

SCFA RETIREMENT SUBCOMMITTEE
MINUTES OF MEETING
MAY 1, 2006

[In these minutes: Rollover Update, TIAA-CREF, Faculty Retirement Plan Investment Performance Report, Retiree Financial Calculator Update, 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, Carol Siegel, Gavin Watt, Barry Melcher, Jackie Singer, Chris Suedbeck, Richard Goldstein, Kathryn Hanna, Dian Lopez, Michael Murphy, Burt Sundquist

REGRETS: Gordon Alexander, Joe Jameson, Fred Morrison, Herbert Pick

I). Professor Feeney called the meeting to order.

II). Jackie Singer reported that as of today the Faculty Retirement Plan (FRP) is accepting rollovers at Securian. A copy of the email communication that was sent out to all FRP eligible participants was distributed. Both the Office of the General Counsel as well as TIAA-CREFF approved this communication. To date, this new benefit is being well received, and there has been no pushback from participants regarding their inability to roll funds into TIAA-CREF. Forms to process rollover transactions are on the Securian website at: www.umnplans.minnesotamutual.com

Ms. Singer stated that this new benefit allows FRP eligible employees who have 401k money or 403b money from a previous employer, as well as profit-sharing money or IRA money, to roll this money into the FRP at Securian.

Questions/comments included:

- Are participants able to roll 403(b) money into a 401(a) account? Ms. Singer stated, yes, as long as the FRP participant is eligible for distribution.
- What is the advantage of rolling over 403(b) money into a 401(a) account? Dr. Feeney stated that by doing this, there would be no need to set up a 403(b) plan with another vendor.
- Ms. Singer reported that Optional Retirement Plan (ORP) withdrawals can be rolled into a 401(a) account as long as the participant is 59 ½ years old. For some, an advantage to doing this is convenience.
- Ms. Singer noted that former Civil Service employees now in P&A positions can rollover a distribution from MSRS into their 401(a) account.
- Can pre-1989 403(b) money be rolled over into a 401(a) account? Yes, as long as the participant is over age 55, and eligible to take a withdrawal.
- Can an individual IRA be rolled into a 401(a) account? Ms. Singer noted that no after tax money can be rolled into a 401(a) account. She suggested, if in doubt, that employees

talk to Securian because this can be somewhat tricky. Many contributory IRAs have the possibility of containing after-tax money in them.

- Can SEP-IRA or a SIMPLE IRA accounts be rolled over? Yes.
- How will the University/Securian know if employees are rolling over pre or after money? The rollover form requires employees certify that they are rolling over pre-tax money. Ms. Singer noted that if an employee mistakenly rolls over after tax money that individual would get taxed twice on that money (first when the money went into the account and then when it is withdrawn). Loans, after tax money, and governmental 457(b) money cannot be rolled over. Also, rollovers will only be accepted from institutions and not directly from individuals.
- How would pre-tax earnings on after-tax money that has been rolled over be handled? Pre-tax earnings on after-tax contributions can be rolled over, but the actual after-tax contributions cannot. The institutions holding the IRAs should be able to report the cost basis, which is the amount of after-tax contributions in the account. Funds other than the cost basis should be eligible for rollover.
- If IRA money is invested in a mutual fund, what rolls over the mutual fund or the money? According to Ms. Singer the fund would be liquidated and the cash from this liquidation would be rolled over.
- An advantage to rolling IRA money over into a 401(a) account would be that employees would not need to take their required minimum distribution until they retire. If an employee has already started taking their minimum distribution, they would be required to take the distribution for that year, but, because the balance is not required to be distributed yet, it can be rolled over.

Professor Feeney asked Ms. Singer to look into putting a link to the rollover form on the Employee Benefits website.

III). Professor Feeney reported that the Retirement Plan Fiduciary Committee (RPFC) plans to convene on May 8th to discuss concerns related to TIAA-CREF. He asked Ms. Singer whether she has received a final 2005 reconciled financial report from TIAA-CREF yet. She indicated that as of today she had not received this report, but hopes to have it sometime this week. It was noted that these financials were to have been received 4 months ago. Of additional concern is the fact that the FRP, ORP and 457 deposits for March 29 were not properly reflected on their March 31, 2006 participant statements. Participants received a letter about this situation, and the contributions were posted as of the proper date of deposit, so the participants suffered no loss due to the delay.

Professor Feeney asked members to weigh in on what actions, if any, the Retirement Subcommittee should recommend the RPFC consider as it relates to the University's business relationship with TIAA-CREF. In Professor Feeney's opinion, the Retirement Subcommittee's primary responsibility is to FRP participants. Ms. Singer noted that TIAA-CREF has communicated to her that they want the University to be assured that to the best of their knowledge no FRP participant has been harmed as it relates to the University's conversion to the new TIAA-CREF platform. While to the best of Ms. Singer's knowledge she agrees with this statement, it does not make the situation any better.

