Tax-Sheltered Annuity Review Committee

Minutes

November 1, 2002

Members Present: Kevin Bahr, Linda Boelter, Robert Carney, Ron Crabb, Howard Erlanger, Kathleen Kelley, Richard Marcus, Lucretia Mattson, Lori Worm

Members Absent: Randall Ryder (Ex-officio) (Attended a portion of the meeting by teleconference.)

Staff: Mary Anglim, Sue Chamberlain, Charles McConnell, Beth Ritchie, Rose Stephenson

TSA Vendors: John Lynch, American Express/IDS; Jay Lauck, Duane Hettweiler, AUL; Edward Quinn, Conor Muldoon, Fidelity; Betty Custer, Lincoln; Jon Maertz, Strong Investments; Mike Mitchell, TIAA-CREF.

Guests: Roy Dorman, Susan Adams, UW Processing Center

Kate Kelley called the meeting to order at 9:50.

1. **Approval of Minutes:** Linda Boelter moved, Lucretia Mattson seconded, approval of the minutes of the April 5, 2002 TSARC meeting as submitted. Motion passed.

2. **Election of Chair and Vice-Chair:** Bob Carney nominated Kathleen Kelley for another term as chair. Kate had completed the final year of the term vacated by Rollie Junke. Howard Erlanger seconded. Ron Crabb moved to close nominations. Bob Carney seconded. The motion and nomination passed unanimously. Bob Carney nominated Howard Erlanger to continue as Vice-Chair. Lucretia Mattson seconded. The nomination passed unanimously.

3. **State of the Market:** Mary Anglim introduced Sandy Drew, Legislative and Beneficiary Group Liaison for the State of Wisconsin Investment Board. Sandy has presented information about SWIB at a number of University of Wisconsin campuses. Sandy spoke briefly about SWIB's efforts on corporate governance: SWIB has been working for 15 to 20 years in corporate reform and was one of the founding members of the Council of Institutional Investors, an organization of 250 pension funds, private, public, and union funds.

   At the end of September SWIB had approximately $55.6 billion under management, down from the all-time high of approximately $72 billion under management in March of 2000. Participants should be aware that this has been the second longest downturn in modern times and has been exceeded only by the Great Depression.

   Sandy introduced Jean Ledford, Chief Investment Officer for Equities. Jean has been in investments for well over 20 years – about three-quarters of that time has been at SWIB, about one-quarter in managing the Select Fund at American Century and the Evergreen Fund at Wachovia. Jean has run both active money and money associated with computer-driven programs (often referred to as passive money) – small-cap, mid-cap, and large-cap stocks.

   Jean explained that SWIB is divided into teams that focus on international, small-cap, mid-cap, and large-cap investments. Each team has at least one money manager and an appropriate number of analysts. SWIB started two new portfolios during the 14 months since Jean's return: a heath-care portfolio (SWIB's first-ever sector fund) and a new large-company portfolio that is more broadly diversified than SWIB's other large-cap portfolio, which is focused on the very biggest large companies. SWIB also moved around some of its index funds and folded them into one fund that should more accurately track SWIB's benchmark, the Russell 3000. In addition, SWIB has index funds that have slight tilts to them. SWIB had a large-cap and a small-cap tilt fund and now, under Jean, has added a mid-cap and an international-tilt fund to provide the full complement of funds. With this, if SWIB decides to emphasize one particular type of fund over another, it can do so. Right now, the SWIB equity group has an emphasis on small and mid-cap companies. Jean believes that these are most attractive companies to invest in right now and will be for the next few years.

When Jean refers to "the market" she is generally referring to the S & P 500, the broad-based indicator of the market, although most of her remarks would equally apply to the Dow or to the Nasdaq. The markets peaked in March of 2000; from that time until today, the Nasdaq is down 75%, the S&P 500 is down about 50%, and the Dow, which represents the thirty biggest companies in the country, is only down about 30%. Jean commented that had she been speaking here a year ago, she would have said that we've just had two down years for the first time in 25 years, and it would be unlikely that 2002 would be another down year. Three down years in a row has only happened once before. If we were to have a forth down year in 2003, it would match the only other time we've had four straight down stock market years – the Great Depression.

