

DEFERRED COMPENSATION COMMITTEE QUARTERLY MEETING MINUTES

December 6, 2017

The quarterly meeting of the Deferred Compensation Committee was held on Wednesday, December 6, 2017, at 11:00 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

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

OTHERS PRESENT

Rob Boehmer, NDC Program Coordinator	Dianna Patane, Voya
Dawn Buoncristiani, Deputy Attorney General	Frank Picarelli, Segal Marco
Mark Oleson, Participant (by phone)	Micah Salerno, NDC Admin. Assistant

1. Call to Order/Roll Call

Chair Mark Stevens called the quarterly meeting to order for the Nevada Deferred Compensation (NDC) Committee at 11:04 a.m. on Wednesday, December 6, 2017.

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

Chair Stevens recognized those calling in by telephone and stated they make take items out of order from the agenda, if necessary.

2. Public Comment

No comments.

3. For Possible Action – Approval of Committee meeting minutes from meeting held on August 24, 2017.

No changes were suggested for the minutes.

Motion by Vice Chair Ervin to approve the minutes, second by Mr. Woodbury. Motion passed unanimously, 5-0.

Mr. Patrick Cates joined the meeting so Chairman Stevens took agenda item 11 out of order.

11. Informational Item- Discussion and review of administrative items and processes that will or may be associated with the passage of SB502 and the NDC Program being moved under the direction and oversight of the State of Nevada Department of Administration (DOA). DOA Director, Patrick Cates, will be in attendance to answer any questions and discuss any pertinent information.

Chair Stevens commented that he met with Mr. Cates during the summer to talk about the transition of the NDC Program with the passage of SB502.

Vice Chair Ervin thanked Mr. Cates for attending and asked for an overview of the relationship with the NDC Committee, NDC Staff, and Department of Administration.

Mr. Cates stated the original bill sought to bring Public Employee Benefits Program (PEBP) and NDC into closer relationship with the Department of Administration (DOA) because of ongoing discussions about employee benefits and budget initiatives. The compromise in the bill brought NDC under DOA and PEBP remained an independent body. The NDC Executive Director now reported to and was appointed by Mr. Cates (Director of Administration) rather than the NDC Committee. His intent in bringing NDC under DOA was not to impact the committee duties or operations in any significant way and the main difference is the Executive Director was now appointed and evaluated by him rather than by the public body. Mr. Cates discussed how evaluations were performed for the Executive Director in the past and stated they would not be conducted in a public meeting going forward because the position did not report to the Committee. He believed it was vital to get input from the Committee on the Executive Director so he would put together a survey so they could give feedback.

Vice Chair Ervin asked the DAG if there would be an issues with Open Meeting Law if Mr. Cates polled the Committee members individually.

Mr. Cates stated he would confer with legal counsel. It would be a confidential survey to the members and not part of an agenda or discussed amongst the members or in a public meeting.

Chair Stevens noted if they wanted to stay with the current cycle it would need to be done in the next few months.

Mr. Cates planned to get the survey out after the beginning of 2018.

There were no changes for the NDC budget during the current fiscal cycle. Mr. Cates commented that all agencies in DOA pay a portion of the director's office budget so with 1.75 staff it would be a very minimal amount added to the budget in the next fiscal year. He would not do anything material that would affect the budget without bringing it to the Committee.

Chair Stevens commented on language in the legislative bill about the Committee being able to concur or be consulted in hiring an Executive Officer.

Vice Chair Ervin read from SB502 “the Director of the Department of Administration shall, with the concurrence of the Governor and Committee to Administer the Public Employees’ Deferred Compensation Program, appoint the Executive Officer of the Program.” So the Director appointed, the Governor had to agree and the Committee had to agree. Reading more of the bill, “the Executive Office is in the unclassified service of the state and serves at the pleasure of the Director except that he or she may be removed by a majority vote of the Committee.”

Mr. Cates said if he needed to hire an Executive Officer in the future his intention would be to invite members of the Committee, without creating a quorum, to participate in interviews and bring the candidate to the Committee for approval.

Chair Stevens thanked Mr. Cates for taking the time to speak with the Committee.

