WASHOE COUNTY DEFERRED COMPENSATION COMMITTEE
MEETING MINUTES
Wednesday, May 14, 2014

Committee Members Present:
Darrell Craig, Chairman
Cynthia Washburn, Secretary/Treasurer
Cindy Fladager, Judicial/Probation
Scott Thomas, WCSDA
Scottie Wallace, WCEA

Also Present:
Sue Sabourin, Human Resources
Karen Jeffers, Human Resources
David Watts-Vial, Legal Counsel
Mr. Fleiner, Bidart & Ross
Mr. Trenerry, MassMutual

Committee Members Absent:
Stephanie Shuman, Vice-Chair

1. **Call to order and roll call**
   Meeting was called to order at 2:04 p.m. and a quorum was confirmed.

2. **Public comment**
   None

3. **Approval of February 12, 2014 meeting minutes**
   Motion to approve was made, seconded; passed unanimously.

5. **Treasurer's report**
   Member Washburn reported revenues are up and expenses are down. She stated the administrative fee had not been received yet, but should be coming in shortly. Mr. Trenerry was surprised we hadn't received it yet and said he would follow up on that and let Member Washburn know the status. She also reported that year over year, professional services are up due to increased assets and travel was also up slightly, due to an extra person attending NAGDCA last year.

6. **Discussion and possible action regarding participation in NAGDCA's 2014 annual conference held September 14-17, 2014 San Antonio, Texas**
   A motion was made to approve sending all Committee members, plus one staff member, to attend NAGDCA 2014. The motion was seconded; passed unanimously. At this point, it appears four or five Committee members and one staff member may be attending this year. Ms. Sabourin will be sending an email to everyone with the packet of NAGDCA information. Chairman Craig advised the conference hotel is full, but there is another down the street that is offering the same rate and cautioned members not to wait too long to make reservations.

7. **Presentation of County travel rules and regulations**
   Member Washburn gave a brief summary of the County's travel rules and explained that when using government related funds, costs should be fair, reasonable and necessary to what you're doing. Basic guidelines are: that you find economical airfare; that reimbursement for car rentals and mileage is the federal rate; and that you always keep your receipts. Because the DCC is quasi-governmental, alcohol and other entertainment is frowned upon for travel reimbursement. A good sanity check for reasonable hotel accommodations is finding something within the conference room rate. Transportation to and from the conference, hotel and meals are all covered. It is the fiduciary responsibility of the members to expend monies at the best possible purpose. Member Washburn mentioned there was a problem with Chairman Craig's reimbursement last year and reminded support staff that his expenses must be entered in the system as a non-taxable vendor. She also reminded the Committee members that County travel forms must be used when requesting reimbursement.

4. Discussion on financial and regulatory plan audit

At the Committee's request, Member Washburn had invited Kafoury Armstrong to discuss what an auditor would look for in this type of plan. Member Washburn introduced Dan Carter from Kafoury (audit partner for Washoe County) who also introduced Kristen Burgess who works on employee benefits plans.

Chairman Craig explained that at the last NAGDCA conference, other entities were having a round table discussion about who does audits and how frequently. The majority said never, but the Committee has been talking about whether or not we should consider an audit. Kristen explained that governmental plans are not subject to audit, but in the non-government sector, the Department of Labor does require them and they are primarily an audit of the financial statements—an express of opinion as to whether they are fairly stated. They have different titles, but usually include a balance sheet, income statement and full disclosure (footnotes). From an audit perspective, it is auditing the financial statement, not compliance aspects. A financial audit doesn't test internal controls.

From a compliance standpoint, it may be checking if there is too much money being contributed. Kristen wasn't sure what types of things we would want them to check for. Chairman Craig said he feels we already have a lot of checks and balances in place; the Committee has never felt there were ever errors being made that would warrant concern. Mr. Trenerry advised the City of Reno does not audit their plan, but the State of Nevada would be doing a financial audit by Clifton Larson Allen this year. They used to do it every year, but then decided on every other year due to cost. Mr. Trenerry added they have never found any glaring problems. Member Washburn explained that audits in general are not looking for "perfect," they are looking to see whether we have a system in place to find and correct errors. Audits are also an opportunity to possibly correct some internal controls. Chairman Craig asked if we could see some past audits of other entities, but Member Washburn explained it wouldn't give us usable information since each audit is specific to that plan. Member Fladager asked if there was any documentation of other similar plans we could look at. Mr. Trenerry and Member Washburn said NAGDCA should be giving us that information.

