

**Minutes of
OHIO PUBLIC EMPLOYEES DEFERRED COMPENSATION BOARD
STRATEGIC PLANNING MEETING**

A publicly noticed meeting of the Ohio Public Employees Deferred Compensation Board was held at the Ohio Public Employees Retirement System offices located at 277 East Town Street, Columbus, Ohio on August 14, 2017, at 9:00 a.m.

Members present: Chair Charles Latsa; Senator Jay Hottinger; Mr. Sean Loftus; Mr. Christopher Mabe; Mr. John W. Maurer; Mr. Hermann Mollmann, Jr.; Ms. Cinthia Sledz; Mr. Ken Thomas; Mr. James R. Tilling; and Mr. Steve Toth.

Also present: Mr. Keith Overly, Executive Director, Mr. Paul D. Miller, Mr. Jim Heagen, Ms. Cindy Ward, Mr. Doug Lepper, Mr. Rob Goodwin and Mr. Joshua King, of the Ohio Public Employees Deferred Compensation Program; Mr. Peter Jamison of the Attorney General's office; Mr. Matt Gill, Mr. Cedric Gaaskjolen, Mr. Dave Howell, and Ms. Brenda Anderson of Nationwide; Mr. Rob Palmeri and Ms. Mikaylee O'Connor of RVK, Inc.; and Mr. Kimo Kim, Mr. Amit Jhatakia, and Mr. Eric Murphy of DXC.technology.

Member(s) absent: Representative Kristin Boggs; Mr. Patrick Smith, representing Mr. Robert Blair; and Mr. Robert C. Smith.

Chair Latsa called the meeting to order.

The Executive Director reviewed the meeting agenda, made introductions of the additional guests, and noted the additional information items included in the agenda.

Mr. Heagen reviewed the strategic plan goals, and the status and updates of the existing strategic plan objectives.

Ms. O'Connor presented the regulatory and legislative update that included information on the Department of Labor (DOL) Fiduciary Rule, tax reform, state run private sector retirement plans, and open multiple employer plans.

Discussion was held regarding obstacles to administering and enforcing the DOL Fiduciary Rule, potential sources to fund tax reforms, and the establishment, funding and feasibility of a state run private sector plan or open multiple employer plans.

(Mr. Loftus entered the meeting at 9:20 a.m. and Mr. Mabe entered the meeting at 9:30 a.m.)

The Executive Director reported that he is scheduling meetings with Ohio legislators to discuss concerns with the impact of tax reform on defined contribution plans. He reviewed tax reform issues and NAGDCA legislative priorities.

(Ms. Sledz entered the meeting at 9:50 a.m.)

Mr. Palmeri reviewed the DC trends related to policy and governance, plan design, investment structure, investment strategies, and participants.

Discussion was held regarding Ohio DC's cybersecurity, the ability to monitor hack attempts, annual security assessments, and cyber insurance. Discussion continued regarding eliminating gaps and overlap in the investment menu, fees for active vs. passive management, tiered investment structures, white-label investment options, and participant education.

A break was taken from 10:45–11:00 a.m.

Ms. O'Connor presented the Ohio DC historical menu changes, and the RVK framework used when developing, implementing and evaluating DC plan investment menus. Ms. O'Connor reviewed Ohio DC compliance with the investment policies, how participants are using the investment menu, and the structure of the investment menu. Ms. O'Connor examined the evaluation of Ohio DC participant data regarding target date and equity investment option selections, median and total equity allocations, and usage based on age.

Discussion was held regarding a timeframe for participant engagement to increase, reasons for participant investment choices and risk tolerance, targeting education to younger participants, and financial literacy. A comparison of participant data to other target date fund glide paths was requested for a future report.

Ms. O'Connor reviewed the recommendation to move to a reduced fee share class for the Fidelity Growth Company and Fidelity Contrafund collective investment trusts that will save participants approximately \$1.1 million in investment management fees per year.

Mr. Maurer moved, Ms. Sledz seconded to direct staff to move to a reduced fee share class for the Fidelity Growth Company and Fidelity Contrafund collective investment trusts, and work with RVK to complete the transition.