4. For Possible Action – Receive and approve Executive Officer’s Report of second quarter 2017.

Mr. Boehmer reviewed his report including a budget and revenue review including information on a work program going in front of Interim Finance Committee which would allow for us to catch-up on the financial audits. Eide Bailly was currently conducting FY 16 and FY 17 audits and going forward the audit would be performed annually. They were hoping to present the audits at the February meeting. The projections for the budget showed we had a decent reserve going into the next biennium.

Mr. Boehmer continued his report addressing the staff report.

Chair Stevens asked about the large difference in decreases and stops in deductions.

Ms. Patane with Voya stated that enrollment numbers were down because they have two fewer employees with Voya so not as many representatives going out. The fee and fund changes in the plan had taken a toll but after explaining the fee changes people had been more accepting.

Mr. Woodbury asked to have the staff report on the Planning agenda to see what data and figures would be best to include and how to compare. He also asked about the reimbursements into the Voya administrative account and why they were not consistent timing on receiving the reimbursement.

Mr. Boehmer stated he inquired about the deposits from Jonathan Zujko and he said there was an issue of Voya processing. Mr. Zujko confirmed it should be 2-3 weeks going forward. There were months of interest missed because of the delay in deposits.

Ms. Patane noted she would get information on how soon after a quarter that the money would be deposited. If there was a hold up on Voya’s side she would ensure NDC received interest on what they should have earned.

Mr. Boehmer pointed out an error on the Voya spreadsheet noting that fund 3311 Vanguard Mid-Cap showed revenue sharing on that index fund and he did not believe that was correct.

Ms. Patane would go to the Voya fund team for review and have the spreadsheet corrected and provide an updated one.

Mr. Boehmer completed his report by mentioning his meeting with Nye County and some of the challenges they had to work through in order to join the NDC plan. They had over 500 employees and would want to use the FICA program in addition to the voluntary side. Mr. Boehmer

commented that the Financial Wellness days went well in October with good attendance in person and online.

Motion by Mr. Woodbury to accept the Executive Officer's report. Second by Vice Chair Ervin, 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 third quarter ending September 30, 2017.

Mr. Frank Picarelli reviewed the financial markets on pages 1-19 from his Analysis of Investment Performance Report for third quarter 2017. The executive summary from page 22 showed the Voluntary Plan assets were at \$778.0 million which was an increase of \$18.1 million over the quarter. The Federal Insurance Contribution Act (FICA) Plan had \$35.8 million in assets so the total Plan assets were \$813.8 million. The loan program was continuing to grow with 414 issued to date with an outstanding balance of \$3.1 million. Plan assets invested in the Stable Value Fund represented \$319.6 million (41.1%) followed by Target date funds at \$97.5 million (12.5%). The total revenue required for the Voya contract was 15 basis points, as of September 30, 2017, there was a negative of \$956 in excess revenue sharing.

Mr. Picarelli provided a handout with an updated Watch List and the current FICA rate.

FUND	RECOMMENDATION
Parnassus Equity Income	Remain on Watch
American Funds Growth Fund R3	Remain on Watch
Fidelity Contrafund	Remain on Watch
Oppenheimer Main Street Mid Cap	Remain on Watch
Goldman Sachs Small/Mid Cap Growth	Remain on Watch
Franklin Mutual Global Discovery	Remain on Watch
Vanguard Total Bond Market Index	Remain on Watch
Vanguard Target Retirement Income	Remain on Watch

Mr. Picarelli suggested having someone from the Voya Stable Value team give background on the structure of the fund at the Planning Meeting. He also noted the Goldman Sachs team could come to a future meeting to discuss investment strategy and related processes.

Mr. Picarelli covered plan activity and asset allocation along with FICA Plan Activity. Additionally, Mr. Picarelli looked at fund comparative performance of the Voluntary Plan, and he explained which funds were on watch list due to not beating the peer ranking on the 5 year number.

Motion by Vice Chair Ervin to accept the Analysis of Investment Performance report and recommended watch list from Mr. Picarelli, second by Mr. Woodbury. Vote on motion was unanimous, 5-0.

Chair Stevens called a five minute break.

