**MINUTES FROM MEETING OF DEFERRED COMPENSATION COUNCIL**

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

**May 27, 2015**

A meeting of the Deferred Compensation Council (the “Council”) was held on Wednesday, May 27, 2015 at 10:30 in the Conference Room of the Office of the State Treasurer located at

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

All Board Members Represented or in Attendance:

The Honorable Ken Simpler, State Treasurer

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

Ms. Leighann Hinkle (on behalf of Director Ann Visalli, Office of Management & Budget)

Mr. Ralph Cetrulo, Public Member At-Large (telephonically)

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

Ms. Jennifer Vaughn (on behalf of Karen Stewart, Insurance Commissioner)

Others in Attendance:

Ms. Annmarie Johnson, Deputy Attorney General & Advisor to the Deferred Compensation Council

Mr. Michael Sanders, Principal, Cammack Retirement Group

Ms. Emily Wrightson, Managing Consultant, Cammack Retirement Group

Mr. Jeffrey Snyder, Senior Consultant, Cammack Retirement Group

Ms. Nora Gonzalez, Consultant, Office of the State Treasurer

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. Martha Sturtevant, Executive Assistant to the State Treasurer

**CALLED TO ORDER**

Treasurer Simpler called the meeting to order at 10:30 AM

**APPROVAL OF PRIOR MINUTES**

There was a MOTION by Mr. Campbell-King and seconded by Ms. Watson to approve the March 12, 2015 meeting minutes.

MOTION ADOPTED UNANIMOUSLY (Ms. Hinkle abstained)

**OVERVIEW & REPORT of 403(b) PLAN**

Mr. Kimmel stated that contributions were up 3% and hardships remain down 25%.

Mr. Campbell-King asked if we had a deadline on resolving outstanding 2013 issues. Mr. Kimmel stated he would look into it further, but over half of those issues have already been resolved. Mr. Campbell-King requested the same treatment for 2014 issues and suggested in the future we put in writing that we expect issues resolved by a certain date.

**OVERVIEW & REPORT of 457(b) PLAN**

Mr. Green said he could not obtain audit numbers after 2013 as OST and the State Auditors of Accounts are in the process of conducting the audits of 457(b) and 401(a) Plans for those respective years. Mr. Green reported the numbers he is able to provide to the Council were pulled from the Fidelity management system but stated he was not yet confident in the accuracy of the numbers from PHRST, DTC and DSWA as it pertains to status codes for the participants: active, eligible, terminated.  He added that he felt these numbers are important moving forward as they will be part of the pricing model for the new recordkeeping solution.

Mr. Green then reported the assets under management. For the 457(b) we have $562,675,025. For the match 401(a) Plan $22,845,984 and for the 403(b) $34,724,045. Hardships continue to remain below average.

Mr. Green reviewed the Roth option. Fidelity will begin taking calls from participants as of June 1st. Participation begins with the 6/14 pay cycle and deductions will be reflected in the 7/10 pay cycle. Mr. Green distributed a sample of correspondence that will be sent to participants electronically.

Mr. Campbell-King requested a brief overview of the Roth option. Mr. Green stated that legislation passed in 2013 enabled the 457(b) Plan to offer an after tax Roth option. He stated that OST worked with PHRST, DTI, DSWA and DTC to finalize the structure and technology required to offer this after-tax savings option.

Mr. Campbell-King asked how state employees were provided information for alternatives available to them before requesting a hardship withdrawal. Ms. Johnson stated that the hardship determinations are the responsibility of the administrator. The program is designed to discourage withdrawals. Mr. Campbell-King clarified that he was referring to the alternatives, for example mortgage assistance. Mr. Green said they are referred to the Office of the Attorney General for assistance.

**OVERVIEW OF AMENDMENTS**

403(b)

Ms. Johnson circulated two resolutions. Mr. Green left the room to scan them to Mr. Cetrulo.

The first resolution refers to the 403(b) plan to approve a change in the Plan Document as presented in the Amendment Number Three. . Ms. Johnson stated in November 25, 2014 the Deferred Compensation Councils’ Tax Counsel filed an Application with the IRS under the Voluntary Correction Program (VCP), identifying inappropriate outstanding loans uncovered in the 2012 audit, both in default and in good standing, and proposed the amendment as a solution to the IRS. Amendment Number Three allows for the correction of the problem and the accompanying resolution reflects the Council’s approval of the Plan amendment which states no new inappropriate loans and all the inappropriate loans will be grandfathered-in. Defaulted loans will be treated as taxable distributions, and loans in good standing will be allowed to be repaid as originally agreed.

