SENATE COMMITTEE ON SOCIAL CONCERNS
MINUTES OF MEETING
MARCH 9, 2009

[In these minutes: Budget Cuts and Impact on Employee Groups, Proxy Voting Update, Russell Athletic Update, Socially Responsible Investment Subcommittee Update]

[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: David Fox, chair, Joseph Marchesani, Timothy Sheldon, Michele Anderson, Robert Fox, Benton Schnabel, Rebecca von Dissen, Kaari Nelson, Michael O'Day, Mani Subramani, Matt Abbott, Eric Brown, Christine Dolph, BreAnn Graber, Jeffrey Thaler, Carolyn Wardell

REGRETS: Lisa Pogoff, Amelious Whyte, Katherine Fennelly, Catherine Jordan, Marynel Ryan, Ajay Skaria

ABSENT: Yiyuan Zhao, Barbra Springer

OTHERS ATTENDING: Stacy Hebdon, Joe Kelly

GUESTS: Vice President of Human Resources Carol Carrier

I). Professor Fox called the meeting to order and welcomed all those present.

II). Professor Fox welcomed Vice President of Human Resources Carol Carrier to the meeting. He noted that VP Carrier was invited to speak about whether budget cuts will disproportionately impact employee groups differently.

VP Carrier began by noting that the University is facing significant budget demands in the midst of today’s challenging economic times. Currently, administrative and academic units on all the campuses have been asked to model 5% and 8% reductions in their budgets. It is the goal of the University to keep down the number of layoffs and non-renewals as much as possible through attrition and other means. While attrition will serve to reduce the number of layoffs and non-renewals at the University, it will also mean increased workloads for employees. A primary goal of President Bruininks is to preserve jobs to the greatest extent possible.

VP Carrier stated that, to the extend possible, another goal for the University is to maintain its level of support to the institution’s health care plan, the UPlan. The Benefits Advisory Committee (BAC) is in the process of looking at a variety of options for reducing UPlan costs by $3.7 million or 2%. The UPlan currently costs the University approximately $200 million per year. The BAC is faced with tough choices in its attempt to cause the least harm, while maintaining the University's current subsidy to the UPlan. The BAC will be making its recommendations to the administration later this spring.

The University, noted VP Carrier, has also been under a 'hiring pause' since last fall. At present, the University is down about 60% on its hiring of new employees. Applications, however, during these difficult times are up significantly.

In addition, the University is looking at proposing a shift in the Regents Scholarship Program from being fully funded by the University to permitting some level of cost sharing between the University and eligible employees. This program costs the University approximately $9 million per year, and is increasing at a rate of about 10% per year. Roughly half of the courses taken under this program are degree programs and the other half are not. Of those employees that get a degree from this program, about half leave within two years of getting their degree. A majority of employees taking advantage of this program are by in large staff (Civil Service and Bargaining Unit) employees. The University is proposing that it would continue to subsidize the cost of the program at 75% and participating employees would be asked to pay 25% of the program.

The University fairly recently completed offering a Retirement Incentive Option (RIO), which was a one-time opportunity for eligible employees to voluntarily retire from the University. Of the approximately 5,400 eligible University employees that could take advantage of this offer, almost 450, or 8% of eligible employees did so. Employees who accepted the RIO, noted VP Carrier, receive 36 months of medical and dental subsidy following their last day of employment.

VP Carrier also noted that the University is considering a possible shutdown period for a few weeks during the holiday season each of the next two years as a means of saving money. The rationale behind this proposal is that it would allow the University to save energy costs. The feasibility of this proposal is still being looked at as there are several factors to take into consideration, e.g., different campuses have different calendars.

With all of these proposals, stated VP Carrier, the president wants to keep as core the notion of preserving jobs by being creative. He also wants to try to keep the core benefits, health care and retirement, as much in tact as possible.

In terms of the federal stimulus package, VP Carrier reminded members that this is one-time money. While the University will welcome the federal stimulus funding, it will not solve financial problems on a long-term basis given that it is not recurring funding. The stimulus funding will bring short-term relief only.

Lastly, VP Carrier stated that it appears likely that there will be no salary increases this coming year. Many of the University's peer institutions are having to make this same tough decision. Not only will budget cuts impact morale and emotions at the University, employee's home lives will be affected. Human Resources is putting in place a number of strategies, e.g., talent bank, to support employees through these difficult times.

Professor Fox asked whether the proposed changes to the UPlan will be done in such a way that it proportionately impacts everyone to the same degree or whether certain employee groups will be impacted differently. Vice President Carrier shared an example of one of the potential cost savings to the UPlan that is being considered, which involves moving specialty drug coverage from under the medical plan to the pharmacy plan. She noted that if this change is made, it would impact all employees across the board.

