

**MINNESOTA STATE COLLEGES AND UNIVERSITIES**

**BOARD OF TRUSTEES**

**Fiduciary Training on Retirement Program**

**STUDY SESSION MINUTES**

**March 20, 2013**

*Board of Trustees Members Present: Chair Clarence Hightower, Trustees Ann Anaya, Brett Anderson, Margaret Anderson Kelliher, Duane Benson, Alexander Cirillo, Cheryl Dickson, Dawn Erlandson, Philip Krinkie, Alfredo Oliveira, David Paskach, Tom Renier, Louise Sundin, Michael Vekich*

*Leadership Council Representatives Present: Chancellor Steven Rosenstone, Vice Chancellor Laura King, Gail Olson, Office of General Counsel*

**Fiduciary Training on Retirement Program**

The Minnesota State Colleges and Universities Board of Trustees held its meeting on March 20, 2013, 4<sup>th</sup> Floor, McCormick Room, 30 East 7<sup>th</sup> Street in St. Paul. Chair Hightower called the study session to order at 8:30 a.m. Chair Hightower introduced the training by saying it is required by law and by board policy and the materials presented will become a part of new trustee orientation.

Chair Hightower asked Vice Chancellor Laura King to lead the conversation and to introduce the panel. Vice Chancellor King said that this training will identify the roles and responsibilities of the board in relation to the fiduciary requirements of the system-sponsored retirement programs. Vice Chancellor King noted that background materials were sent out prior to the training. Vice Chancellor King introduced the panel: Bill Brady, Interim Director for Retirement Administration, Gail Olson, General Counsel, and Scott Miller, Associate Partner, Hewitt EnnisKnupp. Mr Miller is part of the fiduciary services group at the firm.

Mr. Brady gave a brief overview of the three defined contribution plans – Individual Retirement Account (IRAP), Supplemental Retirement Plan (SRP), and Tax Sheltered Annuity (TSA). The plans have assets of \$1.492 billion, with nearly 20,000 participants, including current employees, retirees, and those who have left the system but did not move their account when they departed. All three plans provide for employee contributions: (4.5%) with IRAP requiring an employer contribution (6%) and SRP matching employee contributions to a limit set in the applicable bargaining agreement or personnel plan. TSA is voluntary plan and requires no employer match.

Ms. Olson reported that under Board Policy 1C.4, it is the board's role to select the system pension plan administrator and the investment advisor. The current plan administrator is TIAA-CREF and they oversee the daily operations of the investment plan. The current investment advisor is Hewitt EnnisKnupp. Hewitt EnnisKnupp provides advice on items

such as investment options and key issues, and assists with items such as designing the RFP for selection of the plan administrator.

Chair Hightower asked when the last time training was provided and the length of the administrator's contract. Ms. Olson responded that in 2009, the state's role in investments changed and last year, the board adopted the related Policy 1C.4. This is the first training since the policy adoption and it is meant to provide the board comfort with the policy language, the dimensions of the retirement program, and an understanding of the responsibilities pertaining to the policy. The contract is in effect for five years.

Trustee Oliveira asked if a five year contract is an acceptable term for the contract. Ms. Olson replied that it is reasonable because of the complexity of what goes into the plans and turnover can be disruptive for participants. Vice Chancellor King added that the length of the contract was the board's decision, and it can be changed to a different term length, if desired.

Trustee Benson inquired how the investment advisor and the plan administrator are compensated. Vice Chancellor King replied that the plan administrator is compensated through a portion of the fees from the investment products that they own and include in the program, and the investment advisor is compensated on a fee for service basis, unrelated to TIAA-CREF or any of the fund offerings. Trustee Benson asked if there could be a conflict of interest with TIAA-CREF since it is involved in both offering investment products and administering the program. Vice Chancellor King assured Trustee Benson that there was tremendous negotiations to select the products that would be in the plan and in the contract, and the administration fee is separate from the fund performance.

Trustee Erlandson asked if these plans are competitive in the national higher education market place. Vice Chancellor King responded that in general, MnSCU would be at the low range of competitiveness, particularly with the employer contribution portion. Ms. Olson added that the employer and employee contribution rates are established under the law, so the board does not have decision-making authority in that area. Ms. Olson continued that the system administrators are responsible for determining the pension investment options and the administrative functions. An Advisory Committee, made up of staff, makes recommendations to the Investment Committee (Vice Chancellors King and Carlson). The Investment Committee makes the final decisions based on those recommendations. Trustee Dickson commented that it is common practice to have an outside advisory group to give input. Vice Chancellor King replied that Hewitt EnnisKnupp serves in that role by providing expert advice.

Ms. Olson said that the portion of the law regarding fiduciary responsibility is tailored to defined benefit plans. Since the system provides defined contribution plans, it can be difficult to determine how the provisions pertain to the plans.

