

Tax-Sheltered Annuity Review Committee

Minutes

April 5, 2002

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

Members Absent: Robert Carney, Randall Ryder (Ex-officio)

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

TSA Vendors: John Lynch, American Express/IDS; Jay Lauck, AUL; Susan Zacchia, Dreyfus; Edward Quinn, Fidelity; Betty Custer*, Lincoln; Ryan Rippin*, T. Rowe Price; Jon Maertz, Strong Investments; Mike Mitchell*, TIAA-CREF, Mary Willett*, WRS.

Guests: Barb Roberts*, UW Processing Center

Due to UW budget constraints, this TSARC meeting was held via web teleconference using Wisline Web. Starred () individuals were present at 780 Regent Street; others attended by teleconference.

The meeting was called to order at 10:00.

- 1. Approval of Minutes:** Richard Marcus moved, Lucretia Mattson seconded, approval of the minutes of the October 26, 2001 TSARC meeting. Motion passed.
- 2. Update on state budget proposals regarding staff benefits and compensation:** Sue Chamberlain discussed benefit provisions in the Assembly Budget Adjustment Bill and the Senate's Early Retirement Proposal. The Assembly Budget Bill would:
 - suspend the funding for the sick leave conversion program,
 - cap the sick leave accrual for conversion credits,
 - require employees to pay a portion of their health insurance premium,
 - increase the health insurance premium for part-time employees, and
 - eliminate the state contribution to ICI.

The Early Retirement Proposal would provide an early retirement window for UW System employees from January 1– July 1, 2003, and for other State employees from July 1, 2002 – January 1, 2003. The incentives during the window would include adding three years to the employee's creditable service, two years to the employee's age for age reduction purposes, and \$20,000 to the supplemental sick leave program. The earliest retirement age would be 53 (or 48 if protective). It is estimated that 6,000 would elect retirement statewide, or approximately 35% of those eligible. At the UW, an estimated 1797 unclassified and 948 classified staff, or a total of 2,745 employees, would retire. The pension actuary assumes an increase of 1.4% of payroll and a ten-year amortization period. The total cost over ten years is estimated at \$421.5 million. State agencies would be required to lapse salary and fringe benefit funds for those who retire, however, the UW System would be exempt from this requirement. The Legislative Reference Bureau estimates a savings to the State of \$83.4 million in 2002-2003, offset by increased pension costs of \$36.4 million.

Chuck McConnell discussed the state budget proposals as they relate to the compensation plan. In the governor's budget proposal, the University budget had a \$51 million cut to the GPR line. After review from the Joint Finance and the Assembly Republican Caucus Committees, that cut was increased to \$100 million,

which precipitated the Regents' action to freeze tuition. Under the assumption that the actual cut would be more in line with the Governor's original proposal, the freeze was lifted. The Democratic caucus proposed a \$20 million cut, but capped tuition at 8%. Chuck mentioned that the Conference Committee would probably come up with a compromise that is somewhere between the proposals.

The University hiring freeze remains in place. There was an action by Joint Finance to remove the compensation reserve, which would affect the pay plan. The pay plan was approved to include a 4.24% increase to be phased in July 1, 2002 and January 1, 2003. It was expected that to fund this, 1% would be drawn from the compensation reserve. If the reserve were removed, the money to fund the pay plan would be difficult to recover. It could be recovered by increased tuition; however, tuition is likely to be capped.

The Senate Democrats have restored the compensation reserve and the pay increase is still in place. In response to a question as to whether the pay plan is in danger of being cut, Chuck explained that the pay plan was approved by the Legislative Joint Committee on Employment Relations (JCER) some time ago. Employees are under contract, which cannot be undermined by legislative action, and the Legislature does not deal with compensation for faculty or academic staff. If funding sources were cut, however, the University might have had to go back to JCER and reopen the negotiations to request a smaller increase, for example 3.24%, but the fear would be then that no increase at all would be approved.

The represented staff still does not have a proposed pay increase. Some of the unions have brought proposals to their membership, but the votes have not yet been counted, since the unions are waiting to see what the outcome of the budget negotiations may be.

- 3. State tax law update:** Mary Anglim reviewed efforts to have the Wisconsin State tax law conform to the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA). Under EGTRRA, the elective deferral limit is increased to \$11,000 in 2002 and will increase each year by \$1,000 until 2006, the MEA calculation has been repealed, and the 415c limit of 25% of salary has been increased to 100% of salary. In addition, TSA and Deferred Compensation contributions no longer need to be coordinated, rollover options have been expanded, an age 50 and over catch-up has been added for both 403(b) and 457 programs, and both IRA and Roth IRA limits have been increased. There is also a Saver's Credit, a tax credit incentive program for lower income investors.

State tax law does not currently conform to the federal provisions. This means that contributions in excess of the 2001 limits would be taxable in Wisconsin and subject to excise penalty and that many rollovers would not be tax-deferred. The nonconformance means extra bookkeeping for participants and for investment companies and could have complications in payroll withholding of state taxes. There would be, in the words of the Department of Revenue, 'irreconcilable differences' between state and federal law as to what constitutes a qualified plan. The governor's budget repair bill and the Assembly amendment both include conforming legislation; the Democratic version will probably have something similar, although it is not known yet. It is expected that the legislation would be retroactive to the date the federal law applies. In a worst-case scenario, if this were not corrected by the fall, we would have to take some corrective procedures and notify participants.

