# DEFERRED COMPENSATION PLAN MANAGEMENT BOARD

**Minutes for the September 4, 2015 Regular Meeting**
**255 West Alameda, 5th Floor West Conference Room**
**Tucson, AZ 85701**

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| **Members Present:** | Joe Barkenbush, Chair<br>Dennis Woodrich, Elected Member<br>Steve Postil, Elected Member<br>Karen Tenace, Deputy Finance Director<br>Rebecca Hill, Interim HR Director |
| **Staff Present:** | Silvia Navarro, Treasury Administrator<br>Michael Hermanson, Plan Administrator<br>Dawn Davis, Administrative Assistant |
| **Guests Present:** | Ken Wedemeyer, ICMA-RC<br>Gary Helm, ICMA-RC<br>Tamara Jamison, Galloway Asset Management<br>Steve Wheeler, Galloway Asset Management |
| **Absent, Excused:** | None |

A) Call to Order – Chairman Barkenbush called the meeting to order at 9:00 AM.

B) Consent Agenda
   1. Approval of Board Meeting Minutes from June 5, 2015

**A motion to approve the Consent agenda was made by Steve Postil, 2nd by Dennis Woodrich, and passed by a vote of 5 – 0.**

C) Investment Performance Review for the City of Tucson Fund Line-up
   1. Plan Investment Report for the period ending June 30, 2015
      a. Scorecard Metrics (pages 8-13)
      b. Watch List Report
      c. Plan Service Report for the period ending June 30, 2015

Ken Wedemeyer said all the funds added to the lineup in March have performed very well compared to peers, before the current market volatility. There was some normalization at the end of the 2nd quarter. Vanguard Total Bond continues to lag. It is an index so the policy has been to let it ride, it is not very far off from the comparison to peer, and he expected it would look good at the end of the 3rd quarter when compared to actively managed funds. PIMCO Total Return continues to do well and ICMA-RC does not have any concerns, the 3 and 5 year numbers are above the peer median. Value funds have not performed well, regardless of size, compared to the peer median because they are too conservative, but they may have greatly improved performance given the recent market volatility. The T. Rowe Price Small-Cap Value Advantage was replaced with the JP Morgan Small Cap Core Select, which turned out to be an excellent decision because the JP Morgan fund has performed very well. The ICMA-RC trust series also made the election to remove the T. Rowe Price Small-Cap. Nuveen Real Estate Securities is not meeting criteria on the 1 and 3 year returns. He asked if the Board wanted to add it to the watch list because it is not meeting criteria on 2 metrics. For 1 year it is ranked 54th, the 3 year ranking is 26th, and 5 year is 15th. He did not see any reason for concern but can add it to the watch list at the Board's request.

Michael Hermanson explained the scorecard is designed to identify metrics at a glance; if the investment is meeting the Board's criteria it will have a checked box, if it is failing to meet the criteria it will be added as a watch list item for the Board to monitor. The watch list has a legend on the 4th page. The board monitors the watch list and if they see anything consistently underperforming they make changes about once a year, because it might make the participants leery if done more frequently.

Mr. Wedemeyer stated the plan investment report is a snap shot of the previous quarter, and the metrics are driven by what is seen in Morningstar, and the 1, 3, and 5 year returns. It is closely tied to the Board's Investment Policy Statement. The Board asked ICMA-RC for a trend line and the watch list report was created so they could see how and where the funds are missing the Investment Policy Statement in terms of the number of quarters.

Chairman Barkenbush said they had not covered Times Square Mid Cap Growth which had a bad 1 year ranking.

Mr. Wedemeyer answered they had a bad 1 year that brought down the 3 year ranking. This fund does not have a large portfolio, and does not have a lot of turnover within that portfolio.

Chairman Barkenbush said according to page 22 of the Monitoring Detail it has lost 232 basis points vs. the benchmark.

Mr. Wedemeyer answered that was why it is on the watch list, and they could present alternatives at the next meeting if the Board wanted. These numbers will probably change based on the recent volatility of the market, and they were not sure where the funds would fall between now and the end of the quarter because of that volatility.

Mr. Hermanson recommended the Board keep it highlighted on the watch list for now.

