

# Tax-Sheltered Annuity Review Committee

## Minutes

### April 28, 2006

- Members Present:** Kevin Bahr, Robert Carney, Ron Crabb, Howard Erlanger, Carol Fischer, Kathleen Kelley (Chair), Lucretia Mattson, Qinghai Wang, Lori Worm (attended via teleconference)
- Members Absent:** Randall Ryder (Ex-officio)
- Staff:** Chris Ashley, Sue Chamberlain, Terry Lauber, Ron Schell, Rose Stephenson
- TSA Vendors:** Jeff Janechek, Ameriprise/IDS; Jill Snyder, Andy Wilkinson, AUL; Peter Palmieri, Dreyfus (attended via teleconference); Anthony Frongillo, Sarah Kelly, Fidelity; Betty Custer, Gina Krapf, Mark Strassburger, Lincoln; Jay Schuman, T. Rowe Price; Mike Mitchell, TIAA-CREF
- Guests:** Susan Adams, UW Service Center

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

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

**2. Approval of Minutes:**

MOTION: Carol Fischer moved approval of the minutes of the October 28, 2005 TSARC meeting as submitted. Kevin Bahr seconded. Motion passed unanimously.

**3. Synopsis of Information Packet Highlights:** Ron Shell provided a summary.

*Tax Sheltered Annuity Program Statement of Objectives.* This is a direct outgrowth of the discussion the committee had at the fall TSARC meeting, in which the committee made it clear that employees should be actively encouraged to participate in the TSA Program and that improving accessibility ought to be a goal of the program. The core objectives are to make the plan more accessible, to communicate more, and to make it easier for employees who don't want to spend time on the plan. The committee's focus should be on high level issues and strategic initiatives; technical details of reviewing ratings and on compliance is the staff's responsibility.

*Accessibility/Core Options Subcommittee.* The subcommittee of Robert Carney, Howard Erlanger, and Lucretia Mattson met twice. The committee decided that it would not be practical to offer a core selection of funds, because that would lock us into monitoring investments and deciding which funds are appropriate for which investors. Choosing a core option that would fit with a broad spectrum of investors would be difficult.

The *TSA Program Communications Plan* encourages enrollment by providing enrollment kits to new employees and following up with reminders of the program. It reaches out to all employees by providing investment education, announcing developments in the program and increasing program visibility via the web and presentations. The *TSA Inve\$tor* newsletter will continue in paper form.

**4. Role of Scudder in the UW 403(b) Program:** Rose Stephenson summarized the recommendation regarding Scudder's role in the TSA Program.

Because of serious administrative issues resulting from Scudder's implementation of a new recordkeeping system, Scudder's refusal to post remittances the day they are received, and Scudder's lack of participation in the Program as evidenced by dwindling Scudder participation, the TSA RC is being asked to evaluate Scudder's position as an authorized TSA investment provider.

The TSARC must recommend to the UW President what action, if any, to take regarding Scudder's relationship with the UW 403(b) Program.

**Alternative 1.** Formalize the action staff took on February 1, 2006, by recommending that new applications to Scudder Investments be permanently discontinued. Permit existing Scudder clients to continue deferrals through December 31, 2006. Discontinue all deferrals to Scudder effective January 1, 2007. Employees who wish to continue in the UW 403(b) Plan will be required to choose a new investment company from among the authorized vendors. Monies in Scudder accounts can be left there or moved to another company at the employee's discretion.

Rose Stephenson stated she has not had any response whatsoever from Scudder. There was discussion regarding Scudder.

MOTION: Robert Carney moved approval of Alternative 1. Howard Erlanger seconded. Motion passed unanimously.

Rose will put the committee's recommendation in the form of a memo to President Reilly, which she will share with the committee. If the recommendation is approved, letters will go out to Scudder participants in May or June and again in November and will be shared with campus benefits staff; and campuses will be given a list of participants.

## **5. Review of Insurance Company Ratings**

Ron Schell distributed an updated "UW TSA Program August 2005 Insurance Company Ratings with Simplification Proposal" spreadsheet to the Committee and reviewed it making special note of AUL's rating as conservative rather than as a very conservative company as required by the TSA Criteria.

