**MINUTES FROM MEETING OF DEFERRED COMPENSATION COUNCIL**

**OFFICE OF THE STATE TREASURER, CONFERENCE ROOM**

**March 12, 2015**

A meeting of the Deferred Compensation Council (the “Council”) was held on Thursday, March 12, 2015 at 09:00 in the Conference Room of the Office of the State Treasurer located at

820 Silver Lake Blvd., Suite 100, Dover, Delaware.

Board Members in Attendance:

The Honorable Ken Simpler, State Treasurer

Ms. Valerie M. Watson (on behalf of Thomas J. Cook, Secretary of Finance)

Mr. Robert Scoglietti (on behalf of Ann Visalli, Director, Office of Management & Budget)

Mr. Ralph Cetrulo, Public Member At-Large

Mr. Charles Campbell-King, State Employee Member At-Large

Board Members Not in Attendance:

The Honorable Karen Stewart, Insurance Commissioner

Others in Attendance:

Mr. Steve McVay, Director of Finance & Investment Services, Office of the State Treasurer

Mr. Michael Green, Financial Investment Program Manager, Office of the State Treasurer

Mr. Dan Kimmel, Financial Investment Program Specialist, Office of the State Treasurer

Ms. Maria Hurd, Auditor for Belfint Lyons Shuman Certified Public Accountants

Ms. Martha Sturtevant, Executive Assistant to the State Treasurer

**CALLED TO ORDER**

Treasurer Simpler called the meeting to order at approximately 9:00 AM

**APPROVAL OF PRIOR MINUTES**

There was a MOTION by Mr. Scoglietti and seconded by Mr. Cetrulo to approve the November 12th, 2015 meeting minutes.

MOTION ADOPTED UNANIMOUSLY

**AUDIT REPORT of 403(b) PLAN**

Ms. Hurd distributed and directed the Council to the final 403(b) financial statements.

Ms. Hurd referred the Council to the auditor’s opinion on page one of the financial statements. She noted that the disclaimer states the law, with respect to compliances changes effective January 1st, 2009, these financials statements will never include the assets of the over 100 vendors that the plan used to have prior to 2009. BLS has excluded those contracts because we will never be able to quantify the money moved.

Ms. Hurd then referred the Council to page 6, the Statement of Net Assets. She noted they reflect an increase in investments of $51 million.

She referred to the next line item, Notes Receivable from Participants, reflecting participation levels.

Ms. Hurd reported in the 2013 audit year, 38 loans paid off and 40 loans in active status for primary residence and noted that the number should start decreasing as loans are paid in full.

Ms. Hurd explained that if a participant defaults, the vendor has to issue that participant a 1099-R for a deemed distribution. All of the vendors except New York Life are issuing the loans correctly. They are not issuing a 1099-R. Ms. Hurd further clarified, that because the loans are collateral, even though the loan has defaulted and the have treated it correctly for tax purposes, they leave it on the books until the participant takes their final distribution of the rest of their account.

She explained that the records are on the books, but it do not really exist. Ms. Hurd stated that, along with the DOL, they have chosen to leave the loans on the books $976,000 of which $250,000 is actually active. The remainder consists of defaulted loans. The fluctuations on this account are composed of four items: paid off loans, loan repayments for active loans, loan offsets for participants who took a final distribution and the member was removed from the books, and an increase annually on the interest incurred on defaulted loans that don’t exist.

Referring the Council to page 7, the Statement of Changes, Ms. Hurd reports a 17% return, the 2013 the market is up 30%. $20 million in contributions represents W-3, on the form W-2 you see the 403(b) deferral. For 4,665 participants, there was an average contribution of $4,374 per person.

Ms. Hurd referred to the deduction section. She noted about 900 distributions this year 800 last year, for an average distribution of $26,500. That number can be verified by documents filed with the Federal Government.

The only two others items of significance in the Statement of Changes, are the rollovers and the transfers into the plan. The rollovers represent new money that came from other IRA’s not originating from the State of Delaware. The transfers into the plan equal $1.7 million, represents additional statements that BLS got from the vendors this year that they had not received in the past.

Ms. Hurd stated last year BLS found $14 million, this year BLS found $4 million. The money was never missing, and stated that it was purely a paper phenomenon. She described the reporting by vendors to be rapidly improving.

She noted pages 11-36 represents all 13 vendors indicating a lot of diversification that may not be warranted and is provided as a resource to the Council to review for duplicity.

