**MINUTES FROM MEETING OF**

**THE DEFERRED COMPENSATION COUNCIL**

**November 23, 2015**

A meeting of the Deferred Compensation Council (the “Council”) was held November 23, 2015 at 3:00 PM

in the Conference Room of the Office of the State Treasurer

Located at 820 Silver Lake Blvd., Suite 100, Dover, DE 19904

All Board Members Represented or in Attendance:

The Honorable Ken Simpler, State Treasurer

The Honorable Karen Weldin-Stewart, Insurance Commissioner

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

Mr. Charles Campbell-King, State Employee Member

Others in Attendance:

Mr. Chris DeGrassi, Executive Director, National Tax-Deferred Savings Association, (“NTSA”)

Ms. Lisa Goodman, Young Conaway Stargatt & Taylor, LLP -Public Strategies, representing NTSA

Mr. Doug Gramiak, Young Conaway Stargatt & Taylor, LLP -Public Strategies, representing NTSA

Mr. Jeff Taschner, Executive Director Delaware State Education Association (“DSEA”)

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

Ms. Rhonda West, Department of Insurance

Ms. Nora Gonzalez, Deputy State Treasurer, 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. Rebecca Kidner, RB Kidner, PA

**CALLED TO ORDER**

Mr. Simpler called the meeting to order at 3:05pm.

**DISCUSSION OF DEFINED CONTRIBUTION PROGRAMS WITH DSEA AND NTSA**

Mr. Simpler began with a description of the current RFP process. He noted that while proposals have been received by the Office of the State Treasurer (OST), the selection committee and Council had not collectively made any decisions. He added that they were still soliciting feedback and gathering data to make an informed decision.

Mr. Simpler stated that the previous administration had begun the process of hiring a consultant on behalf of the Council. An RFP process was conducted last year and the former Treasurer did not make an appearance at the meeting when the final selection would have been made. Consequently, the process stalled for several months until he was updated on the initiative and the deferred compensation plans issues. The Council engaged Cammack Retirement Group (Cammack) with an initial mandate to request information from all existing providers and present the Council with a comprehensive needs assessment report on the State’s Deferred Compensation Plans. Cammack’s recommendation to the State was to issue an RFP for a single vendor solution in regards to the recordkeeping, administration, and investments for the State’s plans. Mr. Simpler said that numerous meetings and analysis took place, and after receiving feedback from outside groups the decision to add a multi-vendor option to the RFP was made. Mr. Simpler added that the Council would consider making amendments to the RFP, if such amendments could yield a better solution to plan participants and the State.

Mr. Simpler said there are three options in regards to the RFP: (i) to select a single vendor solution, (ii) to implement a multi-vendor solution or (iii) to amend or cancel the RFP to keep the status quo or a modified version of the status quo. Mr. Simpler said OST Deputy Treasurer, Ms. Gonzalez was asked to lead the process. He added that the selection team is taking the time needed to make the best recommendation but is sensitive to the need to resolve issues in a timely manner.

Mr. Taschner said he attended the July 21, 2015 meeting organized by OST and acknowledged that State Representatives Collins and Baumbach were also present. At the meeting, Cammack presented the review and evaluation of the plans, key findings from the RFI process, and a recommendation to transition the State’s plans to a single vendor. He said after that meeting he began discussions with Mr. DeGrassi, executive director of the NTSA, who indicated that vendor consolidations cause downturns in participation and disruption of existing relationships. Based on the feedback, Mr. Taschner then asked Mr. Simpler if OST could coordinate a meeting between the Council and Mr. DeGrassi to address these concerns. Mr. Taschner stated his intent was to help the Council make an informed decision and he thanked Ms. Gonzalez for sending questions in advance of the meeting.

Mr. DeGrassi introduced NTSA as a trade organization that specializes in training organizations about the benefits of retirement planning. Mr. DeGrassi said he had previously worked for one of the State’s current providers. He said he understands the fiduciary process and added that he is an Accredited Investment Fiduciary (AIF). He further described NTSA as member of the American Retirement Association (ARA) whose affiliations also include the American Society of Pension Professionals and Actuaries (ASPPA), the ASPPA College of Pension Actuaries (ACOPA) and the National Association of Plan Advisors (NAPA). Additionally, he referenced a relationship between the NTSA and the National Education Association (NEA).

Mr. Simpler asked Mr. DeGrassi to clarify which interests he represents in this process.

Mr. DeGrassi said there are over twenty NTSA strategic partners which he defined as broker dealers and investment advisors paying $30K or $60K in annual dues to the organization. Mr. Simpler asked Mr. DeGrassi what vendors in the existing State’s 403(b) network were NTSA strategic partners. Mr. DeGrassi confirmed that AXA, Great American, Kades Margolis, Lincoln Investment Partners and Security Benefit are current partners. Although Horace Mann and Valic were not strategic partners, a large number of their advisors had individual NTSA memberships, he added.

Mr. DeGrassi referred to the 2008 IRS ruling and indicated Delaware and Iowa were the only two states that created state run plans. He wanted to speak to the Council about the NTSA view of what the potential consequences of the proposed changes to the 403(b) State’s plan current structure. He indicated that at the national level 403(b) plans are predominately served by middle market advisors.

Mr. DeGrassi said that because teachers already have a pension, 403(b) accounts are normally small and opened with an advisor. He said that he believed that consolidation of plans results which exclude an existing vendor may cause a participant to lose a personal relationship with an advisor, and the participant may stop contributing, especially if the new plan is directed like most 401(k) plans. Mr. Simpler asked if this would continue to be true if existing contributions were automatically transferred to master administrator. Mr. DeGrassi restated his concern that consolidation will stop participants’ contributions.

