



University of Minnesota
Faculty and Staff Retirement Programs
Annual Report
Fiscal Year Ending June 30, 2018

University of Minnesota
Office of the Vice President for Human Resources
Employee Benefits Department

Retirement Plan and Program Analysis for the Fiscal Year Ending June 30, 2018

Financial Analysis

The University of Minnesota sponsored or contributed to twelve retirement plans and programs for its faculty and staff in the fiscal year ending June 30, 2018 (Appendix A). University contributions to these plans during the year were almost \$140 million. The University offers its faculty and staff a mix of defined contribution and defined benefit plans and programs, with substantially all full-time employees participating in one of several mandatory plans. Voluntary pre-tax savings plans are available to all employees paid on a regular basis.

Defined Benefit Plans

Defined benefit (DB) plans pay a certain monthly benefit at retirement, generally calculated using a percentage of compensation multiplied by years of service. For example, the Minnesota State Retirement System (MSRS) pays retirees a monthly benefit equal to 1.7% multiplied by the participant's average monthly compensation during his or her highest 5 years of service, multiplied by the participant's years of service. Because a DB plan defines the benefit, not the funding level, risk is born by those entities responsible for funding the plan. As employers and employees share the funding requirements for MSRS, they similarly share the risk that contribution levels will need to increase in the future to cover benefits payable.

The July 1, 2018, MSRS valuation indicates that the contributions, made as of that date, total 11.63%, approximately 0.10% above the Chapter 356 statutory required level of 11.53%. In addition, based on actuarial values, assets as of 7/1/18 are anticipated to fund approximately 94.73% of promised benefits on a market value basis.

MSRS is the largest DB plan at the University, covering approximately 8,600 civil service and collectively bargained employees.

Defined Contribution Plans

Defined contribution (DC) plans do not promise a benefit at retirement. Instead, DC plans promise a certain contribution level, which is generally invested according to the participant's direction. As a result, the participants, rather than the employer, bear the risk that their investments will not result in adequate retirement income.

Faculty Retirement Plan (FRP)

As of June 30, 2018, FRP assets totaled almost \$4.4 billion, with annual contributions of over \$145.8 million. Depending on the employee's date of hire, employees contribute either 2.5% of salary (for hires before January 2, 2012) or 5.5% of salary (for those hired January 2, 2012 and later). The University contributes the remainder for a total of a 15.5% contribution, which is deposited according to the employees' investment instructions each pay period. The plan offers 39 investment funds through Securian Retirement Services, Fidelity, and Vanguard. TIAA-CREF funds were closed to new contributions and transfers as of July 1, 2007. Vanguard holds a majority of FRP funds with 49% of total assets. Securian follows with 33% of total assets. TIAA-CREF and Fidelity trail with approximately 9% each. The investment funds with the largest asset base as of June 30, 2018 are listed in Figure 2 below. Details on the best- and worst-performing investment funds in the FRP are included in Appendix B.

Figure 2 – Top 3 FRP Funds by Assets Invested as of June 30, 2018

Investment Fund	FRP Assets Invested
	06/30/18
Minnesota Life General Account Limited*	\$1,014,665,078.84
Vanguard Institutional Index	\$596,399,087.39
Minnesota Life General Account*	\$239,712,701.39

*Additional information regarding the company credit ratings and fund size of the insurance company general accounts is included in Appendix C.

The FRP, covering approximately 9,600 faculty and professional and administrative (P&A) staff, is the largest DC plan at the University of Minnesota.

Optional Retirement Plan (ORP)

As of June 30, 2018, ORP assets totaled over \$1.3 billion, with nearly 4,000 full- and part-time employees contributing almost \$41.7 million in the previous twelve months. Employees may contribute a minimum of \$200 annually up to 100% of compensation. The maximum contribution for employees under age 50 in 2018 is \$18,500. The maximum contribution for employees age 50 and over in 2018 is \$24,500. The University may make discretionary contributions for select staff, based on employment contracts. Only 8 such contributions were made for the 2017-2018 fiscal year. The plan offers over 300 investment funds from Securian Retirement, Fidelity, Deutsche Asset Management, and Vanguard. Some additional funds are invested at T Rowe Price, though T Rowe accounts have been closed to new contributions since the early 1990s. TIAA-CREF funds were closed to new contributions and transfers as of July 1, 2007. The investment providers and funds with the largest asset base as of June 30, 2018, are listed in Figures 3 and 4 below. Details on the best- and worst-performing investment funds in the ORP are included in Appendix D.

Figure 3 – ORP Assets by Investment Provider as of June 30, 2018

Investment Provider	ORP Assets Invested
	06/30/18
Fidelity Investments	36.0%
The Vanguard Group	29.9%
Securian Retirement	24.9%
TIAA-CREF	7.0%
DWS Scudder Investments	2.1%
T Rowe Price	0.1%

Figure 4 – Top 3 ORP Funds by Assets Invested as of June 30, 2018

Investment Fund	ORP Assets Invested
	06/30/18
Minnesota Life General Account Limited*	\$174,274,504.13
Fidelity Contrafund	\$79,508,741.36
Vanguard Institutional Index	\$50,781,686.40

*Additional information regarding the company credit ratings and fund size of the insurance company general accounts is included in Appendix C.

