

**Retirement Plan Investment Committee  
Phone Conference Meeting Minutes  
Friday, June 15, 2007, 3:30-4:30**

**Participants**

Committee Members: Michael Green, Chair; Larry Dann, Deb Janikowski, John Settle, and Kip Sigetich.

Consultant: Howard Biggs, Arnerich Massena and Associates, Inc.

Other: Denise Yunker, Administration Committee

**1. Introductions**

Mr. Green called the meeting to order and stated that he believed there were two agenda items, which were populating the annuities platform, as required by statute, and selecting the money market fund. Mr. Biggs added that there were a couple of items to be finalized on the Fidelity recordkeeping menu as well.

**2. Completion of Investment Selections for the Platform**

Money Market Fund Selection

Mr. Biggs sent materials ahead of the meeting via an e-mail to Ms. Yunker, who forwarded the materials to the committee. Fidelity has since put in final products, expense ratios, etc. The money fund that OUS is eligible for is Fidelity Retirement Money Market FRTXX.

Mr. Biggs told the committee that there are a couple of items on the menu that are yet to be finalized.

There are two products for which agreements are being finalized so Mr. Biggs left the revenue share space blank.

He also noted that the typical revenue share recordkeeping fees for Essex would be 35 basis points with a typical revenue share for Westwood being 25 basis points. He suspects that a 35 basis point revenue share will be requested of Westwood to make that product similar to the rest of the menu.

In response to a committee member question, Mr. Biggs noted the expense ratio for Westwood would be 1.25%.

Mr. Dann noticed that several funds list net expense ratios lower than those listed in the book that was distributed at the May 25, 2007, Investment Committee meeting. He asked if any of the funds had higher expense ratios.

Mr. Biggs found one that was higher. He stated that expense ratios will tend to change from time to time. Fidelity's expense ratios change in two ways: as the assets get bigger in a particular mutual fund product, expense ratios will gradually go down. That is a function of amortization of costs. He told the committee to expect Fidelity's expense ratios to drop by the end of the year from where they are now as a result of changes to the portfolio. They are implementing an index piece into the large cap space and making a few other structural changes.

For the rest of the funds on the menu, essentially the same thing will happen. For example, as assets increase in the small cap growth fund Essex, he would expect a very gradual decline in the expense ratio. Mr. Biggs stated that Fidelity has a relatively unique feature, a sliding expense ratio scale. If they have a really great year on performance, there's a performance adjustment up or down in the expense ratio.

Mr. Green asked for a motion to accept the Fidelity Money Market Fund FRTXX as the OUS money market fund. Mr. Dann so moved; John Settle seconded the motion. There was no further discussion on the subject and the committee approved the motion unanimously.

### Annuity Selection

Before discussing annuities, Mr. Dann asked about the break point between the Fidelity Spartan Investor Class and the Advantage Class. Mr. Biggs responded that the break point is \$100,000,000, that if one gets to that level, it saves 2 basis points.

Mr. Biggs suggested that the committee might consider moving over to Fidelity once the \$5,000,000 threshold on the Vanguard product (the less expensive product that is available now) is reached. He said that OUS is just over \$1,000,000 right now. The possibility of changing products later will depend on participant behavior. It might be quite a while before there is enough money to consider this option.

Mr. Green asked Mr. Biggs to walk the committee through the annuity selection for the platform.

Mr. Biggs directed the committee to an ING list of funds that is displayed with their expense ratios and the recordkeeping fee amounts. He explained how ING constructs their funds, wrapping them in an annuity contract and not adding the M&E expense, making for a very efficient cost structure.

Mr. Biggs noted in the total return bond category that ING originally showed the PIMCO Real Return product (the inflation protected bond), and that should have been the PIMCO Total Return product. Since it wasn't included previously, Mr. Biggs included it

this day under Total Return Bond. He will verify the revenue share figure of 15 basis points.

Mr. Biggs further stated that the Real Return product is one of the products that the committee looked at for use in the mutual fund menu. The Vanguard product was what the committee selected for this space. The rest of the products that ING slotted in the various asset classes were as the committee selected.

