

Approved

**457 DEFERRED COMPENSATION PLAN
MINUTES OF ADMINISTRATIVE COMMITTEE REGULAR MEETING
January 28, 2015 at 9:00 a.m.**

Members in Attendance

Elizabeth Morrison, Chair, Finance and Budget
Eric Baird, ICT Business Services
Duane Hill, Accounting and Financial Reporting
Dayton Hostetler, Fire Department
Mikel O'Brien, Labor Relations
Tammy Woodard, Human Resources & Development

Staff in Attendance

Claudia Kay, Human Resources and Development
Julia Tanga, Police Department

Guests in Attendance

Peter Hoerber, ICMA-RC
Jared Martin, ICMA-RC
Jim Reinke, ICMA-RC
Sonia Rogers, ICMA-RC
Greg Settle, Hyas Group

Agenda

- A. Minutes of November 14, 2014 meeting
- B. System security protocols
- C. Fiduciary role of Wilmington Trust
- D. Timeline for adding Roth 457 payroll deduction option
- E. Consider adding Roth 457 in-plan conversion option before Roth 457 deduction option available
- F. Review 3Q and 4Q plan executive summaries
- G. New services
- H. 2015 communication/education calendar
- I. Retirement planning presentation
- J. Alternative investment options presentation
- K. Understanding target date funds presentation
- L. Review suite of Vanguard target date funds
- M. Updates to Investment Policy Statement
- N. Review administrative budget and participant account fees
- O. Discuss Committee Chair position
- P. Open discussion

Copies of the following were distributed prior to or during the meeting and, by reference, are incorporated into these minutes:

- ICMA-RC documents
 - Information Security – ICMA-RC
 - Fiduciary Considerations for Plan Sponsors

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- Roth 457 Plan Contributions
- 3Q and 4Q Deferred Compensation Plans Summaries
- 2015 Education Calendar
- Roadmap to Your Financial Future
- 10 Questions Retiree Guide
- Hyas Group documents
 - Alternatives in DC Plan Investing
 - Target Date Funds: History, Design, and Selection
 - Review of Target Date Suite
 - Admin Fee Analysis

Elizabeth Morrison chaired the meeting. Mikel O'Brien was introduced. Robin Romeo has delegated her role on the Committee to Mikel. Mikel had served on the Committee previously.

A. The minutes were distributed electronically prior to the meeting.

Upon motion by Duane Hill, seconded by Dayton Hostetler, the Committee unanimously approved the meeting minutes for 11/14/2014.

B. Jared Martin distributed a document titled Information Security - ICMA-RC and conducted a PowerPoint presentation on the security measures and controls used by ICMA-RC to protect sensitive data and to provide for disaster recovery services. Jared said that the main data center is in Washington, D.C. and that a separate location with redundant data also exists. The Committee asked if there were industry security standards and credentials that could be used for procurement processes as well as for compliance/validation purposes. Jared stated that he would gather information about credentials, number of staff, etc. and forward to Claudia Kay. The Committee also asked Jared to check into the recovery method, liability, and insurance measures should account tampering due to fraud occur.

Fiduciary role of Wilmington Trust

C. Jared and Peter Hoerber distributed *Fiduciary Considerations for Plan Sponsors* and used a PowerPoint presentation (no electronic copy provided) that explained the roles of ICMA-RC, Wilmington Trust and M & T Bank. He said that ICMA-RC is a pass through and not an insurance company or bank.

M & T Bank holds the contributions until they are distributed to the funds and the mutual funds are the custodians. M & T Bank is a regulated provider and is not an affiliate of ICMA-RC. The Committee asked about the security protocols for M & T Bank. Jared and Peter said that ICMA-RC checks their protocols and will see whether this can be shared with the Committee.

