

## DEFERRED COMPENSATION COMMITTEE QUARTERLY MEETING MINUTES

May 21, 2018

The quarterly meeting of the Deferred Compensation Committee was held on Monday, May 21, 2018, at 9:00 a.m. in the Board Room of the Nevada State Library and Archives Building, 100 North Stewart Street, 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 website at: <http://defcomp.nv.gov/Meetings/2018>.

### COMMITTEE MEMBERS

Debra Bowman  
Matt Kruse  
Wayne Thorley  
Kent Ervin, Vice Chair  
Mark Stevens, Chair

### OTHERS PRESENT

Rob Boehmer, NDC Executive Officer	Frank Picarelli, Segal Marco
Cindy Lau, Segal Marco (by phone)	Micah Salerno, NDC Admin. Assistant
Greg Ott, Acting Deputy Attorney General	Nielsine Sherk, Eide Bailly
Dianna Patane, Voya	Michelle Williams, Voya

### 1. Call to Order/Roll Call

Chairman Mark Stevens called the quarterly meeting to order for the Nevada Deferred Compensation (NDC) Committee at 9:04 a.m. on Monday, May 21, 2018.

Mr. Rob Boehmer took roll and determined a quorum was present. He also confirmed the meeting was properly noticed and posted. He noted that Ms. Bowman would have to leave due to another meeting.

Chair Stevens recognized those calling in by telephone. He welcomed new Committee member, Mr. Matt Kruse, who filled Mr. Myler's vacated position, and thanked him for his participation.

### 2. Public Comment

Ms. Dianna Patane remarked that Voya Financial had hired a new representative for Northern Nevada and she would introduce her when she arrived.

3. For Possible Action – Approval of Committee meeting minutes from meetings held on January 18, February 21, April 6 Workshop, and April 6 Sub-Committee, 2018.

Mr. Boehmer reviewed the four sets of minutes submitted for approval.

Chair Stevens noted two corrections to the January 18 set on pages 3 and 5.

**Motion by Vice Chair Ervin to approve the four sets of minutes, second by Mr. Thorley.  
Motion passed unanimously, 5-0.**

Ms. Patane introduced Ms. Jamie Cooke the new Voya Representative.

4. For Possible Action – Receive and discuss the following items presented by the current NDC contracted Financial Auditor, Eide Bailly.

Mr. Boehmer commented on the various reports provided by Eide Bailly for the Fiscal Year (FY) 2016 and 2017 audits of both the Federal Insurance Contributions Act (FICA) and Voluntary plans. The Committee would have the opportunity to submit a management response to anything presented. Staff could draft the letter to include in the final documents before they were made final and published.

Ms. Nielsine Sherk started with the 2016 FICA Financial Statements and stated the independent auditor's report started on page 1. It received an unmodified opinion, which was the highest opinion that could be received, and also indicated the financial statements conformed to the accounting principles generally accepted in the United States of America. Page 3 started the discussion and analysis and provided a narrative of review written by management. Pages 5-6 contained the statement of fiduciary net position and the statement of changes in fiduciary net position. Notes started on page 7 and provided additional detail to the financial statements. Ms. Sherk went over some of the financial highlights from page 3 and then moved on to the Findings. One finding was considered a significant deficiency where during the audit procedures they noted instances in which the termination date provided by the employer did not agree to the third party administrator's participants' records. The absence of adequate controls over termination verification increased the possibility of either not paying distributions timely or paying distributions not in compliance with the Plan document. It was recommended that a comprehensive review of termination verification be considered currently, with updated verification request performed routinely.

Vice Chair Ervin remarked that the termination verification significant deficiency was the finding on all of the audits and he asked if it was widespread or just a few instances.

Ms. Sherk stated for the FY16 FICA Audit they sampled 45 and 33 did not match with term date from the employer, 32 of them were from Nevada System of Higher Education (NSHE).

Chair Stevens asked if we had any idea why this was an issue.

Mr. Boehmer shared the problem was one of three things.

1. In 2015 we initiated the transition from two recordkeepers to one so there could have been unclear data. MassMutual did not provide term dates in the transition so the system could have shown a hire date of 2/8/15 and term date of 2/9/15.
2. Payroll centers may not provide term data in a timely manner. They may need to have Voya reach out to the payroll centers to see how this could be corrected.

