

Tax-Sheltered Annuity Review Committee

Minutes

April 27, 2007

Members Present: Kevin Bahr, Robert Carney, Howard Erlanger, Carol Fischer, Kathleen Kelley (Chair), Lucretia Mattson, David Porter

Members Absent: Robert Kunkel, Randall Ryder (Ex-officio), Qinghai Wang

Staff: Chris Ashley, Sue Chamberlain, Terry Lauber, Rose Stephenson

TSA Vendors: Jeff Janechek, Ameriprise/RiverSource; Garett Feldkamp, Scott Dillman, Sarah Kelly, Fidelity; Michael Stickney, Lincoln; Doug DiCocco, Mike Mitchell, TIAA-CREF; Jay Schuman, T. Rowe Price

Guests: Kara Webber Schiro, UW Service Center

Kate Kelley 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

MOTION: David Porter moved approval of the minutes of the November 3, 2006 TSARC meeting as submitted. Carol Fischer seconded. Motion passed unanimously.

3. Service Level Criteria Implementation

Rose Stephenson introduced the memo dated April 23, 2007 recommending amendments to the Tax Sheltered Annuity Criteria in order to adopt the minimum service level requirements. The recommendations were discussed. The committee decided to make changes to the final wording and vote on the amendments as a whole. The recommendations will then be sent to the UW System President for concurrence.

In Item 10. "should" was changed to "must" and "in good order" was added after "received."

In Item 13. "should" was changed to "must."

In Item 14. "either" was added after "applications by."

In the section TSA Insurance Vendor Specific Criteria, Item A.5.d. "on new contracts signed on or after 1/01/2008" was added after "charges."

Item 16. Participation was changed to the wording authored by Howard Erlanger at the meeting: "Each TSA authorized vendor in the program must be actively engaged in retaining and recruiting participants. In determining whether a vendor has complied with this criterion, the Tax-Sheltered Annuity Review Committee will consider such factors as the number of new and continuing participants and the levels of contribution."

MOTION: Carol Fischer moved to adopt the amendments to the Tax-Sheltered Annuity (TSA) Criteria as revised by the committee. Lucretia Mattson seconded. Motion passed unanimously.

There was discussion regarding notifying current contributors to Ameriprise/Riversource and Lincoln of new products offered with no surrender or withdrawal charges on new contracts signed on or after 1/1/08. Rose Stephenson will send a letter to Ameriprise/Riversource and Lincoln directing them to notify their University of Wisconsin System current contributors that a new product will be available 1/1/08.

4. Report from Insurance Companies on Ratings

Rose Stephenson presented an update on the insurance company ratings in her memo to the committee dated April 23, 2007. An average rating of 3 or greater is required. TIAA-CREF's rating remains a 4. The current ratings for Lincoln and Ameriprise/RiverSource remain unchanged from 2006 at 2.8 and 2.6, respectively.

a. Lincoln

Michael Stickney, Lincoln, reported on the Lincoln ratings and provided a memo to the committee. Mike commented on the following:

1) Weiss still reports that Lincoln National Life generates 13% of its business from reinsurance, which is part of the reason Weiss gave Lincoln National Life a B- rating. Mike noted, however, that Lincoln completely exited the reinsurance business in 2001. Lincoln has tried to provide Weiss with this information, but Weiss will not accept calls or correspondence from companies they rate.

2) Lincoln Financial Group merged with Jefferson Pilot in April 2006. As part of the merger process, subsidiaries of both companies continue to merge in 2007. On April 2, 2007, Jefferson Pilot Life, which is currently rated A- by Weiss, merged into Lincoln National Life. On July 2, 2007, Jefferson Pilot Financial Insurance Company, which is currently rated B+ by Weiss, will merge into Lincoln National Life.

Mike noted that once Weiss realizes Lincoln no longer has a reinsurance issue and recognizes the mergers, Lincoln is confident the Weiss rating will improve. Mike also remarked that Weiss was purchased by TheStreet.com and he did not know if that would mean a change in how Weiss does things.

b. Ameriprise/RiverSource

Jeff Janecek, Ameriprise/Riversource, gave an update and provided a folder with the A. M. Best Company February 26, 2007 press release "A. M. Best Affirms Ratings of Ameriprise Financial and Its Life Insurance Subsidiaries; Revises Outlook to Stable," a sheet with the ratings of the various companies under Ameriprise, a sheet with the last five years of RiverSource insurance ratings, a document defining the ratings of the rating services, and a business wire "Ameriprise Financial Reports First Quarter 2007 Results."