Section 457 Deferred Compensation Plan (457 Plan)

As of June 30, 2018, 457 Plan assets totaled over \$233.3 million, with just over 1,000 full- and part-time employees contributing over \$15.0 million in the previous twelve months. This plan is significantly smaller than the ORP because it has only been available since 2002. Employees contribute any amount up to 100% of compensation annually. The maximum contribution for employees under age 62 or over age 64 in 2018 is \$18,500. Additional contributions are available for those who are age 62, 63 or 64 during the year. These contribution limits are in addition to those contributions permitted to the ORP. Contributions to the ORP and 457 plans are not mutually exclusive – that is, an employee may contribute to both plans at the same time.

The plan offers over 300 investment funds from Securian Retirement, Fidelity, and Vanguard. TIAA-CREF funds were closed to contributions and transfers as of July 1, 2007. Unlike the ORP, DWS elected not to participate in the 457 Plan. In addition, the General Account and the TIAA Traditional Annuity (RA) are not available in the 457 Plan. The investment providers and funds with the largest asset base as of June 30, 2018, are listed in Figures 5 and 6 below. Details on the best- and worst-performing investment funds in the 457 Plan are included in Appendix E.

Figure 5– 457 Plan Assets by Investment Provider as of June 30, 2018

Investment Provider	457 Assets Invested
	06/30/18
The Vanguard Group	48.7%
Fidelity Investments	23.8%
Securian Retirement	23.3%
TIAA-CREF	4.2%

Figure 6 – Top 3 457 Plan Funds by Assets Invested as of June 30, 2018

Investment Fund	457 Assets Invested
	06/30/18
Minnesota Life General Account Limited*	\$27,790,335.06
Vanguard Institutional Index	\$11,836,426.70
SFT Advantus Index 500	\$8,710,095.38

*Additional information regarding the company credit ratings and fund size of the insurance company general accounts is included in Appendix C.

Communications and Educational Resources

In the 2017-2018 fiscal year, Employee Benefits staff offered various informational sessions on retirement topics to University faculty and staff. In addition to New Employee Orientation sessions and the Benefits Fairs in St. Paul, Minneapolis, Duluth, Crookston, and Morris, additional sessions were held throughout the year on the topic of the University’s voluntary retirement plans.

The Pre-Retirement Seminars are popular offerings each spring. (All active faculty and staff over the age of 50 are invited to these seminars, as well as spouses or partners.) Topics included sessions on Social Security and Medicare, retiree medical and dental insurance and estate planning.

All seminars are offered free of charge to faculty and staff. In addition to formal presentations, Benefits Counselors were available throughout the year for individual meetings and retirement planning sessions.

In addition to seminar and individual meetings throughout the year, Employee Benefits provides significant information via both printed materials and the Employee Benefits web site. The web site includes not only plan information and links to the investment provider web sites, but also investment return reporting and fund listings, which are updated each quarter. The web site, at www.umn.edu/ohr/benefits, continues to be the best resource for quick information on University retirement plans and programs.

Appendix A

Retirement Plans and Programs at the University of Minnesota

Plan/Program	Type*	Employee Group Participation	Eligible Active Employees on June 30, 2018	FY 17-18 Employee Contributions (millions)	FY 17-18 University Contributions (millions)
University of Minnesota Faculty Retirement Plan	DC	Faculty and Professional and Administrative Staff	9,600	\$34.7	\$111.2
University of Minnesota Optional Retirement Plan	DC	Substantially all Faculty and Staff	20,000+	\$41.4	\$0.3
University of Minnesota Section 457 Deferred Compensation Plan	DC	Substantially all Faculty and Staff	20,000+	\$15.0	N/A
Minnesota State Retirement System General Plan	DB	Civil Service and Represented Bargaining Unit Staff	8,600	\$24.0	\$24.0
Public Employees Retirement Association	DB	Law Enforcement Staff	65	\$0.7	\$1.0
Civil Service Retirement System	DB	Certain Federal Staff	14	\$0.07	\$0.07
Civil Service Retirement System Offset Retirement	DB	Certain Federal Staff	3	\$0.0	\$0.02
Minnesota Health Care Savings Plan	DC	Civil Service, LELS Teamsters, RIO	141	\$0.05	\$2.8
Federal Employees Retirement System	DB	Certain Federal Staff	70	\$0.05	\$0.9
University of Minnesota 415(m) Retirement Plan	DC	Select administrators	2	N/A	\$0.4
Phased Retirement Program	DC (Policy)	Tenured Faculty and Continuous Appointment Academic Professionals	N/A	N/A	N/A

University of Minnesota Supplemental Benefits Plan	DB (Policy)	Pre-1963 FRP participants and pre-1982 female FRP annuitants	71	N/A	\$0.03
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*DC – Defined Contribution Plan, DB – Defined Benefit Plan

Appendix B

Faculty Retirement Plan Fund Performance as of June 30, 2018

Highest-Performing FRP Funds

(Excluding Money Market Funds)