Roll call vote was taken:

Senator Hottinger	yes	Ms. Sledz	yes
Mr. Loftus	yes	Mr. Thomas	yes
Mr. Mabe	yes	Mr. Tilling	yes
Mr. Maurer	yes	Mr. Toth	yes
Mr. Mollmann	yes	Chair Latsa	yes

The motion passed unanimously.

The Board asked what the anticipated timeline was for the Fidelity fund transition. Mr. Miller indicated that a November 3 transition would allow for a 30-day notice to participants in the October newsletter. Discussion was held regarding the possibility of making the transition sooner, using email for the participant notification, the need for a 30-day notice in situations where the transition is to a lower-cost share class of the same fund, the importance of notifying all participants of the change, and the possibility of changing the notification policy. The Executive Director indicated that staff would look at the language in the Plan Document.

(Mr. Maurer left the meeting.)

Ms. Sledz moved, Mr. Tilling seconded to direct staff to review the Plan Document and where appropriate move up the timeline for notification to participants in the two Fidelity funds.

Mr. Mollmann asked if the motion could be amended to include all situations where the fund transition is to the same fund but just a different share class. Ms. Sledz and Mr. Tilling agreed to the amendment.

Discussion was held about whether the staff had authority, if needed, to change the Plan Document regarding the timeframe for participant notification. Ms. Sledz indicated that she would want staff to have the authority to make any necessary changes to allow for a sooner fund transition. Senator Hottinger indicated the Board should give staff the authority to make any necessary changes to the Plan Document for fund transitions to a lower-cost share class of the same fund. Ms. Sledz and Mr. Tilling agreed to a second amendment to the motion.

Chair Latsa asked for any further discussion regarding the amended motion.

The amended motion is as follows:

Ms. Sledz moved, Mr. Tilling seconded to have staff review the Plan Document, make any necessary changes to the Plan Document that would move up the timeline for participant notification of fund transitions to a lower-cost share class of the same fund.

Roll call vote was taken:

Senator Hottinger	yes	Mr. Thomas	yes
Mr. Loftus	yes	Mr. Tilling	yes
Mr. Mabe	yes	Mr. Toth	yes
Mr. Mollmann	yes	Chair Latsa	yes
Ms. Sledz	yes		

The motion passed unanimously.

(Mr. Maurer entered the meeting.)

Ms. O'Connor reviewed the investment menu gap analysis which indicates overlap in large-cap growth equity options, and a need to review possible gaps in passive mid-cap equity and inflation hedging investment options.

Discussion was held regarding offering a passive small-cap/mid-cap index (SMID) strategy, and concerns about participant knowledge on how to use a SMID option correctly.

Ms. O'Connor reviewed the participant utilization of the active large-cap equity options, how participants are using the large-cap options and the overlap in holdings between the options. Discussion was held regarding the number of participants that may have been defaulted to one of the large-cap funds versus making the selection on their own.

Lunch was held from 12:30 p.m.–1:15 p.m. During the lunch period, Mr. Tilling, Board Governance Committee Chair, led the Board in conducting its annual self-evaluation.

Mr. Heagen presented the recordkeeping modernization project update and indicated the project is on schedule and below the original budget amount. Phase I cost savings have been used to complete detailed requirements for Phase II of the project, which includes replacing the participant website, adding website functionality, and the ability to offer a Roth 457 option. Mr. Heagen reviewed the modernization project background, the details and estimated cost of Phase II, and the plans to expand

the current relationship with DXC to include Phase II.

Discussion was held regarding the ongoing costs to operate and maintain the website, the recordkeeping modernization cost benefit analysis, the location of the DXC development center, the intent to internally handle the maintenance of the recordkeeping system and website, and the reasons for the difference in the Phase I and II DXC hourly rates.

Mr. Heagen indicated that detailed costs and a timeline for Phase II will be included in the 2018 budget presented in November.

Mr. Palmeri presented the information on a Roth 457 option including a characteristic comparison between traditional 457 and Roth 457 plans, the impact on a participant's paycheck and taxes, and the participant utilization of a Roth option. Discussion was held about the ability to do in-plan conversions.

