

The Defined Contribution Plans Advisory Committee met on March 29th with the following members present:

IN ATTENDANCE

Brett Hayes, Chair
The Honorable J. Brandon Bell, II
Robert Carlson
Shannon Irvin
Rick Larson
Margaret Maslak
Patricia Phillips
Tracey Ray (*by phone from Naples, FL under § 2.2-3708*)
David Winter

Mitchell Nason, Chair, VRS Board of Trustees

Also present was Joe McMahon from JLARC and Katie Boyle from VaCO.

Attending from VRS were Kelvin Allen, Patricia Bishop, Keela Butler, Steve Cerreto, Jeanne Chenault, Michael Cooper, Josh Fox, Joyce Gray, Kelly Hiers, KC Howell, Robert Irving, Rebecca Nicholas, Laura Pugliese, Michael Scott, Jillian Sherman, Jennifer Schreck, Peter Thompson and Cindy Wilkinson.

**CALL TO ORDER AND
WELCOME**

Mr. Hayes called the meeting to order at 10:29 a.m. and welcomed the Committee and other attendees.

**ADOPTION OF THE
MINUTES FROM THE
DECEMBER 7, 2017
MEETING**

On a motion by Mr. Carlson and a second by Ms. Maslak, the December 7, 2017 meeting minutes were approved by the following roll call vote:

Mr. Hayes: Aye
Mr. Carlson: Aye
Ms. Irvin: Aye
Mr. Larson: Aye
Ms. Maslak: Aye
Ms. Phillips: Aye
Ms. Ray: Aye
Mr. Winter: Aye

ADMINISTRATION*Administrative Reports and Communications*

Kelly Hiers, VRS Defined Contribution Plans Administrator, provided a brief update on the 4th quarter Administrative Summary. Ms. Hiers provided an update of total assets under management across all DC plans, as well as an overview of unique participant counts for the unbundled plans as of 4th quarter 2017. She also shared an update with the Committee on plan adoptions and transition of assets for the 4th quarter of 2017. Ms. Hiers provided an update on the ICMA-RC 2017 annual service review, including an overview of 2017 accomplishments and 2018 planned initiatives.

DC Plans and Hybrid Plan Update

Ms. Hiers provided an update on total assets in the COV 457 and Virginia Cash Match plans, as well as new enrollments in the COV 457 and an automatic enrollment snapshot for the 4th quarter 2017. She noted the slight decrease in accounts, but increase in assets across the COV 457 and Virginia Cash Match plans. She also shared that the population of participants in the COV 457 Plan is projected to be longer tenured with the potential for more drawdowns as they near retirement and move into the decumulation phase, and will require an increased focus on asset retention.

Ms. Hiers updated the Committee on the Hybrid 457 voluntary participation rate, including the auto-escalation population and number of participants with maximum voluntary contributions for the 4th quarter 2017. She shared with the Committee the number of Hybrid members with an active election to the Hybrid 457 plan above the 0.5% auto-escalation percentage remains at 20% for the 4th quarter 2017. Ms. Hiers provided an update on the SmartStep and enhanced active choice features that launched in 4th quarter 2017 for Hybrid members making voluntary contributions to the Hybrid 457 Plan.

ORPHE Update

Ms. Hiers provided an update on total ORPHE assets by plan provider for the 4th quarter 2017 as well as ORPHE enrollment statistics based on newly-eligible employees

between the three providers. She also shared with the Committee an update on annual service reviews scheduled with the bundled providers, and a pending contract amendment with Fidelity to update revenue credit processing. Ms. Hiers shared that the current revenue credit is being credited back to funds that generated the credit, including deselected funds. Ms. Hiers indicated that the contract amendment would allow for revenue credits to be paid to funds in which participants are currently invested and that it would resolve the administrative burden on the provider resulting from the crediting of deselected funds. Ms. Hiers also provided an update to the Committee on the College of William and Mary's opt-out, including total assets transferred out and outstanding issues.

NAGDCA 2017 Perspectives in Practice

Ms. Hiers provided an overview of the NAGDCA 2017 Perspectives in Practice survey results of public sector plans, including total plan assets, number of plan participants, investment options, fees, participation rates and offered services.

2018 Administrative Reporting

Ms. Hiers provided an overview of 2018 administrative reporting that would align reporting to the Committee with specific DC Plans goals. Ms. Hiers shared an outline of scheduled reporting on specific goals related to increasing contributions and enrollments, asset retention, annual review and benchmarking, and improving asset allocation.

