

# 2020 First Quarter Meeting



February 11, 2020  
Audit and Governance Committee  
Plans Management Board

Collen C. Davis  
State Treasurer



# AGENDA

- Introductions
- Approval of Meeting Minutes from November 12, 2019
- Presentations
- Discussions and Action Items



# Committee Overview

## 2019 Accomplishments/ 2020 Goals



# COMMITTEE MEMBERSHIP

- At least 5 members
- No more than 9 members
- At least one member of the Board
- Chair is appointed by the Board and serves at the pleasure of the Board
- Committee may elect a Vice Chair



# COMMITTEE MEMBERS

Member	Role
Open Seat	Committee Chair
Colleen Davis (Designee Liza Davis)	State Treasurer, Plans Management Board Member
Jerry Gallagher	403(b) Eligible, Plans Management Board Member
John Macedo	Committee Member
Tim Snyder	Committee Member
Pete Kennedy	Committee Member



# COMMITTEE AUTHORITY

- Plan Audits
- Plan Amendments
- Plan-related cyber security
- Other audit or governance matters as requested by the Plans Management Board



# 2019 Committee Accomplishments

- 403(b) Plan Amendment-Remove Six-month Suspension Contribution Provision
- 457 and 401(a) Plan Amendment- Automatic Cash Out for Terminated Accounts Below \$1,000
- Annual Review of Plan Financial Statements and Audit Materials
- 457 State Administration Fee Status
- Voya Contract Extension
- Ethics Training
- Governance Manual Policy Development



# Governance Manual

Completed	To Be Developed
<p>Allocation and Payment of Plan Expenses</p> <p>Proxy Voting Policy</p> <p>Fiduciary Decision Documentation Policy</p> <p>Indemnification Policy</p> <p>Reimbursement Policy</p> <p>Audit Policy</p> <p>Budget Policy</p>	<p>Vendor Management</p> <p>Cybersecurity</p> <p>Communications</p> <p>Education and Training</p>





# 2020 Committee Goals

- Development of Governance Manual
- Extension of Voya Contract
- 2019 Plan Audits
- Freedom of Information Act Training
- Fiduciary Training



# Update on Audit Findings and Recommendations



# Audit Finding Updates 457b/401a

Audit Finding/Recommendation	Plan	Year	Status Notes
457(b) Contribution Misclassified as 403(b) Contribution	457b	2018	Status: BLS stated the finding has no impact on plan. Manual error which has been resolved.
Roth Contributions Not Reported Not Reported on W-3s and W-2s (DTC payroll)	457b	2018	Status: Completed
Procedures for Missing Participants (Uncashed Checks)	401a	2018	Status: Ongoing



# Audit Finding Updates 403b

Audit Finding/Recommendation	Plan	Year	Status Notes
Inappropriately Excluded Participant Accounts on Financial Statements (Security Benefit)	403b	2016 2017 2018	Status: BLS starting fieldwork earlier.
Material Classification Adjustment made to Financial Statements (Legacy Vendors, 2016)	403b	2016	Status: Ongoing
Participant Loans Issued After January 1, 2009	403b	2015 2016	Status= Consulted with Ice Miller. Plan Amendment for review.
Statements Not Provided by Vendor (Metlife)	403b	2018	Recommendation: OST to work with MetLife to ensure audit requests.



# Annual Review of Staff Expenses



# POLICY- ALLOCATION AND PAYMENT OF PLAN EXPENSES

4. *Allocation of OST Staff Expenses.* Expenses for salaries and benefits for OST staff who support the Plans (other than the ABLE plan) full time may be allocated pro rata across such Plans based on asset values and consistent with the recommendations of outside counsel. OST shall on an annual basis, or whenever circumstances indicate that a reasonableness assessment would be appropriate (e.g., a change in job responsibilities), test the reasonableness of the asset-based allocation method and determine whether a different methodology (e.g., allocation based on employee time) should be utilized.



# STAFF EXPENSE ALLOCATIONS

2019

Plan Information	AUM 12/31/2018	Allocation % All Plans	Allocation % Each Unit
DEFER 457(b)	\$ 613,526,911	45.2%	83.7%
DEFER 401(a)	\$ 20,214,586	1.5%	2.8%
DEFER 403(b)	\$ 99,607,197	7.3%	13.6%
<b>DEFER SUBTOTAL</b>	<b>\$ 733,348,694</b>	<b>54.0%</b>	<b>100.0%</b>
DCIP 529	\$ 624,399,747	46.0%	100.0%
ABLE 529(a)	\$106,864	0.0%	100.0%
<b>TOTAL ALL PLANS</b>	<b>\$ 1,357,855,305</b>	<b>100.0%</b>	

2020

Plan Information	AUM 12/31/2019	Allocation % All Plans	Allocation % Each Unit
DEFER 457(b)	\$ 736,223,943	46.3%	81.3%
DEFER 401(a)	\$ 22,876,252	1.4%	2.5%
DEFER 403(b)	\$ 146,344,546	9.2%	16.2%
<b>DEFER SUBTOTAL</b>	<b>\$ 905,444,741</b>	<b>56.9%</b>	<b>100.0%</b>
DCIP 529	\$ 684,353,676	43.0%	100.0%
ABLE 529(a)	\$ 521,649	0.0%	100.0%
<b>TOTAL ALL PLANS</b>	<b>\$ 1,590,320,066</b>	<b>100.0%</b>	



# STAFF EXPENSE ALLOCATIONS

- Conducted an assessment over a two-week period in January
- Initial assessment indicated that more staff time was spent on the deferred compensation plans vs the college plan during the assessment period (more retirees)
- Consulted with ICE Miller with pro-rata method (based on assets) for 2020 budget
- Proposing to run quarterly, two week assessments in 2020 to validate reasonableness of allocations
- Specify time allocated to current and legacy 403b work





# SECURE ACT/LEGISLATIVE UPDATE



# SECURE ACT & LEGISLATION UPDATE

## Deferred Compensation

- Increases the age for Required Minimum Distributions from 70.5 to 72 ✨
- Modifies the Age for In-Service Withdrawals from 457(b) from 70.5 to 59.5 ✨
- Permits Plan Withdrawals for Birth or Adoption
- “Stretch IRA” restricted to ten years, with certain exceptions
- Disaster-related 10% premature distribution tax penalty waived

## 529 Related

- Allows the use of tax-advantaged 529 accounts for qualified student loan repayments up to \$10,000 lifetime
- Allows the use of 529 funds to cover \$10,000 in annual costs associated with registered apprenticeships

Fact Kit  
Updated  
2/21/2020



# Discussions and Action Items

- 2020 Goals
- 403(b) Plan Amendment (Loans)
- 457 Plan Amendment (SECURE Act)
- Voya Contract Extension



# VOYA CONTRACT EXTENSION

## **Background:**

Deferred Compensation Council awarded the original three-year contract for record keeping services in May 2016. The agreement included the option of two, one-year extensions. Based on the complexity of the transition, Voya's performance, and the progress on enrollment growth, a recommendation was made in 2019 to exercise the first of two one-year extensions. In addition, the AGC recommended that the Board or the Investment Committee undertake a review of the managed account service provider and the self-directed brokerage provider and ensure that they are appropriate providers. In 2019, Cammack provided a memorandum detailing a review of the providers to the Investment Committee.

**Action Item:** Motion to recommend the second one-year contract extensions with Voya Financial for the record keeping services for the 457, 401(a) and 403(b) plans and direct OST and the IC to review the managed account service and self-directed brokerage providers under guidelines of the investment policy statement.



# Next Committee Meeting May 12, 2020