Mr. Biggs recommended the Euro Pacific Growth Fund for the international space because it's more core oriented than the ING BP International Value. He also recommended Euro Pacific because the committee had selected Dodge and Cox, a more value-tilted international fund, for the mutual fund menu. Having Euro Pacific in the International space would provide a different flavor from the mutual fund menu and a more core-to-growth oriented type of product.

Mr. Biggs said that he understood the original intent of the committee was to have the offerings of the asset classes in the annuities mirror those of the mutual funds, wrapped up inside of an annuity contract. ING, however, has only one index, which is International. They don't have any of the other index product offerings. They did not have mid cap, small cap, or bond index, so the only index product they had was International and since OUS already has more cost efficient versions of the indexes on the main menu, Mr. Biggs wouldn't have used their index here in this particular menu.

Mr. Biggs said that it was originally put to the vendors to fill two slots, International Value and International Growth. The committee decided to use one international product, creating a more growth and value style than having two International products. The committee decided to have an International active fund and an International passive fund on the mutual fund menu. Mr. Biggs understood that if that was the intent for the mutual fund menu, then that was the intent for the annuity menu.

Mr. Settle asked if the annuity menu was available via the brokerage window. Mr. Biggs explained there is a specific brokerage window available with Fidelity that contains a list of mutual fund products – a “mutual fund window” for OUS purposes. In terms of how the annuities come into play on the OUS interface (the web), where mutual funds would be like a ‘tier one’, a joint tier or ‘tier two’ would have the self-directed annuities under what Mr. Biggs called a self-directed menu on the web site that Fidelity creates. There, a participant would see a click box for annuities and a click box for mutual funds, which would drop into each of these menus.

Mr. Dann stated a preference for a simplified two-tier approach.

Mr. Settle, while confirming that annuity products have no M&E, asked if there are back-end surrender charges. Mr. Biggs responded that there is no M&E in the accumulation phase but once a person starts annuitizing, in the payout phase, there is some form of M&E.

Regarding surrender charges, there is no penalty for moving money in and out, between variable and fixed accounts; however, if a person wants to move completely out of the Fidelity record-kept program and into, say, TIAA, there would be some sort of surrender charge. A participant could go through the mutual fund menu and then over to TIAA to avoid the surrender charges. Mr. Biggs needs to get final documentation to support this assertion.

In response to Mr. Sigetich's question regarding guarantees attached to annuities, Mr. Biggs recalls that there is a 3% minimum return on the Stable Value Fund, and the crediting rate is a fixed contract from year to year, but there is no guarantee on what that will be in advance. There is no guarantee as it relates to variable because of the way the product is constructed.

Mr. Settle stated concerns about the lack of education provided around the annuity products, specifically expenses during the payout phase. Ms. Yunker replied that she is having conversations with Fidelity regarding communication and education.

Discussion ensued about alternatives to the ING product. In particular, concern was expressed over a law suit by the New York State Teachers' Union. The issues with ING were transparency and disclosure regarding their financial advisers, and full expense disclosure (12B1 and other fees). The teachers' union received a penalty as well for some of their practices. There was a settlement, and subsequent to this action, ING agreed to increase their disclosures on expenses and to provide full disclosure on their service representatives. Mr. Biggs emphasized that there was no conviction or formal acknowledgement of wrongdoing in this case. ING acquiesced to paying a penalty so that they could proceed with business. The case was dropped at this point.

Ms. Yunker assured the committee that the Department of Justice is involved in the contracting process and they could ask ING specifically for clarification on this matter to alleviate any concerns.

Mr. Sigetich made a motion to that the committee accept ING as the annuity provider conditional upon investigation by the legal team regarding the aforementioned court case and satisfactory responses by ING. Mr. Dann seconded the motion. There was no further discussion on this topic, and the Committee approved the motion unanimously.

Before adjourning the meeting, Mr. Settle made a recommendation that somewhere on the Fidelity web site, there should be a prominent statement to the effect that in order to maintain the recordkeeping costs, revenue sharing costs come into play and some funds have higher revenue sharing than others. Ms. Yunker asked for committee involvement in drafting such language.

The meeting was adjourned at 4:40.