INVESTMENTS

CEM's Defined Contribution Plans Have Come a Long Way Update

Ms. Pugliese, Portfolio Manager, Defined Contribution Plans, presented to the Committee the February 2018 CEM release of *Defined Contribution Plans Have Come a Long Way*, an update of an earlier CEM research article comparing defined benefit and defined contribution performance. Ms. Pugliese provided an overview of some major takeaways since the initial research article was published in 2006. She

noted performance between DB and DC plans have narrowed based on:

- Improved DC asset mix primarily driven by plan sponsors changing their default investment option from stable value or money market funds to target date funds;
- Improved DC plan design such as implementation of automatic enrollment; and
- Lower DC costs compared to DB costs. She mentioned DB plans costs have risen since the last report because of the adoption more sophisticated investment strategies.

Fiduciary Rule Update

Ms. Pugliese provided an update to the Committee related to the Department of Labor (DOL) 2016 Fiduciary Rule based on a March 15, 2018, United States Court of Appeals for the Fifth Circuit decision to overturn the prior ruling. As a result of the decision, the DOL would not be enforcing the rule. Ms. Pugliese shared that the DOL could potentially appeal the decision to the U.S. Supreme Court. She also noted that the Securities and Exchange Commission (SEC) may develop its own fiduciary rule in light of the recent court decision.

Market Update and Performance Reports

Ms. Pugliese provided a market update to the Committee, including an overview of the S&P 500 Sector Returns and Bloomberg VIX Index for the period January 1 through March 31, 2018.

Ms. Pugliese provided an overview of the unbundled and bundled plans performance reports through February 28, 2018 to the DCPAC.

Ms. Pugliese shared with the Committee a comparison of asset allocation in the unbundled plans between the 457 supplemental retirement plan and hybrid plan, noting 94% of participants in the Hybrid Plan were invested in the diversified target date strategies. She reminded the Committee that Hybrid Plan members are automatically placed in the target date portfolios and due to participant

inertia members tend not to change out of the default investment option. Ms. Pugliese stated that the unbundled plans were performing as expected through February 28, 2018.

Ms. Pugliese provided an overview of investment performance for TIAA and Fidelity, the bundled ORPHE providers, through February 28, 2018. She noted several concerns with the Fidelity program, including ongoing issues with staff receiving responses to inquiries in a timely manner and the increased oversight costs resulting from these issues which are passed along to employers. Ms. Pugliese also noted the competitive environment forcing the provider to introduce new share classes with no revenue sharing shares.

Custom Target Date Project Update

Ms. Pugliese provided an update of the Custom Target Date Portfolio project, including discussion of various costs and potential benefits associated with customization. She reviewed a couple of the Board's DC Investment Belief Statements and informed the Committee these statements would be taken into consideration as part of the project.. Ms. Pugliese also noted the current expense ratio across the target date portfolio series and apprised the Committee a questionnaire had been developed and distributed to various firms providing custom glide path services Ms. Pugliese noted that due to the importance of the Custom Target Date project, staff wanted to ensure VRS could make a fully informed decision to determine feasibility and costs and benefits of transitioning to a custom approach or remaining with an off-the-shelf approach.

Request for Board Action Regarding Appointment and Reappointment of DCPAC Members

Ms. Bishop provided an update to the Committee regarding staggered terms for DCPAC appointments and the Request for Board Action (RBA) regarding the appointment and reappointment of DCPAC members, effective July 1, 2018.

Three Committee seats will be open as of June 20, 2018. The Committee reviewed biographies of Margaret Maslak, who is recommended for reappointment to a two-year term, as

well as Allan Carmody and Ravindra Deo, who are each being recommended to the Board for initial appointment to the Committee for a two-year term.

On a motion by Mr. Carlson and a second by Mr. Winter, the Committee concurred with the nominations and moved to present the nominations to the Administration and Personnel Committee for consideration for the recommended appointments to the Committee, all from June 20, 2018 to June 19, 2020.

OTHER BUSINESS

There was no other business to come before the Committee.

NEXT MEETING

The next meeting of the DCPAC will take place September 20, 2018.

The ORPHE Annual Employer Update is scheduled for September 27, 2018, but this is not a meeting of the DCPAC.

ADJOURNMENT

The Committee adjourned at 12:38 p.m.



Brett Hayes, Chair