Mr. Campbell-King asked about communicating to impacted employees. Ms. Johnson suggested distributing the resolution to the vendors by certified mail.

Ms. Johnson said that the IRS would need to assign the VCP Application to an agent. To her knowledge it was still waiting to be assigned to an agent. She noted that the most recent 2013 audit found additional loans outstanding or in default on November 25th, 2014 and those loans would also need to be reported once the agent is assigned.

Mr. Cetrulo indicated he had received and reviewed the scanned copies of the resolutions distributed.

Mr. Simpler asked Mr. Green in what way could the State be remunerated by the vendor that inadvertently allowed hardship loans to occur. Mr. Green added that at the vendor level, Plan representatives executed the loans without having the States’ specific plan rules in front of them when speaking to participants and that the state could request the vendors in question to pay the VCP compliance fee and associated legal fees.

457(b)

The second resolution refers to the 457(b) plan to amend and restate the Plan Document. Ms. Johnson presented the major amendment to the 457(b) Plan to allow for the Roth option.

Ms. Watson asked Ms. Johnson for the amended language of the revised amendment. Ms. Johnson offered to send the red line version if anyone wanted to review the changes. Mr. Campbell-King asked when the last time the language had been reviewed for changes, and Ms. Johnson said she did not know but there was ongoing review by outside tax counsel (ICE Miller).

Mr. Simpler noted that OST has reviewed the red line and would continue to work with Cammack on a very thorough review of the Plans as part of their contract.

A MOTION was made by Ms. Watson and seconded by Mr. Campbell-King to approve the amendment as presented for the Roth option.

MOTION ADOPTED UNANIMOUSLY

Referencing 403(b), Mr. Simpler clarified that Amendment 4.1 accepts the loans that are being grandfathered. Ms. Johnson confirmed.

A MOTION was made by Ms. Vaughn and seconded by Ms. Watson to approve the 403(b) amendment as drafted.

MOTION ADOPTED UNANIMOUSLY

Mr. Campbell-King asked how the vendors would be receiving notification of the changes and how this problem would be prevented. Mr. Kimmel clarified that MetLife assured OST that it was built into the process which now requires the plan administrator’s signature. Mr. Campbell-King requested it be built into the technology itself. Ms. Vaughn suggested educating from the Human Resources side at Fire School as an added step. Mr. Kimmel agreed and said OST currently provides this service on request.

**DEFERRED COMPENSATION CONSULTANT PRESENTATION**

Ms. Wrightson, Lead Consultant at Cammack, stated that the goal of the presentation was to get the Councils’ view on the sole record keeper decision. She stated there were a number of benefits associated with moving to a single record keeper including costs and data consolidation.

Mr. Sanders stated the deviation in fees is dramatic, and participants polled thought there were no fees. He said fees alone could vary from 2.5% to a third of that, which over a 30 year career is dramatic and participants need education and simplified choices. He added that loans will continue to be a problem as a result of human error, but performance standards would be incorporated into the contract. Mr. Snyder added implementing customized technology is expensive for a partner, however the Plan is more likely to get the added attention if they are the sole vendor for our programs.

Mr. McVay asked Ms. Wrightson to clarify anticipating a low response to the RFP. She said the number of responses would be small given the limited number of experts qualified to deliver the scope of work outlined in the RFP. Mr. Sanders said there are maybe five vendors with systems that can provide the technology, infrastructure and expertise required.

Mrs. Wrightson said that simplifying the selection has proven to increase participation. That studies show participants don’t know enough about the decisions they are being asked to make and faced with too many decisions, don’t take action. Or, participants put their money in something they are more familiar with, like a money market that is not appropriate.

Mr. Campbell-King asked if folks would be grandfathered-in or if participants would have to be moved to this new model. Ms. Wrightson stated if a new employee comes on board then they have one record keeper, but any existing employee would have their old money frozen and they could move it if they wanted to. She added Cammack would work with the new vendor to develop a communication campaign to encourage and educate participants. Mr. Green suggested that a dedicated person should be assigned to help employees shift from the old 403(b) program into the new plan design.

