

Tax-Sheltered Annuity Review Committee

Minutes

October 29, 2004

- Members Present:** Kevin Bahr, Ron Crabb, Howard Erlanger, Carol Fischer, Kathleen Kelley (Chair), Lucretia Mattson, Qinghai Wang, Lori Worm
- Members Absent:** Robert Carney (Attended a portion of the meeting by teleconference), Randall Ryder (Ex-officio)
- Staff:** Mary Anglim, Sue Chamberlain, Rose Stephenson
- TSA Vendors:** Jeff Janecek, American Express/IDS; Karen Ewing, AUL; Ed Quinn, Fidelity; Betty Custer, Gina Krapf, Lincoln; Joe Curtola, Steve Schoenwetter, Strong Investments, Matt Lobas, Wells Fargo; Mike Mitchell, TIAA-CREF
- Guests:** Roy Dorman, UW Processing Center

Kate Kelley called the meeting to order at 9:37.

1. Introductions: The TSA Review Committee, UW System staff, and guests introduced themselves. Kate Kelley, on behalf of the entire committee, welcomed Qinghai Wang, Assistant Professor of Finance at UW-Milwaukee, to the committee.

2. Approval of Minutes:

MOTION: Carol Fischer moved approval of the minutes of the April 2, 2004 TSARC meeting with correction of a spelling error. Lori Worm seconded. Motion passed.

3. Resolution of commendation: Kate Kelley read the resolution of commendation for Richard Marcus whose term expired this year.

MOTION: Carol Fischer moved to accept the commendation as read; Howard Erlanger seconded. Motion passed unanimously.

4. Estimated Program Costs study: Mary Anglim first noted several miscellaneous items for which there are no written materials.

a) As was done two years ago, a letter is being drafted which will be sent to those who contribute the maximum amount in the TSA Program, reminding them of their opportunity to also participate in the Wisconsin Deferred Compensation Program. The letter will be signed by chair Kate Kelley and the members of the TSA Review Committee will be listed. The committee was in favor of this.

b) The TSA Program Plan Document needs to be amended to update the address. The committee agreed.

Mary proceeded with the estimated costs study of the TSA Program that she compiled. Excluding all the fixed and grandfathered accounts, the Program generates roughly \$7 million in revenue for its participating investment companies from the expense ratios and M&E charges. Over all, the weighted average expense ratio is .68, but there is much variation from fund to fund and firm to firm. Although Mary cautioned that the numbers were rough, they do show the trends.

Over the years, the committee has tried various methods to keep a handle on expenses. Before Mary started, the Program did not allow funds that had expense ratios of over 1.50. The staff spent enormous amounts of time monitoring expense ratios and tossing out funds or adding them back in based on their expenses. The committee later decided to monitor those funds that had expense ratios more than 15% higher than the Morningstar average for the fund type. The committee did not drop any of these funds, however, because they were very specialized or for other reasons. In 1998, the committee decided to simply report to participants the expense ratios and whether the fund has high, low, or average expenses based on its Morningstar category average.

5. **Fidelity Record-keeping Agreement:** Since the agreement is confidential, only members of the committee and staff have this document. At this point, Bob Carney joined the meeting by teleconference. Mary noted that the agreement is very close to being signed. It is necessary to complete this agreement in order to offer a loan program to TSA participants through Fidelity. Chris Ashley, TSA Program staff counsel, reviewed the document and made some changes, revising the hold harmless agreement and stipulating that disputes be handled in Wisconsin rather than Massachusetts court; Fidelity agreed to these changes.

The contributions of participants who send in an application but forget to choose a fund or make an inappropriate choice are invested in the default fund, the Fidelity Retirement Government Money Market Fund Portfolio. When this happens, Fidelity also sends out two letters to the participant, with a follow up six months later. Fidelity would prefer to have an appropriate target retirement date fund as the default. The committee discussed what other measures could be taken to remind the participant to change the fund selection. Ed Quinn, the Fidelity relationship manager, commented that once the agreement is in place for six months or so, Fidelity can run a report listing the participants in this situation, which would provide information about how frequently this occurs.