6. For Possible Action – Receive Compliance Audit findings and action report from Segal Marco's Melanie Walker.

Ms. Melanie Walker reviewed the compliance audit findings and report and identified a few areas to look at more closely and a few areas to monitor compliance. The first of the month rule had one area that changed from last year. A proposed regulation included ceasing deferrals applied to the first of the month rule. It was a proposed regulation and although it was not final it would be in the final regulation when it went through, so the Program should be following the regulation. The first of the month rule only applied to 457(b) programs.

Ms. Walker addressed required minimum distribution (RMD) rules and noted that Voya had an extensive process they followed and the IRS gave clear guidance. Their recommendation was to put in writing the process they followed and point out where it meets the IRS requirements and do a period check to confirm they are being followed.

Ms. Walker noted there was a significant number of missing beneficiary data and the plan should focus efforts on getting that information. She also spoke about 3-year special catch-up provision and unforeseeable emergency (UE) distributions. The paperwork could be reviewed more thoroughly and a rule could be created that unforeseeable emergencies should not be paid out if it could be paid other ways like stopping contributions. It was not required in 457(b) programs to stop contributions if someone applied for UE. It would be beneficial to have the participant take a loan prior to a UE unless it caused further hardship.

Ms. Walker reviewed the plan documents and commented that they could use a cleanup. The plan document should say something about employer contributions since nothing was mentioned and there were a few entities that did provide those.

Vice Chair Ervin felt if they were making substantive changes to the plan document that legal counsel should review it. If the DAG did not have the expertise for retirement plan documents they might have to hire someone who did to review the documents.

Ms. Walker stated she could provide advice and suggested one direction to consider would be to use the IRS model language and pull in specific items relating to the Nevada Plan. Then they would have the assurance of IRS rules.

Ms. Walker concluded her report by referring to page 16 and suggested possible changes to the administrative manual.

Motion by Mr. Myler to accept the report on the compliance audit. Second by Mr. Woodbury, motion passed unanimously, 5-0.

7. For Possible Action – Receive report and possible discussion on the Fee Leveling Transition being communicated and implemented within the NDC Program.

Mr. Boehmer outlined the process of communication for the fee level transition that had happened so far including group meetings, multiple mailings, and emails.

Ms. Patane added that in addition to the 8 group meetings, the Voya Representatives had held 53 other meetings with good response. Voya contacted all State agencies, NSHE, and political subdivisions about the upcoming fee level transition. Mr. Patane noted that anyone with a balance under \$1,000 would not be charged the \$30 annual fee so Voya would pull a report every January 1st and the account balance on that date would determine those participants that were

exempt. The first quarterly statement in 2018 would be delivered in April and Voya anticipated they would receive an increase in phone calls and questions.

Motion by Vice Chair Ervin to accept the report. Second by Mr. Myler, motion passed unanimously, 5-0.

8. For Possible Action – Receive, discuss, and potentially take action on participant complaint and request from NDC participant, Dr. Mark Oleson, who is employed by the Nevada Department of Health and Human Services Division of Child and Family Services.

Dr. Oleson, NDC participant, explained that he had a degree in investing and had long term experience. He did not care for the limited fund choices the Plan offered but did like using the self-directed brokerage account (SDBA) to be able to invest in other options. He was perplexed because of the fund changes in the new structure as two of the three funds he liked were being eliminated. Institutional investing was not benefiting him because he claimed he could get a lower rate in the SDBA for the same funds but he would still be paying the \$30 per year fee. He felt like it was a “bait and switch” because he could have chosen a different options for investing instead of starting with the plan 6 years ago. The only viable option for him would be to invest 100% of his account in the SDBA.

DAG Buoncristiani provided a handout of NRS 287.330 and read from the document noting the Committee shall act in the best interest of participants.

Dr. Oleson agreed with the statute and did not feel anything he was asking would go against those. Because of the current restrictions in the SDBA he believed it could be to the detriment of participants.

Mr. Woodbury remarked that 50% account value was pretty standard in state programs across the country. There would always be unique circumstances but the Committee always tried to consider the whole participant base.

Mr. Picarelli stated that due diligence carried the intent to ensure offering participants the most competitive options at the most favorable management expense fee. The SDBA was a vehicle for participants to do their own investing. Policy had been set through the industry to not allow 100% into the brokerage window since it was a long-term investment. Best practice was to set a limit of 50% for protection of the participant.

