

Tax-Sheltered Annuity Review Committee

Minutes

April 22, 2005

- Members Present:** Kevin Bahr, Robert Carney, Ron Crabb, Kathleen Kelley (Chair), Lucretia Mattson, Qinghai Wang, Lori Worm
- Members Absent:** Howard Erlanger, Carol Fischer, Randall Ryder (Ex-officio)
- Staff:** Mary Anglim, Chris Ashley, Sue Chamberlain, Rose Stephenson
- TSA Vendors:** Jeff Janecek, American Express/IDS; Ron Fetters, Jill Snyder, AUL; Gina Krapf, Conni Tebbe, Lincoln; Joe Curtola, Jon Guenther, Wells Fargo; Mike Mitchell, TIAA-CREF
- Guests:** Kara Webber Schiro, UW Processing Center; Donna Weber, UW-Eau Claire

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

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

1. Approval of Minutes:

MOTION: Kevin Bahr moved approval of the minutes of the October 29, 2004 TSARC meeting as submitted. Lucretia Mattson seconded. Motion passed.

Resolution of commendation: Kate Kelley interrupted the order of business to read a resolution of commendation for Mary Anglim who is retiring at the end of the month.

MOTION: Lucretia Mattson moved to accept the commendation. Lori Worm seconded. Motion passed. Kate Kelly on behalf of the Committee and UW campuses expressed appreciation to Mary for all she has done.

2. Election of chair and vice-chair:

Kate mentioned that since elections are usually held in the fall of even-numbered years, this could be delayed until the fall.

MOTION: Ron Crabb moved to hold the election today. Lucretia Mattson seconded. Motion passed without objection.

MOTION: Kevin Bahr moved to cast a unanimous ballot for Kathleen Kelly as chair. Ron Crabb seconded. Motion passed.

Bob Carney nominated Kevin Bahr as Vice-chair. Ron Crabb seconded.

MOTION: Lucretia Mattson moved that nominations close and that a unanimous ballot be cast for Kevin Bahr. Ron Crabb seconded. Motion and nomination passed without objection.

3. Role of Wells Fargo in the UW 403(b) Program:

Mary introduced the item and reviewed the materials provided today and in the packets. Joe Curatola, our Strong/Wells Fargo client relationship manager, introduced Jon Guenther, Assistant Vice-President for the funds management group with Wells Fargo.

Jon Guenther reviewed the merger process: On January 3, 2005 after board and shareholder approval, the merger of Strong and Wells Fargo began. System conversions and transfer agency changes to Boston Financial Data Services began in March. The Wells Fargo Boston Call Center has been moved to Menomonee Falls to create additional jobs in Wisconsin. In April the funds merger took place in which Strong funds merged with Wells Fargo funds to become *Wells Fargo Advantage* funds. Most of the funds in the program did not change very much apart from the name. Wells Fargo mutual fund family is now among the top twenty largest fund families in the country, although historically it has not been known for mutual funds.

Joe Curatola spoke next. He stated that from the participant standpoint, there should not be many big changes. The change to a new transfer agent was required by the SEC. The agent, Boston Financial, is one that TIAA-CREF uses for its mutual funds, and Joe apologized for any problems we experienced during the transition period. Joe next turned his attention to the questions Mary had sent, to further expand on the answers supplied. Addressing fund performance, Joe observed that they took the opportunity of the purchase by Wells Fargo to merge some of the duplicate large cap funds with similar styles and lower performance. The small to mid-cap range funds have performed very well, and those did not change. Sixteen out of the twenty-four funds currently offered had no significant change in the fund or portfolio manager. Wells Fargo's target is to have fund expenses within 10 basis points on either side of the average for the type of fund.

Joe entertained questions. Lucretia Mattson inquired about the expense ratios: Has Wells Fargo reached its target? Joe replied that they have, although sometimes the fund's expenses have been reimbursed or capped. Bob added that it was disconcerting that the Strong/Wells Fargo expense ratios were higher than average. Qinghai Wang questioned why the Strong/Wells Fargo expense ratios were high – was it due to high manager fees or other expenses? Joe replied that investors have to pay for the services that are provided. Strong/Wells Fargo has provided a lot of customer service: customers can contact the call center 24 hours a day, seven days a week and the web site has received numerous awards every year for the information and education it provides. There is an expense for providing this service. Joe concluded that from a net returns standpoint, the funds are very competitive, and customers get a great deal of service. Joe commented that as Wells Fargo continues to grow and has more assets under management, the expenses may be reduced, because they become a smaller percentage of the funds' assets and noted that Strong/Wells Fargo is not one of the largest fund families.