Jeff noted that Ameriprise had spun off from American Express about 18 months ago. At that time there was no change in Ameriprise's insurance ratings except for Best, which had changed its outlook to negative. Jeff commented that it typically takes about three years for a rating firm to reevaluate a company. As Ameriprise has met with the insurance ratings firms that they do business with, their ratings have stayed the same and A. M. Best has changed its outlook from negative back to stable. There were some uncertainties with Ameriprise leaving American Express, which is a very big name; however, Ameriprise feels that they now have more name brand recognition than they did with American Express Financial Advisors. Jeff remarked that he could not be positive that Ameriprise's ratings would improve in the future.

Jeff reported Ameriprise's stock price has increased from the mid-30s, when it initially came out, to \$60-\$61 per share in the last 18 months. Ameriprise recently announced it will buy back many of its shares, which indicates that Ameriprise is confident the stock price will continue to rise. Ameriprise also just raised its dividends. Ameriprise feels it is a very strong company; however, it is below the minimum requirements the committee has set and may continue to be below those requirements. Jeff projected that there may not be any changes in the ratings for another year to year and a half at the earliest. Jeff also noted that Ameriprise does not subscribe to or use Weiss's rating service; there is a fee involved. Weiss gives Ameriprise a rating, but Ameriprise does not pay for the rating.

When Robert Carney pointed out that higher-priced company stock and dividend payouts do not provide value to University of Wisconsin System contributors, Jeff responded that he just wanted to let everyone

know that those actions were recently taken. He could not say whether these actions would have an effect on Ameriprise's ratings. He requested the committee not take any action to restrict Ameriprise's availability in the UW TSA Program at this time and thanked the committee.

The committee agreed that the ratings would probably not change by this fall; the earliest the ratings may change is a year from now. Ameriprise and Lincoln would stay on watch.

Tax-Sheltered Annuity Review Committee members requested information for the next meeting about the ratings services and how well they predict a company's demise. Robert Carney offered to help gather information.

Carol Fischer asked whether employees have been informed that Ameriprise and Lincoln have been placed on watch. No special letter has been sent to employees. Rose Stephenson and Sue Chamberlain responded that it would be appropriate to have an article on this in the TSA *Investor* newsletter this fall.

5. TSA Investment Companies

a. Update on Scudder and American United Life

Rose Stephenson reviewed actions taken thus far. Last year the committee decided to discontinue Scudder and AUL from the program. No new participants were permitted in Scudder as of February 2006. Contributions to both Scudder and AUL were continued through 2006 and automatically discontinued as of December 31. In November staff sent out a letter to current Scudder and AUL participants to let them know that contributions would automatically be discontinued after the end of the year. Staff received phone calls through the fall from people wanting help finding a new investment company. The transition has been smooth. AUL made the decision not to start any new clients in the fall because they would have only a three or four month period to contribute. In January and February a number of Scudder participants wanted to transfer their contributions to other investment company options, but a number of these transfers have not gone very well – checks have gone missing or have been issued but never sent out; paperwork was submitted but lost at Scudder. AUL representative Jill Snyder has been cooperating with us; there have been no problems with AUL.

b. Ameriprise; RAVA 4 Select riders, status of areas of concern:

Jeff Janecek, Ameriprise/RiverSource, presented a document, "RiverSource Life Insurance UWSA Rider Report," explaining the riders and providing a synopsis of contracts with riders in the UWSA 403(b) plan, and a document, "RiverSource Life Insurance Company – UWSA Product Overview," summarizing the products offered through the years to UW TSA participants.

RAVA 4 Select Riders

Jeff explained that riders are available for all products and are optional. The synopsis shows that as of 12/31/2006, 112 contract owners have purchased a rider on their RiverSource annuity contract, which is a small number compared to the total number of contracts.

