



MEMORANDUM

To: Plans Management Board Members
From: John Meyer, Director of Contributions and Plan Management
Sent: March 1, 2022
Subject: **March Meeting- Committee Reports and Action Items**

The Plans Management Board (“Board”) will meet on March 1, 2022. The Board will receive reports from the Audit and Governance Committee (“AGC”), the Investment Committee (“IC”) and updates from the Office of State Treasurer (“OST”). The AGC assembled on February 8, 2022. The AGC reviewed the 2022 training schedule and committee goals. The AGC also received updates on 2020 plan year audit items, the Memorandum of Understanding with the Office of the Auditor of Accounts and how other plan sponsors select external auditors. The IC convened on February 15, 2022. In addition to the quarterly investment reports presented by CAPTRUST, the IC discussed the performance of the Lazard International fund which remains on “Watch” and reviewed goals for 2022. The AGC, IC, and OST will present the following items to Board:

Committee Goals

During the February meetings, the AGC and IC discussed 2022 goals for committee work. The AGC is recommending focusing on 2022 education schedule, tracking progress on past audit findings, the development of a vendor management policy and cyber security policy, plan amendments related to the SECURE and CARES Acts, and the Memorandum of Understanding with the Auditor’s office. Audit presentations will be scheduled for the August 2021 meeting. Additional AGC agenda items may include matters related to retirement plan recordkeeper contracts. The IC outlined goals to include the annual reviews of the investment policy statements for the deferred compensation and college plans, the target date fund provider, the managed account provider, and the self-directed brokerage vendor. The IC also discussed reviewing Environmental, Social, and Governance (ESG) factors and how those factors might impact the plans. Additional IC agenda topics may include items relating expanding the investment options within tier two of the deferred compensation plans.

Action Item: Motion to approve the 2022 committee goals.

2022 Board Training

The Board’s training policy generally requires training on fiduciary/best practices and the State’s Code of Conduct every two years and FOIA and Records Act training every 4 years. Training on

fiduciary duties and best practices last occurred in September 2020. Training on the State's Code of Conduct last occurred in June 2021. Training on FOIA and the Records Act was offered in September 2021. AGC is recommending an education schedule to include fiduciary training at the September 2022 Board meeting.

Action Item: Motion to approve board training schedule for calendar year 2022.

Fidelity Tax Reporting

OST was notified that principal and earnings on certain rollovers into Fidelity direct-sold 529 plan accounts were not properly recorded during 2015-2017. The issue was due to rollovers not being accompanied by a principal and earnings statement from the source 529 provider. Specifically, the impacted rollover accounts were treated as receiving 100% principal. Although principal and earnings were recorded as 100% principal on certain rollovers, there would only be an issue if the impacted accounts took a distribution, and the distribution was used for a non-qualified expense. In such an event, the distribution would be subject to income taxes and a 10% federal penalty tax on any earnings; and therefore, if earnings are underrepresented, there could be a potential shortfall in taxes owed to the IRS. Fidelity and their outside counsel worked with the IRS to resolve the matter which included Fidelity making a voluntary fee submission to the IRS. As part of the closing agreements, state 529 trusts/trustees are being requested to execute a Consent Disclosure Form (IRS Form 8821) and a Power of Attorney Form (IRS Form 2848).

Action Item: Motion to delegate to OST and the State Treasurer to execute the Consent Disclosure Form and Power of Attorney Form after consultation with Deputy Attorney General.

Replacement of Lazard International R6 Fund

CAPTRUST recommended the removal and replacement of the Lazard International R6 fund. The fund has been on watch since June 2021. The IC discussed the fund and voted to recommend the replacement of the Lazard International R6 fund with the T. Rowe Price Overseas Stock fund. More information on the recommendation can found in the attached CAPTRUST [summary memo](#).

Action Item: Motion to replace Lazard International R6 fund with T. Rowe Price Overseas Stock fund.

2022 Administrative Budget

Per the budget policy, OST is responsible for developing an annual budget for the administration of the deferred compensation and college investment plans. OST will present a draft budget for approval by the Board.

Action Item: Motion to approve the 2022 administrative budget for the plans.