## **6. Presentation by AUL**

Andy Wilkinson, Vice President and Actuary of American United Life, and Jill Snyder represented AUL. In his presentation to the Committee, Mr. Wilkinson stated that AUL has worked with the University of Wisconsin for 33 years and asked for its continued support. Mr. Wilkinson provided a handout "Life Insurer Financial Analysis" with data on the UW's four TSA insurance companies to the Committee. He stated that the AUL funds were secure and that the handout showed that AUL has the highest percentage of surplus. He noted that financial ratings affect primarily only fixed annuities and that AUL would be willing to offer a product without a fixed annuity option. He emphasized that the size of company also affected the financial stability ratings and that the consumer should have a choice in the size of company to invest with. He asked that the committee consider a conservative company. Comments were received from Committee members. Andy Wilkinson stated he appreciated the opportunity to speak and serve the University of Wisconsin. Chair Kate Kelley thanked him.

## **7. Role of AUL in the UW 403(b) Program**

In a memo to the Committee dated April 19, 2006, Rose Stephenson detailed the recommendation on AUL. American United Life's status in the UW TSA Plan has been in question since AUL fell below the requirement of being a "very conservative" insurance company according to Belth standards shortly after this requirement was adopted at the October 28, 1999 TSA Review Committee meeting. AUL has been "under review" since the April 28, 2000 TSA Review Committee meeting. Letters were sent to AUL participants in October of 2002 and again in May 2005 informing them that AUL failed to meet minimum financial strength standards according the TSA Criteria.

Although AUL representatives have been very willing to provide individual counseling sessions and workshops, these sessions and workshops are simply not attended, while sessions and workshops provided by other investment companies are completely filled. AUL is not viewed as an attractive or desirable option for new participants.

The TSARC must recommend to the UW President what action, if any, to take in order to clarify AUL's relationship with the UW 403(b) Program. The alternatives presented in the memo were discussed.

In the discussion special note was made of the excellent customer service AUL has provided and of the fact that there have not been complaints. A vote on AUL was tabled until after the discussion of the service-level criteria. Remarks were received from Jill Snyder, AUL.

## 8. Ratings Simplification Proposal

The "Insurance Company Ratings Simplification Proposal, March 22, 2006" had been mailed to the Committee.

Ron Schell recommended the rating requirements move to a numerical approach setting 2.5 as the benchmark. Alternatively, we could go with stricter requirements using Joseph Belth's suggestion that companies should have an "extremely conservative" rating, or we could stay with the current ratings system. Discussion moved to setting a numerical benchmark of 3. If a company does not meet the numerical benchmark of 3, it could be "put on watch." The ratings would not be the only criteria used to assess whether to terminate a vendor.

The committee meeting broke from noon to 12:15 p.m. reconvening with a working lunch.

After reconvening, the committee moved forward with a motion on the "Ratings Simplification Proposal."

MOTION: Carol Fischer moved adoption of the new "Ratings Simplification Proposal" and that the average rating be 3.0. Robert Carney seconded. Motion passed unanimously.

UW TSA Criteria changes are as follows:

### B. Insurance Vendor Rating Requirements

#### DELETE:

Insurance providers in the UW TSA Program are required to qualify as extremely conservative or very conservative companies. A company is considered to be extremely conservative if its ratings from at least three of the ratings services listed below are in the extremely conservative range. A company is considered to be very conservative if its ratings from at least three of the ratings services listed below are in the very conservative range or higher.

The table below is based on the September 2002 issue of *Insurance Forum* and revised by the TSA Review Committee on April 22, 2005. The table may be amended from time to time based on recommendations of the *Insurance Forum*, changes in the methodology of the ratings services, or for other reasons as the TSARC determines.

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

**INSERT:**

The TSA Review Committee does not believe the University can guarantee the future financial stability of any insurance company. Companies that have been rated highly can and do go bankrupt. However, it is important to understand the financial position of any insurance company to which you entrust your money.

Many rating services rank insurance companies and as a condition of participation in the UW TSA program, we require an average rating of 3 or greater from the following five rating services (or fewer if one or more ratings is not available). The average rating shall be calculated by adding the indicated point values and dividing the sum by the number of ratings included.

Points	Best	Fitch	Moody's	S&P	Weiss
4	A++	AAA, AA+	Aaa, Aa1, Aa2	AAA, AA+	A+, A, A-, B+
3	A+	AA	Aa3	AA	B
2	A	AA-	A1	AA-	B-
0	All Others				

UW System Administration staff shall monitor ratings and provide a summary to the TSA Review Committee each year. If the average rating is below 3, staff shall make appropriate recommendations to the Committee up to and including termination of the vendor from the program.

