

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

Thursday, July 30, 2015 10:00 AM – NOON
Seattle Municipal Tower, Room 6070

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

STAFF present: Renee Freiboth, Crystal Roncek, and Kyle Miller SDHR; Jeff Slayton, CAO

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

GUESTS present: George Emerson, FAS; Jason Malinowski, SCERS; Steve Ebert, Nationwide Retirement; Anne Cappel, Empower; Erika Armstrong, ICMARC

BUSINESS

Opening: Teri Allen, the Committee Chair, started the meeting at 10:07 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 May 15, 2015 meeting minutes.

MOTION: Ken Nakatsu moved to accept the minutes without changes. Bill Alves seconded the motion. Upon a call for a vote, the motion carried unanimously.

Investment Performance Report for Q2: Jake O’Shaughnessy from Arnerich Massena reviewed the 2nd quarter 2015 Investment Performance Report starting with an overview of the economy, specifically the Greek Debt crisis and the slowdown in China based on their GDP growth rate. Jake commented that the U.S. is in a much better place now based on the strong housing market, high consumer confidence and low interest rates. Another indicator he pointed out is the low U.S. unemployment rate. The investment scorecard showed that the plan funds are running well. 11 of the 12 actively managed funds in the Plan outperformed its peer group median over the trailing 10-year period through June 30, 2015, resulting in a 92% ‘batting average’; the Plan is doing an excellent job providing funds to participants. The Artisan Small Cap Institutional fund (APHSX) is trending in the right direction compared to its’ peer group ranking. The fund was in the 90th percentile for the 1-year period ending in the 1st quarter of 2015, but ranked in the 16th percentile for the 1-year period ending in June 2015, driven by the 1st percentile

ranking for 3 months ending in June. He stressed the fund is up 7.6% on the 2nd quarter and if performance continue to improve, the batting average will also improve over time.

White Labeling: Jake presented “Structuring Menu Options for Success: A Discussion of Investment ‘White Labeling’”. He noted that “white labeling” is an approach that mitigates the ‘paralysis of choice.’ He noted that too many fund options creates a barrier to effective decision-making; participants will potentially pick funds at random. Crystal Roncek of SDHR added that most participants in the plan pick funds based on word of mouth. To reduce the number of participant choices while still providing access to a range of funds, some plans are offering “white-labeling”, or unitization. A unitized investment option typically consists of a single investment option that contains different investment managers. Since the Plan is a traditional ‘mutual’ fund structure (with the exception of the ‘Stable Value’, the Plan would no longer be limited to mutual funds as an investment vehicle. As a result, lower cost options might be available through white labeling. While this approach simplifies choices for participants, some participants might be concerned about the reduction in choices. In addition, the plan sponsor would need to create a new process for valuation and engage a custodian to strike the daily value. Other considerations include setting the weightings, monitoring the program, and ensuring that the custodian feeds the information to the Plan’s record-keeper. This concept involves a higher level of fiduciary responsibility and monitoring by the Committee and would require revisions to Plan’s Supplemental Investment Guidelines. Arnerich Massena has helped other clients implement this structure and can assist with the project if needed.

Glen Lee asked about participant experience and performance with white-labeling. Jake commented that he had not heard of any negative feedback. Plan Sponsors and participants appreciate the reduced volatility. If the employer offers a defined benefit plan, white labeling can be leveraged (that the City might have the ability to negotiate lower fees); if not, the additional monitoring and necessary involvement and commitment can be a challenge. Bill Alves asked if this is ever offered as a supplement to the plan, or only as a replacement. Jake stated it replaces some of the individual funds on the platform. Bill questioned if there is evidence that white labeling would increase participation or contributions. Jake responded that he was aware of a study that indicated it does both. Ken asked if they would maintain Target Date Funds and/or the GoalMaker tool if this was implemented. Jake confirmed that Target Date Funds would remain and it would be a good idea to keep an asset allocation tool. Usha Archer of Prudential Retirement added that San Francisco moved to white labeling and they’ve been very successful. Bill Alves asked about oversight, specifically accountability and transparency in regulating unitization. Jake reiterated that white labeling does add another layer of responsibility to the Plan Committee.

MOTION: Glen Lee entered a motion to charge Arnerich Massena with gathering assessments and/or financial and human resource literature that would be used to survey participants on the ‘white labeling’ topic and to incorporate an inquiry into the Request for Proposal for record-keeping and custodian services of a vendor’s capacity to accommodate ‘white labeling’. Bill Alves seconded the motion. Upon a call for a vote, the motion carried unanimously.

Performance Report for Q2: Usha Archer of Prudential Retirement ran through the plan's demographic information and solicited Committee members for feedback on the information now being provided in the new report. No comments were made by the Committee. John Coueille discussed the onsite activity for the 2nd quarter. He pointed out that individual meetings are up, but attendance at the group presentations suffered most likely impacted by participant's summer plans.

Record-Keeper Search Update: Renee Freiboth of SDHR updated the Plan Committee on the record-keeper search. The next step is to establish the selection criteria and their respective weightings, and finalize the RFP. Renee asked the Committee to look over the RFP scorecard and provide feedback. Ken suggested that changes to the scorecard should be decided by the RFP subcommittee. Renee stated a 3rd Committee member is needed to join the RFP subcommittee as well.

MOTION: Glen Lee entered a motion to delegate the scoring of the selection criteria to the RFP Subcommittee. Ken Nakatsu seconded the motion. Upon a call for a vote, the motion to carried unanimously.

Other Staff Updates: Crystal updated the Committee on remote location outreach activities: several offsite visits to eight major departments, participation at the upcoming Open Enrollment Fairs, attendance at the SPU Wellness Fair, and biweekly presentations at the City's New Hire Employee Orientations. Also the plan's annual audit is underway. Moss Adams will be conducting field work in September and the audit will be finished by October. Moss Adams will present their findings at our November meeting. Additionally, all committee meeting dates for 2016 have been set and invites sent to everyone.

Election of additional Unforeseeable Emergency Withdrawal (UEW)/Hardship Subcommittee Member: Renee stated a 3rd Committee member was needed for the Unforeseeable Emergency Withdrawal (UEW)/Hardship Subcommittee. Brian Smith volunteered to join the subcommittee.

Executive Session: Commenced at 10:58 AM and concluded at 11:33 AM.

MOTION: Glen Lee entered a motion to select remedy # 2 – account reconstruction of all affected participant accounts as described in the letter to the Plan from Prudential Retirement dated July 29, 2015. Bill Alves seconded the motion. Upon a call for a vote, the motion was carried unanimously.

MOTION: Glen Lee entered a motion to “opt in” to Prudential's Voluntary Compliance Program Group Submission to IRS, as described in the letter to the Plan from Prudential Retirement dated May 15, 2015. Ken Nakatsu seconded the motion. Upon a call for a vote, the motion carried unanimously.

Adjournment: Ken motioned to adjourn; Bill and Glen seconded the motion. At approximately 11:41 PM

Next Meeting: The next regular meeting is scheduled for Wednesday, September 9, 2015 at 10 AM in the Seattle Municipal Tower, Conference Room 6070.

FINAL