DEFINED CONTRIBUTION PLANS TRUSTEE
SPECIAL MEETING MINUTES
Monday, March 27, 2017

The SPSP/401(k) Trustee Board of the City of San Diego held a special meeting in the SDCERS Boardroom. Location: 401 West A Street, 3rd Floor Boardroom, San Diego, California. The meeting was called to order at 1:07 p.m. by Tracy McCraner.

Trustees Present:	Julio Canizal, Robert Davis, Gail Granewich, Mark Hovey, Tracy McCraner
Staff present:	Gilda Smith, Bill Gersten (arrived at 1:17 p.m. and left at 3:20 p.m.)
Presenters:	Denise Jensen (Wells Fargo IRT)
	Jonathan Scharmer (Wells Fargo IRT)
	Bill Cottle (Milliman)
	Jeff Nipp (Milliman)

1. STAFF REPORTS AND INFORMATIONAL ITEMS

- Plan Sponsor Environment

  Ms. Jensen began on Section 1 of the presentation. Wells Fargo's mission is to help America's workforce prepare for a better retirement. Wells Fargo approaches this mission in understanding plan sponsor needs by gaining understanding of participant behavior. They look at their book of business which includes over 5000 plans and four million participants; they have data to see what the industry in doing.

  Ms. Jensen referred to the separate Wells Fargo pamphlet, "Driving Plan Health-2016." The report is about key trends and is based on data from their book of business gathered from 2011 through 2016. Most of their presentation is based on this report and Ms. Jensen encouraged the Board to review the report. She proceeded to page 4 of the presentation. The key drivers for maximizing participant outcome: the participant must be in the plan and contributing to the plan. Wells Fargo uses 10% as the stake in the ground as the target for participant contribution. There are others that may use 8% or 12%. They selected 10% based on employer and employee contributions. The last key driver is to diversify. With those three things participants can get to the retirement goal of 80% pay replacement of their current income. Least impact is fees, the most impact is the savings rate. The investment performance is important, however focus on asset allocation and diversification.

  Their study found plan design really matters. Demographics of the plan such as age, tenure and income impact and influence plan success and driving employees to take action. Participants can take action in their 401(k) and 457(b) (VALIC). Features in a plan over time with correct implementation of plan design makes a difference. Ms. Jensen referred to page 6. The higher the income, the more the participant is contributing. But lower income participants are contributing more than in the past. Longer tenured employees tied to an employer have a better participation rate. Tenure at the City is longer than the average corporate employer. Boomers are at highest participation rate at almost 66%. However, millennials and gen-xers have gained ground with over 31% increase due to auto enrollment at hire. Millennials have now surpassed Boomers in the workforce. In 2016, 2.8 years was the average tenure for millennials. For everyone, including millennials, the average tenure is 5.1 years.

Ms. Jensen proceeded to page 7. The top driver of participation is auto enrollment; 80%-90% stick rate (participants don't opt out). Think about 401(k) or 457(b), if the City were to auto enroll in these plans, would participants stay? Ms. Jensen stated 90% of their plans offer match. The next driver is total match. The higher the match, the higher the participation rate. The third driver is match cap which correlates to higher participation. Plan sponsors can drive up participation but not increase cost. Instead of $1 for $1 up to 6%, $1 for $1 up to 4%, then $0.50 for each $1 up to 8% to drive higher contribution rate. The fourth driver is auto increase where participants have to opt out. Employers include annual increase if implementing auto enrollment. Ms. Jensen shared that another trend is if the employer has auto enrollment with opt out, then employer goes back annually to re-auto enroll and re-auto escalate which forces the employee to have to take action to opt out. This is the trend especially with employers that only offer a 401(k). Studies show vast majority of individuals only have the money they have saved for retirement when they retire. Ms. McCraner asked Mr. Gersten to confirm that these plan features are a meet and confer issue. Mr. Gersten confirmed.

Ms. Jensen reviewed the drivers influencing contributions on page 8. The top drivers are total match, match cap, auto increases, QDIA, and communication campaigns. Why does QDIA impact participation? Employee's number one concern is, "I don't know where to invest my money." If there is a QDIA, they generally go with employer's QDIA. Across the U.S. the average auto enrollment contribution is 3%. But need to get them to 10%; auto increase of 1% annually takes too long. Employers are now auto enrolling at higher percent and/or auto increase is a higher percent. Wells Fargo is seeing that happen more frequently where there is not a match or match is discretionary. Ms. McCraner asked about the number of SPSP participants that take advantage of the voluntary SPSP option. Ms. Jensen stated she will follow-up with the Board with the information. Ms. Smith stated that majority of participants take advantage of SPSP voluntary. Mr. Hovey asked Ms. Jensen if plan sponsors typically match 100% of first 3% or 50% of first 6%. Ms. Jensen replied generally 100% of first 3% and varies up to 6%.