Jean noted that the peak in market resulted in part from an extraordinary build up in infrastructure in getting ready for Y2K and from the Internet bubble. The Nasdaq was hit the hardest. This year, the third quarter ending in September was the worst quarter since 1987, "the crash." September was the worst September ever recorded; October was the best October ever recorded. This period differs from some others in that there is a high level of volatility. In July the market rallied sharply. We had good July performance and pretty good August performance, but virtually all portfolios had a very tough September, just as the rest of the world did.

The question is whether October is really the beginning of an upturn in the marketplace or simply a result of hedge funds doing short covering. Jean does not think there is a clear-cut answer yet and observed that this is why the market and individual investors are nervous.

The Economy on the plus side:

- Temporary employment is starting to rise, usually a precursor of employment starting to return.
- Capital expenditures (the dollars being put to work by corporations for infrastructure) are slowly turning up.
- We see extraordinarily strong productivity gains – the highest in 20 years; this keeps unit labor costs low. There is a 50/50 chance that Mr. Greenspan will cut rates by 25 basis points. Now it looks like most of the data coming in has been softer across the board.
- There is a refinancing boom. This is extraordinarily important because it keeps consumers feeling OK, since their mortgage payments are going down. Everybody here has refinanced at least once if not more than once.
- Housing prices are holding.
- Global and domestic inflation is low.
- Interest rates are low.
- Oil prices are starting to come down.

On the negative side:

- State budgets are in trouble.
- The Federal Government's estimates of the deficit are rising; this is not positive for the market.
- Consumer confidence has hit a nine-year low. If consumers stop spending, we would have no spending by the government, no spending by the states, no spending by corporations and finally no spending by consumers, and that would be very bad for the economy.
- Consumer debt is high and mortgage defaults are rising.
- This recovery is weak versus any other recovery that we could look at.
- There is the wild card of war: war is generally not good for the stock market.

Earnings for the first quarter of 2002 were soft. Second quarter earnings were much better and stimulated the July rally. Earnings this quarter have been pretty good; only 15% of those in the index have reported disappointments. Year over year, it looks as if third quarter gains are about 7 - 7 ½ %. Last year's earning were a little over 6%. The strength has been in technology companies: companies that have been in a down-turn for many quarters have stopped going down. Financial companies held in very well, and consumerdiscretionary companies turned in pretty good result as well. The market place is now cheaper, somewhere between 25-29 times earnings. Jean noted that it was hard to be more precise, because some companies haven't reported, some people look at net earnings, and some look at operating earnings. Looking at one year forward and looking at estimates made by Wall Street and SWIB, you would say the market is somewhere between 22 and 25 times earnings. Normal is somewhere around 17 times earnings. The market is getting back into a normal place, which ought to be very positive for the market. People want to buy stocks when they think they're getting a fair price.

Jean also observed that for more than a decade we've not cared much about dividends. The yield on the S&P 500, which used run around 3 or 4 %, had dropped to a little over 1%. Currently, at least 25% of the companies in the S&P 500 yield over 3%. At least half of the companies yield over the T-bill rate. Maybe we're going back to a time when a bigger part of the returns in stocks may come from dividends. If you look at 12-months forward, earnings estimates now range between 10 to 12 %. All other things equal, the market usually follows earnings, so we expect the market to be up 10 to 12% in 2003.

The bad news is that investors still prefer bonds. We've had four straight consecutive months of massive withdrawals from equity mutual funds, with a lot of that money going into bond funds. This is the most consecutive months for equity withdrawals since 1988. Jean noted that if Jon Traver, Jean's counterpart in fixed investments, were here, he would say that he thinks bonds are quite expensive.

In summary, on the one hand, we have pretty good earning results coming in and looking forward they look pretty good; the market is getting cheaper; and we are getting more yield support. On the other hand, it takes a while to convince investors to go back into the market after they had three years of disappointing results. We have a weak labor market with more lay-offs coming, consumers with declining net worth, rising debt, a high debt-level, maybe less confidence, and an economy that is not recovering as fast as we would like.

Jean thinks that barring war, the news weighs out on the positive side: rates are low, which is good for the stock market; the economy is even, though mediocre, and is looking like it's turning; there is no inflation—virtually everything is on sale or at 0% financing; there are good productivity gains; earnings are rising again slowly, consequently the market should follow.