Department of Revenue estimates the cost to the State of conforming Wisconsin law to federal EGTRRA law would be a little over one million dollars in 2002 and roughly \$3.25 million in years to come.

- 4. Financial Education Resources:** Linda Boelter reported on the Governor's Task Force on Financial Literacy, on which she has served since January. The mission of the Task Force is *to assess the basic knowledge and skills needed by our youth, to catalog existing successful education efforts, to assess the adequacy, nature, and extent of financial education and identify the gaps, and suggest ways to meet those needs*. There are approximately 30 members on the Task Force with a broad base of expertise. Linda represents UW-Extension.

She commented that the focus of the Task Force is on financial literacy education for youth but noted that the definition of youth is quite broad --K-16, which includes college students. She noted that Mark Schug,

also on the Task Force, described financial education as a “homeless curriculum” – there are bits and pieces of curriculum around with no one focus on it. The Task Force is committed to making some recommendations that will improve the situation and better prepare young people in our state to understand some of the critical issues in personal finance.

Linda then led us through the financial education course that is available on-line at www.investing.rutgers.edu. She suggested it as a tool to better inform potential participants in the TSA Program and to encourage participation, as well as to help participants make informed decisions within our plan. The web site is part of an initiative in Cooperative Extension on a national level called *Financial Security in Later Life*. Retirement planning is a key focus. The web site *Investing for Your Future* is a home study course that has been recently updated with current law changes. It was designed for the beginning investor and was written as a collaborative effort by various Extension specialists across the country. Linda is one of the specialists who answers e-mail questions, and she has gotten many interesting questions. There is no cost to use the site, although those who do use it are asked to register. The print version is available through the Extension publications office. It is 160 pages and costs \$11.50 with quantity discounts available. Linda mentioned that this might be something HR departments may want to have as a resource. She would appreciate comments and feedback on the site.

Financial Security in Later Life has received collaborative support from many partners nationwide, e.g., the US Treasury and the American Savings Education Council. Soon they will roll out an educational program entitled *Choose to Save* (www.choosetosave.org) with over 100 different calculators on its web site and no advertising. The America Save campaign – a collaborative effort including 90 different sponsors – is a social marketing campaign to encourage people to save, which will also be rolled out soon. Linda is working with a pilot effort starting in May for a three-county area – Oneida, Forest and Vilas counties – called *Northwest Save*. *Milwaukee Save* is also organizing. These programs are locally supported with a goal of changing the social norm to make saving a value and encourage people to increase their financial security and save for retirement.

5. **Policy on roll-ins:** Mary introduced the plan amendment to allow roll-ins to our Plan from other sources in addition to 403(b) sources. Last fall we talked about what our policy on roll-ins should be in light of the new pension portability provisions in the EGTRRA reforms but did not arrive at a decision. The policy Mary proposed would go into effect once the state law permits roll-ins of this type to be excluded from taxable income. The Program would accept 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 would treat all money as 403(b) money, but we would not restrict access to it, as we do with our 403(b) money.

Howard Erlanger moved to adopt the plan amendment as worded in the memo dated April 2, 2002, distributed to the committee by e-mail. Kate Kelley seconded. With Richard Marcus’s request, the wording of the policy was displayed on Wisline web. Richard wondered whether we currently have employees requesting roll-ins. Mary replied that we do have a few. Participants may have money from some other place that they would like to consolidate.

Hearing little discussion, Mary asked if the committee would prefer waiting to make its decision. Howard replied that he felt comfortable with the policy and that we might as well do it now to have it in place. Kate remarked that she sees this policy as an additional benefit for employees. Dick commented that sometimes it is better to have different pots of money because you can take the money at different rates, but some would rather consolidate. This proposal would allow people to roll-out as well as roll-in. Linda commented that the committee wants to make it as easy as possible to participate and contribute to the plan.

The motion passed unanimously.

6. **Insurance company report:**

Ratings: Mary addressed insurance company ratings. She explained the background to the memo dated April 4, 2002, distributed by e-mail. There have been no changes to insurance company ratings since October 2001. Mary reviewed the changes that had occurred earlier in 2001. IDS/American Express had

experienced downgrades from three services, although it continues to be a very conservative company. American United Life had a downgrade from A.M. Best and is now on watch for possible downgrades from three ratings services, A.M. Best, Fitch, and Moodys. Mary recommended that we send a letter informing AUL contributors that AUL does not qualify as a very conservative company, as we did with Lincoln. She added that we should probably wait until at least July or August, when the new ratings come out to verify the outcome of the watches. Kevin Bahr asked whether we provide an exact explanation of what it means to be a conservative as opposed to a very conservative company. Ron Crabb commented that in his opinion participants do not understand what it means to be a conservative versus a very conservative company. Mary responded that the letter sent out to Lincoln contributors was very carefully crafted. Responding to Richard's inquiry about the outcome of the Lincoln letter, Betty Custer related Lincoln's experience: they did lose some participants, but that may have been exacerbated by difficulties they were having with former Lincoln agents.

