

Tax-Sheltered Annuity Review Committee

Minutes

April 2, 2004

Members Present: Kevin Bahr, Ron Crabb, Kathleen Kelley (Chair), Richard Marcus, Lucretia Mattson, Lori Worm

Members Absent: Robert Carney, Howard Erlanger, Carol Fischer, Randall Ryder (Ex-officio)

Staff: Mary Anglim, Chris Ashley (Office of General Counsel), Mark Bengry, Sue Chamberlain, Rose Stephenson

TSA Vendors: Bill Ryder, Jeff Janechek, American Express/IDS; Becky Brauer, Jill Snyder, AUL; Ed Quinn, Fidelity; Gina Krapf, Lincoln; Rich George, Scudder; Joe Curtola, Sarah Henriksen, Jamie Wanless, Strong Investments; Mike Mitchell, TIAA-CREF

Guests: Roy Dorman, UW Processing Center

Kate Kelley called the meeting to order at 9:35.

- 1. Introductions:** The TSA Review Committee, UW System staff, and guests introduced themselves.
- 2. Approval of Minutes:** Lucretia Mattson moved approval of the minutes of the October 25, 2003 TSARC meeting as submitted. Lori Worm seconded. Motion passed.
- 3. Annual Report:** Mary Anglim presented the TSA Program 2003 Annual Report, which was distributed before the meeting.

The Program now has approximately one billion dollars in assets, including estimated WRS assets. Contributions increased in 2003 by almost \$2 million but participation decreased, reflecting both an increase in drop-outs from the Program and fewer new participants. Continuing a steady trend, contributions to mutual funds, the WRS, and TIAA-CREF increased in 2003 and decreased to the other insurance companies.

TSA participants continue to be on average a little bit older, make more money and have more WRS service than those not in the plan. Unclassified and executive category employees participate in the Program at a higher rate than classified employees

Almost half of all participating employees contributed under \$4,000.00, but 26% contributed more than \$9,000. The dollars amounts contributed in 2003 were higher in each month than in the same month in any previous year, peaking in December.

In 2003, participants continued to reduce their contributions to large-cap, mid-cap, and international funds and increased contributions to fixed annuities, money market funds, and bonds. Contributions to the top 10 funds accounted for 45% of all contributions to the Program.

Dick Marcus moved to accept the annual report with updates for late-reported data and other clerical changes; Ron Crabb seconded. Motion passed.

4. **Outreach and “Getting Started” projects:** Agenda item 6 was taken out of order. Mary Anglim presented information on the Getting Started Project, referring the committee to the handout items. Mary and Rose sent out mailings to three targeted groups of employees at three campuses with lower TSA participation, Platteville, Parkside, and Stout. The three 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. Educational sessions on the target campuses will follow up on the mailings.
5. **Fiduciary Responsibility and Liability** – presentation by Chris Ashley of UWSA general counsel’s office, who serves the committee as UW System legal counsel. Chris agreed to give a presentation on fiduciary duty after questions regarding whether the Program could propose a list of default funds or a very short list of funds for the beginning investor arose during the October 2003 TSA Review Committee. Chris gave a Powerpoint presentation (attached) and addressed Mary’s Questions about Fiduciary Obligations in the UW 403(b) Plan.

In Chris’ opinion, it is difficult to bring a complaint against a fiduciary and is unlikely that the UW 403(b) Program would be sued for a fiduciary violation. The courts would look at the nature of the relationship (for example, the expertise of the advisor and whether compensation was involved). It would probably apply ERISA rules and case law even though governmental plans are not subject to ERISA. Therefore, the Program would do well to use ERISA as its standard.

Advice and counsel do not in themselves create liability, but once they are offered, plan sponsors risk a fiduciary violation if they do not keep the information up to date. Section 404(c) offers a safe harbor for plan sponsors, but the safe harbor could be lost if the plan offers advice to individuals on a regular basis, for example, more than twice a year. Chris advises us to be very cautious in mentioning the names of funds. Our current list of selected returns is as far as we should go to help participants sort through plan offerings.

As an alternative to providing a short list of investment options, Chris suggests that the plan create a more user-friendly web site, specifically disclaim intent to give advice, and link to tools and information on the vendor sites.

6. **Report from Strong Investments:**

Sarah Henriksen, Jamie Wanless, and our new client relationship manager, Joe Curtola, appeared on behalf of Strong. They reviewed the Strong Board of Directors’ actions to reorganize the firm after Dick Strong’s resignation, to find a buyer, and to determine the damages to shareholders that may have resulted from the market timing practices. This latter question is part of the regulators’ process and nothing definite is available at this time.

In order to guard against short-term trading Strong is considering instituting a two-step redemption fee and warning process. After the second infraction the investor would be barred from investing for a year. Committee members responded that for the average investor the 2% redemption fee discussed seemed punitive. Strong representatives assured the committee that the firm is committed to continuing to offer high quality investments and shareholder services. Although a few of the fund managers left the firm, most have stayed with Strong; there has not been a mass exodus and most funds performed well in the first quarter of the year.

The committee adjourned for lunch at 11:45 and reconvened at 12:35.

Kevin Bahr and Dick Marcus had commitments and needed to leave the meeting at this point. Since there was no longer a quorum of members, the following presentations were for information only.

7. Plan Enhancements:

- a. **TIAA-CREF:** Mike Mitchell provided updated information on the mutual funds that are proposed for inclusion in the Program.
- b. **Fidelity:** Update on additional services available. Ed Quinn stated that Fidelity will roll out an on-line enrollment program similar to the program offered by TIAA-CREF. Participants will still need to file a paper beneficiary designation. No administrative agreement is necessary.

Ed described the details of offering a loan program to TSA participants through Fidelity. The participant would pay an application fee, typically \$35.00. The Program can set the interest rate, which ultimately goes back into the participant's account. To initiate a loan program, we will need to sign a recordkeeping agreement. This topic will come back to the committee in October.

The Retirement Plan Manager program, which offers some discretionary management services, does not handle rebalancing very well for people with government retirement programs, and since the agreement has language that may present a legal hurdle, this program is not recommended at this time.

In closing Ed commented that Fidelity is committed to increasing its education efforts on UW campuses. Studies have shown that it takes at least "three touches" to convince employees to save for retirement, and Fidelity will help the Program increase participation.

- c. **American Express/IDS:** New contract. IDS has replaced the new RAVA Select product with the RAVA Select Plus. The new product would permit an annual fee increase that would bring the annual fee to more than \$30.00, thus violating the Criteria of the UW 403(b) Plan. Jeff Janecek presented a letter in which American Express Financial Advisors revokes its right to increase the annual contract fee for any UW 403(b) participant.

8. **Miscellaneous:** Mary updated the committee on administrative efforts to increase electronic remittance of plan contributions, and pointed out several articles included in the packet. She mentioned that the TSA Program had been a model plan on the *403bwise* web site, but we lost this status because of the large number of funds we offer.

9. **Next meeting date:** The fall TSA Review Committee meeting will be Friday, October 29, 2004.

Ron Crabb moved the meeting be adjourned. Lucretia Mattson seconded. The meeting was adjourned at 1:40 p.m.