DEFERRED COMPENSATION PLAN MANAGEMENT BOARD

Minutes for the December 12, 2013 Regular Meeting
255 West Alameda, 5th Floor West Conference Room
Tucson, AZ 85701

Members Present:	Joe Barkenbush, Chair Steve Postil, Elected Member Dennis Woodrich, Elected Member Silvia Amparano, Finance Director (left early) Curry Hale, Designee for HR Director
Staff Present:	Michael Hermanson, Plan Administrator Melissa Waychoff, Administrative Assistant Allan Bentkowski, Investment Manager
Guests Present:	Ken Wedemeyer, ICMA-RC Gary Helm, ICMA-RC Mary Inorio, ICMA-RC Hua Lei, ICMA-RC (via phone)
Absent, Excused:	Lani Simmons, HR Director

A) Call to Order - Chairman Joe Barkenbush called the meeting to order at 8:30AM after confirming that a quorum was present.

1. Consent Agenda - approval of Board meeting minutes from September 19, 2013

Motion to approve consent agenda was made by Dennis Woodrich, 2nd by Steve Postil. Motion passed 4 to 0 (Silvia Amparano arrived late).

B) Review of Fund line-up for Q3, September 30, 2013

1. New quarterly report format, orientation discussion

The format of the quarterly performance report has changed dramatically, incorporating some unique metrics that will be reviewed so everyone can understand it better. In the future, there may be other changes made to make the quarterly performance easier to review. The Monitoring Criteria on page 7 indicate the specific metrics used for investment performance. The Scorecard checkboxes on page 8 indicate a pass/fail type of scenario using the monitoring criteria. Page 14 of the report is where the actual performance and ratings are indicated; a red box on the Scorecard means the fund is failing the metric and underperformance is shown as a red number. Page 34 indicates the Morningstar ratings for each fun and the actual performance and benchmark follows the Morningstar ratings on page 38. The end of this report concludes with information on each of the funds and a fund commentary.

2. Review of investment line-up metrics and performance

Full disclosure from ICMA; their Board has just removed Royce Premier from their trust and they have a duty to notify us. In general, we have the metrics set up to look at funds that have outperformed and have not fallen into the 4th quartile. We are looking for performance to equal the benchmark over a three year time period. We are looking for funds to have a positive standard deviation relative to the benchmark. We are also looking at the 3 and 5 year ratings for Morningstar to be 3 stars.

On a year to date basis, all the fixed income funds are falling behind peer median. But over the 3 and 5 year period, the performance is better. The funds that are struggling are in the mid-cap growth area. Goldman Sachs and Columbia Acorn have fallen behind on the 3 year rating. There are no funds with style box or Morningstar category changes. Other funds, like Vanguard Total Fund Market Index Signal are not performing well, but it has government related issues. Columbia Acorn has underperformed their benchmark on a YTD basis, but still had strong absolute returns at 21.73%.

Silvia Amparano left at 9:02 AM.

If a fund does not fall behind in peer median (below 50%) over long periods of time, it tends to outperform peers. Based on underperforming funds that have landed previously on the watch list, we want to be able to review replacement fund recommendations. The underperformers include T. Rowe Price Small Cap, Royce Premier, Columbia Acorn, and Goldman Sachs. Steve Postil requested we take a look at Global Natural Resources, since it falls below benchmarks in the past year, but the 3 and 5 year periods are pretty good.

Steve Postil is wondering if there has been any movement out of the Stable Value fund. Mary Inorio said people have been asking for alternatives. Ken Wedemeyer responded overall movement in the fund shows $1.1M came in and $2.2M went out; and not a lot of transfers out. It can be hard to get people to move out of funds they have relied for years and this fund has a strong legacy coming from the City managed accounts transitions in 2006.

3. Review of Current Investment Policy and approval

The investment policy for the Plan has not changed since 2007. As a general policy, the language provides the Board with the appropriate level of flexibility required. Michael Hermanson added, it's important that the policy not be too stringent; if it is, the decision making role of the Board will become unnecessary. What is desirable is to make this policy match the elements found in the Scorecard we just reviewed. As a recommendation, the Board can approve so that it has a new date on it, and we can discuss further at the next meeting. The Board should take this as an item to consider during the next three months and come back with any recommendations they find. The Investment Policy Statement is a living document and is subject to change at any time. Michael Hermanson suggested the Board at least acknowledge the date change. **Motion** to accept Investment Policy as it currently stands and review in more detail at the March 2014 meeting was **made by Steve Postil, 2nd by Dennis Woodrich. Motion passed 4 to 0** (Silvia Amparano not present).

4. Discussion of possible fund line-up reductions (share classes, redundant styles, low usage)

We have been trying to identify elements that will help us decide on investment diversification because the asset categories have some redundancies in their areas. Participants are inadequately equipped to make the complex investment decisions required and too many options can be a barrier to effective decision making. If a fund only has one participant, should the fund remain in the lineup? Michael Hermanson would like the Board to consider this between now and the March 2014 meeting.