Mary noted that we may want loan provisions with all of our investment companies.

MOTION: Howard Erlanger moved that the committee approve the record-keeping agreement in principle and authorize staff to make appropriate adjustments with the understanding that the committee would be notified of significant changes; Ron Crabb seconded. Motion passed.

6. **2004 Report on Insurance Company Ratings:** This is a yearly report on the insurance company ratings. Several years ago we adopted a ratings standard developed by Joseph Belth in the *Insurance Forum*. Belth collects ratings from the five rating services and categorizes them as “extremely conservative,” “very conservative,” and “conservative.” Our Criteria require our insurance companies to have at least three “very conservative” or higher ratings out of the five. Mary noted some changes in the 2004 report: TIAA-CREF has had a ratings downgrade by Weiss to B [note: this was an error. TIAA has an A+ rating from Weiss], and Lincoln is now “conservative” rather than “very conservative,” since Belth has changed the way he treats Moody’s ratings.

The committee had hoped that the *Insurance Forum* rating categories would be a relatively stable standard with which to evaluate our companies. However, there are small changes in the categories each year. This year by including property and casualty insurance companies, Belth vastly increased the number of companies included, so the distribution percentages look very different from last year. In addition, we lack good distribution information on Weiss ratings, since Beth did not include that information this year. Belth also changed the way he treats the S&P AA- rating and the Moody’s A3 rating, formerly “very conservative,” now “conservative.”

We now have one “extremely conservative” company, TIAA-CREF; one “very conservative” company, IDS; and two “conservative” companies, AUL and Lincoln.

Howard Erlanger expressed concern that the standards in the Criteria are not being met. Either we should adjust our Criteria or do something about the companies that do not meet them. Jeff Janecek (IDS) mentioned that perhaps one reason IDS’s S&P rating was considerably lower than other ratings was because American Express/IDS does not subscribe to that service. Karen Ewing (AUL) mentioned that she thought AUL’s rating from A.M. Best may have been just recently upgraded. Howard requested more information after the break from IDS and AUL and from TIAA-CREF about the recent downgrade from Best.

At this point we lost teleconference connection with Bob Carney. Action on Item 6 was postponed until after lunch.

7. **New Product offered by Lincoln:** Betty Custer presented a new annuity product offered by Lincoln. In the early 90s, when the Program developed Criteria that limited surrender charges to eight years, the Lincoln Multi-fund One product was changed to accommodate that. The "off-the-shelf model" of this product has a ten-year surrender charge. When Lincoln decided to waive the annual fee, the name changed to Product 41. The guaranteed interest rate (beginning in the first years at 4.5%) for the fixed option is quite high, and Lincoln has a large book of this business.

Betty noted that because of the recent low-interest-rate environment, insurance companies across the nation have gone back to state regulators for approval of new products lower interest rates. Lincoln's new product has a guaranteed 1.5% interest rate over the first ten years, and 3 % thereafter. The interest rate is lower in the first years to pay for acquisition costs, field office costs, commissions, and amortizing the M&E charges. It bumps to a higher 3% guarantee after that to reward long-time investors. The UW TSA Program version of this product is called Multi-fund Select 183 and has a six-year surrender charge. The allowable range for fund expenses has also changed for those funds with lower expenses. The product line-up has been improved by replacing the sub-accounts, such as Putnam, that have been under recent SEC scrutiny and by adding several American funds in the more conservative growth and income area.

Betty received an exception from Lincoln to continue to offer Product 41 until the new product could be presented at this fall TSARC meeting. Those employees with the old product who switch to the new product would start a new surrender charge period. A Wisconsin replacement form and also an internal replacement form are required for this. Betty must personally review the internal replacement forms. Those transferring to the new product within Lincoln do not pay a surrender charge on the moneys, and the agent does not receive a commission on the transfer. Betty distributed copies of the internal replacement form.

