



**SFERS**  
San Francisco Employees' Retirement System

City and County of San Francisco  
Employees' Retirement System  
**DEFERRED COMPENSATION  
COMMITTEE MINUTES**

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**March 18, 2015**

**1145 Market Street, 6<sup>th</sup> Floor  
San Francisco, CA 94102**

**1:00 PM**

**MISSION STATEMENT**

*Our mandate is simple: Deliver an exceptional voluntary retirement program, with empowering education and advanced tools that enable participants to achieve their financial retirement goals.*

**COMMITTEE MEMBERS**

***Commissioners***

Leona Bridges (Chair)

Joseph Driscoll

Brian Stansbury

**Jay Huish**  
***Executive Director***

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Commissioner Bridges called the meeting to order at 1:00 PM.

Pledge of Allegiance

Roll Call:

Commissioner Bridges	1:00 PM
Commissioner Driscoll	1:00 PM
Commissioner Stansbury	1:50 PM

Public Comment      Discussion Only      Commissioner Bridges reviewed the procedures for public comment.

Mike Hebel, Police Officers Association, spoke in support of developing a first-time home buyers loan program within the SFDCP as provided by other plans.

03182015-01      Action Item      **Review and Approval of Minutes of the December 3, 2014 Deferred Compensation Committee Meeting**

Documents provided to the Committee prior to the current meeting: Draft Minutes

Commissioner Bridges called for public comment. There was none.

Action: Moved by Commissioner Driscoll, Seconded by Commissioner Bridges to Approve the Minutes of the Minutes of the December 3, 2014 Deferred Compensation Committee Meeting.

Ayes: Bridges, Driscoll  
Absent: Stansbury

03182015-02      Action Item      **Presentation on SFDCP Loan Options**

Documents provided to the Committee prior to the current meeting: Staff and Angeles Investment Advisors memoranda

Caryn Bortnick, Deputy Executive Director and Interim Deferred Compensation Manager, and Leslie Kautz, Angeles Investment Advisors (SFDCP investment consultant), presented an oral and written report on this item.

Ms. Bortnick reported that during labor negotiations in 2013, the City agreed to ask the SFDCP to offer loans to its participants in order to assist employees with purchasing a home. In 2014, Executive Director Huish received a letter, signed jointly by labor representatives and the City making the request.

Most large deferred compensation plans offer a loan program to their participants. While loan programs are complex to administer, loans can provide participants with a critical source of funds and encourage participation in the plan.

The Committee discussed whether plan loans benefit the participants or create a detriment to long-term retirement savings; whether a loan program creates a financial impact on the Plan; and the administrative burdens to offering a loan program.

Ms. Kautz reported that the SFDCP contract with Prudential anticipates the possibility of a loan program. Prudential has the resources to handle all aspects of the loan program. There is a one-time application fee and an annual fee for the life of the loan, charged to the participant taking the loan. SFDCP staff will be responsible for insuring that payroll correctly processes all repayments. This added burden will be offset by the likely reduction in unforeseen emergency withdrawal applications.

In addition, the IRC regulations establish bona fide loan criteria. Some of the criteria are:

- Only active employees are eligible to take a loan. Former employees, beneficiaries and alternate payees are ineligible. All loans must be evidenced by a written repayment agreement.

- The maximum that may be borrowed from an account is the lesser of \$50,000 or one-half the participant account balance at the time of the loan. The minimum loan amount is \$1,000.
- The rate of interest charged on each loan must be “reasonable” and fixed for the loan term. Loans must be repaid within 5 years, unless the purpose of the loan is to purchase a principal residence. In that case, the maximum loan term is 15 years. The 15 year repayment date extension does not apply to loans for home improvement or repair.
- Loan repayment must be made by payroll deduction, in fully amortized level installment amounts, and must be paid off before any benefit payment can begin. Loan repayment deductions are after-tax. Except in specified circumstances, loan repayment deductions may not be stopped. Failure to make payroll deducted loan repayments on schedule could jeopardize the Plan’s qualification status and create a taxable event for the participant.
- If a participant severs employment before repaying the loan under the terms of the agreement, the terms are accelerated.

Although it is possible to offer more than one loan at a time, provided that the limits above are met, Staff recommended that the SFDCP limit each participant to one outstanding loan at a time. Multiple loans are difficult to administer. But more importantly, Staff believes that this limitation fairly balances the desire for a loan option with the SFDCP’s goal to enhance long-term savings.

Commissioner Bridges recommended that staff develop an implementation plan that could allow for multiple loans, particularly for

educational expenses. Jay Huish, Executive Director, agreed to consider the option of multiple loans.

In those instances where City employment ends before a loan is repaid, Staff recommended that the loan be repaid in full within 30 days, and no benefit payment will be made from the deferred compensation plan until the loan is repaid in full. This is a common provision. Most plan sponsors do not permit post-employment repayment. The administrative cost is extremely high. In addition, the likelihood of a default increases, creating tax exposure for the participant and potential qualification exposure to the plan.

A loan program is an attractive option for participants. However, there are administrative and fiduciary responsibilities associated with offering a program. Staff, Angeles Investment Advisors, and Prudential will develop an implementation plan and timeline for the program and report back to the Committee.

Commissioner Bridges called for public comment.

Mike Hebel, Police Officers Association, urged approval of the loan program.

