Senate Committee on Faculty Affairs (SCFA) Retirement Subcommittee
January 31, 2022
Minutes of the Meeting

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 represents the views of, nor are they binding on, the senate, the administration, or the Board of Regents.

[**In these minutes**: Update from Retirement Plan Governance Committee (RPGC) Meeting; Update on JPMorgan Target Date Funds; Update on University Retirement Data]

PRESENT: Myles Shaver (chair), Roland Guyotte, Kathleen Krichbaum, Aaron Schmidt, Thomas Shier, Andy Whitman, Anne Ehrenberg, Aileen Lyle, Carol Rachac, Raymond Muno, Ken Larson, Krisann McMahon, Andrew Parks, Mary Rohman Kuhl

REGRETS: Paul Bolstad, Jill Lane

ABSENT: None

GUESTS: None

OTHERS: Lori Stotesbury, John Brentnall, Nora Hayes, Libby Stille, Ruilin Li, Jeff Altringer

Chair Myles Shaver welcomed the committee, and members introduced themselves.

1. Update from Retirement Plan Governance Committee (RPGC) Meeting - Shaver introduced Krisann McMahon, retirement programs manager, Office of Human Resources (OHR), to provide an update on SECURE Act changes that are impacting the University's retirement plans. McMahon presented a handout and highlights were as follows:

- Required beginning date for distributions to retired/terminated participants in the 401(a) plan, 403(b) plan, and 457(b) plan is changed from April 1 of the year following the year the participant attains age 70 ½ to the year following the year the participant attains age 72.
- Required minimum distribution (RMD) rules for beneficiaries of deceased participants are changed so that beneficiaries can receive distributions for their lifetime only if they are considered an “eligible designated beneficiary”.
- In-service distributions are permitted from a governmental 457(b) plan after the participant attains age 59 ½. A member previously needed to be 62 years of age to qualify.

- The 401(a) plan, 403(b) plan, or 457(b) plan may permit an in-service distribution of up to $5,000 following the birth or adoption of a child, which distribution would not be subject to the early withdrawal 10% tax penalty. Costs associated with adoptions can be exorbitant.
- OHR will be recommending that the Optional Retirement Plan (ORP) offer a Roth in-plan conversion option.
- The Board of Regents will also consider language in the Faculty Retirement Plan (FRP) that would nullify beneficiary election if the participant gets divorced and did not update their election. This language already exists in ORP and 457 plans.

Shaver noted that these changes were presented to the Retirement Plan Governance Committee (RPGC) in December and it is anticipated that they will be approved by the Board of Regents at its March meeting. Andy Whitman asked for clarity on the option to rollover to an IRA and then convert into a Roth. McMahon replied that it is limited but one is outside of the plan. If a member were still employed and in the ORP, one would have to be 59 ½ to take an in-service withdrawal to move it into an IRA and then do the Roth conversion, but now there is the in-plan option where you could do that at any age.

Thomas Shier asked about members already qualifying for required distributions being grandfathered into the new policy if the age change would impact them. McMahon believed that those who were already 70 ½ would still be required to take those distributions. Ray Muno asked about further legal implications through divorce agreements. McMahon replied that qualified distributions through a court order are different than distributions after death. Muno noted a different procedure for those employees in the MSRS retirement plan. Shaver commented that this is meant to align policies across several of the plans and be in accordance with best practices.

Carol Rachac asked if these changes would likely be rubber-stamped by the Board of Regents and McMahon said that after their presentation, the changes will likely be approved. Rachac would appreciate any summary or report on what has changed.

2. Update on JPMorgan Target Date Funds - Shaver introduced Andrew Parks, deputy chief investment officer, Office of Investments and Banking (OIB), who provided an update on JPMorgan Target Date Funds. Parks presented a slide deck and highlights were as follows:

- This committee has previously held several discussions on decumulation for retirees. Recently, JPMorgan made a decision to incorporate the smart spending strategy into their target date fund suite and use it for a replacement of the income fund. This change happened automatically.
- As part of the 2020 fund lineup restructuring, JPMorgan became the manager for the target date fund (TDF) option, which is a default across all plans. As of November 30, 2021, over 17,000 participants have invested over $1 billion into the JPMorgan SmartRetirement Passive Blend series. Effective March 18, 2022, JPMorgan will be replacing the SmartRetirement vintage fund with the SmartSpending strategy. Only the 2020 vintage fund participants will experience an immediate change and no formal action is required by the University unless the RPGC decides to opt-out of the plan.
- Given the change is only applicable to those invested in the 2020 vintage fund, the immediate impact will be relatively minimal (less than 1,000 participants).

- When selecting a vendor for this fund, the RPGC weighed several factors, including "glidepath" trends in income replacement rate. JPMorgan presented a balanced and more conservative approach to glidepath construction aimed at minimizing shortfall, not maximizing return, thereby increasing the probability that participants get over the "retirement finish line".
- SmartSpending strategy seeks to deliver income and growth while fully drawing down principal by a pre-defined "spend down" year. The portfolio is likely to maintain a risk posture similar to that of a globally diversified 40/60 equity/fixed income portfolio. The strategy has an established 5+ year track record.

Whitman asked how these changes will impact those who are closest to retirement. Parks replied that information to pre-retirees is still pending but OHR is working with Fidelity to figure out what makes the most sense. He added that the University has to weigh the most appropriate types of investment products for the mass of people it represents and looks to provide as many options to employees as possible. He recommended that members who want to better understand their multiple options can utilize Fidelity's online planning tools. Whitman further announced that the University of Minnesota Retiree Association will be holding a webinar with Fidelity on March 15, 2022, that will focus on fee-based planners.

Shaver commented that this change seemed like a straightforward yet important move for the University and the RPGC should endorse the action.

3. Update on University Retirement Data - McMahon then briefed the committee on retirement trends at the University given the notion of the "great resignation" that is currently happening across the country. McMahon presented a handout with data pulled from Fidelity and the ORP and highlights were as follows:
- McMahon noted that OHR sometimes codes retirements differently (terminations versus retirements), hence the two charts.
- In both categories, there was a 50% increase in 2021 versus 2020.
- McMahon also presented statistics relating to how many employees are working versus retired (or termed) employees in each retirement plan. She noted that there is typically about a 60/40 ratio of workers to retirees, which appears to be holding steady.

Prior to the adjournment of the meeting, Shier made a comment regarding some of the wait times he has had to endure when dealing with Fidelity over the phone. McMahon acknowledged that comment and noted that Fidelity recently notified the University that it failed its "time to answer" goals in December. Roland Guyotte commented that he had a similar issue regarding a minimum distribution issue, but once he reached someone, they were quite helpful. Kathleen Krichbaum stated that there are some forms that a person can do online that might speed up the process. Whitman concurred with Fidelity's competency and good website resources.

Hearing no further business, the meeting was adjourned.

Chris Kwapick
University Senate Office