

Tax-Sheltered Annuity Review Committee

Minutes

November 14, 2008

- Members Present:** Kevin Bahr (Vice-Chair), Carol Fischer, Robert Kunkel, David Porter, Valeriy Sibilkov, Donna Weber, Robert Wolf
- Members Absent:** Howard Erlanger, Kathleen Kelley (Chair)
- Staff:** Chris Ashley, Sue Chamberlain, Terry Lauber, Rose Stephenson
- TSA Vendors:** Renee Srock, Ameriprise/RiverSource; Peter Palmieri, Angela Rinaldo, Dreyfus; Angela Osborne, Fidelity; Betty Custer, Lincoln; Doug DiCocco, TIAA-CREF; Danielle Rogers, T. Rowe Price
- Guests:** Julie Gau, UW Service Center

Kevin Bahr 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

David Porter noted that a space was needed between “7” and “e” in the first sentence of item 10.

MOTION: Carol Fischer moved to approve the April 11, 2008 TSARC meeting minutes as corrected. David Porter seconded. Motion passed.

3. Election of Chair and Vice-Chair

Committee members and staff complimented Kate Kelley on the fine job she has done as Chair. Kate was out of the country and unable to attend the meeting. She had told Rose that she may retire in two or three years. Kevin Bahr commented that he would be happy to fill in should Kate not be able to be at a meeting or to complete her term. Carol Fischer nominated Kate Kelley for Chair and David Porter seconded. Carol Fischer nominated Kevin Bahr for Vice-Chair and David Porter seconded.

MOTION: Carol Fischer moved to accept the nominations and elect Kate Kelley Chair and Kevin Bahr Vice-Chair. Robert Kunkel seconded. Motion passed unanimously.

4. Presentation: Market Overview and Outlook, Sandy Drew and Vicki Hearing, State of Wisconsin Investment Board

Sue Chamberlain welcomed Sandy Drew, Legislative and Beneficiary Liaison, and Vicki Hearing, Public Information Officer, who were presenting the perspective of the State of Wisconsin Investment Board (SWIB) on the financial markets in regard to the Wisconsin Retirement System (WRS).

SWIB is the state agency responsible for investing the assets of the Wisconsin Retirement System (WRS). The WRS is made up of the Core Fund and Variable Fund. The Core Fund is the larger of the two funds and is well diversified with approximately 30% of its assets in fixed income. Active WRS participants can have 50% of their retirement contributions in the Variable Fund. Assets of the Variable Fund are invested 100% in stocks making it more volatile than the Core Fund. As of October 31, 2008, based on preliminary returns, the Core Fund was down 26% and the Variable Fund down 36.2%. Core Fund investment returns are smoothed over a five-year period to reduce volatility. Variable Fund investment returns are not smoothed.

Sandy noted that the retirement system is sound, in part because SWIB's long-term investment focus helps the WRS withstand challenging economic times. Sticking to a disciplined approach is especially critical

during volatile markets and has proven to be the best strategy for long-term investors, such as SWIB. SWIB's approach has helped the WRS to weather past periods of significant market stress, including the severe stock market downturn of 1987 and three consecutive years of stock market losses in 2000-02.

SWIB is getting calls from active employees and retirees. These calls are an opportunity for SWIB to provide information and education on the WRS. Committee members and any University of Wisconsin staff should not hesitate to contact Sandy and Vicki for copies of their materials to give to employees.

The committee thanked Sandy and Vicki.

5. Final 403(b) Regulations Summary

Rose Stephenson reported to the committee on the IRS's Final 403(b) Regulations. Because of the additional reporting requirements, the Wisconsin Department of Employee Trust Funds has decided the WRS could no longer accept pre-tax 403(b) contributions as of January 1, 2009. An article regarding this is in the fall issue of the *TSA Investor*, which was distributed to all UW employees except student hourlies. In 2008 approximately 350 employees have contributed to the WRS through the TSA plan.

Rose noted that the Final 403(b) Regulations have affected other providers. Rose received a letter from Wells Fargo (a former provider) dated October 17, 2008, informing the University of Wisconsin System that it has decided to no longer participate in the 403(b) market.

6. Final 403(b) Regulations Discussion and Implementation

Rose Stephenson summarized the effect of the Final 403(b) Regulations on the plan's ability to offer hardship withdrawals and loans. She provided a spreadsheet reporting the number of loans in 2007 (163), loans outstanding (596), and number of hardships in 2007 (19) by the investment companies.

To implement any changes to the Plan, amendments to the UW TSA 403(b) Plan Document would be needed. Chris Ashley explained that the actions needed regarding hardship withdrawals and loans were not due to legal issues but administrative issues.

Due to a scheduling conflict, Chris left the meeting but was available via phone.

