

Brian Sandoval
Governor



COMMITTEE

Rex Reed, Chair
NDOC

Jim Barnes, Vice Chair
RETIRED

Diane Comeaux
DCFS

Brian L. Davie
LCB

Andrew MacKay
NTA

Tara Hagan
Executive Officer

**Nevada Public Employees' Deferred
Compensation Program**

**DEFERRED COMPENSATION COMMITTEE
MEETING MINUTES FOR**

Thursday August 18, 2011, 9:00 AM

Cameron Vandenberg
Deputy Attorney General

The third quarterly meeting of the Nevada Deferred Compensation Committee was held on Thursday, August 18, 2011, at 9:00 a.m. in Room 2135 of the Legislature Building, 401 S. Carson St., Carson City, NV. A copy of this set of "meeting minutes," including the agenda, the audio recording and other substantive exhibits, is available on the Nevada Deferred Compensation (NDC) website at: http://defcomp.state.nv.us/NDC_MinutesMeetings.htm. In addition, copies of the audio record may be purchased through the Legislative Counsel Bureau's Publications Office (e-mail: publications@lcb.state.nv.us; telephone: 775.684.6835).

STAFF and ATTORNEY PRESENT:

Tara Hagan, Executive Officer
Jenny Potts, Secretary
Cameron Vandenberg, Deputy Attorney General

OTHERS PRESENT:

Lyra Ambrose, ING (by phone)
Bishop Bastien, ING
Howard Biggs, Arnerich Massena
John Borne, Nationwide
Eric Caruso, Participant
Scott Dunbar, Arnerich Massena
Michael Hackett, Hartford
Julie Klassen, Great-West
Eileen Kwei, Mercer
Michael McAtamney, TIAA-CREFF
Julie Miramonte, Nationwide
Andrew Ness, Mercer
Beverly Orth, Mercer
Jake O'Shaughnessy, Arnerich Massena
Steve Platt, ING
Todd Theroux, Hartford (by phone)
Robert Trenerry, Hartford
Tom Verducci, 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 was posted according to the Nevada Open Meeting Law and was sent to groups and individuals as requested.

I. COMMITTEE

A. Call to Order/Roll Call ([Audio: 00:01](#))

The 3rd quarterly meeting of 2011 of the Deferred Compensation Committee was called to order by Chair Rex Reed at 9:00 am, August 18, 2011, in Room 2135 of the Legislature Building, 401 S. Carson St., Carson City, NV. Members Present: Chair Rex Reed, Vice Chair Jim Barnes, Mr. Brian Davie, Ms. Diane Comeaux, Mr. Andrew MacKay, and Deputy Attorney General (DAG) Cameron Vandenberg.

B. Public Comment – no comments at this time.

C. Approval of the minutes for the meeting on June 9, 2011.* ([Audio: 00:01](#))

Mr. Andrew MacKay requested to abstain from voting on the approval of the meeting minutes. He noted he was not present for a majority of the June 9, 2011 meeting and cannot approve the content of the minutes. (Please see [Exhibit A-1](#))

Motion made by Mr. Jim Barnes to approve the minutes of the meeting on June 9, 2011 as submitted or amended, seconded by Mr. Brian Davie. Motion passed with Mr. Andrew MacKay abstaining from the vote.

D. Meeting Dates* - Discuss December meeting date. ([Audio: 00:02](#))

Chair Rex Reed requested the Committee move the Planning Meeting to December 13, 2011 since Vice Chair Jim Barnes will not be able to attend the original Planning Meeting date set for December 15, 2011.

The Committee agreed to change the Planning Meeting date to December 13. Please see [Exhibit A-2](#)

II. PROGRAM REPORT

A. Plan Activity period beginning April 1, 2011 and ending June 30, 2011. ([Audio: 00:04](#))

Staff reported the plan activity for period ending June 30, 2011. Staff noted a 16% increase in the Plan's overall assets over the last 12 months due to market activity. Staff also noted a 97% increase in enrollments and a 57% increase in rollovers into the Plan over the past calendar quarter. Staff noted the increase in new enrollments was due to the use of the new EZ enrollment forms. Staff noted an increase in Plan leakage both in unforeseen emergency distributions and monies rolling out of the Plan. Staff noted the desire to review why participants are leaving the Plan and if the addition of managed accounts could help reduce leakage in retiree accounts. (Please see [Exhibit A-3, Pages 1-10](#))

Mr. Brian Davie asked Staff how managed accounts differ from the self-directed brokerage option (SDBO) currently available in the Plan. Staff noted the SDBO allows participants to invest in thousands of different investment options but does not provide any investment advice to Participants. Staff stated managed accounts provide investment advice to participants for investment options in the core Plan, not the SDBO.

