Brian Sandoval, *Governor*

COMMITTEE
Steve C. Woodbury, *Chair, GOED*
Mark Stevens, *Vice Chair, Retired*
Kent Ervin, *NSHE*
Todd Myler, *DHHS*
Karen Oliver, *GCB*

STAFF
Rob Boehmer, *Program Coordinator*
Micah Salerno, *Administrative Assistant*

Dawn Buoncristiani, *Deputy Attorney General*

DEFERRED COMPENSATION COMMITTEE
PLANNING MEETING MINUTES

January 26, 2017

The annual planning meeting of the Deferred Compensation Committee was held on Thursday, January 26, 2017, at 8:30 a.m. in the conference room of the Governor's Office of Economic Development, 808 West Nye Lane, Carson City, Nevada. Attendees participated in person or by teleconference.

A copy of meeting material including this set of meeting minutes, the agenda, the audio recording and other supporting material, is available on the Nevada Deferred Compensation (NDC) website at: http://defcomp.nv.gov/Meetings/2017.

COMMITTEE MEMBERS
Kent Ervin
Todd Myler
Karen Oliver
Mark Stevens, Vice Chair
Steve Woodbury, Chair

OTHERS PRESENT
Bishop Bastien, Voya
Rob Boehmer, NDC Program Coordinator
Dawn Buoncristiani, Deputy Attorney General
Michelle Kelley, NSHE (on phone)
Terri Laird, RPEN
Dianna Patane, Voya
Frank Picarelli, Segal Rogerscasey
Micah Salerno, NDC Admin. Assistant
Jennifer Whitman, Voya
Michelle Williams, Voya

1. Call to Order/Roll Call

   Chair Steve Woodbury called the quarterly meeting to order for the Nevada Deferred Compensation (NDC) Committee at 8:31 a.m. on Thursday, January 26, 2017.

   Mr. Rob Boehmer took roll and determined a quorum was present.

   Chair Woodbury welcomed new Committee member, Mr. Todd Myler.

   Mr. Myler gave a brief introduction.

   Mr. Boehmer confirmed the meeting was properly noticed and posted.

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Chair Woodbury acknowledged the newly appointed Deputy Attorney General (DAG) for the Program, Ms. Dawn Buoncristiani.

DAG Buoncristiani introduced herself.

Introductions were made around the table of Committee members, staff, and Voya attendees.

Chair Woodbury recognized those calling in by telephone.

Ms. Michelle Kelley with Nevada System of Higher Education (NSHE) called in for the meeting.

2. Public Comment

   Mr. Woodbury noted there was written comment received that was distributed to the Committee and would be made part of the record.

3. Informational Item – Receive Annual Fiduciary Training- presented by Melanie Walker of Segal Rogerscasey.

   Ms. Melanie Walker from Segal provided a presentation on fiduciary training. She indicated that as a governmental program it was not required to follow Employee Retirement Income Security Act of 1974 (ERISA) guidelines, but it was advised to go along with those because it was best practice. It was not necessary for Committee members to be an expert in all areas regarding deferred compensation, but they should hire and monitor an expert as necessary. The Committee should consider what was best for the whole plan when serving and not their personal or agency preference.

   Ms. Walker recommended that NDC develop a communication policy/procedure for staff and Committee to give direction on interacting with participants or other parties. It should include who to contact, specific steps of communication and stress not to give personal opinions.

   Chair Woodbury stated they should establish a communication policy in 2017.

4. Informational Item – Receive Annual Open Meeting Law Training- presented by Deputy Attorney General (DAG).

   DAG Buoncristiani presented Open Meeting Law training covered annually for the Committee and Administrative staff's education.

   Chair Woodbury called for a 5 minute break.

5. For Possible Action – Receive, discuss, and possibly take action on proposed Hybrid Fee Structure amendment- presented by Frank Picarelli of Segal Rogerscasey.

   Mr. Frank Picarelli with Segal Marco opened his remarks citing that a lot of research and analysis had been performed in the past year regarding the change to the fee structure for the NDC Plan. He mentioned there was a lot of litigation relating to fees; mostly in 403(b) and 401(k) plans. In the ERISA world more plans were moving toward fee leveling because of transparency and more equitable distributions.