Ms. Hurd directed the Council’s attention to page 39, second paragraph where she notes BLS found discrepancies in MetLife of $462,424 which was an improvement over the $4 million BLS found last year. The errors are a result of poor reporting, but that is was improving. She mentioned that the Treasurer’s office is responsible for finding the errors before the auditor’s review, but that she thought that in her own opinion it was not reasonable for the board to not be able to rely on the accuracy of the reports and felt the vendors were the offenders. As an example. Ms. Hurd described receiving two corrections from Security Benefit representing 3.5 million in previously unreported assets.

Ms. Hurd distributed the Summary of Findings & Recommendations. She described the document as intended for internal use only and for the benefit of operations.

She began with Finding #1, Communication with Those Charged with Governance at the Conclusion of the Audit. Three offenders, New York Life being the largest because they treat them as insurance assets and not as an asset that is part of a retirement plan. These three offenders issued loans that were compliant but not qualified. To prevent them from forcing the employees to amend their taxes, it is the recommendation of BLS that the IRS allow the state to issuing 1099-R’s in the year of the correction.

Mr. Campbell-King wanted to confirm that employees have been notified of errors, and Ms. Hurd confirmed they had been made aware.

Finding #2, Ms. Hurd briefly reiterates MetLife’s incomplete recording.

Reviewing Finding #3, Ms. Hurd elaborates on improvements that will be implemented to prevent inaccurate reporting. Next year they will require reporting by school district, by participant, and by investment, and they all total the same amount.

Finding #4 Symetra & Kades Margolis have a total 3K in limbo that still needs to be allocated between vendors. They are required by law to allocate interest to the employees, and this was not being done.

Ms. Watson asked about consequences of next year’s audit finding incompliance. Ms. Hurd assured her she does not anticipate non-compliance and that every employee affected will get ever dollar owed to them.

Finding #5, explains how a plan that doesn’t offer loans has 250 active loans and a million dollar on the books.

Finding #6 expresses that the deferrals of W-3 were traced and was deposited or returned to the employee. Issues were all at the vendor level.

Mr. Green commended for the record that Mr. Kimmel was pivotal in the auditing process and complimented his quality of work.

Mr. Campbell-King asked what changes the Treasurer’s office would like to make to the architecture. Mr. Kimmel stated that if we had just one 403(b) vendor, or two it would streamline the process and not require a common remitter.

Ms. Hurd commended Fidelity on reporting and automated processes. And clarified that MetLife’s reporting is incomplete, not inaccurate, but added many improvements could be made to the process, specifically on the front end.

Ms. Hurd dismissed herself.

Mr. Campbell-King asked about the interim solution, whether it be participant education or IT process improvements to insure the second step is taken to open an account and asked for clarification on the role of the retirement manager. Mr. Kimmel described the role of the retirement managers, and Mr. Green expressed the common remitter is not a record keeper, and stating that we need a record keeper so we can consolidate the plans and remove complexity.

**REPORT on ADMINISTRATION of 403(b) PLAN**

Mr. Kimmel provided an update on the numbers and assets for the 403(b) Plan including hardships. Assets as of February 28, 2015 totaled $286.4 million for retirement manager assets, of which 7,510 accounts with a balance. Total hardships year to date are down 50%.

**REPORT on ADMINISTRATION of 457(b) PLAN**

Mr. Green provided an update on the numbers and assets for the 457(b) Plan. Assets as of December 31, 2014 totaled $544,946,400 million in the 457(b), and $22,337,108 million in the 72436 match account. Participants in the 457(b) totaled 16,697 and those in the match totaled 11,765.

Mr. Green updated the status of the 457(b) Roth option. It is being revised and on track to be active for pay period June 14 –June 27, which corresponds to the July 10, 2015 pay cycle. The Deferred Compensation team is working with the PHRST payroll team and Fidelity to implement. Mr. Green added that there are areas of improvements that can be made, and he is working with PHRST to complete a data scrub prior to the implementation.

Mr. Kimmel added that Baker Tilly has sent engagement letters to OST for review and signature. Mr. Kimmel added that the Auditor of Accounts has received proposals for 457(b) auditor and will review on March 19, 2015 to make selection.

**DEFERRED COMPENSATION CONSULTANTS**

Mr. Simpler stated the finalists selected for a Deferred Compensation Consultant are Bolton Partners and Cammack Retirement.

Mr. McVay stated that since the RFP went out in July, OST received 13 responses. The selection committee narrowed down the applications to 4 groups brought in for presentations before the committee, adding each were then scored again to get to the short list. Bolton and Cammack were selected as the two finalists, and presented at the November meeting. But the quorum was dropped mid-meeting before a vote could be taken.