After further discussion about expense ratios, Mary observed that to get the expense ratio information she went to each prospectus; this information was not furnished although Mary had requested it early on and repeatedly. Joe responded that there was a question about offering the Z class share of funds to the University that held up the distribution of the information. He apologized for not getting the information to the TSA Program, but explained that legally they could not put out information about the Wells Fargo Advantage funds before they became available on April 8. Mary noted that nothing was available even after April 8 and asked where the money was going for present participants. Joe responded that if the participant already had the Z shares, they were grandfathered in. Mary stressed that that information should have been communicated to her in writing before today. The transition has not gone well.

Bob Carney expressed the opinion that we currently have too many fund choices for our participants. He added that if we add more choices there ought to be an outstanding reason – for example, performance that is significantly better than average or expenses lower than average. The fund family should be exceptional in some way – offering unique funds or offering something that others can't, something that makes the company worthy of being kept in an environment in which we have too many funds to begin with. Joe mentioned that their small-cap funds are exceptional and have appropriate expense ratios and added that they have kept the best managers to keep the good performance. Bob reiterated that the research and the information should have been provided.

Joe apologized for not providing that information for the meeting and mentioned that they are two weeks into the merger. They have focused on making this a smooth transition for their present participants. He requested that the committee put off the decision of whether to accept Wells Fargo into the fund line-up until the October meeting, so that Wells Fargo can get through the difficult merger process and can provide all the information the committee should look at to make the decision.

Kevin Bahr asked – if we allow Wells Fargo to come back in October with a proposal – why there would be any reason we shouldn't allow any other investment companies to submit proposals in October as well. As a new entity, Wells Fargo should compete with any other company that may want to be part of the program. Ron Crabb summarized the question that has to be answered as, "Do we want to go through an RFP at this time?" We may be delaying the matter for something that we don't want to do anyway.

Ron reinforced that if Mary could dig the information that she needed from the web site, company representatives could also have provided that information. The relationship with Strong was rocky at the end primarily due to upper management, but the continuation of not delivering is very frustrating. Joe reiterated that they are now just two weeks into the merger process, which will not even be complete until after today. In consideration of the relationship the UW has had with Strong in the past, Joe again requested that the committee wait to make a decision until the fall. Joe added that Strong has relied on the UW as a source of much of the talent inside their organization – especially from UW-Milwaukee and UW-Whitewater.

Kate Kelly asked how many employees currently contribute to Strong. Mary referred members to the Annual Report: there has been a marked decrease in contributions along with a decrease in numbers of participants (641 in 2003 vs. 418 in 2004 on page 10 of the annual report).

Lucretia commented that this was an understandable reaction to the events at Strong and again brought up the issue of our needing to go through a Request for Proposal process, since Wells Fargo is essentially a new company. Chris Ashley, legal counsel, added that he was not comfortable treating this as a simple successor situation where one family of funds takes over another. Although it would take further study to issue an opinion, in this case, since the old entity ceases to exist and the new products are different than the former ones, it might be necessary to go through the RFP process in order to add Wells Fargo.

MOTION: Ron Crabb moved not to do an RFP at the present time. After discussion, this motion died for lack of a second.

MOTION: Lori Worm moved to implement Alternative One from Mary's memo: Discontinue new applications for the former Strong Funds effective June 1, 2005. Permit existing Strong clients to continue deferrals through December 31, 2005. Discontinue all deferrals effective January 1, 2006. Lucretia Mattson seconded. Motion carried: Four in favor; Ron Crabb opposed; Bob Carney abstained. Mary clarified that this is technically a recommendation to President Reilly.