The Committee expressed concern about the new surrender charge period. They asked whether Lincoln would really have new costs that justify beginning the surrender period over again. Mary confirmed that a new surrender charge period also begins for those in the new IDS RAVA Select Plus contract, which was approved last year. Mary asked whether a waiver of the RAVA surrender charge could have been negotiated. Jeff Janecek responded that the entire contract would have had to be re-filed with the state.

Mary asked the other insurance companies if they had looked at reducing their guaranteed interest rates. Mike Mitchell responded that TIAA-CREF has looked at it, but there have not been any changes. He added that TIAA-CREF may have some contracts that have a 2.5% guaranteed rate. Karen Ewing responded that AUL has not looked at this.

Ron Crabb had a teaching commitment and needed to leave the meeting at this point.

Howard asked whether the insurance companies could report how many participants switched their funds to a new annuity product with a new surrender period. Betty Custer responded that they could provide that. Jeff Janecek responded that it would be a manual process, and it would not act as a disincentive to agents, since after the transfer nothing could be done to reverse the transfer. He thought that the number of those moving their money would be very, very small.

MOTION: Howard Erlanger moved to approve the new Lincoln annuity product; Lucretia Mattson seconded. Motion passed with Carol Fischer opposing.

MOTION: Howard Erlanger moved that the insurance companies report every six months the number of internal transfers from one product to a new product and as much information as is readily available as to the reason; Lucretia Mattson seconded. Motion passed.

Mary will send a memo to Lincoln and IDS insurance companies requesting this information. TIAA-CREF does not have a surrender charge or new products, and although AUL has both the American and Patriot contracts, they do not allow internal transfers of this type. Mary will also request copies of the disclosure forms for our files.

To accommodate travel constraints, the committee decided to proceed with a working lunch. They adjourned at 11:15 and reconvened at 11:30.

8. **Update on Strong Company:** Joe Curtola, our Strong client relationship manager, introduced Steve Schoenwetter, manager/supervisor in the Retirement Planning area of Strong Investments and Matt Lobas, Senior Vice President of Wells Fargo from the San Francisco office.

Mr. Lobas has been in Milwaukee working on merger details and also in Madison meeting with the EdVest 529 plan. He gave prepared remarks on the background of Wells Fargo and Wells Fargo funds, talked about Wells Fargo's presence in Wisconsin and its commitment to education, and outlined the process and the timetable of the merger. The questions that Mary prepared and sent were answered during this last segment.

Three years ago when Wells Fargo was the twenty-ninth largest mutual fund company in the United States, it decided to create a strategic plan to become a top-ten fund company judged by assets under management within ten years. Wells Fargo has combined its acquisition of Strong with a series of other acquisitions over the past several years as part of its plan to be a top-ten mutual fund company. Today Wells Fargo has approximately 90 billion dollars in assets and over 100 mutual funds available to the public. Currently it is the twenty-eighth largest mutual fund company and fourth largest bank fund company. With the Strong merger, Wells Fargo will become the nineteenth largest mutual fund company in the U.S. The combined assets will be approximately \$103 billion as of December 31.

Strong has about 70 funds and Wells Fargo about 100; after the merger there will be about 120. Two sets of job offers have been sent out to Strong employees asking them to be part of Wells Fargo. Proxies are being sent to Strong shareholders asking them to vote on the fund mergers. Later proxies will go to Wells Fargo fund holders for their vote on the Wells Fargo funds that will merge with Strong. The shareholder meeting will be on December 10 in Menomonee Falls. If enough have voted to accept the merger, on December 31 the companies will become one company. Between January 1 and April 8, behind the scenes system and conversion work will be done so that on or about April 8, 2005, the new statement will show the new name of the company with all the new information.

In responding to Mary's prepared questions, Mr. Lobas noted that the name will change and that a consultant has been hired to gather market information. So far, research has shown that Wells Fargo name has a positive "ring," but the company is not known for mutual fund holdings; the Strong name does not have the positive reception anticipated. The new name will be announced in about 30 days.