Action: Moved by Commissioner Bridges, Seconded by Commissioner Driscoll to approve recommendation to offer loans in the SFDCP, to direct staff to prepare an implementation plan that involves two loans, a repayment interest rate of prime + 1%, all fees expressly enumerated, incorporate IRS rules to maintain the plan's qualified status, and to include these requirements in the plan document, and to forward to the Retirement Board with a recommendation for approval.

Ayes: Bridges, Driscoll  
Absent: Stansbury

03182015-03 Action Item

**Review and Approve Recommendation to Replace Small Cap Value Manager**

Documents provided to the Committee prior to the current meeting: Staff and Angeles Investment Advisors memoranda

Caryn Bortnick, Deputy Executive Director and Interim Deferred Compensation Manager, and Leslie Kautz, Angeles Investment Advisors (SFDCP investment consultant), presented an oral and written report on this item.

Ms. Bortnick reported that in January 2007, the Retirement Board selected Target Small Cap Fund as an investment in the SFDCP. The fund, managed by Prudential Investments, historically used several complementary sub-advisors to create the fund. The fund has performed well since 2007, outperforming the Russell 2000 Value net of fees and outperforming the majority of its small cap peer value group.

Prior to January 2015, the fund was comprised of six outside managers, unaffiliated with Prudential. In December 2014, Prudential announced it would replace all of the outside sub-advisors with Quantitative Management Associates' (QMA) Small Cap Value strategy. QMA is a wholly-owned subsidiary of Prudential. The change was effective January 2015.

Angeles Investment Advisors stated the issues raised by the significant change in structure and management warrant a recommendation to replace the fund with one that has a longer track record, better performance, and lower fees. After a thorough screening and review process, Angeles recommended Vanguard Small Cap Value Index Fund, which has much lower fees and very good performance.

Commissioner Bridges called for public comment. There was none.

Action: Moved by Commissioner Driscoll, Seconded by Commissioner Bridges to approve Recommendation to Replace Small Cap Value Fund with Vanguard Small Cap Value Index Fund.

Ayes: Bridges, Driscoll  
Absent: Stansbury

03182015-04 Discussion Item **Update on Fees**

Documents provided to the Committee prior to the current meeting: Staff and Angeles Investment Advisors memoranda

Caryn Bortnick, Deputy Executive Director and Interim Deferred Compensation Manager, and Leslie Kautz, Angeles Investment Advisors (SFDCP investment consultant), presented an oral and written report on this item.

Ms. Kautz conducted a presentation regarding fee changes to the SFDCP since the Plan transitioned to Prudential Retirement as Third Party Administrator.

Commissioner Bridges called for public comment.

Mike Hebel, Police Officers Association, expressed concern regarding the current fees for the Stable Value Fund.

Sai Orr, spouse of a participant, expressed concern regarding expense ratios and fees charged to participants, particularly when compared to comparable Vanguard funds.

Commissioner Driscoll noted the plan's fees were in the lower third compared to peers. Commissioner Bridges recommended that the Committee continue to review the issue of fees on a periodic basis. Ms. Kautz reported that Angeles reviewed the fees on a regular basis and there was a thorough evaluation of performance every six months.

Action: This was a discussion only item.

Commissioner Stansbury joined the meeting at 1:50 PM.

03182015-05 Action Item **Review and Approval of SFDCP Mission Statement**



Documents provided to the Committee prior to the current meeting: Draft SFDCP Mission Statement

Caryn Bortnick, Deputy Executive Director and Interim Deferred Compensation Manager, and Leslie Kautz, Angeles Investment Advisors (SFDCP investment consultant), presented an oral and written report on this item.

The Deferred Compensation Committee was asked to make changes to the Mission Statement it previously approved. Staff proposed an alternative Mission Statement for the Committee's consideration that addresses prior concerns:

*Our mandate is simple: Deliver an exceptional voluntary retirement program, with empowering education and advanced tools that enable participants to achieve their financial retirement goals.*

Commissioner Driscoll recommended a definition of success to accompany the mission statement. Commissioner Stansbury asked whether the mission statement should incorporate the concept of "savings" for retirement. Ms. Bortnick said the program was about more than just savings.

Commissioner Bridges called for public comment. There was none.

Action: Moved by Commissioner, Driscoll Seconded by Commissioner Stansbury to Approve Draft Mission Statement and forward to the Retirement Board with a recommendation for approval.

Ayes: Bridges, Driscoll, Stansbury

03182015-06 Discussion Item

**SFDCP Manager Report**

- **Update on GoalMaker Re-Launch**
- **Update on 2014 Required Minimum Distributions**
- **Update on Custom Target Date Advisor**
- **Update on Stable Value**

Documents provided to the Committee prior to the current meeting: Staff memoranda

Caryn Bortnick, Deputy Executive Director and Interim Deferred Compensation Manager, presented an oral and written report on this item.

Commissioner Stansbury recommended the development of a communications plan the options for participants to pay off a SFERS Gillmore debt by a transfer from their SFDCP account.

The Committee discussed evaluating Stable Value and other alternatives to that investment option.

Commissioner Bridges called for public comment.

Sai Orr, spouse of a participant, stated that GoalMaker is too simple a model and does not address the current market conditions such as the low interest rate environment.

This was a discussion only item.

- 03182015-07 Discussion item

**General Public Comment:**

Commissioner Bridges reviewed the procedures for public comment.

There were no comments from the public.

- 03182015-08

**Adjournment**

Having no further business, the Committee adjourned their meeting at 2:23 PM.

Respectfully submitted,  
Jay Huish, Executive Director