Mr. Wedemeyer advised there were no major changes with the managers that would have resulted in new funds being added to the watch list. There was some improvement in the model funds because they are so conservatively managed. He asked if the Board was still considering removing the model funds, and suggested the Board keep and watch them to compare them with the other funds during the current market volatility. ICMA-RC could provide some alternatives to the current model funds since the Board has elected to keep model funds in the lineup.

Mr. Hermanson said at the 6/5/15 Board meeting they discussed reducing the number of funds in the lineup, and whether the model portfolio funds were still appropriate in light of today's trend toward target date retirement funds that are automatically adjusted over time. The question, at that time, was whether to delist the model portfolio funds because they are from a time when the target date funds did not exist. He asked if Mr. Wedemeyer was saying there were competing model portfolios in the market place.

Mr. Wedemeyer answered the Board had discussed where they would move the money that was still in the model portfolios, and they did not get very far into that conversation because Silvia Amparano stated she preferred to offer the participants more choices, not less. The actual numbers and the watch list report shows the All-Equity Growth fund continues to lag behind peers, the Long-Term Growth fund has improved considerably, and so has the Traditional Growth. They may find at the end of the quarter, because the model portfolios are so conservatively managed, they have over performed compared to peers; but if they do not ICMA-RC could provide the Board with some alternatives.

Chairman Barkenbush stated if they did want to look at alternatives, options should be included that are not really conservative but also not really aggressive.

Mr. Wedemeyer stated they could have the alternatives available for the meeting on 12/4/15 for comparison purposes and a decision could be made at the March 2016 meeting. The managed accounts have continued to grow. As of 9/1/15 the managed account fees dropped to start at 40 basis points and get lower from there.

Gary Helm advised the fees for the managed accounts were capped at $1,500, so no one will pay more than that for those services.

Mr. Wedemeyer said there was a task force trying to combine the executive summary and the plan service report into a much shorter piece with real time numbers and the potential to be driven by what the Board wants to see. The anticipated delivery date is the 2nd quarter of 2016.

D) Plan Analytics, Statistics
1. Asset Allocation and Activity,
2. Participant Allocations by age bands, ranges of balances and contribution levels
3. Education report on completed presentations and attendance
4. 2015 New Enrollments receiving $50 incentive
5. Summary of Plan Statistics – June 30, 2015

Ken Wedemeyer said there were some sizable rollouts in the last quarter, the majority of which went to Ameriprise, large amounts also went to Vanguard and Bank of America. The majority of rolled out funds were taken from the Plus Fund.

Chairman Barkenbush said the loan balance reports need to be synchronized because there were two different reports with two different numbers.

Mr. Wedemeyer stated the loan balance of $3,726,547.19, given on the Asset Allocation and Activity report was accurate. The other numbers do not include all of the repayments and accelerates it.

Steven Positl asked if having 1.54% of the total account balance taken out in loans was a lot.

Mr. Wedemeyer answered it was actually very low compared to plans of comparable size. They do not become concerned until the loans reach around 7% of the account balance.

Michael Hermanson asked if they have ever heard of anyone receiving an inquiry from the IRS about too many loan defaults.

Gary Helm answered yes he had when the default rate was upwards of 40% because they went from payroll deductions to ACH payments and participants figured out that if they just closed the bank account the ACH was coming from they would not have to repay the loan. The IRS informed them they were running a "sham retirement plan" because the default rate was so high and that it needed to be corrected immediately.

Mr. Wedemeyer explained there were committees and Boards that monitor jumps in loan defaults so they could try to figure out where it was and what was causing it because there have been cases involving fraud in other locations.

Karen Tenace asked what the trend line looked like for percentage of active employees participating in the plan.