3. With multiple payroll centers and contracts sometimes the data was not submitted.

Ms. Patane noted that sometimes there was an issue with distributions being processed and then the employee was rehired. She was not sure how to resolve that problem but they needed to find a better way to keep updated on rehire and termination data. Most of the problems they encountered were with NSHE because of the large amount of FICA employees that they hired.

Ms. Sherk continued by presenting the data for the FY 2017 FICA Audit. The reports were identical to the FY16 FICA Audit and she covered the same material including financial highlights, and the same significant deficiency. This time they sampled 17 and there were 6 variances, 5 of them from NSHE and 1 from Carson City that showed the employee had terminated but they were actually still employed and had received a distribution.

Ms. Sherk moved on to the FY 2016 Audit for the Voluntary Plan sharing the same information as the previous reports. Financial Highlights were on page 3. The Termination Verification was the only significant deficiency and included a sample of 38 where 3 did not match the data provided and they could not find support for 1 of the employees as they were not found in the payroll system. Those issues were all with Central Payroll.

Mr. Picarelli asked if the auditor validated the rate of return on the Stable Value fund guaranteed rate of return.

Ms. Sherk said they did review that and would confirm to ensure the credited rate was correct. She would provide that data to Mr. Boehmer and he could share with the Committee.

Ms. Sherk moved to the FY 2017 Audit for the Voluntary Plan which included the same data and arrangement as the other reports.

Chair Stevens noted an error on page 3 and Ms. Sherk stated it would be corrected for the final report.

Ms. Sherk, speaking about the significant deficiency, commented that they sampled 34 and that 1 did not match the data between the payroll and third party administrator and 5 were not able to be verified. All were with Central Payroll.

Vice Chair Ervin asked if it was appropriate and sufficient if staff and Voya went back and reviewed the term date errors and tried to determine the reason and suggest a possible solution.

Ms. Sherk believed that would be appropriate as the information coming out was only as good as the information going in. It was important that employers be able to provide correct data. In the FICA Plan with so many terminations and rehires it could be difficult to administer. The information provided was not in compliance with the Plan Document.

Ms. Bowman left the meeting.

Ms. Patane clarified that some of the term data would have been incorrect because the data Voya Financial received from MassMutual did not always include who the employer was for some participants. Voya tried to obtain more information but MassMutual was unable to tell who the employer was for some retired participants.

Ms. Sherk talked about the Agreed upon Procedures for FY 2016 audits and variances in deposit amounts. The variances were not at a level to propose changes. Voya should work with the employers but they could only reconcile to a certain point.

Chair Stevens asked Voya to work with the employers to compare data on the reported variances.

Mr. Boehmer asked, based on the variances, if the auditor was concerned that participants did not receive their contributions.

Ms. Sherk said they were not concerned and based on their samples they checked that the amounts were deposited correctly. Timing could be a factor based on a participant being termed and then rehired at another participating entity.

Ms. Patane was confident that the political subdivisions were accurate since they reported by individual but Central Payroll and NSHE both sent a large file that was not specifically checked by participant.

Ms. Sherk reviewed the Agreed upon Procedures for FY 2017.

Chair Stevens recommended to have Voya report back on FY 2016 and 2017 variances and reasons for those.

Vice Chair Ervin wanted to include an action plan, as appropriate.

**Motion by Vice Chair Ervin to accept the Financial Audit reports and approve the suggested recommendations. Second by Mr. Kruse.**

Chair Stevens remarked that they needed to take the findings seriously and look at the information from Voya and get recommendations on how to improve.

Mr. Thorley asked about upcoming financial audits and if they still had a contract with Eide Bailly.

Mr. Boehmer stated the Committee could direct staff to extend the contract with Eide Bailly or go out to RFP. Going forward the audit would be performed annually. Eide Bailly was far more detailed in their reporting than the previous auditor. The one concern he had was a key person left during the middle of the audit process which caused some difficulties. They were still open to doing business but communication was key. They needed to be sensitive to the payroll centers on when to perform the audit and expect data. They would also need to identify contract details so the auditor was available and could complete the audit in a timely manner.

**The vote on the motion was unanimous, 4-0, Ms. Bowman was absent.**

5. For Possible Action – Receive, discuss, and approve Executive Officer’s Report of 1<sup>st</sup> quarter 2018.

Mr. Boehmer presented his quarterly report starting with a budget and revenue review. They had to do a work program for Out of State travel and there was some savings in In State travel. They built in the funds for a Manpower employee in FY 2019 and they would be billing Voya about \$82,000 for the end of the fiscal year.