Member Washburn explained financial audits only sample financial data. We could, however, review certain areas of concern from a compliance perspective. We could accumulate the typical issues these types of plans have, and then have Kafoury review them and report back. Member Washburn gave the example of moving Animal Services out from under the Sheriff's Office. This was a hot topic, with the typical public disclosure because people felt the money wasn't being spent appropriately. An audit doesn't uncover that. It checks whether money is being diverted, etc. Once we decide on the scope of the testing, we can determine the value. Kristen said they can help develop those procedures. Chairman Craig asked about price range. Kristen said if you have a financial audit with a disclaimer, it would run between $10,000 and $15,000 for a first year audit. Agreed upon procedures (compliance) would start around $3,000.

After Kafoury left the meeting, Chairman Craig asked the members for their thoughts. Scottie liked the idea of agreed upon procedures, especially as it pertains to retirees keeping their money in the plan. Member Washburn suggested we start small—get a few procedures together to start; look at different pieces every few years—wherever you see the most risk. Chairman Craig felt that Mr. Fleiner and the Comptroller already covers our areas of concerns. Mr. Fleiner said he has seen Kafoury's audits and there is never anything negative that comes out of these financial audits. The Committee agreed that they do not want a financial audit. Mr. Fleiner pointed out that if compliance problems arise, we would know (participants would be telling us). Has never seen a compliance audit of a governmental 457 plan and doesn't feel it's necessary. Member Thomas also felt an audit was unnecessary. He stated the other entities getting audits are the ones managing their own plans, but we have so many checks and balances already in place, he feels it would be a waste of money. Chairman Craig agreed with Mr. Fleiner and Member Thomas and doesn't think we could learn anything new from an audit. Motion was made to table the discussion of agreed upon procedures until after NAGDCA 2014. No second, motion fails. Member Fladager moved to drop further discussion of audits altogether, after Kafoury presentation and Committee conversation. Member Thomas seconded; motion passed with Member Wallace opposing as she wants to learn more about compliance audits.

8. **Discussion regarding possible communication piece for employees about to retire**
Ms. Sabourin reminded the Committee we obtained the original letter from Kristen Weisgerber at MassMutual and slight changes were made. The letter will be updated again now that Sharon Brannon is gone. This letter was a result of the discussion of trying to reach out to retirees, and will eventually be included in the "New Retiree Orientation" packet Human Resources gives out to employees about to retire. Chairman Craig asked about whether or the Committee should have a letterhead. Member Washburn said some Committees do and some don't. Chairman Craig thought it would be better to have the County logo on the correspondence. Or, indicate that the correspondence is coming from both Human Resources and the Committee.

9. **Discussion regarding the 2014 National Save for Retirement Week (October 19-25, 2014)**
Ms. Sabourin asked the Committee if they wanted to do anything special this year. In 2013, we had a speaker, but very low attendance. In the past, there have been meetings and employee educational sessions. Mr. Trenerry said Ms. Weisgerber could help as well. Ms. Sabourin and Mr. Trenerry will talk to Ms. Weisgerber in July and come up with some ideas. Ms. Sabourin will re-agendize this in August. Member Washburn said we should talk to John Listinsky, the Human Resources Director, about getting an announcement put on the BCC meeting on October 14.

10. **Discussion and possible action on amended specimen plan document language changes**
In November 2013, an amendment was added to enable retirees to roll money into the plan. In processing this amendment, MassMutual made multiple changes to the plan doc which support staff has been researching. Staff narrowed the changes down to three that required input from the Committee: adding "spouse" beneficiary to 6.1; stating "no" to qualified distributions for retired public safety officers (meaning we don't want the plan to allow for distributions to pay for health insurance—that already occurs through PERS) in 6.11; and update the beneficiary designation language in 8.1 to clarify what happens if a participant dies and there is no beneficiary.

Chairman Craig moved to accept plan changes as presented; seconded, passed unanimously. Member Washburn asked Mr. Watts-Vial if these plan amendments needed to be approved by the BCC. Mr. Watts-Vial confirmed BCC approval was not necessary as these are just clarifying changes.

11. **Continuing discussion regarding possible changes to the member composition of the Deferred Compensation Committee**
Member Wallace and Chairman Craig met with the Washoe County Employee's Association (WCEA) Executive Board a few weeks ago to consider changing one of the two WCEA seats to be held by a retiree if a retiree is available; otherwise it could be a WCEA member. There is an Executive Board meeting tonight and while the Board doesn't think there will be a problem, they may vote on this as early as tonight. Chairman Craig didn't want to approach the Executive Board to make the retiree position "mandatory" so they took a softer approach to memorialize the fact that one seat could be occupied by a retiree, preferably a former WCEA member. Chairman Craig asked that this be put on the next agenda so he and Member Wallace can report back with an update.