- a. Hardship Withdrawals – Under the provisions of the Final 403(b) Regulations, as of January 1, 2009 employees can no longer “self-certify” hardship withdrawals. Rose reported that after the committee's motion at its last meeting to eliminate hardship withdrawals, she examined in detail all possible options and discussed the options with legal counsel and the investment companies. Based on this, Rose recommended abiding by the motion from the April 2008 meeting. The elimination of hardship withdrawals in the UW System TSA 403(b) Plan would be communicated to employees with an article in the *TSA Investor* and by posting a notice on the UW System TSA website. TSA Coordinators at the campuses would be notified. If an employee called an investment company, they would be informed that our plan no longer offers hardship withdrawals. To reinforce the action of the committee at its April 11 meeting, the following motion was made.

MOTION: Carol Fischer moved to reaffirm the elimination of hardship withdrawals as of January 1, 2009. David Porter seconded. Motion passed unanimously.

- b. Loans – Rose commented that loans may provide a way for participants to access their accumulations if there is a financial hardship. All of the investment companies in our UW TSA Plan will now be able to offer loans to our participants.

Under IRS regulations, the maximum amount a participant may borrow is the lesser of \$50,000 or one-half of the account balance (but at least \$10,000). The total of all loans from UW 403(b) accounts cannot exceed \$50,000. Loans must be monitored across all investment providers. In plans with multiple providers (because of providers' limited access to participant information from other providers), this

must be handled by a Third Party Administrator (TPA) or by the plan sponsor (employer). While TIAA-CREF and Lincoln offered loan monitoring options neither provided a workable means for the UW to monitor and coordinate loans. TIAA-CREF opted to work through a TPA, which was cost prohibitive for the UW – approximately \$12,000 per year. In addition, this option required daily data feeds from our other investment companies, which many could not provide. Lincoln's loan monitoring tool required Lincoln to be the common remitter. This would entail extensive IT programming changes in our payroll process at a time when UW System energies are focused on implementing a new payroll system. It would also mean a 24-hour delay in crediting participant accounts with contributions.

Rose presented a process through which the UW could authorize and monitor loans. Rose noted that if the number of loans continues at the current rate – 163 loans in a year, as there were in 2007 – the UW could manage the loan approval process from a work load standpoint; however, if that number increased dramatically, this process may not be manageable. Sue Chamberlain clarified that the procedure would be made on a trial basis. Rose stated she would report to the committee in April. A backup plan would be to offer loans from only one provider; in that instance, employees would need to transfer their funds and then receive their loan from that provider.

MOTION: Carol Fischer moved to approve the loan approval and monitoring process as proposed in Rose Stephenson's memo: Going forward in the UW TSA 403(b) Plan, only one loan will be available at any time from any company; the participant will request the loan directly from the investment company and the company will model the loan based on the assets the participant holds at the company; UW TSA Plan staff will approve the loans as appropriate. Robert Kunkel seconded. Motion passed unanimously.

The committee broke for lunch from 11:50 to 12:35.

7. Approval of Revised Plan Document to Incorporate PPA and Final 403(b) Regulation Changes

Rose presented the Tax-Sheltered Annuity 403(b) Plan Document incorporating the Pension Protection Act and IRS Final 403(b) Regulation provisions to the committee.

The UW TSA 403(b) Plan Document has been revised to:

- 1) integrate the EGTRRA provisions that had been at the end of the document in a separate Article XI into the body of the document
- 2) incorporate the changes the TSARC has already adopted that stem from the Pension Protection Act of 2006
- 3) incorporate the changes from the Final 403(b) Regulations, which will be effective on January 1, 2009 so that the plan will be fully compliant with IRS regulations.

Language that was added came primarily from the IRS model plan language.

Rose went through the specific revisions to our Plan Document and noted that Chris Ashley and the TSA investment companies have reviewed it. The TSA Review Committee complimented Rose for her work.

MOTION: Carol Fischer moved approval of the Tax-Sheltered Annuity 403(b) Plan Document revised November 14, 2008 as submitted. Donna Weber seconded. Motion passed unanimously.

Rose asked the committee's authorization to make non-substantive changes to the Plan Document as needed after further review by our investment companies' legal counsel before sending it to President Reilly for his approval.

MOTION: Donna Weber moved to allow Rose Stephenson to make non-substantive changes to the Plan Document as needed. Carol Fischer seconded. Motion passed unanimously.