Jean then took a number of questions. Howard commented that interest rates are at an all-time low and asked why that would be positive, since interest rates will have to start going up again, which is generally negative for the market. Jean responded that rates do not go up just because they are low – there has to be a reason for rates to go back up. She noted that even though the Fed's fund rate is at one of the lowest places it's been in forty years, 1.75%, if it goes 25 basis points lower to 1.5%, that is still not 0%. If the Fed decides to lower the rate it would be looked on as a positive thing for the market place, because it says that Greenspan is still hanging in there and trying to engineer a recovery. Short of housing, there is nothing in Jean's world that would indicate she would have to pay more for things a year from now. Until we start to feel that we need to pay more for something, or employment picks up, there is no incentive for rates to go back up again. Most of the earnings that were turned in for the third quarter resulted from cost cutting as opposed to sales increases. The companies that are winning are the ones that have good unit sales, not simply higher prices. Jean doesn't see upward pressure on rates right now. She noted that there is more talk of deflation right now, which could indeed be serious, but Jean is not in that camp.

Bob commented on SWIB's emphasis on small- and mid-cap companies. Jean noted that the Russell 3000 is dominated by big companies – 65% of the index is in big companies. Although SWIB has an emphasis in small- and mid-cap companies, its large-cap holdings are only a couple of percentage points less than 65%. Also, given the way SWIB has placed that small- and mid-cap emphasis, it would be very easy for SWIB to change. SWIB has stayed with the small- and mid-cap tilt because generally those are the companies that do the best coming out of recessions. Also, generally those companies are domestic-focused, their growth is a little higher, and they are dramatically cheaper.

Bob asked how an average investor could identify when to change his asset allocation from small- and mid-cap investments to large-cap. Jean responded that there was no clear-cut flag, but there are things to watch for. You could watch the index returns in the newspaper for the S&P 500, 400 and 600, the large-cap, mid-cap, and small-cap stocks, respectively. If you suddenly started to notice that the small- and mid-cap returns were dramatically outpacing the large-cap returns for an extended period of time, that would be one indicator, because there is almost always reversion to the mean. So, if one class starts to outstrip another, just as now bonds are outstripping equities, a contrarian investor would move in the opposite direction.

Another indicator would be dividend yields. You can see the yields on the three indexes, if you have access to Schwab or somebody else on-line. If yields dramatically increase on the large-cap stocks, that might be another indicator. If a bigger part of your return starts to come from the dividend, you have a greater comfort factor in investing in those stocks, and institutional investors like SWIB are no different than individual investors in that. Offsetting this trend in dividends is the difficulty that a lot of the very largest companies are facing in their pension funding. The large auto companies, Ford and GM, have very substantial unfunded pension funds. That problem will correct itself, if the market can correct itself. If it goes on too long, who knows?

Dick noted that CalPERS is known for being active at annual stock board meetings, and inquired what Wisconsin has been doing at stock board meetings. Sandy responded that Wisconsin votes the proxies, takes quite active positions, and will vote against management. Jean added that Wisconsin has always been active in getting money out of bankruptcy and is getting even more aggressive in this area. In the Enron bankruptcy, SWIB has joined a class action suit. SWIB lost approximately $50 million, primarily in bonds, but Wisconsin was one of the smaller losers. Florida lost over $400 million, and New Jersey also lost a large amount. With WorldCom, SWIB is initiating a law suit in Wisconsin, because SWIB believes it has a better chance of recovery in Wisconsin courts.

Ron asked about reversion to the mean: If the normal PE is 17, and we’re at 22-25, why is Jean comfortable at that level? Jean responded that, first of all, 17 was set over many years when accounting data was not as clean as it is now. The quality of earnings is better today than 25 or 30 years ago, with the exception of the fraud cases, and the consistency of earnings is better and higher. Therefore, Jean is willing to pay more for stocks now than historically. She noted that baby-boomers cannot build wealth in a money market fund. The answer is not 1.3% in a money market, which is tantamount to putting it in a shoebox under your bed. That push will allow us to pay a little more for stocks.