Mr. Simpler stated that he and the OST staff heard a re-pitch from the two vendors. Mr. Simpler reviewed with each their scope of services provided. He restated the goal of the RFP and OST’s goal to develop a state-of-the-art plan with robust options. Mr. Simpler felt there was a fairly large difference between the two vendors, and added that it was his goal to take a vote today. Mr. Simpler encouraged OST staff to share their second impressions of the vendor’s presentations.

Mr. Scoglietti stated that he was glad to have been on the selection committee. He said the selection committee focused on a model of best-practices, and the ability to handle identified areas of improvement, communications, and revising the architecture we currently have in place. For him he felt Bolton & Cammack understood the goals best.

Mr. Simpler requested the Council enter into Executive Session.

**EXECUIVE SESSION**

A MOTION was made by Mr. Campbell-King and seconded by Mr. Scoglietti to enter Executive Session

MOTION ADOPTED UNANIMOUSLY

A MOTION was made by Mr. Scoglietti and seconded by Ms. Watson to re-enter Public Session

MOTION ADOPTED UNANIMOUSLY

**DEFERRED COMPENSATION CONSULTANTS - VENDOR SELECTION**

Mr. Simpler clarified the Motion.

A MOTION was made by Mr. Scoglietti and seconded by Mr. Campbell-King for the Council to approve Cammack Retirement as the Council’s advisor subject to satisfactory reference checks, best-and-final pricing and successful negotiations; for implementations phase only, and adding milestones for specific deliverables.

MOTION ADOPTED UNANIMOUSLY

Mr. Simpler requested Mr. Green send thank you letters to the other vendors.

**PENDING ITEMS**

Mr. Green discussed Fidelity and PIMCO briefly, and added his recommendation that Council allow the new consultant an opportunity to come back with specific recommendations for the Investment Policy Statements, which should have been occurring annually. Mr. Cetrulo asked that this document be distributed to the Council and a line item added to the next agenda to discuss. Mr. Campbell-King asked if it was an option to replace Pimco Total Return Fund. Mr. Green described the concerns and due diligence, and deferred to the new consultants for their input. Mr. Scoglietti asked if the Total Return Fund needed to remain on the watch list. Mr. Green thought that the consultant would provide guidance on that. Mr. Simpler and Mr. McVay agreed.

Mr. Campbell-King asked if Mr. Green would provide and update on coordinating the delivery of the Fidelity statements and the 457(b) Pension Office Statement. Mr. Green replied that OST asked Fidelity to send an email to participants suggesting that they review their retirement plan, and that the email was executed on February 24, 2015. Mr. Campbell-King and Ms. Watson did not think they had received an email. Mr. McVay announced that he did not receive an email. Mr. Campbell-King asked Mr. Green to follow up.

**NEW BUSINESS**

Mr. Simpler discussed selecting meeting dates and suggested that we let that be guided by the implementation of the new consultant, bringing them back in to discuss the expectations of the Council. Mr. Campbell-King requested to meet quarterly, and Mr. Simpler suggested we move to quarterly only after the implementation process which is anticipated that the Council would meet more frequently. Mr. Scoglietti added that meeting dates would also be guided by availability of reports. Mr. Green suggested meeting after quarterly reports. Mr. Simpler stated that there would be informal contact with Council to discuss calendar options.

Mr. Campbell-King requested Fidelity appear in person to give the Council updates on concerns about customer service, referencing his personal secret-shopper experience. Mr. Green assured him that call center education, especially in regards to retirement accounts, would be part of the review and addressed in the next RFP.

Mr. Green will invite Fidelity to the next Council meeting to provide updates on service improvements, an investment presentation and review fiduciary responsibilities of the Council. Ms. Watson suggested Fidelity be invited quarterly to update Council.

In closing, Mr. Simpler added for consideration that Deferred Compensation Plan had not been bid out since inception since 1999 and that Fidelity is also the vendor for the DOE’s 529 plan.

**PUBLIC COMMENTS**

There was no public present for comment.

**ADJOURNMENT**

A MOTION was made by Ms. Watson and seconded by Mr. Scoglietti to adjourn the meeting at 11:15AM

MOTION ADOPTED UNANIMOUSLY

Respectfully submitted,

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The Honorable Ken Simpler, State Treasurer

Co-Chair for the Deferred Compensation Council

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The Honorable Thomas J. Cook, Secretary of Finance

Co-Chair for the Deferred Compensation Council