

DEFERRED COMPENSATION PLAN MANAGEMENT BOARD

Minutes for the June 28, 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

Absent, Excused: Allan Bentkowski, Investment Manager
Lani Simmons, HR Director
Kelly Gottschalk, CFO and Assistant City Manager

Staff Present: Michael Hermanson, Plan Administrator
Melissa Waychoff, Administrative Assistant

Guests Present: Ken Wedemeyer, ICMA-RC
Gary Helm, ICMA-RC (via teleconference until 11am)

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

B) Consent Agenda - approval of Board meeting minutes from March 21, 2013

Motion to approve consent agenda was made by Dennis Woodrich, 2nd by Steve Postil. Motion passed 3 to 0 (Kelly Gottschalk and Lani Simmons absent).

C) Investment Performance Review - 1st Quarter, March 31, 2013

1. Alternate Fund Share Classes Analysis available for September

Columbia Diversified Equity Income was moved to Vantage Point Equity Income. It has continued to drop on the 3 year (65th percentile) and 5 year (73rd percentile). Morning Star ratings are the same. Neuberger Socially Responsible went to T. Rowe Price; T. Rowe Price is up year to date at peer median and they are still performing, especially in the 3 and 5 year returns. Royce Premier has struggled on the 1 year ranking due to high quality bias, still rated highly by Morning Star. Oppenheimer Discovery is in the top quartile on the 5 year, the morning star ratings are fine. BlackRock has continued to tank, bottom of the 3rd quartile all the way across, so it is good we switched. For Victory Small, the numbers have not gotten better, the 1 year has brought down the 3 year and the 5 year remains at 30. Value has not been paying off and it is considered lower risk. It is still a Morning Star 4 rating. Vanguard Total Bond Market Index is not performing well, it has fallen way off. Cohen & Steers was replaced with Nuveen Real Estate Securities. They both performed well, but Nuveen performed better.

2. Pare down of investment line-up – minimum participant consideration

ICMA will be adding an R7, R8, and R9 as proprietary vantage point funds. As a whole, the firm is considering pairing down the breadth of funds. Mike agreed with the idea, remember when we consolidated in 2006, we wanted to pare down the investment choices to around 30 funds, but we are currently in the range of about 58 funds. For example, if there are only three people in a fund, then why would we offer it? One way to look at it is by style boxes; decide how many funds we should have in each of them. We need to know number of participants and how much is invested. We could pull the one with the least performance. There are 9 major style boxes. If there is not a good reason to remain in the lineup, we should not have them there.

We are at R5 now and will go across the board with R7 (expense share reduction of 10 basis points), R8 (reduction of 15 basis points), and R9 (reduction of 20 basis points). Chairman Barkenbush said we are

looking for lowest cost to participants and less confusion for participants; we need to look at style boxes. Rather than looking at number of participants in each fund, discuss on a broader point of view if we need all style boxes available and if we need duplicate funds within a style box. Ken Wedemeyer will work on this for the next meeting in September.

3. Implementation progress for line-up changes from March 2013 meeting
Everything is on schedule.

4. Status of on-line brokerage account with TD Ameritrade account
Mike Hermanson has the signed agreement and he will give it to Ken Wedemeyer and should be activated within the next week or two. Our approval is adequate.

D) Status of ICMA-RC Retirement Readiness Report
The IT department is busy with conversion implementation for our internally managed payroll system and putting it into a hosted environment in Phoenix, meaning we will be supported by the vendor in Phoenix. This means the resources to give us the analysis we need for the Retirement Readiness Report. IT is aware and we are in their queue. Mike Hermanson does not anticipate it happening this year. He will look into another way to get this, maybe an outside vendor or through GRS.

E) 457 Enrollment Incentive Program for 2013

1. Opportunities, marketing efforts during 2013
2. Report on enrollment fair held at City Hall, June 21, 2013

Twenty-two signed up at the enrollment fair. There was a fair amount of traffic at the fair. Mary Inorio believes an additional fourteen will be turning in enrollments.