Vice Chair Ervin asked if there was anything new in billing related to SB502.

Mr. Boehmer stated the only new item was for the Director's Office for \$2,152, which was expected.

Mr. Boehmer looked over the new worksheet for the revenue report to illustrate what amount of fees Voya was collecting from participants based on the 8 basis points (bps) charged with the total next expense on all funds. The asset based fee was taken out on the 20<sup>th</sup> day of the 3<sup>rd</sup> month of the quarter and the fee was deposited into the account the following day. The second table itemized the per account fee per quarter. At the end of each quarter the administrative fee would be deposited into the account the day after it was taken from the participant.

**Motion by Mr. Thorley to accept the Executive Officer report, second by Mr. Kruse. Motion passed unanimously, 4-0, Ms. Bowman was still absent.**

6. For Possible Action – Receive report and possible discussion on the Fee Leveling Transition.

Mr. Boehmer gave an update on how things had gone during the fee level transition. There was discussion on assessing what accounts were over \$1,000 on January 1 each year. Data was collected and there were 313 accounts in the first quarter that were not captured and were not paying the fee. If the Committee decided to change to a quarterly assessment then communication would have to be sent out to participants.

Ms. Patane commented that less than 20 people contacted Voya and NDC about the new fee on their statement.

Vice Chair Ervin suggested, because of communication, to start the quarterly assessment starting in January 2019, if that worked for Voya.

Ms. Patane stated that would be fine and accounts would be reviewed on the 19<sup>th</sup> day of the 3<sup>rd</sup> month of each quarter and the fee was assessed on the 20<sup>th</sup>. They requested to have two mailings at least 30 days apart to notify participants of the change.

Mr. Boehmer recommended communication go out in the last quarter of 2018.

Ms. Patane then mentioned maybe they should send out three notifications with one being in the first quarter of 2019 to remind people of the upcoming change.

Mr. Boehmer explained that the quarterly fee was for funding the administrative budget and they try to keep costs as low as possible. When framing the upcoming RFP the Committee would have to decide how to assess fees going forward. They might want to think about unbundling services and it may be better to go to a flat fee for contracts instead of the hybrid fee.

**Motion by Vice Chair Ervin that effective January 1, 2019, to go with a quarterly review of the \$1,000 threshold per account for the charge of the administrative fees and direct staff and Voya to do the necessary communication. Second by Mr. Thorley, motion carried unanimously, 4-0.**

7. For Possible Action – Receive and approve Investment Consultant's review of report from recordkeeper, performance of investment options, and Fund Watch List for the first quarter ending March 31, 2018.

Mr. Picarelli reviewed the financial markets on pages 1-21 from his Analysis of Investment Performance Report for first quarter 2018. The executive summary from page 24 showed the Voluntary Plan assets were at \$800.1 million which was a decrease of \$1.5 million over the quarter. The FICA Plan had \$37.7 million in assets so the total Plan assets were \$837.8 million. The loan program was slowly growing with 457 issued to date with an outstanding balance of \$3.5 million. The majority of Plan assets were invested in the Stable Value Fund at \$315.9 million (39.5%) followed by Target date funds at \$151.2 million (18.9%). As of March 31, 2018, the projected total annual funding requirement for the Plan was \$722,063 based on 8 basis points fee on the variable assets per the Voya contract and the \$30 per participant charge for administration cost. The fee model revenue was projected at \$779,720 derived from the 8 basis points from the Voya contract and the \$30 per participant charge. The projected revenue included only participant accounts with balance over \$1,000. At March 31, 2018, the estimated excess revenue was \$57,657.

Vice Chair Ervin suggested to change the wording/update language on page 24 for two items.

Ms. Cindy Lau, Assistant Director in Segal Research, spoke about the Franklin Mutual fund. She remarked that the fund was a Value strategy even though it was a Global product. The strategy over eight years was a good story even though 2017 was a horrible year. Growth took off in 2017 so Value did not do as well. 2017 will be a drag on their performance numbers but they had to ask if they would be able to dig out. Pages 38-39 showed rolling periods that had outperformed the index over 92% of the time. She recommended to update the book to show that Value was the primary and Core was secondary. Value would be better to measure the Franklin fund for one, three, and five year periods. She did not recommend selling because she was seeing improvement and believed it would continue even though 2017 was a bad year.

