CITY OF MILWAUKEE
MINUTES OF THE DEFERRED COMPENSATION BOARD
MEETING OF THURSDAY, MAY 18, 2017
2:00 P.M. - ROOM 405, CITY HALL

MEMBERS/DESIGNEES PRESENT:
Mr. Jerry Allen, Board Chair
Mr. Mark Buetow
Ms. Renee Joos
Ms. Paula Kiely
Mr. James Klajbor, Vice Chair
Mr. Steven L. Mahan – arrived at 2:05 p.m.
Mr. Mark Nicolini
Ms. Sandra Rotar

EXCUSED/ABSENT:
Alderwoman Milele Coggs – excused
Mr. Stuart Mukamal – excused

OTHER PLAN PROVIDERS and STAFF PRESENT:
Mr. Jeff Deetsch, Invesco
Ms. Elaine Bieszk, Plan Coordinator, Deferred Compensation
Ms. Beth Conradson Cleary, Interim Executive Director
Mr. Brian Merrick, Voya Financial
Ms. Ellen Tangen, Assistant City Attorney
Mr. Ben Taylor, Callan Associates Inc.

OTHERS PRESENT:

02:03p.m. A quorum being present, Mr. Allen, Chair of the Deferred Compensation Board, called the meeting to order.

1. Approval of Meeting Minutes of February 16, 2017 [00:39]

[00:52] Motion by Mr. Klajbor to approve the minutes. Seconded by Mr. Nicolini. No objections.

[02:21] Motion by Mr. Klajbor to convene in closed session for Items 2 and 4, pursuant to Section 19.85(1)(c)(e) and (g). Seconded by Mr. Buetow. Roll call vote taken. No objections.

02:06 p.m. Board enters closed session.

2. Transition [03:45]
Closed session.

3. Discussion and Approval of Default Annual Percentage Increase [24:30]
Item taken up in open session
Mr. Allen explained that the default annual percentage increase is an auto escalation feature that the City Council put in the hands of the Board under the Master Plan Agreement. The Board has the ability to decide whether or not it wants to include an annual escalation feature, which would automatically increase participants' default percentages on an annual basis. Mr. Klajbor explained that the reason it is here before us today is, if we were going to implement the auto escalation, the Board would have to make that decision now to get everything ready for the Fall campaign. Discussion ensued. Mr. Allen stated that, if we do nothing more today, we will still have to have a communication campaign for the annual default election process. Ms. Cleary stated she has already started to discuss the campaign with Voya and she has asked Mr. Merrick to identify the non-collective bargaining employee population that consists of employees either not in the Plan or who are contributing less than three percent—this identified population is currently almost 1,300. Mr. Merrick stated that this number excludes anybody hired since October because they had recently gone through the auto enrollment process.

[34:04] Motion by Mr. Klajbor that we maintain the status quo for the Fall 2017 Open Enrollment/Default Election campaign. Seconded by Ms. Kiely. Mr. Allen asked for any discussion or comments. Mr. Taylor made some relevant points regarding best practices in relation to auto enrollment (*i.e.*, Default Elections) and auto escalation, and recommended that the Board continue to evaluate metrics around these features. Mr. Allen stated that there appeared to be some consensus amongst the Board to let the dust settle a little bit before taking any action on an auto escalation feature. Mr. Klajbor stated we will have data from the Fall campaign that will help us analyze this situation better.

[37:53] Mr. Klajbor amended his motion that we maintain the status quo but then we use those metrics to examine the situation after the enrollment period ends. Seconded by Ms. Kiely. No objections.

4. Personnel Committee Report [14:09]

a. Executive Director recommendation review and approval
Closed session.

2:22 p.m. Motion by Mr. Klajbor to return to open session. Seconded by Ms. Rotar. Roll call vote. No objections.