MOTION: Lucretia moved that the language of the Criteria Appendix A, Part D, of the TSA Criteria be amended as follows:

1. Participant Notification – The participants who have current salary reduction agreements with an unauthorized or terminated vendor shall be notified that their vendor has been terminated and can no longer accept new business from UW System employees for the TSA Program.
2. Deadline – The notified participants shall be given ~~one year~~ a reasonable transition period in which to choose a replacement vendor from the TSA Program authorized vendors.
3. TSA Program Information – The notified participants shall be encouraged to meet with their staff benefits officer to discuss available TSA options.
4. Potential Agreement Cancellation – If after ~~one year~~ the transition period has elapsed, the notified participant has not changed his or her salary reduction agreement to shift ~~deposits~~ future deferrals to an authorized TSA vendor, the salary reduction agreement shall be canceled.

Kevin Bahr seconded. Motion passed unanimously.

4. **Insurance Company Ratings Services and possible amendments to the TSA Criteria:** At the last TSA Review Committee meeting in October 2004, the committee had voted to send a letter to Lincoln and American United Life participants stating that those companies failed to meet the committee's standard of having a very conservative rating set out in the Criteria. Mary explained that she did not send this letter for a number of reasons. She had received a letter from Betty Custer pointing out that Lincoln's move from *very conservative* to *conservative* was not a result of any down-grade, but because Belth changed the way he viewed the categories. In addition, Joseph Belth himself later put out information about the Weiss ratings that Mary felt the committee should at least be aware of. Since then Mary has spent considerable time looking at the way the Belth ratings really work.

Mary called the committee's attention to the memo Agenda Item #4. This memo suggests that the committee should make it explicit that it will upgrade the TSA criteria to match what Belth is doing with his ratings with the exception of the Moody rating. This rating was very stable for 4 years until 2004 when Belth suddenly cut down markedly the number of companies that would fall into the top two Moody categories. Belth had done the same thing with the S&P the year before and changed his mind again this year. Mary felt that it would be wise to wait until this year's September ratings to see if anything unfolds with Moody's before we take any action to send out notice to our participants. Last year the committee expressed interest in hearing more about the ratings process to get a better understanding about how the ratings work. AUL offered to have Ron Fetters, Senior Vice President talk to us about ratings.

Ron Fetters, regional vice-president of AUL from Philadelphia spoke. He complimented the information available in the Annual Report. Ron brought the reports from all the ratings companies and stated that one of the main things the ratings services look at is the size of the company. AUL is a mutual company rather than a stock company, so that its shareholders are also policy holders; the company does not have to answer to a board of directors or the SEC. Currently AUL has approximately \$697 million in cash. Ron explained that if companies have large cash holdings the ratings companies do not view that as a good use of capital. The growth rate may not be as high as if the money were invested differently, and it could potentially be used for acquisitions and no longer be available to pay claims. As a mutual company, AUL does not make a practice of buying other companies; they would rather have an affiliation with another mutual company and utilize each other's resources. Ron observed that, according to the Belth categories, 75 companies are extremely conservative, 205 extremely or very conservative, and 302 extremely, very conservative, or conservative out of 1550 companies. Even the very bottom of those companies are still in the top 20% of all companies out there. Prudential, Mutual of Omaha, CUNA Mutual, American Family are some companies, along with AUL, that are in the conservative group.

Ron Fetters emphasized that the ratings indicate a promise to pay, and AUL has those reserves. AUL as a mutual company is owned by its shareholders, those that have policies with it, and has been in existence since 1877. It has always been a conservative company in its philosophy, but it also prepares for the future. AUL has a new OMNI computer system, like the one used by Vanguard and TIAA-CREF, and has a new multi-fund platform with some new products available and online enrollment.

Bob Carney commented that he understood the concern of ratings companies with the large cash holdings. Ron Crabb asked about the \$697 million relative to total assets. Total assets are \$10.7 billion; 6.7% in cash. Kevin Bahr asked how the percentage of assets in cash compared to that of other insurers. Ron Fetters didn't know, but knew that AUL was high. Mary mentioned that Moody's has ratings online, and they show the ten ratios they used for evaluation; one of them is the liquidity ratio. One can compare TIAA-CREF and AUL and Lincoln on those ten ratios quite easily.

Bob Carney wondered whether the committee could send a letter to Belth inquiring why he reevaluated the Moody's ratings. Mary explained that in looking at the Belth categories, one year he changed how he viewed the S&P ratings and the next he reverted back. It could very well be that the Moody's ratings will be reevaluated in the fall; however, Mary said she could write a letter if the committee desired.