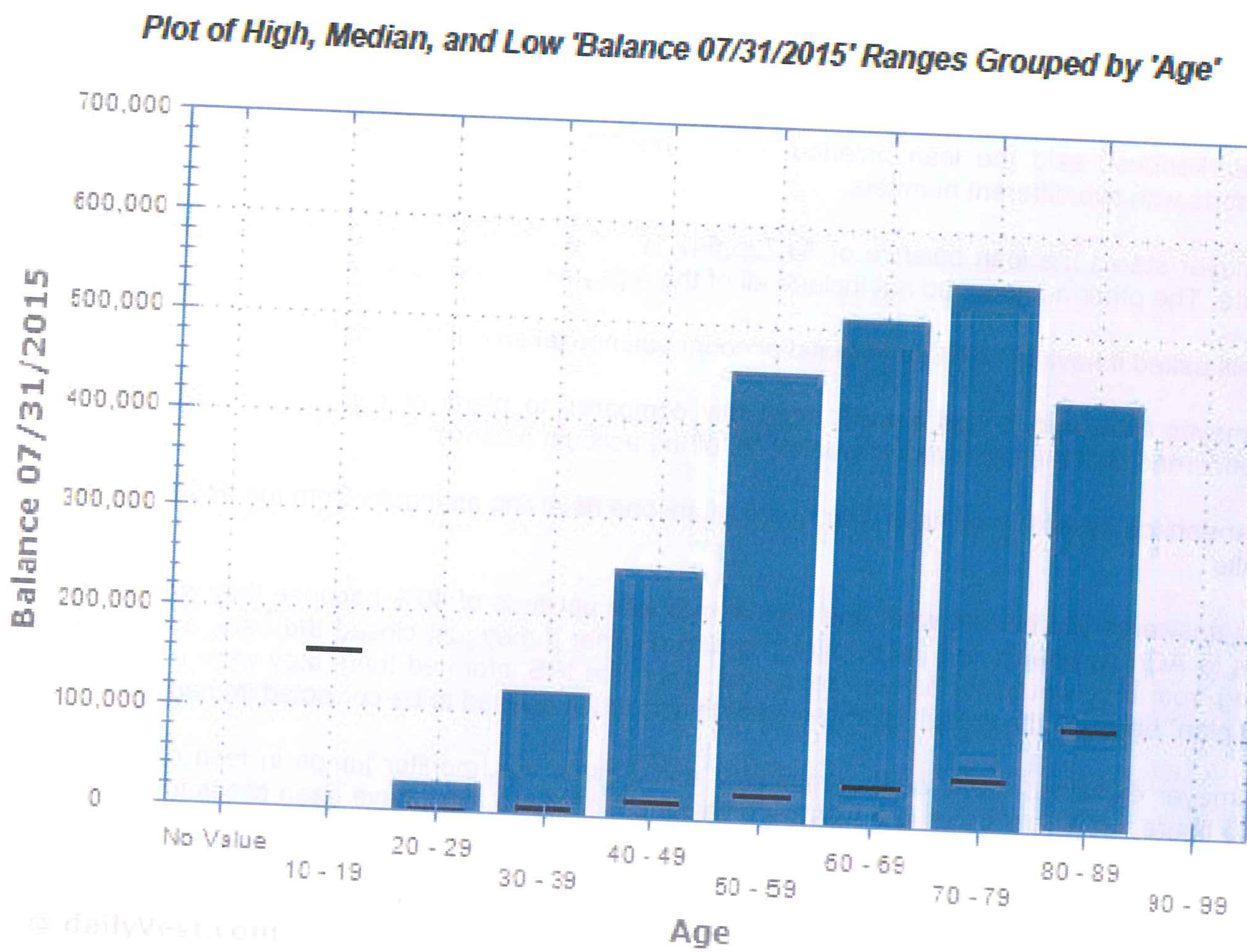
Mr. Wedemeyer answered they have been hovering at about the same numbers which means retirees have been replaced at the same rate at which they are leaving.

Mr. Hermanson stated Mary Inorio had signed up 35 new employees at a recent open enrollment event.

Mr. Wedemeyer explained that after new employee orientations ICMA-RC follows up with a postcard and contact from Mary Inorio. They follow up because they know that the paperwork at orientation can be overwhelming. In some cases, in other locations, it is a struggle to keep the participation rate steady. So it is good to see that number of active participants is the same and the amount of the contributions decreasing a little because the presumption is that new participants are contributing less. The steady participation rate means ICMA-RC is catching the people coming in. The aged 50+ group numbers are separated because the group is in preretirement mode, and they account for a majority of the plan assets. Their asset allocation tends to be more conservative so when the market is up they tend to have a lower return.

Chairman Barkenbush expressed surprise that only 51% of the asset allocation for the aged 50+ group was in the Stable Value asset class.