Kevin inquired whether the aging of the US population concerned Jean, as far as future P/Es go, once we get over this little bump. Jean responded that this has been quite a little bump – twenty years. Jean feels that there is quite a bit of “fire power” left, and is not concerned. Kevin then inquired about the sensitivity of the long-term corporate bond rate. Jean responded that on the thirty-year bond no one really knows, because there are no new thirty-year bonds being issued; the ones that are out in the marketplace are affected by a lot of things besides just rate cuts. The rate cuts primarily play on the shorter-term bonds, the five- and ten-year notes. Jean noted that she is not a “bond-girl,” but noted the rate cuts have to affect bonds, in addition to other things and concluded “It’s an art – not a science.”

Sandy mentioned that if any campuses would like to have someone from SWIB come to speak, please let Sandy know. Mary thanked Sandy and Jean for speaking.

10. Miscellaneous: Mary next brought up miscellaneous items distributed today:

First she brought up a chart of monthly TSA contributions and participant numbers. Looking at October of 2002, the amount of contributions is the highest it’s ever been. Through October, however, we are quite a bit behind 2001 in the numbers of new participants. Mary noted that we need to reach out to people in a more active way.

Mary next discussed a chart of Deferred Compensation participation and contributions and a chart of new participants in the TSA Program on the different campuses. Ron asked whether hiring was down from 2001 to 2002. Kate responded that the type of hiring has changed. More lecturers or part-time faculty are being hired as opposed to full-time tenured staff.

Mary also referred members to ETF projections of possible effective rates and dividends under certain scenarios, which is now available on our web site. She noted that the interest rates we will earn on our accounts could be quite a bit lower than we have become accustomed to.

4. **Insurance Company Report:**

a. Current ratings: Mary then turned to Item 4a, which shows current insurance ratings of our insurance companies. AUL is “conservative” but not “very conservative.” Lincoln is back in the very conservative column because A. M. Best upgraded it from an A to an A+ about three months ago.

b. Reconsideration of IDS’s status: In August of 2001 IDS had some downgrades because of bond fund investments they had made, so they have been on review for a year as our criteria calls for. Since there have been no further downgrades and they qualify as a very conservative company, Dick Marcus moved to take IDS off review; Bob Carney seconded. The motion passed unanimously. IDS was taken off review.

Mary spoke of some misunderstandings between IDS and a number of participants. Mary has had to help out several times and enlist the help of John Lynch. There is concern about the IDS home office and the amount of time it takes to resolve account crediting issues.

c. Discussion with Duane Hettlinger: The letter concerning AUL’s ratings has been sent to approximately 300 former and current AUL contributors. Mary has not had any response from any participants. Lucretia Mattson commented that she had heard from a retiree who was concerned.

Mary next introduced Duane Hettlinger, AUL Regional Vice-President, who mentioned that he has fielded a few phone calls from participants about the letter, perhaps six, and Jay Lauck has talked to several participants as well. All AUL agents have received a copy of the letter that was distributed. Duane mentioned AUL’s exposure to claims in connection with 9-11, which led to the downgrade. He noted that AUL has sold off its re-insurance business to a sector of GE.

Mary inquired about the number of agents that are authorized to sell AUL products. Jay Lauck responded that over the past several years more agents have come forward wanting to sell to UW employees. Duane Hettlinger replied that he will put together a list of agents who are authorized to sell AUL through the UW TSA Program.

5. **Authorized Vendor Contract Discussion:** Mary referred members to the document ***Contract with Authorized Vendors*** distributed before the meeting. Two years ago the TSARC looked at a draft of an Authorized Vendor contract. Mary commented that the TSA Program is in a bit of an ambiguous situation regarding the agreements with its providers. ERISA plans often keep the providers at arm’s length, because if the employer becomes too involved with the plan, the employer becomes responsible for it. Because of this many employers keep a hands-off attitude, and companies that offer 403(b) plans are used to dealing directly with the participant rather than with the employer. Nonetheless, from the IRS point of view, employers are still responsible for compliance and must screen or choose the vendors that they do business with. The UW TSA Program is not an ERISA plan, so we can take as much interest in the Program as we would like without running into ERISA problems. The TSA Criteria is the document outlining our plan; it is a very old document going back to the 1970s. The Criteria represents what we would like and does not allow for input from the provider and does not cover all the aspects of plan administration. Participation goals and hold-harmless agreements may need some work and may need to be resolved.