Mary directed the committee's attention to the grid she had prepared. She tried to show when ratings changed for the various companies. For IDS in the summer of 2001 there were junk bond issues, and all of the ratings companies responded to that. There has been nothing for them again until recently, when they announced the spin-off of American Express Financial Advisors. For AUL, 9-11 was a problem because AUL was in the reinsurance business; this has since been sold. Lincoln also had a reinsurance issue in 1999. Their last ratings change was an upgrade in 2002 from AM Best. There have been no changes since then.

AUL has also had no changes since 2002. Mary said she thought it was significant that we have seen no bad changes since 2002 except for IDS. On the other hand, it must be acknowledged that AUL is and continues to be below where we say we want our companies to be. With the changes Mary is suggesting – that we don't go with the Moody's change right now – Lincoln will come out as a very conservative company. Depending on how Belth views the Moody's ratings in the fall, the committee can decide at that time how to

view Lincoln. Mary also reminded the committee of Howard Erlanger’s comment from the last meeting that if the Criteria are not working for us, we should change the Criteria. This is another option.

Mary mentioned that Lincoln has offered to bring a representative from a ratings company to explain the ratings process, if the committee desires, but Mary felt that that would be a day’s business. Bob Carney responded that he would rather hear from someone who has looked at current research into what biases exist from the rater’s point of view and background in the insurance and actuarial shop, perhaps someone from the UW like Dan Anderson. Bob did not feel that he had enough background to evaluate comments from a rater.

Ron Crabb inquired how much of participants’ contributions are going into a fixed account. The Annual Report shows that a little over \$2 million is being contributed to the fixed accounts not including TIAA-CREF. The AUL fixed account is currently paying 3.5%. The very old contract money receives around 4%. Ron Crabb mentioned that as an investment vehicle for our participants this is such a tiny chunk of our investments – especially if we pull TIAA-CREF out of it, yet we spend a tremendous amount of time on this.

Bob stated that as long as we have this policy, we should send a letter. Mary asked what the committee wanted to do about Lincoln – if we disregard Moody’s, then they still fall in the very conservative group. Bob said then he would not send the letter to Lincoln participants until we have a better idea of what the Moody situation is.

Mary also asked if the committee would agree to amend the criteria, as she has recommended in the memo. Even though Belth no longer includes the Weiss ratings, since there hasn’t been any change in the Weiss scale ever, Mary thought it would be OK to use it. The committee could revisit these decisions next fall when the 2005 rating scale for Moody’s will be published.

MOTION: Bob Carney moved that the changes to the Criteria Mary has recommended in her memo be adopted. Specifically those changes are: Recognize the changes Belth made since 1999, except for the 2004 change to Moody’s. Continue to use the 1999 scale for Weiss ratings. Continue to require three very conservative ratings.

The table in the TSA Criteria would be amended to:

	A.M. Best	Duff & Phelps Fitch	Moody's	S&P	Weiss
Extremely Conservative	A++	AAA, <u>AA+</u>	Aaa, Aa1, Aa2	AAA, AA+	A+, A, A-, B+
Very Conservative	A+	<u>AA+AA</u>	Aa3	AA	B
Conservative	<u>A+—A</u>	<u>AA AA-</u>	A1	AA-	B-

Kevin Bahr seconded. Motion carried. [Note: Some of these changes had already been made in 2002.]

MOTION: Bob Carney moved that the committee send a letter to AUL participants similar to the letter sent out to participants in 2002. Lori Worm seconded. Motion carried.

Kate noted that IDS also is a conservative rather than a very conservative company due to the way Belth has evaluated the Moody’s rating. It would fall into the same category as Lincoln and should be monitored for possible action in the fall, but a letter does not need to be sent at this point.

The committee adjourned for lunch at 11:55 and reconvened at 12:52. Due to scheduling constraints Kevin Bahr left the meeting at 12:50

5. Update on Fidelity Recordkeeping Agreement: Mary noted that the Fidelity Agreement is all but completed; the loan feature would be in place sometime this summer.

a. Change of default fund from money market to life cycle fund: Mary reminded the committee of the discussion at the last meeting about what happens to those who sign up with Fidelity but fail to make their investment choices clear. Currently the money defaults into the Retirement Government Money Market fund. There are a surprising number of people, at least 20 to 30, who fall into this category with Fidelity. Rose noted that the online enrollment option times out abruptly, and if it times out before you've completed your enrollment, your fund option becomes the Retirement Government Money Market. Fidelity would like to have the appropriate life-cycle rather than the Retirement Government Money Market as the default fund choice. Fidelity has seven or eight Freedom funds that are targeted to your retirement age. In this kind of a case, they would use the fund that is closest to your age 65 to get you started.

