

**MINNESOTA STATE COLLEGES AND UNIVERSITIES
BOARD OF TRUSTEES**

Agenda Item Summary Sheet

Committee: **JOINT COMMITTEE MEETING**

Human Resources Policy and
Finance/Facilities Policy Committees

Date of Meeting: January 18, 2006

Agenda Item: **DEFINED CONTRIBUTION RETIREMENT (DCR) PLAN AND
TAX-SHELTERED ANNUITY (TSA) PROGRAM
RECORDKEEPING/ADMINISTRATION CONTRACT**

Proposed Policy Change Approvals Required by Policy Other Approvals Monitoring

Information

Cite policy requirement, or explain why item is on the Board agenda:

Since the pension issues follow the purview of Human Resources and approval of the contract follows the purview of the Finance division, we feel a joint meeting would be the most efficient way to seek consultation from the Board.

Scheduled Presenter(s):

Bill Tschida, Vice Chancellor for Human Resources
Laura King, Chief Financial Officer/Vice Chancellor for Finance
Gary Janikowski, System Director for Personnel

Outline of Key Points/Policy Issues:

- Background on the Defined Contribution Retirement (DCR) Plan and the Tax-Sheltered Annuity (TSA) Plan
- Recommendations for plan improvements
- Request for Proposal process
- Recommendations

Background Information:

Contracts for the system-sponsored Defined Contribution Retirement (DCR) plan and the Tax-Sheltered Annuity (TSA) program ("the Plans") will expire on June 30, 2006. Both programs are being re-designed in order to make them more effective and efficient.

**MINNESOTA STATE COLLEGES AND UNIVERSITIES
BOARD OF TRUSTEES**

Agenda Item Summary Sheet

Committee: Human Resources Policy Committee

Date of Meeting: January 18, 2006

Agenda Item: Leadership Development Activities

- Proposed Policy Change Approvals Required by Policy Other Approvals Monitoring
- Information

Cite policy requirement, or explain why item is on the Board agenda:

This report will give a brief update on Minnesota State Colleges and Universities efforts in the area of staff and leadership development, with a focus on the Luoma Leadership Academy Program.

Scheduled Presenter(s):

Bill Tschida, Vice Chancellor for Human Resources
Kathleen Nelson, President, Lake Superior College
Jim Luoma, Trustee Emeritus, Minnesota State Colleges and Universities
Anita Rios, Director, Staff and Leadership Development

Selected Luoma Leadership Academy Participants:

Kathleen Enz Finken, Interim Dean, College of Arts and Humanities, Minnesota State University Moorhead
Peter Scheffert, Dean, Academic Affairs, Riverland Community College
Sunny Ainley, Marketing Director, Normandale Community College

Outline of Key Points:

- Approach to Address Staff and Leadership Development Needs throughout System
- Development of New Supervisory Training Program
- Luoma Leadership Academy Program Update and Participant Testimonials

Background Information:

The first cohort of the leadership academy concluded in November 2005. The second cohort began in July 2005 and is scheduled to be finished in July 2006. Call for nominations has gone out for the third cohort.

**BOARD OF TRUSTEES
MINNESOTA STATE COLLEGES AND UNIVERSITIES**

BOARD ACTION

**DEFINED CONTRIBUTION RETIREMENT (DCR) PLAN AND TAX-SHELTERED
ANNUITY (TSA) PROGRAM
RECORDKEEPING/ADMINISTRATION CONTRACT**

BACKGROUND

Contracts for the System-sponsored Defined Contribution Retirement (DCR) plan and the Tax-Sheltered Annuity (TSA) program (“the Plans”) will expire on June 30, 2006. Both programs are being re-designed in order to make them more effective and efficient. The system is moving from a two record-keeper model to one consolidated record-keeper in order to make the Plans more understandable and user-friendly for participants. TIAA-CREF is being recommended to serve as the sole record-keeper for the Plans. Fund offerings will continue to include the full array of TIAA-CREF funds, in addition to a line-up of actively-managed and passively-managed low-cost mutual funds. Contracts for the revised Plans will be for a five (5) year period, beginning on July 1, 2006 and ending on June 30, 2011.

