

KANSAS BOARD OF REGENTS
Retirement Plan Committee
MINUTES
February 14, 2007

The February 14, 2007, meeting of the Kansas Board of Regents Retirement Plan Committee was called to order by Chairperson Janie Perkins at 8:00 a.m. The meeting was held in Board offices at the Curtis State Office Building, 1000 S.W. Jackson, Suite 520, Topeka.

Members Participating:

Lindy Eakin (KU), Dr. Ed Hammond, FHSU, Dr. Rick LeCompte, WSU, and Madi Vannaman (Board Office)

Members participating by phone: Regent Janie Perkins, Mike Barnett (FHSU), Dr. Dipak Ghosh (ESU), Rick Robards (KUMC) and Michele Sexton (PSU).

Others participating: Robin Kempf and Renee Wilson (Board Office)

Member not able to participate: Gary Leitnaker.

Minutes

The September 20, 2006, RPC minutes were approved.

Report from Chair

Chair Perkins, chair of the RPC, welcomed the Committee members.

Board's Mandatory Retirement Plan Consolidation (12/31/06)

1. Information was shared reflecting the change in participation with the two remaining Investment Providers (ING and TIAA-CREF) as a result of consolidation of the Plan.

- a. Prior to consolidation, as of September 8, 2006, there were 9,199 Plan participants.

ING	Lincoln National	Security Benefit	TIAA-CREF	Total
941	834	564	6,860	9,199
10%	9%	6%	75%	

- b. After consolidation, as of January 26, 2007, there were 9,411 Plan participants.

ING	TIAA-CREF	Total
1,892	7,519	9,411
20%	80%	

- c. Changes to ING and TIAA-CREF participation numbers.

ING	# increase	% change
1,892	951	101.1%

TIAA-CREF	# increase	% change
7,519	659	9.6%

- d. Faculty and staff with deselected Investment Providers (Lincoln National and Security Benefit Group) totaled 1,398 as of September 8, 2006 (representing 15.2% of all Plan participants). A total of 96 (or 6.9% of the 1,398) did not make an active selection and were defaulted into the appropriate TIAA-CREF Lifecycle fund. The 96 faculty and staff represent 1% of the total number of participants as of January 26, 2007.

2. Information for Plan participants about ING and TIAA-CREF, found on the Board's website, was reviewed, as well as the revised KBOR brochure, Your Future, Your Choice.

Deloitte's draft documents

Deloitte provided draft documents for the Board's Mandatory Plan.

1. Deloitte recommends revision to the Appendix for the Investment Policy Statement to reflect the new fund lineups effective 12/31/06 and new benchmarks.

Questions raised by RPC members that will be presented to Deloitte Consulting:

Footnote #1 on page A-5 indicates that "all actively managed funds are expected to outperform the market benchmark..." For those stock accounts that are both actively managed and indexed, how does the footnote apply? For the ING Lifecycle options, the same benchmark is used for the 2015 and 2025 portfolios and for the 2035 and 2045 portfolios. As there are different maturity dates, is using the same benchmark appropriate? And, is there a working definition of the term "outperform the market benchmark"?

2. In response to an RPC request at the September 2006 meeting, Deloitte drafted a RPC Charter to outline items such as a mission statement and principal functions.

A question was raised about the information on page 1, under Composition, which states that "The Committee shall consist of members appointed by the Board from the State Universities and a current Regent who are independent and free from any relationship that, in the opinion of the Board, would interfere with the exercise of independent action and judgment as a Committee member." The question was how would the Board ensure the lack of conflict of interest. Robin Kempf, Board's Interim General Counsel indicated that further discussion would ensue about how to address this component of the appointment process.

3. In response to an RPC request at the September 2006 meeting, Deloitte drafted a Vendor Management Document to address changes to the fund lineup.

Once finalized, the information will be communicated to the Investment Providers so they are aware of the timeline and protocol to follow to recommend changes to the fund lineups.

Deloitte will be asked whether information should be included about discontinued funds to provide direction for options available for fund accumulations (leave them where they are, map them into other funds, whether an option is selected by the participant or mandated by the Board).

The RPC discussed whether language was needed to outline the process for reviewing the Mandatory Plan as a whole – plan design, investment provider structure. The Investment Policy Statement, page 5, under Monitoring Investment Providers for the Plan states “The Committee shall review the approved Investment Providers under this Policy at least annually, or more frequently as determined necessary in the Committee’s sole discretion, to determine if the above-criteria continues to be satisfied and if additional or fewer Investment Providers should be designated to offer Investment Options under the Plan.” The RPC decided that this language provided enough flexibility to provide systematic review of the Plan and determination about changes as needed.

KBOR Voluntary Retirement Plan

The RPC reviewed the fiduciary responsibilities memo from the Board’s General Counsel, as well as information about past practices for the Voluntary Plan.

Draft documents for the Voluntary Plan (plan document and investment provider agreement) as well as participation information were provided.