Mr. Picarelli reviewed information from the Fee Levelization Analysis report he provided for the meeting. Pages 4 and 5 addressed why fees are important, how they are broken down or assessed (flat dollar, percentage, or combination). The current NDC fee arrangement was not equitable since many participants do not pay anything toward the cost of the Program. Page 8 referenced the type of investments in the current NDC Plan and page 9 covered how recordkeepers get paid. The current NDC lineup was designed to provide revenue sharing to help pay for the plan administrative services.

During the last several meetings, the Committee and Mr. Picarelli discussed different types of fee arrangements including revenue sharing, per participant flat dollar fee, per participant percentage or basis point fee, and a combination or hybrid of the aforementioned options; they decided on the hybrid model. Mr. Picarelli stated it has been a good process with much research and education, and now were ready to move forward. The hybrid model would charge a flat dollar, per head charge to all participants in the Program, in addition to eliminating dependency on revenue sharing agreements while lowering fees on variable assets to the lowest share class the Program would qualify for.

Dr. Ervin believed the overall fees of the NDC Plan and the average investment management fees were pretty low. The issue was that historically only 6 funds with 20 percent of Plan assets paid 70 percent of the administrative and recordkeeping fees of the Program. The other funds in the lineup paid nothing toward recordkeeping and administration. The fixed account had no revenue sharing so it did not contribute to administrative fees. Some participants in the Program do not contribute anything to the overall cost which is not fair.

Vice Chair Stevens commented that 40 percent of the Plan asset base pays 100 percent of administrative costs.

Mr. Picarelli confirmed that revenue sharing pays all the fees for Plan, but there is not transparency on who pays what and how it is paid. He stated the Plan is following an old model and needs to become more transparent. The hybrid model was a combination of an asset based fee on variable funds of 8 basis points which was the contractual arrangement with Voya along with a per head fee of approximately $25-30 per year, per participant, to pay administration costs. Those participants invested solely in the stable value fund would see the per head annual fee, the people invested in variable assets would see the fund management fees associated with the particular investment option(s) they invest in as well as the annual fee on their statements. The variable investment options in the lineup would be brought down to the lowest share class in which the Program would qualify, and any revenue sharing generated in an investment option would be paid back to participants invested in those respective funds.

The Committee discussed accounts with small balances and if they should be exempt from the per head fee. They were concerned that people entering the program would not see a return on their investments until several years out, after considering the fees, and they did not want to have a disincentive for joining the Plan. The Committee wanted to see what other state plans had as their minimum contribution in consideration of raising the minimum contribution amount. They also asked how many people in the NDC Plan continued at the $12.50 minimum deduction after starting. The committee requested that Voya work with NDC Administrative Staff to provide that data and report back at the February quarterly NDC meeting.

Ms. Terri Laird with Retired Public Employees of Nevada (RPEN) provided public comment representing the retiree perspective. RPEN had approximately 9,000 members with 18 chapters state-wide.

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DEFERRED COMP MEETING
JANUARY 27, 2017/TERRI LAIRD TESTIMONY

FEE STRUCTURE CHANGE

My name is Terri Laird, and I am the Executive Director of RPEN, the Retired Public Employees of Nevada, a non-profit organization in our 41st year this year, with around 9-thousand dues paying members.

On January 5, our Lead Lobbyist Marlene Lockard and I met with Rob Boehmer and Mark Stevens, at their request, to discuss the fee structure proposal being considered by your group here today, and again next month.

Then we invited them to speak at an RPEN Executive Committee meeting at our offices in Carson City January 18, where we had our 12 panel committee here, made up of retirees from our chapters in Carson City, Yerington, Boulder City, Sparks, Las Vegas, Henderson and Reno, along with Chapter Presidents from 8 of our 18 chapters statewide.

Their presentation was very informative and well received and after they had left, I polled this small sampling of RPEN members (remember, we have nearly 9-thousand members statewide) and I would say that the members who were ACTUALLY in Deferred Comp, it was a 50-50 split with half being okay with the new fee structure and half against it. Those that were against it said they got into the fixed accounts for the simple reason there were NO fees associated with it, and were concerned that if fees are now going to be imposed going forward, than when will it stop…and so that is the best that I can offer this board today as to RPEN's totally unscientific observation.

