Brian Sandoval
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Action and Summary Minutes of the Meeting of the
DEFERRED COMPENSATION COMMITTEE
Nevada State Library
100 N. Stewart Street, Room A
Carson City, Nevada 89701
December 16, 2010

COMMITTEE MEMBERS, STAFF and ATTORNEY PRESENT:

- Jim Barnes, Chair
- Rex Reed, Vice Chair
- Diane Comeaux
- Brian L. Davie
- Andy MacKay
- Tara Hagan, Executive Officer
- Jenny Potts, Secretary

OTHERS PRESENT:

- Bill Abramowicz, Hartford
- Bishop Bastien, ING
- Scott Craigie, Hartford
- Michael Hackett, Hartford
- Frank Johnson, Participant
- Eileen Kwei, Mercer
- Steve Platt, ING
- Bob Trenerry, Hartford
- Tom Verducci, Hartford
- Steve Watson, Hartford

These minutes are a draft subject to approval by the Deferred Compensation Committee at the next regularly scheduled meeting. The agenda for this meeting (Exhibit A) was posted according to the Nevada Open Meeting Law and was sent to groups and individuals as requested.

I. OPENING REMARKS

Staff opened the meeting at approximately 1:04 pm and welcomed everyone to the 2011 Deferred Compensation Planning Session. Staff reviewed the Plan's mission statement. (Exhibit A, page 1-3)

II. PROGRAM BACKGROUND – RECENT HISTORY (STAFF)

Staff presented comparison data for Nevada Deferred Compensation (NDC). Staff's comparison data included asset growth, cash flow, participant growth, expenses and plan design. (Exhibit A, Pages 4-10)

Mr. Robert Trenerry, Hartford Representative, inquired if the average age of the participant has increased over the past years. Staff indicated the need to research this question.

Vice Chair Rex Reed asked how cash flow is defined. Staff noted that the cash flow represents only new money into the Plan. Mr. Trenerry asked Staff if the increase in cash flow between 2005 and 2007 was due to the increase in the number of governmental entities joining the Plan during that time. Staff noted that the majority of entities were added in 2004; and therefore this would have caused a spike in cash flow in 2004 and not between 2005 and 2007. Discussion ensued over this item.

Mr. Andrew MacKay inquired about the difference between total and active participants. He questioned if the data indicates whether the participants who do not contribute are terminated or active employees. Staff noted it would need to request additional reports from the providers in order to determine this level of detail. Hartford stated it can track the participant and the withdrawals that are taken.

Mr. Brian Davie asked Staff if the Plan has seen an increase in the number of actively managed funds over the years. Staff indicated the number of actively managed funds has decreased, while passively managed funds have increased.

Ms. Diane Comeaux inquired if the decline in Morningstar ratings over the last couple of years is due to the fact that fewer 4 and 5 star ratings are given overall. Staff noted Morningstar maintains the same percentage of funds within the star categories; therefore the decline is more likely due to the actively managed funds in the Plan coming in and out of favor depending on investment style. Mr. Davie asked Staff if there are research firms other than Morningstar. Staff indicated another widely used research firm is Lipper. Staff noted the need to continue to improve on the Plan's definition of "quality investment option".

III. GOVERNMENT WORKER STUDY COMPARISON (STAFF AND ING)

Staff and an ING Representative presented comparison information utilizing the ING governmental employee study versus Nevada State Government employee demographic data, including participation rates, account balances, and asset allocation (Exhibit A, Pages 11-18 and Exhibit B, Pages 4-7, 14, and 23).

Mr. Davie asked ING how it determined the 8.5 million government workers. ING noted the number was provided by the U.S. Bureau of Labor Statistics and clarified that this was not the number of persons surveyed; instead 1,026 state and local government employees responded to the ING survey.

Mr. Trenerry asked Staff if there is statistical information available regarding how the younger participants are invested. Staff indicated the need to work with the providers to obtain this information.

IV. COMMUNICATION TRENDS (HARTFORD)

A Hartford Representative presented information on defined contribution plan communication trends, including plan branding, in-person materials, campaigns, online interactive video and self-service presentations. (Exhibit A, Pages 19-25)

Mr. Davie stated that the providers should communicate the importance of leaving monies in the Plan as participants near retirement. Mr. Davie noted that retirees have the freedom to choose the amount of money they wish to receive at anytime and continue to receive cost-effective investment options. Mr. Davie encouraged the providers to emphasize all the positive aspects of the Plan to retirees and pre-retirees. Hartford noted the biggest issue tends to be the local stock brokers. Hartford stated these brokers encourage participants to move their accounts to IRAs that may not be in their best interest. ING representatives noted it has created a newsletter article for the upcoming winter edition which encourages participants to remain invested in the Plan. Discussion ensued regarding this issue.