Bob Carney asked when participants are notified that they are in the default fund. Mary responded that the participant gets one letter immediately when Fidelity receives the first contribution, a second letter with the second contribution, and another letter after six months. Inertia is such a force that even after receiving those letters, participants may not choose a different fund. If there is no application at all, the money must come back to the University. If there is an application, but the participant fails to make an investment choice or that fund selection is not clear, perhaps because of an ambiguous name, illegible handwriting or the online enrollment has timed out, a default fund is used.

Bob noted that for younger participants the age appropriate life cycle fund may have an 80% equity exposure. Those employees who would not respond to the letters are not very sophisticated investors and might be less likely to tolerate risk. In a down market, that might be the last time we see that participant again. Bob suggested having a more conservative default, for example a balanced fund. The committee discussed aspects of fiduciary responsibility.

Mike Mitchell commented that TIAA-CREF is in agreement with Fidelity on this; where they have life-cycle funds available, they also would like the life-cycle fund to be the default. For the employee to invest in a money market term long term would be worse than to be in the life-cycle fund – at 1-1 ½% the account is not going to keep pace with inflation. Mike added that the IRS had issued a statement discouraging the use of money market funds as defaults which he would forward.

Bob mentioned that perhaps Fidelity could provide more information on this issue. No action was taken at present.

- 6. Proposed Custodial Account and Record Keeping Agreement with TIAA-CREF:** Mary has been working out the Custodial Account and Record keeping agreement, which will allow participants to contribute to the nine TIAA-CREF mutual funds approved by the TSARC at the fall 2004 meeting. There are still a few items to be ironed out. Since Mary would like to go forward with this agreement, she suggested that Rose send this out to the committee when it is completed. After that, UWSA senior management would sign it. Mary noted that there is nothing surprising or different in the agreement, just a formality that we have not had before. Mike Mitchell noted that the agreement was about 90% done.
- 7. Update on American Express Financial Advisors:** Mary reported that American Express Financial Advisors was being spun off into an independent company later this year. She referred the committee to a letter from Gumer Alvero announcing the new company and noted that IDS would be part of it. She introduced Jeff Janecek, the American Express relationship manager, who explained the process. He noted that this would be a spin-off, a wholly-owned subsidiary consisting of the old employees and the old investments.

Jeff mentioned that in 2004, AEFA had \$7 billion in revenues and \$700 million in net income. Jeff noted that probably the biggest concern for the committee might be what happens to the ratings. There have been some down-grades, which Jeff thought was prudent, since the new company will no longer have the deep pockets of American Express. Moody's has affirmed the rating of Aa3; A.M. Best has announced that its A+ rating is under review with negative implications until they can meet with management, Fitch lowered its rating to AA- (from AA) and placed the company on ratings watch negative. The ratings companies must come in and examine the capitalization of the new firm. A meeting is schedule for the coming week. Jeff

remarked that the ratings agencies need to be listened to and relied upon, but what the ratings are, they are; there is nothing that the company can do to change them in the short run. The top priority within the new organization right now is to make sure they are capitalized to the point that they don't lose their efficiencies in the capital markets and don't lose their ratings. Jeff noted that the numbers are still being worked out with American Express Corporation and that the transition won't be finalized until the end of the third quarter. Jeff hoped that by the next TSARC meeting a senior executive could appear to talk about the financials and the ratings.

Jeff next gave a brief history of IDS Life. IDS has been owned by American Express Financial Advisors since 1984, before that they were owned by Allegheny Corporation since 1949. Allegheny Corporation had been in the railroad business and had wanted to diversify. IDS has not been an independent financial services firm for over 50 years.

Mary inquired whether there would be any changes to the underlying annuity product. Jeff replied that it would be unchanged. He was unsure whether there would be a need for an agreement or contract. The product will have a new name, as yet unknown, although it will be the same entity.