Investment Fund	Annualized Investment Return
1-year Return	
Fidelity OTC Portfolio	26.00%
Fidelity Contrafund	24.07%
Vanguard Growth Index	19.30%
5-year Return	
Fidelity OTC Portfolio	21.15%
Vanguard PRIMECAP	16.72%
Fidelity Contrafund	16.03%
10-year Return	
Fidelity OTC Portfolio	15.02%
Vanguard PRIMECAP	11.87%
Vanguard Small-Cap Index	11.24%

**Lowest-Performing FRP Funds
(Excluding Money Market Funds)**

Investment Fund	Annualized Investment Return
1-year Return	
Templeton Global Bond	(1.62%)
Vanguard Long-Term Investment Grade	(1.55%)
Vanguard Intermediate-Term Investment Grade	(0.94%)
5-year Return	
Vanguard Inflation-Protected Securities	1.63%
Templeton Global Bond	1.96%
Vanguard GNMA	2.34%
10-year Return	
Vanguard Emerging Markets Stock Index	1.82%
Vanguard International Value	2.75%
Vanguard Total International Stock Index	2.78%

Appendix C

Insurance Company General Account Supplemental Information

Insurance company general accounts (Minnesota Life General Account, Minnesota Life General Account Limited and TIAA Traditional Annuity) are backed by the financial strength and claims-paying ability of the insurance company that offers the accounts. The company promises to pay interest on the principal at a rate stated by the company from time to time that will not decrease below a stated minimum. Some restrict the ability to transfer or withdraw funds. General Accounts are sometimes said to be "guaranteed;" this refers to the assurance of the company that it will protect the principal and pay interest at the stated rate, based solely on its financial strength and claims-paying ability, rather than on any back-up support by any third party. Additional information regarding the insurance companies' financial soundness may be obtained directly from them.

Company Credit Ratings (as of June 30, 2018)

Credit Rating Agency	Minnesota Life	TIAA-CREF
Standard & Poor's	A+	AA+
Moody's	Aa3	Aa1
A. M. Best	A+	A++
Fitch	AA	AAA

University of Minnesota Retirement Plan Holdings as of June 30, 2018 (in millions)

	Minnesota Life	TIAA-CREF
Faculty Retirement Plan	\$1,254.4	\$139.7
Optional Retirement Plan	\$215.4	\$34.4
Section 457 Deferred Comp Plan	<u>\$27.8</u>	<u>\$3.7</u>
Total	\$1,497.6	\$177.8

Appendix D
Optional Retirement Plan
Fund Performance as of June 30, 2018
Highest-Performing ORP Funds
(Excluding Money Market Funds)

Investment Fund	Annualized Investment Return
1-year Return	
Fidelity Select Retailing	34.88%
Fidelity Select IT Services	34.73%
Fidelity Select Software/Computer Services	32.62%
5-year Return	
Fidelity Select Electronics	26.08%
Fidelity Select Technology	21.96%
Fidelity Select Software/Computer Services	21.69%
10-year Return	
Fidelity Select Retailing	19.84%
Fidelity Select Biotechnology	17.15%
Fidelity Select Software/Computer Services	17.06%

**Lowest-Performing ORP Funds
(Excluding Money Market Funds)**

Investment Fund	Annualized Investment Return
1-year Return	
Fidelity Select Consumer Staples	(8.81%)
Fidelity Select Gold	(5.78%)
Vanguard Precious Metals and Mining	(3.85%)
5-year Return	
Fidelity Select Energy Service	(5.60%)
Fidelity Latin America	(5.19%)
Fidelity Select Natural Gas	(3.02%)
10-year Return	
Vanguard Precious Metals and Mining	(9.14%)
Fidelity Select Energy Service	(7.05%)
Fidelity Select Natural Gas	(6.38%)

Appendix E
Section 457 Deferred Compensation Plan
Fund Performance as of June 30, 2018

Highest-Performing 457 Funds
(Excluding Money Market Funds)

Investment Fund	Annualized Investment Return
1-year Return	
Fidelity Select Retailing	34.88%
Fidelity Select IT Services	34.73%
Fidelity Select Software/Computer Services	32.62%
5-year Return	
Fidelity Select Electronics	26.08%
Fidelity Select Technology	21.96%
Fidelity Select Software/Computer Services	21.69%
10-year Return	
Fidelity Select Retailing	19.84%
Fidelity Select Biotechnology	17.15%
Fidelity Select Software/Computer Services	17.06%

**Lowest-Performing 457 Funds
(Excluding Money Market Funds)**

Investment Fund	Annualized Investment Return
1-year Return	
Fidelity Select Consumer Staples	(8.81%)
Fidelity Select Gold	(5.78%)
Vanguard Precious Metals and Mining	(3.85%)
5-year Return	
Fidelity Select Energy Service	(5.60%)
Fidelity Latin America	(5.19%)
Fidelity Select Natural Gas	(3.02%)
10-year Return	
Vanguard Precious Metals and Mining	(9.14%)
Fidelity Select Energy Service	(7.05%)
Fidelity Select Natural Gas	(6.38%)

Prepared by the Employee Benefits within the Total Compensation Department in the Office Human Resources