B. Roth 457 Update.* ([Audio: 00:17](#))

Chair Reed asked the Committee to split Staff's recommended motion into four motions. He stated the first motion is to accept the Roth option in the Plan, second motion is to accept rollovers of Roth assets into the plan, the third motion is to accept in-plan rollovers, and fourth motion is to not allow unforeseen emergency distributions from the Roth source.

Staff noted that there was a participant inquiry at the June meeting regarding the inability to name different beneficiaries for the different monies sources. Staff stated that the Roth feature is subject to the regulations under Internal Revenue Code (IRC) 457(b) and is not a separate retirement account; therefore, participants can have only one beneficiary designation for the Plan. (Please see [Exhibit A-3, Pages 11-12](#) and [Exhibit A-4](#))

Staff also indicated another concern from the participant which was the inability to invest the Roth and traditional pre-tax monies differently. Staff noted that this is not an IRC issue but a vendor issue. Staff noted neither vendor can allow paycheck contributions to be invested differently; however, Hartford does allow participants to invest existing monies differently amongst the Roth source versus the traditional pre-tax source but ING does not.

Staff recommended that the Plan accept rollovers of Roth assets from 401(k) and 403(b) plans into NDC. Staff also recommended the Plan allow in-plan rollovers of traditional accounts into Roth accounts consistent with IRS regulations. Staff requested the Plan not allow Unforeseen Emergency distributions from Roth accounts due to it being administratively burdensome. Staff noted that the money in the Roth accounts will need to be in the account for a minimum of 5 years to get the tax free status (and a participant must attain the age of 59 1/2), which will involve more tracking.

Motion made by Mr. MacKay to accept rollovers of Roth assets into the plan, seconded by Mr. Davie. Motion passed unanimously.

Motion made by Mr. Davie to accept in-plan rollovers for Roth option, seconded by Ms. Diane Comeaux. Motion passed unanimously.

Ms. Comeaux noted participants should be allowed to take an Unforeseen Emergency distribution from both the traditional and Roth sources. Ms. Comeaux asked Staff if there were any other significant burdens other than tracking how long the money has been in the account. Staff noted that there are no other burdens but that it will need to consider the pre-tax account first on unforeseen emergency distributions. Staff would need to review what is the most advantageous to the participant. Ms. Comeaux stated that it is the participant's choice if they wanted to take the monies out of their Roth for unforeseen emergency distributions and pay the taxes. ([Audio: 00:27](#))

Mr. Barnes is concerned that if unforeseen emergency distributions are not allowed in the Roth, it would be less attractive to the participants to have this option. Mr. Barnes is opposed to not allowing these types of distributions from the Roth.

Chair Reed stated that he does not want to see any retirement plan being used as a banking account. Chair Reed noted that he would like to see the accounts remain for retirement only.

Mr. MacKay agreed with Chair Reed but also stated that it is the participant's money. Mr. MacKay suggested that if a participant decides to take an unforeseen emergency, it should be disclosed to the participant that he will be experiencing a taxable event. Mr. MacKay asked Staff if the money needs to be in the account for 5 years, is the money that is contributed in the 6th year tax free or are all of the monies in the account tax free. Staff noted that after 5 years, all monies in the account become tax free (if the participant is age 59 1/2).

Motion made by Mr. Davie to not allow unforeseen emergency distributions from Roth 457 sources, no second. Motion dies.

Mr. Davie inquired to Staff if research indicated the 5-year requirement is the most common reason for the plan sponsors to restrict unforeseen distributions. Staff noted this is her understanding but she will provide the Committee with additional information on this issue. Mr. Davie stated that the arguments were good and that the only concern is the administrative burden but he is in favor of approving unforeseen emergency distributions from Roth 457.

Motion made by Mr. Barnes to allow unforeseen emergency distributions from Roth 457 sources, seconded by Ms. Comeaux. Motion passed with Chair Rex Reed in opposition.

III. INVESTMENT REPORT

A. Discussion Regarding Small-Mid Investment Category for Plan.* ([Audio: 00:36](#))

Staff noted in May of 2011, Mercer conducted a plan design review for the Plan. Staff stated in August, Mercer identified areas of consolidation from the small-mid category. Staff noted that 63% of the funds on the Committee Watch List are in the small-mid category. Staff also noted on the ING platform, the Lazard US Mid Cap Equity Fund has been on the watch list for a couple of years. Staff discussed the considerations with regards to the Plan's investment structure. (Please see [Exhibit A-3, Pages 13-18](#), [Exhibit A-5](#), [Exhibit A-5j](#), and [Exhibit A-5ii](#))

Motion made by Mr. Davie to direct Staff to work with Mercer to review all options in the small-mid category and provide a plan of action, including timelines and recommendations to the Committee at the November meeting, seconded by Mr. MacKay. Motion passed unanimously.

