



SFERS
San Francisco Employees' Retirement System

City and County of San Francisco
Employees' Retirement System

**DEFERRED COMPENSATION
COMMITTEE CALENDAR**

MINUTES

June 11, 2019

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

3:00 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 | 3:00 PM |
| Commissioner Driscoll | 3:00 PM |
| Commissioner Stansbury | 3:30 PM |

3. **061119-03 General Public Comment**

Commissioner Bridges called for general public comment.

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

4. **061119-04 Action Item Approval of the Minutes of the February 20, 2019 Deferred Compensation Committee Meeting**

Documents provided to the Committee prior to the current meeting: Draft Minutes of the February 20, 2019 Deferred Compensation Committee Meeting

Commissioner Bridges called for public comment.

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

Action: Moved by Commissioner Driscoll, Seconded by Commissioner Bridges, to approve Minutes of the February 20, 2019 Deferred Compensation Committee Meeting.

Ayes: Commissioners Bridges, Driscoll

Absent: Commissioner Stansbury

5. **061119-05 Action Item Approval of proposed revisions to the SFDCP Loan Policy**

Documents provided to the Committee prior to the current meeting: Staff Memorandum, SFDCP Loan Policy Redline and Loan Policy (clean)

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

Diane Chui Justen, Deferred Compensation Manager, presented a written and oral report on this item.

The SFDCP loan Policy was originally approved by the Retirement Board on July 8, 2015. Revisions were made and approved by Retirement Board on July 13, 2016 and the SFDCP Loan Program was launched in August 2016. The SFDCP continues to work closely with the recordkeeper to provide the best loan experience for participants. Since launch, Staff has identified some operational improvements that would benefit the Loan Program and is recommending that these enhancements be rolled out through the SFDCP's new recordkeeper, Voya Financial (Voya), in September 2019. These changes will not only benefit the participant experience but will also help streamline resources provided by SFDCP Staff. Changes include:

- Allowing direct deposit of SFDCP Loan Proceeds to minimize paper checks, limiting the risk of lost checks and decreasing turnaround times for participant access to loan funds.
- Allowing ACH loan repayments in circumstances related to retirement or termination of service, providing participants the opportunity to continue paying off their loan instead of defaulting on any outstanding balance.
- Allowing partial lump sum payments to help participants reduce their loan principal by paying off the loan earlier, if desired.
- Replacing the service provider's name with "Third Party Administrator" to make the Loan Policy more evergreen.

The proposed Loan Policy revisions has been reviewed by the City Attorney's Office and Voya, the recordkeeper who will be administering the Loan Program.

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

Commissioner Driscoll asked that the term "lump sum" payment be more clearly written to indicate language regarding additional payment(s) on the principal of the loan.

Commissioner Bridges called for public comment.

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

Action: Moved by Commissioner Driscoll, Seconded by Commissioner Bridges, to approve SFDCP Loan Policy with the stated corrections.

Ayes: Commissioners Bridges, Driscoll

Absent: Commissioner Stansbury

6. 061119-06 Action Item Approval of the SFDCP's Self Directed Brokerage platform

Documents provided to the Committee prior to the current meeting: Staff Memorandum and Callan Presentation

Ms. Chui Justen reported that the SFDCP allows participant access to a Self-Directed Brokerage Account (SDBA). The Self-Directed Brokerage (SDB) platform is dependent on the SFDCP's recordkeeper by virtue of recordkeepers choosing their own SDB providers. The SFDCP currently uses an SDBA available through Prudential's Investment Management Services division. Before 2014, the SFDCP used TD Ameritrade's SDB platform through prior recordkeepers since 2006.

SFDCP participant utilization of the SDB platform has been minimal, with only \$14.5 Million invested amounting to less than half of 1% of assets. The SDBA is generally more appropriate for knowledgeable investors who understand the risks associated with SDB investments not overseen by the Retirement Board. There is also a \$5,000 minimum for the SDBA and a 50% maximum of a participant's account balance. In other words, participants need to have at least \$10,000 in their SFDCP account to open an SDBA. The current SOB platform is also limited to mutual funds and participants have historically expressed a preference for other investment vehicles, such as individual stocks, bonds, CDs or ETFs.

When the SFDCP transitions to Voya Financial (Voya) in September, the SDB platform will be transferred back to TD Ameritrade as Voya's preferred SDB provider. SDB assets will be mapped over in-kind and TD Ameritrade does not charge a fee for incoming transfers. The annual SDB fee remains the same at \$50 and will be divided into monthly installments of \$4.17. In addition, participants will benefit from an electronic SDB enrollment process (available in late 2019) in lieu of a paper application, if desired.

