SCFA Retirement Subcommittee
October 1, 2018
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**: Overview of the University's Retirement Plans; Role of Retirement Subcommittee; Request for Proposal Update]

PRESENT: Murray Frank, chair, Maria Juliana Fitzgerald, Merrie Kaas, Myles Shaver, Thomas Shier, Kalan Davis, Anne Ehrenberg, Ray Muno, William Seefert, William Donohue, Kenneth Horstman, Krisann McMahon, Andrew Parks

REGRETS: Roland Guyotte, Carol Rachac, Gerald Rinehart

OTHERS ATTENDING: Josh Anderson, communications, Office of Human Resources; William Donahue (UMRA) for Gerald Rinehart; Dan Fisher, retirement programs coordinator, Office of Human Resources; Melissa Unruh, total compensation, Office of Human Resources

1. **Overview of the University's retirement plans**: Professor Murray Frank, chair, Retirement Subcommittee, convened the meeting and called for a round of introductions. Following introductions, Professor Frank called on Dan Fisher, retirement programs coordinator, Office of Human Resources (OHR), to provide the committee with an overview of the University's retirement plans.

Mr. Fisher turned members' attention to a PowerPoint slide deck and walked them through it highlighting the following:

- The University has two mandatory retirement plans, the Minnesota State Retirement System (MSRS) plan, which is for civil service and labor-represented employees, and the Faculty Retirement Plan (FRP), which is for faculty and professional & academic (P&A) employees.
- The MSRS plan is a classic pension plan (defined benefit plan) and the benefit is based on an employee's five highest consecutive years of compensation, years of service, and age at retirement. The employee contribution for the MSRS plan is 5.75% and the University's contribution is 5.875%. Employees hired prior to July 1, 2010 are vested after three-years of service, and employees hired after July 1, 2010 are vested after five-years of service. At retirement, participants elect how they want their benefit to be paid out to them, 1) single life benefit for the lifetime of the participant; 2) joint and survivor benefit – lifetime benefit for plan participant, and his/her survivor receives a benefit of 50%, 75% or 100% for their lifetime; and 3) life income – 15-year certain.
- The FRP, on the other hand, is a defined contribution retirement plan for faculty and P&A employees who work at least 26.75 hours/week for not less than 9-months. Prior to 1989, the FRP was a 403(b) plan, but later was amended and become a 401(a) retirement

plan. Prior to January 1, 2012, the employee contribution was 2.5% and the employer contribution was 13%. Effective January 1, 2012, for employees hired on and after that date, the employee contribution was changed to 5.5% and the employer contribution was reduced to 10%. The Internal Revenue Service (IRS) 2018 Maximum Compensation Limit for this plan is $275,000. The employee portion of the contribution goes into the plan on a pre-tax basis. Additionally, due to a provision in the IRS code, the employee contribution to the FRP is deemed to be an employer contribution; therefore, it will not show up as an employee contribution on their W2 form. As a result, employees can actually contribute more because their contribution does not go against their employee contribution limit. Taxation on contributions occur at time of distribution.

- The FRP offers participants 39 different investment options with the default option being the Vanguard Target Date Fund that corresponds to the participant's expected retirement age.
- FRP plan provisions: 1) immediate eligibility; 2) 100% vesting; 3) no loans or hardship distributions; 4) normal retirement age is 62; 5) distribution options include lump-sum, installments, annuity payments, 6) plan is subject to Required Minimum Distribution (RMD). As a general rule, RMD must begin by April 1st of the year following the later of: 1) attainment of age 70½ or 2) termination of employment.
- The University also offers two voluntary plans: 1) Optional Retirement Plan (ORP), and 457 Deferred Compensation Plan. The ORP is a 403(b) retirement plan that is available to all University employees. The plan is a deferral only plan. Loans are currently available from two vendors, and in-service distributions are allowed at age 59½ or due to financial hardship. Contributions to the ORP are subject to RMDs. The 457 Deferred Compensation Plan is a governmental 457(b) plan that is available for all University employees, and is also a deferral only plan. While the 457 Plan and ORP are similar, it is worth noting that these plans are not aggregated for the purpose of a deferral limit, which is why the University offers both plans. The 457 Plan does not allow loans, but does allow for in-service distributions for unforeseen emergencies. Additionally, similar to the ORP, the 457 Plan is subject to RMDs.

Following his overview of the University's retirement plans, Mr. Fisher opened the floor for questions, which included:

- Does the 457 Plan have the same asset managers as the other plans, asked Professor Shaver? The vendors for the 457 Plan, said Mr. Fisher, are Securian, Fidelity, and Vanguard.
- Does OHR have statistics on when employees retire, on average, asked Mr. Donohue? Mr. Horstman, senior director, Total Compensation, said that OHR has some data. For faculty, as he recalls, the average retirement age is 68 – 69, but staff tend to retire earlier than faculty. Mr. Horstman said OHR is willing to bring this data back to a future meeting and share it with the committee.
- For employees who selected their investment choices when they were hired, and never changed them, would those choices be the same today, asked Professor Shier? If employees made a choice when they were hired, their choices would remain the same as long as the choices still exist today, said Mr. Fisher. Mr. Parks, senior director of investment strategy & research, Office of Investments and Banking, added that a

structural benefit of the current default fund, the target date fund, is that it adjusts over time.

