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STATE OF NEVADA DEPARTMENT OF ADMINISTRATION

PUBLIC EMPLOYEES' DEFERRED COMPENSATION PROGRAM

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**DEFERRED COMPENSATION COMMITTEE
QUARTERLY MEETING MINUTES**

June 5, 2019

The quarterly meeting of the Deferred Compensation Committee was held on Wednesday, June 5, 2019, at 9:00 a.m. in the Nevada State Library and Archives Building, 100 North Stewart Street, Conference Room 110, Carson City, Nevada. Attendees participated in person.

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 (NDC) website at: <http://defcomp.nv.gov/Meetings/2019>.

COMMITTEE MEMBERS

Debbie Bowman
Kent Ervin
Matt Kruse
Steve Woodbury
Wayne Thorley, Vice Chair

OTHERS PRESENT

| | |
|------------------------------------|--------------------------------------|
| Bishop Bastien, Voya | Henna Rasul, Deputy Attorney General |
| Rob Boehmer, NDC Executive Officer | Nielsine Sherk, Eide Bailly |
| Dianna Patane, Voya | Micah Salerno, NDC Admin. Assistant |
| Frank Picarelli, Segal Marco | |

1. **Call to Order/Roll Call**

Vice Chairman Wayne Thorley called the quarterly meeting to order for the Nevada Deferred Compensation (NDC) Committee at 9:01 a.m. on Wednesday, June 5, 2019.

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 comments.

Vice Chair Thorley welcomed back Steve Woodbury, the new retiree committee member. He also thanked Mark Stevens for serving on the committee.

3. For Possible Action- Approval of Nevada Public Employees' Deferred Compensation Program (NDC) Committee (Committee) meeting minutes for public meetings held on March 1, 2019, and May 17, 2019.

Motion by Mr. Kruse to approve the minutes from March 1, 2019, and May 17, 2019, second by Dr Ervin. Motion passed unanimously, 5-0.

4. For Possible Action- Receive, discuss, and approve Executive Officer's Report of first quarter 2019.

Mr. Boehmer presented information from his quarterly report including details on the budget summary and details. There were some savings in the salary category and the change for the Out of State Travel to the Training category was complete. The legislative budget book showed an increase to \$437,000 in 2020 and then \$450,000 in 2021. The only enhancement in the new budget was adding some training costs to allow two people to attend the Segal or Voya conference. With reserves and what was collected throughout 2019 he felt confident the projected budget shortfall would be covered and it would not be necessary to increase fees.

Mr. Boehmer tried to execute a contract extension with Eide Bailly for the financial audit, but they wanted to double the fee, so they would need to get a new contract for the service.

Dr. Ervin asked what meeting they would have to decide if they needed to increase fees, so they had time to communicate properly.

Mr. Boehmer and Mr. Bastien remarked they should have a tentative communication plan for the August meeting that outlined the fees and how they would be charged. Everything with the new contract would be implemented on January 1, 2020, so Voya needed a firm decision six weeks prior to allow time for communications to be sent out. Everything needed to be in place after the August meeting.

Mr. Boehmer would get working on the RFP for the financial audit, so it would be ready to go before the end of the year. He wanted the audit to be started prior to the holidays. The Investment Consultant contract was up to the pleasure of the Committee. They had decided at previous meetings to go out to bid to verify they were getting a good price. They could get the RFP together and consider when they wanted the new contract in place. The current contract was valid until July 2020, so they could execute the new contract after the recordkeeping contract was implemented.

Mr. Woodbury asked what the target reserve was for the NDC budget.

Mr. Boehmer stated 90 days was the target for State agencies although many deferred compensation plans had a one-year reserve. Since NDC was a public plan Mr. Boehmer liked to have about a 160-180 day reserve. The money was in the administrative account making interest, so it was arguable that they were managing the funds appropriately. They were meeting the requirements that the Government Finance Office and Legislature wanted, and everything had been disclosed.

Mr. Boehmer continued his presentation commenting on the revenue report, administrative account, and staff report.

Dr. Ervin asked if Mr. Boehmer would include the total number of participants accounts and the ones that were over \$1,000 on future reports.

Mr. Boehmer noted that City of North Las Vegas had reached out to him again about joining the NDC Plan. He would be going to Las Vegas at the end of June and suggested that Mr. Kruse also attend the meeting as the Political Subdivision representative. Their account had over \$200 million in assets and they currently had three providers.

Mr. Boehmer finished his presentation with comments about the Nye County transition to the NDC Program. The transition completion was anticipated for June 24, 2019.

Motion by Dr. Ervin to approve the Executive Officer report. Second by Mr. Kruse, motion passed unanimously, 5-0.