8. Designating Default Funds

Rose Stephenson addressed the subject of T. Rowe Price and Dreyfus designating default funds in her memo of November 10, 2008 to the committee. She directed the committee to the Fidelity Regulatory & Legislative Update addressing the Department of Labor issuing a final regulation relating to Qualified Default Investment Alternatives in participant-directed individual account plans.

a. T. Rowe Price

Danielle Rogers presented a T. Rowe Price Retirement Plan Services Asset and Contribution and Individual Fund Report to the committee, as well as the T. Rowe Price “pure simplicity” brochure for the target date funds. The Target Retirement Date Funds based on a retirement age of 65 were proposed as the T. Rowe Price default funds. Danielle Rogers stated that the default funds would not be used that often.

b. Dreyfus

Pete Palmieri stated it is very unlikely a participant would need a default fund. The Liquid Assets Money Market Fund was proposed for the Dreyfus default option. Dreyfus does not have target retirement date funds. Should the TSARC not wish to select the Liquid Assets as a default fund, the most appropriate fund would be the Dreyfus Premier Balanced Opportunity (ticker DBORX).

Rose reported that although Howard Erlanger was unable to attend the meeting, he did indicate that in his opinion the Dreyfus Premier Balanced Opportunity Fund should be adopted as the Dreyfus default fund. Rose explained as a governmental plan we do not fall under ERISA guidelines, but we try to follow them as best practices. We have protection if we adopt default funds.

MOTION: Val Sibilkov moved that the Target Retirement Date Funds be the T. Rowe Price default and the Dreyfus Premier Balanced Opportunity Fund be the Dreyfus default. Carol Fischer seconded. Motion passed unanimously.

9. Update from Insurance Companies on Ratings

Rose Stephenson presented an insurance company ratings update. We require an average rating of 3 or greater from the five rating services, Best, Fitch, Moody's, S&P, and Weiss calculated by adding indicated point values and dividing the sum by the number of ratings included. TIAA-CREF's rating remains a 4. Weiss has been bought by TheStreet.com and Weiss ratings are no longer available. TheStreet.com ratings for Lincoln are the same as the Weiss ratings were; however, there are no TheStreet.com ratings available for RiverSource (formerly IDS), since it is a new entity.

Renee Srock, Ameriprise/RiverSource, reported the ratings of the other four agencies remain the same.

Betty Custer presented the Lincoln Financial Group brochure “The strength to deliver on our promises, An Overview of Our Financial Results June 30, 2008” addressing Lincoln's financial strength. Without the TheStreet.com rating Lincoln would have an average rating of 3.

There was a discussion regarding the Weiss rating and the validity of the ratings. It was pointed out that the Weiss rating was generally lower than the other agencies.

MOTION: Carol Fischer moved to amend the financial stability standards by taking Weiss out of the equation. David Porter seconded. Motion passed unanimously.

The financial stability standards established in the UW Tax-Sheltered Annuity Criteria and the ratings will be further addressed at the April 2009 meeting of the committee.

10. TSA Investment Companies

- a. T. Rowe Price – Danielle Rogers, our client relationship manager, reported that with the new 403(b) regulations T. Rowe Price is moving to a new record keeping platform. T. Rowe Price now has a communications budget for the UW System and more individuals are working with the UW System account. There will be plan sponsor website, and welcome kits will be customized for UW employees.
- b. Dreyfus – Peter Palmieri and Angela Rinaldo reported to the committee. The new custodial agreement, which will bring them into compliance with the January 1, 2009 regulations, and the services agreement will be signed soon. There will be an interactive website for employees to make exchanges to their investments and do research on future investments. The newly available online enrollment has been very successful.
- c. Ameriprise/RiverSource – Renee Srock reported Ameriprise/RiverSource has gone to a third party record keeper and is looking at a January 1, 2009 implementation. Since April three errors were brought to their attention, all of which occurred in early 2007. Two participants were in products which were not approved for UW employees. The clients were made whole and put into correct products as of the original date. The third error was a transfer to an unauthorized investment provider, which Ameriprise is working on resolving.
- d. TIAA-CREF – Doug DiCocco reported the new TIAA-CREF/UW micro site is now live. It was developed specifically with our plan in mind. UW employees are very active users of the web with 90 plus percent of UW enrollments done online.

11. Review of Educational Initiatives

Rose reviewed the workshops she and Terry presented in 2008 – 338 employees attended presentations at the campuses so far this year. Rose thanked committee members David Porter, Kevin Bahr and Bob Kunkel for presentations they made to campus employees in conjunction with Terry's workshops and noted that Kate Kelley proactively arranges for TSA presentations at her campus. All members were thanked for their continued dedication and work.

Rose also provided a list of the individual TSA counseling sessions and group seminars put on by the investments companies. Dreyfus, Fidelity, T. Rowe Price and TIAA-CREF were at campuses for individual counseling sessions this fall.

12. Other – Materials from Rose Stephenson

Rose directed the committee's attention to articles provided *Perhaps Not a prophet, but Definitely Prophetic* and *IRS Publishes New Plan Limits for 2009*.

13. Next Meeting

The spring TSA Review Committee meeting will be April 24, 2009.

14. Motion to Adjourn

MOTION: Carol Fischer moved that the meeting be adjourned. Donna Weber seconded. Motion passed unanimously. The meeting was adjourned at 2:10 pm.