- If an employee had elected TIAA CREF fund(s) when they were hired, what happened to them after the University decided to no longer offer these funds, asked Ms. Ehrenberg? Mr. Fisher explained that when the University made the decision to no longer offer TIAA CREF funds, all assets in these funds were frozen. Employees impacted by this decision had the option of making new elections, or, if they failed to do so, future assets were put into the default fund at that time.
- How long have the target date funds been the default, asked Mr. Muno? As Mr. Parks recalls, the target date fund became the default fund somewhere in the early 2000s. He added that it is important to remember that the default option is specifically for the 401(a) plan. Professor Frank noted that prior to the target date fund being the default, the default was a money market fund. Mr. Parks added that awhile back there was an important regulatory shift when the Department of Labor, which oversees a lot of retirement plan constructs, issued the safe harbor rule. The safe harbor rule allowed plan sponsors to default people into investments that, at certain points in time, had more risk. There was a time when money market accounts were viewed as safe, but, later, the Department of Labor decided for safe harbor a target date fund or multi-asset class fund was more appropriate. For example, the vast majority of people who contributed to a money market account for 35 years would not be able to accumulate a balance sufficient enough to promote retirement income adequacy.
- Does the University provide any investment advice, asked Mr. Donohue? Mr. Horstman said no. Currently, investment advice is left up to the vendors and the employee's own initiative. As the University moves to a single recordkeeper model, it will have more opportunities to provide much more investment education than it does today.

2. **Role of Retirement Subcommittee**: Professor Frank briefly noted that the University of Minnesota has two retirement committees, 1) the Retirement Subcommittee, and 2) the Retirement Plan Governance Committee (RPGC). Mr. Horstman explained that the RPGC was created about two years ago, and is the fiduciary committee for the University's retirement plan. The RPGC is ultimately responsible for the direction, strategy, and structure of the plan as well as plan compliance, performance, etc. The RPGC has been delegated its authority to make decisions about the University's defined contribution plans by the Board of Regents. The Retirement Subcommittee, on the other hand, is a Senate committee, and while the subcommittee membership's input is highly valued by the administration, the Retirement Subcommittee is not a decision-making body, and has no fiduciary responsibility.

Getting back to Mr. Fisher's overview of the University's retirement plans, Professor Fitzgerald asked why the employee contribution to the FRP increased in 2012 and the employer contribution decreased. Who made that decision? Mr. Horstman explained that the RPGC was not yet established when this decision was made. In 2012, the University had a single fiduciary/plan trustee, Vice President and Chief Financial Officer Richard Pfutzenreuter, who made this decision based on information, discussions and recommendations he received. Compared to the Big Ten as well as other nationally recognized research institutions, said Mr. Horstman, the University's 401(a) plan contribution was extremely generous. Generally speaking, the average employer plan contribution is in the 7% - 8% range. That said, he suspects this fact also factored into the decision to change the University's employee/employer contributions in 2012.

Who serves on the RPGC, asked Mr. Donohue? Mr. Horstman explained that the RPGC has five members, and the current members are:

- Professor Murray Frank, chair, Retirement Subcommittee (by virtue of his position as chair of the Retirement Subcommittee)
- Professor Colleen Flaherty Manchester (presidential appointment)
- Vice President for Human Resources Kathy Brown
- Senior Vice President of Finance and Operations Brian Burnett
- Associate Vice President & Chief Investment Officer Stuart Mason

Mr. Parks added that the definition of 'fiduciary' has been clarified to the RPGC members via fiduciary training. Mr. Horstman offered to bring back to the committee the history of how and why the RPGC was established at some point in the future.

3. **Request for Proposal (RFP) update**: Professor Frank turned to Mr. Horstman for an update on where things are at with the RFP process for a single recordkeeper for the FRP as well as the optional retirement plans. At the same time the RFP was issued, the RPGC began reviewing its core fund line-up in an effort to improve the line-up, offer real choice, eliminate duplicity, and work toward participant fee reductions whenever possible. For several years prior to issuing the RFP, there were discussions about moving to a tiered, single recordkeeper environment.

In early 2018, an RFP was issued in an effort to identify a single recordkeeper. Responses were collected and reviewed by a working group, which then made finalist recommendations to the RPGC. The finalists were interviewed in June and the University selected a vendor shortly thereafter. While the University does not have a final, signed contract at this time, it is working towards having one soon. Moving forward, the fund line-up still needs to be finalized and a decision needs to be made regarding the General Account. The goal is to have this work done by the end of the calendar year. Next, Mr. Horstman spoke briefly at a high-level about the implementation phase of this project, which is expected to begin sometime in 2019 (exact timing has yet to be determined).

To help members understand the rationale for moving to a single recordkeeper, Mr. Parks provided some history. He noted that decades ago most recordkeeper platforms were 'closed architecture,' which meant participants essentially had to choose from the recordkeeper's funds. As a result, plan sponsors tended to have multiple recordkeepers so that their participants would have more choice. Now, most recordkeepers have moved to 'open architecture' platforms, which has eliminated the need for having multiple recordkeepers.

Will the Retirement Subcommittee have a role in the implementation of the new retirement plan structure, asked Kalan Davis? Mr. Horstman said he sees the Retirement Subcommittee as a vehicle for getting participant input/feedback about implementation decisions the RPGC still needs to make, e.g., how best to move assets into a new environment, soliciting member feedback around a communication plan, etc.

In response to a question from Professor Kaas about the timeline and when this information can be shared more broadly, Mr. Parks commented there is some specificity related to moving to a single recordkeeper that has not yet been finalized, but, in the meantime, members can talk with their colleagues about the concepts and principles that are underpinning the retirement plan changes such as simplification and streamlining of the plan to help participants make better decisions, etc. Mr. Horstman volunteered to draft a script/summary that members can use when talking with their colleagues about the upcoming changes.

In wrapping up the discussion, Mr. Horstman said the goal of the retirement plan changes is to bring the market into one platform for University participants while simultaneously giving them meaningful choice, fee savings, a robust platform, ease of use and enhanced educational opportunities in planning for their retirement.

4. **Adjournment**: Hearing no further business, Professor Frank adjourned the meeting.

Renee Dempsey
University Senate Office