Mary has provided a new draft of the contract, which conforms to the new law and takes out some of the more controversial goal-setting. She will be in contact with each of the providers and discuss what is acceptable and not acceptable in the draft and reach a uniform agreement across all of our providers and bring it back early in the spring, so that the committee can review it before our April meeting. The contract will discuss record-keeping services and what we expect for us and for our participants, educational programs and what we expect of our providers, investment services and how rollovers and distributions should be treated, how fast should remittances be posted, customer service procedures, for example address changes, and vendor responsibilities in special situation as such loans, hardships, and Qualified Domestic Relations Orders.

Bob Carney inquired whether an officer of the corporation would sign that they are in compliance with the criteria. Mary replied that that is still in the contract. Howard noted that he was pleased with that and commented that now the Government is making corporations do that. Mary does not expect this to go easily since legal departments will be involved, she but is hopeful that we can arrive at something that is mutually agreeable. Dick mentioned that the requirement to provide quarterly statements might have to allow for electronic statements. Mary agreed that many changes have occurred since this was first drafted several years ago.

7. **b. Changes to the "very conservative" criteria:** Since there were a few minutes before lunch, it was decided to take up 7 b. Mary proposed that the table in the Criteria Appendix be updated to reflect changes made by Joseph Belth with regard to ratings from A.M. Best and Fitch.

Howard inquired about the wording of Section V of the Criteria under Vendor Rating Restriction or Termination Procedures, "when we deliberate we will consider at a minimum, but not limited to, the following:" and included in the list is "all relevant information." Howard suggested that the language be changed to "we will consider the following" and drop "at a minimum, but not limited to," since there isn't anything else to consider besides all relevant information.

Dick Marcus moved to change the portion of the Criteria on page two as presented and strike "at a minimum but not limited to" in Section V. Howard Erlanger seconded; the motion passed unanimously.

Dick requested that amendments to the document be more clearly dated. Mary noted that staff could compile a revision history.

The committee adjourned for lunch at 11:45 and reconvened at 12:30

6. **State of the Market, part 2**. Ed Quinn our Fidelity Client Representative introduced Conor Muldoon, Vice President in the Investment Consulting group and a Chartered Financial Analyst.

Conor provided a number of graphs and charts to illustrate current trends in the market. His comments include the following points:

- There is real economic GDP growth this year as opposed to last year. Industrial Production has also improved, although it is still in negative territory. However, there is some concern that manufacturing may go into a recession in the next couple of months.
- Unemployment indicators have improved dramatically compared to last year. Inflation has declined. This indicator is both positive and negative; it is negative in that it suggests companies no longer have any pricing power. Finally, interest rates have come down over the year, which is positive.
- Consumer spending continues to be stronger than in previous recessions. However some of the more recent surveys of consumer confidence have shown a big drop. Declining spending in the final quarter could have negative implications for corporate profits.
- Lower interest rates have spurred refinancing. Consumers have been refinancing not only to lower mortgage payments but also to take equity out of their homes. That money is being spent, some on autos.
- The number of corporate bankruptcies has increased as well as the size of companies that have experienced bankruptcy. There has also been a deterioration in the quality of the debt market (bonds).
- The P/E is approximately at 30, which is still high, however it is down from 45. Though few sectors have performed well, some of the alternate investment vehicles have had some positives, such as TIPS – inflation-protected bonds, real estate, or commodities such as gold and oil. Year over year growth is at 7% for the third quarter. Earnings may be the catalyst to get the market higher over the next 12 months.

- Historically, different sectors succeed each other as winners and losers. There is no pattern to the cycles and they are very, very hard to predict. Most of the return comes in the first three to four months after the bear market ends. Because there is no recognizable trend or pattern to the best performers in the market, it is wise to be diversified. Unfortunately, individual investors have been investing in just the reverse of the graphs, for example, investing heavily in growth stocks in 1999 or in bond funds recently. Conor emphasized the importance of having a diversified portfolio and of putting on educational sessions for participants to stress this.