5. Executive Finance Committee Report [41:33]

a. Recommendation to adopt assessment of administrative fees for SDBA accountholders [41:41]

Mr. Merrick gave an overview of his memo and explained that the recommendation stemmed from the fact that, currently, there exists no mechanism to assess fees from participants who have funds invested in the SDBA, which impacts the ability for all participants to pay their fair share of the Plan's operating costs. He reported that Voya analyzed how many SDBA participants (currently there are 377 participants investing in SDBA funds) have less than 25% of their money invested in Core Funds (*i.e*., non-SDBA funds). He stated that, of the 377 participants, there are 161 individuals that have less than 25% in Core Funds. Of this group, there are 13 individuals who do not have enough money in their Core Funds to pay a year's worth of fees, 29 individuals who do not have enough money in their Core Funds to pay five years' worth of fees, and 39 individuals who do not have enough money in their Core Funds to pay 10 years' worth of fees. Mr. Merrick proceeded to go over the summary of actions that may be taken by the Board. Mr. Merrick stated he thinks the direction Voya is looking for is - 1) do you want to implement this plan, 2) which population do you want to target and 3) is how much money should we pull, should it be enough to satisfy 25% or enough to satisfy the fees for that particular range in his example if they were going to target the group of 29 do we seek to move sufficient to cover five years' worth of fees. Mr. Buetow stated five years' worth of fees is not really a significant amount—it is not like you are adversely affecting their ability to invest, but you are ensuring that they have the ability that they are paying fairly. He would say that five years would be the goal. Mr. Allen asked for five years. Mr. Buetow answered yes. Mr. Allen asked if anyone else had any other comments or questions. If not, he will take that motion and move on to the next item.
[01:00:02] Motion by Mr. Buetow. Seconded by Ms. Joos. No objections.
[01:01:22] Ms. Cleary recommends the Board refers this to the EFC to work out the details. Ms. Kiely asked the communication to the affected members will that come from our office? Ms. Cleary stated yes she will be working with Voya. Mr. Merrick stated they will draft sample letters.
[01:01:45] Mr. Allen thinks he hears a couple of friendly amendments to the motion, one is that we base the standard on five years, another one is that this be referred to the EFC for further discussion and augmenting the necessary Board-approved documents. On motion and second without any further discussion the motion carries.

b. Investment updates [01:02:23]

Mr. Joecken reported Reams, part of the AMIA, announced that Carillon Tower Advisers acquired Scout Investments and Reams Asset Management. Callan is monitoring this situation and is confident that the contracts in place between Reams and Scout will transfer over to Carillon. Ms. Cleary stated that Reams will be invited to present at the June EFC meeting, at which point the Board can ask Reams any questions it may have.

Mr. Joecken stated that JP Morgan Smart Retirement Funds use the S&P target date fund indices as its benchmark. S&P announced that it is making a change to that benchmark—previously it was constructed using a series of ETFs; the benchmark is now going to be constructed using a series of index funds. Callan thinks this is a positive development. While ETFs are intended to be a measure of the market, they don't necessarily always track the market as well as they can due to trading and how they are constructed. From a purely investment standpoint, Callan thinks this is positive. From a communications standpoint, Mr. Joecken believes JP Morgan is working with S&P to delineate this as a change to the benchmark, not a change of the benchmark, a distinction that should mitigate any required communications that might be triggered for participants.

Callan addressed the fact that JP Morgan Target Date Funds have targeted retirement dates, and that the 2015 Fund has hit the end of its terminal glide path. When that happens the common practice is to shift those assets into the JPMorgan SmartRetirement Income Fund so it has sort of the same glide path for the rest of its life. Mr. Taylor went on to explain how that happens. Discussion ensued.

The communication from Schwab is informational and reflects both updates to the funds being offered and changes in the trading commission and transaction fees being collected by Schwab.

c. Investment withdrawal hierarchy and withdrawal hierarchy alternatives [01:10:10]

Mr. Merrick stated that there are two memos which came out of conversations at the EFC meetings to discuss potential alternatives for participants to access their money. He explained item one was the investment withdrawal hierarchy alternatives, which stemmed from the following question: is there the capability to allow participants who request a withdrawal to specifically select which investment they want to pull that money from? Voya does not have the ability to allow individuals to choose which specific fund they want to take a withdrawal out of the Plan. He stated that anybody can, at any time, move their money amongst the funds and reallocate it. That said, Voya does have the ability to build a specific withdrawal option (*i.e.*, it would pull first from an investment selected by the Plan sponsor and then on a pro rata basis from the remaining funds the participant was invested in). He gave an example.

