

KANSAS BOARD OF REGENTS
Retirement Plan Committee
MINUTES
November 15, 2007

The November 15, 2007, meeting of the Kansas Board of Regents Retirement Plan Committee was called to order by Chairman Lykins at 12:40 p.m. The meeting was held in Board offices at the Curtis State Office Building, 1000 S.W. Jackson, Suite 520, Topeka.

Members Participating:

Dan Lykins, Regent
Mike Barnett, FHSU
Lindy Eakin, KU
Dr. Dipak Ghosh, ESU
Dr. Rick LeCompte, WSU
Rick Robards, KUMC
Madi Vannaman, KBOR

Michele Sexton, PSU, and Gary Leitnaker, KSU, participated via conference call. Regent Jerry Boettcher and Julene Miller, KBOR, were in attendance. President Hammond, FHSU, was not able to attend.

Representatives from the two Mandatory Retirement Plans were in attendance. From ING: Brett Round, Regional Manager; Kate Lewis, General Manager and Peggy Reed, Vice President. From TIAA-CREF: John Middlebrook, Managing Director, Institutional Relationships; Fred Blue, Director, Institutional Relationships; Nicolette Dixon, Consultant, Institutional Relationships and Evan Giller, Vice President and General Counsel, Institutional Relationships.

Report from the Chair

Regent Dan Lykins introduced Regent Jerry Boettcher. Regent Boettcher, who has extensive experience with and knowledge about investments, participated at Regent Lykins' request.

Minutes

The September 20, 2007, RPC minutes were approved.

Contribution data from the September 21, 2007, remittances to ING and TIAA-CREF for the KBOR Mandatory Retirement Plan

At the last RPC meeting, a request was made to secure data from a current remittance that reflects total contributions remitted, which funds are used by current participants, as well as asset allocation by age for the Mandatory Plan as a whole with detail also for each state university and the Board Office.

The remittance data reflects how current participants are allocating their funds. Target maturity/lifecycle funds appear to be a popular choice. Brett Round, ING, stated that the industry is gravitating toward target maturity funds as they take the burden off the participant to regularly reallocate their accumulations and they provide immediate diversification. Fred Blue, TIAA-CREF, stated that what people love about the lifecycle approach is that it is a sophisticated approach for non-sophisticated investors because of the diversification of investments and the adjustments made to allocations throughout the individual's career.

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Information about fund balances from June 30, 2007, and the September 21, 2007 remittance for ING and TIAA-CREF:

ING & TIAA-CREF	Fund balances as of 6/30/07		9/21/07 remittance	
<i>Total: Money Market/Stable Value</i>	\$ 785,425,300	35.41%	\$ 691,335	18.96%
<i>Total: Fixed Income (Domestic/Foreign)</i>	\$ 66,391,874	2.99%	\$ 193,094	5.30%
<i>Total: Bonded</i>	\$ 88,429,854	3.99%	\$ 597,368	16.39%
<i>Total: Equity - Domestic</i>	\$ 1,048,707,294	47.28%	\$ 1,561,602	42.83%
<i>Total: Equity - Foreign</i>	\$ 129,517,436	5.84%	\$ 365,459	10.02%
<i>Total: Real Estate</i>	\$ 99,429,823	4.48%	\$ 236,780	6.49%
Total	\$ 2,217,901,581	100%	\$ 3,645,638	100%

Regent Boettcher asked how many people are making decisions on their own or with the help of advisors. Brett Round stated that an overwhelming majority of ING new participants are working with an advisor as paperwork is needed for enrollment. John Middlebrook, TIAA-CREF, stated that new participants can take two paths: a one-stop selection with a LifeCycle fund or interacting, by many participants are using it to obtain investment advice down to the individual fund level.

Draft communication material to educate participants about the cost of higher fund expenses to their retirement

At the last RPC meeting, discussion ensued about the large asset balances that remain with the two deselected Investment Providers, Lincoln National and Security Benefit Group, in spite of the significantly higher expenses associated with their fund lineups. Board staff worked with ING and TIAA-CREF to develop material to educate participants about the impact of higher fund expenses to their retirement savings. The purpose of the KBOR communication would be to educate participants and not to provide advice; participants would be directed to their Investment Providers for investment advice.