The Guaranteed Withdrawal Benefit for Life is an optional living benefit rider a participant can purchase on a RAVA 4 Select product. There are also optional death benefit riders. The Guaranteed Withdrawal Benefit for Life gives someone an option to take a guaranteed percentage as a withdrawal benefit. The contract owner has the flexibility to take 7% withdrawals until the benefit amount is depleted or 6% withdrawals, starting at age 65, guaranteed over the contract owner's lifetime. If a participant is able to capture appreciation in their contract, on the earnings, it ratchets up on the contract anniversary. The participant is able to lock in market appreciation without the downside of the market affecting that guarantee. The participant pays 65 basis points for this option. This optional rider provides a tradeoff: the 65 basis point fee added to the M&E carves a little bit off the top to buy the protection on the down side. Before a person retires, the 65 basis point fee covers the ratcheting, and after a person retires, it provides for the guarantee.

Rose Stephenson stated that at the last meeting the committee was concerned about participants in their 30s or 40s purchasing this rider. These participants would be paying 65 basis points over a longer period of time which may not pan out. Jeff pointed out his synopsis shows only 5 participant contracts carry the Guaranteed Withdrawal Benefit for Life rider with the average age being 54.4 and the median age as 50.0. It is the advisor's role to help assess whether this is a suitable purchase. The rider is bought at the same time the contract is purchased. Committee members were concerned whether participants with this rider would accumulate gains on contributions made when the market was down. Several members suggested that it may be more beneficial for a participant with this rider to simply open a new contract when the market was down so that investments made at that that time would accumulate later gains.

[Please note: As a correction to information provided in the meeting, Jeff Janecek noted that **ongoing contributions to the existing contract will increase the guaranteed amount at the time the contributions are made. Thus, the participant will benefit from the additional contributions as these will increase the guaranteed benefit amount, even during a down market. See page 55 of the RAVA 4 prospectus (under Guaranteed Benefit Amount).**]

When asked if the agents receive compensation for selling riders, Jeff responded that they do not and that there is no incentive for the agents to sell riders.

A prospectus for the RAVA 4 Select product had been sent to the committee in pdf format via email. Having it in pdf format enables a person to do a search. Jeff will provide hard copies for those who would like one. The Product Overview Jeff distributed provides a summary of the RAVA 4 Select product with the information the committee requested that might be hard to dig out of the 176-page prospectus.

No Surrender Charge Product

As adopted as a revision to the TSA Criteria earlier in the meeting, there shall be no surrender or withdrawal charges on new contracts signed on or after 1/01/2008.

Jeff referred everyone to the last two columns of the "RiverSource Life Insurance Company-UWSA Product Overview" comparing the information on the RAVA 4 Select and RAVA 4 Access products. The RAVA 4 Access product available 1/01/2008 does not have a surrender charge, but the M&E charge will go up to 1.25% compared to 1.10% with the RAVA 4 Select product now available. When pricing a product, persistency is considered. When there is no surrender charge, the assets tend to stay with the product fewer years. When asked whether that conclusion was drawn specific to products through 403(b) programs, Jeff responded that there actually is greater persistency in 403(b) products than traditional products; however, when Ameriprise/RiverSource prices its products, they are priced for the entire market place.

Michael Stickney, Lincoln, in addressing its product to be offered 1/01/2008, stated Lincoln was not looking to change the M&E charge; it was just going to do away with the surrender charge. Through the years, Lincoln has always modified its products exclusive to the University. The M&E charge will stay at 1.002%.

There was discussion as to whether the Criteria just passed should be changed to allow for products with surrender and withdrawal charges, but that each company must offer a product with no surrender or withdrawal charges on or after 1/01/2008. The Criteria concerning surrender or withdrawal charges stayed as adopted.

