



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 SPECIAL MEETING MINUTES

September 6, 2018

The meeting of the Deferred Compensation Committee was held on Thursday September 6, 2018, at 8:30 a.m. in the Old Assembly Chambers of the Capitol Building, 101 North 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 audio 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
Kent Ervin, Vice Chair
Mark Stevens, Chair

OTHERS PRESENT

Bishop Bastien, Voya
Rob Boehmer, NDC Executive Officer
Mike Duncan, National Life Group
Steve Ebert, Nationwide
Ronda Miller, Purchasing

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

1. Call to Order/Roll Call

Chairman Mark Stevens called the meeting to order for the Nevada Deferred Compensation (NDC) Committee at 8:38 a.m. on Thursday, September 6, 2018.

Mr. Rob Boehmer took roll and determined a quorum was present, noting that Committee Member Mr. Wayne Thorley was excused. He also confirmed the meeting was properly noticed and posted.

2. Public Comment

No public comment.

3. For Possible Action- Receive, review, and discuss 2014 Recordkeeping Services Request for Proposal (RFP). Discuss parameters, components, services, service guarantees, and desired Administrative Services that the Committee desires for the State of Nevada Public Employees' Deferred Compensation (NDC) Administrative Staff, Investment Consultant, and State of Nevada

Purchasing Division to build into the 2019 Recordkeeping Services RFP to include but not limited to the following items, topics, and/or other provisions the Committee desires:

- a. Stable Value Investment Option
 - i. Proposing and bundling a proprietary product versus selecting a standalone Investment manager;
 - ii. General Account (Fixed or spread product) versus a Separate Account Product as the investment vehicle, or Propose on both.
 - iii. Book to Value Distribution with twelve-month PUT "*Put Up For Sale*" provision versus Market Value Adjustments (MVA) or other liquidation clauses

Mr. Picarelli explained the two type of stable value investment products along with some of the pros and cons.

A General Account was an annuity contract issued by insurance companies that return principal plus interest at maturity, regardless of the performance of the underlying invested assets. The plan did not directly own the invested assets but a policy issued by the insurance company backed by assets held within the insurer's general account. It generally had a higher crediting rate and resulted in the lowest recordkeeping fees since the product was a profitable revenue stream for insurance companies. It also tended to have higher minimum guaranteed crediting rates over the life of the contract. It had lack of transparency for underlying investments and fees and was a spread product. The assets were subject to general creditors of the insurance company.

Separate Account assets were segregated from the insurance company's general account solely for the benefit of the specified contract holder. If the provider became insolvent, separate account assets were typically insulated from outside creditor claims. The plan owned the underlying invested assets and wrap contracts maintained the book value of the plan's assets. There was more Committee oversight in managing the structure book to market differential and proposed crediting rate. The wrap and fee were transparent. Sometimes the crediting rate was lower and more volatile and the minimum crediting rate would likely be 0.00%.

During the last RFP the Committee received education on both type of products and chose to go with a general account. The General Account was the product used in the NDC Plan since inception. The Committee did not need to decide during that meeting whether they wanted to go with a General Account or Separate Account but should come up with questions for the RFP process. Mr. Picarelli would be structuring the RFP to get pricing for a General Account, Separate Account, and a stand-alone product.

Vice Chair Ervin asked if a stand-alone product would be competitive and if they chose that option if they would have to do a fund search.

Mr. Picarelli confirmed that with a stand-alone product the Committee would have to perform due diligence and do a formal fund search. There was complexity involved in bidding the stand-alone but it could validate the best possible pricing. They could eliminate it and only bid two scenarios if the Committee decided it was not worthwhile.

The Committee discussed the options to determine the best direction for the RFP. They wanted to compare apples to apples during the evaluation process.

Mr. Picarelli's recommendation was to have vendors propose a General Account with the corresponding fee, a Separate Account with the corresponding fee and what the fee would be if the Committee chose their own stable value product.