On December 31, Strong will no longer exist, only the new company. There will be no 12b-1 fees on any of the no-load or investor class funds available through the TSA Program. The proxy is approximately 750 pages; it will be on the internet, and, when it is available from the printer, a hard-copy will be sent for our records.

Wells Fargo has a five-year lease on the Strong corporate building in Menomonee Falls but is in the process of negotiating to purchase it and intends to keep a strong presence in Wisconsin. As part of the settlement process, Strong was instructed by the SEC to divest itself of its internal transfer agent, approximately 100 – 110 people; instead, the Wells Fargo transfer agent will be used. Strong had a very robust customer experience with a good 800 system and call center system. Wells Fargo will close down its Boston operation, moving those jobs to Wisconsin and hiring more people before the end of the year to handle all the Wells Fargo calls in the Menomonee Falls call center. Wells Fargo will keep most of the people who are part of the Strong acquisition.

Mr. Lobas stated that Wells Fargo has looked at our Plan Document and Criteria, and he does not see any issues there, but cannot officially comment until December 31. After the merger they will send a letter informing us that they can comply.

Sue Chamberlain asked what Wells Fargo plans to do to try to encourage the Wisconsin investors back and to regain their confidence. Wells Fargo will begin a multifaceted communications/ advertising program. A significant portion of money has been set aside to communicate the positive changes and what those changes mean for the shareholders. There will be a reduction in expense ratios. There will be 31 no-load products, 23 of the funds will have no change of expense ratios, six products will have a reduction and two (municipal bonds not available in the TSA Program) will go up. Net/net there will be a \$6 million savings

for shareholders of Strong because of reductions in expenses Wells Fargo is putting in. There will also potentially be the opportunity to use the Wells Fargo communication system, for example, on the checking account statements or ATM messages.

Mary inquired about the names of the funds. The proxy uses generic names: the branding work has not been completed, but, when done, it will be clear to the shareholders where their money is invested. There will be 29 funds in our program with a specific brand name; there will be no indication whether the funds came from Strong or from Wells Fargo. The Strong fund managers have stayed with Wells Fargo, except for one group that left for another in Pittsburg. By and large, Wells Fargo is keeping the no-load business from Strong and keeping it intact, since that is a business Wells wanted.

Howard Erlanger thanked Mr. Lobas for coming and related the committee's displeasure with Strong upper management when it did not respond to the committee's request to have upper management speak to the committee last year.

Mary inquired whether the \$6 million in savings to shareholders tracked back to the settlement; Matt responded that Wells is not a party to any of the settlement issues. They did not begin the merger until after all the settlement issues were dealt with.

Kate Kelley inquired what plans had been made after the merger was complete to do intensive information sessions for the campuses. Joe responded that right now nothing is planned, but when the time comes there will be an extensive advertising campaign. Joe said he would work with Rose Stephenson to get information out to employees and plan educational sessions. The current Strong participants will receive the proxy information. A postcard will be sent the week before the proxy is sent letting them know the proxy will be coming.

Rose inquired what measures would be implemented to hold down costs. Mr. Lobas responded that the Wells Fargo philosophy is to have expenses within 10 basis points on either side of the average for the fund. Wells Fargo does not aim to be the cheapest, but to provide value. An independent board approves the expense ratios. Directionally, over time the expenses ratios have gone down. It is expected that there will be 22 four or five star funds. Wells Fargo will do what it can to try to have the best performance.

Rose asked what is being done about short-term trading and whether the two percent redemption fee discussed at the last TSA Review Committee meeting was implemented. Joe Curtola responded that it has not been implemented. Steve Schoenwetter clarified that if someone has done short-term trading within a 35 day window whether internal or external, he or she will receive a warning and thereafter a ban. If internal, the penalty may be even more aggressive. Mr. Lobas added that Wells Fargo has not allowed short-term trading and over the past three years has closed down over 1600 accounts that were engaging in short-term trading; it has complied with all SEC regulations and inquiries.

