

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

Wednesday, March 11, 2015 10:00 AM – 12:00 PM
Seattle Municipal Tower, Room 4096

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

STAFF present: Renee Freiboth, Crystal Roncek, and Carolyn Trapp SDHR; Carlton Seu, CAO

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

GUESTS present: George Emerson, FAS; Jason Malinowski, SCERS; Dennis Karl, IAFF Local 27; Rob Bilo and Steve Ebert, Nationwide Retirement; Michael McAtamney, TIAA-CREF

BUSINESS

Opening: Teri Allen, the Committee Chair, started the meeting at 10:03 AM. She noted that due to Susan Coskey and Scott Fuquay's early departure, the group would first focus on voting matters.

Introductions: All attendees introduced themselves.

Public Comment: As the option for public comments had been skipped over earlier in the meeting, 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 January 15, 2015 meeting minutes.

MOTION: Ken Nakatsu moved to accept the minutes without change. Glen Lee seconded the motion. Upon a call for a vote, the motion to approve the minutes carried unanimously.

Proxy Guidelines: The proxy voting approach was passed at the January 15, 2015 Plan Committee meeting. Following the meeting, legal counsel made some modifications to the draft Guidelines with regard to staffing. Plan Committee members also reviewed the Guidelines by email with one comment from Ken with concerns about the possible number of votes. Proxy votes are very infrequent; the City has received one or two proxy vote requests each year over the last 7 years.

Susan was concerned that the intent of the proxy voting approach -- with staff coordinating and consulting with advisors such as the investment advisor, legal, and the

proxy voting consultant and *not* developing a recommendation themselves -- was not reflected in the updated Guidelines. Following group discussion, staff agreed to redraft the Guidelines with input from legal counsel, clearly limiting staff's role to coordination.

MOTION: Susan motioned to change the Proxy Voting Guidelines language to show that staff will coordinate with external consultants when the Deferred Compensation Plan receives a Proxy Vote. Glen seconded the motion. Upon a call for a vote, the motion carried unanimously.

New Proxy Ballot: The Plan received a proxy vote request from PIMCO regarding the election of six members to the Board of Trustees. Jake provided background information about PIMCO's management changes. Four of the proposed nominees do not currently serve as Trustees to the Trust and are considered Independent Trustees. Douglas Hodge, Managing Director and Chief Executive Officer of PIMCO, would be the sole Interested Nominee considered in the vote. Arnerich Massena had already researched the issue and provided a written recommendation to the Plan Committee. The recommendation was to vote for the election of PIMCO's Board of Trustees as stated on the proxy ballot.

MOTION: Ken motioned to vote for the election of PIMCO's Board of Trustees. Glen seconded the motion. Upon a call for a vote, the motion carried unanimously.

Summary of March 6th Investment Portfolio Subcommittee Discussion and Recommendation: Jake O'Shaughnessy, Arnerich Massena, referred to the November 2014 Investment Menu Structure Review discussion materials and the February 2015 Manager search documents. The 457 plan structure has 3 tiers. For participants who want Tier 2 "Do it Together" options, a Plan Committee-determined fund menu is available with active and passive funds. With regard to Tier 2, a gap currently exists in the international equity and fixed income index space. The Investment Portfolio Subcommittee discussed intermediate-term bond index and international equity index options at the March 6th subcommittee meeting. As a result of the discussion, subcommittee members recommended adding the Vanguard Total Bond fund and Vanguard Total International Stock fund.

MOTION: Glen motioned to add the Vanguard Total Bond fund and the Vanguard Total International Stock fund. Bill Alves seconded the motion. Upon a call for a vote, the motion carried unanimously to add the two funds.

Usha Archer, Prudential, said the funds will be added in May, and the fund change letter will be issued to participants 30 days earlier. Bill Alves asked if the funds will be added to GoalMaker. Usha indicated that these funds will not be added to GoalMaker. She added that she would provide information to the Plan Committee about GoalMaker in general as well as information about fees. Subsequently, the group discussed how we communicate to participants about the plan, investment options, and risk. Susan recommended that the Plan Committee discuss at a future meeting how the Plan educates participants on their investment options.

Investment Consultant Contract Extension (added to agenda): Plan Committee members met in Executive Session to discuss the possible extension of the current investment consultant's contract. Following the Executive Session, the Plan Committee took a vote.

MOTION: Susan motioned to authorize staff to extend the current contract with Arnerich Massena 6 months. Ken seconded the motion. Upon a call for a vote, the motion carried unanimously.

Staffing Recommendation: Renee Freiboth discussed staffing recommendations for the Plan. Current approved staffing is a Senior Personnel Analyst (.8 Full Time Equivalent, FTE) and a Personnel Analyst (.6 FTE). The additional requested staffing is a Manager (.5 FTE) to coordinate the communications strategy and direct the plan, making the Senior Personnel Analyst full-time, and adding an Administrative Specialist (.5 FTE) initially to bring the Plan up to date on much delayed administrative activities. In the future, the Plan is likely to need to increase the Personnel Analyst position to full-time. Taking the already approved staffing budget into account, the additional increase would be about \$67,000 in salary and benefits since the former Division Director worked on the Plan about .3 FTE, and a Manager 1 is a .5 equivalent.

Bill asked to review the Staffing Comparisons hand out. Renee reviewed how other plans are staffed, using FTEs per 1,000 participants and per \$100 million dollars as benchmarks. Averages applied to the City would be 1.15 FTE per 1,000 participants and 2.76 FTE per \$100 Million dollars. Susan recommended approving 3.0 FTE to staff the Plan rather than approving fewer staff now and having to come back to the committee later.