Staff has requested SFDCP Investment Consultant, Callan, to review TD Ameritrade as the incoming SDB provider and to advise on whether the SDB platform should include investment vehicles other than mutual funds.

Greg Ungerman, Callan, presented an overview of the SFDCP's SDB providers, potential account restrictions to help manage exposure and risk, and future considerations.

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

Commissioner Stansbury arrived at 3:30 PM

Commissioner Bridges confirmed that staff will follow up with City Attorney on any potential risk of opening up a self-directed brokerage platform to participants.

Commissioner Bridges called for public comment.

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

Action: Moved by Commissioner Stansbury, Seconded by Commissioner Bridges, to approve SFDCP's Self Directed Brokerage Platform to include mutual funds, ETFs, all publicly-registered securities which includes domestic stocks, international stocks, bonds/CDs, U.S. Treasury, including TIPS.

Ayes: Commissioners Bridges, Driscoll, Stansbury

7. 061119-07. Action Item Approval of SFDCP Advisory services through Voya Retirement Advisers (VRA)

Documents provided to the Committee prior to the current meeting: Staff Memorandum and VRA Presentation

Ms. Diane Chui Justen, Deferred Compensation Manager, Brian Merrick and Peter Winterbottom from Voya provided an oral and written report on this item.

Ms. Chui Justen reported that the Advisory services and/or Managed Accounts have long been considered by the SFDCP, particularly in 2009, when the SFDCP entered into a contractual agreement with Advised Asset Group, LLC to provide a computer model investment advice service called "Reality Investing". It was never executed, however, as costs associated with these types of services at the time were relatively high (over 65 bps per annum) and participant adoption of managed accounts was rather low (less than 3% national average).

As an increasing number of baby boomers enter their golden years, causing participant needs to shift from accumulation to decumulation. The SFDCP has also experienced outflows driven by retirees, as they look to either consolidate assets with an existing financial advisor or become convinced to roll their assets to an investment advisor with a commissions-based IRA.

Recent data has shown that retirees are generally better served through investment advice offerings, as they benefit from a more hands-on personal needs approach, particularly when it comes to optimizing draw-down strategies from multiple income sources at retirement, such as Social Security, pension benefits and retirement savings.

By offering managed accounts through the SFDCP, near-retirees have the opportunity to establish a financial advisor relationship through the Plan and carry that relationship into retirement, all while still benefitting from investment offerings governed by the Retirement Board. Advisory services will also strengthen SFDCP's value proposition overall, as active participants can choose to completely outsource management of their retirement savings to a financial expert or do it themselves with personalized advice. With the addition of enhancements like pension integration and near-retirement services, the value of providing professional-grade investment tools and advice services has become undeniable both to active savers and retirees.

SFDCP recordkeeping services are expected to transition to Voya Institutional Plan Services (Voya) effective September 3, 2019. Voya's reduced recordkeeping cost of 3.75 bps is contingent upon the SFDCP offering "Advisory Services" through Voya Retirement Advisors (VRA). VRA is registered as an investment advisor with the SEC and is a wholly-owned subsidiary of Voya Financial. As a fiduciary advisor, VRA provides objective investment advice and management free from conflicts of interest.

VRA has partnered with Financial Engines to provide the technology and methodology that powers the advisory services offered to plan participants. Financial Engines operates as an independent, third-party, financial expert and sub-advisor to VRA. The firm was founded in 1996 by Bill Sharpe with the vision of making the kind of advice and money management once reserved for only high-end institutional investors, available to everyone. Today, Financial Engines is known as the leader in providing advisory services technology to large plan sponsors and recordkeeping partners.

VRA offers investment advice and portfolio management services powered by Financial Engines. In other words, VRA serves as the primary information conduit between the participant and Financial Engines' investment expertise. Advisory services through VRA include professional account management for a fee, and investment advice at no additional cost to participants. This includes access to an investment advisor, online advice tools and *futureReady* Model Portfolios. Summary of these services:

- 1) Access to an investment advisor - at no additional cost, investment advisor representatives provide personal advice to SFDCP participants over the phone with zero commissions. Investment advisors ascertain the participant's situation and consider all SFDCP investment options for suitability (from core investment funds to Target Date Funds to Managed Accounts) before rendering advice. Advisors can also discuss savings and contribution rates. When a recommendation is made, Participants may request the advisor to execute the changes in real time, or participants can implement the changes themselves at their discretion.
- 2) Online Advice - this no-cost tool is geared toward Participants who wish to manage their own retirement account while taking advantage of online guidance and investment advice through a personalized recommended investment portfolio. The recommended investment portfolio is based on a "snap-shot" of information drawn from the Participant's SFDCP account profile and from the core investment funds available in the Plan (excluding TDF). The Participant then implements the recommended investment portfolio and manages his or her retirement account online.
- 3) *futureReady* Model Portfolios - at no additional cost, these ready-made model portfolios are based on a Participant's current age and appetite for risk (Aggressive, Moderate or Conservative), similar to GoalMaker. However, *futureReady* is different in that they are designed specifically for the SFDCP by Financial Engines and uses a primarily passive investment strategy (via index funds), making it a very low cost portfolio option.
- 4) Professional Management - VRA's discretionary "Managed Account" is geared toward Participants who wish to have a qualified financial expert select among the available core investment funds (excluding TDF) and manage their retirement account for them. The Participant receives a personalized investment portfolio that reflects the core investment funds and the Participant's retirement timeframe, life stages, risk tolerance and overall financial picture, including assets held outside the SFDCP (if the Participant elects to provide this information), which may be taken into consideration when determining the asset allocation of the Participant's SFDCP account (note: does not provide advice nor manage a Participant's outside assets).

Under a Managed Account, VRA has discretionary authority over allocating among the available core investment fund options, without prior Participant approval of each transaction. Managed Account assets will be automatically monitored, rebalanced and reallocated every quarter by VRA based on Financial Engine methodologies.

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

Commissioner Bridges called for public comment.

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

Action: Moved by Commissioner Bridges, Seconded by Commissioner Stansbury, to approve SFDCP Advisory services through Voya Retirement Advisers (VRA).

Ayes: Commissioners Bridges, Driscoll, Stansbury

8. 061119-08 Discussion Item Review of SFDCP Transition services

Documents provided to the Committee prior to the current meeting: Staff Memorandum and Voya Presentation

Ms. Diane Chui Justen, Deferred Compensation Manager, Brian Merrick and Peter Winterbottom from Voya provided an oral and written report on this item.

The SFDCP is in the midst of transitioning to Voya Institutional Plan Services (Voya) for recordkeeping services. The transition date is targeting no earlier than Tuesday, September 3, 2019 to take advantage of a three-day weekend (Monday is Labor Day). Prudential, the current recordkeeper, will accept SFDCP transactions until close of market (1pm PST) on Monday, August 26, 2019. After that, the SFDCP will be in a black-out period through Monday, September 2nd when the transition to Voya is complete.

Direct outreach to SFDCP participants is expected to begin at least 45 days prior to transition in July, with general announcements occurring in June (via SFDCP website content and quarterly newsletter). In response to heightened awareness, a Transition Newsletter and "Landing Page" (mini website) will be distributed and available in July to provide easy access to important information in a user-friendly way.

Voya is also developing a "special elections microsite" designed to capture any investment changes participants choose to make before the transition. The microsite will be available for three weeks beginning in early August. Participants who do not use the microsite will simply have their investments mapped over in kind (with the exception of those in GoalMaker, as described below), or they can make investment changes after the transition on September 3, 2019.

The microsite will be a Participant's first opportunity to select *futureReady* Model Portfolios (designed specifically for the SFDCP by Financial Engines and where GoalMaker assets will be mapped). GoalMaker (GM) Participants will be identified upon login and presented with the *futureReady* Model Portfolio that best matches their age and existing risk preference (Aggressive, Moderate or Conservative). Non-GM participants will be presented with the *futureReady* Model Portfolio that best matches their age and a Moderate Risk tolerance. Both GM and non-GM participants can elect a different *futureReady* Model Portfolio if desired. The microsite will also be a Participant's first opportunity to enroll in Professional Management Services (Managed Accounts). Participants simply enroll by submitting their contact information and a VRA investment advisor will contact them shortly after to complete the process.

Details surrounding these offerings, in addition to the other SFDCP investment options such as Core Funds or Target Date Funds, will be provided through the Transition Newsletter sent in July. Access to the Transition Newsletter will be available through a reference link on the special elections microsite because the microsite is designed with minimal content to keep the focus on taking action and making transactions. Examples of the special elections experience can be found in the accompanying Voya Presentation.

Online enrollment is expected to be available on September 3, 2019. This will be the first time a City and County of San Francisco employee will be able to enroll in the SFDCP via the web anywhere, anytime, instead of completing and submitting an eight-page paper application during business hours. Staff anticipates this process to be a vast improvement for the Plan as it may reduce barriers to entry for prospective participants.

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

The Committee asked that Voya prepare transition memo so that it is easily understandable to the participants.

Commissioner Bridges called for public comment.

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

Action: This is a discussion only item.

9. 061119-09 Discussion Item Retirement Board Member Good of the Order

Commissioner Bridges called for public comment.

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

Action: This is a discussion only item.

10. 061119-10 Adjournment

Having no further business, the Committee adjourned the meeting 5:45 PM

Respectfully submitted,



Jay Hulsh, Executive Director