Mr. Lobas commented that Wells has a 2% redemption fee on one fund, the Emerging Markets fund, because traders tend use this fund to take advantage of the market differential. Although regulators and the press initially wanted a 2% redemption fee across the board, the industry has convinced them otherwise. Investors could be hurt by this fee if they are engaged in asset allocation or other similar programs.

6. **Report on Insurance Ratings:** Kate directed the committee's attention back to the insurance ratings report and asked what information the investment company representatives were able to find out about the ratings questions discussed before lunch. Karen Ewing (AUL) reported that there had been no change in the ratings. The other representatives were not able to get more information.

Mary asked whether the committee wished to take any action: the committee could take no action, put the companies on notice, send a letter, or take other action. Howard stated that he was concerned with the TSA Program being out of compliance with our stated procedures. Either we should change the way we evaluate the companies or do something about their non-compliance. AUL and Lincoln currently have conservative, rather than very conservative ratings.

Karen Ewing explained that AUL had gotten rid of some of its re-insurance business hard hit from the 911 attacks. However, the asset base went down with the sale, so even though getting rid of that business was positive, the fact that the asset base had dropped was viewed negatively. Past actions of the committee and the process of removing a company from the list of those approved were discussed. Letters were sent to Lincoln participants in December of 2001 and to AUL participants in October of 2002. Kate asked when the ratings would be reevaluated and whether there could be an upgrade by spring. The ratings firms evaluate companies at different intervals and do not have a set schedule. Belth issues the ratings in the September issue of the Insurance Forum, however, the way in which he views the ratings has fluctuated.

MOTION: After discussion, Howard moved that we inform our participants of the situation and that we request that a person with very detailed knowledge about the investments of the company and the way the investments and policies of the company are related to the ratings come to the next meeting and advise them that it is possible that we would take some action; Carol Fischer seconded. Motion passed.

Sue Chamberlain mentioned that it might be useful for someone to speak to us who has knowledge of the insurance industry and the ratings process; maybe it is time to revisit the Criteria. Perhaps the companies could send an expert, or someone from the Business School may be available.

9. **AMEX education proposal:** Last fall, American Express Financial Advisers proposed a two-year contract to provide financial education to our employees by a small number of trained agents. The University would help American Express get in touch with employees. This program would be free for basic services and employees would get a \$75.00 discount towards other advisory services. If we wanted customized services we could negotiate those.

Mary is recommending no action at the present time. Our participants need more education than staff, members of the TSA RC, and benefits counselors at the institutions are able to provide through campus presentations. However, it takes some advance thought to launch an ambitious program. Presently, System Administration Benefits staff are completely consumed with the development of our new payroll system. Neither UWSA staff nor staff at the institutions could plan or carry out a comprehensive education program right now. In addition, our other investment companies may have similar programs, and we should not make a decision without knowing what they have to offer. American Express also has products that are on the expensive side for insurance products, and it is their hope to get employees to purchase other financial products; Mary does not know where those products fit into the expense spectrum.

On the positive side, American Express does offer services to those not affluent enough to afford expensive programs, and we need to support services for our younger, poorer employees.

Mary recommends that over the winter we ask all of our providers to describe their comparable services to us. If we ask now, we could get proposals by February 1 and could evaluate those proposals for the spring meeting. The committee agreed.

10. **TIAA-CREF Mutual Funds:** Mary referred the committee to the memo provided. The committee first heard about these funds three meetings ago. There are seventeen new retirement class mutual funds, but universities around the country are beginning to offer nine of them under the banner *Investment Solutions*. Mary commented that, in the past, she has not been supportive of this recommendation, because there are already so many funds in our plan, TIAA-CREF already gets a lot of participant contributions, the funds are new mutual funds without a track record, and we have hesitated to add mutual funds for insurance companies without going through due process. After putting together the cost study and noting how much more expensive many of our mutual funds are than these would be, however, Mary stated that it might be valuable to offer some more low-cost funds. This might also satisfy TIAA-CREF customers who would like more specialized investments. Mary also noted that our mutual fund companies add funds all the time, and in reference to the legal considerations, when the Board of Regents set up the plan, they gave TIAA-CREF a broader mandate than the other investment companies. Our neighbors around the Midwest: Iowa, Indiana, Purdue and Northwestern have them. Mary had called Iowa and Indiana and talked to the plan administrator at Iowa, who said her employees "loved them."