Wilmington Trust is a passive directed trustee for the Port's plans. It is not a custodian of any funds, but insures that ICMA-RC is performing their duties and upholding its responsibilities. Peter stated that Wilmington Trust acts as an operational integrity check and has liability for the work they perform. Wilmington Trust reviews ICMA-RC's controls and each month it tests ICMA-RC's systems against the Port's to insure plan data is received correctly. Jared will see if partial or full data tests that Wilmington Trust performs can be shared with the Committee. Peter also stated that Wilmington Trust is obligated to report to the Committee if it detects any items of concern. Jared affirmed that having Wilmington Trust as a passive directed trustee fulfills the IRS' requirement for trusteeship of a 457 plan. He also stated that ICMA-RC is currently working on developing a list of duties performed by Wilmington Trust. He further stated that the Committee might want to have Wilmington Trust on a conference call at a future meeting. Claudia will distribute the Wilmington Trust contract to the Committee.

D. and E. Jared distributed a handout about 457 Plan Roth Contributions. He also showed a PowerPoint (no electronic copy provided). He stated that it would take approximately three to four months to implement a Roth paycheck contribution feature because file testing would be involved. There would be no additional participant fee because the assets are part of the same account and the entire account would be subject to a single annual 457 contribution maximum.

Jared also stated that a feature could be added that would permit participants to convert existing 457 plan assets into a Roth 457 and that this could be offered without adding a Roth payroll contribution component concurrently. There would be no limit on the amount converted or the frequency of conversions. However, taxes would have to be paid from outside the plan. He further explained that the Committee could permit participants to take a loan against Roth 457 assets, but 99% of plans don't do so because of the complexity. However, even if the Committee decides a loan cannot be taken against Roth 457 assets, the amount of assets can still be used to calculate the amount available for a loan.

Should the Committee want to make only the conversion option available, the current interface file would not need to be changed. ICMA-RC has Roth educational materials that are already available and Jim Reinke and Sonia Rogers are able to conduct the educational sessions. ICMA-RC's current website already includes a Roth analyzer tool to assist participants with determining whether to contribute to a Roth. Greg and Jared stated that there are no federal regulatory issues pending that would impede implementation.

The Committee reaffirmed its interest in adding a Roth payroll contribution option, but resources and other events prevent this from happening in 2015. Tammy Woodard stated she would follow-up with Lauren regarding firming up a date for implementation.

Upon motion by Dayton Hostetler, seconded by Eric Baird, the Committee unanimously agreed to add an in-plan Roth 457 conversion option.

The Committee asked Sonia to prepare a communications plan using July 1 as the implementation date.

F. In the interest of time, the Committee asked Jared to present only the 4th Quarter Deferred Compensation Plans Summary. Jared noted the higher than average rollouts from the plans. The Committee discussed having information to distribute to participants that compare the plans' fees with external fees charged by other firms. Peter stated he could work with Hyas to develop a handout and that ICMA-RC's Legal staff does not permit them to develop such a fee comparison. Jim and Greg both said that FINRA is examining distributions from retirement plans to private firms and the need for the private firms to document the beneficial reasons for an individual to take such action.

Julia Tanga mentioned the option for LEOFF members to buy an annuity within 60 days following separation from employment. Jim stated that he has reviewed this option and found that it is an advantageous rollout for participants. Jim also stated that some police officers are rolling their Pacific Coast pension money into the Port's plans.

Sonia provided a summary of the services she has been providing and stated that virtual meetings remain popular. Sonia is interested in sending targeted emails to employees. Employees could always opt out of receiving subsequent emails. Claudia will check to see if permitting this would violate any Port practice.

G. Jared stated that Robert Schultze has been selected as the new President and Chief Executive Officer of ICMA-RC. Other new services: mobile app that enables participants to view their account(s), Realize Retirement website feature that consists of videos and calculators for investors of all ages, and online withdrawal election capability that permits the participant to select any distribution date (previously participants restricted to a specific day of the week).

H. Peter explained the themes for each quarter of the 2015 Education Calendar: 1Q – savings and participation, 2Q – financial fitness, 3Q – plan for ultimate vacation, and 4Q—beat the clock. Sonia's personal goals are to enroll those who are eligible for a Port match and to heighten awareness of available services. Jim stated his personal goal is to broaden awareness among employees about the certified financial planning services he offers personally as well as those provided by ICMA-RC.