Mr. Wedemeyer advised it might go back up considering the market. ICMA-RC has been trying to communicate the importance of asset allocation to that group, but the inertia of the plan that was consolidated in 2006 works against them. The allocation by participant age breakdown shows the aged 20-29 group is borrowing the most at 6.21%. They may contact the participants in this age group with a message about the efficiency of keeping the funds in the plan because the loan rate has jumped recently, and if they have to borrow against their retirement at that age maybe they should be paying off credit cards and other debts. The following chart shows the variances of the account balances across the different age groups.




The average monthly contribution for participants' ages 0 - 30 is $156.18, 31 - 40 is $215.18, 41 - 50 is $311.52, 51 - 60 is $619.00, and 60-100 is $4753.38.

Mr. Helm said year to date, as of 8/30/15, ICMA-RC representatives had completed 104 on site consultation days, 46 on site seminars with 372 attendees, 455 portfolio reviews, 228 financial transactions, 112 457 enrollments, 7 Roth IRA enrollments, 148 contribution increases, $4.9M in rollins, and $8.3M in rollouts.

Contract to date (10/1/14 to 8/30/15) representatives had completed 137 of the 140 onsite consultation days, 66 of the 70 on site seminars with 544 attendees, 696 portfolio reviews, 343 financial transactions, 154 457 enrollments, 7 Roth IRA enrollments, 190 contribution increases, $6M in rollins, and $10M in rollouts. An ICMA-RC Certified Financial Planner (CFP) has completed 14 of 16 on site seminars with 278 attendees, 14 financial plans, and 23 financial transactions. They go over these numbers at every meeting to allow the Board, as fiduciaries, to ensure ICMA-RC is meeting all of their contractual obligations.

Rebecca Hill asked how the seminars were marketed.

Mr. Helm answered they send out a city wide email announcing the seminars and onsite locations. They use an electronic registration system so participants can click on a link provided in the email and register for the event.

Mr. Hermanson stated they also have the announcements posted on the deferred compensation page of the City's website.

Mr. Helm explained recently the most popular seminar topics were social security and estate planning. As participants get closer to retirement age they start to think about their pension plans, Medicare, supplemental insurance, and other issues surrounding retirement along with money.

Mr. Postil asked how they advertise the seminars to retirees.

Mr. Helm answered the retirees were on the CFP's distribution list to receive letters and emails.

Mr. Hermanson advised that if the retirement office had the information in time it was published in the CTRA newsletter.

Mr. Helm said they do have cooperation with CTRA and they planned on participating in the retiree luncheon again this year.

Mr. Wedemeyer said the national theme for National Save for Retirement Week is "get financially fit" which falls in line with the know your numbers theme the Board had previously discussed in order to collaborate with the Human Resources (HR) department's flu shot clinic.

Mr. Hermanson stated HR would not be holding flu shot clinics this year.

Ms. Hill explained the know your numbers, biometric screening, event was pushed to after the 1st of the year, and the flu shot clinics were so poorly attended last year they decided not to have them this year because the cost is too high for such low attendance.

Mr. Wedemeyer suggested keeping know your numbers as the theme for consistency of message because HR will be holding know your numbers biometric screening events at a later date. There are 4 or 5 different messages that go along with the national theme that can be branded with the Tucson One logo, and the Banners are ready to be printed once they know what to put on them.

Mr. Helm asked if the Board wanted locations for 1 or 2 days.

Dawn Davis answered they had locations for October 20, 21, and 22.

Mr. Wedemeyer said he had seen the mock up for the custom landing page for City of Tucson participants and prospective participants on the ICMA-RC website. It should be up and running at the end of October. It includes information relevant to Tucson and all of the information they would expect a participant or prospect to want to know like how to get to the retirement calculator, account information, and the enrollment process.

Ms. Hill asked if there was still a $50 incentive for opening a new 457 account, because it seemed like a popular incentive at the new employee orientation she attended.

Mr. Hermanson answered they had provided 167 incentives through calendar year 2015, the Board voted to provide 300 for a maximum of $15,000 dollars to be used for that purpose. This incentive has been provided for 3 years now.