Scott Fuquay asked if there is a statutory amount the Plan needs for administrative expenses. Crystal Roncek confirmed there is not a required legal amount or percentage that must be held in reserve for administrative expenses. She referred to the January 11, 2012 meeting minutes of the Plan Committee, which documented a vote passed by the Committee to maintain a reserve of approximately 150% of one year's Deferred Compensation operating budget (for staff time, legal expenses, audit expenses, etc.), which was approximately \$350,000.00 at that time. Ken Nakatsu added that a surplus was returned to participants in 2012; staff added that the amount returned was \$147,000.

MOTION: Susan Coskey motioned to approve funding for 3 Full Time Equivalent positions to staff the City's Deferred Compensation Plan. Glen Lee and Scott Fuquay seconded the motion. Upon a call for a vote, the motion carried unanimously.

Investment Performance Report: Jake O'Shaughnessy reviewed the 4th Quarter 2014 Executive Summary dated March 6, 2015 starting with an overview of the economy. There are several potential implications of lower oil prices. Those who benefit are consumers who may save over \$150 billion/year at current prices; transportation companies; and oil importing countries such as U.S., China, Japan, and the UK.

Disadvantaged are oil producers, oil exporting countries, banks and high yield bonds; alternative energy; and global capital markets.

The Investment Menu Score Card showed that 86% of the Plans' funds are exceeding the average, outside of the Calamos fund, which will be replaced. Bill stated concern about the credit rating of the Stable Value fund. Jake reminded that group that the Stable Fund is a Prudential product and with interest rates at record lows, we expect the crediting rate of this fund to stay at the low end for some time. Jake noted the PIMCO fund was placed on watch because of Bill Gross' departure. Based on performance, PIMCO has healthy returns. In summary, the Plan's investments are running well.

Record Keeper Update: Usha Archer, Prudential account executive, introduced John Coueille, the new onsite education counselor. John provided his background and has been meeting with participants and providing group education sessions.

Performance Report for Q4: Usha reviewed the 4th quarter 2014 executive summary. Teri asked why active participation is going down when there are so many age 50 plus participants compared to participants less than age 50. Usha will revisit the numbers internally. Prudential indicated that there were 22 Unforeseeable Emergency Withdrawals (UEWs) in 2014 for a total of \$120 thousand. Crystal provided staff input that the number of UEWs in 2013 were much higher than the 2 reported by Prudential. She also indicated that these reduced in 2014 due to special communications about the guidelines to benefits representatives and participants.

Jake added to the regulatory notes provided in Prudential's report that a bill that is being introduced to the Washington State legislature requiring all jurisdictions, including the City of Seattle, to allow participants access to the state's Deferred Compensation Plan. As a result, the City's Plan may pay higher administrative fees than we are paying now to Prudential. Renee commented that the City is opposing the bill and labor also is suggesting exemption for large plans.

Plan Expense Financials for Year Ending 12/31/2014: Renee reviewed the City expense figures for the year ending 2014 that were prepared by the Seattle Department of Human Resources Financial Services Unit. It was a complicated year because revenues were held in both the City and Prudential accounts. (Now there is a single, separate account held at Prudential.) This exhibit did not provide a complete summary of 2014 accounting, because it did not include the revenue-sharing splits, and some expenses such as office space and an invoice from the investment consultant were not included as they had not yet been reimbursed. To provide a complete picture of revenues and expenses, Renee will include City expenses on an accrual basis at the next meeting. Bill asked what happens with excess amounts and what the revenue sharing arrangement is. Jake will look at revenue sharing with Usha and present full 2014 accounting information at the next full Plan Committee meeting.

Prudential Contract Amendment: To add to the discussion about distribution of excess administrative amounts, Renee discussed Amendment No. 7 to the Administrative

Services Agreement for the Plan effective July 1, 2014. The amendment replaced earlier language, specifying that any allowance paid in excess of incurred Plan expenses would be allocated to individual participants on a periodic basis (not necessary at end of Plan year).

Record-Keeper Search Update: Renee discussed the roles and responsibilities of record-keeper bid process subcommittee members. Currently, Teri and Scott are on the subcommittee along with Deferred Compensation staff. Due to a variety of reasons including staffing changes, competing City priorities, internal technology requirements, and a blackout period for non-urgent projects by the Human Resources Information System group, the timelines for record-keeper has moved back. If a new vendor is selected, the estimated go-live date would now be April 1, 2016.

Investment Change Notice: Renee discussed the Investment Change Notice, which was mailed to all participants announcing the removal of the Calamos Growth I fund and mapping participant assets to American Fund Growth Fund of America R5. Teri noted that the City logo was not on the front of the notice, which did not make the document easily recognizable as a City-related communication.

Socially Responsible Investment (SRI) Fund: Jake indicated that most ERISA plans do not have SRI funds. Bill suggested that the Plan continue to offer an SRI option for those who want to invest in that class. The group agreed to continue the discussion about fiduciary responsibility with regard to offering an SRI and educating participants about risk at a future Investment Portfolio Subcommittee meeting.

Adjournment: At approximately 12:05 pm by default because a quorum was not present to vote.

Next Meeting: An Investment Portfolio Subcommittee meeting will be scheduled before the May full Plan Committee meeting. The next regular meeting is scheduled for Friday, May 15, 2015 at 1 PM in the Seattle Municipal Tower, Conference Room 6070.