

City of Seattle Voluntary Deferred Compensation Plan Regular Plan Committee Meeting Minutes

Wednesday, January 27, 2016 10:00 AM – 12:00 PM
Seattle Municipal Tower, Room 1940/46

TRUSTEES present: Teri Allen, Brian Smith, Scott Fuquay, Susan Coskey, Glen Lee, and Ken Nakatsu; (**absent:** Bill Alves)

STAFF present: Renee Freiboth, and Kyle Miller SDHR; Jeff Slayton and Engel Lee, CAO

CONSULTANTS present: Jake O'Shaughnessy and Stuart Payment, Arnerich Massena, Inc.; Usha Archer, Prudential Retirement; Jeff Curnutt, Thorson Barnett & McDonald;

GUESTS present: George Emerson, FAS; Robert Patton, SageView Advisory

BUSINESS

Opening: Teri Allen, the Committee Chair, started the meeting at 10:00 AM.

Introductions: All attendees introduced themselves.

Public Comment: Teri asked if there were any public comments. There were none.

Minutes of Last Meetings: Teri provided the group time for the review of the November 20, 2015 meeting minutes along with the December 11, 2015 meeting minutes and the January 8, 2016 meeting minutes.

MOTION: Susan Coskey moved to accept the November 20, 2015 minutes without changes. Glen Lee seconded the motion. Upon a call for a vote, everyone approved the motion except for Ken Nakatsu, who abstained from the vote.

MOTION: Teri Allen moved to accept the December 11, 2015 and the January 8, 2016 minutes without changes. Brian Smith seconded the motion. Upon a call for a vote, the motion carried unanimously.

Executive Session: Commenced at 10:03 AM and concluded at 11:01 AM.

MOTION: Glen Lee moved to accept the RFP analysis as presented today and continue the review of the candidates following a further legal review and questionnaire. Susan Coskey seconded the motion. Upon a call for a vote, everyone approved the motion.

MOTION: Susan Coskey moved to extend the Moss Adams plan audit contract by two years. Brian Smith seconded the motion. Upon a call for a vote, everyone approved the motion.

MOTION: Susan Coskey moved to approve the proposed staffing change as outlined on the 2016 Staffing Review. Ken Nakatsu seconded the motion. Upon a call for a vote, everyone approved the motion.

Staff Update: Renee Freiboth presented the staff update. City Council has passed legislation to implement wage changes for Local 17, Court Marshals, Local 32, and most non-represented employees (excluding Library employees). Once wage increases are in place, retroactive pay for 2015 and 2016 will be paid on the March 18, 2016 paycheck. This affects about 6,100 active employees and 1,100 non-active employees. To let these employees know about the opportunity to contribute this retroactive pay into their Deferred Compensation account, staff will contact these individuals by letter and email and work with HRIS, department payroll, and benefits representatives. Staff will make sure that Prudential is aware of this situation and receives copies of participant communications.

A second staff update involved the missing January change file upload. The monthly file containing contribution changes made on the Prudential site during December was never sent by Prudential. When the City realized it was missing, it was too late to fix the January 22, 2016 paychecks. The changes have now been uploaded to take effect with the February 5, 2016 pay date. Both Prudential and the City of Seattle have implemented steps to ensure this will not happen in the future. To inform affected employees:

- An explanation letter was mailed to all 352 impacted employees
- Staff emailed employees who had an over-deduction of \$50 or more to inform them that a reimbursement would be made on the February 5, 2016 pay check unless they notified us otherwise.
- Staff emailed under-deducted employees to inform them of their need to make future changes if they wanted to make up the missed deduction.

The committee asked about tracking gains and losses for these employees. Usha Archer from Prudential stated that the impacted employees would be tracked and any losses due to the file upload error would be corrected and employees would be made whole by Prudential after reimbursements are processed on the February 5, 2016 pay check.

Susan Coskey left at 11:15 AM.

Arnerich Massena: Before starting his presentation of the 4th quarter executive summary, Jake O'Shaughnessy had Kathy Peterson of Arnerich Massena call-in via speakerphone to represent Arnerich Massena in case Jake and Stuart Payment are unable to participate in the March 23 meeting.

Jake presented a market overview of both the global and US markets, using the "City of Seattle, Fourth Quarter 2015 – Executive Summary" document created by Arnerich Massena. The "City of Seattle 457 Deferred Compensation Plan Quarterly Performance Review", dated December 31, 2015 was also used as reference. There was discussion about the short and long-term effect of low oil prices. Jake stated that if oil prices stay in the \$20s, it will cause some negative impacts in the US, as there is a lot of debt in the market that would not be repaid. Low oil prices help consumers in the short term, but it

will generally be more of negative than a positive in the long run. Jake also stated that low oil prices could be a deflation indicator, which could lead to interest rates staying low for a longer period of time, which would reduce stable value returns over time.

