

The Defined Contribution Plans Advisory Committee met on September 20th with the following members present:

CALL TO ORDER AND WELCOME

Brett Hayes, Chair
The Honorable J. Brandon Bell, II (*electronically under §2.2-3708.2(D)*)
Robert Carlson
Allan Carmody
Ravindra Deo
Rick Larson
Margaret Maslak
David Winter

Mitchell Nason, Chair, VRS Board of Trustees

Also present were Joe McMahon, JLARC; Mr. Steve Ferber, PIMCO (electronically); and Mr. William Ryan, Aon (electronically).

Attending from VRS were Stephen Adelaar, Patricia Bishop, Steve Cerreto, Jeanne Chenault, Michael Cooper, Josh Fox, Kelly Hiers, KC Howell, Robert Irving, Jummai Sarki-Hurd, Ciara Lawson, Taylor Melton, Rebecca Nicholas, Greg Oliff, Andrea Peeks, Laura Pugliese, Michael Scott, Jillian Sherman, Jennifer Schreck, Ashley Spradley, Peter Thompson, Bridgette Watkins, Rachel Webb and David Whitlock.

Ms. Bishop introduced and welcomed Mr. Allan Carmody, Finance Director, Chesterfield County Budget & Management, and Mr. Ravindra Deo, Executive Director, Federal Retirement Thrift Investment Board, as new members to the Defined Contribution Plans Advisory Committee (DCPAC).

Mr. Hayes called the meeting to order at 9:59 a.m. and welcomed the Committee and attendees.

**ADOPTION OF THE MINUTES FROM THE
March 29, 2018 MEETING**

On a motion by Mr. Carlson and a second by Ms. Maslak, the March 29, 2018 meeting minutes were approved by the following roll call vote:

Mr. Hayes: Aye
Senator Bell: Aye
Mr. Carlson: Aye

Mr. Carmody: Abstain
Mr. Deo: Abstain
Mr. Larson: Aye
Ms. Maslak: Aye
Mr. Winter: Aye
Mr. Hayes: Aye

INVESTMENTS

Annual Investments Review

Ms. Pugliese, the DC Plans Portfolio Manager, provided an overview of the Annual Investments Review as of June 30, 2018 to the DCPAC. Total DC Plan assets for those investments overseen by investment staff totaled \$4.4 billion for the Fiscal Year ending June 30, 2018.

Ms. Pugliese provided an annual review of the DCPAC investment duties and responsibilities, DC Investment Belief Statements, Investment Policy Statements, and a detailed review of each of the DC Plans' underlying fund performance and fees as of Fiscal Year ending June 30, 2018. She informed the Committee that staff continues to have problems obtaining accurate information from Fidelity in a timely manner. Ms. Pugliese advised there were no recommended changes to the DC Plans Investment Beliefs Statements or the two DC Investment Policy Statements at this time.

The Committee and attending Board member discussed the reasonable range of costs associated with investment fees, with significant discussion related to the ORPHE TIAA and Fidelity investment options. In response to a Committee member's question, Ms. Pugliese indicated there is no established range of acceptable investment-related expenses since plan recordkeeping and administration fees are still embedded in most ORPHE TIAA and Fidelity investment options. It was also noted investment fees in the unbundled DC Plan structure were competitively priced compared to industry peers. A Committee member asked how the Committee can determine if fees were competitively priced. Ms. Pugliese stated she would provide the Committee with some peer group analysis at the December 2018 meeting.

Ms. Bishop also welcomed the opportunity to assist the Committee with better understanding the analysis and review steps used as part of the decision making process for both ORPHE administrative and investment initiatives. She encouraged the Committee to share thoughts on information on various topics that would benefit the plan.

Ms. Bishop informed the Committee that any changes to the ORPHE must be considered carefully due to the importance of retirement plans in their recruitment and retention efforts. Higher education institutions are focused on this area in order to retain current faculty or attract faculty from other institutions of higher education who have an affinity for certain providers. Ms. Bishop not only noted the challenge with making broader significant changes to the ORPHE at one time, but also highlighted some incremental changes that have already been made. These changes include renegotiated contracts and revenue share agreements, a per-participant recordkeeping flat fee, and online plan election in myVRS, as well as steps being taken to ensure that future changes are not disruptive to higher education recruitment and retention efforts and align with VRS' fiduciary responsibility. Ms. Bishop highlighted the increased scrutiny on fiduciary responsibility, performance and fees, and litigation in the higher education space and expressed that the changing landscape may garner support among higher education employers and position them to be more amenable to and understanding of the potential changes.