**DELETE Subsection C. Insurance Vendor Rating Restriction or Termination Procedures** in its entirety.

MOTION: Howard Erlinger moved discussion go to the service level criteria. Ron Crabb seconded. Motion passed unanimously.

**9. Service-level Criteria Proposal**

Ron Schell reviewed the “Suggested TSA Program Requirements,” which had been mailed to the committee. Discussion resulted in changes to the suggested requirements.

These included:

- The service requirements would be effective 1/1/08 (rather than 1/1/07 as proposed).
- The counseling provided by mutual fund companies via an 800 number would specifically be provided by counselors knowledgeable about the UW program. Such counseling should be easily accessible by both new and existing UW 403(b) program participants.
- The payroll and participant information would be in a format mutually acceptable to UWSA and the vendor.
- The fee requirements for insurance companies would be effective 1/1/08 (rather than 1/1/07 as proposed).
- Relating to fees by the insurance companies, the requirements would not include a 50 bps maximum mortality/risk charge as proposed. However, the committee stressed that the M&E charges should be clearly advertised and explained.
- The wording of the suggested participation requirement was made more specific relating to the two-year average enrollment of new participants.
- Further relating to participation requirement, a change in the proposal was made whereby current participants could continue to contribute new money for one year [proposed as three years] after a vendor is closed to new participants (through 2010 [proposed as 2012]).

MOTION: Ronald Crabb moved to accept TSA Program Requirements. Carol Fischer seconded. Motion passed unanimously.

A final document with changes follows.

### **Accepted TSA Program Minimum Service Level Requirements**

1. SERVICE (effective 1/1/08)
  - A. Participant Communications (mutual fund companies only)
    - Make staff available for a minimum of six general investment seminars (open to all employees) at locations determined by UWSA
    - Provide individual financial counseling by counselors knowledgeable about the UW program via an 800 number. Such counseling should be easily accessible by both new and existing UW 403(b) program participants.
    - Provide online enrollment and accept enrollment applications by fax or internet
  - B. Coordination with TSA Staff
    - Within 60 days after the close of the calendar year, provide an annual summary of UW employee participation in a format acceptable to UWSA
    - Respond to staff inquiries within one business day
  - C. Administrative Services
    - Post remittances the day they are received
    - Accept remittance file funds for new enrollees in the absence of new enrollment data to the maximum period allowed by law (currently three days)
    - Accept payroll and participant information in a format mutually acceptable to UWSA and the vendor
2. FEES (Insurance companies only – effective 1/1/08)
  - No surrender charges
3. PARTICIPATION
  - Two-year average enrollment of net new participants must be the lesser of
    - A) 10% of the total of net new participants in the TSA program, including those transferring from other funds, or
    - B) 10% of the number of active participants contributing funds to the vendor at the end of the year prior to the two-year period under review
  - Old money could remain on deposit with discontinued vendors indefinitely
    - Effective 1/1/2010 new participants would not be permitted to contribute new funds to any vendor falling below the minimum
    - Current participants could continue to contribute new money for one year after a vendor is closed to new participants (through 2010)

### **10. Role of AUL in the UW 403(b) Program**

The Committee returned to the agenda item of the role of AUL in the UW 403(b) program. Rose Stephenson summarized Alternatives 1 and 2. Carol Fischer noted that May should be changed to July for either Alternative.

MOTION: Lucretia Mattson moved to adopt Alternative 1 with new applications to AUL be discontinued as of July 1. Kevin Bahr seconded. Motion unanimously carried.

Alternative 1 was adopted as follows:

**Alternative 1.** Recommend that new applications to AUL be discontinued as of July 1, 2006. Permit existing AUL clients to continue deferrals through December 31, 2006. Discontinue all deferrals to AUL effective January 1, 2007. Employees who wish to continue in the UW 403(b) Plan will be required to choose a new investment company from among the authorized vendors. Monies in AUL accounts can be left there or moved to another company at the employee's discretion.

MOTION: Howard Erlinger moved to adopt a friendly amendment to state our appreciation to AUL for the excellent customer service and participation of representatives at today's meeting and in the past and to note that we take this action with regret. Lucretia Mattson seconded. Motion carried unanimously.

