

**DEFINED CONTRIBUTION PLANS TRUSTEE BOARD
MEETING MINUTES**

Tuesday, December 06, 2022

The Defined Contribution Plans Trustee Board of the City of San Diego held its regularly scheduled meeting on Tuesday, December 06, 2022. The meeting was conducted via teleconference pursuant to the provisions of California Executive Order 29-20. The meeting was called to order at 1:33 p.m. by Elizabeth Correia.

1. ACTION ITEMS

A. Roll Call

Trustees Present: Angela Colton, Elizabeth Correia, Gregg Rademacher
Trustees Absent: Brenton Devore, Abraham Hunt
Staff present: Quennelle Allen, Tom Brady
Presenters: Denise Jensen (Principal) and Jeffrey Nipp (Segal Marco)

B. Dispense with the reading and approval of the minutes of June 15, 2022, September 08,2022, and October 26, 2022

MOTION TO ACCEPT THE MINUTES OF JUNE 15, 2022, SEPTEMBER 08, 2022, and OCTOBER 26, 2022 WITH AMENDMENT TO REMOVE DUPLICATE SENTENCES IDENTIFIED IN ITEM D ON LINES 5 AND 18 IN THE JUNE 15, 2022 MINUTES

Gregg Rademacher

SECOND:
PASS (3-0)

Elizabeth Correia

C. Discussion of Approval of Amendment to Performance Guarantee Agreement

Denise Jensen

Effective January 1, 2023, the Standard Performance Guarantee that is utilized by the City as part of the Service Center Agreement will have a change to the Performance Measures category. This change will consist of replacing the verbiage which currently indicates that Principal will answer 80% of calls within 30 seconds on average, measured quarterly, with verbiage that

identifies that Principal will answer “all” calls within 30 seconds on average, measured quarterly.

MOTION TO APPROVE AMENDMENT OF PERFORMANCE
GUARANTEE AGREEMENT

Gregg Rademacher

SECOND:
PASS (3-0)

Angela Colton

D. Add Schwab Personal Choice Retirement Account (PCRA) Quennelle Allen

i. Discussion of Fee Structure of other Self-Directed Brokerage Account Options

Per a December 2021 report by the Department of Labor’s Advisory Council on Employee Welfare and Pension Benefit Plans, costs associated with brokerage windows can be broken into two categories: (1) fees charged by brokerage provider; and (2) fees charged by the recordkeeper. Staff reviewed the fee schedule for other California municipalities that offer a self-directed brokerage account and found that most were either offered through Schwab PCRA or TD Ameritrade. The trading fees and commissions are very similar under both of those brokers.

Per Department of Labor’s December 2021 report, recordkeepers generally charge brokerage window participants a quarterly maintenance fee in the range of \$10 to \$25, which is deducted from their “in-plan account.” Principal charges \$25 for each quarter a participant maintains a brokerage account balance. This fee is on the higher end but is within range.

ii. Add Schwab PCRA to the 401(k) Plan

Staff recommends only adding the Schwab PCRA option to the voluntary 401(k) plan, as a fully open brokerage window. This would allow participants to have a full array of options available for investment. By adding the self-directed option only to the voluntary 401(k) plan, the desires and needs of the more sophisticated investors can be addressed without impacting the mandatory savings plans.

If the board approves adding the brokerage window as an option, the anticipated timeframe for implementation, inclusive of providing communication to the participants, is approximately 90-days.

MOTION TO APPROVE ADDING THE SCHWAB PCRA
TO THE 401(K) PLAN

Gregg Rademacher

SECOND:
PASS (3-0)

Angela Colton

2. STAFF REPORTS AND INFORMATIONAL ITEMS

A. Segal Marco Third Quarter Investment Report

Jeff Nipp

As of Quarter end September 30, 2022, US equities were down roughly 5%, and International equities were down roughly 10%. The year-to-date returns for global equities are sharply negative. Growth indexes slightly outperformed value across the market cap spectrum. Small cap stocks slightly outperformed large cap. Two sectors were positive in the quarter, consumer discretionary and energy, while telecom was the worst performing sector.

Allocations to the Target Date Funds are now only about 20% of the total assets., Managed Income Fund assets increased by 4.6% to 31.4% at quarter end.. The projection moving forward is that allocations will evolve, and the Target Date Funds assets will increase, and Managed Income Fund assets will decline. The performance of all Index Funds and Domestic Equity Funds tracked their benchmarks very closely for the quarter and longer-term periods.

The Board plans to replace the International Equity funds (Invesco and Dodge & Cox) with two new Vanguard Funds (one passive and one active). As of quarter end, Invesco was trailing the Growth benchmark, and Dodge & Cox was ahead of the Value benchmark. The Oakmark Fund outperformed the 3-year Index but is still on the watchlist as it is behind on the 5-year.

