



**MINUTES OF THE AUDIT AND GOVERNANCE COMMITTEE
OF THE PLANS MANAGEMENT BOARD
August 9, 2022**

A meeting of the Audit and Governance Committee (the “Committee”) of the Plans Management Board (the “Board”) was held on August 9, 2022, at 10:00 a.m. at the Office of the State Treasurer – Carvel State Building, 820 N. French Street, Wilmington, DE. Committee members and members of the public were able to participate using the provided dial-in information.

Committee Members Represented or in Attendance:

Mr. Peter Kennedy, Committee Chair

Mr. John Macedo

Mr. Timothy J. Snyder

Ms. Liza Davis, Deputy State Treasurer (on behalf of The Honorable Colleen C. Davis, State Treasurer)

Others in Attendance:

Mr. Jason Staib, Deputy Attorney General, Delaware Department of Justice

Mr. John Meyer, Director of Contributions and Plan Management, Office of the State Treasurer (“OST”)

Mr. Daniel Kimmel, Promotion and Outreach Program Manager, OST

Mr. Michael Green, Investment and Program Manager, OST

Mrs. Deborah Bradl, Executive Assistant, Contributions and Plan Management, OST

Mr. Daniel Madrid, Chief Operating Officer, OST

Mr. Jordan Seemans, Director of Policy and Communications, OST

Mr. Earle Allen, CAPTRUST

Mr. Jeff Kowalczyk, Partner, Barbacane, Thornton & Company, LLP

CALLED TO ORDER

The meeting was called to order at 10:00 a.m.

APPROVAL OF MINUTES

A MOTION was made by Mr. Snyder and seconded by Mr. Macedo to approve minutes from the Committee meeting on May 10, 2022, with revisions.

MOTION ADOPTED UNANIMOUSLY

PRESENTATIONS

401(a) Audit Presentation (2021)

Mr. Kowalczyk presented the 401(a) Match Plan audit report for plan year 2021, which included an unmodified audit opinion on the financial statements for the 401(a) Plan. As of December 31, 2021, the match plan had a fiduciary net position of approximately \$26.6 million, which was an increase from approximately \$25 million as of December 31, 2020. He stated that the majority of the increase was due to investment income (as there are no active contributions). As of December 31, 2021, distributions paid to participants were approximately \$1.7 million. Further, administrative expenses were approximately \$79,000 for the year ended December 31, 2021, versus approximately \$59,000 for the year ended December 31, 2020. Finally, Mr. Kowalczyk identified no material weaknesses or significant deficiencies.

457(b) Match Plan Audit Report (2021)

Mr. Kowalczyk presented the 457(b) audit report for plan year 2021, which included an unmodified audit opinion on the financial statements. As of December 31, 2021, the 457(b) plan had a fiduciary net position of approximately \$948.3 million, which was an increase from approximately \$841 million as of December 31, 2020. Net investment income for the year ended December 31, 2021, was approximately \$116 million, an increase of approximately \$8.2 million for the year ended December 31, 2020. Mr. Kowalczyk stated that participant contributions increased from approximately \$43.6 million for the year ended December 31, 2020, to approximately \$47.6 million for the year ended December 31, 2021. He stated that total deductions, which includes benefits paid to participants and administrative expenses, increased from approximately \$47.6 million for the year ended December 31, 2020, to approximately \$56.7 million for the year ended December 31, 2021. Administrative expenses were up slightly to approximately \$1.6 million for the year ended December 31, 2021, from approximately \$1.2 million for the year ended December 31, 2020. The increase in administrative expenses in 2021 was mainly due to an increase in asset value that fees were based on a suspension of the administrative fee from January through June of 2020.

529 College Plan Trust Audit Report (2021)

Mr. Kowalczyk presented the 529 Delaware Qualified Tuition Savings Plan Trust audit for plan year 2021. He stated that the fiduciary net position was approximately \$749 million for the year ended December 31, 2021, up from approximately \$730 million for the year ended December 31, 2020. Mr. Kowalczyk stated that receivables were approximately \$8 million for the year ended December 31, 2021, and that liabilities were approximately \$8.7 million for the year ended December 31, 2021. He further stated that total additions for the year ended December 31, 2021, were approximately \$172.8 million, a slight decrease from the year ended December 31, 2020, (down from \$189.6 million). Mr. Kowalczyk noted total redemptions increased slightly for the year ended December 31, 2021, to approximately \$153.8 million from approximately \$145.8 million for the year ended December 31, 2020. The increase in 2021 is primarily due to increased distributions. Fluctuations in the amount of redemptions from year to year are otherwise due to changes in the number of participants and beneficiaries receiving eligible distributions, as well as the size of their account balances. There were approximately 6,000, 5,300, and 5,500 individuals who received a distribution from the trust during the years ended December 31, 2021, 2020, and 2019, respectively.

The Committee asked if the draft audit report and financial highlights for the 403(b) plan are forthcoming. Mr. Kowalczyk confirmed that his firm was actively working with several of the legacy 403(b) providers to obtain plan information, and that his firm intends to present the report at the November Committee meeting.