Vice Chair Reed inquired about links on the NDC website to the Hartford available programs. Staff stated that currently there are links to the Providers' websites but noted the need to coordinate adding links to NDC's main page to notify participants of any new services or programs available with the providers.

V. FUTURE OF DEFERRED COMPENSATION TRENDS (MERCER)

A Mercer representative presented information on deferred compensation trends, including investment issues and non-investment issues. (Exhibit A, Pages 26-28)

Mr. Davie asked the Mercer representative if there is a monetary threshold that must be reached within a Plan which enables the creation of custom target date funds. The representative mentioned that generally a plan needs $55 million in target date fund assets; further noting, this threshold allows a plan to begin to see a cost advantage with a move toward the custom funds.

Staff noted that in regards to participant fee disclosures, a communication piece was recently created and will be available via the website; in addition, the information will be included in the newsletter and sent via a mass e-mail to all employees. Staff noted the fee and performance information will be updated quarterly.

VI. 2011 NDC GOALS (STAFF)

Staff facilitated a discussion regarding the Plan's 2011 goals. The two main goals identified were:

- What to achieve regarding the 2011 Legislative session
  - Internal - Mission, Budget, and Governance;
  - External – NV PERS, healthcare, and personnel issues
  - Provider Issues/Agenda.
- Improving Program Development, including Plan Objectives, Administration, and Communication. (Exhibit A, Pages 29-32)

Vice Chair Reed asked Staff if other states are utilizing paid financial advisors to assist participants with all aspects of their financial needs, including estate planning, insurance and other issues. Staff stated that plans are looking at all options to provide employees with 'one-stop' assistance. Hartford stated that it has representatives that are Certified Financial Planners (CFPs) who could provide financial advice. Staff mentioned that there is currently much debate about utilizing financial planners from other entities that may be incentivized to sell other products to employees that detract from the deferred compensation plans. Staff noted some plans are looking to hire employees who are financial planners to prevent conflicts of interest. A discussion ensued regarding this issue.

Mr. Davie stated the importance of monitoring potential changes to the Nevada Public Employees Retirement System (PERS) throughout the upcoming Session. Mr. Davie noted that a change from defined benefit to defined contribution could be a concern, as the new plan would appear very similar to NDC. He further stated the Plan would need to work to make a distinction between NDC, the supplemental plan and the new PERS structure.

Mr. MacKay noted the PERS issues are budgetary, due to concerns with the current unfunded liability. Mr. MacKay inquired if PERS personnel had reached out to Staff. He noted that due to the fact the Plan already has a mechanism in place it would seem logical. Staff stated defined contribution plans, either hybrid or 100%, such as Oregon and Washington, utilize a 401(a) and not a 457(b). Staff noted the tax structure of the 401(a) is more favorable for matching plans. Staff also stated that due to the size of these plans, they generally do not utilize mutual funds, rather separate accounts or collective investment trusts which keep the costs extremely low and allow the governing board to select and monitor the holdings within the funds.

Vice Chair Reed stated that due to his attendance at the National Association of Governmental Defined Contribution Administrators (NAGDCA) conference he has learned more about the various types of stable value funds. He noted both traditional guaranteed investment contracts (GICs) and synthetic GICs. Vice Chair Reed stated that he finds it difficult to determine the risks associated with the general account with Hartford and inquired if Staff had received additional information to help the Committee assess the risk versus reward or return in this investment option. Staff noted in 2008 the Committee began requesting information, such as asset allocation and credit ratings for the general account and was unsuccessful. Staff noted it has once again requested sector allocation and ratings on the fixed securities specific to the general account in which Nevada participant assets are invested. Staff stated this information will help the Committee and its investment consultant assess the risks associated with the Hartford General Account. Vice Chair Reed asked Staff if there is a possibility to convert the general account into a synthetic GIC. Hartford representatives inquired about the definition of a synthetic GIC. Vice Chair Reed noted stable value has a spectrum of options: one is the general account which Hartford manages and owns the assets, a half-way step would be a separate account in which the assets are walled-off from the general assets of Hartford, however Hartford still owns and manages the funds; and the end of the spectrum is the synthetic GIC. Vice Chair Reed noted the synthetic GIC allows the Committee to take title of the assets and Hartford would manage the assets for a fee. Staff will continue to work with the Hartford and the investment consultant to gather more information for the Committee with possible investment vehicle alternatives for the February 2011 meeting.

