



Brian Sandoval, Governor

COMMITTEE

Mark Stevens, Chair, Retired
Kent Ervin, Vice Chair, NSHE
Wayne Thorley, SOS
Debbie Bowman, DHHS-ADSD
Matt Kruse, East Fork Fire P.D.

STAFF

Rob Boehmer, Program Coordinator
Micah Salerno, Administrative Assistant

Henna Rasul, Sr. Deputy Attorney General

DEFERRED COMPENSATION COMMITTEE QUARTERLY MEETING MINUTES

August 23, 2018

The quarterly meeting of the Deferred Compensation Committee was held on Thursday, August 23, 2018, at 9:00 a.m. in room 3135 of the Legislature Building, 401 South Carson 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

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

OTHERS PRESENT

Bishop Bastien, Voya
Rob Boehmer, NDC Executive Officer
John Borne, Prudential
Steve Ebert, Nationwide
Heather Erven, NDC Temp. Employee

Dianna Patane, Voya
Frank Picarelli, Segal Marco
Henna Rasul, Sr. Deputy Attorney General
Micah Salerno, NDC Admin. Assistant

1. Call to Order/Roll Call

Chairman Mark Stevens called the quarterly meeting to order for the Nevada Deferred Compensation (NDC) Committee at 9:02 a.m. on Thursday, August 23, 2018.

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

2. Public Comment

No public comment.

Chair Stevens introduced the new Deputy Attorney General (DAG) appointed to NDC, Ms. Henna Rasul. He also welcomed back Mr. Bishop Bastien as the Voya customer relationship representative.

Mr. Boehmer introduced the new temporary employee for the NDC office, Ms. Heather Erven.

3. For Possible Action – Approval of NDC Committee meeting minutes from meeting held on May 21, 2018.

Mr. Boehmer noted the minutes from May 21, 2018, were submitted for approval.

Chair Stevens called the NDC office with a few minor corrections.

Motion by Vice Chair Ervin to approve the minutes for May 21, 2018, second by Mr. Kruse. Motion passed unanimously, 5-0.

4. For Possible Action – Receive, discuss, and approve Executive Officer's Report of 2nd quarter 2018.

Mr. Boehmer presented his quarterly report starting with a budget and revenue review. He included the closing budget for fiscal year (FY) 2018 and a snapshot of the FY 2019 budget. There was an increase in a few expenditures because of doing two concurrent financial audits as well as adding the new temporary employee position. For the financial audit contract, they would need to do a work program and initiate a new contract for whatever provider the Committee chose. Mr. Boehmer did reach out to Eide Bailly and they were willing to extend the contract and reduce the cost by \$1,000 for a projected cost for the audit of \$27,000.

Mr. Boehmer provided a handout with budget tracking and also commented on the revenue report for the administrative account. They currently had about \$146,000 in the account but with the revenue projected for fourth quarter it would be around 154 days of reserve at the end of the fiscal year. They tried to keep the reserve at about 60-90 days as was the general rule for State agencies, but our Program had a different fee structure so we did not want to let the reserves get too low. He suggested the Committee allow him to monitor the budget and if they needed to lower reserves in the future a good option could be a fee holiday.

Vice Chair Ervin asked why the revenue calculations for second quarter and the second quarter assets totals did not match what Mr. Picarelli reported. It was explained that Segal reported numbers on the whole quarter while Voya reported numbers from the 20th of the month. He asked for a footnote to be added on future reports to explain the discrepancy.

Mr. Boehmer briefly spoke about the quarterly staff report totals and the Investment Consultant contract extension with Segal Marco. He attended the Nye County Board meeting where they decided to come on board with NDC and going forward will only have NDC as the sole provider. The small account cash out was underway and staff was working on Financial Wellness Days scheduled for October. Mr. Boehmer highlighted the work with Department of Administration IT department on developing electronic NDC forms including an opt-in/opt-out enrollment process for State employees. Finally, he announced his nomination to serve as the Executive Board Member at large for the National Association of Government Defined Contribution Administrators (NAGDCA).