Peter stated that he appreciated being able to meet retirees at the annual luncheon and Tammy said that she would consider including Peter during this year's event.

I. Jim conducted a presentation of the 10 Question Retiree Guide

J. Greg conducted a presentation using the document titled Alternatives In DC Plan Investing. Regarding self-directed brokerage accounts, Greg stated that many of his other clients include individual securities. This enables participants to develop a higher risk portfolio as well as to

invest in a variety of bond types. Greg further stated that the State of Washington fixed the law to allow investment in individual securities for their employees, but neglected to revise the law to permit this for other governmental entities until King County raised the issue. The law was recently revised.

Approximately 1.3% of combined Port plan assets are invested in a brokerage account. The Committee also discussed the maximum amount that participants can invest in a brokerage account and types of individual securities available through TD Ameritrade. Greg informed the Committee of recent regulatory concern about how brokerage accounts are operated in private sector ERISA plans. Although the Port plans are not subject to ERISA law, they have tended to operate in accordance with such.

Eric made a motion to permit individuals to invest in individual securities in their self-directed brokerage accounts; seconded by Dayton Hostetler. Motion carried by the following vote: In Favor: Baird, Hill, Hostetler, Woodard. Abstained: Morrison, O'Brien

Greg also explained the other types of alternative investments in the document and pointed out how they operate, their role in an individual's portfolio, and possible advantages and disadvantages.

Greg also said that the next Hyas client newsletter will include information about the IRS' approval of a distribution component to target date retirement funds.

The Committee asked whether there are any other investment vehicles they should consider at this time. Greg stated that the status quo was fine until assets grow larger. He added that he would not recommend adding additional funds, such as a REIT, just to offer more diversified options if evidence shows that participants do not use them.

K. Greg distributed *Target Date Funds: History, Design and Selection*. He reviewed the history of the development of this type of fund, how they are constructed, and investment strategy differences among three fund providers included in the document. The Department of Labor has issued suggestions and opinions about selecting target date funds. Greg has clients that survey their employees to get answers to the four questions listed on page 4: (a) How do they feel about risk, (b) How do they intend to use their plan assets after retiring, (c) How are they actually using their plan assets when they retire today, and (d) What are their expectations, goals and needs. The results showed that people intend to use the fund for lifetime income. Greg stated that he can provide a survey sample that the Committee may want to customize for its own potential survey.

L. Greg distributed *Review of Target Date Suite* and reviewed aspects of the Vanguard Target Date funds including their components, glide path, performance and fees. Greg stated that no managed account vendor has been able to demonstrate that their product works better.

M. Greg reviewed suggested edits to the Port's Investment Policy Statement (IPS) and also a version of Hyas Group's IPS that had been customized with Port specifications and updates. The Hyas Group's IPS could alleviate the need to make frequent updates. The Committee asked Greg to revise the customized Hyas Group IPS to show "Passive Investing" as a distinct sub-category in the three "Tiers" of investment options, and to send the Port IPS red-line version that includes the comments of Hyas Group analysts in the margin. The Committee decided to review the suggested changes and the Hyas Group's IPS and then discuss their thoughts at the next meeting. Greg will forward electronic copies of these documents to Claudia. He said he would also discuss at the next meeting places where the Hyas Group does not believe the current benchmark or peer group needs to be updated.

N. The Committee decided to review the 2015 budget and participant asset-based fee more closely at next meeting. Greg distributed the *Admin Fee Analysis* document.

O. The Committee discussed whether there should be a specific term of service for the chair and whether the role could be shared.

Upon motion by Tammy Woodard, seconded by Mikel O'Brien, the Committee unanimously agreed to appoint Elizabeth Morrison and Eric Baird as Co-Chairs for a five-year term or length of tenure on the Committee, whichever is less.

P. The Committee discussed proposed state legislation to make the state's 457 plan a mandatory option for PERS employers. Elizabeth has contacted Clare Gallagher and informed her of the ramifications if this legislation passes. Greg will be providing supporting documentation to Washington Association of Cities.

Adjournment: The meeting was adjourned at 4:00 p.m.