8. **Annual Report:** Mary Anglim presented the TSA Program 2004 Annual Report, which was distributed before the meeting. She noted that some of the data, particularly the status of employees – WRS covered or not, classified or unclassified, may not be reliable since some of this information comes from the TSA Database which is eight years old and has not always been updated with these changes.

Once again the Program has received more money this year than the year before, probably because of higher maximums, and yet over half of our participants contribute less than \$5,000 per year. We have more participants this year, but among the under age 50 population, we lost participants. TIAA-CREF, the mutual funds, and WRS all went up in contributions this year; other companies stayed about even. TIAA-CREF has been gaining ground on the mutual fund companies. Page 3 has a familiar graph showing that younger people prefer mutual funds, but older people contribute all the dollars. Page 4 shows that 29% of the people contributed \$1,000–3,000 each, and 14% of the people contributed less than \$1,000; thus 43% of plan participants contribute \$3,000 or less. The average contribution this year was \$5,824, but the median was exactly the same as last year at \$3,900.

Looking at the breakdown of employee types (again – not as reliable as we would like), 25% of our classified employees and 40–41% of our unclassified employees (that is, faculty and academic staff) are contributors. Very few employees with no WRS participate, but that is a group of mostly graduate assistants and rehired annuitants, groups which have less disposable income than permanent employees. Together however, as a percent of salary, those who contribute, contribute very generously at about 9.93% of salary. This is about as good as most 401(k) plans where people don't even have another defined benefit plan to fall back on. Those that we reach, we reach effectively – we just wish we reached more.

Contributions were very good last year. On page 6, the contributions for 04–05 are well above the contributions for previous years for each month. Contributors are starting to catch-up a bit. Our highs were in 01–02, and little by little we are starting to recover. Page 7 shows the percentage of participation by campus, although sometimes it is difficult to track where people are actually working. On the whole we are around 35% of WRS-enrolled employees participating. Looking at the age breakdown, our big populations are in the 50–70 age bracket, also 40–50 bracket. Page 8 gives routine information about numbers of participants, average salary, and average age. 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.

Mary commented that on page 9 she was looking at why and when people leave the Program and when they come back into the Program. There were not quite as many terminations from the Program this year as in previous years: 20% of those who terminated employment were TSA participants as opposed to 22% a few years back. Also there were not as many drop outs as in previous years. New hires are not coming into the Program fast enough, but existing employees came into the Program at a little bit faster rate than in the past year or two. Mary observed that Rose, the investment companies, and staff at the campuses have been working very hard on out reach, which is paying off, but it is a slow process.

The next page shows how many participants each investment company lost and how many they took in. This varies a lot from year to year. Strong lost a lot of people this year; much more than any other investment company. TIAA-CREF lost 265 people through termination, perhaps because they have a slightly older demographic. This page provides important information which can serve as a warning sign in case participants are marching out of a particular vendor's purview. Over time it also indicates whether the vendor is doing much to attract new business.

The last portion of the report shows asset allocation. Contributions to large caps are going up, we are down a bit in bonds, and down quite a bit in fixed. Rose commented that foreign stocks have seen added contributions and people seem to be diversifying into international markets more. Also, there is a higher percentage of contributions in the small and mid-cap area. We see subtle shifts more than wholesale movement one way or another. Mary commented that she always finds the break down of the Top 50 interesting. Although we have lots of choices out there, most of the top funds always seem to stay the same, with little change year to year.

Rose spoke briefly about the education initiatives and thanked the members of the committee for all of their work appearing on their campuses at workshops. These events pay off. Rose added that we need the help of the investment companies in putting on educational workshops and events, since System staff cannot do it all. Last year we did get an educational representative from Fidelity, but that person left for a better job offer at an outside company within weeks of starting, and the position could not be replaced the rest of the year. We only have a rough estimate of the number of employees Fidelity reps met with because of this turnover.

Mary noted that we heard a very good presentation from IOMA on how to increase participation. A postcard with a check box indicating "Sign me up" had worked well. Unfortunately, in our program something like that would be hard to implement.

The committee thanked Mary for the Annual Report and for its detail and amount of information about the Program. Mary acknowledged that not many institutions put out much information about their plans on the Internet. She mentioned that to answer Bob Carney's question about participation rates in voluntary supplemental retirement programs at peer institutions, she had to call the schools. Participation was at approximately the same level, at about the 34% range.