B. Statement of Investment Policy Amendment.* ([Audio: 00:47](#))

Staff stated during the June meeting, Chairman Rex Reed noted a variance in the Plan's Investment Policy Statement regarding disclosure requirements for stability of principal funds. Staff presented the suggested amendments regarding the stability of principal funds. (Please see [Exhibit A-3, Page 19](#), [Exhibit A-6](#) and [Exhibit A-6i](#))

Motion made by Mr. MacKay to approve the Statement of Investment Policy as submitted or amended, seconded by Ms. Comeaux. Motion passed unanimously.

C. Investment Offering Review presentation by Mercer and Staff* ([Audio: 00:49](#))

The Mercer Representative presented the quarterly performance review of the Deferred Compensation Program investment options for the period ending June 30, 2011. (Please see [Exhibit A-7, Pages 5-20](#))

Chair Reed questioned the Mercer Representative regarding what the 'Y' axis represents on page 6. The Mercer Representative stated that the 'Y' axis represented the percent return.

Mr. MacKay asked the Mercer Representative if the growth in assets in the Hartford General Account is a function of increased contributions or growth due to the interest rate. Mercer Representative indicated the growth is due to both items.

Mr. Davie questioned the Mercer Representative regarding the number funds in NDC which have expenses higher than the Mercer average. He noted the number seems to have increased over the past quarters and questioned if this is accurate. The Mercer Representative did not know specifically if the number of funds with higher expenses than the average have increased over the past quarters but noted the increase in expenses is primarily in the small-mid category.

The Representative noted this may be due to the larger selection of funds and smaller amount of assets in the funds within the small-mid category.

Mr. MacKay asked the Mercer Representative how long a fund should be on the Committee Watch List before it is replaced. He specially noted concern with the amount of time the Lazard Mid Cap Fund has been on the watch list. The Mercer Representative stated that the recommendation is to replace the fund but the question is broader in terms of consolidation within the small-mid category.

D. Fund Watch List Approval. * ([Audio: 1:13](#))

(Please see [Exhibit A-3, Page 20](#) and [Exhibit A-7, Pages 17-20](#))

▪ Hartford Mid Cap	Remain on Watch
▪ American Funds Growth Fund of America	Remain on Watch
▪ Invesco Van Kampen Equity & Income	Remove from Watch
▪ Lazard U.S. Mid Cap Equity Income	Remain on Watch
▪ Oppenheimer Main Street Small-Mid Cap	Remain on Watch
▪ Mutual Global Discovery	Remain on Watch
▪ Keeley Small Cap Value Fund	Remain on Watch

Motion made by Ms. Comeaux to approve the Committee Fund Watch List as submitted or amended, seconded by Mr. Davie. Motion passed unanimously.

Staff discussed the Committee's desire to conduct a search in November for both the active and passive international funds on the Hartford platform. Staff noted the Hartford will not be able to record-keep redemption fees in November, as previously indicated. Staff stated Hartford did not provide an updated timeline regarding this issue.

Mr. Davie asked the Hartford Representative why it cannot provide a timeline regarding this issue. The Hartford Representative stated that there is no deadline because a book of business conversion is being moved from one record keeping platform to another. The Hartford Representative stated that the conversion was to be completed at year's end and the conversion has been postponed to 2012 and there is no firm date.

IV. ADMINISTRATION

A. Investment Consultant Request for Proposal (RFP) – Finalists Presentations. * ([Audio: 1:18](#))

Staff presented the finalists for the RFP. Staff noted the firm's each drew numbers to determine the order in which they would present today. (Please see [Exhibit A-8](#), [Exhibit E](#), [Exhibit F](#), and [Exhibit G](#))

Mercer Representatives presented their qualifications to the Board. (Please see [Exhibit E](#)) ([Audio: 1:21](#))

Mr. MacKay questioned the Mercer Representative regarding the percentage of cost savings when moving from multiple vendors to a single vendor. He noted it seems counter-intuitive as competition generally forces prices to drop. The Mercer Representative stated that in his experience in structuring an RFP to price both dual and single vendors that nearly 100% of the time, the plan experiences a cost reduction by moving to one vendor. He noted this is primarily due to the fact that vendors do not have to spend monies marketing against each other but rather pass this savings on to the participants. He noted costs reduce by approximately 20% when a plan moves to a single vendor versus multiple vendors.

Ms. Comeaux stated with regards to page 10 in the Mercer presentation, the chart indicates Nevada participants' fees average \$89 per head. She inquired about the average fees Mercer is

currently experiencing amongst similar plans. The Mercer Representative stated the averages change based on plan dynamics and structure; however, he reviewed recent RFPs with similar size plans and estimated Nevada participants could be at \$60 - \$70 per participant by moving to a single vendor arrangement. Ms. Comeaux inquired about Mercer's experience in assisting plans with transitioning to a single vendor from multiple. The Representative stated Mercer has assisted in this transition and the most important aspect is communicating the enhancements as a result of the change to participants. Ms. Comeaux also asked the Mercer Representative if Mercer assists the Committee with the communication and the transition. The Representative stated that the proposal usually includes assistance with the communications and working with the vendors to ensure the communication is effective.