Mr. Boehmer spoke about the large amount of participants that use the stable value fund. During the last RFP selection the Committee chose to stay with a general account offering that offered a guaranteed rate of return. The minimum guarantee decreased each year and per the contract the interest rate was at 2.5% for the last two years of the contract. Mr. Picarelli and Mr. Boehmer monitored the interest rate environment closely to ensure the participants got the most competitive rate.

Mr. Bastien knew coming back to serve the Nevada plan that the guarantee interest rate would be in question. He checked with the Ms. Patane and the Voya management team to see if there had been any changes and then went a step further and asked about raising the crediting rate. He was able to negotiate an increase from 2.5% to 2.65% effective September 1, 2018. Their team was ready to address the communication along with the other fee level data and there would also be a communication through email.

Mr. Picarelli asked if the rate on the FICA Program would stay the same.

Mr. Bastien confirmed it would but Voya would watch the interest rate environment and would review it again at the beginning of 2019.

The Committee extended their appreciation for increasing the interest rate since it was not required per the contract and asked Voya to keep an open mind in monitoring interest rates and if it was justified to increase it again in the future. A review of the rate was requested at the beginning of 2019 at the very least.

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

Mr. Boehmer and Ms. Patane concurred that the communication was effective on the fee level transition. The NDC Administrative office and Voya had received very few calls or complaints in the office or in the field.

Mr. Boehmer reviewed the proposed communication plan on the upcoming modification that the Committee voted on at the August 2018 meeting. The change would be effective in January 2019 and accounts would be reviewed every quarter instead of annually to determine if they reach the \$1,000 threshold and will be assessed the \$7.50 quarterly fee.

Vice Chair Ervin recommended a proposed edit to identify the dates they would assess the fee.

Mr. Boehmer modified the proposal by offering to identify the four months of the year that the fee will be assessed instead of a specific date for each month.

Mr. Bastien remarked that the postcard and statement information would go out later in the year to explain the upcoming change.

Motion by Mr. Thorley to approve the communication pieces. Second by Vice Chair Ervin, motion passed unanimously, 5-0.

Motion on item 4 by Vice Chair Ervin to accept the Executive Officer report. Second by Mr. Kruse, motion carried unanimously.

6. 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 June 30, 2018.

Mr. Picarelli reviewed the financial markets on pages 1-24 from his Analysis of Investment Performance Report for first quarter 2018. The executive summary from page 27 showed the Voluntary Plan assets were at \$811.5 million which was an increase of \$11.4 million over the quarter. The FICA Plan had \$38.7 million in assets so the total Plan assets were \$850.2 million. The loan program had 485 issued to date with an outstanding balance of \$3.8 million. The

majority of Plan assets were invested in the Stable Value Fund representing \$317.3 million (39.1%) followed by Target date funds at \$152.5 million (18.8%). As of June 30, 2018, the projected total annual funding requirement for the Plan was \$787,284 based on 8 basis points fee on the variable assets per the Voya contract for \$393,100 and the Plan administration budget of \$394,184. The fee model revenue was projected at \$772,930 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 June 30, 2018, the projected revenue if everything remained the same would be under the funding requirement by \$14,354.

Mr. Picarelli continued his review speaking about total plan activity, asset allocation, loans and Roth contributions. He stated that the FICA accounts should be cleaned up before going out to RFP. On page 57 was information about the fixed account.

Mr. Picarelli reviewed the Watch List from page 33.