Mr. Picarelli agreed they should keep it on the watch list and update the appropriate indices/style box.

Ms. Bowman returned to the meeting.

Mr. Picarelli covered plan activity and asset allocation along with FICA Plan Activity. On page 42 he reviewed the funds that had a lower expense ratio with the new fee arrangement. 8 basis points went to Voya for their contract and the administrative fee worked out to 7 basis points.

Vice Chair Ervin remarked it would be more meaningful to provide actual costs versus what they get in fees instead of reporting 7 bps since that was not accurate. Going forward they should stop using 7 bps since it did not match what was the charge for administrative needs. They would be tracking the quarterly fee closely.

Mr. Picarelli commented that Mr. Boehmer should tie the projection for administrative costs into the administrative fee being received.

Mr. Picarelli continued his review speaking about total plan activity and loan information. He stated that the FICA accounts should be cleaned up before going out to RFP. On page 64 was information about the fixed account. The key thing with a general account was liquidity and having money available at the end of the contract which was why they had the 12 month put in place. Mr. Picarelli looked at comparative performance and summary of funds on pages 67-72.

Mr. Picarelli reviewed the Watch List from page 28.

FUND	RECOMMENDATION	DATE PUT ON WATCH
Oppenheimer Main Street Mid Cap	Remain on Watch-5 year performance under benchmark and peer, recommend fund search for 2018	December 31, 2016
Goldman Sachs Small/Mid Cap Growth	Remain on Watch-5 year performance under benchmark and peer, recommend fund search for 2018	December 31, 2016
Franklin Mutual Global Discovery	Remain on Watch-5 year performance under benchmark and peer, recommend mapping to current funds or conduct search in 2018	June 30, 2017

Chair Stevens inquired about the watch list criteria since they had voted on a change at the January 2018 meeting which used the benchmark minus 20 basis points including target date funds.

Vice Chair Ervin stated most of the funds were not meeting the benchmark according to that criteria so should be on watch. He suggested putting the Vanguard Target Date funds 2020-2060 on watch to follow policy.

**Motion by Vice Chair Ervin to accept the Analysis of Investment Performance report from Mr. Picarelli with the three stated funds on watch list and adding the Vanguard 2020 through 2060 funds, second by Mr. Kruse. Vote on motion was unanimous, 5-0.**

8. For Possible Action – Committee to discuss status of the current Investment consultant contract with Segal Marco, and decide on action given the upcoming task of developing and framing the recordkeeping request for proposal (RFP).

Chair Stevens met with Mr. Boehmer and they discussed the upcoming recordkeeping RFP and felt it was important to have the Investment Consultant on board through the whole process. Similar to going through the fee leveling change it was important to have consistency and Mr. Picarelli's contract was extended until March 2019. Now they had two choices, extend Mr. Picarelli's contract again to get through the RFP or terminate the contract early and go to RFP with a potential start date of October 1, 2018 to help with the RFP in development, release, evaluating responses, and be there through a possible transition. This was not initiated due to performance issues with Mr. Picarelli and Segal but because of timing.

The Committee discussed the options. They went through the proposed timeline and there was a lot of concern about the time frame.

Vice Chair Ervin felt it was time to go through the RFP process, but thought the timing was aggressive.

Chair Stevens polled the Committee members and the majority believed extending was best because of the time frame and availability for summer meetings.

**Motion by Mr. Thorley to extend the Investment Consultant contract to June 30, 2020. If there was no recordkeeper transition they could start the Investment Consultant RPF in summer or fall of 2019. Second by Ms. Bowman, motion passed 4-1 with Vice Chair Ervin voting against.**

Mr. Picarelli thanked the Committee for the extension.

9. For Possible Action – Receive and approve changes made to the NDC Investment Policy Statement as a result of what was proposed at the NDC quarterly meeting held on February 21, 2018.

Mr. Boehmer worked with Mr. Picarelli on the changes made to the Investment Policy Statement. They included changes on how revenue was generated and made it in line with the communication pieces that had been sent to participants.

Chair Stevens stated they needed to change the per account fee to quarterly on page 4. Page 11, the 20 basis points cushion was not listed, so that needed to be added. Page 12 strike the first sentence below the Benchmark Index.