Mr. Davie inquired about the concerns of having a single vendor in difficult economic times such as during the collapse of Lehman Brothers and extreme declining markets. He noted the Committee discussed the importance of having two vendors which allowed participants choice in vendors and provided the Committee with options should one vendor fail. The Mercer Representative noted that he is in favor of a single vendor but it's not the best decision for all plans but the RFP provides a great opportunity to explore all options. The Representative noted four of the 50 states have multiple vendor plans while all others have single vendors.

Chair Reed noted pages 12-14 indicate that the Plan should be reducing its investment options throughout the years. Mercer Representatives noted this reduction in options is the trend within the industry.

Mr. Davie inquired about Mercer's involvement in selecting and reviewing the investment options once the vendor has been selected. The Mercer Representative stated the RFP generally does not request vendors submit investment options, rather the vendor states it can provide the plan with an open investment architecture and simply have the vendor state the fees it will require as part of the RFP. The Representative stated Mercer is a strong advocate of requesting an open investment architecture and that all options are approved by the investment committee. The Representative stated this prevents the plan from being bound by investment or record keeping limitations of the vendors. The Mercer Representative noted investments should be selected as 'best in class' and work with the vendor to obtain the best fund available rather than only the funds available through a particular vendor.

Staff noted that it enjoyed working with Mercer but noted the Plan, similar to other plans having budgetary pressures. Staff requested Mercer expand on why the Committee should be willing to pay significantly higher fees for Mercer. The Mercer Representative stated the fees were derived from reviewing the resources and time spent on the Plan over the past three years. The Representative stated the fees are reasonable as compared to its competitors given the firm's depth of resources and experience level.

Vice Chair Barnes stated that Mercer's costs will go up 4.5% every year. Vice Chair Barnes asked the Mercer Representative how much the first year costs will be and what the costs will be every year thereafter. The Mercer Representative stated that the base costs start at \$135K and would increase by 4.5% each year on the annual amount.

Arnerich Massena (AM) Representatives presented their qualifications to the Board. (Please see [Exhibit F](#)) ([Audio 2:02](#))

Vice Chair Barnes asked AM if they can give more details regarding reducing the number of vendors and investment options in the Plan. The AM Representative stated that there are internal and external overlapping of costs when a plan has multiple vendors. The Representative noted plans can now request open investment architecture from vendors which allows the participant to maintain investment selection, flexibility and on-site services with the use of only one vendor. The Representative stated this structure will reduce overhead costs which are a direct pass through to the participant.

The AM Representative stated investment options are best negotiated and reduced during the vendor RFP process. The Representative noted the plan can consolidate six funds in the small-mid space to one or two funds by creating one-fund which has underlying funds with varying

strategies. The Representative noted this process can be administratively cumbersome in the beginning and is better negotiated during the RFP. The Representative also noted the “fund of funds” approach also prevents a participant from investing 100% in a mid-cap growth fund which would not be desirable from a fiduciary perspective. ([Audio: 2:25](#))

Mr. Davie inquired regarding the firm’s presentation and emphasis during the quarterly investment reports. The Representative noted the report generally discusses and reviews funds which are on the Committee watch list and other funds that are note worthy. The Representative noted it strives to seek funds which are consistent in performance rather than volatile which also assist the Committee and the participants.

Mr. Davie inquired about the firm’s involvement in selecting and reviewing the investment options once the vendor has been selected during the RFP process. The Representative noted it’s a collaborative process with the Committee. The Representative noted it will seek to reduce redundancy in options, leverage scale, fill gaps in investment selection and consolidate where appropriate. The Representative noted the RFP will request open investment architecture, due to the fact the bid is a record keeping assignment and not an investment bid.

Mr. MacKay noted he understands the benefits of having a single vendor; however, he noted persons are adverse to change. He inquired as to the role of the firm regarding communicating the change and assisting the Committee in this task. The AM Representative stated that they can be involved with communication events and will be engaged in the process. The Representative stated the firm has recently assisted a large client in reducing a plan with 21 vendors to 3. The Representative noted that when vendor changes are made participants are definitely apprehensive; however, it has been the experience of the firm that communicating the plan enhancements and touting the hard work of the committee which works on behalf of participants was a significant positive and helped to reduce participant apprehension.