Kate Kelley commented that if we have a rating system, then we need to respond accordingly. Howard agreed, commenting that if we have it, we need to use it, but then noted that when we put a company on watch, it is actually our watch. Mary responded that that was correct, the committee has very broad discretion on what action to take.

Richard Marcus moved that we should write a letter informing AUL participants of the company's change in status from "very conservative" to "conservative." Kate Kelley seconded.

Kevin Bahr requested that if we write a letter to participants informing them of the change in status from very conservative to conservative, we make sure to explain what that means. Mary responded that we can explain what the ratings are, but we cannot explain what they mean because those ratings are proprietary. Kevin agreed, but wanted to be sure we explained the significance of being a conservative as opposed to very conservative company. Linda Boelter reminded us that the ratings only pertain to the fixed investments and requested that that be included in the letter as well.

Richard requested that his motion be amended to include that we wait until we see the outcome of the watches, when a letter may no longer be needed. Mary remarked that early in the fall she would notify the committee of the situation and prepare a draft letter for committee review at that time.

A vote was taken on the motion as amended; it passed unanimously.

Mary recommended that the committee recognize that IDS/American Express was on review and should be reviewed again in the fall. Richard questioned whether we needed a motion for this, with the assumption that this was automatic. Mary responded that she wanted direction to inform the investment company of the status.

Howard Erlanger moved the recommendation; Lori Worm seconded. Motion passed unanimously.

Prospective new IDS annuity product RAVA Select (Retirement Advisor Select Variable Annuity):

Mary announced that IDS has come out with a new product: the RAVA Select. We reviewed the Retirement Advantage Variable Annuity product last spring, but since it has a rolling surrender charge, it is not acceptable in our plan. IDS has now come out with the Retirement Advisor Select Variable Annuity (RAVA *Select*), which has a three-year surrender period as of contract date. However, the participants who want to move their money from the old product to the new one begin a new surrender period. It is like the Retirement Advantage but has additional bells and whistles, such as a 1% bonus for contracts above \$250,000 and an optional enhanced death benefit. Mary stated that it is not clear whether we should allow the bells and whistles. This product does meet our criteria, and we have no reason not to offer it unless we would hesitate because of the downgrade. There was discussion about the impact of the downgrade, which pertains only to the fixed account.

Dick Marcus moved that we permit the Retirement Advisor Select Variable Annuity to be included in our plan. Howard Erlanger seconded. Linda Boelter questioned whether we should discuss the extra bells and whistles. Mary responded that the bonuses for large contracts may be serve as a way to turn over large accounts. Lucretia Mattson questioned whether IDS tends to target individuals with larger accounts with the 1% bonus. John Lynch responded that it would be offered to everyone "equally across the board."

Ron asked what the added cost was for the enhanced death benefit. John responded that it was an option, not automatically a feature of the contract; participants would have to sign up for it. The cost is 0.15%.

The question was called. It passed unanimously.

7. **Fall meeting date:** The fall meeting will be Friday, November 1, 2002.

Congratulations were extended to Ron Crabb for winning the Hermenson Outstanding Teacher Award for the College of Business and Economics at UW-Whitewater. This is a special honor since the winners are selected by students.

8. **Annual Report:** For those who could stay, Mary reviewed the 2001 Annual Report. She noted that things look pretty much the way they did last year. Our assets went down, not surprising given the market conditions; our contributions went up, gratifying given the nature of the year we just went through. Mary expressed concern that we did not enroll existing employees at the same rate we did in the past and directed the committee to page 9. This gap in enrollment can be blamed on the events of September 11 and the down markets of the past two years. Mary then turned the committee's attention to page 7, which shows a month-by-month break down of the number of participants and contributions to the plan. In the last part of 2000, contributions were still very high. Mary would especially like to target two groups for participation in the Program, younger employees and lower-income employees.

In response to Ron's inquiry about data on movement between the vendors, Mary pointed the committee to pages 10-11, *2000 and 2001 Vendor Selection*. Massive exodus from one vendor to another is not evident. Mary noted that there is a little more interest in the WRS than there has been in past years, as it may look like a fairly safe option.

Mary compared our asset allocation figures to TIAA-CREF and Fidelity. Our employees' behavior is similar to that of employees in similar plans.

Dick wondered how campuses have done in getting new members. Mary responded that it wasn't in the report but that she could get it to the committee. Mary added that she could put together other kinds of data views if the committee members would let her know what they would like to see. Kate responded that it would be nice to not only have the percentages of participants, but to also compare the actual number of participants from year to year. Mary noted that these numbers count everyone who has been around for even a month. If someone leaves in June and that position is filled by someone else in the fall, that position is counted twice, so that it overstates the employee base.

Howard thanked Mary for arranging the meeting using Wisline web and noted that it was a very good solution given the budget problems and that it was helpful having the meeting on line. Dick also added that he liked the use of the Internet for keeping the meeting on track.

The meeting was adjourned at 12:00