The Executive Director reviewed information regarding our 2012 conclusions on offering a Roth 457, what has changed in the industry and with the Program, and expectations and issues that need to be considered when offering a Roth 457.

Discussion was held regarding the needed cooperation with employers to offer the option to their employees, and the added communication complexity.

Mr. Miller noted the Roth 457 implementation costs, timing and process. Mr. Miller reviewed the recommendation to add a Roth 457 option to the Program.

Mr. Maurer moved, Mr. Toth seconded to direct staff to proceed with the implementation of a Roth 457 option.

Roll call vote was taken:

Senator Hottinger	yes	Ms. Sledz	yes
Mr. Loftus	yes	Mr. Thomas	yes
Mr. Mabe	yes	Mr. Tilling	yes
Mr. Maurer	yes	Mr. Toth	yes
Mr. Mollmann	yes	Chair Latsa	yes

The motion passed unanimously.

(Mr. Loftus left the meeting.)

Ms. O'Connor gave a presentation on self-directed brokerage accounts (SDBA) that included fiduciary responsibility, design considerations, and SDBA survey data on plan sponsor utilization, the common SBDA structure, and participant utilization. She also noted SDBA pros and cons for participants and plan sponsors. Discussion was held regarding reasons why participants may choose to use a SBDA, the requirement of an equity wash by the Stable Value Option wrap providers, and the timing of investing SDBA assets.

The Executive Director indicated that based on the staff's research on SDBA utilization and Nationwide's participant interactions, there does not appear to be merits to adding a SDBA.

Mr. Mabe moved, Mr. Thomas seconded to not engage in further conversations at this time regarding the addition of a self-directed brokerage account.

Discussion was held regarding the possibility of adding a "door" to the recordkeeping system to allow for a SDBA in the future. Staff would have to conduct more research on the effort and costs to change the recordkeeping system. Discussion was held regarding a potential timeframe for revisiting the SDBA. It was determined that a formal motion was not needed. Mr. Mabe and Mr. Thomas agreed to withdraw the motion on the table.

The Executive Director noted objectives that are completed and recommended for removal from the Strategic Plan.

Completed Objectives

- 2-42 Research feasibility to require use of the Ohio Business Gateway by employers.
- 2-43 Research feasibility to mandate electronic participant statements (eDelivery).
- 2-44 Research the feasibility of a new participant website to replace the existing Nationwide website, including an implementation plan and high-level requirements.
- 3-21 Determine cost and features of adding an auto-rebalancing feature to the recordkeeping modernization project.
- 3-22 Determine implementation costs, requirements and communication plan to add a self-directed brokerage window.
- 3-23 Reexamine adding a Roth 457 option considering the value for financial and tax planning, adoption by other plans, and participant demand.

Mr. Thomas moved, Mr. Mabe seconded to remove the completed objectives from the Strategic Plan.

Chair Latsa asked for any further discussion regarding the motion.

Roll call vote was taken:

Senator Hottinger	yes	Mr. Thomas	yes
Mr. Mabe	yes	Mr. Tilling	yes
Mr. Maurer	yes	Mr. Toth	yes
Mr. Mollmann	yes	Chair Latsa	yes
Ms. Sledz	yes		

The motion passed unanimously.

The Executive Director reviewed the outcomes of the meeting which included approving the Fidelity fund transitions to a lower-cost share class, proceeding with Phase II of the recordkeeping modernization, and the implementation of a Roth 457 option. Staff also recommends researching potential new uses of technology such as mobile applications or expanding use of the Ohio Business Gateway.

Discussion was held regarding two-factor authentication for account withdrawals. Currently, online withdrawals are not permitted, but Phase II will include two-factor authentication. Discussion continued regarding the desire to research the addition of a mobile application.

Staff will create and prioritize new objectives for approval at the September Board meeting.

The Executive Director thanked the Board, staff, and guests for their participation and input during the meeting.

Mr. Mabe moved, Mr. Tilling seconded to adjourn the meeting at 2:58 p.m. until the next regular meeting of the Board, September 19, 2017, to be held at the Ohio Public Employees Retirement System offices located at 277 East Town Street.