FUND	RECOMMENDATION	DATE PUT ON WATCH
Oppenheimer Main Street Mid Cap	Remain on watch due to 5 year performance under benchmark and peer	December 31, 2016
Goldman Sachs Small/Mid Cap Growth	Remain on watch due to 5 year performance under benchmark and peer	December 31, 2016
Franklin Mutual Global Discovery	Remain on watch due to 5 year performance under benchmark and peer, recommend either mapping to current funds or conduct search in 2018	June 30, 2017
Vanguard Developed Markets Index Institutional	Placed on watch due to 5-year performance under benchmark and peer by -25 bps	June 30, 2018
Dodge & Cox International Stock	Place on watch due to 5-year performance under benchmark and peer	June 30, 2018
Vanguard Target Retirement 2020	Remain on watch due to 5-year performance under benchmark and peer by -23 bps	March 31, 2018
Vanguard Target Retirement 2025	Remain on watch due to 5-year performance under benchmark and peer by -22 bps	March 31, 2018
Vanguard Target Retirement 2030	Remain on watch due to 5-year performance under benchmark and peer by -25 bps	March 31, 2018
Vanguard Target Retirement 2035	Remain on watch due to 5-year performance under benchmark and peer by -26 bps	March 31, 2018
Vanguard Target Retirement 2040	Remain on watch due to 5-year performance under benchmark and peer by -27 bps	March 31, 2018
Vanguard Target Retirement 2045	Remain on watch due to 5-year performance under benchmark and peer by -28 bps	March 31, 2018
Vanguard Target Retirement 2050	Remain on watch due to 5-year performance under benchmark and peer by -29 bps	March 31, 2018
Vanguard Target Retirement 2055	Remain on watch due to 5-year performance under benchmark and peer by -32 bps	March 31, 2018
Vanguard Target Retirement 2060	Remain on watch due to 5-year performance under benchmark and peer by -32 bps	March 31, 2018

Mr. Picarelli provided a packet with information on three funds in the lineup for discussion and comparison. The analysis was provided to help decide what direction they should go and if they needed to do a fund search.

Vice Chair Ervin was hearing two decision they needed to make. One was the classes of funds in the lineup -international, global, index active, developed/emerging. Second, whether they needed to do a fund search?

Mr. Picarelli recommended that doing a fund search and comparing what they had. Continuing with structure of an International with emerging exposure and a global fund to prove what they had and with that outcome make some decisions if they could simplify the lineup with that information.

Vice Chair Ervin asked to throw index funds in with search? He commented, generally we hold the course, but the two active funds had "value tilts". He noted that Growth is doing well currently and Value was not. Furthermore, he noted that we don't market them as Value funds.

Vice Chair Ervin continuing- Marketing as core/large blend fund. It might be more simplistic to have a developed index fund for that category. Vanguard doesn't have emerging market exposure.

The Committee discussed the options of offering an international option with active and/or indexed options. The consensus was to do a fund search in international space and include the discussion of what categories they wanted in the lineup for the December 6, 2018 meeting.

Vice Chair Ervin asked about the tracking error in the Segal report on the Vanguard Developed Market Index fund and Vanguard Target Retirement funds and if it was due to fair market pricing. Could Segal make an adjustment to account for that fair market pricing?

Mr. Picarelli stated he would have to take that request back to his research team.

Motion by Vice Chair Ervin to accept the Analysis of Investment Performance report and do a fund search in international space and answer question on timing issues of Vanguard funds. Second by Mr. Kruse, vote on motion was unanimous, 5-0.

Chair Stevens called a five minute break.

7. For Possible Action – Receive, review, and discuss request from Executive Officer and Investment Consultant to schedule a special meeting to discuss future Request for Proposals (RFP) development and framing or contract extensions as it relates to our Recordkeeping contract and other NDC contracts.

Staff recommended scheduling a special meeting to discuss the components and timeline of the recordkeeper RFP.

Mr. Picarelli prepared a presentation to summarize the options that would need to be decided on for the upcoming recordkeeper RFP including stable value product and how many bid scenarios to consider, services provided by the recordkeeper, service guarantees, FICA Alternative considerations, and on-site services. The most important factor is getting the best service and pricing for the participants.

Mr. Boehmer gave a tentative timeline of key dates.

The Committee determined a special meeting would be beneficial and chose September 6, 2018, at 8:30 a.m.

