



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

Shane Chesney, Senior Deputy Attorney General

## DEFERRED COMPENSATION COMMITTEE QUARTERLY MEETING MINUTES

February 23, 2017

The quarterly meeting of the Deferred Compensation Committee was held on Thursday, February 23, 2017, at 9:00 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 video 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, Attorney General  
Brian Davie, Retired Member (phone)  
Scott Hudson, Voya

Dianna Patane, Voya  
Frank Picarelli, Segal Marco  
Thomas Rey, CliftonLarsenAllen (phone)  
Micah Salerno, NDC Admin. Assistant  
Michelle Williams, Voya (phone)

### 1. Call to Order/Roll Call

Chair Steve Woodbury called the quarterly meeting to order for the Nevada Deferred Compensation (NDC) Committee at 9:00 a.m. on Thursday, February 23, 2017.

Mr. Rob Boehmer took roll and determined a quorum was present. He also confirmed the meeting was properly noticed and posted.

Chair Woodbury recognized those calling in by telephone.

### 2. Public Comment

Mr. Boehmer was contacted by Mr. Steve Watson, former Committee member, who informed him that Mr. Jack Crawford passed away. Mr. Crawford served as a NDC Committee member in the past and was a retiree of the State of Nevada.

Chair Woodbury noted they may take items out of order on the agenda.

3. For Possible Action – Approval of Committee meeting minutes from meeting held on November 29, 2016.

There were no comments or changes on the meeting minutes.

**Motion by Vice Chair Stevens to approve the minutes, second by Dr. Ervin. Motion passed unanimously, 4-0, Mr. Myler abstained from voting since he was not a Committee member at that time.**

Chair Woodbury stated they would officially go back to Public Comment

Mr. Brian Davie, former Committee member, wanted to give feedback regarding agenda item 12 on Program Coordinator's review and compensation. He provided some history on the staff position and when he served as a Committee member was opposed to the change in title from executive officer to program coordinator. In creating the position they did a lot of research and wanted the salary to attract someone with appropriate experience. He encouraged the Committee to upgrade the position to the original title and salary for the future of the Program. To get someone of quality, such as Mr. Boehmer, was to the benefit of the program and he needs to be compensated accordingly. Mr. Davie emailed some information to Mr. Boehmer with historical data of when the position was created.

Chair Woodbury closed public comment.

4. For Possible Action – Receive and approve Program Coordinator's Report of fourth quarter 2016.

Mr. Boehmer reviewed his report including a budget and revenue review.

The Committee liked the new format of the budget report. For future meetings Mr. Boehmer would provide the summary and the nine page detail with the general ledger codes. In his presentation he would highlight anything unusual or out of the ordinary. A spreadsheet showing accounting for the administrative account through Voya would be given out with the budget items at upcoming meetings.

Mr. Boehmer noted that the NDC legislative budget hearing was scheduled for March 9, 2017, and he would be attending.

Dr. Ervin commented that the budget hearings were an opportunity to provide public comment about issues surrounding the Program, such as SB80 or its successor bill should one be presented.

Continuing his report, Mr. Boehmer went over the quarterly staff report. He also confirmed that Amendment #3 of the Investment Consultant contract was approved by the Board of Examiners to extend the contract. The vendor rating worksheet for Segal Marco was provided in their material showing they met the standards for all the parameters and scope of work in their contract.

Mr. Boehmer gave an update on the financial audit proposal. Nine were sent out and four responses were received. Two of the responses did not qualify so there were two finalists. Mr. Boehmer shared his review process in evaluating the proposals including interviews with both

companies. They both had experience with defined contribution plans, but only one had 457(b) experience. Eide Bailey, one of the finalists, had a local office in Reno, Nevada which gave them preference according to the Governor's initiative on keeping business in Nevada. Eide Bailey also shined when Mr. Boehmer contacted their references and in offering help with internal control development, and they also had current contracts with other State of Nevada agencies. Mr. Boehmer recommended issuing the offer for the financial contract to Eide Bailey.

Vice Chair Stevens inquired about the cost of the contract and if they would perform bi-annual or annual audits.

Mr. Boehmer stated it was best practice to do annual financial audits. The cost proposal was not to exceed \$28,600 for the first year and not to exceed \$27,900 the second year. The other finalist firm was \$20,000 per year, but Mr. Boehmer was concerned that they may not provide everything we would need from them.

