SCFA RETIREMENT SUBCOMMITTEE
MINUTES OF MEETING
MARCH 20, 2006

[In these minutes: Securian Annual Review, Annual Financial Review Letter, Retirement Plan Fiduciary Committee, TIAA-CREF Update/Discussion, Roth/403(b)]

[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, Gavin Watt, Barry Melcher, Jackie Singer, Chris Suedbeck, Gordon Alexander, Dian Lopez, Michael Murphy, Herbert Pick

REGRETS: Carol Siegel, Kathryn Hanna, Burt Sundquist

OTHERS: Joe Jameson

GUESTS: Securian representatives: Vice President Dick Manke, Retirement Plan Services; Senior Vice President & Portfolio Manager Lynne Mills, Advantus; Manager of the University of Minnesota Retirement Plans Blake Reigert; Senior Vice President and Chief Financial Officer Greg Strong

I). Professor Feeney called the meeting to order and asked those present to introduce themselves.

II). Securian representatives provided members with an annual investment review. The following topics were covered:

- Advantus Update
- General Account Review
- Securian Overview
- Financial Strength
- Plan Assets
- Service Highlights
- Economic Investment Outlook
- Retirement Industry Outlook

To begin, Senior Vice President & Portfolio Manager of Advantus Lynne Mills provided members with an Advantus update and highlighted the following:

- Record sales in 2005.
- Secured largest institutional client to date.
- Managed $16.4 billion in financial assets.
- Emphasized staff resources and years of experience. Advantus is heavy in experience and uses a team approach to managing its assets.

Next, Ms. Mills shared information on the Minnesota Life General Account, which is the pool of assets that Minnesota Life uses for daily operations. Deposits into the General Account by investors represent a Òpromise to payÓ by Minnesota when these investments come due. The financial strength of Minnesota Life is critical to ensuring its ability to fulfill this promise to pay.

General Account investment philosophy criteria:

- Focus on high quality assets using bottom up, fundamental security analysis.
- Importance of diversification.
- Expect a competitive return on investments.
- Set asset allocation targets.
- Use of dynamic balance of yield enhancement and total return strategies.

Referencing a handout containing charts and text, Ms. Mills summarized AdvantusÕ investments. Total 2005 assets were $10.8 billion, and statutory capital stood at $1.8 billion. Ms. Mills then highlighted information relative to AdvantusÕ bond portfolio, internal watch list, commercial whole loan diversification (loans held against certain types of real estate) and surplus capital investments e.g. public common stocks, etc.

In closing, Ms. Mills summarized AdvantusÕ risk management philosophy emphasizing:

- Asset/liability management
- Asset allocation/rebalancing
- Proactive asset management approach
- Use of derivatives
- Senior management oversight
- Integration with Securian

Questions/comments from members included:

- Please explain the relationship between Securian, Minnesota Life and Advantus. Greg Strong noted that Securian Financial Group is the parent company of both Minnesota Life and Advantus. Advantus is the investment arm of the organization. Minnesota Life provides investment advice to Advantus.
- With all the good news relative to the General Account, will the University see a rate increase? Mr. Manke stated that this is a decision left up to the actuaries.
- How often are the General AccountÕs rates adjusted for FRP participants? Mr. Manke stated that he would get back to the committee with this information. Rate adjustments vary with client partnership agreements.
- Are derivatives used for speculation purposes? No, stated Ms. Mills. Securian is a heavily regulated insurance company, and, therefore, cannot use derivatives for speculative purposes.

Next, Senior Vice President and Chief Financial Officer Greg Strong provided members with a Securian overview. He began by outlining Minnesota LifeÕs business strategies:

- Common fundamentals are used to manage its businesses. Examples of common fundamentals include consistent pricing, strong service culture, and carefully selected distribution systems.

- Product investments must be sustainable for the long-term, defensible against competitors and focused. Securian business units include individual insurance and investment products, group life insurance for large employers, retirement savings plans, and financial services, which markets life and disability products to financial institutions.
- Work with a diversity of businesses to maintain a balanced portfolio of products.
- Balanced source of earnings, which rating agencies like to see.
- Focus on high quality liabilities.

A member asked what percentage of SecurianÕs business does the University of Minnesota represent? The University of Minnesota represents 10% of the General Account, and it is SecurianÕs largest client.

In terms of financial strength, Mr. Strong turned memberÕs attention to Minnesota LifeÕs capital figures. Capital represents the pool of money that provides protection for policyholders in the event something unforeseen occurs. In 2005, Minnesota LifeÕs capital grew almost 10% over 2004. Its capital/liabilities ratio, a measure of the safety margin of capital relative to liabilities, was 20.5% in 2005, which was up from 19.3% in 2004.