Jake reviewed the investment scorecard of the executive summary, which ranks all the active funds over a 3, 5, 7, and 10 year period. Using the average peer group ranking, on a 10 average period, the City's funds are outperforming 72% of its peers. Jake stated that the menu scorecard indicates that the options the plan is offering its' participants are very strong. Jake had no recommendations for fund changes or to add any funds to the watch list.

One recommendation Jake made was to move the Vanguard target date fund suite to the intuitional share class as soon as administratively feasible, as the recent balance of Vanguard Target Date funds was about \$105 million and now qualified for a less expensive share class. He also suggested that the City broaden the offering set by adding the 5 year increments to the Target date fund lineup. According to Arnerich Massena's calculation, switching share classes would save participants about \$74,000 a year (17 basis points down to 10 basis points on a weighted average). Brian Smith asked what would happen if the balance dropped below the \$100 million threshold for this share class. Jake stated that Arnerich Massena would try to get a waiver from Vanguard to get into this share class if the balance is below \$100 million, once in this share class, the City should be allowed to remain in this share class even if the balances fall back below \$100 million. George Emerson asked if the City could use leverage from City Retirement's holding in Vanguard to stay in this share class. In Jake's experience, he said no because they have to offer all investors a similar arrangement but if the City moved to a collective, then this could be possible. Jake suggested working with the record keeper on the communication regarding this share class change in light of this being very new share class with very short history; although it is essentially the same fund as the existing target dates funds with a lower cost.

MOTION: Ken Nakatsu moved to add the 5 year increment to the Target Date Funds and move the existing Target Date Fund balance to the institutional share class as soon as administrative possible. Glen Lee seconded the motion. Upon a call for a vote, everyone approved the motion.

SageView Advisory: Jake O'Shaughnessy and Stuart Payment will be joining SageView Advisory as of April 1, 2016 and they initially plan on leaving Arnerich Massena March 15, 2016. The next committee meeting is scheduled for March 23, 2016 and Jake will not be available to attend in person as he will be out of town. Bob Patton from SageView Advisory has committed to attend if the committee decides to move to SageView Advisory.

Prudential Retirement: The 4th quarter executive summary and performance review will be available for the March 23, 2016 committee meeting.

Scott Fuquay left at 11:35 AM.

Fiduciary Training: Using Arnerich Massena's "Blueprints – Fiduciary Education: Session Two", Jake O'Shaughnessy presented committee training on their roles as fiduciaries. He started by stating that many of the fiduciary roles are described by ERISA. Even though governmental entities aren't subject to ERISA, we can still look to it for best practice. Two of the primary rules outlined in ERISA Section 404 are the exclusive benefit rule and prudent person rule. Exclusive benefit rule means that fiduciaries need to act solely for the benefit of the participants. The prudent person rule means that decisions need to be made with care, skill, prudence, and diligence that a prudent person would be expected to exercise. Jake stated that moving to the less expensive share classes with the Vanguard target date funds, as the committee is doing, shows appropriate actions of a fiduciary.

Jake outlined the roles of the committee and who decides the roles of this group. The City has an ordinance which approved the plan document which sets forth who sits on the board. A takeaway from this presentation would be to review who sits on the board and what fiduciary insurance the committee has and whether/how the City would be involved if an instance arises. Jeff Slayton added that this is something we should work with risk management on to review the current levels of insurance based on the rise of the deferred compensation plan balance.

Record-keepers are generally not fiduciaries when acting in a strictly administrative capacity. Their responsibilities are contractual, and they are obligated to perform certain tasks like track assets, request trades, or maintain websites. When Prudential uses a tool like GoalMaker, this could be seen as a fiduciary decision because they are managing assets. Investment advisors are fiduciaries. Both SageView and Arnerich Massena are co-fiduciaries to the fullest extent. There was a brief discussion about the fiduciary status of various entities, such as money managers and SDHR. There was also a discussion about how other governmental entities staff their plans in terms of dedicated roles, payment sources, and whether they are employees or employed by a separate entity. Jeff Curnutt briefly described various arrangements, indicating that that Staff should be dedicated if they are being paid by the plan. To close, Jake emphasized that ERISA is about having a process and following it. He concluded with an overview of how to monitor and check funds in the plan.

Special Meeting: Teri Allen reminded the committee about a possible special meeting on February 10th or 11th.

Adjournment: Glen Lee motioned to adjourn; Brian Smith seconded the motion at approximately 11:54 AM.

Next Meeting: The next regular meeting is scheduled for Wednesday, March 23, 2016 at 10:00 AM in the Seattle Municipal Tower, Conference Room 1940.