Mr. Picarelli recommended that part of the scope of engagement letter should include that they take basic transactions and do random auditing.

In reference to the compliance audit, Ms. Walker from Segal Marco, had stated that best practice was to perform one every three to five years. The Program was in the process of starting the compliance audit, and it would be a more simplified audit compared to the last one. The fee level change would not require another compliance audit to be done sooner than the three year cycle.

DAG Buoncristiani recommended that future agenda's show what items would be voted on by listing them separately as a., b., c. etc.

Mr. Boehmer wrapped up his report speaking about plan activities including a presentation held at DMV, possible new entities that may join the Program, and upcoming retiree financial wellness fairs being held in June. He reviewed the annual administration plan for 2017, he set the bar unusually high with the expectation that we would do everything they could meet all the goals, but that even if we were to fall short, the Program would experience positive growth and management as a result.

**Motion by Dr. Ervin to accept the Program Coordinator report. Second by Vice Chair Stevens, motion carried unanimously, 5-0.**

**Motion by Dr. Ervin to approve going ahead with the financial audit contract with Eide Bailey for annual financial audits with recommendation to staff to include Mr. Picarelli's recommendation to do random transaction level controls. Second by Vice Chair Stevens, motion carried unanimously, 5-0.**

5. For Possible Action – Receive and approve Investment Consultant's review of report from Recordkeeper, performance of investment options, and Fund Watch list for the fourth quarter ending December 31, 2016.

Mr. Picarelli reviewed the financial markets on pages 2-20 from his Analysis of Investment Performance Report for fourth quarter 2016. The executive summary from page 22 showed the Voluntary Plan assets were at \$719.2 million which was an increase of \$11.5 million over the quarter. The Federal Insurance Contribution Act (FICA) Plan had \$32.8 million so the total Plan assets were \$752 million. The loan program was continuing to grow with 372 issued to date. Plan assets invested in the Stable Value Fund represented \$321.7 million (44.7%) followed by Target

date funds at \$76.3 million (11.6%). The total revenue required for the Voya contract was 15 basis points, as of December 2016, there was a positive of \$10,987 in excess revenue sharing.

Mr. Picarelli also covered the revenue sharing analysis on page 30 and plan activity and asset allocation from pages 31-46.

Dr. Ervin inquired what the interest rate was for the FICA accounts.

Mr. Bastien stated it was the prevailing rate; currently at 1.50%. He also remarked that Voya previously waived the monthly fee on FICA accounts with a balance of \$350 or lower. They went back and reevaluated that balance, considering the lower interest rate, and they would be waiving the fee on any accounts under \$520 through 2017. They would reexamine again in 2018.

Mr. Picarelli reviewed the Watch List from page 26 implementing the recommendations from the January meeting looking at the 5 year number. The Dodge & Cox International was being removed because the 5-year return outperformed the index and peer median.

FUND	RECOMMENDATION
Dodge & Cox International	Remain on Watch

Dr. Ervin discussed the watch list criteria, and he flagged five funds that were not meeting the watch list according to the criteria the Committee agreed on at the January meeting.

Discussion ensued between the Committee, Staff, and Mr. Picarelli reviewing and discussing the watch list criteria, and determined they should follow the Investment Policy Statement from page 14 which stated "Actively managed accounts should exceed the return of the Bloomberg Barclays US Aggregate Bond Index and the median return of the fixed income fund universe over a 5 year period." Because it stated "and" it should meet both performance standards.

DAG Buoncristiani recommended following the conditions in the Investment Policy Statement.

**Motion by Dr. Ervin that due to performance over a 5 year period relative to their market indexes to put MFS Value Fund, Parnassus Equity Income Fund, Fidelity Contrafund, Oppenheimer Main Street Mid-cap Fund, and Goldman Sachs Small/Mid Cap Growth Fund on watch. Second by Chair Woodbury.**

The Committee wanted to see what other deferred compensation plans had for their watch list criteria. Mr. Boehmer would reach out to NAGDCA and bring examples of best practices and include it on the agenda for the May meeting.