DISCUSSION AND ACTION ITEMS

Discussion and Vote on Recommendation Regarding Plan Audits

The Committee discussed deferring a vote on recommending approval of the audit reports until the November 2022 Committee meeting, at which point all the 2021 plan audit reports will have been finalized.

A MOTION was made by Mr. Macedo and seconded by Deputy Treasurer Davis to approve the draft audits for plan year 2021 for the 457(b), 401(a), and 529 plans while awaiting the draft 403(b) Plan audit and to delay recommendation to the Board until the 403(b) audit was presented in the fourth quarter of 2022.

MOTION ADOPTED UNANIMOUSLY

Discussion and Vote on Recommendation Regarding 457(b) and 403(b) Plan Amendments Relating to the SECURE Act Optional Provision Permitting Withdrawals for Birth or Adoptions.

Mr. Meyer updated the Committee on the discussion related to the SECURE Act optional provision permitting withdrawals for birth or adoptions from the 457(b) and 403(b) plans. OST worked with the Deputy Attorney General and Ice Miller to draft and review the amendments, as requested by the Committee in May 2022. Mr. Meyer provided the Committee with new factors to consider when evaluating the plan amendment, such as existing employee benefits, paid adoption travel leave, paid parental leave, and enhanced infertility benefits through the State of Delaware's Group Health plan. Following the discussion, the Committee voiced support for delaying a recommendation in order to allow additional time for research. The Committee requested that OST conduct further due diligence on how many additional Ice Miller clients have adopted this provision and report back to the Committee at the first quarter of 2023.

A MOTION was made by Mr. Snyder and seconded by Mr. Macedo to delay (until first quarter of 2023) voting on the SECURE Act optional provision permitting withdrawals for birth or adoptions for the 457(b) and 403(b) plans.

MOTION ADOPTED UNANIMOUSLY

Discussion and Vote on Recommendation Regarding 457(b), 403(b), and 401(a) Plan Amendments Relating to the Involuntary Distribution for Terminated Participants with Balances Between \$1,000-\$5,000.

Mr. Meyer updated the Committee regarding the discussion for plan amendments related to involuntary distributions for terminated participants with balances between \$1,000-\$5,000 for the 457(b), 403(b) and 401(a) plans. The Board approved amendments for involuntary distributions for terminated participants with balances under \$1,000 at the December 2019 Board meeting for the 457(b) and 401(a) Plans. The 403(b) already permitted the involuntary distributions for participants with balances under \$5,000. Mr. Meyer explained how this change could result in decreased costs under Voya's new proposed recordkeeping fee proposal. Mr. Meyer reviewed data regarding the impact the amendment could have on the number of accounts and amount of assets. Mr. Allen stated that the involuntary

distribution for terminated participants with balances between \$1,000-\$5,000 is considered an industry “best practice” for plan sponsors.

A MOTION was made by Mr. Macedo and seconded by Mr. Snyder to recommend that the Board approve the 457(b), 403(b), and 401(a) plan amendments relating to the involuntary distribution for terminated participants with balances between \$1,000-\$5,000.

MOTION ADOPTED UNANIMOUSLY

Discussion and Vote Regarding Updates to the Policy Governing the Use of Administrative Fees.

Mr. Meyer updated the Committee regarding revisions to the administrative fee policy. The original policy was approved by the Board in September 2018. In 2019, the Board enabling statute was updated to allow for use of administrative fees from the college and ABLE Plans to fund scholarship, match program, and promotional programs. OST worked with Mr. Macedo, Ice Miller, and the Deputy Attorney General to draft the revised policy, which would, among other things, require the Board to review and authorize any new scholarship, match, or promotional programs. The Board would vote to approve funding for any new programs through the existing budget process during the first quarter of each year. Revisions to the policy were suggested following discussion by the Committee and the AGC’s role in reviewing the Board’s plan regarding administrative fees.

A MOTION was made by Mr. Macedo and seconded by Deputy Treasurer Davis to recommend to the Board to approve the policy governing the use of administrative fees, with revisions.

MOTION ADOPTED UNANIMOUSLY

Discussion on September Board Meeting Training and November Committee Meeting Presentations.

Mr. Meyer updated the Committee regarding the tentative agendas for the September Board meeting and the November Committee meeting. Committee members were asked to review Ice Miller’s training materials and provide suggestions regarding additional topics for inclusion for the September Board meeting. Mr. Meyer noted that Voya will present on cyber security practices at the November Committee meeting.

PUBLIC COMMENT

No member of the public was present for comment.

Executive Session

No Executive Session was held.

NEXT MEETING

The next meeting of the Committee is scheduled for November 1, 2022.

The next meeting of the Board is scheduled for December 6, 2022.

ADJOURNMENT

Meeting was adjourned by Chair at 11:56 a.m.

Respectfully submitted,

Pete Kennedy, Chair for the Audit and Governance Committee