Motion by Vice Chair Ervin to follow the recommendation for three options: General Account, Separate Account, and third party, stand-alone fund but recordkept by the vendor, with the understanding that the Committee would do a fund search prior to evaluation to know what they were getting. Second by Mr. Kruse, motion passed unanimously, 4-0.

- b. Federal Insurance Contributions Act (FICA) Program/Section 3121 Plan Administration and Recordkeeping:
 - i. Discuss and consider continuing to bundle the State of Nevada's FICA Alternative Program/Section 3121 Plan, or unbundle the recordkeeping Services of this plan as a standalone contract.

Mr. Boehmer provided some background and information on the FICA plan and reviewed some data that the State of Hawaii FICA Plan shared from their third party administrator. Mr. Boehmer had spoken to their provider, National Life Group, and a representative attended the meeting to answer any questions.

The Committee commented that the FICA Plan had often been the "neglected step-child" and they needed to explore options to make it more competitive. They considered doing a separate RFP for the FICA Plan or the possibility of having two contracts within the same RFP. They also discussed how the costs of managing the Plan should be paid by the participants and not be covered by the voluntary plan.

Vice Chair Ervin asked the representatives from State Purchasing if it was possible to do an RFP asking for the scenarios they discussed and including the FICA as a separate contract.

Mr. Mark Stewart with Nevada Purchasing Division said it would be a complex process but it was doable. As long as they were transparent and showed in the document how they would be evaluating the options. It was possible to have one RFP with two contracts with separate criteria and evaluation on each contract.

The Committee determined that the vendors who submitted a bid would have to bid the voluntary plan and the FICA plan together. Other providers could bid on just the FICA Plan.

Motion by Ms. Bowman that they have one RFP with two scopes and the requirement is they have to bid on both the voluntary and FICA plans. Companies also had an option to bid only on the FICA. Second by Vice Chair Ervin.

Vice Chair Ervin wanted to be clear for companies who bid on the voluntary plan that the Committee could choose them for the voluntary plan only or both voluntary and FICA and whatever pricing they gave in the bid would not be adjusted based on their choice. They wanted a separate bid on both scopes of work.

Mr. Stewart confirmed that what Vice Chair Ervin had clarified would be how they would evaluate and award the RFP.

Vote on motion was unanimous, 4-0.

c. Delegated and Bundled Administrative Services:

- i. Discuss the decision to continue to utilize Enrollment and Service Representatives employed by the contracted recordkeeper versus;
- ii. Unbundling this component out of the contract and employing State of Nevada Full-Time Employees (FTE) as in-house Enrollment and Service Representatives.
- iii. Unforeseeable Emergencies (UE), Qualified Domestic Relations Orders (QDRO), Loan administration.

Mr. Boehmer discussed the options of unbundling services for enrollment and service representatives or leaving that component as part of the service contract and using employees hired by the recordkeeper. If the Committee wanted to unbundle that would require hiring State employees to serve as enrollment and service representatives.

The Committee discussed the possibilities and were open to change but ultimately determined it was best to stay with the bundled services at that time.

Motion by Vice Chair Ervin for items c. i., ii., and iii. to structure the RFP for a fully bundled contract, second by Mr. Kruse. Motion carried unanimously, 4-0.

d. Service Guarantees:

- i. Discuss and potentially decide contractual Service Guarantees and decide on what should be included in the RFP.

Mr. Boehmer asked the Committee members to review the current service guarantees prior to the meeting to allow them to make any changes or additions.

Mr. Picarelli explained that the industry had certain transactions that they had guarantees for with an associated dollar penalty and they could ask for those in the RFP. If they put stringent or specific guarantees it would come back in their bid.

Vice Chair Ervin wanted to see the full list of standard guarantees but did not want them based on participant decisions (contributing, changing investments, one on one meetings etc.) but centered around services contracted for.

Mr. Picarelli preferred to give a list of all the criteria of service standards and have the bidder provide their dollar amount for each. The Committee could evaluate and would have the ability to negotiate those.