Chair Reed stated that the industry is moving toward a more streamline investment platform. Chair Reed asked the AM Representatives, for those who invest with the brokerage window, do their individual costs increase. The Representative noted that participants who want the greatest flexibility in investment options may need to pay more for that increased selection. Chair Reed noted the participant base includes a variety of different types of investors from extremely conservative to very aggressive. He questioned how a plan insures it has the variety of investment choices needed to satisfy the various types of investors. The Representative noted it is important to consider utilization in your current plan and maintain those funds or consolidate to funds of funds to ensure participants have access to all asset classes that are reasonable and well utilized. ([Audio: 2:40](#))

Staff noted the firm’s fees are lower by a significant margin than their competitors and questioned how it can assure the Committee that it can deliver the same quality of services and resources. The Representative stated the firm is a ‘focused business’ and it does not have various lines of businesses which must be supported in the pricing model. The Representative noted although the firm is small with 65 employees due to its focus on retirement plans it can deliver quality services more efficiently to its clients.

Mr. Davie asked the AM Representative if there are additional costs for the additional services which were mentioned today, such as communication assistance. The Representative stated that the bid price includes three elements: the broad-based on-going investment advisory retainer, the compliance review, and the RFP project. The Representative stated additional employee education may be priced separately. The Representative also stated that their costs will be 15% - 30% lower than other firms. The Representative noted that basic transactions are included in the bid, but larger projects may have additional costs.

Staff requested the firm expand on the fiduciary monitoring on guaranteed investment contracts. The Representative stated these options should be considered on a risk and reward spectrum. The Representative noted it’s important to create a prudent process and to document the evaluation to mitigate risk and still attain the rewards.

Hewitt Ennis Knupp Representative presented their qualifications to the board. (Please see [Exhibit G](#)) ([Audio: 2:56](#))

Mr. MacKay asked the Hewitt Representative regarding slide 5 in the presentation to expand on the Fiduciary Coaching tab and formal training. The Representative stated that in the Employee Retirement Income Security Act (ERISA) environment, process trumps outcome meaning the documentation in terms of how a decision was made is more important than the end result of that decision. The Representative provided an example of a board firing a mid-cap growth manager and replacing it with another manager who fails to outperform the previous one, which under ERISA is acceptable if the board has properly documented its process and procedures for the decision. The Representative noted the majority of public plans are adopting ERISA and Hewitt can assist with areas of ERISA fiduciary coaching and training.

Mr. Davie inquired regarding the firm's presentation and emphasis during the quarterly investment reports. The Representative stated the firm will emphasize the areas that are relevant to participants and/or important to the Committee. The Representative stated that firm will provide the three economic themes in the prior quarter, big priority decisions, effectiveness of the plan and legislative/fiduciary updates. The Representative noted an example of the 'effectiveness' is questioned whether the plan is generating a reasonable rate of return as compared to a broadly diversified portfolio and if it is not, is this due to poor fund performance in the plan's underlying options or participants not utilizing a diversified approach to investing.

Ms. Comeaux inquired regarding the Representative's statement in which the firm will assist participants in moving away from a particular investment option or by providing investment advice. She requested the Representative provide additional detail on how this is accomplished. The Representative stated that the first step is to provide education to participants; however, studies indicate education is often ignored and does not provide the desired fiduciary outcomes. The Representative noted the first level of advice is offering target-date funds which provide diversified asset allocation based on the participant's age and a chosen retirement date. The Representative noted the next step in advice is hiring an outside firm to provide advice to participants, such as Financial Engines.

Chair Reed inquired about the references to unbundling a plan and if the firm has noticed if 'unbundling' creates an additional workload for plan staff. The Representative stated a recent large plan (\$12 billion in assets and 250,000 participants) which unbundled was able to transfer some administrative duties to the master record-keeper;

Staff noted one of the firm's references noted concern with lead consultant turn-over. Staff asked Hewitt how this would be handled if the Nevada Plan had the same issue. The Representative stated the firm has a large amount of consultants and would certainly make a change if the fit wasn't right for one or both parties.

Staff questioned whether the Committee wanted to discuss its overall findings and observations related to both the written proposals and now the presentations or if it would prefer Staff begin the discussion. Staff noted it is comfortable with Mercer and has enjoyed working with the firm but cannot justify the additional amount in expenses over the contract period. Staff noted that Arnerich Massena has ensured the Committee it has the resources including the ability to underwrite the credit quality of the vendors to satisfy the Committee's fiduciary duty. Staff recommended the Committee direct Staff to work with Arnerich Massena and legal to execute a contract.

Ms. Comeaux noted to Staff that the scoring will need to be completed to make sure the process is completed correctly. Ms. Comeaux asked for details on the overall scoring by each member and details regarding the low score for Mercer by one member. Ms. Comeaux recommended the Committee have a discussion regarding how the each member scored each firm and the justification for the scoring.

Chair Reed asked Staff if the Committee should score again. Ms. Comeaux stated that the Committee scored the proposal and now will need to update or change the scores based on the information obtained from the references and the presentation.