A significant number of employees that take advantage of the Regents Scholarship are lower paid employees. Has any thought been given to a sliding scale fee for the Regents Scholarship based on salary? Vice President Carrier stated that suggestions for reshaping this benefit are being collected. To date, no final decisions regarding this benefit have been made.

A member asked whether there has been any thought given to allowing employees currently enrolled in the Regents Scholarship Program to be grandfathered in under the current structure, and apply the co-pay structure to new enrollees only. It seems unfair to hire employees under a set of terms, and then change those terms, especially if someone is in the midst of the program. The grandfathering idea has also been raised, noted VP Carrier. There would complexities around offering a two-tiered system, and administration of such a program would be complicated.

With respect to the Regents Scholarship, noted a member, other companies require that an employee commit to staying with a company for a specified period of time after they get their degree. Has the University considered this idea? Vice President Carrier stated that frequently people get degrees for which there would be no jobs at the University. Also, she added, that it often takes employees a significant amount of time to earn their degree, and during this time they are committing to the University.

In response to a question, Vice President Carrier stated that many of the potential cost saving ideas have price tags in the $2 - $5 million range. In terms of closing some offices down over the holidays, the preliminary energy cost savings estimate is $27,000/day (Twin Cities campus). Professor Fox stated that there is a fair amount of confusion around this proposal. Is the University drawing a distinction between an administrative shutdown versus a research shutdown? If the University decides to go down this path there are a multitude of issues that will need to be clarified, stated VP Carrier. She stated that committee members with ideas about the potential shutdown should email her chief of staff, Joe Kelly, at kelly090@umn.edu with their ideas.

A member stated that the idea of a shutdown seems to disproportionately impact hourly versus salaried employees. Could these hourly employees come to work during the shutdown to get their time in? Vice President Carrier stated that health and safety factors would need to be taken into consideration depending on how the buildings are treated. She added that a significant number of University staff have vacation balances.

Has thought been given to lowering the temperature of all University buildings as a cost savings measure, which would not necessitate an administrative shutdown? Vice

President Carrier noted that University Services is looking into the potential energy cost savings the University could attain.

A member suggested that Human Resources explore a separate co-pay structure for courses that are job-related as opposed to non-job-related courses as it relates to the Regents Scholarship Program. Vice President Carrier stated that thought would need to be given to how to handle situations where a person decided to enter a degree program after taking a course/courses. She added that she has gotten a lot of comments about the value of the Regents Scholarship, and its importance as a recruiting and retention tool. While trimming this program back is painful, it is better than not having the program at all. A lot of other employers have much more restrictive scholarship programs.

Professor Fox asked whether the changes that are being discussed today are going to be permanent. Vice President Carrier stated that these proposals are for permanent changes to the University's benefits structure.

A member asked whether an analysis was conducted to determine if there would be more cost savings by cutting positions in the Graduate School versus the added costs each college will incur by shifting these administrative responsibilities. Vice President Carrier stated that she is unaware of such an analysis, but that she is confident that the Implementation Team will be looking into this.

What is happening to Graduate School employees that are being laid off? Vice President Carrier stated that Human Resources has met with Graduate School employees to determine what these employees need. Human Resources stands ready to work with these employees, but, given the Implementation Team has only recently started its work, there are a lot of unknowns with respect to how this will flesh out.

With the University's goal to become one of the top three public research universities in the world, has thought been given the importance of retaining key faculty and lecturers? This is a great question, stated Vice President Carrier. A lot of other institutions are in the same position as the University, which serves to help the institution. She added that the ability to offer a retention offer when warranted will remain in place.

The bargaining units seem to be fairly quiet thus far about the proposed cuts. Are the bargaining units lobbying the University on behalf of their members? There are a lot of labor/management discussions taking place, stated VP Carrier, but official negotiations have not yet begun. A significant amount of effort is currently being put into working on labor/management relationships.

What is the availability of need-based scholarships to help make up for the proposed change to the Regents Scholarship Program? Vice President Carrier stated that this will be looked at.

Professor Fox thanked Vice President Carrier for attending today's meeting.

III). Professor Fox called on Stacy Hebdon from the Office of Investments and Banking (OIB) to provide information about the change to the committee's proxy voting responsibilities.

Ms. Hebdon noted that a part of the asset allocation of the University's endowment has an equity component. In accordance with the Board of Regents Policy, Endowment Fund, the Social Concerns Committee is charged with annually reviewing all shareholder resolutions concerning social issues for which the University holds stock and recommends votes on each of these resolutions. The spring is considered "proxy season." Typically at this time of year, the Office of Investments and Banking matches the University's equity holdings through its active managers that are owned by the University of Minnesota with social issues. The Social Concerns Committee then researches these issues and provides OIB with direction on how to vote the University's shares.

