

Tax-Sheltered Annuity Review Committee

Minutes

November 3, 2006

Members Present: Kevin Bahr, Robert Carney, Howard Erlanger, Carol Fischer, Kathleen Kelley (Chair), Robert Kunkel, David Porter, Qinghai Wang

Members Absent: Lucretia Mattson, Randall Ryder (Ex-officio)

Staff: Sue Chamberlain, Terry Lauber, Rose Stephenson

TSA Vendors: Josh Batker, John Lynch, Ameriprise/IDS; Peter Palmieri, Dreyfus; Anthony Frongillo, Sarah Kelly, Fidelity; Betty Custer, Gina Krapf, Lincoln; Mike Mitchell, TIAA-CREF

Guests: Susan Adams, UW Service Center; Donna Weber, filling in for Lucretia Mattson of UW-Eau Claire

Kate Kelley called the meeting to order at 10:05 a.m.

1. Introductions

The TSA Review Committee, UW System staff, and guests introduced themselves.

2. Approval of Minutes

MOTION: Carol Fischer moved approval of the minutes of the April 28, 2006 TSARC meeting as submitted. Kevin Bahr seconded. Motion passed unanimously.

3. Election of Chair and Vice-Chair

The Chair and Vice-Chair are elected in the fall of even-numbered years. The members elected at this meeting will serve until the fall of 2008.

MOTION: Carol Fischer moved to elect Kathleen Kelley as Chair and Kevin Bahr as Vice-Chair of the Tax-Sheltered Annuity Review Committee. Robert Carney seconded. Motion passed unanimously.

4. Summary of Pension Protection Act of 2006 and Discussion

Rose Stephenson summarized the Pension Protection Act of 2006 in her memo to the committee dated October 26, 2006.

a. EGTRRA provisions made permanent

The maximum exclusion allowance has been permanently eliminated. The elective deferral limit for 2007 is \$15,500 and the over 50 age catch up remains at \$5,000. With the enactment of the PPA the Roth 403(b) option will continue to be available after 2010. A Roth option is not available through the 457 deferred compensation program. Due to investment company record-keeping platform concerns and University payroll system concerns, it is not feasible for the University to implement a Roth 403(b) option at this time.

MOTION: Howard Erlanger moved the Tax Sheltered Annuity Review Committee go on record to strongly support adding a Roth 403(b) option and to urge the administration to do whatever possible to implement this option. Carol Fischer seconded. Motion passed unanimously.

b. New provisions to incorporate immediately

The Pension Protection Act has a provision that allows penalty-free withdrawals for reservists when called to active duty. We do not need to change our plan document at this time. The IRS will come out later with possible language to facilitate changes in plan documents due to provisions of the PPA. We can go on record as encouraging our investment companies to make this available.

MOTION: Howard Erlanger moved to encourage investment companies to allow penalty-free withdrawals for reservists when called to active duty. David Porter seconded. Motion passed unanimously.

c. Plan revisions to consider in the future

The articles "The Pension Protection Act of 2006: A Closer Look at ... Automatic Enrollment" from the October 2, 2006 issue of *Deloitte's Washington Bulletin* and "Charitable giving gets easier, and harder" from the October 20, 2006 issue of *MarketWatch* were provided to the committee.

Discussion regarding automatic enrollment centered on whether or not this would be feasible for the University. How would the University decide how much to deduct from an employee's paycheck, particularly since it would not be matched? How would students and short-term appointments be monitored? Are there limitations as to the deductions that can be taken? What investments would qualify? Would we have a default fund or a combination of default funds? Automatic enrollment is not as important for our plan as it may be for others, since the TSA Program is a supplemental retirement savings plan. Most employees are covered by the Wisconsin Retirement System, a good, fully-funded plan, and employees also have Social Security.

ERISA sec. 404(c) has been expanded to include default investments for participants who fail to make investment elections. As far as we know, at the current time Fidelity is the only approved TSA investment company that has a default fund, the Fidelity Retirement Government Money Market Fund, for employees who do not indicate a fund choice on their application. Fidelity has provided us with a list of about 30 employees whose contributions are invested in the default. UW System staff will contact those employees. Staff will check with the other investment companies about default investments.

