Faculty Retirement Plan Investment Performance Report for period-ending March 31, 2005. Members had no questions for Ms. Singer concerning this report.

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

Renee Dempsey
University Senate