Item two was related to the inquiry about creating the ability for participants to draw down first from 457 plan money (*i.e.*, qualified money) as opposed to non-457 plan money (*i.e.*, non-qualified money). He stated that, upon further researching this issue, he realized the way Voya currently drills down on withdrawals already allows participants the ability to pull specifically from their qualified money or specifically from their non-qualified money or Roth, so there really is not a need to build that hierarchy. For example, if someone wants to take a withdrawal and he is 45 years old and separated from service, he can choose to pull just from the 457 money so he gets taxed, but is not subject to the 10% penalty. In summary, through discussions with the EFC, it was determined that there was no desire to move forward. Discussion ensued.

d. Annuity Products [01:17:15]

Mr. Taylor gave an overview of Callan's Defaults & De-cumulation Options report – this is about annuity options and income in retirement.

Mr. Taylor explained and went into detail about the following products: Qualified Default Investment Alternatives (QDIAs), Guaranteed Minimum Withdrawal Benefit accounts (GMWBs), Qualified Longevity Annuity Contracts (QLACs) and Immediate Income Annuities. Mr. Taylor stated that, while a QLAC (a product initially allowed via the SEC changing its regulations in 2014), in general, is a good idea, there are concerns for vetting them in terms of due diligence, especially since they are so new to the industry. As QLACs become available he thinks it is a good idea to raise the topic as fiduciaries and potentially select a QLAC product or products to be available.

Mr. Klajbor stated that the thought was for the Board to keep an eye on future products, but, because of its complexity and the fact that the market hasn't really developed yet, we are not recommending to take any action to offer any new products. Ms. Cleary stated Callan will be coming back to us if they see any noteworthy products.

6. Interim Executive Director Report [01:24:07]

a. Personnel update

Ms. Cleary reported on the Administrative Assistant II position. She and Ms. Bieszk have been interviewing for that position and believes that we have found a strong candidate. She reported that, pending a successful vetting process, she hopes to make a job offer very shortly.

b. Approval of the 2018 Proposed Budget [01:25:25]

Ms. Cleary referred to the BMD-2 and the BMD-2a forms that were submitted to the Budget office. She indicated that the main difference from last year's budget was a) the addition of an AAII position and b) increased operating costs to allow for expenditures for City Attorney's fees. It has been decided and agreed upon between the Budget office, City Attorney's office and DCP that the Plan will be paying for the services of the City Attorney's office on a go-forward basis. She reported we anticipate $20,000 a quarter which is where the $80,000 comes from. Discussion ensued.

[01:29:40] Motion by Mr. Klajbor to approve the budget. Seconded by Ms. Rotar. No objections.

c. Participant outreach efforts [01:29:54]

Ms. Cleary provided updates regarding outreach efforts that she and the local Voya representatives have made, specifically to DPW field employees via its Safety meetings. The reason for the meeting is to let them know of our intention to provide more field outreach at satellite locations. Staff has been working with Ms. Joos and her staff to piggyback off the infrastructure of the City's Wellness Mobile Clinics and its identified locations. Also, Ms. Kiely has offered, as another option, for us to work at some of her library sites.

Our Voya local representative team is fully staffed, as of February, and includes one fulltime and two part-time local representatives.

Ms. Cleary has been doing some outreach efforts with some other targeted groups, including a website "beta testing group" of a few MPA members. She and Mr. Merrick recently met with this group and provided a hands-on, online tutorial session, which was very helpful, especially in terms of feedback of the online account features.