5. For Possible Action- Receive and approve Fiscal Year (FY) 2018 Financial Audit findings Report and NDC Financial Statements presented by Eide Bailly's Nielsine Sherk.

Mr. Boehmer noted that the Committee had received draft documents for the financial audit and Ms. Nielsine Sherk was present to review the documents.

Ms. Sherk started with the FY2018 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 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 the financial highlights from page 3.

Ms. Sherk moved on to the FY2018 audit for the Voluntary Plan sharing the same information as the FICA report. Ms. Sherk went over the financial highlights from page 3.

Dr. Ervin asked why there was such a large change in the administrative expenses from 2017 to 2018 from page 4.

Mr. Boehmer stated they needed to double check those numbers as the fees did not increase that significantly. He wanted to know what was included in the administrative fee for 2018.

Ms. Sherk talked about the Agreed upon Procedures for FY2018. They wanted to ensure the funds received by Voya were allocated to the correct bucket. Everything seemed correct except in terminations or transfers from Political Subdivisions to State or Nevada System of Higher Education, changing from one plan number to a different one.

Mr. Boehmer went on to explain that in those cases they believed the funds were begin received and allocated appropriately, but the timeframe from when a participant transfers from one entity to another is not always reflected because there are different plan numbers for the State, NSHE, and Political Subdivisions, so the numbers did not always match.

Ms. Sherk said they were only sampling 6 groups so she believed everything would balance if they checked all participating entities. The auditors said it was immaterial when projected out since it was an internal issue.

Dr. Ervin felt that since they were not comparing apples to apples in the variances, the data was not useful. If there were variances because of timing issues they would not know if there were mistakes. Going to the next audit they should do something different.

Ms. Sherk stated they did test on the participant level to ensure the amounts being held by payroll went into their individual accounts. There were no errors on that level.

Mr. Boehmer noted they needed to discuss what should be amended in the scope of work for future audits to obtain better data.

Motion by Dr. Ervin to accept the financial statements, ask Eide Bailly to check the admin fee number before issuing the report, and direct staff to issue a management response based on the discussion. Second by Mr. Kruse, motion carried unanimously, 5-0.

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 March 31, 2019.

Mr. Picarelli reviewed the financial markets on pages 1-19 from his Analysis of Investment Performance Report for first quarter 2019. The executive summary from page 22 showed the Voluntary Plan assets were at \$827.6 million which was an increase of \$56.4 million over the quarter. The FICA Plan had \$41.7 million in assets so total Plan assets were \$869.3 million. The loan program had 518 issued to date with an outstanding balance of \$3.8 million. The majority of Plan assets were invested in the Stable Value Fund representing \$317.5 million (38.4%) followed by Target date funds at \$160.8 million (19.4%). As of March 31, 2019, the projected total annual funding requirement for the Plan was \$760,204 based on 8 basis points fees on the variable assets per the Voya contract for \$405,709 and the Plan administration budget of \$354,495. The fee model revenue was projected at \$804,164 derived from the 8 basis points from the Voya contract, \$25 new loan charge, and the \$30 per participant charge. The projected revenue would be over the funding requirement by \$43,960 as of March 31, 2019.

Mr. Picarelli reviewed the funds on the watch list from page 27 which was long because of the target date funds. They would reevaluate how to monitor those funds later in the agenda.

Mr. Picarelli went over the Plan Activity for the total plan from page 31 noting the Interfund/Interplan transfers netted to zero. He also added the Roth info as requested by Mr. Stevens.

The Committee appreciated the Roth data but said it could be provided on an annual basis, so they could compare year over year.

Mr. Picarelli continued with his report mentioning the Oppenheimer and Goldman Sachs funds which had been on watch since 2016.

Dr. Ervin remarked that since those two funds had been on watch since 2016 it was time to do a fund search or consolidate boxes. Not sure if timing mattered with the new contract but they should look at pros and cons.

The Committee agreed to have a fund search at the August meeting.

Motion by Dr. Ervin to approve the Investment Consultant report and request a fund search for the mid-cap core and mid-cap growth as well as discussion of passive versus active and whether we need all three categories. Second by Ms. Bowman, motion passed unanimously, 5-0.

7. For Possible Action- Receive, review, and discuss current adopted NDC Investment Policy Statement, potentially take action to revise the Watch list criteria for Asset Allocation/Target Retirement Funds.

Mr. Picarelli commented that they needed a change to the language in the Investment Policy Statement for Target Date funds. He suggested 40 basis points instead of 20 basis points (bps).

Mr. Boehmer could not find a universally consistent criterion in NAGDCA. Many programs just monitored management changes. He and Mr. Picarelli reviewed the target date funds and they did not see any variation more than 30 bps.

Dr. Ervin still liked the idea of tracking performance, but they should take a look when changes happened. The problem with the current expense ratio was 20bps was too tight. He would be comfortable with 30 bps for criteria on all index funds.