Chair Stevens believed they should have a minimum number of meetings since the service representatives were employees of the recordkeeper. There needed to be some expectation and related penalty if they did not meet the requirements.

No motion was taken.

e. Transition Responsibilities Upon Termination:

- i. Transfer of Participant Records including beneficiary data and records.

Mr. Picarelli stated in the final contract they could include provisions that upon termination the recordkeeper is to provide timely and accurate record transition including beneficiary data.

Chair Stevens noted they should discuss adding a default beneficiary at the Planning Meeting.

Motion by Vice Chair Ervin to include the ability to transfer participant records including beneficiary data as part of the RFP questionnaire. Second by Mr. Kruse, motion passed unanimously, 4-0.

f. Administrative Funding:

- i. Revenue sharing funding
- ii. Administrative Fees-
 1. Per account flat fee
 2. Asset based charge (with or without carve outs or thresholds)
 3. Hybrid model
- iii. One-time cost of conducting RFP-
 1. Expense passed onto successful Proposer or paid with existing projected Revenues.

Mr. Boehmer reviewed the three options for assessing fees.

Mr. Picarelli stated they would describe the Plan in the RFP showing the current practice they used to collect fees. There would be specific questions asking if they could do other fee models. All the major companies were in a position to collect fees the current way or the other methods described.

Vice Chair Ervin wanted to separate their abilities with administrative expenses out of the equation and wanted a list of questions on if they could do fee leveling, what were the various options on how the Plan charged participants, could they handle a threshold as it was currently, and could they do revenue sharing rebates.

Motion by Vice Chair Ervin to ask for two separate pricing proposals:

1. **an asset based percentage on all assets in the 457 Voluntary Plan and a separate percentage based for FICA Plan**
2. **an alternative price proposal as a per head account fee.**

In both cases the recordkeeper would be accepting the risk of higher or lower assets and more or fewer accounts.

Mr. Stewart from Purchasing stated the pricing proposals would have the same weighting but potentially two different formulas to insert the information to obtain scores. Make it transparent in the RFP on the steps they would take, what would be plugged in to the formulas, and how it would be calculated and scored.

Second on motion by Ms. Bowman.

Vice Chair Ervin remarked they did not want to see any other pricing options, just the two they requested.

The vote on the motion was unanimous, motion carried, 4-0.

Discussion was held regarding the one-time cost of conducting the RFP. There were no changes to the current process so no motion was needed.

- g. Custodial or Trustee Services:
- i. Bundled and provided by Proposer
 - ii. Unbundled and contracted separately

Mr. Boehmer indicated that through his research it was better pricing to bundle the services through the proposer.

The Committee did not want to unbundle the custodial services.

No motion was taken.

Chairman Stevens called a five minute break.

- h. Minimum Qualifications:
- i. Years of service providing products and services in the public sponsor 457(b) Deferred Compensation marketplace.
 - ii. Minimum number of governmental 457(b) Deferred Compensation of at least \$400 million in assets being administered.
 - iii. Proposer must be willing to execute a 5 year contract with favorable fee negotiation of Plan level expenses in the fourth and fifth year at the discretion of the NDC given Plan Assets increasing over the course of the contract.
 - iv. Proposers willing to execute and adhere to sole responsibility for processing errors of the recordkeeper or its agents with Service guarantees and penalties paid by the recordkeeper for violations.
 - v. Ability to offer Self Directed Brokerage services, ROTH administration, and Loan Administration.
 - vi. Accept 90 day notification on the part of the State to discontinue service relationship with no penalties. The State will not enter into a contract with any penalty or liquidation charges for terminating the relationship.

The Committee, staff, and investment consultant went through the Segal Marco presentation of the previous minimum qualifications starting on page 11.

Page 11: separate out the requirements for the 457 voluntary plan from the FICA plan.