Vice Chair Ervin went over a list of items he wanted to see covered during the meeting and wanted to concentrate on things they were ready for since the Plan was in a good place. He also wanted a page of pros and cons, and Mr. Picarelli's recommendations so they could get through the items with decision points.

8. 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 second quarter ending June 30, 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 the small account cash-out that was in process and beneficiary data as well as did a brief review of the Voya Plan Review that was provided each quarter.

Vice Chair Ervin requested they take a deeper look at data at the January Planning meeting including who was withdrawing verses contributing and due to demographics, in what other areas they could grow the Plan. He asked for the data on contributions vs. distributions in the Plan Review be provided with annual data.

Mr. Boehmer and Ms. Patane went over the results from the annual survey. It was positive data overall and low numbers of those not satisfied in specific areas.

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

9. For Possible Action – Receive report from Voya Financial on variances itemized in the FY 2016 and FY 2017 Financial Audit Reports.

Mr. Boehmer explained the reason for this agenda item noting the variances reported during the financial audit for both FY 2016 and FY 2017. At the August meeting the Committee asked for an explanation and proposed plan to address the variances as well as an action plan to attain employee termination data from participating NDC payroll centers.

Chair Stevens did not believe the response from Voya staff was appropriate and was thinking they would get more detailed information on what the variances were.

Mr. Bastien was similarly dissatisfied with the response from the plan manager to determine why the variances occurred and establish a system to prevent those variances from happening in the future. They would work on the response and develop a plan of action that will be delivered within a month.

Vice Chair Ervin suggested they look into what termination really meant since NSHE termination dates are in question. It is simpler for them to not terminate employee if there is a chance they are returning to employment and there are issues with term dates around contracts.

Chair Stevens noted they would hear back from Voya once they have the data compiled and they could report at the December meeting.

10. For Possible Action – Discuss and possibly take action on amending the established contractual baseline as it pertains to the current contractual guarantee to increase Plan participation by 10% throughout the five year contract period.

Mr. Boehmer referred to the negotiated points from the contract and related the request from Voya that the Committee consider changing the baseline for the contractual guarantee from 24.18% to 18.16%. If the Committee desired to formally amend the established baseline there would have to be a contract amendment and would need to identify participant numbers from year to year to ensure correct reporting.

Chair Stevens mentioned the Voya report page showing the participation increase of 7.30%. This issue had been discussed previously with Voya contending that the reported numbers in the RFP indicated the participation rate was 24% but when Voya compiled the numbers at the start of the contract they submit the participation rate was 18%. Per the contract guarantee if they did not increase participation by 10% they would owe \$100,000 to the Plan. It was important to decide one way or the other so they had a stationary target for their contractual agreement. Voya continued to have difficulty getting eligible number of employees from NSHE so Chair Stevens would be meeting with NSHE to try and assist in getting a better number.

Mr. Bastien said their belief was the numbers in the RFP were overstated. The RFP claimed there were 9,400 actively contributing accounts but they only received just over 7,000 active accounts after the transition. The prior RFP from 2012 did not indicate 9,400 actively contributing employee but 7,400 which would have roughly 2,000 new participants in a year and a half. One other error in the original RFP was also an incorrect number of political subdivisions reported. Whether they used 18% or 24% as the base Voya was still committed to a 10% increase based on the contract but they wanted to be measured on the right count.

Vice Chair Ervin appreciated the data and recognized some of the numbers were questionable, especially the number of eligible employees. He was willing to direct staff to negotiate an amendment to the contract but not to let Voya off their participation agreement to increase participation by 10% He suggested using the 10% number rather than any starting value but there had to be an agreement of what the denominator will be.

Mr. Boehmer proposed they strike the wording "from 24% to 34%" in the Negotiated Points and reference the implementation as February 9, 2015 not January 1, 2015

DAG said the proposed language would cover the request and they did not need to state the percentage.

Vice Chair Ervin also noted another correction that needed to be made on page 2 in the chart where the date was listed as January 1, 2014, but should be February 9, 2015.

