

KANSAS BOARD OF REGENTS
Retirement Plan Committee
MINUTES
September 20, 2007

The September 20, 2007, meeting of the Kansas Board of Regents Retirement Plan Committee was called to order by Madi Vannaman at 12:45 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. Ed Hammond, FHSU
Dr. Rick LeCompte, WSU
Gary Leitnaker, KSU
Michele Sexton, PSU
Madi Vannaman, KBOR

Rick Robards participated via conference call. Brad Tollander, Scott Cole and Melanie Langsett, with Deloitte Consulting, and Julene Miller, KBOR, were in attendance.

Introduction of New Regent Chair

Dan Lykins was introduced as the RPC's new Board of Regent's representative and chair.

Minutes

The March 13, 2007, RPC minutes were approved.

RPC Charter and Conflict of Interest Provisions

At the last several RPC meetings, RPC members discussed how to ensure that they did not have conflicts of interest that would impair their ability to make impartial decisions about the Board's Retirement Plans. Specifically, the issue arose with regard to draft language in a proposed RPC Charter that states: "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.*" (Emphasis added.)

Questions were asked about what would "interfere with the exercise of independent action and judgment" and how the Board would know whether a committee member was in fact "independent and free."

The Board's Associate General Counsel, Robin Kempf, researched the issue. After reviewing Kansas state statutes on conflicts of interest and examining the appointment process used by the Governor, Kempf drafted an amendment to the RPC Charter language to explain what a conflict of interest is and what to do about it.

President Hammond's motion to accept the changes in the draft Charter was unanimously approved. All current RPC members indicated they have filed the annual Statement of Substantial Interest with the Kansas Secretary of State.

Deloitte's Semi-Annual Investment Review

Brad Tollander provided a recap of Deloitte's June 30, 2007, semi-annual investment review and provided detailed information about two funds that had received special attention.

The TIAA-CREF Growth Account received a yellow ranking (improvement from the previous red ranking) because of a "nice pickup of performance" and changes made to its fund manager and corresponding changes that strengthen the research area especially in health care. Because the steps taken have helped to alleviate poor performance, the fund should not be replaced at this juncture but will continue to be watched.

In July, Deloitte was provided with information from ING about their AllianceBernstein Midcap Growth Fund and its recent poor performance because of the "aggressive nature" of the fund. Tollander indicated that it is an aggressive fund, concentrated in growth oriented sectors such as technology, telecommunications, media and health care and the fund has remained true to its style. Despite recent activity, the fund has dramatically improved since May 2007 and has made up quite a bit of ground.

Brad Tollander provided supplemental information for the June 30, 2007, semi-annual investment review that included Security Benefit Group's total assets by funds and ING's total assets in funds under the fund lineup that was available to KBOR participants prior to the December 31, 2006, consolidation to two Investment Providers and new fund lineup.

The RPC discussed the Plan's large asset totals concentrated in money market/stable value accounts (34.18%) and whether targeted communication pieces should be utilized to educate participants of the value of diversification.

A request was made that Deloitte secure additional data from ING and TIAA-CREF to include in future semi-annual reviews. That data would be a snapshot of a current remittance and would reflect the total contributions remitted, which funds are used by current participants, as well as asset allocation by age. This information should be for the Mandatory Plan as a whole and should provide detail also for each state university and the Board Office.

The RPC discussed 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. President Hammond's motion was unanimously approved for Board staff 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 advice. It was suggested that the Board could work with ING and TIAA-CREF to fund development and mailing of this material.

403(b) Regulations

Scott Cole reviewed information contained in the CUPA article about new IRS 403(b) regulations. These changes are major and will be effective on January 1, 2009. Highlights noted were:

1. 403(b) plans must adhere to provisions contained in a written plan document. Each approved Investment Provider must adhere to provisions in the plan document.
2. While crafting the plan document, determine whether additional features should be included in the plan, such as a Roth 403(b) or other plan design changes that would assist participants.
3. The Plan Sponsor (or designee) will need to approve disbursements from the 403(b) program and ensure that all vendors are properly making disbursements.

The RPC discussed whether now is the appropriate time to make determinations about the Voluntary Plan's Investment Providers by changing the number or limiting the Plan to the two Investment Providers approved for the Mandatory Plan. That discussion was tabled for the time being and may be revisited at a later date.

Last year, in anticipation of the IRS 403(b) regulations, ING began constructing a new, separate legal entity, Plan With Ease, to help Plan Sponsors with the regulation's administrative requirements. The RPC unanimously endorsed Board staff's continued discussions with ING to determine whether using this third party administrator will be an appropriate and effective method to address Plan administration.

The new IRS 403(b) regulations contain a provision that has a September 24, 2007, deadline. Previously, transfers of 403(b) funds could be made with little restriction (referred to as "90-24" transfers). Under the new IRS regulations, transfers for active employees are only allowed among the Plan Sponsor's authorized vendors. If a transfer is made to an unauthorized vendor, the Plan Sponsor and the unauthorized vendor must communicate their intent to enter into an information sharing agreement with that unauthorized vendor by January 1, 2009. The RPC unanimously approved Board Staff's communication to the Board's 46 approved Voluntary Retirement Plan Investment Providers informing them that transfers of funds by active employees can be made only among those approved Investment Providers.

Deloitte's Consulting Contract with KBOR

The Board's initial three year contract with Deloitte Consulting expires in November 2007. The initial contract provided for one additional, optional, three-year renewal period.

The RPC continued its discussions with Deloitte about a possible contract renewal, delineating work that would be encompassed including the semi-annual investment reviews and work associated with the IRS 403(b) regulations.

Board staff will continue to work on the contract renewal and secure additional information about work on the Board's Mandatory and Voluntary Plan Documents. The contract renewal must be approved by the State's Division of Purchasing. If approved, then President Hammond will inform COPs of the renewal, and President Robinson will be asked to sign the contract.

Next RPC meeting:

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The next RPC meeting is scheduled for Thursday, November 15, 2007, at 12:30 in the Board's Conference Room.