**Vote on the motion, carried unanimously, 5-0.**

**Motion by Mr. Myler to accept the Analysis of Investment Performance report from Mr. Picarelli, second by Ms. Oliver. Motion passed unanimously, 5-0.**

Chair Woodbury noted they would be taking agenda item 8 out of order. He also called for a three minute break.

8. Informational Item- Receive presentation from Voya on the new online enrollment portal.

Ms. Patane announced that Ms. Jennifer Whitman took a new position so was no longer working with Voya. They would announce when they hired her replacement. Ms. Patane showed the folder that was currently given out to new participants with Plan information and noted they were in the process of developing a simpler version where the majority of the details were available online.

Mr. Scott Hudson with Voya explained they were trying to move away from the large packet that Ms. Patane had shown and instead send out a postcard with brief information explaining how to enroll online. He went through the newly updated online enrollment process to show the Committee how it worked.

The Committee liked the new online enrollment process, but had some concerns about collecting beneficiary information, the initial process of participants having to input a Plan information and it not automatically populating into those fields, and that it did not clearly show the default option of the Vanguard Target Date Funds.

6. For Possible Action – Receive and discuss information, and potentially take action on finalizing the implementation schedule, proposed communication plan, and consideration of increasing the Program’s current minimum contribution amount of the adopted hybrid fee structure amendment model decided on at the January 26, 2017 Annual Strategic Planning meeting. The Committee requested data from Staff on minimum contribution levels from other 457(b) Programs across the Country, and requested that Voya present data on how many participants start the plan annually at the current minimum and then continue at that contribution level within the first 1-5 years of contribution. Presented by Investment Consultant, Frank Picarelli of Segal Marco, Bishop Bastien of Voya Financial, and/or NDC Staff.

Mr. Picarelli discussed the decision made at the January meeting to move forward with fee leveling. They needed to look at what we currently had in the lineup and consider where they had overlap and could consolidate and areas where they could enhance. Page three of his presentation laid out all of the asset classes. Page four was the NDC menu and had all asset classes covered except the value which would likely be filled in the mid-value option on the following agenda item. Page five showed a proposed style exposure with recommendations of changes in funds. Mr. Picarelli recommended that the Committee should consider adding the whole suite of target date lifecycle funds. When the Plan had \$100 million in assets in the target date funds it would allow them to be eligible for the institutional pricing of 10 basis points fee across all the Vanguard series.

Referring to the Vanguard target date series, Mr. Bastien suggested they add the 2060 date fund along with the rest of the package and roll the 2015 into the income fund.

Dr. Ervin wanted to schedule a fund search for Large Cap Growth where they compare the three current funds to whatever was best in class, and make a decision at that time on how many they would keep.

Mr. Bastien emphasized that Voya needed to have a decision at the May 2017 meeting for the final fund menu.

Mr. Picarelli commented that they should stay with the active in large, growth, and value and choose the best fund. They could eliminate the social responsive fund and do a fund search for the large cap growth at the May meeting and select a fund then.

Ms. Oliver asked for a note sheet of the decisions the Committee made throughout the process to summarize everything. Mr. Boehmer confirmed he would provide that for the May meeting.

Dr. Ervin liked the suggestions from Mr. Picarelli and summarized:

- Fund search in large growth box and choose one actively managed fund
- Expand the full target date suite, including 2065, if available
- Eliminating the socially responsive fund and map the people invested there to the Vanguard Institutional Index
- Moving away from the balanced fund and map participants to target date funds

Vice Chair Stevens reviewed the recommendations and the Committee were all in agreement.

Mr. Bastien referred to the timeline he provided and stated that decisions needed to be made on fund changes and mapping by early June because the communication pieces had to be finalized and to Voya compliance by early June, so the Committee could review it at the August meeting. The Service agreement would need to be amended so he would work with Mr. Boehmer on that and they would need to check if this needed to go to Board of Examiners. The compliance review of the communication pieces to be mailed would be provided in early September so they could be in the mail by September 15, 2017. Group and one-on-one meetings would start in October and last for eight weeks. The conversion would run and be implemented around December 15, 2017 with fund changes made, but the new fee change would not be assessed until January 20, 2018. Fees would be taken out at the end of each month and would be shown on the quarterly statement.