Top drivers of diversification are listed on page 10. Ms. Jensen stated the top two key drivers are QDIA and communications targeting specific audiences that have been in the plan for a long period of time. Asset allocation is important but participants cannot time the market. Studies have shown returns are generated 6% of the time, the remainder of the time the market is barely beating money market rates. Ms. Jensen distributed to the Board a handout that displayed historical performance of investment classes. The handout displayed there is not one fund class that had a pattern of consistent positive performance.

Key findings are auto enrollment and auto escalation are more influential on millennials. Boomers have higher balances but millennials are more on track. In their book of business 43% auto enroll. The Plan Sponsor Council of America (PSCA) survey states 57.5% of plans auto enroll. The default is 3% contribution rate on both sources. The common QDIA is a target date fund on both sources. The common auto increase is 1% annually up to 10%. Ms. McCraner asked what percent of plans do auto increase. Mr. Hovey asked Ms. Jensen if government plans auto escalate. Ms. Jensen answered that she is aware of government plans that auto escalate; employee contributions are escalated. Ms. Jensen also answered 19% of their book of business offers auto increase with option to opt out. In conclusion, plans sponsors need a goal and map on how to get there. Plan Sponsors now have to focus on how to get participants through retirement and stay in the plan once they retire. Assets that stay in the plan allows plans sponsors leverage for investment options and recordkeeping. Employees can stay with a familiar plan, flexible, and lower fees than with other financial institutions.

Ms. Jensen reviewed industry trends regarding fees on page 14. Participant recordkeeping fees are either flat dollar amount or flat basis point. The City is at 11 basis points. In general the participant is covering the fees. Mutual funds charge 12-b1 fees for marketing. Mutual fund companies would reimburse the fees back to the record keeper to pay for fees. Participants did not see the fee. Unbundling fees is where participants that use the service pay the fee, instead of one fee across the board. This reduces the annual fee for all participants. Transactions are a cost to record keepers. In addition to the asset based fee, City employees only pay a loan origination fee, $75. There is direction to drive overall investment costs down; collective funds or separate accounts, more assets the more leverage. Plan sponsors are moving away from revenue sharing. If a plan still offers revenue share, most plan sponsors (1) create an ERISA bucket to use funds to offset expenses or (2) revenue share goes back to Wells Fargo and is reimbursed back to participants on the last day of the quarter.

Page 15 highlights trends such as active versus passive funds and off-the-shelf target date funds. Target date funds are more popular than risk because it is easier to communicate. Mr. Hovey asked what percent of current Wells Fargo clients that have risk based funds and the trend. Ms. Jensen replied risk base funds are becoming less prevalent now. Target date funds are becoming more popular with auto enroll, because it is easier to communicate to employees. Risk management is the focus for the decumulation phase, plans are looking for solutions for those participants that are staying in the plan after they retire. Plans are looking for low volatility products and creating custom target date funds. There are a lot of plan sponsors who are moving in that direction of creating custom target date funds because it gives them flexibility within the investment options. Plan sponsors are also looking at out of plan options. This is becoming prevalent within the industry so that a participant can do a qualified annuity contract with a portion of their assets in their retirement plan. This is another avenue that plan sponsors are looking into, in order to help employees through retirement. Mr. Hovey stated that Boston College Center for Research conducted a study and San Diego is the only plan in California where there are more retirees in SDCERS than there are active members. Ms. Jensen stated plan sponsors are listening to their employees and participants and what they are finding, especially with Millennials, is that they want to talk with someone and have advice within the plan.

Ms. Jensen reviewed advice products in the past and the trend moving forward on page 16. The Advice Continuum Comparison provides the target audience and the advice product. Wells Fargo offers Retirement Investment Guidance and Retirement Investment Advice. This advice product uses Morningstar. These are tools that Wells Fargo offers on their participant website. The City has not taken advantage of these tools and they can be turned on. Ms. McCraner asked if this is interactive. Ms. Jensen replied that it is interactive because they are answering questions. It will not tell the participant which fund to invest in, but it will tell them what asset class should be invested in based on their age and risk tolerance. Mr. Hovey stated in essence the City is paying for it, but not using it. Mr. Hovey requested this topic to be added to a future agenda. Ms. Smith stated it is on the to-do list. Mr. Cottle asked if there was a reason why the Board would not want this tool to be turned on. Mr. Hovey replied there could be confusion to participants. Ms. Jensen will bring additional information and re-visit the subject at a later meeting. Advice products are becoming more popular within plan sponsors because it helps guide participants with the accumulation and decumulation phase. Financial Engines is one of those products that helps participants. Mr. Hovey asked if most of Financial Engines services were free. Ms. Jensen stated that Financial Engines does charge a fee if a participant chooses to use other services within what the plan offers.