5. Insurance Company Ratings Review

At the April 28, 2006 TSARC meeting a revision was made in the way the financial stability ratings are evaluated. The committee changed the Criteria to require an average rating of at least 3, according to standards in the Criteria. TIAA-CREF, with a rating of 4, is the only TSA insurance company that meets the requirement. Lincoln now has an average rating of 2.8 and Ameriprise/IDS, an average rating of 2.6.

Betty Custer, Lincoln, presented the committee with a Financial Information Sheet and Post-Merger Fact Sheet. Betty informed the committee that Lincoln merged with Jefferson Pilot Financial in April 2006. Lincoln's financial ratings from Best, Fitch, Moody's and Standard & Poor's all qualify for a 3. Lincoln's Weiss rating is the only one that does not qualify for a 3. It has been at least three years since Weiss has changed its rating of Lincoln. The other agencies re-evaluate their ratings quite frequently. Betty commented that Lincoln is stronger today than when the new ratings requirements were put in effect last spring.

John Lynch, Ameriprise/IDS, stated that Moody's and Standard & Poor's ratings will be re-evaluated in January. He commented that the other rating agencies may also re-examine Ameriprise's financials. It will be a year since Ameriprise was an American Express Company. Ameriprise's reserves are up, and its stock price is up significantly.

MOTION: Robert Carney moved that Ameriprise/IDS and Lincoln be put on "watch" and monitored for failing to meet the financial stability standards established in the UW Tax-Sheltered Annuity Criteria and

that the companies be notified of the action taken by the TSA Review Committee. Carol Fischer seconded. Motion passed unanimously.

6. Investment Advice

A provision of the Pension Protection Act permits investment advice. The advice must be non-partisan in that the adviser does not gain financially through commissions or it can be computer generated. In the past the committee has discussed being able to present and offer advice to the participants. In the TSA Program right now, the investment companies can provide direction to employees, and employees can call the companies for help. UW System staff provides a list of selected returns which shows the best performers by fund type according to five year returns. UW System staff will post a notice on its website that a telephone counseling session with investment company counselors can also be arranged.

7. Communications Plan

Rose Stephenson reported on the status of the communications plan in her memo to the committee dated October 26, 2006; the *TSA Program Communications Plan* document was also provided to the committee. UW System staff proposed sending a packet to new employees in November or early December that would include the *Quick Guide to the TSA Program*, the *TSA Q&A*, the *Salary Reduction Agreement*, and an opening letter. It was agreed to send the letter and packet to all employees hired as of January 1, 2006, via campus mail. It would not go to student employees. There could be a follow-up postcard sent.

Rose may investigate the cost of developing a new eye-catching communication piece next summer and will also look into the feasibility of providing streaming video on our website. TSA developments are regularly posted on our website. The investment companies are on board providing investment education programs. PowerPoint presentations are available to the campuses. Terry Lauber will also make arrangements to print a message about the TSA program on employees' earnings statements at the end of the year and again in April. The *TSA Inve\$tor* newsletter will be out soon; sessions are advertised in the newsletter. Committee members stressed that communication pieces should emphasize that it is simple to sign up and that it is easy to change companies should an employee desire. The *Quick Guide* provides a one paragraph summary of each company. Sometimes less info is better than more.

The committee meeting adjourned for lunch at 12:10 p.m. and reconvened at 12:55 p.m.

8. Service Level Criteria Implementation

Rose Stephenson reported on the status of the *TSA Program Minimum Service Level Requirements* in her memo to the committee dated October 25, 2006. She met with Chris Ashley, UW-System Administration Legal Counsel to discuss implementation of the requirements. They will format the document so that it can be inserted into the TSA Criteria as a separate section for the committee's review at the next TSARC meeting. In this way each contract with the TSA investment companies does not have to be amended.

Ameriprise/IDS and Lincoln representatives stated they would have a product effective 1/1/08 without a surrender charge. Ameriprise representative Josh Batker noted that their RAVA 4 Select product has an M&E charge of 1.1%.

Peter Palmieri, Dreyfus, stated he did not believe it would be a problem to provide online enrollment as of 1/1/08. Mike Mitchell, TIAA-CREF, and Anthony Frongillo, Fidelity, will check on the percentage of new participants that use online enrollment.

Howard Erlanger noted that the words "at least" needed to be included in "3. Participation" regarding the two-year average enrollment of net new participants.