Page 12: they no longer mailed out newsletters; there would be different amount for FICA and 457 voluntary recordkeeping costs, pro-rata by assets; the \$65,000 vendor search expense would be changed because it was renegotiated; ask for disclosure on funds; #12 keep wording until December 31, 2024, and move the other wording about negotiations and a guarantee for 5 years somewhere else.

Page 13: differentiate and describe the numbers for State, NSHE (separate from State), and political subdivisions

Vice Chair Ervin commented they needed to include items that were added since last RFP in the minimum qualifications or questions section including full administration of loans, ability to do revenue return, and group annuity contract for the State insurance guaranty.

Mr. Bastien shared some information on the Nevada Insurance Guaranty Association.

Mr. Boehmer would look into the specifics of how that applied to the NDC Program.

Chair Stevens confirmed there would be a separate set of minimum qualifications for the FICA program.

Motion by Vice Chair Ervin based on the report from Mr. Picarelli with all of the changes suggested by the Committee for the Minimum Qualifications of Service Provider. Second by Ms. Bowman, motion passed unanimously, 4-0.

i. 2019 Recordkeeping Services RFP Timeline.

Mr. Boehmer went over the proposed timeline.

Motion by Vice Chair Ervin to approve the tentative timeline plan. Second by Mr. Kruse, motion carried unanimously, 4-0.

j. Review of Proposer Questionnaire.

- i. Discussion regarding having question in the RFP regarding beneficiary administration process from the Proposer.
- ii. Review, discuss, and propose any additional questions Committee would desire Proposers to answer.

Chair Stevens wanted to know if all the major recordkeepers calculated interest on the general account in the same way or if there were variations.

Mr. Picarelli proposed to put questions in the RFP to layout an example and show the calculations so they could see how it was figured.

Vice Chair Ervin asked if there was an industry standard questionnaire that they could supplement.

Mr. Picarelli stated there was a long list of questions that included updated inquiries about cyber security. The vendor goes through and checks the boxes to indicate if they can perform the

Motion by Vice Chair Ervin to direct staff and investment consultant to prepare the questionnaire with the outline of all items they discussed and guidelines they provided and to appropriately separate the FICA only questions from the 457 voluntary questions. Second by Mr. Kruse, motion carried unanimously, 4-0.

k. Cost Proposal parameters with associated fee schedule for each determined scenario selected.

- i. Discuss and decide on the number of pricing scenarios the Committee desires to see from Proposers.

This item was discussed previously.

l. Discuss and potentially decide on any further Plan Design Changes that need to be made for upcoming RFP.

Mr. Picarelli suggested they have a question if the vendors had capabilities to support auto enrollment and/or auto escalation features.

4. Committee Members comments

Vice Chair Ervin asked if it would be appropriate to have any recordkeepers in attendance if they saw any red flags or had unanswered questions that would clarify the RFP process.

Mr. Bastien remarked that he talked with Mr. Picarelli at the break about analysis on the asset based fee and per head charge. There would be difference in pricing of the two because of the upside or downside potential on asset based fees that they take into consideration where those would not affect the per head charge.

Mr. Mike Duncan with National Life Group suggested the Committee consider the requirements for those bidding on FICA because a lot of companies would not qualify if the size requirement was too large. They could consider the number of vendors they want to bid and work backwards looking at their data.

Mr. Bastien commented it was not clear on the criteria required in order to qualify to bid. Typically they see it worded that a vendor should have three plans of at least \$500 million with 10,000 participants etc. The wording from today did not specify and he asked if it could be clarified.

Vice Chair Ervin noted they had not set minimum qualifications for FICA so should come back in December with refined language that was very clear for both plans and limit the number to review to not more than ten.

5. Investment Consultant

No comment.

6. Recordkeeper

No comments.

7. Administrative Staff/Department of Administration Updates

No comments.

8. Public Comment

No comments.

9. Adjournment

The meeting was adjourned at 12:18 p.m.

Respectfully submitted,

Micah Salerno
NDC Administrative Assistant