I. Background on the Plans

The Minnesota State Colleges and Universities System sponsors the Defined Contribution Retirement (DCR) program for unclassified faculty and staff and the Tax-Sheltered Annuity (TSA) program for all employees.

The DCR program includes both the Individual Retirement Account Plan (IRAP) as well as the Supplemental Retirement Program (SRP). The IRAP program serves as the main retirement program for many faculty and unclassified staff, while the SRP is available to all full-time unclassified employees who have at least two years of service. Employees in IRAP contribute 4.5% of payroll and the State provides a 6% matching contribution, while the SRP contribution rates differ based on bargaining unit/personnel plan. There are approximately \$665 million in assets and approximately 8,000 participants in the DCR program.

The TSA program is a voluntary program for all System employees; this program does not include a State matching contribution. Participants can contribute up to \$15,000 (\$20,000 if age 50 or over) per year in 2006. There are approximately \$112 million in assets in the TSA program with approximately 4,300 participants.

II. Recommendations for Plan Improvements

The Plans are reviewed every five years so that they can become more efficient and responsive to participant retirement needs and goals. The DCR Advisory Committee, comprised of representatives from each of the unclassified bargaining units/personnel plans, advises the System on the plan design and administration of these programs.

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2 The DCR Advisory Committee reviewed the plans during the past two years and made several
3 recommendations to simplify participant understanding of the programs as well as to make the plans more
4 efficient and effective. High level goals of the project included the following:
5

- 6 • **“One-Stop Shopping” for Retirement Plan Inquiries.** Participants have reported that the System’s
7 retirement plans are confusing and require that multiple providers be contacted when there are questions
8 regarding retirement benefits.
 - 9 ○ The Advisory Committee suggested that the System establish a call center where all retirement questions
10 can be answered with one call. The call center should be able to pull up information on all participant
11 accounts, including all mandatory and voluntary plans, to better assist callers.
12
- 13 • **Eliminate Multiple Record Keepers.** Currently, participants in the DCR and TSA retirement programs
14 receive quarterly statements from Wells Fargo and/or TIAA-CREF, depending on where their retirement
15 funds are invested.
 - 16 ○ The Advisory Committee recommended that the Plans move to one record-keeper so that all DCR and
17 TSA retirement fund investment accounts are summarized on one, understandable quarterly statement.
18
- 19 • **Reduce Overlapping Funds.** Because there are several overlapping funds which have essentially the
20 same fund objective, return, and cost, the Advisory Committee recommended that the fund array be
21 simplified and that the number of overlapping funds be reduced to help lower plan administrative costs and
22 to eliminate participant confusion. At the same time, the committee felt there should be competition within
23 the plan and that there should be more than one provider of funds.
24
- 25 • **Reduce Plan Administrative Fees.** Participants in the DCR program currently pay a \$20 annual
26 administrative fee for TIAA-CREF funds and 25 “basis points” (.25 of 1.00%) in asset-based charges for
27 participation in either the Wells Fargo funds or the State Board of Investment (SBI) funds.
 - 28 ○ Since Plan administrative fees are borne by Plan participants, the Advisory Committee recommended that
29 the administrative fees be as low as possible and be assessed equitably across all funds/providers in the
30 Plan.
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32 **III. Request for Proposal Process**

33 With the above goals in mind, the System contracted with Segal Advisors to help us with the Request for
34 Proposal for the record-keeper. The State Board of Investment (SBI) conducted the search for the retirement
35 funds. (Minnesota Statutes require that the SBI conduct the search for retirement funds).
36

37 Three vendors were invited to make presentations to the DCR Advisory Committee and to System
38 management with regard to their record-keeping capabilities. Vendors were rated on the following factors:

- Organization and History
- Record-keeping/Administration, Reporting Custodial Trustee Services
- Voice Response System, Customer Service Center, Internet Services
- Communication/Education, Investment Advisory Services
- Administration Fees

IV. Recommendations

Record-keeper

Based on the detailed analysis of the submitted proposals by Segal Advisors and input received from the DCR Advisory committee, it is recommended that TIAA-CREF serve as the single record-keeper for the Plans and continue to provide their full array of retirement annuity products for the upcoming contract period, July 1, 2006 through June 30, 2011.