MOTION: Howard Erlanger moved to include the words "at least" regarding participation as outlined in the *TSA Program Minimum Service Level Requirements* so that the phrase reads "Two-year average enrollment of net new participants must be at least the lesser of:" David Porter seconded. Motion passed unanimously.

9. TSA Investment Companies

a. Update on Wells Fargo

In 2005 contributions were discontinued to Strong/Wells Fargo. The transition has gone smoothly. Occasionally Rose Stephenson receives calls from participants who left their contributions with Wells Fargo and now want to move the funds. Most participants chose other investment options. Overall participants have stayed in the UW TSA Program.

b. Update on Scudder and AUL

Letters were sent to past and present Scudder and AUL participants in June. Another letter will be sent in November to current AUL and Scudder participants informing them that deductions will stop as of December 31, 2006. A considerable number of AUL and Scudder contributors have already contacted the UW System Administration office and institutions' offices and have been given assistance. Based on conversations, it appears that former AUL and Scudder contributors are staying in the program. We have cordial relationships with the client relationship managers for both companies.

c. TIAA-CREF

Mike Mitchell, TIAA-CREF, gave an update on their new record keeping system. Last October the UW System plan was migrated to TIAA-CREF's new platform. The transfer of data went very well. In the beginning there were delays with postings; when this happened, contributions were backdated. There were delays with loan requests, but that is taken care of now. The biggest challenge right now is that half of their employees are working on their legacy system and half on the new platform; there is a learning curve. More phone center representatives will be hired. If there is a problem, the same TIAA-CREF staff member works with the participant until there is resolution. Mike thanked Rose for working with participants and for contacting him. Sue Chamberlain expressed her appreciation to Mike for his involvement when there are situations in which employees need help. UW System staff's number one priority is to help employees. Sue noted that she is looking forward to TIAA-CREF hiring additional staff. There are a number of very important initiatives that the committee wants carried forward that simply cannot be done because of staff time needed to help employees. We are very sympathetic concerning the problems that can arise when implementing a new system. Mike stated that if TIAA-CREF makes any errors, they do what is needed to make the person whole.

d. New Annuity Product RAVA 4 Select; Continuing Concerns with Ameriprise

New Annuity Product RAVA 4 Select

The M&E charge is 1.1%; our criteria allow an M&E charge of up to 1.25%. There is an additional charge of 65 basis points for a special rider. The RAVA 4 Select came out in the summer, and Rose emailed the committee at that time, since it was compliant with our criteria. The TSA Review Committee was interested in the product, but expressed a desire to know more about it and why the M&E charge has gone up. Josh Batker and John Lynch provided information: the primary increase in the M&E is due to the inclusion of Portfolio Navigator funds – asset allocation funds based on a person's risk tolerance. Morningstar's top analyst was hired by Ameriprise to put together five different Portfolio Navigator funds. They will rebalance on a quarterly basis and do reassessments annually. On prior Ameriprise products there was a 10 basis point charge for this. Now Ameriprise is encouraging clients and advisors to select these funds by offering them in the RAVA 4 Select with the 10 basis point charge included in the M&E charge. All new participants must go into the RAVA 4 Select; other contracts are no longer available to new participants. Rose has a prospectus for committee members to look through. John Lynch explained the special rider that costs an additional 65 basis points. It provides a withdrawal feature which guarantees the principal for life. This allows participants to be invested in the market and yet lock in gains. When they reach the age of 65, they can pull out 6% of whatever their

locked in dollar amount is. John remarked that this is like a pension and is something a lot of the people are excited about. Committee members questioned John about details of the rider and the cost. John noted that young people age 20 probably would not want to purchase the product as they will be paying the 65 basis points per year for 45 years, assuming they could do the investing themselves.