Mr. Strong reported that Minnesota LifeÕs ratings did not change with any of the rating agencies in 2005 and its ratings continue to be very strong.

Mr. Manke went on to provide members with information concerning the Faculty 401(a) plan in terms of contributions and assets. Contributions into the plan for 2005 were $78.3 million with Securian receiving 65% of the contributions and TIAA-CREF receiving 35% of contributions. Asset categories include money market/fixed income, domestic equities, international equities and specialty/sector funds, which encompass real estate, technology, health care, etc.

Mr. Manke made the following observations concerning plan participants investment choices:

- University participants are slightly more conservative than the general population when it comes to investing in the money market/fixed income asset category.
- There is less interest on the part of University faculty to invest in international equities.
- There is also less interest by University faculty to invest in specialty and sector funds.

In terms of Securian service highlights Mr. Manke pointed out:

- In 2005, 752 new participants enrolled into the plans, a 38% increase over 2004.
- Website usage increased by approximately 10% over 2004. Usage, however, remains 10% below the industry average.
- 132 plan participants met one-on-one with Securian Plan Specialists.
- 2005 marked the 75th anniversary of the partnership with Securian and the University of Minnesota.
- A retirement planner for active participants was implemented on January 25, 2006.
- A retirement planner for retiree participants will be rolled out in 2006.
- Out of the 38 companies that submitted participant statements to Dalbar for review, Securian ranked 5th overall (same rating position as 2004).

Ms. Mills shared the economic outlook for the future:

- Modest economic growth.
- Low to moderate inflation.
- ÒMeasuredÓ increases in short-term interest rates.
- Unlikely that the economy will ÒoverheatÓ.

Mr. Manke concluded by mentioning three projects that are underway:
- Implementation of the retirement planner for retirees.
- Make FRP beneficiary information available on the Securian website.
- Permit FRP rollovers.

Professor Feeney thanked Securian representatives for their presentation.

III). Professor Feeney reported that the annual financial review letter from the committee had been sent out to all Faculty Retirement Plan (FRP) participants. Anecdotally, feedback around this letter was very positive.

IV). Professor Feeney asked members whether they were comfortable with the revised Retirement Plan Fiduciary Committee bylaws that had been circulated. Hearing no objections, Professor Feeney noted that these bylaws would be brought before SCFA for approval and then on to the FCC.

A member asked the committee their thoughts on the likelihood of the University cutting back on its pension plans similar to what other organizations are doing e.g. IBM. If the University would decide to cut back on its pension plans, would the Retirement Plan Fiduciary Committee be responsible for taking this matter up? Chris Suedbeck noted that there is a movement underway away from defined benefit plans to defined contribution plans, and, in his opinion, this is good. In Professor FeeneyÕs opinion, the biggest threat to the UniversityÕs pension plan is the Tax PayerÕs League. While to the Tax PayerÕs League the UniversityÕs FRP plan may appear too generous, in reality, the plan is actually deferred compensation in a high tax state. He added that the SCFA Retirement Subcommittee and SCFA would be the two bodies that would deal with this type of issue should it arise.

As the conversation continued, members discussed the importance of ensuring the UniversityÕs pension plans are being properly funded. Ms. Singer reported that she reconciles all the UniversityÕs retirement assets on a quarterly basis, and she would know immediately if a plan was not being funded properly. In terms of MSRS being under-funded, MSRS actuarial staff produce funding reports, which have revealed the MSRS shortfall. While MSRS is doing better than a year ago, it still concerns Ms. Singer that ongoing normal benefit costs are not being fully covered. A bill has been proposed to the legislature to increase contribution rates to a level that would cover normal cost.

Moving on, with respect to the at-large faculty representative on the Retirement Plan Fiduciary Committee, members spent time nominating individuals. Three nominations were made:
1. Professor Gordon Alexander
2. Professor Mike Murphy
3. Professor Fred Morrison

Professor Feeney asked Renee Dempsey, Senate staff, to send out an electronic ballot so members could vote on the at-large faculty representative on the Retirement Plan Fiduciary Committee from the three nominees.

Professor Feeney also requested Ms. Dempsey contact CAPA and Civil Service and ask them to identify their respective representatives on the Retirement Plan Fiduciary Committee. He added that this committee should be convened on or before mid April.

V). Ms. Singer distributed copies of two letters, the first a letter from Professor Feeney to Lisa Stitzel, director, of Institutional Client Services at TIAA-CREF and, the second, her reply. Prior to sending Professor FeeneyÕs letter, Ms. Singer spoke with Ms. Stitzel and emphasized that the UniversityÕs concerns were not simply technical. Ms. StitzelÕs reply, however, focused on the UniversityÕs systems concerns relative to TIAA-CREFÕs conversion to its new platform. Ms. Singer reported telling Ms. Stitzel that, in her opinion, an increasing number of University faculty were losing confidence in TIAA-CREF. Ms. Stitzel asked whether it would be possible for a group of TIAA-CREF senior executives to get on the Retirement SubcommitteeÕs agenda.