**Motion by Vice Chair Ervin to approve the Investment Policy Statement with changes noted. Second by Mr. Kruse, motion carried unanimously, 5-0.**

10. For Possible Action – Receive and approve plan activity, administrative update, beneficiary data report, small inactive account report summary, and service report from contracted recordkeeper for 1<sup>st</sup> quarter ending March 31, 2018.

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

Vice Chair Ervin recommended that Voya continue to work with NSHE to try and capture some beneficiary data.

Mr. Thorley asked if they could have a pop-up reminder when the participant logged in to their account.

In reference to the guaranteed increase in enrollment that Voya promised for the contract, Ms. Patane requested that the Committee consider using the numbers from February 2015 instead of the numbers from the RFP. Since there have been many differences discovered on the numbers reported in the RFP, Voya believed it would be fair to compare the data they compiled as the single recordkeeper starting February 2015 because they could guarantee those numbers were accurate. Ms. Williams commented that there was no way to independently verify the starting numbers submitted through the RFP.

Vice Chair Ervin clarified that they were asking to use 18.16% as the base number instead of 24.18% which was from the RFP. He was comfortable with the 18-28% but with the current base.

Chair Stevens did not see a problem in using the numbers from February 2015.

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



DAG Ott recommended separately agendaizing the changes to the baseline on the Voya participation increase at the next meeting since it was not part of the item for that meeting.

11. For Possible Action – Receive report from the NDC Sub-Committee. Discuss and approve the updated Draft NDC Governing Documents.

Mr. Boehmer commented on the plan document changes from the subcommittee meeting. All changes were implemented and the ones from the main Plan Document were carried over to the FICA Plan Document.

Chair Stevens noted that Vice Chair Ervin, DAG Ott, Mr. Picarelli, Ms. Walker, Mr. Boehmer, and he had met to discuss the Plan Document. The main issue revolved around the word “administrator” which was used for both the Committee and Executive Office. They chose to eliminate the term and assigned the correct term for the appropriate person(s) throughout the document.

**Motion by Mr. Thorley to accept the Plan Documents for the 457(b) Voluntary and FICA programs. Second by Vice Chair Ervin, motion carried unanimously, 5-0.**

12. For Possible Action – Receive and discuss all proposed testimony and conceptual written public comment presented at or as a result of the Regulation Workshop held on April 6, 2018.

Mr. Boehmer was looking for direction from the Committee on how to proceed with the language to send to LCB. The initial language along with suggested updates from Vice Chair Ervin was included in the material. At the Workshop, Dr. Ervin provided written testimony and the minutes included testimony from Jeff Haag with Purchasing.

Chair Stevens said they could send over the original language with Dr. Ervin’s suggestions with the meeting minutes to LCB Legal and let them come up with a version that would be allowable from their point of view.

DAG Ott believed they would get some questions from LCB Legal based on the language submitted.

Vice Chair Ervin stated there was at least one thing in the Regulation that did not agree with SB502. It said the chair could appoint subcommittee to review proposals. It conflicts with the Committee being chief of the using agency. He had sent an update to his original language with changes based on the Workshop.

DAG Ott said they could make additional changes based on suggestions from the Workshop.

**Motion by Mr. Thorley to send information to LCB Legal to look at it and get back to us with any changes. Second by Vice Chair Ervin, motion passed unanimously, 5-0.**

13. For Possible Action – Review, discuss, and decide what two Committee members along with the Executive Officer will attend the annual National Association of Government Defined Contribution Administrators (NAGDCA) Conference being held in Philadelphia, Pennsylvania on September 23-26, 2018.

Chair Stevens believed some of the new members should attend NAGDCA. Ms. Bowman and Mr. Kruse had availability in their schedules so they were nominated to attend.

14. For Possible Action – Confirm the scheduled August 23, 2018 Quarterly Committee meeting, and schedule November/December 2018 Quarterly Committee meeting.

The Committee confirmed August 23, 2018 and proposed December 6, 2018 for the next quarterly meetings.

Comments/Updates

15. Committee Members

No comments.

16. Investment Consultant

No comment.

17. Recordkeeper

No comments.

18. Administrative Staff/Department of Administration Updates

No comments.

19. Public Comment

No comment.

20. Adjournment

The meeting was adjourned at 1:39 p.m.

Respectfully submitted,

---

Micah Salerno  
NDC Administrative Assistant