Continuing Concerns with Ameriprise

- 1) One participant called Rose when an agent told her that she could invest in a mutual fund with Ameriprise. When the participant told the agent that she didn't think this was possible, the agent responded that UW participants did it all the time. Rose pursued this and found that 10 or more participants have mutual funds through Ameriprise that are not authorized. A few are participants who have been grandfathered in to this option, but many are from recent contracts. John Lynch reported that this would be fixed by the end of the year. John explained that he supervises 202 advisors. Since some Dreyfus and Fidelity funds are available to UW System participants, agents do not realize that some are not. John will work with the advisors and the participants. If employees want to continue with their Dreyfus or Fidelity fund, Ameriprise agents will give them the 800 number and work with these employees to transfer their funds.
- 2) Agents have counseled participants and then have been billed them for the advice. Although the information provided may have been beyond the scope of the TSA program, this was not revealed to the participants at the outset. John Lynch stated that all 202 advisors are independent franchisees. Some choose to work on commissions, some choose to focus their business on annuities, and some choose to do fee-based financial planning. Forty percent provide fee-based financial planning. In some instances, John admitted, advisors were not making it perfectly clear what services they provide to the client as a UW employee as a part of the contract, and what is provided for an additional fee. Individual coaching needs to be provided to these advisors. Rose pointed out fees need to be clear and up front so that participants can decide what services they would like before the fact. John reported that advisors and participants now need to sign a separate service agreement for supplemental services, which will bring clarity to the situation.
- 3) Last year there was trouble with an Ameriprise participant under 59 ½, without a distributable event, being allowed to take a distribution and roll it over to an outside company not affiliated with the TSA program. Ameriprise was able to get that money back and return it to the Ameriprise account. Ameriprise has no mechanism to monitor and catch these events; this may be a problem with Ameriprise's platform. John reported one of the biggest problems in the past with American Express has been that there were two locations of operations, one in New York and one in Minneapolis. The system Ameriprise now has puts them in a better position to monitor accounts. Ameriprise has a regional educational day in December and John noted that this topic will be on the agenda.
- 4) Ameriprise has been a long-time investment company option in the TSA program. In the early days we did not prohibit rolling surrender charges. Surrender charges on any products must now be contract based and extend no longer than eight years. With the new minimum service requirements, we will no longer allow any surrender charges. There are still some Ameriprise participants who have rolling surrender charges on their contracts that have been grandfathered in. Something needs to be done about these people, because all of UW System program literature states that surrender charges are all contract based. These long-time participants are then surprised to find they do, in fact, have rolling surrender charges.
John Lynch reported if they changed this for just those UW TSA participants, Ameriprise would have to refile with the State Insurance Commissioner because there are other people, not with the UW, who have the same product.

Ameriprise could ask those participants to start a new contract for current contributions and let the other one age. Rose stressed that she wants those people with rolling surrender charges to be notified so that they understand what they have. John pointed out the products were fine when they were sold. Rose

agreed that they are grandfathered in, but does not want participants to be surprised. John and Rose agreed there are no new contracts with rolling surrender charges.

5) Ameriprise has a group billing number – many of the agents don't realize that this is an internal Ameriprise number. When they call a campus and request the group billing number, the campus is not able to provide it. Campuses have contacted Rose stating agents have gotten belligerent with them on the phone insisting that the UW can provide the group billing number. John stated a letter will be going out from Jeff Janecek and himself clarifying what the group billing number is and that they should not be calling anyone except Jeff or himself to get that number. When agents are belligerent, he wants to be notified immediately. He stressed that that is improper behavior and will not be accepted. John stated that Ameriprise would limit the number of agents working with the UW plan and have one contact per campus. Rose and Kate responded that would be most helpful.

6) One Ameriprise agent made some bad comments about other TSA investment company providers; this is unacceptable and would be for any of the investment companies.

Howard Erlanger acknowledged the positive response and cooperation from Ameriprise/IDS, TIAA-CREF and Lincoln. He noted that things can go wrong, but at that point it's important to handle problems appropriately. When you have representatives that are responsive, it makes a big difference in terms of the experience of our participants and of our staff.

10. Annual Report Update and Plan Information

The final 2005 Annual Report was sent to the TSARC. A preliminary report was provided to the committee at the last meeting. For today's meeting, a sheet with the breakdown of participants by gender and institution was provided to the committee. The Annual Report is available on the UWSA website. Our overall numbers are up with 11,724 participants for 2005 of which 11,512 are WRS-covered employees. The average contribution was about \$6,115. Committee members complimented staff on the 2005 Annual Report.

11. Next Meeting

The spring TSA Review Committee meeting will be April 27, 2007.

12. Motion to Adjourn

MOTION: David Porter moved that the meeting be adjourned. Carol Fischer seconded the motion. Motion passed unanimously. The meeting was adjourned at 2:20 pm.