The University's endowment is down 22% for the first six months of this fiscal year. In collaboration with the Investment Advisory Committee (IAC), the OIB has terminated the University's asset managers. The University is in the process of liquidating all of these holdings, which will be redeployed into equity index funds. Equity index funds are collective investments, which means that the equity holdings in these funds are not in the University's name. At this point in time, equity index funds are less costly than using asset managers. The University's asset managers were not meeting their benchmarks and their fees were high. Because the University no longer owns stock directly in its name, there are no proxies to vote this year.

Professor Fox asked whether the blocks on Total Oil and companies that do business with the Sudanese government have been maintained in the index funds the University has invested in. Ms. Hebdon stated that it depends on which index funds Stuart Mason, chief investment officer, invested in. While Ms. Hebdon assumes these funds do not include Total Oil or the other companies mentioned, this would be a discussion the committee would need to have with Mr. Mason. Professor Fox stated that ensuring that these blocks have been maintained is of the utmost importance to the committee. He added that he would contact Mr. Mason to determine whether Mr. Mason should be invited to an upcoming meeting and provide information on the OIB's investment strategy.

A member stated that with the changes to how the endowment fund is being managed, the University loses a degree of control in terms of managing its investments. Ms. Hebdon stated that when the University invests in an equity fund, it cannot force the fund to invest in specific stocks. She stated that it is important to remember that when investing in an equity fund that the University is one of many clients.

A member stated that there are equity funds that are socially responsible. Ms. Hebdon agreed, but noted that just because a fund is socially responsible does not mean that the fund is an institutional-size fund, which the University would invest in. In response this same member asked whether the committee can weigh in on how the University's endowment gets invested. He added that it would be hard to believe that there are no investment options available to the University that are socially responsible. Ms. Hebdon stated that the way the University's investment policy is written it gives the Board of Regents the authority to determine an asset allocation. In turn, the Board has given the Office of Investments and Banking the authority to hire and fire asset managers as it sees fit. Having said this, Ms. Hebdon posed the question whether the University should be looking to its socially responsible investment guidelines first or whether it should be guided by maximizing the University's financial returns first and secondarily taking into consideration socially responsible investment guidelines. Ms. Hebdon stated that she does not have an answer to this question; it depends on how one interprets the Endowment Policy (http://www1.umn.edu/regents/policies/financial/Endowment_Fund.html). Ms. Hebdon added that OIB is cognizant of the committee's position that the University not invest in Total Oil or companies that do business with the Sudanese and Burmese governments. She stated that she did not know whether the committee's stance on this issue guides the entire asset allocation of the portfolio. A member stated that the University's investment philosophy should remain consistent over the long-term and not shift with the changing market.

Professor Fox noted that as a member of the Socially Responsible Investment Subcommittee, it has been brought to his attention by members of the SCFA Retirement Subcommittee that the trustee of the University's investments has a legal obligation to maximize the financial returns of the University's investments.

A member asked Ms. Hebdon whether the University intends to invest the endowment fund in equity index funds indefinitely or whether the University will use asset managers again at some point in the future. Ms. Hebdon stated that if the University determines that asset managers would add value to the endowment fund then it is likely the University would use them again. At this point, however, asset managers are not adding value to the endowment fund.

Professor Fox thanked Ms. Hebdon for this update.

IV). Members unanimously approved the amended minutes pending changes from Matt Abbott, student member.

V). Other business: Professor Fox reported that the University recently terminated its contract with Russell Athletic on a systemwide basis. Mr. Abbott added that since the University terminated its contract with Russell Athletic that the University of Montana, University of North Caroline at Chapel Hill, and Harvard have terminated their contracts. In addition, Macalester College, and Queens University, who were in the process of negotiating contracts with Russell Athletic, have since walked away from the table. Russell Athletic is clearly seeing the consequences of its actions. Mr. Abbott volunteered to keep the committee apprised of any Russell Athletic developments.

Professor Fox also reported that Matt Abbott has been appointed as the student representative from the Social Concerns Committee to the Trademark Licensee Code of

Conduct Working Group.

Kaari Nelson, Office of Investments and Banking, announced that the Retirement Plan Fiduciary Advisory Committee will meet tomorrow, March 10th. She noted that socially responsible investing is one of their agenda items.

VI). Hearing no further business, Professor Fox adjourned the meeting.

Renee Dempsey
University Senate