



**MINUTES FROM THE AUDIT AND GOVERNANCE COMMITTEE
OF THE PLANS MANAGEMENT BOARD
MAY 14, 2019**

A meeting of the Audit and Governance Committee (the “Committee”) of the Plans Management Board (the “Board”) was held May 14, 2019, 10:00 a.m., at the Carvel State Office Building in the Office of the State Treasurer (“OST”) Conference Room, located at 820 N. French Street, Wilmington, Delaware 19801.

Committee Members Represented or in Attendance:

Mr. Ralph Cetrulo, Committee Chair
Mr. Gerard Gallagher, Board Member At-Large
Mr. Peter Kennedy, Committee Member
Mr. John Macedo, Committee Member
Mr. Timothy J. Snyder, Committee Member
The Honorable Colleen C. Davis, State Treasurer

Committee Members Not Represented or in Attendance:

Others in Attendance:

Mr. Jason Staib, Deputy Attorney General, Delaware Department of Justice
Mr. Daniel Scholl, Deputy State Treasurer, OST
Mr. John Meyer, Director of Contributions and Plan Management, OST
Mr. Daniel Kimmel, Promotion and Outreach Program Manager, OST
Mr. Earle Allen, Partner, Cammack
Ms. Marie Villeneuve, Consultant, Cammack

CALLED TO ORDER

The meeting was called to order at 10:01 a.m.

APPROVAL OF MINUTES

A MOTION was made by Mr. Kennedy and seconded by Mr. Macedo to approve minutes from the Committee meeting on February 12, 2019.

MOTION ADOPTED UNANIMOUSLY

PRESENTATIONS

College Scholarship Concept

Treasurer Davis presented information about the Delaware 529 program. Treasurer Davis informed the Committee that there are approximately 22,000 active accounts within the State’s 529 plan, with the majority of the accounts for a beneficiary at or nearing college age. Treasurer Davis discussed strategic initiatives to help promote the plan, such as a marketing campaign by AB&C and the concept of a

scholarship program. Treasurer Davis briefed the Committee on the administrative fund, the annual budget for the plan and the legacy balance that exists in the fund.

Mr. Snyder inquired about the administrative fee noted in the plan disclosure document. Treasurer Davis confirmed that the legacy balance was funded through the State administrative fees paid by plan participants.

Mr. Macedo queried whether the statutory fiduciary standard of care, as pertains to the 529 plan, would need to change for this endeavor. Mr. Macedo reminded the Committee that the standard of care language in § 2722(f) (2) is stringent and could limit the use of fees to offset marketing expenses. Mr. Macedo also expressed concerns as to whether administrative fees would be increased if there were not sufficient legacy fees to fund any scholarship plan in the future.

Treasurer Davis stated that marketing efforts would hopefully increase plan enrollment and offset any potential need for a fee increase. Treasurer Davis reiterated that the marketing campaigns and the concept of a scholarship program were part of a multi-faceted strategy to help promote the plan. Mr. Scholl also reminded the Committee that the contract with Fidelity was through June of 2021 and that plan pricing was consistent among the four Fidelity state plans. Mr. Kennedy inquired if the marketing campaign was to promote the plan or the scholarship program. Treasurer Davis stated the marketing efforts were to promote the investment plan. Mr. Kennedy stressed the need to track metrics around the scholarship program and if it proved unsuccessful, the endowment funds could revert to the administrative fund.

The Committee inquired about the proposed eligibility requirements for the scholarship, and Treasurer Davis indicated that such requirements were being explored and would be fleshed out with other details of any scholarship plan.

Mr. Snyder indicated his view that the standard of care language would need to be revisited by the Board.

The Committee thereafter discussed ways to measure outcomes of promotional efforts and various additional strategic initiatives for the plan, including advocating for tax benefit legislation. Mr. Cetrulo thanked the Committee members for discussion on the topic.