Chair Woodbury emphasized how critical communication would be in explaining the new fee structure.

Ms. Kelley with NSHE remarked that when their program went through a similar transition that the participants accepted the transparent fee very well. They communicated through meetings and announcements regarding fees. Two line items were shown on the statement each quarter to explain the fees. Questions were directed to the campaign communication. She stated it was very important to show participants this was not a new fee, but an explanation of transparency.

Mr. Boehmer noted he received an email from Ms. Kelley that was distributed to the Committee and would be posted to the NDC website. It stated that NSHE was generally supportive of fee restructuring, that they had implemented a transparent fee structure in 2013 for their Retirement Plan Alternative, and would be willing to cooperate on communications in any way they could.

Motion by Vice Chair Stevens to adopt the hybrid model effective January 1, 2018, with an 8 basis point charge for Voya on all variable accounts and implement a $30 annual fee to

all participants with accounts greater than $1,000. Second by Dr. Ervin, vote on motion was unanimous, 5-0.

Chair Woodbury called for a 5-10 minute break.

6. For Possible Action – Investment Option Plan Review.

At the November 2016 meeting, options were presented for small, mid, and smid cap funds. Since there was not a lot available in the small cap section Mr. Picarelli and the Committee decided to focus on mid-cap funds. For the January 2017 meeting five fund candidates were presented and reviewed by Mr. Picarelli who additionally provided a firm summary, benchmarks, Morningstar category, and expense ratios for each of the funds.

The Committee discussed the options presented, and narrowed the selection down to two funds: Victory Sycamore Established Value Fund and Vanguard Mid-Cap Value Index Fund. Mr. Picarelli noted the passively managed Vanguard Mid-Cap followed what they were looking for and had a very good expense ratio. The Victory fund was an actively managed fund to consider because of performance on 1, 3, and 5 years, but it had a low number of stocks and a lot of turnover with a big play in healthcare sectors. The Committee decided to only choose one fund to occupy this asset category, but wanted more data and history on how the Victory fund had moved (style shift) and decide at the February 2017 meeting.

Mr. Bastien stated that decisions for fund choices in the new lineup starting January 2018 needed to be made by the August 2017 meeting.

Mr. Picarelli commented that they did a study on Vanguard Target Retirement Funds' Management Fees. The lower expense ratios would apply when the Plan reached a certain asset level within the Asset Allocation category of the Vanguard funds. Balance fund assets could be mapped to target date to attain the minimum balance so the Plan would qualify for the institutional share class.

Chair Woodbury noted they would take item 9 out of order after a five minute break.

9. For Possible Action – Receive and discuss Marketing/Education Administrative Plan for 2017.

Mr. Boehmer provided the survey that was conducted in 2016 for reference on what to include on the 2017 survey. There was not a set time to perform the survey so the Committee could give feedback for design and then Voya could implement it soon after.

Dr. Ervin suggested using most of the same questions for consistency, but could remove the design type questions - 11, 12, and 15.

Chair Woodbury noted should be consistent in what the Program is called throughout the survey, and requested to change any inconsistencies prior to sending out.

Ms. Jennifer Whitman with Voya Financial went over her presentation on marketing, plan participation, and education. She recommended doing a budgeting program for NDC in 2017. Voya was in the process of revamping their marketing and educational material because of changes in ERISA which were slated for an April timeframe. Ms. Whitman completed her presentation going over various campaigns and webcasts that will be implemented throughout 2017.

The Committee requested having a live walk-through of the new online enrollment process.

7. For Possible Action – Discuss any proposed amendments to:

   a. Investment Policy Statement (IPS)

      Vice Chair Stevens remarked they would need to change language on administrative expenses for the new fee structure in 2018. It should be part of the implementation.

      Page 6, last paragraph, second to last sentence needed to have “optional” inserted before independent third-party fiduciary.

      Performance standards which started on page 13 needed to have a clean-up of the “3 to 5 years” phrase, change it to “over a 5 year period.” That wording appeared in several sections so all needed to be updated. The watch list criteria needed to be clear in that it had to meet the index that it was mandated toward and the peer over a 5 year period. It should read “Actively managed funds shall exceed the return of the stated index and median return of the appropriate equity fund universe over a 5 year period.”