Status of Areas of Concern

- 1) Jeff stated John Lynch has been in communication with the agents and has addressed the service level issue at agent regional education days and in a letter. Agents must distinguish between what services are offered through the 403(b) program and what is offered as fee-based financial planning.
- 2) Jeff reported that the funds transferred to a non-approved company are back with Ameriprise. The client's account was backdated and put back in a position as if nothing had happened. The company absorbs any losses, since this is their error. They take the relationship with the UW seriously, although mistakes do happen. They also appreciate when they are notified of errors as soon as possible.
- 3) Rose noted that there have been two other incidents where this happened – one with Ameriprise and one with Lincoln. Unfortunately, with these two incidents the time span between when the distribution was made and when we found out about it was too great. With Ameriprise, it occurred several years ago; with Lincoln, it occurred two years ago. At that point, getting the money back is impossible.
- 4) Jeff stated the customer service and operations staff have a “restrict code” on their internal screens. With this code, the staff member is alerted to look at the restriction before proceeding. One restriction is to allow fund transfers only to one of the UW TSA Program-approved companies.
- 5) Kate and Rose pointed out that at the last meeting John stated he would provide a list of agents approved to work with the University. Jeff stated there have been discussions as more educational sessions are held around the state; there could be a dedicated person for a campus or a small team of agents that would work with John.
- 6) Jeff reminded the committee of Ameriprise's “Financial Education Manager” program, which would require a contract between Ameriprise and UWSA. It would allow Ameriprise to put together a package program on what they do from an educational standpoint; with that comes a discount for the financial planning fee if the employee so chooses. It is outside of the scope of the 403(b) as the employee is asked if they have an interest in a financial plan.
- 7) Rose asked Jeff about the issue of unauthorized mutual funds that were sold to participants. Jeff thought the number of these types of accounts was less than ten. He pointed out one option to think about is to move them to a RAVA 4 Access product 1/01/2008 (or whatever date would be chosen) with no surrender charge. Jeff recommended deciding on a course of action in the next couple of months. Rose suggested talking about a resolution at the fall meeting, so there is a deadline on this matter.

The committee broke from 12:25 to 12:45, reconvening with a working lunch.

c. TIAA-CREF

Doug DiCocco presented a letter dated April 11, 2007, addressed “To our Institutional Customers:” from Herbert M. Allison, CEO of TIAA-CREF, expressing their company's commitment to resolving service issues related to a new record keeping system. Doug stressed that the new record keeping system was necessary to provide the types of services customers desired. While each service issue is significant to TIAA-CREF, the majority of the transactions that TIAA-CREF processes have gone exactly as they should have. Where there were problems, things are getting better. Loans were an issue a year ago; it took eight days to process a loan, and today it is processed in 24 hours. Contributions are now posted to accounts within 24 hours with the correct participation date. Ninety percent of the assets and all of the larger clients have been moved to the new platform.

Mike Mitchell, TIAA-CREF, stated they worked very hard to get things back on track and the light is getting a little brighter at the end of the tunnel. Mike asked if there has been improvement with TIAA-

CREF's service in the UW TSA Program, and Rose replied that there had been. Doug stated TIAA-CREF never let anybody suffer financially; they even paid any bounced check fees.

Sue Chamberlain expressed concern that the University of Minnesota has removed TIAA-CREF from its plan. This has received a lot of publicity, since we are close to Minnesota, and UW-River Falls, UW-Eau Claire, and UW-Stout have a significant number of staff who live in Minnesota. Sue explained that she realized there was a distinct difference between how Minnesota operates its program and how we operate ours. Minnesota uses one uniform record keeper, Minnesota Life. All of the vendors send their records to Minnesota Life, so all of the participants get one statement of account.

Doug DiCocco, TIAA-CREF, explained that long before the new recordkeeping system was instituted TIAA-CREF was unable to produce a number of things that were promised. Certain requirements of being in the Minnesota program were not being met and had never been for the 15 years or so of that relationship. Current administrative issues compounded the problems, and the University of Minnesota chose to end its relationship with TIAA-CREF. Doug commented that it is ironic that under the old platform, the required reports were difficult, if not impossible, to complete; but now, the new record keeping platform can accommodate those reports. TIAA-CREF simply hadn't had the opportunity to produce what was needed at that institution. The CEO, Mr. Allison, flew to Minnesota and spoke with the administrators, but they stood behind their decision. Doug stated Minnesota's concern was never the investments, but rather not fulfilling promises that were made. TIAA-CREF hopes to some day reprove itself. The assets under management from the University of Minnesota are about \$300 million.

Mike Mitchell reported that it was interesting that Minnesota State Colleges and University System chose TIAA-CREF about a year ago as the sole record keeper for their retirement plan. That whole transition went very smoothly. Mike remarked that though the University of Minnesota experience is unfortunate, the change only affects new contributions, so TIAA-CREF is still servicing that account. After Herb Allison's visit to the University of Minnesota, a plan was established to increase the service levels to the existing participants.

Doug further reported that TIAA-CREF is going to work now to provide the reports and the service promised even though TIAA-CREF is no longer a vendor; \$300 million is still in that plan and TIAA-CREF hopes many of those participants stay with them. Kate asked if participants are able to continue to contribute. Doug responded they would not be able to contribute as of July 1.