Motion by Vice Chair Ervin to direct staff to negotiate an amendment to the Voya Contract to adjust the date and provide verification for the total eligible numbers. Second by Mr. Kruse, motion passed unanimously, 5-0.

11. For Possible Action – Receive and review current NDC Statute and Regulation. Report on Regulation changes and recommendation request submitted to Legislative Counsel Bureau (LCB) Legal Division and review or discuss any potential future legislative initiatives.

Mr. Boehmer stated there was not much to update with LCB Legal on the regulation change. The current statute had been updated that was passed from language with SB502. That morning they received a memo regarding a Bill Draft Request (BDR) submitted by Mr. Patrick Cates, Director of Department of Administration. Mr. Boehmer was not involved in the BDR as it came directly from the Director's office.

Chair Stevens explained that the BDR basically proposed that the Director of Department of Administration would have sole authority over the hiring and firing of the NDC Executive officer. He had spoken to Mr. Cates about the topic and agreed that he should come and discuss the BDR with the Committee. He shared the date of the December Committee meeting so Mr. Cates could attend and they should withhold judgement until he had the opportunity to explain.

Vice Chair Ervin agreed he wanted to hear from Mr. Cates but was disappointed to hear about the BDR through the Legislative site. He appreciated having the memo being provided at the meeting concerning the BDR. He recommended having a Possible Action Item for potential position on legislative actions at each meeting throughout session.

Chair Stevens appreciated that Mr. Cates provided the language since it was confidential. At some point in the future the Committee would have to make a decision whether they wanted to take a position on the bill or not.

Vice Chair Ervin requested that the Investment Consultant be prepared to explain if the Committee had fiduciary responsibilities for administrative oversight as part of the discussion in December.

Mr. Picarelli would work with Ms. Melanie Walker to get that information.

12. For Possible Action – Receive, discuss, and approve Interlocal Contract for Nye County Political Subdivision.

Mr. Boehmer had been working with Nye County to join the NDC Program. They had about 500-600 eligible employees with 140 currently participating in one of their programs. They were sending out letters that the current providers would be transitioning and wanted to bring on our Program as the sole recordkeeper. If approved, they would work with Voya to start the transition.

Mr. Picarelli asked several questions: if the assets were portable or if the Program would just get new assets; if they needed to have information sharing agreements; and if any of the funds were in a general account that required an MVA.

Mr. Bastien stated part of the assets were in group contracts and could transfer but the individual ones would stay with their current providers. The Voya Representatives would meet with those employees one on one to work on the transfers. Information sharing agreements would not be necessary since they did not have a loan option with political subdivisions. There was a small potential of an MVA so they would have to do a 12 month put and bring the assets over after a year so there were no negative impacts for the participants.

Motion by Vice Chair Ervin to approve the Interlocal agreement, second by Mr. Thorley, motion carried unanimously, 5-0.

13. For Possible Action – Review and discuss invitation for the Executive Officer and Committee to attend Segal Marco's Annual Client Research and Educational Summit October 3-5, 2018, in Carlsbad, California.

Mr. Boehmer explained that the majority of the costs for the education summit were covered by Segal Marco but they would need to do a work program in order to have enough funds to cover the extra expenses. He believed it was a great opportunity for education and to get to know some of the Segal team and their capabilities.

Chair Stevens and Ms. Bowman were available to attend.

Motion by Mr. Kruse to send the Executive Officer and two Committee members to the Segal conference and have staff process a work program for sufficient funds in the out of state travel category. Second by Vice Chair Ervin, the vote was unanimous, 5-0.

14. For Possible Action – Confirm the scheduled December 6, 2018, Quarterly Committee meeting, and schedule January Planning Meeting and February/March 2019 Quarterly Committee meeting.

The Committee confirmed December 6, 2018, and proposed January 16, 2019, for the Planning Meeting, and March 1, 2019, for the quarterly meeting.

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 1:28 p.m.

Respectfully submitted,

Micah Salerno
NDC Administrative Assistant