Mr. Sanders stated products offered appear equally blessed by the State and participants often aren’t aware of the deviation in fees that are taken off the back-end. He suggested offering no more than 25 choices. Mr. Simpler stated he was surprised to learn that there were 332 mutual funds on the fidelity platform and suspected many participants had inappropriate investments. He said the Council has the fiduciary responsibility of greater scrutiny on what we offer. Mr. Campbell-King agreed and suggested outreach to the participants that don’t take action.

Ms. Wrightson said Cammack was engaged to do two things. One, was the RFP for the plans and the second was the initial needs analysis including a deep dive into the contracts, the documents, how the plan’s running, and fiduciary training for the Council that they hope to begin in July.

Ms. Wrightson reviewed the proposal. The goal is to have one vendor for both the 403(b) and the 457(b) that has unique benefits in regards to retirement readiness. Having a vendor that can show participants one statement, potentially to include social security projections and defined benefit feed allowing participants to see if they are on track or not on track with retirement. Mr. Sanders said it is important to build the RFP for the future. If Defined Benefits –DB- feed becomes available it’s already planned for.

Ms. Wrightson stated that the driving goal was around the participant and was an opportunity to rebrand and re-engage participants, promote retirement readiness and provide the outreach and education to benefit participants. She added going forward, the proposed recordkeeping solution will reduce audit costs and the burden on the committee and on OST Plan administration staff. Mr. Sanders added OST has a team of people putting out fires that could instead be out digging through data and changing outcomes for participants. Mr. Simpler asked if any of Cammack’s clients were going in the opposite direction. Mr. Sanders gave examples of clients that briefly tried to add choice, and each ultimately changed direction after further review.

Mr. Sanders reviewed the timeline of the RFP and expressed the benefits of a tight timeline and how it drives enthusiasm and focus by the competing vendors.

Mr. Green said he would like to get the stakeholders to the table early to address all concerns and facilitate communication and work with Cammack to get a response back to the participants and build advocacy.

Mr. Simpler asked the Council members to express their thoughts and comfort level to the proposed changes and asked if any member of the Council wanted to be part of the selection committee. Mr. Campbell-King said he would like to be on the selection committee. Ms. Watson indicated that she would like to be on the selection committee and recommended adding someone from the procurement office. Ms. Hinkle added that Bert Scoglietti was interested in reviewing the RFP before it was released.

Mr. Simpler asked if the whole Council would like to see the full RFP. The Council agreed.

**FIDELITY REVENUE SHARE CREDIT PROGRAM RENEWAL**

Mr. Simpler said he was seeking Council approval for the Fidelity Revenue Credit Program renewal. He said the consultant would be assisting in taking a hard look at the manner in which assets of participants are used by OST to evaluate the benefits we provide to participants. He emphasized the importance of being fiscally responsible. He said we need to fix it going forward noting that depending on the Plan and the options chosen, some people could be supporting the overhead to a greater extent than other people.

Mr. Green said our audit expenses were much higher than anticipated, and we have no language allowing us to use the Revenue Share Credit in our Investment Policy Statement. As recommended by ICE Miller, he suggested outlining the flow from Fidelity to the State to pay the vendor for services. He felt we should be more transparent.

Mr. Simpler stated it has been brought up by Fidelity to renegotiate our revenue share credit renewal. The proposal from Fidelity over the next fiscal year is $550,000. Mr. Simpler said more detail would be provided to the Council in the July meeting when the budget for OST would be available and the Council could view appropriations. Mr. Simpler said it is important that the Council be aware of their responsibility with regard to where the revenue credit is being applied and what expenses it is being used for. He was cognizant for the need for transparency in the application of revenue credit funds going forward.

A MOTION was made by Mr. Campbell-King and seconded by Ms. Watson to approve the current arrangement with Fidelity based on the understanding that they will be providing us with $550K in revenue share.

MOTION ADOPTED UNANIMOUSLY

**FUTURE MEETING DATES**

Mr. McVay reviewed the circulated schedule. Mr. Simpler asked Cammack if the proposed schedule was conducive to the RFP review and scope of services outline. Cammack agreed. Mr. Simpler offered to move the date back one week to ten days. All agreed to move to Wednesday, July 22nd at 10am.

**PUBLIC COMMENTS**

There was no public present for comment.

**ADJOURNMENT**

Mr. Simpler adjourned the meeting at approximately 12:10 PM

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