Staff requested the NDC providers make brief comments on their goals or agendas for the impending Legislative session.

Hartford representatives stated that more employers are looking for additional services, such as financial advice and financial planning. Hartford representatives stated they are noticing an increase in plan sponsor and participant interest in managed accounts. Hartford noted managed accounts provide participants with a greater degree of investment assistance.

Hartford representatives noted that it has nothing to add regarding the upcoming Legislative session. However, the representative did recently attend a Washoe County Deferred Compensation Committee meeting and noted the Washoe Committee recently passed a resolution which, if enabling legislation is passed, supports automatic enrollment for its plan.

Mr. Davie questioned why Washoe County, as a local entity, would need the Legislature’s approval to begin utilizing automatic enrollment. Hartford representatives noted that Nevada has anti-garnishment laws which prevent governmental entities from accessing employees’ checks without their consent. He noted that the Nevada Legislature would need to pass legislation to overcome the anti-garnishment laws. Mr. MacKay questioned if the resolution simply supports legislation and noted that Washoe County seems to be looking for another governmental entity to introduce legislation. Hartford representatives noted that the next step would be for the Deferred Compensation Committee to take the issue to the Washoe County Commissioners who may have its lobbyist take on the issue.

Vice Chair Reed stated that an automatic enrollment discussion should be placed on the agenda for the February meeting, should the Committee have any interest. Ms. Comeaux noted that discussing the issue in February is most likely too late for the 2011 Legislative Session. Vice Chair Reed noted that the Committee may want it on the agenda in February, should the need arise to react to any legislation Washoe County is sponsoring on the issue. Mr. Davie noted that he recalled a few meetings prior the Committee agreed not to sponsor any legislation during the 2011 Session but rather, given the difficult times in Nevada, keep a low profile. Mr. Davie stated that since the Committee is not sponsoring legislation for automatic enrollment but other governmental entities may do so, the Committee needs to be prepared to react, if necessary. Ms. Comeaux stated that an agenda item should be placed on the February meeting regarding any pending legislation, which will allow the Committee to discuss the necessary issues.

Staff asked Hartford if the 12 - 13 states noted earlier simply have enabling legislation to allow automatic enrollment or if these states are currently utilizing automatic enrollment in their plans. Hartford noted it was unsure of the answer. Ms. Comeaux stated that it would also be helpful to know the retirement benefits for the states. Staff will put this item on the February 2011 meeting agenda and reach out to NAGDCA members to gather additional information regarding automatic enrollment.

Hartford representatives noted Washoe County has a 401(a) plan which allows employees to defer a portion of their salary into this plan, in addition to the 457(b). Staff noted this plan is not voluntary and has a one-time irrevocable election. Staff stated the Plan's current Nevada Revised Statute (NRS) currently allows for the creation of a 401(a) and therefore additional legislation would not be needed to add this feature. Hartford representatives noted this is another avenue plans can utilize to increase savings.

ING representatives noted it does not have any plans to carry out any legislation during the 2011 Legislature. ING does not generally take positions on automatic enrollment for states or other jurisdictions but will provide information, if requested.

Staff discussed the Program Development goals including plan design, target date funds, compliance audit and other issues slated for 2011. (Exhibit A, Pages 29-32)

Staff thanked the Committee for taking the time to attend the meeting and noted the importance of their fiduciary responsibility as trustee for $500 million of other people's money. Staff noted the Plan will continue to balance the necessary regulatory and fiduciary items while also ensuring we advance the Plan in 2011.

The meeting was adjourned at approximately 3:18 pm.

Respectfully Submitted:

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Jenny Potts
Administrative Assistant

Approved by:

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Tara Hagan
Executive Officer

LIST OF EXHIBITS

Exhibit A is the packet of informational items prepared by Staff for Committee members for the December 16, 2010 meeting and containing a Tab titled ‘Appendix’.

Exhibit B is the handout from ING