Mr. Kruse commented they should delineate the target funds separately because they are complex, and the company monitors them daily.

Motion by Mr. Kruse to update the performance standards in the Investment Policy Statement for only Target Date retirement funds from 20 bps to 40 bps on tracking differential. Second by Mr. Woodbury, motion carried unanimously, 5-0.

Dr. Ervin noted to make sure the language change reflected the 40 bps for Target Date funds on the various pages.

8. For Possible Action- Receive report on the Recordkeeping Services contract negotiations.

Mr. Boehmer stated the Committee needed to discuss the proposed cost options and decide on which pricing model they desired to execute in the new contract. There were two contracts, so they should address each one separately. For the Voluntary Plan the proposals from the best and final presentation were 2.85 bps on all plan assets or \$14.50 fee per account for all participants. Based on his research, there were more positives on the per account charge as it would be easier to manage the revenue, there was no cost difference in recordkeeping an account based on the balance, and he believed there would be better value on the per account charge over the five years of the contract.

Mr. Picarelli noted that communication was important to show the advantages of the new fee structures.

Mr. Boehmer suggested they raise the minimum contribution amount if they decided on the flat fee.

Vice Chair Thorley commented they should have an agenda item to change the minimum contribution or account threshold level for charging a fee.

Motion by Mr. Woodbury to go with the per account charge for the NDC Voluntary Plan. Second by Ms. Bowman, motion carried unanimously, 5-0.

Mr. Boehmer reviewed the proposed cost options for the FICA Plan which were 7 bps on all plan assets or \$1.40 per account charge annually, on all participant accounts.

Motion by Mr. Woodbury to move to the per account charge for the FICA Program, second by Mr. Kruse. Motion passed unanimously, 5-0.

9. For Possible Action- Receive and approve plan activity, administrative update, Beneficiary Data report, Small Inactive Account report summary, and service report and Annual Plan Review from Voya Financial, for first quarter ending March 31, 2019.

Ms. Patane reviewed the first quarter 2019 report from Voya covering plan assets, quarterly and participation activities, rollovers in and out, distributions, and beneficiary data. She also went over data from the targeted email campaigns that started in March.

Motion by Dr. Ervin to accept Voya's quarterly report. Second by Mr. Kruse, vote passed unanimously, 5-0.

10. For Possible Action- Receive and review amended NDC Administrative Policy Manual with requested amendments from the March 1, 2019 meeting.

Mr. Boehmer prepared the requested amendments for the Administrative Policy Manual including plan evaluation criteria headings and an addendum checklist for the Committee and staff to use as a guideline in the future.

Vice Chair Thorley tabled the agenda item to allow time to get the correct draft document.

11. For Possible Action- Election of Committee Chair

Mr. Boehmer explained that due to the resignation of Mr. Stevens it would be customary for the Vice Chair to step into the Chair role, or they could hold another election for Chair.

Vice Chair Thorley was happy to serve as chair or let someone else step in.

Motion by Dr. Ervin for Mr. Thorley to serve as chair. Second by Mr. Woodbury, motion carried unanimously, 4-0, with Mr. Thorley abstaining.

Motion by Mr. Woodbury for Ms. Bowman to serve as Vice Chair. Second by Mr. Thorley, motion passed unanimously, 4-0, with Ms. Bowman abstaining.

12. Informational Item- Reschedule the NDC Quarterly Committee meeting for August 20, 2019, establish upcoming meeting dates, and/or schedule any other special meetings.

The Committee rescheduled the August meeting for August 28, 2019, and selected November 13, 2019, for the 4th quarter where Mr. Picarelli would be calling in.

Back to item 10

Mr. Boehmer remarked page 10 of the Administrative Manual started the addendum.

Dr. Ervin recommended calling it Addendum, not Article XI and to verify that the number list matched the respective category.

Motion by Dr. Ervin on item 10 to approve the recommended changes to the Administrative Policy Manual. Second by Mr. Kruse, vote passed unanimous, 5-0.

13. Informational Item- Legislative review to discuss any legislation introduced as part of the 80th Legislative Session.

Dr. Ervin noted that SB 14 allowed the Governor to make changes after the appointment process of a board or committee member for malfeasance or non-feasance but did not further define those terms. He had concerns with how broad it was and that it gave the Governor authority to have that power.

14. Committee Members comments

No comments.

15. Update from Investment Consultant

No comments.

16. Update from Recordkeeper

No comments.

17. Administrative Staff/Department of Administration Updates

No comments.

18. Public Comment

No comments.

19. Adjournment

The meeting was adjourned at 1:00 p.m.

Respectfully submitted,

Micah Salerno
NDC Administrative Assistant