SCFA RETIREMENT SUBCOMMITTEE
MINUTES OF MEETING
APRIL 5, 2010

[In these minutes: New Fund Recommendations from the Retirement Plan Fiduciary Advisory Committee, Benefit Implications Resulting from the FY11 Pay Reduction, Miscellaneous Business]

[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, Barry Melcher, Jackie Singer, Vernon Cardwell, Daniel Feeney, Kathryn Hanna, Harvey Keynes, Jennifred Nellis, Burt Sundquist

REGRETS: Joe Jameson, Chris Suedbeck, Kathleen Hansen

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

GUESTS: Stuart Mason, chief investment officer, Office of Investments and Banking

I). Professor Frank called the meeting to order and welcomed Professor Vernon Cardwell, a new committee member. Professor Cardwell introduced himself and indicated he was looking forward to working with the committee.

II). Members unanimously approved the March 1, 2010 minutes.

III). Professor Frank introduced the main agenda item for today's meeting, a recommendation from the Retirement Plan Fiduciary Advisory Committee (hereafter RPFAC) to add two funds to the Faculty Retirement Plan (hereafter FRP). He called on Stuart Mason, chief investment officer, Office of Investments and Banking (hereafter OIB), and chair, RPFAC, to present the recommendations.

Mr. Mason explained that the RPFAC regularly meets discuss and provide advice to the University fiduciaries regarding certain issues related to University retirement plans including the FRP. At the last RPFAC meeting, the committee continued its discussion about possible improvements to the array of investments offered through the FRP.

Mr. Mason reported that the RPFAC had asked Securian to evaluate the range of investment choices offered through the FRP, and that Securian had recommended the addition of a small cap international fund and an emerging markets fund to provide additional investment opportunities for participants in light of the changing priorities that favored an increasingly global investment approach. The OIB staff evaluated several fund alternatives in these areas and brought their

findings back to the RPFAC at their March meeting for discussion. In addition to evaluating the Fidelity and Vanguard fund families, the American and Dimensional fund families were also evaluated.

When considering its recommendations, the RPFAC looked at:

- Performance relative to benchmarks.
- Fees.
- Fund family additions in Vanguard or Fidelity that would simplify the fund addition and make the addition cost effective.
- Diversification of options for participants being mindful of the number of funds that are offered.

Mr. Mason stated that the purpose for attending today's meeting was to share the RPFAC's recommendations with the Retirement Subcommittee and to solicit member's feedback/input. He reported that the RPFAC intends to recommend to the trustee the addition of the following funds:

1. Vanguard International Explorer.
2. Vanguard Emerging Markets Stock Index.

With respect to the Vanguard International Explorer, noted Mr. Mason, this fund invests broadly in small cap international growth companies. The benchmark for such small cap stocks tends to be a bit more volatile than the broader large cap international index. As compared to other funds that were evaluated, this fund had the best investment performance and better characteristics in terms of lower volatility. After a comprehensive examination of a number of small cap international funds, the Vanguard International Explorer fund was the clear choice for the RPFAC, noted Mr. Mason.

Next, Mr. Mason shared information on the Vanguard Emerging Markets Stock Index. Unlike the Vanguard International Explorer fund, which is actively managed, this fund is an index product. The goal of this fund is to match the performance of the MSCI Emerging Markets index (an index created by Morgan Stanley Capital International (MSCI) that is designed to measure equity market performance in global emerging markets). The primary emerging markets in this fund are China, India, Brazil and Russia, but also include other Pan-Asian stocks as well as some South American and European countries and South African stocks. Of the two recommended funds, this is more volatile, but has significant growth potential.

Ms. Singer reported that since the RPFAC meeting she has spoken with Securian regarding these funds and has learned that both have redemption fees, which is not a problem for Securian with respect to recordkeeping. However, the Vanguard Emerging Markets Stock Index also has a purchase fee, which could present a recordkeeping problem for Securian given they do not do the recordkeeping for the Vanguard funds in the Optional Retirement Plan (hereafter ORP). Securian currently does not offer any funds in the FRP that have purchase fees. Securian is looking into this further and will share their findings with Ms. Singer who agreed to report back to the committee.