12. Quarterly review of MassMutual's account service objectives

Mr. Trenerry advised Sharon Brannon turned in her resignation last Thursday, and MassMutual has begun the process to fill her position. He is hopeful they will have someone on board by July or August. He asked the Committee members to please let him know if they knew of anyone who might be qualified and interested (must have a State of Nevada Insurance License and Series 6 and 63 licenses). Ms. Sabourin added that we are advising employees that Anita Westfield and Tom Verducci are the backups for now. Mr. Trenerry added that MassMutual will do whatever they need to do to manage our account, including bringing in extra people if needed.

Mr. Trenerry quickly pointed out the following:

- There were no hardships this quarter
- Contributions for the quarter were up at $2.8M
- Average account balances are growing
- The Roth continues to grow (116 participants this year compared to 97 last year)
- MassMutual received an award for most ethical company in the world

13. Report and presentation regarding fund performance update for the most recent quarter, and possible recommendation, discussion and action to change investment fund lineup

Mr. Fleiner indicated there had been a little bauble at the beginning of the quarter, but we ended up with some modest returns. There is only one fund on watch status (Lord Abbett Mid Cap Stock); and three on guarded status (Hartford Capital Appreciation, American Century Equity and DWS Alternative Asset Allocation Plus). Chairman Craig asked why we had two mid cap funds. Mr. Fleiner explained Hotchkis and Wiley were on guarded status for a long time so in 2009 Lord Abbett was brought in as a secondary option in case we needed to eliminate Hotchkis and Wiley. Because the Lord Abbett fund is underutilized, and has a lower rate of return than Hotchkis & Wiley, we may want to look at eliminating them. The age-base model, which uses Lord Abbett, would need to be revised, but we could just flip it with Hotchkis and Wiley. Chairman Craig is in favor of moving forward to eliminate Lord Abbett. Mr. Fleiner said we would have to put out a 30-day notice to inform applicants and Mr. Trenerry said he also had some hoops to jump through. We'll shoot July 1, but Chairman Craig indicated the date wasn't that important from a Committee standpoint; they just want them to start the process of deleting Lord Abbett and mapping those funds over to Hotchkis and Wiley. Mr. Trenerry said MassMutual will put the letter together. Member Washburn moved to remove the Lord Abbett Mid Cap Fund from our portfolio and to move everything over to the Hotchkis and Wiley fund. Motion seconded; approved unanimously.

Mr. Fleiner advised the total assets for the 457 plan are $132.5M for the end of the quarter; and $8.6M for the 401(a) plan.

There was a brief discussion on the 401(a) plan and the original goal when it was added to the line-up. At the time, employees could only defer $8,000 through the 457 so the addition of the 401(a) allowed them to defer more. Now, employees can defer up to $17,500 annually, with another $5,500 in catch-up contributions, so the need for the 401(a) isn't as great. And, because employees are nervous about getting locked into this savings plan, particularly since there is a short, specific enrollment window, there are fewer individuals who benefit from the 401(a). The original thought was that employees could commit a small percentage of their salary (i.e. 2%) to the 401(a) which would never change, and commit to larger contributions to the 457 which they could manipulate at any time.

Mr. Fleiner provided clarification on the 5 year standard deviation which measures fluctuation (volatility). The top number in this column represents the standard deviation of five years of returns and the bottom number represents the standard deviation of the emerging markets. You want the top number to be lower or equal to the bottom number, although it is typically higher on an actively managed fund. If it's higher it means you're taking on more risk, which is fine as long as you are seeing higher returns on your investment.

Mr. Fleiner wanted to review fees with the Committee to make sure they understood them. Every Mutual Fund has an expense ratio (the fee the fund company charges every investor that's in that class of shares). That fee is netted out of the return of the fund on a daily basis. Example: If your fund has a 1.40% expense ratio and returned 20% at the end of the year gross of fees, it returned 18.60% net of fees. Our plan's total Mutual Fund assets are $85,074,681 with an average 0.63% expense ratio, or $536,352. Of that $536,352, 0.16% went back to MassMutual for record keeping expenses (revenue sharing). The $138,297 revenue sharing number is not an additional fee; it is a component of the investment management fees. From our participants' point of view, the expense ratio is the only fee that they are charged. The General Account has no expense ratio fees, only an estimated 0.65% record keeping fee. We have a fee reimbursement every year of $45,000 which comes out of the revenue sharing number. (Mr. Trenerry pointed out that not all funds participate in revenue sharing.) MassMutual requires 18 basis points (0.18%) in Mutual Fund revenue annually to run the funds (record keeping, administration, website etc.). We're getting about 16 basis points (0.16%) which is why we had a short fall in our revenue sharing number this year. This explanation of fees was new to some of the Committee members, so Mr. Fleiner reminded everyone he is available to answer any questions they might have, and Chairman Craig encouraged them to reach out to him.

14. <u>Comments by Committee or staff members</u>
None

15. <u>Public comment</u>
None

16. <u>Adjournment</u>
Meeting adjourned at 4:38 p.m.