DISCUSSION AND ACTION ITEMS

Proxy Voting Policy

Mr. Staib presented a draft proxy voting policy to the Committee. Mr. Staib gave an overview of the policy, which requires OST to vote where appropriate and monitor vendor voting under those plans where voting obligations have been delegated to a vendor. The policy would require OST to report its votes and raise issues with respect to vendor voting to the Investment Committee. The Investment Committee will have authority to resolve proxy-voting issues.

Mr. Kennedy queried if the vendors currently provide reports on their proxy voting. Mr. Staib responded that they do not, but OST has been working with the vendors to align practice with contractual terms.

Fiduciary Decision Documentation Policy

Mr. Staib introduced the fiduciary decision documentation policy. Mr. Staib indicated that the policy requires OST to (1) document decisions with a level of detail that exceed the minimal information

required under FOIA, (2) retain any audio recordings of the meetings, and (3) preserve documents in accordance with OST's retention schedule.

Mr. Staib stated that there was some initial feedback from Mr. Macedo, and he would work with Mr. Macedo to incorporate language addressing the concerns prior to the next Board meeting.

**A MOTION was made by Mr. Kennedy and seconded by Mr. Snyder to recommend to the Board the revised policy at the next meeting.
MOTION ADOPTED UNANIMOUSLY**

457 Plan Administration Fee Status

Mr. Meyer discussed the 457 plan administrative fee and current legacy fee balances. Mr. Meyer reminded the Committee that last year the Committee approved recommending to the Board that the state administration fee for the 457 plans be suspended for four calendar quarters. Mr. Meyer stated that per the prior year vote, it was time to review the status of the fund balance and additional wind-down measures. Mr. Meyer indicated that spending has kept pace with projections to date, and that OST is seeking to recommend to the Board a continuation of the suspension for an additional four calendar quarters.

**A MOTION was made by Mr. Snyder and seconded by Mr. Kennedy to recommend to the Board continuing the suspension of the 457 plan administrative fee for an additional four calendar quarters.
MOTION ADOPTED UNANIMOUSLY**

Deferred Compensation "Legacy Fee" Carve Out

Mr. Meyer provided a memo to the Committee updating them on the status of the prior vote of the "legacy fee" carve-out and analysis.

403b Plan Amendment—Remove Six-month Suspension Contribution Provision

Mr. Meyer provided information on the new regulation with respect to the 403(b) plan. Mr. Meyer stated that, under the prior rule, if a participant applied for a hardship, there was an automatic suspension on contributions to the 403(b) plan for six-months following the hardship. Under the new federal regulation, Mr. Meyer stated that the mandatory six-month suspension would be lifted. Mr. Meyer stated that he would work with Ice Miller on a plan amendment.

Automatic Cash Out for Terminated Accounts Below \$1,000

Mr. Meyer introduced the potential for an automatic cash-out policy for terminated accounts below \$1,000. Mr. Meyer noted that when Belfint, Lyons, and Shulman completed the audit last year, there was a significant number of low-balance terminated accounts with balances less than \$1,000. Mr. Meyer indicated that the plan documents could be amended to allow for automatic cash-outs of such accounts.

Mr. Snyder inquired if this could be done for 403(b) plans. Mr. Allen stated that this is generally considered best practice across all types of plans, 403(b) included. These provisions are often favorable, as the monies remaining in these accounts often represent additional fiduciary issues for groups without these types of provisions. The Committee continued discussion regarding the maximum balances prior to cash out, and requested that OST review these requirements for the potential policy. Mr. Meyer

indicated that he would work with Ice Miller to develop plan amendments for consideration at the Committee's August meeting.

PUBLIC COMMENT

No members of the public present for comment.

NEXT MEETING

The next meeting of the Committee is scheduled for August 13, 2019.

The next meeting of the Board is scheduled for May 21, 2019.

ADJOURNMENT

A MOTION was made by Mr. Cetrulo and seconded by Treasurer Davis to adjourn the meeting of the Committee at 11:27 a.m.

MOTION ADOPTED UNANIMOUSLY

Respectfully submitted,

Ralph Cetrulo
Chair for the Audit and Governance Committee