Mr. Wedemeyer explained at the time the incentive was created City attorneys and ICMA-RC attorneys all advised it was best to offer the incentive for a 1 year period and for the Board to vote to extend it for another year, every year, so that the program has a clear beginning and end should the Board decide to discontinue it. It is promoted at new employee orientation, postcard follow up, and several other channels. The thought is that different forms of media appeal to different people, so they send the promotions out using various methods in hopes of reaching all the prospective participants employed by the City.

Mr. Hermanson clarified the incentive was only for brand new participants who did not previously have an account with ICMA-RC. $50 is added to their account when they enroll and a deferral takes place. A list is reviewed by staff to confirm the enrollments are legitimate, in other words the participant has not enrolled and then dis-enrolled without having any deferrals take place. There was a person who elected to contribute $500 but the deferral never took place because he removed the deferral election before it was fully processed, as a result he did not receive the $50 incentive.

Mr. Wedemeyer stated the 35 just signed up by Mary Inorio were not reflected in the number provided to Mr. Hermanson, so they are probably closer to 200 incentives distributed for the year.

E) Report on progress of request to automate member deferral change elections, % of pay election, annual contribution limit testing

Michael Hermanson explained staff had a meeting with Aniz Kadir with CGI, the vendor providing maintenance and support for the City's payroll system. They have some solutions to automate the annual contribution limit test work, and limit the deferral amounts, but they do not have solutions yet to automate the deferral changes. It is still a work in progress at this time.

Mr. Wedemeyer asked if the gap analysis project was still on hold.

Mr. Hermanson answered that was another project but yes it was still on hold.

F) Call to Audience

Tamara Jamison addressed the Board on behalf of Galloway Asset Management. The Board did a fantastic job putting together the deferred compensation program which includes a self-directed brokerage account (SDBA) option. Many members do not know they have access to the TD Ameritrade side of their plan through the SDBA. There are thousands of choices within the SDBA plan, which can be overwhelming so Galloway would like to help manage those accounts and provide training. This would address the rollouts because Galloway is a big advocate for keeping money inside the plan instead of rolling it out, because there are more benefits within the City plan than anywhere else. They work with the deferred compensation companies to provide education to their clients, and they hold seminars and teach at the fire academy. They went through Phoenix last year and after they held their financial wellness class 71% of the attendees increased their deferred compensation contributions. In Chandler 87% of the seminar attendees increased their deferred compensation contributions. People leave these plans because they want options and are not aware of all the options they have within the plan in the SDBA option. The drop rules have changed, so in January people aged 50 and up can keep their money inside the plan and still have access to it instead of waiting until age 59.5, but they do not realize that if they take the money out of the plan it will be tied up until they are 59.5. The SDBA option is already a part of the plan but the investment advisor piece is not and Galloway is trying to have that added to the plan.

Chairman Barkenbush asked how Galloway is compensated.

Ms. Jamison answered everything is free except the actual money management for the people who elect the SDBA option and hire Galloway as their investment advisory firm. The education and appointments are all free. Galloway's incentive is to provide education to find the 25% of people who need the SDBA option and want to use Galloway as their investment advisor. Their philosophy is that the first 10 to 15 years of a person's career they should not pay anyone to manage their money, so Galloway would just put together a retirement plan for them.

Chairman Barkenbush asked in what options they would put the clients that do hire them.

Ms. Jamison answered it depended on their risk tolerance. If they want to be more aggressive with their account they would have more aggressive allocations, and if they are getting ready to start withdrawing money from the account it would be a less aggressive, more conservative option with money left inside the core account for cash purposes.

Chairman Barkenbush asked if this service would supplement the advice that the ICMA CFP could provide, or was it an entirely different service.

Mr. Wedemeyer answered the current program, in terms of a direct comparison, would be accounts managed by a 3rd party, Ibbotson or Morningstar who have a certain number of portfolios that someone would fall into based on risk tolerance. It is a similar service but not the same because Morningstar's investment policy might be different, but they tend to be oriented to age and risk tolerance. The fees associated with that are 40 basis points, and he asked Ms. Jamison what Galloway's fees were.

Ms. Jamison answered it was 75 basis points for the index portfolio, and for the managed portfolio it was 125.

Mr. Wedemeyer said Nicole George, CFP, can provide ongoing management suggestions of several types of holistic programs including insurance and estate planning. What she cannot do is advise on individual securities and Galloway can.