The Committee members acknowledged the inherent challenges in making changes to the ORPHE given the prevalence of and affinity some faculty members have for specific providers, but also emphasized the plan's role as a significant factor in efforts to recruit and retain faculty from other institutions. Based on feedback and observations from recent impact meetings with ORPHE employers, Ms. Hiers noted a variation in the degree of understanding among employers as to the different plan options available to faculty members. Ms. Bishop reviewed the key role employers have in assisting employees to make an informed decision about their retirement plan and applauded DC Plans and Investments for their efforts to engage and educate employers in a

manner that allows them to better understand and increase confidence in the ORPHE.

Mr. Howell also noted that with respect to actively managed funds both the focus on fees and effort to drive down the cost of fees increases the probability of more favorable outcomes. The expectation should be for actively managed funds to outperform over a long period of time. Ms. Pugliese also noted that as a result of the flat dollar recordkeeping fees implemented with the renegotiated TIAA and Fidelity contracts in 2017, VRS now has the opportunity to move forward and make changes to the TIAA and Fidelity investment programs and select investment options that do not include embedded plan administration and recordkeeping fees.

Custom Target Date Evaluation Project

Ms. Pugliese provided an overview of VRS' history with regards to target date portfolios, beginning with transitioning from the custom risk-based asset allocation funds to the the BlackRock off-the-shelf target date fund product in July 2012 and then the studying of a custom target date approach. Ms. Pugliese shared that it was incumbent upon staff to engage the Committee in discussions related to the cost associated with implementing a custom approach, which would shape the appropriate course of action prior to any discussion of underlying investments within a custom target date approach. The Committee inquired as to whether other options were available in a BlackRock custom glide path. Ms. Pugliese shared that BlackRock has various investment options that reside outside their standard off-the-shelf target date product that could be used within a custom approach and noted BlackRock does have other off-the-shelf target date products in addition to the passively managed investment product.

Ms. Pugliese informed the Committee that the design and structure of off-the-shelf target date products are geared towards private sector 401(k) plans where a defined contribution plan is the sole primary retirement plan and therefore no consideration is given to participation in a defined benefit plan. This is unlike most public sector plans where defined benefit plans currently play a

predominant role in public sector employee retirement benefits.

Mr. Howell emphasized one of the key aspects of the Custom Target Date Evaluation Project is to educate the Committee on the customization options available and gauge the level of comfort the Committee has with pursuing such an initiative in an effort to provide feedback to the Investment Department on the various option(s) to be considered, if any. Ms. Pugliese indicated there was no commitment to a specific timeframe for a decision from the DCPAC.

Ms. Pugliese provided an overview of fund allocations in the legacy COV 457 Plan and the defined contribution component of the Hybrid Retirement Plan as of June 30, 2018, specifically noting the percentage of fund allocations to the target date strategies in the COV 457 at approximately 26.1 percent versus the 93.5 percent of target date fund allocations in the defined contribution component of the Hybrid Plan. She shared with the Committee that over time the majority of participant funds will be on the Hybrid Plan.

Ms. Pugliese reviewed Callan's 2018 DC Trends Survey results relating to target date funds. She informed the Committee of staff's efforts to reach out to and engage industry peers and managers as it relates to VRS' consideration of transitioning to a custom approach as well as their feedback derived and consensus that such a transition would be considered rational based on VRS' plan design features, scale, demographics and potential to use strategies employed in the defined benefit program. Ms. Pugliese provided an overview of the estimated costs that could be associated with a custom target date approach, noting the range in costs related to management, operations and oversight in comparison to the range of expense ratios among peers that offer custom target date funds.

The Committee and attending Board member discussed the importance of the impact that fees have on fund returns and agreed further review and consideration of a custom approach should be pursued as an exercise in due

diligence. Due to time constraints, it was suggested the discussion be continued at the December meeting.

ADMINISTRATION

Administrative Reports and Communication Update

Kelly Hiers, VRS Defined Contribution Plans Administrator, provided the Committee with an administrative update of 2nd Quarter 2018 Defined Contribution plans.