      Check for references throughout that referred to revenue sharing. Change the name of the Barclays Capital Aggregate Bond to Bloomberg Barclays US Aggregate Bond Index.

      Chair Woodbury gave direction to Mr. Boehmer to update the documents and present to the Committee for review at next Committee Meeting.

   b. 457(b) Plan Document

      Page 31 section 11.7 a) needed to have a verb. Add “include” after 11.7(b).

      Mr. Bastien suggested having Voya technical look at wording because it referred to expenses and those came from the administrative account.

      Mr. Boehmer stated that Ms. Walker should review that also.

      Certain sections would need to be updated if SB80 passed.

   c. Federal Insurance Contributions Act (FICA) Plan Document

      Page 20 had the same issues as the Plan Document.

   d. Administrative Manual

      Rework sections 6.5 and 6.6 regarding the administrative account.

      Correct the NRS code on page 11.

   e. State Administration Manual (SAM)

      If SB80 passed several sections would need to be revised and/or cleaned up.

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No motion was taken on this agenda item. The Committee would take action once all the documents were updated and reviewed.

8. For Possible Action – Discuss any proposed legislation action for the 79th Legislative Session (2017).

   There was no new information regarding SB80 at the time of the meeting so it was decided that the Committee would wait for new language if it was released. The Committee wanted the option to call a special meeting to address anything as it came up. Staff should monitor it closely to keep the Committee informed.

10. For Possible Action – Discuss frequency of conducting Compliance and Financial Audits within the Program.

    Mr. Boehmer remarked that the compliance audit for the Program was deferred last year so one would be completed in 2017. It was customary in the industry to conduct a compliance audit every three to five years according to Mr. Picarelli.

    The financial audit for FY15 was currently being conducted. A solicitation letter was sent to seven firms for a new contract for the audit. Two firms declined to bid because the Program had done biannual audits in the past and two firms had responded with proposals.

    Chair Woodbury left the room briefly and turned the meeting over to the Vice Chair. Member Oliver received a phone call, there was still a quorum of the Committee.

    The approximate price for the financial audit contract was $50,000 or $25,000 for two years. The contract did not have to go out to bid through a request for proposal because it was under professional services provision, so Admin. Services Department was assisting Staff with the process. The proposals would be evaluated by the Program Coordinator, he would make a recommendation to the Committee, and they could take action at the February 2017 meeting.

11. For Possible Action – Discuss Program Evaluations:

    Mr. Boehmer mentioned that program coordinator review process was scheduled for that time of year and asked if the Committee wanted him to provide the forms used previously.

    Chair Woodbury returned to the meeting.

    Dr. Ervin suggested following the process as last time.

    Ms. Oliver commented that she did not have as much contact with Mr. Boehmer when not serving as chair and inquired if Chair Woodbury could do the evaluation.

    Dr. Ervin stated they should do the evaluation in public unless it was not required. The Committee could fill out evaluations to the best of their ability, but did not believe anything in them should come as a surprise.

    DAG Buoncristiani would research if the evaluations needed to be part of the public meeting.

    Mr. Boehmer noted that the manual used to evaluate vendors was provided in the material to show criteria for evaluations.

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12. For Possible Action – Discuss National Association Government Defined Contribution Administrators (NAGDCA), Institutional Investor, Segal Rogerscasey's Client Research and Educational Summit, Plan Sponsor, or Pensions and Investments Conference Participation in 2017.

    Because of some schedule conflicts the Committee changed the February meeting date to February 23, 2017. They also selected the date for the May meeting to be May 25, 2017.

    For the Institutional Investor Defined Contribution Forum in April, Mr. Boehmer and Dr. Ervin confirmed they would attend.

    Mr. Picarelli stated that Segal was holding a conference in Orlando, Florida in October 2017. They would cover all the costs for attendance except the flight, and encouraged participation by all that want to attend.

Comments/Updates

13. Committee Members

    Dr. Ervin enjoyed working with the new people.

14. Investment Consultant

    No comment.

15. Deputy Attorney General

    No comment.

16. Recordkeeper

    No comment.

17. NDC Administrative Staff

    No comment.

18. Public Comment

    No comment.

19. Adjournment

    The meeting was adjourned at 5:21 p.m.

Respectfully submitted,

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Micah Salerno
NDC Administrative Assistant

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