The RPC discussed whether assumption of full fiduciary responsibilities for the Voluntary Plan, in line with the Mandatory Plan should be explored, or whether another approach should be taken. Information about the history of the current protocol, to freeze the companies with less than 5 participants, was shared. That protocol, first instituted in 1992, was a result of a natural breakpoint in participant numbers and pared the listing down to 84 companies. As of January 2007, there are 50 companies. Twenty-nine have 5 or more participants; 24 have 10 or more participants. The two Mandatory Plan Investment Providers (ING and TIAA-CREF) represent 61.5% of all participants.

A survey of the other Big XII universities will be performed to gather information about their mandatory and voluntary retirement plan options, and further discussion will occur at the March RPC meeting.

Other items

1. Security Benefit Group was contacted regarding a distribution that occurred that was not authorized under the Board’s Mandatory Plan. A transfer to a non-approved Mandatory Plan Investment Provider was made when the participant was actively employed (the funds were subsequently returned to SBG). Chris DeGrassi stated, in his January 12, 2007, letter that “Upon discovery of this error, we conducted an audit of all KBOR mandatory retirement plan contracts with

Security Benefit and verify that all other contracts are appropriately coded to prevent transfers to non-approved investment providers.”

2. TIAA-CREF did not timely post remittances for KU employees. The remittance scheduled for 12/15/06 was posted on 12/26/06.

- a. In netting out the losses and gains for participants with both mandatory and voluntary contracts and including those totals for the entire group, the total losses and gains info is:
 - i. 464 contracts experienced losses totaling \$295.89. The losses ranged from \$0.02 to \$3.65; the average loss was \$0.64.
 - ii. 2,252 contracts experienced gains totaling \$5,131.42. The gains ranged from \$0.01 to \$324.98; the average gain was \$2.28.
 - iii. Total difference ($-\$295.89 + \$5131.42 = \$4,835.53$)
- b. TIAA-CREF's compliance/legal section indicated they could do one of two things: either make corrections on all contracts or do nothing.
- c. Per Scott Kohl, Deloitte Consulting, the industry practice is to do nothing if the gain/loss is “de minimis” to the participant. There is no industry-wide standard and varies by dollar amount or percentage of a participant's account. Scott's experience is a \$20 standard; TIAA-CREF's de minimis standard is \$10.00. (Brett Round reports that for ING accounts disadvantaged by less than \$25 are deemed immaterial and accounts advantaged (benefited) by less than \$100 are deemed immaterial.)
 - i. TIAA-CREF's current software makes processing retroactive adjustments cumbersome and time-consuming. In order to correct the contribution that was posted on 12/26/06, all future contributions posted after that date must first be backed out; the correct, retroactive adjustment is then posted; and finally all other contributions are then re-posted. (TIAA-CREF has purchased software that is scheduled to go live in March that will allow the retroactive posting of contributions without having to back out contributions that occurred after that date.)
- d. Because of the minimal impact of the losses, in comparison to the impact of the gains, the recommendation is for the RPC to request that TIAA-CREF “do nothing,” thus allowing the delayed posting of the 12/15/06 contributions to remain with a 12/26/06 posting date. All losses were well below the \$10 de minimis standard; if the remittance was back dated to 12/15, the losses would be wiped out, but so would the gains; the net difference is a gain of \$4,835.53 and the manually intensive correction method would result in a cost greater than that for TIAA-CREF that would be spread out to all Plan participants.

The RPC discussed whether to apply the de minimis standard (and request that TIAA-CREF “do nothing”) or to require that TIAA-CREF fix the remittance as of the 12/15 posting date. After much discussion, the RPC voted (with one dissenting vote) to “do nothing” as this issue did not occur at any other campus and was partly a result of KU's processing that was compounded by TIAA-CREF's delayed communication back to KU. Additionally, the RPC requested that it be

communicated to TIAA-CREF that this error should not occur again. (And, a question will be posed to TIAA-CREF about the timing of posting of quarterly statement information on their website.)

4. TIAA-CREF Voluntary Plan fund lineup. TIAA-CREF wanted to offer the same fund lineup in the Voluntary Plan as is offered under the Mandatory Plan, but that would entail KBOR signing the custodian agreement to select the fund line-up. Instead, participants will sign individual custodial agreements, approving Chase as the custodian for TIAA-CREF's mutual funds and approving the fund line-up. The fund line-up will provide the Retirement Share Class of mutual funds, with the same expense ratio found for the Mandatory Plan. Additional funds will be offered, but as yet no partner funds are available. TIAA-CREF hopes to have the new Voluntary Plan fund lineup available in early March 2007.

Next RPC meeting:

We will meet again on Tuesday, March 13th from 12:30 – 5 and on Wednesday, March 14th from 8-11. Deloitte Consulting will also be present. Regent Perkins will not be able to meet with us on March 13th and Michele Sexton will miss both days. We will discuss the possibility of extending RPC terms (for those who are willing to continue)!