

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

Friday, May 15, 2015 1:00 PM – 3:00 PM  
Seattle Municipal Tower, Room 6070

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

**STAFF present:** Renee Freiboth, Crystal Roncek, and Carolyn Trapp, SDHR

**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; John Chavez and Steve Ebert, Nationwide Retirement; Anne Cappel, Empower; Erika Armstrong, ICMA-RC

## BUSINESS

**Opening:** Teri Allen, the Committee Chair, started the meeting at 1:03 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 March 11, 2015 meeting minutes.

**MOTION:** Scott Fuquay moved to accept the minutes without change. Susan Coskey seconded the motion. Upon a call for a vote, the motion to approve the minutes carried unanimously.

**Revised Proxy Guidelines:** Renee reviewed the Proxy Guideline revisions which changed the role of staff to coordinator. Teri provided the group time to review the document.

**MOTION:** Glen Lee moved to accept the amended Proxy Guidelines. Ken Nakatsu seconded the motion. Upon a call for a vote, the motion to approve the minutes carried unanimously.

**Fee Analysis Review:** Jake reviewed the Plan expense and revenue credit as of December 31, 2014. Arnerich Massena analyzes fees to determine if they are appropriate and prudent. The net investment expense amount goes to the money manager and shared revenue comes back to the Plan. About \$400K of the annual estimated Plan revenue came out of the Stable Value fund in 2014, or 40% of the total revenue credits to the Plan,

while the Stable Value fund comprises only 14.3% of total Plan assets. Jake noted the Vanguard funds credit nothing towards Plan administrative expenses; the question to consider is if the Stable Value fund is paying proportionally too much. One approach to provide more equality in paying administrative expenses would be to credit all revenue sharing credits back to the participants that invested in those funds and then charge basis points evenly across the Plan to pay for Plan related expenses. Susan Coskey asked how uncommon the neutralization approach is. Jake shared that roughly 20% of his business uses the neutralization approach and believes that it is best practice. Susan requested information about what industry best practice is. Teri asked if the Plan did level revenue share, would the Stable Value fund get a benefit. Jake responded that the Stable Value investors would likely benefit from a level revenue share, because their level of fees would be reduced.

Bill Alves added that the Vanguard funds are not carrying their weight with regard to revenue sharing. Susan asked how the Plan Committee would explain a change to participants, particularly to those invested in Vanguard. Jake responded that one of the challenges is communication and that equality and transparency are generally accepted by participants as good reasons to make a change. Teri asked if there are other models not based on volume; Jake responded there are other models. George Emerson supported switching to a different approach -- if everyone moved to Vanguard, we couldn't run the Plan. Jeff Curnutt added that probably about half of their (Thornson Barnett and McDonald) book of business, with whom this topic has been discussed, has made the adjustment. Jake replied that a change could normally happen quickly. Any participant communication on this issue should be done carefully.

In closing, Jake suggested having fee neutralization be incorporated as part of the record keeper request for proposal. Scoring could be included on the ability to make the change to neutralization and how the bidder would implement it on behalf of the City (e.g. system capabilities, participant communications, experience with similar clients, etc.).

**Investment Plan Subcommittee:** During the last Investment Portfolio Subcommittee (IPS) meeting, Ken Nakatsu, Bill Alves, and Scott Fuquay volunteered to serve as members, joining current member Terri Allen. The group also discussed the role of other Plan Committee members should they attend an Investment Portfolio Subcommittee meeting.

**MOTION:** Susan Coskey made a motion that the membership of the Investment Portfolio Subcommittee be made up of Terri Allen, Scott Fuquay, Bill Alves, and Ken Nakatsu and that any other members attending a subcommittee meeting may make recommendations with the intent that votes will go to the full Committee. Upon a call for a vote, the motion to approve the Investment Portfolio Subcommittee membership and role of other Plan committee members at IPS meetings carried unanimously.

**Investment Performance Report:** Jake reviewed the first quarter 2015 Investment Performance Report starting with an overview of the economy. The investment scorecard showed the plans are running well with an 85% batting average over the trailing 7- and

10-year periods, and that the City's Plan is doing an excellent job of providing well performing funds to participants. Ken Nakatsu mentioned that 19 of 50 states have an SRI offering. George Emerson added that University of Washington Board of Regents decided it was not in their fiduciary responsibility to divest from fossil fuels. They did decide to keep coal investments to less than .1%. Jake added that Arnerich Massena will continue to compare the SRI fund to the universe of Large Cap Growth funds. The Committee agreed to maintain the socially responsible investment fund as an option in the plan and will continue to monitor the fund according to the standard criteria per the City's Investment Policy Statement.

**Performance Report for Q1:** Usha Archer reviewed the 1<sup>st</sup> quarter 2015 executive summary as of March 31, 2015. The Plan's total assets were \$956M at the end of the quarter. John Coueille reported there were 205 individual meetings and 147 members attended 7 presentations. Susan Coskey asked if we are reaching out to employees in their 30s. Crystal Roncek confirmed that we haven't had the communications staffing available to reach targeted audiences. She added that buy backs have dramatically increased, and education is needed on what options are available when an employee separates from City service. Ken Nakatsu said that he and Jason Malinowski have the impression that Prudential is directing employees to GoalMaker and that a participant has to opt into Target Date Funds which the Plan's FAQs indicates should be the default option for participants. Bill Alves noted that with the addition of two new low expense index funds, Vanguard International Stock and Vanguard Bond Funds, GoalMaker could potentially offer an all passive fund option and asked whether that was possible. Usha responded yes that GoalMaker can be all indexed, but it can't be done immediately; however, Prudential can evaluate the Committee's request in the near future.

**Expense Account as of 12/31/2014:** Renee reviewed the Plan Expense Account as of 12/31/2014. Total expenses were \$293 K by year end. Expenses are paid from the City's excess account, which is invested in the Stable Value Fund. The Plan has made a number of changes which had required additional legal and investment consultants input. Salaries and benefits have increased. Kyle Miller, the new Deferred Compensation Analyst, will start on May 26. Crystal is now working full-time. Bill Alves asked what would be done if there wasn't enough money to run the Plan. Jake responded that if they agree to do so, Prudential could potentially loan us the money, the Plan could then change the policy on fees in order to generate ample proceeds to pay for Plan expenses.

**Prudential Contract Extension** – Renee reported staff is working on the amendment to the Prudential contract, extending the agreement.

**Record-Keeper Search Update:** Renee updated the Plan Committee on the record-keeper search. The next step is to determine the selection criteria and include evaluation of alternative investment vehicles.

**NAGDCA Annual Conference** – Crystal reminded the group that there is early bird registration in May for those who want to attend the annual conference September 27-30, 2015.

**Adjournment:** Scott motioned to adjourn; Ken and Glen seconded the motion. At approximately 2:45 pm.

**Next Meeting:** The next regular meeting is scheduled for Thursday, July 30, 2015 at 10 AM in the Seattle Municipal Tower, Conference Room 6070.

FINAL