Ms. Jensen reviewed flexible versus non-flexible options related to plan design on page 17. The Board has flexibility on beneficiary processing, contribution processing and investment options. Most other plan design options require approval from City Council and/or labor unions. Ms. McCraner stated that employees are hitting the 10 percent goal for retirement, since SPSP-H participants have a combined rate of 18.4%. Ms. Smith asked Ms. Jensen what percent of plans in the study include Social Security. Ms. Jensen replied, all of them.

Ms. Jensen discussed how to reduce overall fees on page 18. Currently, domestic relations orders (DROs) are done in-house. The plan sponsor could have the participant and alternate payee cover the fee for the service. Participants currently enroll on Self-Services. This does not provide Wells Fargo direct access to participant contribution rates. The alternative would be to utilize Wells Fargo's system only. Beneficiary processing is also done through Self-Service. The alternative would be to use the Wells Fargo website. Same concept applies to hardships, plan-to-plan transfers and forfeiture reporting. These services do not necessarily affect the fees that the City is paying Wells Fargo, but it reduces the cost associated with having them being done in-house. Ms. McCraner asked if on Self-Services there is an automatic interface with SAP and Wells Fargo. Ms. Smith replied some information is communicated between the two.

Ms. Jensen discussed proactive governance on page 19. Every year the plan sponsor should review strategic planning, communication strategy, fees, investment policy and plan design. Both Trustees and staff are doing all the plan governance activities.

Participant Environment

Mr. Scharmer began his presentation with Wells Fargo's mission statement on page 20. Participant success has to do a lot with communication, which drives participants to success in retirement. Wells Fargo performs annual surveys that focuses on different segments: Millennials, mid-career, and pre-retirees. Millennials are participating earlier, at age 26. That longevity ultimately leads them to be able to retire earlier. Fifty-nine is the average age Millennials want to retire and they are doing a lot of things to be able to achieve that goal. This result has a lot to do with the auto features in the plan. Millennials often times assume they will not receive Social Security. Participants who are in their mid-career, often times called Gen-X, are the forgotten generation. They are often times the most disconnected with the retirement conversation. Those who are too late in the game assume they can retire later to make up any gap. However, often they do not have control on when they will retire. Mr. Scharmer proceeded to the data on page 21. Women participate less but are more diversified when participating. Women live on average five years longer. They earn less over their lifetime than men but are more educated. Participants who have a degree are consistent savers as opposed to those who do not. Mr. Scharmer informed the Board 45% of those who are age 60+ have not considered what they are able to withdraw in retirement. Mr. Scharmer stated that moving away from a pension to today's savings plans has been a success, especially among Millennials. The new challenge is helping participants take responsibility for understanding how much they may have in monthly income in retirement.

Mr. Scharmer reviewed what participants want and need help with on page 22. Forty-four percent of American households do not have a budget; do not know what to save when they do not know what is going out the door in expense. Forty-two percent of Americans do not think they can pay their expenses and save for retirement.

Mr. Scharmer reviewed communication options to drive personalization to participants on page 23. Language is important in driving the message to the participant. Wells Fargo offers an option for Spanish speakers. Those in the Hispanic community want to have a conversation in their native language. Age is a determining factor when it comes to communication because it categorizes participants into one of the segments. Mr. Scharmer discusses the formula for success in driving the message home on page 24. People are more likely to take action if they see the same message three times. The more personalized the more likely you will get people's attention. Mr. Scharmer discussed the different life stages and what people are looking for in each of these stages on page 25. The early career/early savers are looking for ease of solutions and for validation. Those in mid-career are looking for help balancing their priorities. The pre-retirees want help getting on track. Finally, retirees want help managing expenses in the decumulation phase. Mr. Scharmer discussed the different needs each life stage has on page 26. He incorporated City data to adjust the age ranges. With City employees, an early saver would be under age 25, mid-career is age 25-40, pre-retiree is age 40-55, and retirement is age 55+. Employees need to understand they need funds for 30-40 years after they retire. Mr. Scharmer discussed how participant engagement is evolving on page 27. The enrollment experience needs to be simple and easy for participants to engage and increase participation. Millennials are more receptive to enrolling via text. Mid-career need tools and solutions to get on track and are influenced a lot by emotions. They need to be emotionally connected to what they see. Pre-retirees need personalized emails and help understanding the decumulation phase. Women in general have 30% less Social Security benefits. Wells Fargo's trigger emails have a 49% open rate, which is double the industry average of 22%. Of those who open email, 17% take action.