- The average retirement plan participant makes few changes. One study of a university retirement plan showed that the average investor made no changes in his retirement plan over time: the average was less than one. The people who do make changes tend to be the ones who focus on the short-term.

- Although there is a huge aversion to owning international stocks, over 50% of the market capitalization is outside of the US. Over 80% of the number of stocks is outside of the US. In seven of ten sectors of stock the best performers have been non-US companies.

7. Plan and Criteria amendments.

a. Final rule on minimum required distributions: Mary introduced the proposed plan amendment on minimum required distributions. The IRS has issued the final rules for defined contribution plans, which are mandatory for all plans starting January 1, 2003. The IRS put out some model plan amendments, the mortality table has been updated again and is a little better, and the final rules permit beneficiaries who are locked into the five-year distribution deadline to recalculate their distribution based on their life expectancy rather than the five-year pattern. The TSARC is not required to adopt the amendment until the end of 2003.

Ron Crabb moved to approve the amendment; Lori Worm seconded.

Dick Marcus made a friendly amendment to complete the Table of Contents by striking out 6.4 and renumbering the following sections and noted that there are sections that don't have page number references; these will be filled in. Mary added that we now know the effective date of the rollover rule because it is based on when the state budget was passed, July 30, 2002. Mary noted that the Program accepts money from all of the different *pre*-tax sources – 401(a), 401(k), 403(b), and traditional IRA money but no *after*-tax sources. We do not restrict access to these monies, as we do with our 403(b) money, but Mary is not certain of the legality of this.

Ed Quinn commented that Fidelity has had informal conversations with the IRS and is so certain that those funds can be accessed that they have changed their individual custodial agreement documents.

Ed noted that the plan document takes precedence over the rule, so if you specify that these monies can be accessed in the plan document then participants can access them; however if the plan is silent on this, then they cannot. Jon Maertz of Strong Investments concurred with Ed.

The motion to amend the Plan Document passed unanimously.

8. Financial Education

a. Educational programs. Rose Stephenson directed the committee to the list of individual counseling sessions and workshops that have taken place and noted that both TIAA-CREF and Fidelity have been very active. T. Rowe Price put on counseling sessions at several campuses and had very good turn-out at the workshops done in the Madison area. AUL, IDS, and Lincoln have also been very willing to participate in both counseling sessions and workshops. Rose observed that it has been hard to convince Scudder and Dreyfus to put on educational sessions. Rose will be doing presentations in November at Stevens Point, Parkside, and Platteville. Kevin Bahr will be participating in the presentations at Stevens Point. There will be three time slots, morning afternoon, and evening. Dick Marcus has taken part in the sessions presented in Milwaukee. He noted that attendance has been around 35 at all the sessions. Linda Boelter reminded staff to notify Extension and Colleges when about scheduled presentations, so that employees who are in the area can attend.

Rose then referred the committee to the packet with a new Powerpoint presentation on *How to Diversify Your Portfolio* and asked for comments and suggestions. There was discussion about the WRS as an investment option in the TSA Program. Ron Crabb suggested using some of the slides from the Fidelity presentation today, especially the slide on page 14. Ed Quinn replied that he would look into getting permissions and getting the slides in electronic format. Kate inquired about the mix of classified and unclassified staff at the presentations. Rose replied that there has been a good mix – she typically calls for a show of hands – there has also been a good mix of non-participants and participants. Rose then went over the brochures that have been published this year, *The TSA Q &A*, *Save Early, Save Smart*, *How to Choose a Financial Planner*, and a yellow postcard to request a TSA enrollment kit. Mary referred the committee to the *TSA Inve$tor* and thanked Dick Marcus for contributing an article. Rose mentioned that there will also be a reminder to join the TSA Program on the earning statements in a few months. Rose welcomed comments and suggestions on additional educational initiatives staff should undertake.

b. Linda Boelter on the Governor's Task Force Recommendations Linda Boelter reported on the Governor's Task Force on Financial Literacy. There are approximately 34 members on the Task Force, six from the state legislature. The members represented financial and education institutions and the business community.