A member asked Ms. Singer whether she is aware of other universities taking any action against TIAA-CREF. Ms. Singer stated that she has not heard from other universities concerning TIAA-CREF. However, she reported that Minnesota State Colleges and Universities (MnSCU) is scheduled to transfer to the new TIAA-CREF platform this month. Ms. Singer will meet with CIC benefits managers on May 25th, and the TIAA-CREF matter is top on their agenda.

The question of how many faculty members contribute to TIAA-CREF through the FRP was directed to Ms. Singer. Ms. Singer estimated that at least 3,000 FRP participants contribute through the 401(a) plan to TIAA-CREF.

A member asked when TIAA-CREF was added as an option to the FRP. Barry Melcher stated that TIAA-CREF became a permanent option in the 401(a) plan in 1982, but has been available to FRP participants since 1962 in the Optional Retirement Plan – 403(b).

In terms of harm, a member requested the committee not simply think of harm as it relates to financial loss, but that it should be looked at more broadly. Ms. Singer agreed that there are an increasing number of incidents that employees are experiencing that raises concerns around TIAA-CREF's performance in general.

The concern around TIAA-CREF raising its fees was another issue raised. Ms. Singer noted that all of the University's investment providers can change their fees at will. To be clear, she noted that TIAA-CREF was not the only provider that raised its fees this past quarter, but rather it was the magnitude of some of their increases that was surprising. Six TIAA-CREF fund offerings had basis point increases of 45% or more.

Next, members spent time listing its concerns relative to TIAA-CREF:

- Four month past due reconciled financial report.
- Significant basis point increases on six fund offerings.
- Conversion to the new TIAA-CREF platform triggered the issuance of new Optional Retirement Plan (ORP) contracts to participants, which was attributed to a systems glitch. In turn, TIAA-CREF had to repost all participant contributions.
- Errors in approximately 300 December 31, 2005 participant statements, which showed large withdrawals that were never actually taken.
- Corrections on accounts dating back to November 2005 remain outstanding.
- Two documented incidents of University employee dissatisfaction with TIAA-CREF.
- Indictment of Elizabeth Monrad, former Executive Vice-President and Chief Financial Officer of TIAA-CREF.
- Partial withdrawal by TIAA-CREF from selected state's 529 (education planning servicing) business as well as long-term care business (indicative of TIAA-CREF's change in business philosophy).
- The company's governance structure and recent governance problems with its auditor, Ernst and Young.
- The company's investment in Refco.

Based on the above list of concerns the Retirement Subcommittee contemplated requesting the RPFC to cease any future contributions to TIAA-CREF. Ms. Singer expressed a concern that

without any new money going into TIAA-CREF by FRP participants, there will be little to no incentive on the part of TIAA-CREF to provide any level of service to the University whatsoever. Mr. Melcher raised the fiduciary issue of ceasing contributions to TIAA-CREF, which would leave the University with only one vendor (Securian) where participants could put their general account contributions. In response to this word of caution, a member recommended that the University put in place another general account vendor in the event it decides to cease contributions to TIAA-CREF. It was noted that if Securian were the only option, many employees, particularly older employees, would be very angry due to the years of terrible rates paid to participants by Minnesota Life.

A member put forward two motions:

1. The Retirement Subcommittee asks the Retirement Plan Fiduciary Committee to determine whether offering another general account vendor is in the best interest of FRP participants.
2. The Retirement Subcommittee asks the Retirement Plan Fiduciary Committee to investigate the following areas of concern to determine if TIAA-CREF's actions are in the best interest of FRP participants:
 - The timeliness of TIAA-CREF's investment contributions.
 - TIAA-CREF's responsiveness to the University as a whole, and to individual shareholders.
 - The accuracy of TIAA-CREF's financial reports with particular emphasis on the company's new computer platform.
 - TIAA-CREF's change in company philosophy.
 - The increases in fees charged by TIAA-CREF.
 - The corporate culture at TIAA-CREF, paying particular attention to the indictment of Elizabeth Monrad, former Executive Vice-President and Chief Financial Officer of TIAA-CREF. Also, investigating other TIAA-CREF officers.
 - TIAA-CREF's partial withdrawal from selected state's 529 (education planning servicing) business as well as long-term care business.
 - TIAA-CREF's governance structure and recent governance problems with its auditor, Ernst and Young.
 - TIAA-CREF's investment in Refco.