3. Other ideas to incent enrollment in the future

Mike Hermanson plans to send out an all-city email message regarding the decrease in pension contribution suggesting they enroll in ICMA or defer more money into deferred comp. Sixty five people have enrolled in April, May, and June 2013. There has been good response to the \$50 incentive program, and there might be other ways to improve enrollment, such as moving to auto enroll with an opt-out. We could initially tell new employees they have an account opened for them \$25 in it, if they did want the account, they could opt out. We have about 72% of our eligible enrolled, which is really good.

F) Educational Programming Report

Mary Inorio has 65 on-site meeting days YTD and 99 Contract to Date. She is on pace to meet her contractual obligations. She is also on pace to meet her contractual obligations for seminars as well. Attendance has not been very good for the seminars. Dennis Woodrich thinks it is because of the 20% reduction in the workforce over the past few years; everyone is overworked. There has been a steady decline of people coming in to meet with Mary Inorio. We are 122 enrollments YTD. There has also been a decline in Rollins from the DROP program for Public Safety. Tom Axline is at eight seminars for the contract to date. He gets more attendees at seminars.

G) Board member Election

Dennis Woodrich's spot is up. We need to run a solicitation to see if anyone responds. We believe Dennis would like to run again. Steve Postil will head up a committee to review applicants. This applies to all active and retired members with an account balance. We will need to have a special meeting to ratify the ballot.

H) Sustainable Retirement Benefits Act – November 2013 Ballot Initiative

They should get enough signatures because they have special petition gatherers from out of state that were hired from a marketing firm. They have already taken out the Elected Officials Retirement Plan; it was closed a few weeks ago. We believe if we can get at least 35,001 votes against it, we should be able to stop it. If it does pass, it will close the TSRS defined benefits plan and all new employees would be in a 401a, plan. Active employees in TSRS are not intended to be adversely affected, but you can easily see if you stop the flow of

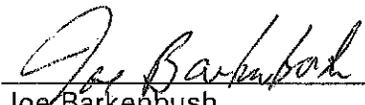
incoming active members, there will be an eroding cash flow of member contributions and the employer will have to pay more. Net costs for the City are projected to be \$24M for the first year. It will cost more in the short term. It forces the TSRS Board to become aggressive with the amortization period and will cause them to re-structure their investment policy. Bottom line effect is that we could wind up with a defined contribution plan as the only retirement plan available to new employees. The Act allows the employer to make matching contributions, but does not indicate what those would be. The underlying theme is to create a more sustainable, efficient government. They are throwing money into the initiatives to reduce the cost of government pensions.

This Deferred Compensation Board may be involved in a new defined contribution plan for the employees. Then these enrollment incentives will not matter because everyone will be in the plan. Steve Postil noted that people will not keep working for the City, if there is no pension incentive, they might take their money and leave. But Mike Hermanson pointed out the Act states employees are immediately vested once they enroll in the defined contribution plan. They have an interest to convert public services in the government to private organizations. Bankruptcy is the only way out of paying promised benefits to employees.

I) Call to Audience -- none heard.

J) Adjournment - Motion to adjourn was made by Chairman Barkenbush, 2nd by Steve Postil. Motion passed 3-0 (Gottschalk and Lani Simmons absent). Adjourned at 10:22 AM.

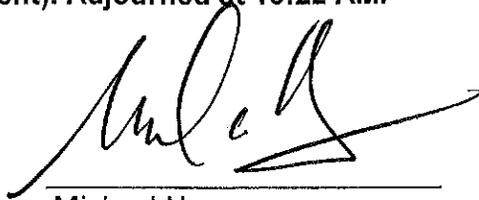
Approved:



Joe Barkenbush
Chairman of the Board

9-19-2013

Date



Michael Hermanson,
Plan Administrator

09.19.13

Date