



SFERS
San Francisco Employees' Retirement System

City and County of San Francisco
Employees' Retirement System

**DEFERRED COMPENSATION
COMMITTEE MINUTES**

February 20, 2019

1145 Market Street, 6th Floor
San Francisco, CA 94103

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.

DEFERRED COMPENSATION COMMITTEE MEMBERS

Commissioner Leona Bridges, *Chair*

Commissioner Joseph Driscoll

Commissioner Brian Stansbury

Jay Huish
Executive Director

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OPENING CALENDAR

1. Pledge of Allegiance

2. Roll Call

Commissioner Bridges 1:20 PM

Commissioner Driscoll 1:20 PM

Commissioner Stansbury 1:20 PM

3. 02202019-03

General Public Comment

Commissioner Bridges called for general public comment.

There were no comments from the public and public comment was closed.

4. 02202019-04 Action Item

Approval of the Minutes of the December 27, 2018 Deferred Compensation Committee Meeting

Documents provided to the Committee prior to the current meeting: Draft Minutes of the December 27, 2018 Deferred Compensation Committee Meeting

Action: Approve Minutes of the December 27, 2018 Deferred Compensation Committee Meeting.

Action: Moved by Commissioner Driscoll, Seconded by Commissioner Stansbury, to approve Minutes of the December 27, 2018 Deferred Compensation Committee Meeting.

Commissioner Bridges called for public comment.

There were no comments from the public and public comment was closed.

Ayes: Commissioners Bridges, Driscoll, Stansbury

5. 02202019-05 Discussion Item

Update on Plan Costs

Documents provided to the Committee prior to the current meeting: Staff Memorandum and Notice of Plan Costs

Diane Chui Justen, Deferred Compensation Plan Manager, reported that the Plan had temporarily reduced fees collected for SFDCP administrative expenses since 2014, with the amount collected being less than that required to administer the plan. This allowed the SFDCP to spend down surplus reserves, as a result of excess revenue that had been collected in prior years from certain investment funds. That excess revenue will be depleted in the near-term and as a result, the amount collected for administration will need to increase from 5 bps annually to 9 bps, reflecting Prudential's administration fee (4.2 bps) and the projected ongoing cost of SFDCP Staff

administration support (rounded up to 4.8 bps, or 1.2 bps quarterly). The calculation is based off the estimated 2019 cost from SFDCP Staff of \$1,461,690 divided by the 12/31/18 plan market value of \$3,251,100,736. This equates to 4.5 bps and is rounded up to 4.8 bps so the total annual amount equals 9 bps or 0.09%. This amount may fluctuate over time as plan assets fluctuate and based on the service support needed.

In the event there is excess revenue generated, that revenue can be rebated back to Plan participants or the future charges can be reduced. Given that the SFDCP administration costs are calculated by a flat total fee but the accrual method to charge participant accounts is a percentage of assets, there will inherently always be a mismatch and thus need to be adjusted on a periodic basis.

These changes will go into effect on April 1, 2019 based on March 31, 2019 market values. Costs are collected quarterly and participants will see these costs reflected in their quarterly statement. Participant communication is expected to begin no later than March 1, 2019. A letter will be sent to all participants. Distribution methods include direct mail, email, and notifications on sfdcp.org, the transactional website, and quarterly statements.

The Committee reviewed and discussed the report and engaged in a question and answer session.

Action: This is a discussion only item.

6. 02202019-06 Discussion Item Stable Value Investment Management Contract with Galliard

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

Diane Chui Justen, Deferred Compensation Plan Manager, reported that the SFDCP has a contract with Galliard for investment management of the SFDCP Stable Value Fund. The term of this agreement commenced on June 18, 2014 with a termination date of June 30, 2019. Galliard currently serves as a fiduciary to the Plan with respect to its investment management of the Stable Value Fund. It has increased SVF's crediting rate from 1.15% in Q3'14 to 2.42% for Q1'19. SVF holds over \$1 Billion in participant assets as of January 31, 2019, accounting for nearly one-third of Plan assets.

In consideration of the TPA transition currently in progress, Staff proposed to extend SFDCP's existing contract with Galliard until June 30, 2020.

The Committee reviewed and discussed the report and engaged in a question and answer session.

Commissioner Driscoll suggested that the RFP is released August 31, 2019 to provide ample time before the transition.

Ms. Chui Justen commented that staff has asked Callan to work with Galliard on finding a lower tier fee that SFERS would be eligible for during the remainder of time.

Action: This is a discussion only item.

7. 02202019-07 Discussion Item

SFDCP Manager Report

- **Update on TPA transition to Voya**
- **Qualified Charitable Distribution (QCD) Research**
- **Target Date Funds**

Documents provided to the Committee prior to the current meeting: Staff Memorandum, Voya Transition Materials

Diane Chui Justen, Deferred Compensation Plan Manager, reported on the following items:

- **Update on TPA transition to Voya:** Both Callan and Voya will be on site February 26, 2019 to map out what the transition plan will look like and discuss contract negotiations.
- **Qualified Charitable Distribution (QCD) Research:** Through research it was found that this provision is currently only available for IRAs.
- **Target Date Funds:** Launching Target Date Funds 2060 and 2065 in April. They have identified some target date fund investors that may be using the target dates funds not as they were intended. As part of the transition to VOYA they are considering a corrective allocation option to these target date fund investors.

The Committee reviewed and discussed the report and engaged in a question and answer session.

Commissioner Driscoll spoke about educating members by providing fact sheets to them with information to help them understand the opportunities available to them.

Commissioner Driscoll opposed the idea of individual investors having to opt out of the automatic corrective allocation and recommended investors were given the choice to opt in to the target date funds corrective mapping allocation instead.

Ms. Chui Justen reported that they have identified a certain number of participants that would fall in the 2060 and 2065 funds based on their age not on when they will retire. Greg Ungerman, Callan, confirmed the industry bases this on age.

Commissioner Driscoll expressed his concerns about improving Glide Path by adding private equity sometime this year after analyzing.

Commissioner Stansbury asked staff to explain the mapping plan. Ms. Chui Justen explained that the transition plan with VOYA would be that they would map those born after 1998 to the 2065 fund and those born between 1993-1997 to the 2060 fund. Staff would inform the members that they would be automatically mapping them with an option to opt out.

Commissioner Stansbury agreed with Commissioner Driscoll and spoke in opposition to automatically mapping members and believes in the education of members and the choice to opt in rather than opt out. Commissioner Stansbury announced that some members were asking about ETFs at a Union meeting. Commissioner Bridges confirmed that she already had ETFs as an item for Good of the Order.

Mr. Huish announced a security breach which affected 48 participants that was reported to the Board. Mr. Huish, the City Attorney's Office and Prudential worked together to get required notices out to those participants by phone and by written notification. Mr. Huish reported that 80% of those have been talked to live on a phone call explaining the nature of the break and what they can do to resolve issue. Identity theft protection has been provided by Prudential to opt in for five years.

Commissioner Stansbury discussed the need for paperless sign up procedures to avoid issues like the current breach of papers being stolen out of a car.

Robert Bryan, Deputy City Attorney, noted that Good of the Order was not on the Agenda. Commissioners Stansbury and Bridges requested that, on an ongoing basis, Good of the Order be added to the Deferred Compensation Committee agenda.

Commissioner Stansbury thanked staff on their hard work.

Commissioner Driscoll asked to review the goals for the defined contribution plan on the next agenda.

Action: This is a discussion only item.

8. 02202019-08

Adjournment

Having no further business, the Committee adjourned the meeting at 2:25pm

Respectfully submitted,



Jay Huish, Executive Director