Mr. DeGrassi said there is data to reflect that advisors add value in getting participants enrolled and by providing financial planning and investment advice. He added that he believes participants are more likely to increase their contributions and diversify their accounts when an advisor is involved. He cited as an example the data reflected in the current RFP that says the 457(b) plan has an average annual contribution rate of $2,900 with an average balance of $40,000 compared to the 403(b) plan that has an average annual contribution amount of $3,800 and $51,000. Mr. Simpler noted that participation rates, however, are nearly identical and wondered if the difference in contribution rates and account balances could be attributed to other factors, for example the average annual salaries of educators, the group’s average age, the probability of two-income earners in households or other factors. Mr. DeGrassi could not comment on such differences.

Mr. Simpler said the Council would like access to research that demonstrates that participation rates are increased when participants have a relationship with an advisor. Mr. DeGrassi affirmed that the requested research will be sent to Ms. Gonzalez at a later date. Ms. Gonzalez asked how many relationships could each advisor effectively service and for a brief description of the type of services provided to the participant. Mr. DeGrassi said most advisors service 500-600 accounts and noted different companies have different service models. Mr. DeGrassi further indicated that part of the Council’s role is to select qualified advisors and eliminate from the network those who do not protect the participant’s interest.

Mr. DeGrassi stated a 30% participation rate is the national average for 403(b) plans. He used Washington County, MD and Arlington County, VA as plan examples where participation rates decreased following consolidation into a single vendor solution and added that they returned to a multi-vendor solution.

Ms. Watson asked Mr. DeGrassi to talk and provide available data regarding NTSA studies where behavioral finance was considered to determine what participants need and or want. Mr. DeGrassi said NTSA will provide data in regards to the Iowa and Indiana cases. He understands the need to incorporate behavioral finance to deal with participants’ inertia and provide support to the Council’s fiduciary duty. He agreed that too much choice could lead to investment paralysis.

Mr. Campbell-King asked if data on the auto-enrollment plan design feature was available. Mr. DeGrassi stated that he believed that auto-enrollment would increase the fiduciary responsibility on the Council.

Mr. DeGrassi asked the Council if the recent models reflect whether participants prefer auto enrollment or advisor services and stated that the premium spent for advice is worth it if participants receive premium service. Mr. Simpler agreed with the proposition that focus should be on value rather than cost but lacking hard data to demonstrate value added by broker relationships with participants, his concern with the higher expenses to the participants in the 403(b) vs. 457(b) remained. He restated his observation that participation rates in the State are nearly identical in the single-vendor 457(b) plan and the multi-vendor 403(b) plans. He also stated the council has a fiduciary responsibility to vet the advisors that are servicing participants and noted that in any model there are good brokers and bad ones. Mr. DeGrassi said that each vendor’s own compliance department should monitor advisors and take control of bad brokers. He added that plan advisors are licensed under the Securities Act of 1934 and the Investment Company Act of 1940 in regards to their standards of behavior.

Ms. Gonzalez mentioned that another concern raised by the Council was cross-selling opportunities created for advisors. Mr. DeGrassi said his studies show that 60% of participants started their financial advice relationship with an advisor from an employer-sponsored plan, adding that employees trust that their employer has hired good people. He acknowledged that cross-selling happens, but said if the advisor is governed by CFP standards they should only provide products and services that the participant needs.

Ms. Watson stated that the Council takes its role very seriously. Mr. DeGrassi said that five of the State’s biggest vendors have done a lot of work on participant enrollment because of their model. Ms. Watson stated there was a need to consider technological advances to address participants’ needs and fee disclosures. Mr. DeGrassi argued that there was no perfect model. He gave the example of target date funds, noting that first they were the answer to the QDIA and provided diversification at a low cost. He said they needed to be customized which raised the fees, making them too expensive and added they still don’t address each participant’s specific need.

Mr. DeGrassi added that if 404 disclosures and a fee aggregator screen were available for participants it would help them to understand what they are currently paying. He stated 100 basis points is considered the industry standard for advice and an additional 15 to 30 basis points should be added for mutual fund and annuity expenses.

Mr. Green asked Mr. DeGrassi to contrast the commission vs. salaried models. Mr. DeGrassi said under the salary model each advisor would need to serve over 3,500 participants for it to work and be cost effective to the vendors. Mr. Green requested further information to learn about the benefits and shortcomings of each model and Mr. DeGrassi agreed to provide more data.

Ms. Gonzalez asked about asset portability and the ability to provide participants with more control over their retirement assets. She added the Council has raised concerns regarding the impact that surrender and other charges have on Plan retirement savings. Mr. DeGrassi stated that the charges are to compensate the broker-dealer for paying the advisor if the participant leaves early.

Ms. Goodman asked about the process going forward and the point of contact. Mr. Simpler said the selection committee and the Council will continue to learn more about the different options and thanked Mr. DeGrassi for taking the time to meet with the Council. He stated that further information should be submitted to Ms. Gonzalez.

Mr. Campbell-King stated that the Council wants to do what’s right for the participants.

**PUBLIC COMMENTS**

No public comments.

**ADJOURNMENT**

A MOTION was made by Mr. Simpler and seconded by Ms. Stewart to adjourned the meeting at 4:35 PM

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