Staff noted legal counsel has indicated the agenda does not specifically state the consultant would be selected during the meeting; therefore, the Committee will need to hold a separate meeting to indicate which firm will be awarded the contract once all scoring is received and the Committee has discussed its rationale.

Ms. Comeaux asked for additional information from the member who scored Mercer substantially lower than other Members. She inquired if the Member noted something specific in the bid which lowered the score which other Members may not have noticed or didn't consider. Vice Chair Barnes stated that he scored Mercer low and will provide explanation regarding his scoring rationale at the next meeting upon reviewing his notes.

Mr. Davie stated he would prefer to have an open discussion to express the Committee's opinions during this meeting but refrain from scoring or awarding a contract. He noted he would prefer to have the discussion face to face today rather than have a telephonic meeting at a later date.

Mr. MacKay agreed with Mr. Davie and asked legal counsel if the Committee can proceed with discussing their opinions but refrain from deliberation and awarding a contract and not violate the open meeting law. Ms. Cameron Vandenberg stated the Committee can have a discussion regarding the presentations and observations for each firm but must refrain from taking an action regarding selection of a consultant.

Vice Chair Barnes noted concern with the open meeting law and inquired if the discussion could be construed as deliberations directed toward to making a decision. Ms. Vandenberg stated the Committee can discuss the presentations as this item is denoted as an action item but cannot make an actual selection.

Mr. Davie stated overall all the presentations were good. He noted Hewitt's responses to the questions were a bit disappointing as they were not Nevada plan specific. He noted both Mercer and Arnerich Massena demonstrated knowledge of the Plan which was evident in both the presentations and responses to Members' questions. He stated he has been pleased the Committee has hired two nationally recognized firms over the past several years and noted that although price is a consideration, it's important to note the quality and professionalism in the advice the Plan receives. He stated Mercer has done a great job for the Plan but the price difference is noticeable and must be considered. He stated he rated both Mercer and Arnerich Massena equally in terms of presentation content, quality, professionalism and their responses to questions. He noted the Committee has two quality firms from which to choose and price must be considered in the final decision.

Chair Reed stated that he continues to be impressed with Mercer and has enjoyed working with them since being appointed to the Committee. He stated Arnerich Massena had an impressive depth of knowledge which was especially evident in their responses to Members' questions. He noted Hewitt is a firm which is able to 'think outside the box' which is refreshing and notable.

Vice Chair Barnes agreed with Staff's comments. He noted costs are important as they directly impact participant fees.

Mr. MacKay stated the Committee cannot make a bad decision in regards to the choice in firms. He noted his initial scoring on all three firms were close. He stated he appreciated both Mercer and Arnerich Massena's presentations and responses to questions being very Plan specific which gave the two firms an advantage in scoring. He noted Arnerich Massena's presentation was notable for the passion the presenters had for the business and their desire to work with NDC. He agreed with Chair Reed regarding Hewitt's ability to think outside the box and agreed with Hewitt that the quarterly presentations should be brief. He noted as a fiduciary, he also

must consider cost in the equation and the difference of at least \$150,000 is considerable. He noted he cannot justify paying the additional costs for Mercer or Hewitt but appreciated the time and effort all firm's and the presenters but forth.

Ms. Comeaux stated she echoes the comments previously made by the other Members and agreed that the presentations were very good. She noted the presentations each had their strengths and that although each firm stated the same idea in which direction the Plan should move toward, each firm stated it in a very different way. She appreciated receiving recommendations from each firm regarding the direction the Plan should consider for the future. Ms. Comeaux stated that costs are important and have been reflected in the initial scores. She noted the Committee does have a difficult decision to make and the presentations did not make the decision any easier.

Chair Reed apologized that the Committee cannot continue with this agenda item.

B. Biennium Compliance Review Findings.* - Mercer ([Audio: 4:19](#))

The Mercer Representative presented its findings for the 2011 Compliance Review. (Please see [Exhibit A-3, Page 21](#), [Exhibit A-9](#), [Exhibit A-9j](#), and [Exhibit A-9ii, Pages 1-6](#))

Mr. Davie inquired if the Committee had previously voted on the suspension of participant contributions for 6 months following an approved unforeseen emergency withdrawal or if the suspension is optional. Staff noted the issue was one of the resolution items in the 2009 compliance review and the Committee voted to comply with the recommendation. Mercer Representative noted the cessation of deferrals is a safe harbor approach under Internal Revenue Service (IRS) regulations.

Ms. Comeaux asked Staff if this issue was added to the Plan's policies. Staff noted the Plan adopted the policy; however, vendors' record-keeping issues have prevented the implementation of the policy.

Motion made by Ms. Comeaux to approve the Mercer Compliance Review Findings Report and direct Staff to begin the process of resolution on the items, seconded by Mr. Davie. Motion passed unanimously.