It is estimated that TIAA-CREF will receive approximately \$2.9 million in cumulative revenue due to proprietary fund fees, revenue sharing arrangements with non-proprietary funds, and administrative fees during the five-year period of the contract, from July 1, 2006 through June 30, 2011.

Funds Offerings in the Newly Designed Program.

The following TIAA-CREF offerings will continue to be offered in the new program:

- TIAA Traditional Annuity
- TIAA Real Estate
- CREF Money Market
- CREF Bond Market
- CREF Inflation-Linked Bond
- CREF Social Choice
- CREF Equity Index
- CREF Stock Account
- CREF Growth Account
- CREF Global Equity

The State Board of Investment (SBI) has recommended that the following line-up of passively managed and actively managed, daily valued, mutual funds be incorporated into the revised program in lieu of the monthly-valued SBI funds that are currently offered:

<i>Fund Type (Passive Funds):</i>	<i>Recommended Fund:</i>
Small Cap Blend	Vanguard Small Cap Index
Mid-Cap Blend	Vanguard Mid-Cap Index
Large Cap Blend	Vanguard Institutional Index
Fixed Bond	Vanguard Total Bond Market Index
Balanced	Vanguard Balanced Index
International	Vanguard Developed Markets Index
<i>Fund Type (Active Funds):</i>	<i>Recommended Fund:</i>
Small Cap Blend	Legg Mason Royce Premier
Mid-Cap Blend	Vanguard Strategic Equity
Large Cap Blend	Fidelity Contrafund

1	Fixed Bond	Legg Mason Western Asset Core Plus
2	Balanced	Fidelity Balanced
3	International	T. Rowe Price International Growth & Income
4		
5	Money Market Fund	Vanguard Prime Money Market
6		

7 The SBI Board will need to formally approve both the TIAA-CREF funds and the passively-managed and
8 actively-managed fund offerings at its meeting on March 8, 2006.

9
10 **Lower Fees.**

11 As was indicated above, participants are currently assessed an administrative fee of 25 basis points (i.e.,
12 0.25%) for all assets in the non-TIAA-CREF funds in the DCR plan and a \$20 annual fee for the TIAA-
13 CREF accounts. With the new record-keeping and fund configuration, TIAA-CREF will assess a \$10 annual
14 fee per participant, with no asset-based fee. There may still also need to be a small fee assessed to participants
15 for such services as outside legal advice, IRS filing fees, investment plan analysis, and other administrative
16 services that are not provided by TIAA-CREF.

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18 **Next Steps.**

19 Assuming the Board approves the recommended changes, we will begin the preparatory work for these
20 changes as soon as practicable. Employees will see stepped up written and electronic communications, along
21 with campus meetings later in the spring to make the transition go as smoothly as possible.

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23
24 **RECOMMENDED MOTION:** The Human Resources Policy Committee and Finance/Facilities Policy
25 Committee recommend that the Board of Trustees authorize the chancellor to negotiate a contract with TIAA-
26 CREF to provide record-keeping services for the Defined Contribution Retirement plan and Tax-Sheltered
27 Annuity program through June 30, 2011.

28
29 **MOTION:** The Board of Trustees authorizes the chancellor to negotiate a contract with TIAA-CREF to
30 provide record-keeping services for the Defined Contribution Retirement plan and the Tax-Sheltered Annuity
31 program through June 30, 2011.

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34 *Date presented to the Board:* January 19, 2006
35 *Date of Board Action:* January 19, 2006
36 *Date of Approval:* January 19, 2006
37 *Date of Implementation:*