Mike mentioned as of October 1, the funds have a two-year track record and are very close to benchmark; they have been well received at the institutions where TIAA-CREF has rolled them out. Only a very small percentage of employees will take action and move their moneys right away, but over time it is nice to have these options. Mary asked why, although there are seventeen mutual funds, no school offers more than nine? Mike responded that TIAA-CREF is moving to a new administrative system, but the current platform can only accommodate nine new funds. TIAA-CREF will move the UW over to the new record-keeping system in the spring.

Kate asked when these funds would be available if we accept them. Mike responded that January 1 might be too soon, since there is a lot going on right now, but sometime in the first quarter would be feasible. These new fund options must be communicated to existing employees and also to employees that have accumulations that are attributable to when they worked for the University. TIAA-CREF would also like to do some financial education on the campuses to let employees know about the new options. Mike would like to put together a formalized plan as to how TIAA-CREF will roll this out. Kate inquired if individuals going into these funds were younger, newer employees. Mike replied that it was across the board for those with accumulations. More new entrants who are younger are selecting the funds on the new enrollment kit.

MOTION: Carol Fischer moved that we approve the new TIAA-CREF mutual funds into the TSA Program; Kevin Bahr seconded. The motion passed.

11. Dreyfus load funds in the Plan: Dreyfus has allowed several of our participants into loaded funds and some even pay a commission to a broker. However, our participants will be moved over to the R class funds. She noted that she stumbled on the fact that Strong had some 12b-1 fees. In discussing the issue of loaded funds with Dreyfus, the Dreyfus representative read the criteria and acknowledged that they too have two funds with 12b-1 fees, the GNMA and Disciplined Stock Fund. In general, 12b-1 fees can be a bit of a problem and hard to police, because they can come and go. Even the funds we just approved by TIAA-CREF had 12 b-1 fees when they first started. Wells Fargo stated earlier that the funds they offer in the TSA Program will not have 12b-1 fees. Dreyfus is proposing to make the funds with 12b-1 fees unavailable, which is unfortunate. Mary sees no way around it unless the committee would make an exception to these funds. Carol Fischer commented that there are enough funds in the Program. The committee agreed that these two funds would not be available.

12. Program Educational Activities report: Mary reported that 33 people who were contacted in the *Getting Started* outreach effort last March are now in the Program. The three targeted campuses were Platteville, Parkside, and Stout and the targeted groups were new employees who had not yet joined the TSA Program, employees who had been with the UW five years and had not yet joined, and low-to-moderate income employees who might potentially benefit from the Saver's Credit. Although this mailing may not have paid for itself because of the extensive amount of materials mailed, it did have impact. We will need to do more of this kind of outreach.

Rose reported that the TSA workshops at UW-Platteville last spring, advertised in the targeted mailing, were very well attended. Rose also put together a proposal to present a workshop at the Academic Staff Leadership Conference at UW-Stout. The proposal was approved and in July Rose presented workshops at that conference and also for UW-Stout employees. She also put on two workshops in July for UW System Administration and at the end of September at UW-Parkside. She presented a workshop at the beginning of October for UW-La Crosse with Bob Carney, which unfortunately was not well attended. Rose commented that we need to find a way of advertising more effectively and that a targeted mailing might have helped the attendance. Rose will be doing three more workshops this fall: UW-Oshkosh (with Lori Worm), UW-Stevens Point (with Kevin Bahr), and UW-Whitewater (with Ron Crabb).