C. Administrative Manual Amendments* - Include Plan's policy and procedures for procuring contractors. ([Audio: 4:29](#))

Staff discussed the suggested amendments to the Administrative Manual. (Please see [Exhibit A-3, Page 22](#), [Exhibit A-10](#) and [Exhibit A10i](#))

Motion made by Mr. MacKay to approve the Administrative Manual as submitted or amended, seconded by Mr. Davie. Motion passed unanimously.

D. Discussion Regarding Sections 33.1 through 33.7 of Assembly Bill (AB) 74 Affecting Some Participants and Proper Disclosure/Contract Review.* ([Audio: 4:30](#))

Staff updated the Committee regarding procedures and disclosures regarding relevant sections of AB 74. Please see [Exhibit A-3, Page 23](#) and [Exhibit A-11](#))

Ms. Comeaux inquired as to the Committee's obligations to participants with regards to disclosures on this item. Staff noted similar to any investment option changes in the Plan the vendors are responsible, per their contracts, for providing the necessary disclosures and documentation to participants via the United States Postal Service (USPS) and Staff can make the information available online.

Vice Chair Barnes stated that this information should be included in the newsletter for all of the participants, along with information for future participants. Staff noted the information for new participants should be provided with the standard vendor enrollment kit consistent with any investment option in the Plan. Staff noted that this information should be included online and an article in the newsletter which refers participants to the online article due to the potentially large amount of content required in the disclosure.

Chair Reed stated that it was his understanding the vendor cannot use this information as a marketing tool and he requested Staff have the Division of Insurance review the proposed newsletter text to ensure it complies with the applicable Nevada Revised Statutes regarding the marketing restriction on the guaranty association coverage.

Mr. Davie agreed with Chair Reed and noted the Committee cannot advocate for a particular investment option and should be careful with the language in the newsletter. He noted the provision simply protects participants in the event of an overnight catastrophic bankruptcy. He stated in more normal environment the due diligence conducted by the Committee and investment advisor regarding the health of a vendor should be sufficient in identifying concerns which would allow for changes in the investment option prior to bankruptcy.

Chair Reed asked the Hartford Representative if it has begun the process of obtaining coverage and has an expected date of completion. The Representative stated that it has started the process but does not have an anticipated completion date. The Chair requested Hartford inform Staff when the process is completed. Chair Reed questioned if Staff needed to be involved in the completion process or if this is solely Hartford's responsibility. The Representative noted the Hartford is responsible for 100% of the process. ([Audio: 4:37](#))

Ms. Comeaux stated she believes participants will have assumed their monies were previously covered and therefore this information will generate several calls from participants. She asked the Hartford Representative if the Hartford will be handling these calls. The Representative stated Hartford is definitely willing and able to take phone calls on this issue or any other investment option in the Plan.

Ms. Comeaux noted she recalled several accounts in the Hartford General Account are over the \$100,000 coverage limit and inquired as to the advice Hartford will be providing these individuals. The Hartford Representative stated that the participant will need to be educated regarding the limitation in coverage in the event of Hartford's insolvency.

Staff noted it will provide the participant with education regarding the due diligence conducted by the Committee in conjunction with its investment advisor such as the quarterly review of insurer credit quality and overall financial health.

Chair Reed stated that in order to be covered by the Nevada Life and Health Guaranty Association, the participant must be a Nevada resident. He requested Staff include this exclusion in the newsletter to ensure those persons who do not reside in Nevada understand they are not covered under this particular law change.

E. Discussion Regarding Loan Provision.* ([Audio: 4:03](#))

Per the request from Staff, this item was taken out of order.

Mr. Caruso asked the Committee to consider allowing participants to borrow against the 457(b) program. He noted a 165% increase over the past year in unforeseen emergency distributions and believes if employees could borrow against their account, they would not be taking the funds out as a hardship but rather a loan. He noted loans would be paid back into the accounts with interest and therefore not decrease plan assets. He states it would be more beneficial to borrow monies on the account rather than withdrawing them completely. Mr. Caruso proposed the Committee allow participants to take loans on their NDC accounts.

Vice Chair Barnes requested Staff survey participants to help gauge interest and usage regarding a loan provision. Staff stated a question can be added to the survey which will be sent

with participants' fourth quarter statement of account which should be received in mid-January 2012.

Mr. MacKay also asked Staff if the participant data will be available prior to the release of the vendor RFP. Staff noted that the vendor RFP will be approved by the Committee at the February meeting; therefore, preliminary data should be available.

Staff reviewed loan data from both the NAGDA survey and other Nevada plans. Staff noted the usage of loans was higher for the Nevada plan data than that provided in the NAGDCA survey. Staff noted the Nevada averages indicate possible loan usage at approximately 11% of active participants or 868 loans per year which over a rolling 5 year period would equal approximately over 4,300 outstanding loans. Staff stated loans will impact Staff with the requirement to review and default loans as approximate. Staff noted defaulting loans requires coordination with human resource divisions and payroll centers. (Please see [Exhibit A-3, Pages 24-26](#) and [Exhibit A-12](#))

Staff recommended that the Committee considered adding loans as part of the vendor RFP process, effective January 1, 2013.