Mike Mitchell commented that what makes this hard to analyze is that Wisconsin is one of the few states in the country with a great hybrid plan, and the TSA Program is purely supplemental and voluntary. Mike commented that he thought we had a terrific participation rate. Bob asked if there were really that few defined benefit pension programs among other institutions. Mike replied that most of the big ten schools have optional retirement plans, which affects participation due to the employer contribution.

Kate asked if the Regents get a copy of the Annual Report. Mary responded that the President receives a copy, but she doubted that it gets shared with the Regents. Kate wondered whether sharing this with the Regents could help participation rates. This was discussed. Rose mentioned that what might be good at a campus level would be to have a higher level campus administrator endorse the program, and possibly send out a letter. The TSARC members could also endorse the program in faculty meetings and mention it to colleagues. Word of mouth is very effective in increasing participation.

Lucretia commented that it actually might be useful to have Regent support, since at UW-Eau Claire one of the associate chancellors tells the classified staff there that they either have to attend any meetings or informational workshops on their lunch hour or take vacation time. Rose noted that some campuses have policies that make education initiatives difficult. It is hard to hold the workshop to one hour, but 45 minutes is almost impossible.

- 9. Proposed 403(b) rules:** Mary reported the IRS has finally provided 403(b) regulations, which thankfully will not be difficult for us to comply with. One of the big changes which is being proposed is to make all 403(b) plans have a plan document of some kind. We already have one: although it may take some tinkering, we are pretty well set. We are required to let all employees in the plan – we already do. There are some technical issues about how to count catch-up contributions, but we are fine there and will not have to

re-do any calculations. We comply on the distribution requirements and have done for years. Interestingly, the proposed rules give the employer 15 days after the end of the month to send money in – we try very hard to have the money to each company on payday. The state retirement system is only available to those plans that used it before May 17, 1982, but we did, so we may continue to use the WRS. The IRS is proposing to stop permitting the transfers of 403(b) moneys to outside vendors. This is being bitterly contested by some insurance companies and broker representatives, but this has been a rule in our plan for many years.

- 10. Roth 403(b):** Mary had hoped she could ask the committee to endorse the concept of the Roth 403(b) which would let our employees put money away after-tax in addition to pre-tax. Mary has had calls from employees – including a highly-compensated individual who cannot use Roths right now because of income restrictions but would be able to under the Roth 403(b) provisions. Mary commented that our payroll system will not be ready in January of 2006 to be able to offer this, because it will mean more record keeping. Most of our investment companies are hoping to be ready on January 1, 2006 or shortly thereafter. Mary hopes that the plan will start incorporating this privilege, but it would be premature to direct our payroll system to start working on this now. There will be more rules to come.
- 11. Miscellaneous:** Mary referred the committee to a memo entitled Old Business, which is a summary of some of the items held over from last time. Mary reported that she brought the issue of the one dollar fee increase in the annual to Sue Chamberlain. Sue responded that because of the economic difficulties employees are facing right now and the fact that no immediate programmatic need had been identified, she did not feel comfortable forwarding the increase to senior management. It was likely to create more resentment among employees.

The TSARC encouraged staff to spend more on professional development and on outreach. We did spend some, \$235, on the IOMA conference. Mary did not feel it was appropriate to spend more on her professional development with her retirement. There may be opportunities for others coming up. This remains an active suggestion, but we have not yet acted on it.

Kate had inquired how many students are in the Program: 9 student hourlies and close to 50-60 post-grads.

Bob inquired about the TIAA-CREF and Fidelity conferences, which may provide an opportunity for contact with administrators of 403(b) plans at other universities. It is clear that we cannot go if TIAA-CREF or Fidelity foots the bill, but wondered if we could foot the bill. Mike Mitchell replied that most big 10 schools attend the conferences – typically HR directors on up, people that oversee benefits. There is an opportunity to meet Senior TIAA-CREF management and get an investment update and updates on tax-law changes, and so forth. Mike said that the issue of paying for the conference came up with someone from the Minnesota State university system, and TIAA-CREF was able to break down the cost for them, so that they could pay it.

- 12. Next meeting date:** The fall TSA Review Committee meeting will be Friday, October 28, 2005.

The committee thanked Mary for all her work. The meeting was adjourned at 2:32 p.m.