SCFA RETIREMENT SUBCOMMITTEE
MINUTES OF MEETING
NOVEMBER 10, 2008

[In these minutes: Retirement Incentive Option (RIO), Plan Document Restatement Summaries, Plan Comparison Chart, Faculty Retirement Plan Investment Performance Third Quarter 2008, Update on Meeting with the Socially Responsible Investment Subcommittee, Financial Calculators, Market Conditions]

[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, Nancy Fulton, Joe Jameson, Barry Melcher, Jackie Singer, Murray Frank, Kathryn Hanna, Kathleen Hansen, Harvey Keynes, Jennifred Nellis, Burt Sundquist

REGRETS: Jane Carlstrom

ABSENT: Chris Suedbeck, Michael Murphy

OTHERS ATTENDING: Rosalie OÕBrien, counsel to the committee, Shonna Schroder

I). Professor Feeney called the meeting to order, and welcomed those present.

II). Members unanimously approved the October 6, 2008 SCFA Retirement Subcommittee minutes.

III). To begin, Ms. Singer provided the committee with a Retirement Incentive Option (RIO) update. She noted that RIO was a one-time opportunity for eligible employees to voluntarily retire from the University. The Board of Regents approved the most recent RIO on May 9, 2008. The RIO window ran from May 15, 2008 through August 1, 2008, though agreements could be submitted as late as September 26, 2008 for non-collectively bargained faculty and staff. Staff subject to collective bargaining agreements had a window that opened on June 2, 2008 and closed on August 1, 2008, through agreements could be submitted as late as September 26, 2008.

Of the approximately 5,400 eligible University employees that could take advantage of this offer, almost 450, or 8% of eligible employees did so. For comparison purposes, Ms. Singer noted an RIO in '03 – '04 had an acceptance rate of 6.5%. The employee group with greatest number of participants in the '08 – '09 RIO was Civil Service with over 200 individuals enrolling in this program.

RIO provides 36 months of medical and dental subsidy following an employee's last day of employment. Employees who participate in RIO must retire on a date mutually agreeable to the employee and his/her unit, but no later than the last day of his/her '08 – '09 appointment. For employees interested in being rehired at the University after accepting the RIO, they must wait at least 3 months, and will only be hired in non-benefit-eligible appointments.

A member commented that department chairs and directors in the College of Liberal Arts (CLA) were surprised to learn that vacancies created by employees who accepted the RIO cannot be refilled until the position has been reviewed and deemed essential. This has caused a conundrum for some departments. Ms. Singer stated that it is her understanding that President Bruininks made the decision regarding the refilling of vacancies after the RIO program was implemented in light of the worsening state of the economy and the projected dramatic decline in state revenues.

IV). Ms. Singer updated the committee on the Plan Document Restatement Summaries she brought forward at the last meeting. She noted that at that meeting she reported on an IRS regulation that changed the earliest retirement age from age 55 to age 62. This change directly impacts the date at which active faculty can withdraw their balances. Since this meeting, the IRS released Notice 2008-98, which extended the effective date of this regulation to 2011. As a result, this change will not be implemented in the restatement that will be effective January 1, 2009.

A member stated that many employees are unaware of this provision, and that it should be communicated more broadly. Ms. Singer stated that she is hesitant to broadly advertise this provision because she does not want to give people the impression that they should draw on these funds unless they need to. Also, in terms of making people aware of this provision for rollover purposes, Ms. Singer stated that participants need to be aware that rolling their money into an IRA could cause them to incur higher fees. When employees want to draw on their money, Employee Benefits makes them fully aware of this provision. She added that Employee Benefits will be posting the Plan Provision Comparison on its website, which will also convey this information to plan participants. As a compromise, Dr. Feeney suggested that the letter that will be sent out to plan participants should draw people's attention to the plan comparison document where this information is spelled out. Rosalie O'Brien, counsel to the committee, also recommended a slight change to the wording in the plan comparison that speaks to this matter. Given the current wording may lead some people to believe that the provision only speaks to withdrawals for need, the wording should make clear that withdrawals for the purpose of rollovers are also permitted under this provision.

V). Ms. Singer reported having added a column for MSRS (Minnesota State Retirement System) to the Plan Comparison Chart, which was requested at last month's meeting. She asked the committee to review the document following today's meeting, and to send her any comments.

VI). Ms. Singer turned members' attention to the Faculty Retirement Plan (FRP) investment performance report for third quarter 2008. She noted that the first page of the report lists all the funds and the second page contains information on the TIAA-CREF replacement funds. Two investments in particular were mentioned as performing below expectations, the Vanguard FTSE Social Index and the Vanguard Intermediate-Term Investment Grade. Ms. Singer will ask Chris Suedbeck to look into the Vanguard Intermediate-Term Investment Grade fund (the performance of the Vanguard FTSE Social Index fund is already being addressed). Professor Feeney requested Renee Dempsey, Senate staff, put this item on the December 8th agenda.

Professor Feeney asked Ms. Singer whether Employee Benefits is receiving a lot of calls from people re-thinking their decision to participate in the RIO. Ms. Singer stated Employee Benefits has received some calls but not an excessive amount. She added that the good news for over 75% of those who enrolled in the RIO is that they have MSRS as their primary retirement vehicle. The market, fortunately, does not impact MSRS to the same degree that it does the FRP.