Ms. Olson continued that a fiduciary is someone who has some form of delegated responsibility in the obligations of the pension plans, and this includes all trustees. The three responsibilities include prudence, loyalty, and following the laws. All fiduciary activities must be carried out faithfully and without prejudice, and consistent with the law and plan documents. Fiduciaries must incur and pay only necessary administrative expenses, and

manage the pension plans in accordance with the plan documents. Ms. Olson said, in summary, that fiduciary activities include oversight of the administration, including maintenance of records, reasonable expenditures of plan assets, and the selection and approval of financial institutions and investment products. Ms. Olson said that trustees should evaluate their understanding of their duties as fiduciaries, and contact her, or any of the panel, for further explanation or clarification. Ms. Olson introduced Mr. Miller and asked him to continue.

Mr. Miller explained that fiduciaries must meet the prudent person standard, as required by law. A prudent person will act in good faith, exercise judgment, and take care of the safety of the plan capital and probable investment return, and not consider personal interests. It is up to the fiduciaries to offer products, but they are not responsible for the investment performance. Mr. Miller said that a prudent person should be willing to call on the experts when questions arise, and at times the answer may not be what they want to hear. A prudent person is one who will delegate authority to the experts (investment staff, consultants, attorneys, etc.) when needed.

Trustee Vekich asked how the board knows if the investment targets are being met. Vice Chancellor King said that an annual review to the board was added to the board policy and that the investments are not measured by the return, but rather by the fund options that are offered and the risk tolerances of the investments. Vice Chancellor King added that if the board requested a more frequent report, it would be provided. Ms. Olson noted that if significant issues with the investments arose, it would be by the system's obligation to report it to the board. Trustee Krinkie asked if a copy of the investment guidelines and quarterly report could be made available in the board office. Vice Chancellor King said that those would be provided along with a dashboard summarizing the fund performance information.

Trustee Benson asked for clarification on the taxes on the funds. Vice Chancellor King answered that the employee's contribution is made through payroll deduction and generally is tax deferred.

In an effort to be a prudent person, Trustee Dickson suggested regular reporting that demonstrates employer contributions are accounted for, information on fund changes and substitutions, and assurance that participants are receiving standard communications and notifications of plan changes. Vice Chancellor King replied that a standard communication channel will be established for the board to obtain feedback.

Mr. Miller said that a good decision making process is essential, regardless of the outcome. That way, if a fiduciary is challenged, the fiduciary can prove that the standard process was followed, which lead to the decision in the first place. The loyalty of the fiduciary is to the beneficiaries of the plan, the taxpayers, who help finance the system pension plan, and to the State of Minnesota, which establishes the plan. The law is very clear about where the loyalty lies, therefore, the fiduciary can only "wear one hat" and not take into consideration influences from outside parties and not personally benefit from the pension plan administration. If a conflict comes up, the fiduciary should disclose it to the chair of the board. If there are doubts about whether or not there is a conflict of interest, legal advice

should be sought because courts are very strict on fiduciaries to disclose their obligations. It is the duty of each fiduciary to have awareness of the law and to follow the law.

Vice Chancellor King opened the session up for questions. Trustee Oliveira wanted to know what resources are available in order to be better prepared in case some issue were to arise. Ms. Olson answered that trainings like these will be helpful and additional training will be offered in the future. Another resource is the the annual report, and a training manual is being developed.

Trustee Dickson commented that this training should be included not just in the context of the board as a fiduciary for pension plans, but in the entire range of a board member's duties and the information should be included in the beginning of a new board member's orientation packet.

Trustee Sundin inquired who is in charge of the communication to the plan members. Vice Chancellor King said that it is TIAA-CREF's duty to provide communication and it is monitored. Vice Chancellor King reviews the activity in the annual report to see how the employees are moving their investments around. Ms. Olson added that some of this information will be included in the manual.

Trustee Benson said it may be helpful to see a diagram of how the money flows from MMB to TIAA-CREF into participants' accounts. Vice Chancellor King replied that it could be considered for the training manual. Vice Chancellor King said it is her understanding that no additional reporting will be provided as a result of this training and the additional staff obligation will be to provide a summary dashboard on plan performance and put a copy of the Hewitt EnnisKnupp quarterly report in the board room. The program binder will include a flow chart on how the monies flow from the payroll system to TIAA-CFEF, an explanation of various delegations that exist in the current program, and an explanation of the Board's oversight process. Trustee Vekich suggested that once there is a better understanding of the reporting, semi-annual reports would be sufficient. Chair Hightower concurred. Trustee Cirillo noted that it would be helpful to obtain an explanation of the process of ongoing oversight. Trustee Vekich said that since many of the board's duties are delegated, that it would be helpful to receive an outline of the delegations that exist in the current structure. These materials will be included on the program binder.

Chair Hightower thanked the presenters and adjourned the meeting at 9:37 a.m.

Respectfully submitted,

Laury Anderson, Recorder