A member asked whether any organization ranks the different plans providers to help buyers make informed decisions concerning plan offerings. Ms. Singer noted that there is no overall market ranking company that compiles this type of information. Professor Feeney noted that both Morningstar and Morningstar 500 both have had negative comments concerning TIAA-CREF e.g. repeated voting until shareholders could be convinced to vote in favor of increased fees, etc. Also, Morningstar 500 reviewed 529 plans, and it did not recommend TIAA-CREF.

A member noted that Morningstar has stewardship grades that it assigns to mutual funds, and asked whether there was a grade for TIAA-CREFÕs funds. Barry Melcher stated that the grade would be for the TIAA-CREF company as a whole, and not its funds. Professor Feeney requested that the Morningstar grade be checked for edification, and that this information be disseminated to the committee.

Another member called the committeeÕs attention a recent Wall Street Journal article, *When Mutual Funds Merge, Be Wary* by Eleanor Laise, which he encouraged members to read. An excerpt from the article was read to the committee – ÒIn a move that will bring higher expenses, TIAA-CREF plans to merge five stock funds for individual investors into several other funds, which recently won shareholder approval for fee increasesÓ. Professor Feeney asked that a copy of this article be forwarded to members of the committee.

Professor Feeney suggested that before a meeting is set-up with TIAA-CREF that the Retirement Plan Fiduciary Committee be convened, and additional information be gathered relative to concerns surrounding TIAA-CREF. Then, there should be a joint Retirement Plan Fiduciary Committee and Retirement Subcommittee meeting. Only after this joint meeting should a TIAA-CREF/University of Minnesota meeting be convened.

Before concluding this agenda item, Ms. Singer turned memberÕs attention to a draft letter that TIAA-CREF would be sending out to plan participantÕs that experienced a recordkeeping issue during conversion. She asked for memberÕs feedback before the end of the day so that this correspondence could be sent out to affected participants.

A member suggested that a sentence or two be included encouraging affected participants to meet with their accountant or CPA to determine if any additional documentation is needed to avoid future problems relative to this incident. Another member suggested that besides the TIAA-CREF letter, the University should also send a letter to affected participants. The general consensus of the committee was to have either the Retirement Plan Fiduciary Committee or the Retirement Subcommittee send a letter after the TIAA-CREF review by the Retirement Plan Fiduciary Committee has been conducted.

In terms of the UniversityÕs fiduciary responsibility to its participants concerning TIAA-CREF, the question of whether the University should only be addressing new money going into the plan was raised. While participants cannot be forced to liquidate, the University should consider providing participants with a list of plans, similar to those offered by TIAA-CREF, where participants could move their money should they so desire. Whether or not participants act on this correspondence is up to them, but at least the University will have done its due diligence in providing it.

Professor Feeney asked members their opinion on whether the letter he sent to TIAA-CREF should be put up on the Retirement SubcommitteeÕs website. It was decided that the Retirement Plan Fiduciary Committee should decide whether this letter should be posted to the site or not.

A member advised both this committee as well as the Retirement Plan Fiduciary Committee to move forward judiciously and cautiously with respect to any possible action against TIAA-CREF. It was further suggested that regular guidance should be sought from the Office of the General Counsel with respect to all matters involving TIAA-CREF.

Before closing, Ms. Singer reported that as of today she had still not received the reconciled financials from TIAA-CREF for the period-ending December 31, 2005.

Professor Feeney requested that Ms. Dempsey:

- Contact CAPA and Civil Service and ask them to identify their respective representatives to the Retirement Plan Fiduciary Committee.
- Send out an electronic ballot to members of the Retirement Subcommittee to vote on the at-large faculty member to the Retirement Plan Fiduciary Committee.
- Check with Senate Coordinator Vickie Courtney regarding staffing for the Retirement Plan Fiduciary Committee.

Professor Feeney strongly recommended that the Retirement Plan Fiduciary Committee be convened during the week of April 17, 2006.

VI). A member asked the committee to discuss the possibility of offering a Roth 403(b). Professor Feeney reported that the committee discussed this possibility and decided to take a Ôwait and seeÕ attitude based on limited participation by other employers and the fact that this legislation is expected to sunset in 2010. Professor Feeney agreed to put this item on the committeeÕs next agenda for further discussion.

In light of the fact that the next scheduled meeting was only two weeks from now, April 3rd, Professor Feeney cancelled that meeting, and noted that the next meeting would be Monday, May 1st.

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

Renee Dempsey
University Senate