DC Plans and Hybrid Plan Update

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. She shared with the Committee the new plan adoptions and transitions for the second quarter of 2018, in addition to a historical overview of plan adoptions to the COV 457 and Virginia Cash Match plans and summary of incoming transitions to the unbundled plans since 2014. Ms. Hiers shared with the Committee several initiatives being conducted in partnership with ICMA-RC, record keeper for the VRS defined contribution plans, including current and upcoming Hybrid COV 457 Crossover Population initiatives, as well as the new Account Aggregation feature in Account Access for all participants with ICMA-RC that will launch in the third quarter 2018. Ms. Hiers advised that the Account Aggregation feature allows participants to aggregate retirement, banking and investment accounts in one platform and obtain a holistic view of financial activity, including cash flow, expenses and budgeting. Ms. Hiers provided an overview of total assets in the COV 457 and Virginia Cash Match plans, as well as the number of accounts and average balance in the plans for the second quarter of 2018.

Ms. Hiers provided a review of total assets in the Hybrid Retirement Plan for the second quarter of 2018, including the assets, accounts and average account balance in the Hybrid 401(a) and Hybrid 457 Deferred Compensation Plan. Similarly, she shared with the Committee an overview of cash flow from the defined contribution component of the Hybrid Retirement Plan, including contributions, withdrawals and net cash flow.

Ms. Hiers provided an update on the Hybrid voluntary contribution elections and participation rates, including the auto-escalation population and number of participants making the maximum voluntary contribution as of the second quarter of 2018. She shared with the Committee the Hybrid 457 voluntary participation active election rate remains above 20%, with approximately 41.63% of active members making a voluntary contribution greater than 0.5%. Ms. Hiers also provided an update on the SmartStep feature as well as the Enhanced Active Choice concept in Account Access and the new GoHybrid webpage launched for Hybrid new hires in the second quarter of 2018.

ORPHE Update

Ms. Hiers provided an overview of total ORPHE assets for the second quarter of 2018, and assets by plan provider. She also shared with the Committee an update on ORPHE enrollment and new provider statistics based on newly-eligible employees among the three providers for the second quarter of 2018. It was noted 14% of ORPHE new hires selected the DCP option (record kept by ICMA-RC) through the first six months of 2018, compared to only 7% for calendar year 2017.

Ms. Hiers advised the Committee of several ORPHE provider updates, including opportunities to improve and customize educational materials on provider microsites with VRS, and the development of beneficiary campaigns with each of the providers emphasizing the importance of ensuring beneficiary information is periodically reviewed and updated. Ms. Hiers shared with the Committee the response by participants with deselected providers to the annual fee disclosure statement mailed in the second quarter of 2018. She advised the mailing generated approximately 44 participant inquiries and provider transfer requests compared to a total 12 inquiries for the three years comprising 2015 through 2017.

Ms. Hiers provided a summary overview of several ORPHE employer and participant outreach initiatives, including ORPHE employer outreach meetings intended to reach all VRS ORPHE institutions directly and provide an overview of the current landscape, consideration for updates to

ORPHE, and feedback regarding how and when to communicate changes. Ms. Hiers also shared with the Committee information regarding the upcoming ORPHE Annual Employer Update and participant-directed Open Enrollment webinar sessions scheduled for the month of October 2018.

Ms. Hiers shared with the Committee an update on the second quarter DC Plans goal focused on asset retention, with an overview of assets by age and employment status across all of the unbundled DC plans, distributions and distribution types from the COV 457 Plan and defined contribution component of the Hybrid Retirement Plan, including lump sum, partial, installment and rollover distributions. She also provided a review of unforeseen emergency withdrawals and incoming and outgoing rollover distributions; noting the significant variance in outgoing rollovers compared to incoming roll ins to the unbundled plans. Ms. Hiers noted several retention efforts to address the number of outgoing rollovers, including a review of language across all publications to reinforce asset retention and mitigate leakage, update the leaving employment guide for all DCP plans and the addition of the Retirement Income Calculator to DC plans websites. Ms. Hiers advised next steps would include development of a distribution kit that incorporates information from the leaving employment guides into materials provided with the distribution forms and creation of a separate rollover form that would allow outreach by plan representatives in an effort to provide guidance and offer assistance prior to fulfillment of the distribution request.

OTHER BUSINESS

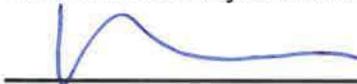
There was no other business to come before the Committee.

NEXT MEETING

The next meeting of the DCPAC will take place December 6, 2018.

ADJOURNMENT

The Committee adjourned at 1:07 p.m.



Brett Hayes, Chair