What is the purchase fee, asked a member? Ms. Singer stated that the purchase fee is 0.5% and the redemption fee is 0.25%.

A member commented that the fees for these types of funds, in his opinion, are extraordinarily low. In addition, he believes these two funds are good long-term investment additions for the Plan. Ms. Singer clarified that she did not intend to imply that redemption fees in emerging markets and international funds are unusual because they are not.

Professor Frank observed that while the two funds may seem to be duplicating each other, they are not. The emerging markets fund is heavily weighted with Asian companies, while the Vanguard International Explorer fund is more heavily weighted towards European companies. Each fund provides investors with different types of exposures.

A member commented about how the philosophy of the committee has shifted over the years. For example, when the Fidelity Low-Priced Stock Fund was proposed back in the early 1990s, the prevailing University philosophy was to avoid volatility. With respect to the new funds that are being proposed, it is the right choice to offer these funds; however, as they exhibit somewhat greater volatility than other investment alternatives, thought should be given to whether any additional information should be provided to participants.

Ms. Singer reminded the committee that because the University's retirement plan is a government plan, it is not subject to ERISA (Employee Retirement Income Security Act). However, the University looks to ERISA as a guide. For example, the University acts consistent with ERISA Section 404(c), which deals with investment diversity and availability of pertinent information, in that it offers a broad array of investment options, provides investment information for people to make informed decisions, and allows participants to move in and out of funds frequently.

Mr. Mason noted that the RPFAC had also discussed the timing of offering new investment alternatives, in light of the need to consider the related administrative costs.

Professor Feeney made a motion that the committee go on the record as being in support of the RPFAC recommendation that the Vanguard International Explorer and Vanguard Emerging Markets Stock Index Funds be added as investment alternatives under the FRP at such time as is determined by Employee Benefits to be appropriate. This motion was seconded, and the committee unanimously voted to approve this motion.

IV). New business: Ms. Singer reported that her office has been looking into various implications the FY11 pay reduction could have on employees and their benefits. For example, the pay reduction could adversely affect P&A employees who are in the waiting period and who are scheduled to enter the plan during the 10 – 11 fiscal year. Ms. Singer reported that if necessary, an amendment to the Plan will be drafted that will make it clear that eligibility determinations are to be made on the basis of permanent salary and are not to be affected by temporary salary reductions.

A member asked how life insurance that is based on salary will be handled in light of the pay reductions. Ms. Singer stated that the University is looking into this with Minnesota Life, and she will report back the findings. Similarly, Employee Benefits and The Standard are looking into how to handle academics who have reached their short-term disability cap. Once the University's vendors confirm in writing how these different scenarios will play out, this information will be communicated to employees via a Q&A on the Employee Benefits' website.

A member asked Professor Hanna about the status of the Health Care Savings Plan (hereafter HCSP) that the Senate Committee on Faculty Affairs brought to the Senate awhile back. Professor Hanna stated that the Faculty Consultative Committee tabled the HCSP discussions in the fall in light of the federal health care discussions. Now that federal legislation has passed, the issue will be revisited.

A member asked about the status of the University's retirement contribution. Are discussions taking place about redirecting a portion of the University's contribution into a HCSP or reducing the contribution altogether? Ms. Singer stated that the HCSP discussion has been tabled. She is unsure how the federal legislation will impact the HCSP discussion going forward. Ms. Singer knows of no plans to redirect a portion of the retirement contribution in a HCSP or reduce the University's retirement contribution for participants.

If the University had a HCSP would it make the UPlan a "Cadillac" plan, asked a member? Ms. Singer stated that the UPlan may already be close to qualifying as "Cadillac" plan. She agreed to check into whether a HCSP contribution would count towards a "Cadillac" plan like Flexible Spending Account contributions. Employee Benefits, noted Ms. Singer, is spending a significant amount of time analyzing the federal health care legislation to see which provisions will apply to the UPlan, and how quickly different aspects will come into play. For example, the Flexible Spending Account cap is being reduced to $2,500 per year and over-the-counter claims are being eliminated unless prescribed by a physician.

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

Renee Dempsey
University Senate