Mr. Davie stated that the Committee will need to be careful on how to word the question on the survey to ensure participants understand the fees associated and other restrictions. Mr. Davie noted this decision should be reviewed and considered carefully by the Committee, as there are many different aspects to consider prior to making the decision.

Chair Reed agreed with Mr. Davie and noted that there will be the need for additional Staff which will add costs to the Plan.

F. Discussion Regarding Biennium Budget 2012-13 Priorities and possible Budgetary Amendments.* ([Audio: 4:42](#))

Staff presented information regarding the biennium budget and noted any changes in in-state or out-state travel over \$5000 will need to be approved by the Interim Finance Committee (IFC). (Please see [Exhibit A-13](#))

V. RATIFICATION AGENDA* ([Audio: 4:43](#))

Staff presented the ratification agenda. Staff indicated that there was a change in the State Administrative Manual (SAM) with regards to travel stating that all hotel receipts are required regardless of the expense amount. Staff noted that the Executive Officer will be attending the NAGDCA conference at her own expense. Staff also noted that the Executive Officer will be attending the NAGDCA Executive Board meeting in Savannah, Georgia in November.

Mr. Davie congratulated Staff for being elected to the NAGDCA Executive Board and for the Plan being awarded a NAGDCA Leadership Recognition Reward. Mr. Davie stated he appreciated the Executive Officer's efforts.

Chair Reed asked that the motion include out-of-state and in-state travel authorization for the Executive Officer.

Motion made by Mr. Davie to approve the ratification agenda items as submitted or amended, seconded by Ms. Comeaux. Motion passed unanimously.

VI. REPORT SECTION ([Audio: 4:46](#))

Staff provided the current budget information. (Please see [Exhibit A-14](#))

VII. COMMENTS ([Audio: 4:47](#))

- A. Investment Consultant/Service Vendors: No comments
- B. Deputy Attorney General had nothing to report.
- C. Committee Members had no comments.
- D. Staff noted that there will be a special Committee meeting on August 26, 2011 at 1:00 PM.

VIII. Public Comments ([Audio: 4:48](#))

There were no public comments.

IX. ADJOURNMENT

The meeting was adjourned at 2:11 PM.

Respectfully Submitted:

Jenny Potts
Administrative Assistant

Approved by:

Tara Hagan
Executive Officer

LIST OF EXHIBITS

- Exhibit A-1: Staff booklet, Tab I-B, June 9, 2011 Meeting Minutes
- Exhibit A-2: Staff booklet, Tab I-C, Meeting Dates
- Exhibit A-3: Staff Presentation, Pages 1-26
- Exhibit A-4: Staff booklet, Tab II-B, Roth 457 Update
- Exhibit A-5: Staff booklet, Tab III-A, Discussion Regarding Small-Mid Investment Category
Exhibit A-5i: Help in Defined Contribution Plans Attachment A
Exhibit A-5ii: Funds and Morningstar Attachment B
- Exhibit A-6: Staff booklet, Tab III-B, Statement of Investment Policy Amendment
Exhibit A-6j: Statement of Investment Policy
- Exhibit A-7: Mercer Investment Report dated Second Quarter 2011 for period ending June 30, 2011, entitled *Performance Evaluation, State of Nevada*
- Exhibit A-8: Staff booklet, Tab IV-A, Consultant Request for Proposal (RFP) – Finalists and Next Steps
- Exhibit A-9: Staff booklet, Tab IV-B, Biennium Compliance Review Findings
Exhibit A-9i: Compliance Review Findings Report – Mercer
Exhibit A-9ii: Compliance Review Summary of Findings - Mercer
- Exhibit A-10: Staff booklet, Tab IV-C, Administrative Manual Amendments
Exhibit A-10i: Administrative Manual
- Exhibit A-11: Staff booklet, Tab IV-D, Discussion Regarding Sections 33.1 through 33.7 of Assembly Bill 74 Affecting Some Participants and Proper Disclosure/Contract Review.
- Exhibit A-12: Staff booklet, Tab IV-E, Discussion Regarding Loan Provision
- Exhibit A-13: Staff booklet, Tab IV-F, Discussion Regarding Biennium Budget Priorities
- Exhibit A-14: Staff booklet, Tab VI, Report Section
- Exhibit B: Hartford Quarterly handout
- Exhibit C: ING Quarterly handout
- Exhibit D: Hartford 2Q General Account Disclosures
- Exhibit E: Mercer Presentation Handout
- Exhibit F: Americh Massena Presentation Handout
- Exhibit G: Hewitt Ennis Knupp Presentation Handout