Rick LeCompte reiterated the need to educate current participants about their asset allocation, as there is weak asset allocation among younger employees. Regent Boettcher stated that the volume needed to be raised to encourage participants to move funds from the deselected providers because of their higher fees. Regent Lykins stated that the communication material needed to convey information that would strike a chord with participants; something stronger than the draft material showing specific examples of the difference in earnings over time.

Because the decision whether to move accumulations is a personal one, the participant will need individual assistance to determine the cost of keeping funds in investments with higher fees and the cost of any deferred sales charge.

Board staff will draft a letter to the deselected Investment Providers, to be signed by the RPC chair, requesting data about KBOR participants with fund balances. ING and TIAA-CREF will revise the draft letter that will be sent to those participants, making it more direct for the targeted population, and will provide sample letters that participants can use to garner information about their accounts.

Plan Administration under the Final 403(b) Regulations

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In July 2007, the IRS issued final 403(b) regulations which impose additional requirements on the Board's Voluntary 403(b) Retirement Plan. The IRS will place administrative oversight requirements on Plan Sponsors effective January 1, 2009, including responsibility for operational compliance with the IRS regs and with the Plan's documents.

Evan Giller, TIAA-CREF, provided an overview of the new responsibilities for Plan Sponsors under the final regs. He stated there are still a number of important issues that are not yet answered and the IRS has promised to issue more guidance. For example, what obligation does the Plan Sponsor have with respect to deselected vendors? Is there any obligation to maintain the compliance regime with those "orphan" contracts? What about transfers made prior to the September 24, 2007, date to "grandfathered" contracts? And, transfers made to approved vendors after September 24, 2007, who will not be approved vendors as of January 1, 2009, called "twilight" contracts?

Evan Giller stated that because of these uncertainties, TIAA-CREF is moving carefully to create a process to help Plan Sponsors address the 403(b) reg requirements including providing specimen written sample plan documents consistent with the funding vehicles being used, a compliance process for information sharing among vendors; ensuring that non-discrimination (universal availability) information is sufficient and excludes correct categories of employees and addressing changes in the annuity rules if applicable to the plan. Evan Giller stated it is TIAA-CREF's intention to have a plan by the first quarter of 2008.

Rick Robards asked whether the 403(b) regs imposed true or analogous fiduciary duties for the voluntary plan. Evan Giller responded that fiduciary duties come from ERISA or state statutes and relate to the obligation to manage a program/money to the exclusive benefit to employees. The 403(b) regs impose a huge compliance obligation that has enormous implications to participants but is separate and apart from the exclusive benefit duty. Kate Lewis, ING, stated that the 403(b) regs walk you all the way up to the fiduciary border and stop. Peggy Reed, ING, agreed with Evan Giller's interpretation that the ERISA fiduciary duties standard does not apply to the voluntary plan.

Peggy Reed stated that a team has been working on developing solutions to bring to Plan Sponsors since 2004, when rumblings started about the IRS changing the 403(b) regs. Plan With Ease (PWE) is a wholly owned subsidiary of ING intended to provide services to administer the plan according to the 403(b) regs and the KBOR plan documents. PWE is operational and will be fine tuned as the IRS provides additional guidance. Peggy Reed provided a quick overview and demonstration of PWE to show the information available to plan participants and plan administrators.

Plan sponsors can delegate administrative responsibilities under the 403(b) regs, but will retain compliance responsibility. Kate Lewis stated that if the IRS audits the plan, PWE will be right beside the Plan Sponsor to show documentation and processes. The Plan Sponsor will have a variety of reporting tools available, standard and ad-hoc, to monitor the plan administration.

Next RPC meeting:

The next RPC meeting is scheduled for Thursday, February 14, 2008, at 12:30 in the Board's Conference Room. We expect a report from Deloitte Consulting on the semi-annual analysis through December 31, 2007.

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We will also meet on Thursday, March 13, 2008, at 12:30 in the Board's Conference Room for a presentation by TIAA-CREF about their administration services provided to plan sponsors to address the requirements under the IRS 403(b) regs.