If the Retirement Plan Fiduciary Committee concludes that as a whole TIAA-CREF's actions are not in the best interest of FRP participants, the Retirement Subcommittee asks the Retirement Plan Fiduciary Committee to recommend to the President of the University of Minnesota that the appropriate actions to be taken and that it report its findings to the Retirement Subcommittee.

Discussion highlights around these motions included:

- How long would it take to identify another vendor in order to be able to offer an additional general account option for FRP participants? According to Ms. Singer, contracting with another vendor would require the University go out to bid. It was also

noted that given consolidated statements, such a move would have a direct impact on Securian. Ms. Singer noted that if another vendor is added for general account purposes, there are PeopleSoft modifications to be considered. With this in mind, it is likely that the timeframe for getting everything in place for a new general account option would be roughly one year.

- Do any of the University's current FRP vendors offer a general account? No, the University would need to add another insurance company in order to add another general account option.
- What options are available to the University when it comes to dealing with TIAA-CREF? The options that are available include: suspend any new contributions, not permit any new accounts, inform FRP participants through a letter informing them of their right to explore other investment options. (Ms. Singer noted that the Office of the General Counsel would need to be involved in drafting of this correspondence).
- Pursuant to the investigation by the RPFC, their recommendation should come before both the RPFC and the Retirement Subcommittee for a joint vote.
- In all fairness, TIAA-CREF needs to be given some time to correct its problems. The RPFC will need to decide whether despite any changes that are made on the part of TIAA-CREF, if a significant risk remains for FRP participants. The University needs to clearly state its position to TIAA-CREF and be prepared to stand behind this position.
- Members were encouraged to read the April 24 Wall Street Journal article, *A Wall Streeter Aims to Revive Handler of University Pensions*, that raises concern over TIAA-CREF's computer systems, many of which are outdated.

Hearing no further discussion around these motions, Professor Feeny called for the vote. The subcommittee unanimously approved both motions.

Next, the committee discussed what information, besides the minutes should be on the Retirement Subcommittee website to help the University community understand the issues it is dealing with related to TIAA-CREF. Professor Feeny asked Ms. Singer and Chris Suedbeck to compile a list articles and other relevant materials to link to the committee's website. He also asked that other members who have materials related to TIAA-CREF that they would like posted on the Retirement Subcommittee website to submit those to Renee Dempsey, Senate staff. Once all the materials have been compiled, Ms. Dempsey was asked to contact the Library concerning any possible copyright infringements before posting the information on the subcommittee's website.

IV). A copy of the Faculty Retirement Plan Investment Performance Report for period ending March 31, 2006 was distributed to members for their review. Ms. Singer noted that despite TIAA-CREF's increased basis point fees, their performance was quite good. Mr. Suedbeck agreed that returns on all the funds were quite strong.

V). Retiree representative Burt Sundquist reported that Dick Manke, vice president, Retirement Plan Services with Securian, met with the University of Minnesota Retirees Association (UMRA) Board and updated them on the status of the retiree financial calculator, and solicited their input around features they would like the module to include. The UMRA Board set up a

four-member focus group to work with Mr. Manke and Securian programmers in creating this on-line calculator. The reaction by Board members around this new tool/resource was positive.

VI). Jackie Singer reported hearing anecdotally that Congress does not plan to extend the Roth 403(b) past 2010 when it will sunset. With this in mind, few employers in the private sector are adding this investment option to their retirement plans, particularly if it increases their recordkeeping requirements. In the University's current situation, to offer a Roth 403(b) would require significant programming changes to the current version of PeopleSoft. It is unclear whether PeopleSoft version 8.9, which will be implemented later this summer, will be able to handle Roth 403(b) recordkeeping requirements. In the event that the updated version of PeopleSoft is able to handle these recordkeeping requirements, the committee may want to seriously consider offering this investment option.

For clarification purposes the following Roth 403(b) information was shared:

- Contributions into a Roth 403(b) would count against what participants could contribute into the ORP.
- Contributions into a Roth 403(b) are made with after-tax dollars.
- Qualified withdrawals are tax-free.
- There are no income limits to qualify for a Roth 403(b) account.
- A Roth 403(b) can reduce taxable income during retirement, helping avoid taxation of Social Security benefits under current law.

After some discussion, members asked Ms. Singer to contact HRMS to determine whether it would be possible to test the feasibility of adding system enhancements to the new version of PeopleSoft, which would make it possible for the University to offer a Roth 403(b) option.

Professor Feeney summarized today's discussion and noted the committee is interested in exploring the possibility of offering a Roth 403(b) option. It is important to remember, however, that there needs to be a balance between the breadth of the plan versus the cost of the plan to participants.

In closing, Professor Feeney requested Ms. Singer bring to the committee's next meeting a list of funds with Admiral share pricing.

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

Renee Dempsey
University Senate