VII). Professor Feeney provided the committee with a Socially Responsible Investment (SRI) Subcommittee update. He noted that a small group of people from this committee recently met with three representatives from the Social Concerns' SRI Subcommittee. This was a productive meeting. Expectations were clarified, and the process for adding a fund was shared with the SRI Subcommittee representatives.

There was a fair amount of discussion at this meeting about sustainability versus "green," noted Professor Feeney. The SRI Subcommittee had done quite a bit of research along these lines. In terms of initial investment screens, the decision was made to screen for arms, tobacco, and oil/petrochemicals.

Professor Feeney also highlighted an article that Chris Suedbeck shared at the meeting regarding recent guidance by the Department of Labor that plan fiduciaries who are making investment decisions with respect to plan assets should make good investment choices and may no knowingly trade higher investment returns for other considerations. The guidance related specifically to plans subject to ERISA and to fiduciaries who make investment decisions, but is still of interest in connect with plans not subject to ERISA in which participants make their own investment decisions.

It is likely that a recommendation for the addition/replacement of an SRI fund can be expected sometime this spring. The Retirement Plan Fiduciary Advisory Committee will be convened soon and one of their agenda items for this meeting will be to start the process of identifying a new SRI fund.

VIII). In addition to the interest-only calculator that was discussed at last month's meeting, Professor Feeney asked members whether the University should ask Securian to develop other types of calculators.

Member's comments/questions included:

- Calculators that simply give users averages without giving a sense of variation in terms of distribution are not particularly helpful.
- Historical inflation rate information needs to be incorporated in the calculators if they are to be useful.

Professor Feeney directed members to the retirement planning calculators on the Securian website (http://web2.minnesotamutual.com/EDUCATION/EDU_CALCULATORS.HTM) and suggested interested members run a simulation or two on the existing calculators to see if these calculators need modifications. Professor Feeney added that he will ask Dick Manke from Securian at the December 8th meeting to provide the committee with a brief overview of the new calculators that are being developed.

IX). The committee spent the remainder of the meeting discussing matters related to current market conditions. Professor Feeney asked Barry Melcher and Jackie Singer if Employee Benefits is receiving a lot of phone calls from concerned employees about their retirement accounts. Mr. Melcher stated that Employee Benefits is definitely receiving calls from concerned employees. Most of the callers, reported Mr. Melcher, are looking for someone to talk through what is taking place in the market, and for reassurance. Simply put, noted Ms. Singer, there tends to be a heightened level of suspicion about all aspects of investments and the market. Not only is the number of calls increasing, but also the amount of time spent on each call.

Professor Feeney asked members their opinions about what the committee should be doing, short of providing financial advice, to help plan participants understand what is happening. A member requested seeing information about what would happen to plan participant's investments should Securian go bankrupt, and stated that FRP participants should have access to such information in order to better understand the status of their retirement accounts. Ms. O'Brien agreed to prepare some material suitable for posting on the Retirement Benefits website that would provide some information of this kind. Professor Feeney suggested that information about the limited liability of the Minnesota Guarantee Association be included in this document.

Moving on, Professor Feeney asked members whether they were comfortable with Securian's responses to the committee's questions. Members voiced their dissatisfaction with the answers provided by Securian, and their comments included:

- The General Account holds pre-annuitized money, is this money blended in with Securian's annuities? Please have Securian be prepared to provide more information on the General Account. How would Securian meet its financial obligations if participants withdrew all of their pre-annuitized money from the General Account?
- How will Securian maintain interest rates given the losses they are suffering? How does Securian guarantee its interest rate, and how do they determine their interest rate?
- The committee asked Securian to quantify its downside risk. Securian, in their response, noted that they do not do this type of analysis. If Securian does not do this type of analysis, how does it quantify its probability of inadequate funding? In addition, Securian's diversification claim is not particularly reassuring given that Lehmann Brothers likely would have said the same thing. Basically, Securian's response to this question was answered from a marketing perspective. Securian, in so many words, is saying trust us. Securian failed to quantify its downside risk.
- The fact that fixed income investments are being backed by highly leveraged investments is disturbing. Is this the reason Securian has been able to give higher returns in the General Account Limited?
- What is Securian's plan going forward? For example, will Securian be eligible to receive Federal bailout funds? Securian needs to clearly explain the risk associated with the General Account.

- Please have Securian categorize the holdings in the General Account.

Members speculated about whether or not Securian would be more forthcoming when they attend next month's meeting than they were in their written responses to member's questions. Some members voiced their doubt, while others were more optimisic and felt that Securian would be more forthcoming in a conversational setting as opposed to putting their answers in writing. Professor Feeney noted that Securian has always been very candid when they come before the committee. Having said this, if no one objects, Professor Feeney stated that he would inform Dick Manke about the kinds of questions Securian can expect. Members had no objections to this plan of action.

A member posed the question whether this committee should be asking the same questions of TIAA-CREF. Ms. Singer stated that she has no doubt that TIAA-CREF would be willing to come before this committee, but stated that historically, when the University has asked about the TIAA-CREF traditional annuity, it has not received any substantial answers. For the next meeting, Ms. Singer was asked to provide the breakdown of contributions and holdings of FRP participants at Securian and TIAA-CREF.

X). Professor Feeney reminded members that the next Retirement Subcommittee meeting is on Monday, December 8th and that this meeting will start at 10:00 rather than 10:30 to accommodate Securian's request. Hearing no further business, Professor Feeney thanked members for their participation and adjourned the meeting.

Renee Dempsey
University Senate