Mr. Scharmer discussed the digital experience. Wells Fargo received an A rating from Corporate Insight for their digital experience. Corporate Insight evaluated usability, navigation and financial wellness. Mr. Scharmer reviewed the website's retirement income estimator on page 33. There will be new enhancements to the digital experience. One will be a life expectancy tool that will customize the life expectancy number and the annual rate of return will be related to the participant's actual investments. Millennials are influenced by their peers. The "How do I compare?" feature is not available to the City employees. The City does not provide data to support some of the more personalized communications. When it comes to the mobile experience, 75% get internet access through their mobile device. Wells Fargo's mobile application is fully transactional. Mr. Scharmer reviewed the self-guided financial wellness tools available to participants on page 41. Mr. Scharmer also discussed future financial wellness on page 43. Later this year they will be launching a financial wellness channel. Using data they will link each participant to the channels that are more appropriate for them. The more data they have from the City the more personalization. Self-Services has pros and cons when it comes to participant engagement. The pro is it is easier to go on Self-Service to log hours. The con is you can't access it at home, only through a City computer. Mr. Scharmer stated that David Applestein, Wells Fargo educator, is scheduled for 11 days for 1-on-1 sessions with City employees. Mr. Davis asked if there were additional days available or additional educators. Ms. Smith replied she is working with Mr. Applestein on scheduling more days. Ms. McCraner asked about no-shows and if there were any consequences for not showing up. Ms. Smith replied staff schedules a wait list to take advantage meetings in the event of a no-show. Ms. Jensen stated the City has 25 calendar days per year for education sessions that are covered by the fees.

Ms. McCraner asked for a five minute recess at 3:20 p.m.
Ms. McCraner called the meeting to order at 3:27 p.m.

- Investment Basics

Mr. Cottle introduced Mr. Nipp who will be working with Milliman. Mr. Nipp discussed the investment options on page 2. Mutual funds are the common funds in plans like the City's. Mutual funds are registered with the Securities and Exchange Commission (SEC). There are open-end funds where people can put money in or take out when wanted. There are a minority of them that are closed-end funds. Generally mutual funds are money market, bond, stocks and balanced. These funds have share classes; I shares are institutional, R shares are retirement plans. Institutional retirement funds typically have the lowest fees because they don't have to pay advisors or financial planner. Mr. Nipp discussed commingled funds also referred to as commingled investment trusts on page 3. These are designed for institutional investors; are not regulated by the SEC and are not as liquid as mutual funds. In recent years this has been changing and becoming daily accessible instead of monthly or quarterly. These are some of the funds plan sponsors are looking at in replacing mutual funds. Investors are not able to look up performance on commingled funds the way they can look up mutual funds. Separately managed accounts are customized investment portfolios for plans that are big enough. Accounts are as big as 1 million dollars to 100 million dollars. Ms. McCraner asked about the typical limit of commingled funds. Mr. Nipp replied 5-10 million dollars and some are restricted because it is required to be an ERISA investor. Mr. Cottle commented that out of the 15 options the City offers, 11 are mutual funds, three are commingled funds and one is a separate account.

Mr. Cottle discussed the City's investment history on page 4. The first report was in June 30, 1997. At the time there were only five investment options, three equity, one balanced, and one managed fund. There was a movement to diversify in the next two years. There was a desire to increase the funds, but not a large number. Mr. Nipp commented that too many options decreases involvement in the plan. Mr. Cottle proceeded to page 6 to discuss questions to consider regarding the present fund structure. Are all of the investment options complimentary? Do we have the right combination of active and passive management? We have a balanced fund and three life strategy funds which are another version of balanced. Should the plan have both of those? On top of that is the question about target date funds. We have semi-addressed some of the questions but the combination of those three types of balanced funds need further evaluation. Mr. Cottle stated that it is time to finish the investment road map and make some decisions. One of the newer areas where institutional investors are allocating assets is in infrastructure. Some of their clients have invested in infrastructure over the past five years. Mr. Cottle asked Mr. Hovey if he considers infrastructure a separate asset class. Mr. Hovey replied SDCERS changed their asset allocations three years ago to have a 3% allocation to infrastructure. But the size was not meaningful and included infrastructure with private equity; 13% allocation to private equity and infrastructure. Some of the infrastructure plays have been successful, some have not. Ms. McCraner asked if infrastructure was in P3s (public-private partnerships), government or more private deals. Mr. Hovey confirmed private deals. Mr. Nipp shared inflation is increasing and there is interest in infrastructure, real estate and other things that should do well in an inflation environment.