Rose will put the committee's recommendation in the form of a memo to President Reilly, which she will share with the committee. If the recommendation is approved, letters will go out to AUL participants in May or June and again in November and will be shared with campus benefits staff; and campuses will be given a list of participants.

## **11. Annual Report**

A preliminary 2005 Tax-Sheltered Annuity 403(b) Program Annual Report was mailed to the Committee. Rose Stephenson reviewed the report. The entire 2005 Annual Report will be available on the web and will be discussed at the TSARC meeting next fall. There is a continued trend with both assets and contributions increasing substantially. There is a trend towards mutual fund companies and TIAA-CREF and lower assets and contributions to the insurance companies. Participation is up in 2005 but many of those do not have WRS contributions going in. Most of the money coming into the program is in the top 50 funds. Higher contributors are in the 40 and up age group.

## **12. Review of Educational Initiatives**

A summary of "University of Wisconsin TIAA-CREF Campus Visits 2005" was mailed to the Committee. Terry Lauber summarized educational initiatives for 2005 and spring 2006 as provided by TSA investment companies. During 2005 staff did fewer presentations, but investment company educational initiatives are up. UWSA has extensive info on its website. In 2006 a TSA Manual will be developed for the campus TSA coordinators. There was discussion on the TSA program being part of retirement savings; there is also WRS.

## **13. Roth 403(b)**

Rose Stephenson presented information on the Roth 403(b) option as detailed in the background document. Information is available on the UWSA website. A Roth 403(b) would be costly for the UW to implement and a tremendous amount of education would need to be provided to employees. There was discussion regarding the Roth 403(b) and Roth IRA.

## **14. Miscellaneous**

- a. Update on Wells Fargo  
Rose Stephenson reported a letter was sent out November 2005 to participants informing them contributions to Wells Fargo would automatically cease after 12/31/2005. She was contacted by participants wanting help to transfer funds. Many participants stayed with the TSA program. Wells Fargo helped to make the transition go smoothly.

- b. Concerns with Ameriprise  
Rose Stephenson reported that through conversations with participants it came to our attention Ameriprise has allowed UW employees to move funds to non-approved UW TSA funds. Large surrender charges for individuals have also caused concern. People who have wanted to transfer from Ameriprise have seen long waiting periods to transfer funds. Jeff Janecek, Ameriprise, stated that they will provide extra training; they will do whatever they can to make things right when it is brought to their attention.
- c. TIAA-CREF  
Rose Stephenson reported there are seven new mutual funds along with life cycle funds that have been offered. Mike Mitchell, TIAA-CREF, stated the mutual funds have about \$1 million in them right now. The life cycle funds have picked up about \$420,000 in five to six months. Rose Stephenson provided the Committee with a Wall Street Journal article on TIAA-CREF, "A Wall Streeter Aims to Revive Handler of University Pensions." She reported there were concerns about the new platform, but they have been rectified; we are in good shape.
- d. IRS audit  
Rose Stephenson reported that in asking about other issues the IRS asked for information on the 403(b) and 457 plans for calendar years 2003 and 2004. About 20 individuals were identified by the IRS as potential overcontributors; they were either well within their limits because of the extra service catchup that they can have or else had timely requests for return of excess contributions. We were able to respond to the IRS and have not heard back.
- e. Resolution of Commendation to Ron Crabb  
Ron Crabb has been with the Tax Sheltered Annuity Review Committee since the Fall of 1996 and will be retiring. Chair Kate Kelley read the Resolution of Commendation and presented it to Ron Crabb, who was warmly thanked for his contributions.
- f. Commending Ron Schell  
Sue Chamberlain commended Ron Schell for the work he has done. The agenda before the Committee today and the initiatives underway would not have happened without his help. Ron Schell was applauded.

**15. Next Meeting:** The fall TSA Review Committee meeting will be November 3, 2006.

#### **16. Reading for Committee**

The following *Pension and Investments* articles were provided to the Committee:

"Inertia hits participants even in good market, paper shows"

"Asset allocation funds benefit participants" and

"Younger people less likely to participate in 401(k)."

#### **17. Motion to Adjourn**

MOTION: Ron Crabb moved that the meeting be adjourned. Lucretia Mattson seconded the motion. Motion passed unanimously. The meeting was adjourned at 2:30 pm.