Mr. Bastien noted they needed to verify that the “per head” fees would not apply under a certain account level. He needed that number finalized, they would look at account values each year on January 1<sup>st</sup>, and anyone who had an account value above the determined amount, regardless of market activity throughout the year, would be charged the “per-head” charge for the year.

Ms. Oliver did not agree with the fairness of not charging the per head fee to everyone.

Chair Woodbury stated they should confirm the motion with the account value number that would not be charged the per head fee.

The Committee asked for a detail on how many participants who started at the \$12.50 deduction and stayed at that rate. Ms. Patane said she could provide that at the May meeting.

The Committee discussed the minimum contribution level and decided not to make any change at that time. But they did direct staff to update the enrollment form with check boxes to suggest \$50, \$100, or other deduction amount.

**Motion by Mr. Myler to accept the timeline that Mr. Bastien proposed for the fee level change. Second by Dr. Ervin, motion carried 4-1 with Ms. Oliver voting nay.**

7. For Possible Action – Receive, discuss, and potentially take action on Small/Mid-Cap Value investment fund selection, discuss any future investment line-up changes, and decide on any future fund searches or consolidations proposed in the upcoming year. The Committee had requested that the NDC contracted Investment Consultant present more historical data regarding the Victory Sycamore Established Value Inv. Fund history of Morningstar classification as being a mid-core value style to a mid-value style investment process. This was proposed at the January

26, 2017 NDC Annual Strategic Planning Meeting, and was requested that the NDC Contracted Investment Consultant make recommendations regarding future investment line-up changes and fund searches or consolidations. Presented by contracted Investment Consultant, Frank Picarelli of Segal Marco.

Mr. Picarelli stated from the January meeting the committee narrowed their fund choice down to two: Victory Sycamore Established Value Fund and Vanguard Mid-Cap Value Index Fund. The concern was the labeling of the Victory Fund and how actively managed funds may not be true to their Morningstar category.

Dr. Ervin preferred the Vanguard Mid-Cap Fund while Mr. Myler liked the Victory Fund.

Chair Woodbury commented there was no wrong answer since both were good products, but he leaned toward the Vanguard Fund because of its lower cost and that it stays within the allocation category.

Dr. Ervin remarked that the Vanguard was closer to value and the Victory was already close to core and could be reclassified in the future.

**Motion by Dr. Ervin to add the Vanguard Mid-Cap Value Index Fund at the cheapest share class. Second by Vice Chair Stevens, motion passed unanimously.**

9. For Possible Action – Receive and approve plan activity, administrative update, beneficiary data report, small inactive account report summary, and service report from contracted recordkeeper's Dianna Patane of Voya Financial for fourth quarter ending December 31, 2016.

Ms. Patane went over the items in the Voya fourth quarter report including information on the Voya Fixed Account, rollovers, distributions, and loans. She also provided an update on beneficiary data, small account cash out, quarterly activities, and participation. Ms. Patane shared some of the marketing material that Voya uses in support of the Plan along with yearly reports for 2016.

Mr. Myler suggested changing the examples on a few of the forms to a higher dollar amount to encourage a larger contribution amount.

**Motion by Dr. Ervin to accept the Voya report, second by Vice Chair Stevens, motion carried unanimously, 5-0.**

10. For Possible Action- Receive, discuss, and approve FY2015 Financial Audit findings, proposed controls, and completed draft financial statements for both the NDC 457(b) Voluntary/Core Plan and the Federal Insurance Contributions Act (FICA) Alternative Plan. As part of this agenda item, Staff would be looking for direction from the Committee to continue conducting financial audits bi-annually or annually going forward. Presented by staff of previously contracted Financial Auditor CliftonLarsonAllen (CLA) and NDC Staff.

Mr. Thomas Rey with CliftonLarsonAllen reviewed the financial audits for the voluntary and FICA plans. Both financial reports were clean audit opinions but the significant deficiency issued in 2013 still applied for the 2015 audit because the plan sponsor did not maintain, update, and reconcile activity for the Plans. That was an important internal control procedure to ensure that all assets were accounted for and that any errors were detected and corrected on a timely basis.

Dr. Ervin inquired about the two errors in the management response that were both due to a former recordkeeper.

Mr. Rey stated there were no errors with Voya but the issues that did exist resulted more from best practices or reconciliations that should have been going on at the Plan level.

The Committee thanked Mr. Rey for his service.