Ms. Jamison said one of the other differences is within the ICMA managed accounts there are 27 choices. A lot of people are leaving the plan because they want more choices as they reach retirement age, and they have those choices with the SDBA option, but the liability is huge because a person managing their own money in the stock market could cause a lot of problems.

Chairman Barkenbush said the fee structure is set up so that the more money in the program the lower the fees paid by the participants. If there is competition taking money away from those funds it is a drawback on the program because contributing member fees will increase if the balance drops much lower than it is.

Mr. Wedemeyer responded that would be the case today as the plan is currently set up because the assets that move into the SDBA show no revenue, however if there was a revenue share it would be different. If there was revenue share on the amounts in the rollout window that would come back to the plan, ICMA would look at the revenue requirement here and even if it was 5 it would be very close to the Board's revenue requirement, and the assets would be pulling their own weight within the plan. It is not the way the plan is set up now with any outside advisors, but it there was revenue sharing it would come back to the plan.

Michael Hermanson asked what level was the standard revenue share on that kind of arrangement.

Mr. Wedemeyer answered he had only seen 1 and he had only ever seen 5 or 6 basis points.

Mr. Helm stated the Boards revenue requirement was 7.75, so it would be something that is comparable to that. If money is leaving there is no record keeping revenue being generated on that piece of the business.

Mr. Wedemeyer said the other side of that is that whatever is being paid to the outside advisor, Galloway's is lower than many of them, that additional 5 or 6 basis points would be in addition to what the participant was already paying.

Ms. Jamison said the SDBA was already available to participants, they just do not know how to use it. She emphasized that Galloway Asset Management would tell them to keep their money with ICMA.

Mr. Wedemeyer asked if they open it up to Galloway would they also have to open it up to other financial advisors that qualify.

Ms. Jamison answered anyone who is a registered investment advisor group (RIA), monitored by the SEC and/or FINRA can manage money within the SDBA plan that ICMA-RC has established.

Chairman Barkenbush asked what series they had.

Ms. Jamison answered she had a 7 and 66.

Steve Wheeler has a 65.

Ms. Jamison said the money was not managed by the people in the field; it is managed in house at their corporate office.

Chairman Barkenbush asked if anyone was requesting additional services.

Mr. Hermanson answered he received a phone call from Jim McShea earlier in the week asking how he could use the brokerage window and receive management advice. It was a subject at the TPD Commanders Association luncheon but staff did not know how many people were there or interested.

Ms. Jamison stated Jim McShea was president of the Tucson Commanders Association, and he had called Mr. Hermanson on behalf of the association.

Mr. Wedemeyer explained there were a couple of people who had managed accounts through ICMA-RC, who said they understood it, and they were under the RC program through Morningstar. The managed accounts have been changed to be able to go into retirement, so the distribution side of managed accounts is in place and being utilized quite heavily.

Chairman Barkenbush stated any firm in town can offer managed accounts so if the Board was going to open it up to outside mangers they would have to start the bid process.

Ms. Jamison said people should have options; it is difficult to be an RIA and get into TD Ameritrade and if the Board opens the window there will not be 50 managers trying to get in; Phoenix Fire and Police have had it available for 10 years and there are only 20 firms allowed to participate because they have gone through the correct channels.

Mr. Hermanson stated that the Board clearly had more questions about this topic but this was not the appropriate format as it is a call to the audience and not an agenda item.

Chairman Barkenbush clarified they would need to make changes to the program with ICMA-RC to do this.

Mr. Helm answered they would need liability wavers absolving ICMA-RC and the City, as the plan sponsor, of liability.

Mr. Hermanson said if the Board would like more information on this it would have to be scheduled as a future agenda item.

Ms. Jamison said she would appreciate the opportunity to bring this back to the Board as a future agenda item.

Mr. Wheeler stated most of the representatives that work in the field are retired police and fire personnel who do it for the love of the business.

G) Adjournment

**A motion to adjourn the meeting was made by Steve Postil, 2nd by Dennis Woodrich, and passed by a vote of 5 – 0.**

Meeting adjourned at 10:18 AM.

Approved:

12-4-2015 12/7/15

Joe Barkenbush
Chairman of the Board

Date

for Michael Hermanson
Plan Administrator

Date