Mr. Cottle stated page 7 listed questions that the Board should consistently ask themselves during performance reviews. Mr. Nipp added the investment managers are filling a role within the plan. Plan sponsors want to make sure the investment managers are delivering what they are supposed to be delivering in performance and exposure. It is a piece of something bigger and the whole thing fits together the way it should. Mr. Nipp reviewed domestic equity on pages 8-12. The rationale for having active management is as you move down the capitalization spectrum those are less efficient markets. There not as many people covering these companies. If the manager has good information he should be able to add value. That is the theory of why there is more active management in smaller cap size. Fees are higher with small cap because there are capacity limits. The manager can only take so much in assets to effectively manage their strategy.

Mr. Nipp discussed international equity on page 13. The City offers two active options; Invesco International Equity and Dodge & Cox International Equity. Invesco is a growth fund and Dodge & Cox is a value fund. Both have had good long term performance and fees are reasonable. Mr. Cottle discussed additional investment strategies on page 14-17.

Mr. Cottle stated there are issues for the Board to address. The issues will be discussed at the next educational meeting. Mr. Cottle mentioned Vanguard has reached out to Milliman offering lower fees to the City, if their target date funds were selected. State Street has a target date annuity approach that takes participants from the date they retire to 20-30 years beyond that. Morningstar and UBS have a lifetime index fund approach. These are some ideas that need to be looked at and discussed. Mr. Nipp commented that there is a lot of work going on in the industry regarding the decumulation phase because people recognize the fear of outliving their money. Mr. Hovey asked where the defined contribution market is going. He does not want to chase target date funds because they were the most popular things last year. Mr. Nipp commented that the market is going towards the decumulation phase. Mr. Cottle stated the problem with target date funds, they are targeted for the retirement date. That is not important, it is having enough money beyond the retirement date. Mr. Hovey stated soon City employees are working with nothing in an annuity product, nothing with a fixed income stream because they are not in Social Security. Mr. Hovey stated it is imprudent for a plan sponsor to put all of the investment risk on an individual. Mr. Nipp stated employees can buy annuities by themselves, but they don't have pricing power. If annuities become part of the plan there are more advantages.

Mr. Hovey asked a question for future discussion regarding value versus growth fund trends. Should the Board continue the value versus growth mindset or is there something that could replace them. Mr. Cottle replied within the domestic equity line-up, the plan has the Wells Fargo S&P500, Vanguard Growth and Vanguard Value; some funds are redundant. Mr. Hovey asked about the fixed income ideas on page 18. Why Mr. Cottle would not consider a Barclays passive fixed income product. Mr. Hovey personally feels that is missing from the portfolio. Mr. Hovey asked which funds offered in the plan have revenue share. Ms. Jensen answered, Boston Small Cap with a 25 bps in revenue share, Oakmark with 35 bps in revenue share, and T. Rowe Price at 15 bps for revenue share. Mr. Cottle stated the commingled funds are the Wells Fargo S&P500, Principal, and Invesco. The Managed Income Fund (MIF) is a separate account. Mr. Cottle stated the intent was always to reduce the percentage in the MIF, but what actually happened is the asset base grew around it and reduced the percentage. The amount of money in the MIF was not reduced because money came out of it, but it was reduced because options were made available.

Mr. Cottle informed the Board a Quarterly Performance Reference Sheet has been provided to assist the Board in reviewing Milliman's quarterly performance report.

Ms. Smith asked Mr. Cottle and Mr. Nipp if they needed additional information from the Board to prepare for the next meeting. Ms. Smith also asked the Board if there was specific information they would like Milliman to research and present at the next meeting. The next board meeting will discuss the investment road map. Mr. Cottle commented the road map has certain areas where the Board may consider additional funds, different investment options. Mr. Cottle will provide more detail at the next meeting. Mr. Cottle stated the balanced, life strategy, target date fund issue is the first priority. Mr. Hovey requested the concerns regarding the road map to be ranked in importance.

2. COMMENTS FROM TRUSTEES, STAFF, ADMINISTRATOR, ATTORNEY

- Ms. Smith encouraged Trustees to complete the evaluation survey to provide feedback. Education on fiduciary responsibility was postponed to a future meeting.

3. PUBLIC COMMENT

None

The next meeting is scheduled for April 26, 2017.

Meeting adjourned at 4:12 p.m.

Backup documentation is available at Risk Management.