Mr. Boehmer stated that the management response acknowledged the significant deficiencies and that they were addressed in a timely and aggressive manner. The significant deficiencies were now classified as material weaknesses so an internal control had to be developed to correct that.

Dr. Ervin recommended they accept the reports and management response with strong direction moving forward with new auditor for the Program to put internal controls in place to resolve these material weaknesses.

Vice Chair Stevens directed Mr. Boehmer to come back at the May meeting with options of how to address the issues in the audit and then decide what to do going forward and make a decision.

Mr. Boehmer commented he would do his best to work on that and bring a report or suggestions to the May meeting.

DAG Buoncristiani offered to assist with in speaking with Division of Internal Audits.

**Motion by Vice Chair Stevens to accept the Audit Report and Management Response for fiscal year 2015 and recommend that Mr. Boehmer, at the appropriate time – May or August, bring back options of how to address the deficiencies. Second by Dr. Ervin, motion passed unanimously, 5-0.**

11. Informational Item- Receive and discuss any new information released on Governor's recommended Bill Draft Request: SB80- "Makes various changes relating to the Public Employees' Benefits Program and the Deferred Compensation Program".

Mr. Boehmer did not have any new information on this item. He would continue to keep the Committee updated as he learned any new information.

12. For Possible Action- Per the adopted NDC Administration Manual: 7.3 – Program Coordinator's Review Process- The Committee will conduct a performance review annually at the scheduled meeting closest to the hiring anniversary date of the Program Coordinator. The Committee will also review and approve any potential compensation changes based on current level as well as legislative action as it relates to all state employees.

Chair Woodbury reviewed the evaluations submitted by the Committee members and all the ratings for all job elements were either meet or exceeds standards. There had been public comment on that item earlier and a lot of discussion among the Committee in the past.

The Committee all agreed that Mr. Boehmer was a "Substantial Asset" to the Program, and they should strive to get him closer to the approved salary established in the legislative pay bill for the position of Executive Officer. They also wanted to discuss at a future meeting of changing his title



back to Executive Officer. They could make the title and job change at the next Committee meeting.

Chair Woodbury directed staff to prepare revised documents at the May meeting that reflect the title change and vote on it then.

**Motion by Dr. Ervin to propose an increase to \$85,000 with the understanding that they would look at the title and position description and revisit at that in an upcoming Committee meeting. Second by Mr. Myler, motion carried unanimously, 5-0.**

13. For Possible Action- Per NRS 287.330, 1. The Committee shall: (a) At its first meeting each year, designate one of its members to serve as Chair of the Committee for a term of 1 year or until the chair's successor has been designated. Additionally, the Committee will designate a Vice Chair.

**Chair Woodbury made a motion to select Mr. Mark Stevens to serve as Chairman and Dr. Kent Ervin as Vice Chairman. Second by Ms. Oliver, motion carried unanimously, 5-0.**

14. For Possible Action – Confirm upcoming scheduled meeting dates, and schedule August Quarterly Committee meeting or any proposed special meetings.

The Committee proposed Thursday, August 24, 2017 for the quarterly meeting.

#### Comments/Updates

15. Committee Members

Ms. Oliver mentioned she did not submit an evaluation for Mr. Boehmer because it would have been unchanged from her previous evaluation. But she wanted the record to show that she rated him above average and would not change that.

Mr. Myler wanted to see about changing the open meeting evaluation in the Administrative Manual.

16. Investment Consultant

Mr. Picarelli commented that they were moving along and they would need to focus on the fund line up for implementing fee leveling at the next meeting.

17. Recordkeeper

No comment.

18. Staff Updates

Mr. Boehmer remarked that he was approached to take the Certified Public Manager course and asked if the Committee would sustain him going through the program.

Mr. Myler supported him as long as he could get in one of the scholarship slots because the budget did not have funds to cover the cost.

Chair Woodbury asked Mr. Boehmer to bring information to the May meeting to see if he qualified for the scholarship and details of how it would work with him being out of the office for extended periods of time.

DAG Buoncristiani noted they should put it as an agenda item for discussion.

19. Public Comment

No comment.

20. Adjournment

The meeting was adjourned at 2:28 p.m.

Respectfully submitted,

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Micah Salerno  
NDC Administrative Assistant

DRAFT