Ms. Cleary stated that part of the strategic plan is to set a goal for a target percentage of plan participants to obtain online access to their accounts. Mr. Merrick encouraged feedback if anyone has suggestions about how we can improve our outreach efforts and how we interface with our tools, as well.

e. Website and Plan communication update [01:34:33]

Ms. Cleary referred to the website's "Plan news and updates" tile, which links to the Board-requested explanation on pre-transition versus post-transition fees. It also links to the 2016 and 2015 fee disclosures.

Discussion ensued regarding concern that all City employees are adequately represented in the pictures used on the website. Mr. Klajbor suggested featuring some of our participants on the website.

Ms. Cleary referenced the Plan presentation materials dated March 31, 2017, which she will be submitting tomorrow to the Finance and Personnel Committee, per the Common Council communication file opened to communicate the post-transition Plan updates. This presentation summarized the pre-transition and post-transition metrics and focuses on participation and contribution rate changes, while specifically identifying impacts based on race, gender and salary quartiles, which were driving factors that initially led to the design changes. Ms. Cleary reported that she has met with three of the Committee members so far to brief them on this presentation (and will meet with the other members, shortly). Overall the feedback from the Committee members has been positive, especially in regards to the increased participation and contribution rates.

7. City Attorney update on Ice Miller opinion re Federal tax compliance matters [01:48:49]

Ms. Tangen reported that there are no significant updates. They are in the process of collecting information working with the Executive Director.

8. Vendor Reports [01:49:08]

a. Callan Associates Inc. Performance Report [01:49:18]
Mr. Joecken gave a brief first quarter market overview of the Plan's performance, investment returns and participant fund allocations. See booklet.

b. Charles Schwab PCRA Report

c. Voya Financial – Plan Report

d. Invesco Advisers, Inc. (SVA) Performance Report [02:03:39]
Mr. Jeff Deetsch gave an overview of the Stable Value Account's performance over the last quarter. See booklet.
Mr. Deetsch reported on the cash flows. He referenced that last quarter they talked about a number of plans that Invesco had observed, when a reenrollment occurred, where a lot of dollars come back in because there will be significant outflows and Invesco will normally see that, within about six months to a year, post reenrollment, most people look at their statements and say "wait a minute, you took it out of my stable value and I want it back in there." Invesco has not noticed this trend and Mr. Deetsch thinks that has a lot to do with the upfront work that the Board did with the transition and communication outreach. Invesco will continue to keep an eye on the outflow and report back quarterly. Invesco had been discussing adding another wrap provider to the Plan; over the quarter, it added Pacific Life Insurance Company, which is the fifth wrap provider. Invesco feels the addition of Pacific Life provides ample diversification.
Mr. Deetsch emphasized some changes to the benchmark. He explained that the book value benchmarking will not change, which is what the participant sees, and that Invesco's objectives for stable value are still the same, which is principal preservation. But what happens underneath the hood is, the wrap providers have different benchmarks. The benchmark from a market value perspective is really composed of the broad market indices heavy weighted to the Barclay's Aggregate and the Barclay's Intermediate indices, in particular. He went on to explain. Discussion ensued.

e. Northern Trust Performance Report

[02:12:36] Motion by Mr. Klajbor to receive and place on file all the vendor reports under Item #8. Seconded by Mr. Nicolini. No objections.

9. Informational Items [02:12:53]

Mr. Merrick proudly shared that his colleague and our dedicated Voya liaison, Ms. Adria Campbell, has won the Service Star award from PLANSPONSOR magazine for exceptional plan sponsor service.

Mr. Buetow inquired about the loan defaults and asked what the dramatic increases were attributable to. Mr. Merrick stated it is a function Voya's timing processes. Voya processes loan defaults at the end of each quarter. He further explained that the Board would not have seen this data on December 31st because Voya didn't have the loans prior; however, from this quarter going forward, the Board will see these spikes at the end of each quarter. Mr. Klajbor asked how our numbers compared to our peers. Mr. Merrick will look into that to see if he can find that information.

Update to the Board from Voya regarding an internal review of the service disruption that occurred during the week of February 6, 2017.

4:21 p.m. Meeting adjourned.

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