The Home Page report of this summary seemed to be off in the numbers and Michael Hermanson will look into getting the correct data. Ken Wedemeyer posed the question: if in an effort to streamline, do we remove model portfolios and if participants do not make another choice, map the change to a target date milestone portfolio? Some participants may choose a similar fund or not do anything and get put into a new portfolio. Target dates have been replacing the model portfolios. Allan Bentkowski asked if it is possible to close the funds to new participants and let the people in there already stay until they retire or leave. Michael Hermanson responded then other participants will be asking why they cannot be in the fund. Ken Wedemeyer responded we can do it, but if it starts performing well and others want to join, then we would have some participants who are unhappy. The Bond lineup has six funds, but most plans have exposure to the intermediate term bond fund and we have two. Our plan also offers exposure to high yield. It just boils down to how much streamlining we would like. We also have the brokerage window now, if someone wants any other investment choice that exists in the financial markets. Michael Hermanson would like the Board to consider how we might adjust our fund lineup for the March 2014 meeting. We will also discuss share class changes in the same conversation.

For next time ICMA will produce the entire report and he Board needs to think about what they would like to see for the other three quarters of the year.

C). 457 Enrollment Incentive Program

1. Program Review of 2013 Activity

Our enrollment incentive program for 2013 shows the plan had 157 new enrollments receive the incentive. Since the 2013 program only goes until the end of the year, there will be a lag period if we do not approve a new incentive program until the March 2014 meeting. Arizona is not a state that allows auto-enroll. As an alternative to the $50 incentive program for new enrollees, would the Board prefer to see an incentive program that provides all new employees with an existing account; has a $25 balance in it, and all the new employee/participant has to do is fill out a designation of beneficiary form. They would not be required to

participate in the plan, but if they already have $25 in their account, they are more likely to start saving for retirement and would put more money in. Mary Inorio has an account in the Tucson area that actually does this; they start employees with a $100 balance and she notes about 90% elect to add $10 - $20 per paycheck. Since the $100 comes from the employer, the City would not be interested in doing this. Michael Hermanson is suggesting the $25 would not come from the City but from the same funding source used (Administrative Allowance Account provided by ICMA RC) for the $50 incentive program. Ken Wedemeyer suggested we take this idea to Legal to get approval for it. Since legal needs to be able to justify there is a benefit to participants in the plan. Similar to the current incentive, it is expected to benefit the plan favorably by enrolling more participants because it saves existing members future costs of the plan by growing the plan. Curry Hale stated the population of employees is not willing to give anything to the City. Union membership enrollment is low. Morale is low. He thinks employees would not enroll for $25. Ken Wedemeyer suggests when we run it by the City Attorney; he would like the City take the liability in this plan instead of ICMA and would like to have it in writing. Mary Inorio suggested if we did it, we could look at the employees in about 6 months to a year and see if they contributed so we could evaluate the incentive. Steve Postil stated we have enough money to carry us through the next quarter with the same program. He suggested we continue the current program for the next quarter. **Motion to allocate $15,000 (of the AAA) for CY 2014 for $50 incentive per enrollee made by Steve Postil, 2nd by Curry Hale. Motion passed 4 to 0 (Silvia Amparano left early).**

2. 2014 Program Recommendations

D) Consideration of Extending Loan Program to Retiree Accounts

The City's deferred compensation savings plan currently allows active members (following IRS requirements) to borrow up to $50,000, but retirees are not allowed to do this. It is a 3.5% percent loan (based on the prime rate plus .50%) paid back over a maximum period of 5 years. A request has been made by a retiree to allow retirees to borrow from their own accounts similar to active employees. The program currently has 677 outstanding loans, with 40 defaults. Approximately 15% of our participants have a loan balance. Chairman Barkenbush pointed out a retiree can just adjust their payment whereas an active employee cannot do that. Steve Postil thinks we should ask the City Attorney. **This issue is tabled until the Board obtains legal advice on the request.**

E) Board discussion and approval of acclamation for Dennis Woodrich's Board position

Dennis Woodrich's term ended January 2013, and he has been operating in a carry over position. The retirement office mailed a solicitation to all participants with an account balance to run as a Board member and received no responses except for Dennis. If the Board moves to acclaim, Dennis Woodrich's term would end January 2016. **Motion to approve Dennis Woodrich's Board position was made by Steve Postil, 2nd by Curry Hale. Motion passed 5 to 0 (Silvia Amparano arrived late).**

F) Call to Audience - Gary Helm passed out an education packet for review. Ken Wedemeyer requested a contact for CTRA.

G) Adjournment - **Motion to adjourn was made by Steve Postil, 2nd by Curry Hale. Motion passed 4-0 (Silvia Amparano left early). Adjourned at 11:02AM.**

Approved:

Joe Barkenbush	3-14-2014	Michael Hermanson	03-14-14
Chairman of the Board	Date	Plan Administrator	Date