B. Principal Third Quarter Report

Denise Jensen

There has been a decline in plan growth from quarter end of September 30, 2021 to quarter end of September 30, 2022. As of quarter end there was just over \$1.3 billion in assets. There was a decrease over the year in outstanding loans, which is positive, as the outstanding loan amount dropped to \$25 million. The plan to plan transfers for participants that are taking action to buy back service time with SDCERS as of quarter end, was at \$2.8 million; this does not include the transfers completed as a result of the reversal of Prop B. There was a decline in participants' average account balances across the board due to market conditions, with an average account balance of \$39.3k in the 401(k) Plan, \$7.0k in the 401(a) Plan, \$142.6k in the SPSP Plan, and \$10.1k in the SPSP-H Plan as of September 30, 2022.

As it pertains to the number of participant accounts, the reversal of Prop B caused an increase in the 401(a) accounts and a decrease in the SPSP-H Plan accounts; the SPSP accounts decreased slightly and the number of 401(k) accounts increased. Regarding diversification, the SPSP continues to have a large share of assets invested the Managed Income Fund, at 38%. The 401(a) plan, 401(k), and SPSP-H plans remained relatively unchanged.

The number of participants contributing to the 401(k) Roth has increased to 855. The participants are taking advantage of the decision that was made by the Trustees to allow this money type within this plan.

A legislative update was also presented, specifically reviewing the proposed changes included in the Secure 2.0 Act which was approved by the U.S. House of Representatives and was awaiting approval in the Senate. There are two highlights that stand out in the Secure 2.0 Act. The first one is the proposal to accelerate savings for older workers. This would raise the RMD age from 72 to 75 and allow a plan to increase catch-up limits to \$10,000 for participants between the ages of 62 through 64. This would engage the older population of workers, allowing the ability to not take money out of their retirement plan if they do retire until they are 75, or if they are still working between the ages of 62 to 64, allows for a higher contribution amount than the current catch-up provision.

Another item to note would be the cash-out limit. There is consideration of increasing the cash-out limitation from \$5,000 to \$7,000. This impacts the employees who separate from the City and have a balance left in their account. If their account balance is under \$1,000, the balance is automatically cashed out, but if the balance is between \$1,000-\$5,000, then the balance is automatically rolled over to an IRA. This proposal would increase that limit, so anyone with an account balance between \$1,000-\$7,000 would have that balance automatically rolled over to an IRA.

The City Attorney noted that if the proposed Secure 2.0 Act passes, it is not a Trustee decision to move forward with elective changes, it will be up to City Council to decide if they want to include these changes.

The 2023 dollar limits were also presented. Within in the 401(k) plan, the plan deferral limit increased from \$20,500 to \$22,500 and the Catch-up Limit also increased from \$6,500 to \$7,500 for 2023.

C. Executed Contract Assumption Agreement with Quennelle Allen
Milliman and Segal Marco Advisors

Segal Marco has acquired the San Francisco practice of Milliman Advisors. Angela Colton, in her capacity as Director of Risk Management, has executed the Contract Assumption Agreement.

i. Introduction to Segal Marco Advisors Jeff Nipp

Segal Marco is a wholly owned subsidiary of Segal, established in 1969. They are an SEC registered Investment Adviser and their primary line of business is investment consulting services. They are ten times the size of Milliman Advisors. Segal Marco's firm is organized across investment

consulting, research, and business operations service groups to ensure that clients receive high quality, cost-effective services. They are committed to the public marketplace and frequently speak at several public fund and governmental professional organizations.

3. COMMENTS FROM TRUSTEES, STAFF, ADMINISTRATOR, ATTORNEY

Staff provided an update on the status of the transition for the International Equity options. Staff is working with Vanguard to finalize the paperwork; the Adoption Agreement was reviewed by the City Attorney's Office, with no issues raised. Once the paperwork is completed, it is anticipated to take approximately 90-days to implement. Staff consulted with Principal, Segal Marco, and the City Attorney's Office regarding the transition, and determined that the current balances that are in the two existing International Funds will be split up 50/50 into the two new Vanguard funds. Moving forward following the transition, future contributions cannot be split, therefore, future contributions will be allocated 100% to the passive Vanguard fund.

Additionally, future Trustee Board Meetings will return to in-person meetings.

4. PUBLIC COMMENT

Thomas Park submitted an electronic comment:

Specifically, I wanted to share my opinion that Environmental Social Governance (ESG) and/or Socially Responsible Investing (SRI) funds please be considered as available options in the 401K/SPSP-H/401a to address environmental sustainability, value-based investing, employee retention, etc. For example, are you considering inclusion of funds such as Vanguard FTSE Social Index Fund (VFTAX)?

The City Attorney commented that the Department of Labor recently came out with some guidance/rules for consideration of these ESG factors when selecting investments. They do have some applicability to the Board. The rules will be added to the agenda for the next meeting, to allow the Board a timeframe to discuss.

5. NEXT MEETING

The next meeting date had not yet been determined as of December 06, 2022.

6. ADJOURNMENT

Meeting adjourned at 2:38 pm.

Backup documentation is available from the Risk Management Department