Mike informed the committee he is moving on to a new position in TIAA-CREF in business development. He has been the Client Relationship Manager with the UW since 1999 and let the committee know what a pleasure it has been working with the UW.

6. Reappointment of Members; Resolution of Commendation

Kate informed the committee that Qinghai Wang has accepted a position next year at Georgia Tech and will be leaving the committee. The committee and staff expressed their deep appreciation for his service and wished him the best in his future work.

Kate read a letter from Lucretia Mattson, who is retiring and therefore resigning from the committee, and a "Resolution of Commendation" to Lucretia. Lucretia addressed everyone stating she is able to retire at age 59 because of the TSA program; in her letter she wrote that "this is one of the few committees that is worthwhile serving on."

Rose Stephenson announced that David Porter and Kevin Bahr have agreed to continue on the committee. New members will be found to replace Lucretia Mattson and Qinghai Wang.

MOTION: Howard Erlanger moved to adopt the "Resolution of Commendation" for Lucretia Mattson. Carol Fischer seconded. Motion passed unanimously.

7. Communications Plan

In her April 20, 2007, memo to the committee, Rose Stephenson reported on the communications plan initiatives. Documents included for reference were the *TSA Program Communications Plan*, a list of the number of employees by institution that were sent the new employee mailing, a sample of the letter and enclosures sent to new employees, a copy of the UW System web page listing the *Individual TSA Counseling Sessions Available*, a list of *2007 Campus Visits by UW-System Administration Staff*, and a notice of the dates and message content of *2007 Earnings Statement Messages*.

The new employee mailing reached approximately 2,000 employees. Staff may also send a postcard to those employees that received the mailing but have not signed up. Carol Fischer offered to communicate with the UW-Colleges' employees. An April 2007 query showed that in January, February and March 2007 there were more participants in the program than during the same time period in the two previous years. Rose reported that Brad Krause, UW-Colleges Interim Human Resources Director, has made a commitment to increase participation by 100 employees; Brad and Rose have visited UW-Colleges campuses doing TSA presentations. The number of sessions held on campuses by TSA investment companies has increased from years past. Rose proposed putting together a TSA questionnaire to TSA Coordinators to find out what methods other than broadcast emails are used to find out what other vehicles are available to provide TSA program announcements and increase program visibility. The personal touch of networking with colleagues is very effective in recruiting new TSA participants. A follow-up study will be completed with the communications initiatives to look at the participation numbers; there already is an increase for this year.

8. Report on Process of Monitoring Limits and Requesting Return of Excess

Rose Stephenson, in her memo to the committee dated April 23, 2007, reported on the process of monitoring limits and requesting return of excess. Staff members work to make sure the program is fully compliant with regulations. Because of our payroll system, monitoring limits requires much hands-on work; it is not automatic. When excess deferrals do happen, staff requests return of excess for our contributors.

9. 2006 Annual Report and Plan Information

Rose Stephenson reviewed the 2006 Tax-Sheltered Annuity 403(b) Program Annual Report dated April 27, 2007. The Executive Summary provides the basics of the plan. There are \$1.5 billion assets in the plan. The trend of contributions slightly decreasing to insurance companies and increasing to mutual fund companies has continued. Over 56% of participants contributed \$5,000 or less to the plan. Almost half of 2006 contributions came from contributors who deferred over \$13,000 in the year. Participation decreased somewhat in 2006, which may have been due in part to slightly higher retirements and other terminations in 2005. On average, participants contributed 10.64% of salary.

10. Review of Educational Initiatives

Terry Lauber summarized the educational initiatives for 2006. In 2006 a total of over 150 days of counseling were provided reaching almost 2,000 employees. The campus benefits fairs provide a good opportunity to reach out to a large number of employees at one time. The earnings statement messages and TSA *Investor* also provide educational opportunities. The efforts by TSARC members, company representatives and campus TSA coordinators are appreciated.

11. Next Meeting

The fall TSA Review Committee meeting will be November 2, 2007.

12. Motion to Adjourn

MOTION: Carol Fischer moved that the meeting be adjourned. Robert Carney seconded the motion. Motion passed unanimously. The meeting was adjourned at 2:00 pm.