Mr. Boehmer noted that in responses he received from NAGDCA partners that over 90% of them limited how much was allowed in the brokerage window as a safety net for participants as a whole. It would be easier to defend a process where there was a safety net versus allowing someone to invest their whole account value. The Plan could not go on an individual basis but had to act as a prudent person for participants as a whole and have parameters in place.

Vice Chair Ervin was concerned that administrative fees needed to be collected from all participants and if 100% of their funds were in a brokerage window there would not be a way to collect those.

The Committee did not have enough information to take a motion at that time but Chair Stevens stated they would gather more information regarding the SDBA and how other plans handled them and review it at the next meeting.

No motion taken on this item.

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 third quarter ending September 30, 2017.

Ms. Patane went over the items in the Voya third quarter report including information on rollovers, distributions, loans, and the Voya Fixed Account. She also provided an update on beneficiary data.

Vice Chair Ervin asked how the Workday system with NSHE was going.

Ms. Patane noted there had been some problems with Workday as the files were not always balanced. Also, NSHE did not want to use the NDC paper forms so they needed to figure out how to capture beneficiary data. Ms. Patane concluded her quarterly report commenting that all quarterly activities were down for the third quarter but she expected the fourth quarter to be better.

Vice Chair Ervin remarked that he liked the sample performance report with the 8 basis point fee but he wanted to see the \$30 annual fee to be included.

Chair Stevens stated that under normal circumstances the Committee expected Mr. Bastien or someone in his place to be in attendance at the meetings.

Motion by Mr. Woodbury to accept the Voya report, second by Vice Chair Ervin. Motion passed unanimously, 5-0.

10. For Possible Action – Receive report on H.R.1- Tax Cuts and Jobs Act, and discuss how this legislation could affect 457(b) programs. The Committee may choose to take a position on the proposals in the bill.

Mr. Boehmer summarized the work that he and others from NAGDCA did to provide information to Senator Heller, Senator Collins, and Senator Portman regarding items that would affect 457(b) programs in the tax bill.

No motion was taken on this item.

12. For Possible Action – Receive, discuss, and approve Interlocal Contracts for Political Subdivision(s):

- a. Chiropractic Physicians’ Board of Nevada
- b. Nevada State Board of Massage Therapy

Motion by Mr. Myler to approve the two new Interlocal contracts, second by Mr. Woodbury. Motion carried unanimously, 5-0.

13. For Possible Action- Review, discuss, and decide what Committee member along with the Executive Officer will attend the Institutional Investor Defined Contribution Roundtable Forum being held in Chicago, Illinois on April 30 - May 1, 2018.

No decision was made on who would attend the conference. The Committee recommended waiting until a future meeting to see if someone was available to attend with Mr. Boehmer.

14. For Possible Action – Confirm upcoming scheduled Planning Meeting date for January 18, 2018, and quarterly meeting on February 21, 2018 and/or any proposed special meetings.

The Committee confirmed January 18, 2018 for the Planning Meeting starting at 8:30 a.m. and February 21, 2018 at 9:00 a.m. for the regular quarterly meeting.

Comments/Updates

15. Committee Members

Vice Chair Ervin reviewed the notes he had taken for planning meeting topics: brokerage window and limited partnership for tax liability, historical record of when SDBA was instituted and why they chose 50% as the limit and best practices regarding SDBA; regulatory issues related to SB502 and the NDC Nevada Administrative Code - agenda for initial discussion.

Mr. Myler remarked on the number of investments available in the core lineup and asked for info related to what plans across the country looked like and the number of funds in general.

Mr. Woodbury stated he was retiring in January and intended to resign from the Committee so an active employee could serve.

16. Investment Consultant

No comment.

17. Recordkeeper

Ms. Patane expressed her thanks to Mr. Woodbury for his service to the Committee and Program.

18. Administrative Staff/Department of Administration Updates

Ms. Salerno and Mr. Boehmer commented on attending the Segal conference and appreciated the education it provided.

19. Public Comment

No comment.

20. Adjournment

The meeting was adjourned at 3:27 p.m.

Respectfully submitted,

Micah Salerno
NDC Administrative Assistant