MSRS Minnesota State Retirement System
MNDCP Minnesota Deferred Compensation Plan
HCSP Health Care Savings Plan

Your Foundation for Retirement

January 7, 2013

Financial Stability Oversight Council

Council Members:

I am writing to respond to the three alternatives being proposed to address structural vulnerabilities in money market funds. Governmental employees in Minnesota and throughout the country have a vested interest in the proposals being considered.

We respect the Council's concerns to address structural vulnerabilities in money market funds. We certainly support more stringent investment diversification requirements, increased minimum liquidity levels and more robust disclosure requirements. The three proposed alternatives diminish the reason for offering a money market option. If implemented, we likely will consider options to replace our money market fund.

The Minnesota State Retirement System administers six defined benefit plans, a defined contribution 457(b) plan, and a Health Care Savings Plan for government employees throughout the state. All plans offer a money market fund as an investment option in the plan. In total, we have approximately 160,000 participants in defined contribution plans that have access to a money market fund.

The three alternatives under consideration seem contradictory to the investment objective of investing in a money market fund, which is preservation of principal with maximum liquidity. Investors who choose to invest in money market funds are doing so to avoid losses and negative market fluctuations. They choose to avoid risk to ensure that the principal of their account is not eroded. None of the proposed solutions appear to be consistent with this objective.

A Floating Net Asset Value (NAV) will result in market fluctuations. The other two alternatives maintain a stable NAV but require a buffer of one to three percent. The amount in the buffer could be lost, or at a minimum, delay the completion of transactions, including distributions where money is being moved out of the money market fund. This option will be both very difficult to administer and communicate to participants and could cause potential unnecessary confusion. However, if the buffer targeted large "hot money" funds and did not affect individual participant accounts, then we would not face the implementation and communication issues.

We encourage you to look at other alternatives to maintain the stability of money market funds. If you have any questions, please feel free to call me at 651-284-7888.

Sincerely,

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