She commented that everyone is in favor of financial education; the controversy arises over where it should be taught. She noted that it is a "homeless curriculum" – there are bits and pieces of curriculum around with no one focus on it. Linda discussed the recommendations of the Task Force. The first one was to develop financial literacy standards and to get them into the list of DPI items that will be tested for in the schools. Another recommendation was to get at least one financial education course in the requirements for high school graduation. Another recommendation was to get as many teachers in different disciplines certified to teach financial literacy as possible. In conjunction with this Linda mentioned the Jump Start Coalition, which has been offering summer training institutes.

Linda showed several High School Financial Planning packets and copies of *Investing for Your Future.* The latter is available on-line at www.investing.rutgers.edu at no cost. The print version is available through the Extension publications office. It is 160 pages and costs $11.50 with quantity discounts available.

Mary inquired about *Northwoods Saves.* Linda responded that it is part of *America Saves*; there are approximately 10-15 communities that are working on *Saves* programs nationally. Linda noted that she has been working on *Northwoods Saves* since May 2002. They have 107 savers enrolled who have committed to save just under $50,000.00. About 80% of the savers are saving for an emergency fund. This program is targeted and lower- and moderate-income families. Financial institutions cooperate with the program by providing no fee, no minimum savings accounts. The goal of the program is to make savings a social norm over a ten-year program of social marketing especially for low- and moderate-income people, because that is the segment that has really been left behind in wealth-building in this country. *Milwaukee Saves* has been working for the past year and will be rolling out a major launch next spring. Hopefully, there will be will be more *Save* messages.

c. Other financial education issues: the committee brainstormed ideas on how to reach out to our non-participants. Some ideas are: targeted mailings based on age or income, or focusing on contribution limits or the Saver's credit. Departments could be invited to host short presentations and prominent individuals could be recruited to set an example. Often the support of the supervisor is key. Kate mentioned that Platteville had classified training sessions with segments on financial planning, which were successful.

Roy Dorman noted that the attendance at the TSA informational sessions has dropped back dramatically, and UW-Madison has reduced the number of sessions offered. The market has dampened people's expectations, and employees no longer get encouragement from their co-workers. Howard mentioned that stressing the fixed-side investment options may be one way to go.

Bob Carney mentioned that at La Crosse what was successful was to work backwards: to start with what they wanted in retirement, then examine what they had in place to get there. This made the idea of saving tangible. Kate mentioned that at Platteville they ran statements on students' earnings statements two separate times, and she had only one student contact her, a graduate student.

Ed Quinn noted that they ran focus groups at Fidelity. The focus groups determined that there were two decisions to make, the first was to decide that "I do need the tax-savings; I do need to save." Fidelity can help people reach that decision with simple literature. The second decision is "Yes, I want to contribute – where do I go?" Ed noted that in the UW TSA Program there are quite a few players and a lot of decisions to make. Mary inquired if the companies would be willing to name one or two funds for the average investor. Ed mentioned the Freedom Funds: the asset allocation model works and it is age appropriate. Kate mentioned that the new TIAA-CREF application, which allows participants to check a pie-chart model, is very good. Others agreed. Mike Mitchell confirmed that over 60% of their applications are now completed with one of the boxes checked, although over 70% of the new money coming into the company has been going into the Traditional Account.

Howard inquired whether there would be a legal barrier to the Program having a default randomly assigned. Kevin Bahr mentioned that we have to be careful: an S&P 500 index fund may not be appropriate for a 50-year who will be retiring in seven years. Mary reminded the committee that several years ago companies were asked to name core funds and they refused. Lucretia reminded us that the responsibility has to remain with the individual investor. Mary mentioned that she would explore some of these ideas with the companies. Linda commented that anything that makes it easier to get in the door would be helpful. Mary thanked everyone for the suggestions

9. **2002-2003 TSA Program Budget:** Mary reviewed the TSA Program budget. One reason we did well last year was that Sue Chamberlain was on assignment elsewhere and her salary was not charged to the Program. Our costs have gone up somewhat this year, and our income will not go up. The budget is for the committee's information and does not need to be approved.

10. **Spring meeting date:** The spring meeting will be Friday, April 25, 2003.

Dick Marcus moved to adjourn, Kate Kelley seconded. The motion passed.
The meeting was adjourned at 3:00 p.m.