The investment companies, particularly TIAA-CREF and Fidelity, have scheduled individual counseling sessions at the campuses. UW-Madison restricts individual counseling sessions to only certain times in the fall and in the spring. This set up is expensive and difficult for our investment companies to comply with. The investment companies reported poor communication, poor coordination, and poor attendance for the events this September at UW-Madison. Rose advertised the February counseling sessions in the TSA

newsletter, which will hopefully improve the turn-out for those. When the resources the investment companies devote to us are not well used, it is troublesome. It is not that employees are not interested in taking advantage of the free individual counseling sessions to manage their accounts, it is more a matter of lack of publicity and not getting the word out in time.

There are only a few hundred of the TSA Q&A left and it must soon be reprinted. Rose asked that if members have any suggestions for additional questions for the Q&A to please submit them to her.

13. **Grandfathered annuities:** There are some grandfathered annuity contracts dating from before 1991 that have rolling surrender charges. Mary will ask all of the firms to supply the names of all the people who still have grandfathered annuities, so that she can send a letter to affected employees. We would not advise employees to move their money, since those annuities may have higher guaranteed rates on their fixed accounts, but the employees should be aware of the charges and know what their options are.
14. **TSA Program Budget Report:** In 2003 the Program spent \$107,000 and took in \$104,000. We have a reserve that is drawn down over the course of the year. It reaches its low point on February 1, but when we collect our \$9.00 fee, the reserve goes back up again. Last February 1 the reserve was over \$59,000 but is projected to fall to \$46,000 in 2005. Mary noted that we used to take in more interest income, which will perhaps change with a better market. We do need to increase the number of new participants each year, however.

Howard inquired whether Mary felt comfortable with the dwindling reserve and wondered if there was an area that could benefit from additional funding. Mary responded that the Program would benefit from additional funding for staff development and for outreach to employees. Mailing can be quite expensive. Howard commented that would perhaps be better to increase the fee by \$1.00 now, rather than waiting until the reserve was lower and have to increase the fee by more than that.

MOTION: Carol Fischer moved in separate measures that the Program increase the annual fee by \$1.00 to \$10.00 and increase the maximum fee to \$15.00 and that an appropriate amount be allocated for professional development including attendance at industry conferences in order to understand the complexities in the financial services industry and for outreach to participants. Howard Erlanger seconded. Motion passed.

Howard clarified that if the fee increase was not supported by the System President and Board of Regents, the committee still supports the added amounts for development and outreach with the understanding that the reserve would be depleted a bit more quickly.

15. **Planning Issues:** Beginning in 2006, federal law will permit after-tax contributions to the TSA Program which would be treated similar to Roth IRAs. Not much information is available on this 403(b) Roth option yet. Separate accounting will be necessary, not only for the investment companies, but also for our payroll system, since TSA moneys are pre-tax and the 403(b) Roth contributions would be after-tax. The committee expressed interest in this option.
16. **Miscellaneous:** Ed Quinn reported about a new short-term trading policy at Fidelity going into effect in December in response to new SEC requirements. The SEC requires that companies formulate and disclose short-term trading policies by December 5. If someone goes in and out of a fund within 30 days (this is referred to as a "round-trip"), the person will get a warning letter. If this happens again within 90 days, Fidelity will freeze the account for 85 days. Ed noted that this length of time gets around 404c compliance, in that the account is not shut down for a full quarter. If anyone does four of these "round trips" in a year, that person will be limited to one trading day per quarter for twelve months. The customer picks the trading day. Round tripping is generally a problem in the international market and small-cap fund area, where there is a lag in valuation. There is some arbitrage, and traders could make some money doing this. Ed noted that new short-term trading policies will be coming out from all the mutual fund providers. Fidelity will inform its participants. Mary noted that we would put these policies on our web site.

Mary reported that the number of employees joining the Program for October are up somewhat compared to last October, and the contributions are up substantially. Kate inquired about number of students in the plan. Mary was not sure but said she would include that information in the annual report. Lucretia inquired about the higher contributions. Mary responded that since the contribution limits had been going up, those with higher incomes are able to defer more.

17. Next meeting date: The spring TSA Review Committee meeting will be Friday, May 6, 2005.

The meeting was adjourned at 1:38 p.m.