

MEETING MINUTES
EBMUD 401(A) ADVISORY COMMITTEE
Wednesday, May 31, 2017

A regular meeting of the 401(a) Advisory Committee convened on Wednesday, May 31, 2017 at 9:06am in the Large Training Room of the Administration Building. The meeting was called to order by Committee Chairperson Laura Brunson.

ROLL CALL

The following 401(a) Advisory Committee Members were present: Dari Barzel, Laura Brunson, Catherine Humphrey, Sophia Skoda, David Valenzuela and Curtis Woodring. Absent Committee Members were Dave Beyer and Ken Minn. The following Staff members were present: Lisa Sorani, Elizabeth Grassetti and Dhanyale Dunbar.

PUBLIC COMMENT

None.

CONSENT CALENDAR

1. **Approval of Minutes** – A motion was made by Catherine Humphrey and seconded by Curtis Woodring to approve the March 7, 2017 minutes. The motion carried (6-0) by the following: AYES (Barzel, Brunson, Humphrey, Skoda, Valenzuela, and Woodring), NOES (none), ABSTAIN (none), ABSENT (Beyer and Minn).

DISCUSSION

2. **Fidelity Service Report** – Tony Frankovich announced that our Fidelity representative, David Schatch, was leaving to pursue another opportunity. Fidelity would be looking for a replacement. In the meantime, Dan Weber would be EBMUD's main onsite retirement counselor representative. Tony continued with the 2Q2017 report that reflected Total Plan assets were \$392,660,817, an increase of \$17,098,949 from the last quarter. Total Plan participants were 3,243, an increase of 7 participants from the last quarter. Average account balance was \$121,080 compared to \$86,144 for industry peers. Across all Plans there were 381 single fund holders, excluding Lifecycle Funds, down from 406 from the last quarter. The average number of funds held by participants remained at 3.04. The top four investments by total assets were Vanguard Institutional Index, BrokerageLink®, Fidelity Blue Chip Growth, and Dodge & Cox Stock. For the 12-month period ending 3/31/2017, participants contacted Fidelity 15,557 times by phone and 250,595 times online via NetBenefits®. A total of 164 participants moved \$17.6 million out of the Plans – 147 took cash, 10 rolled to Fidelity, and 7 rolled to another investment company. The top companies were Vanguard, Merrill Lynch, American Express, JPMorgan Chase & Co. and Interactive Brokers.
3. **2017 Business Planning Report** – Tony Frankovich provided details of the annual Business Planning meeting conducted with Staff and Fidelity. As of 4Q2016, EBMUD had an 88% of active Plan participants contributing an 11.8% average savings rate, 57% exhibited age-based

asset allocation, 74% contacted Fidelity, 22% took some form of action, 21% had outstanding loans, and 0.6% took hardship withdrawals. The EBMUD Plan utilized the Annual Increase and the Easy Enroll programs, but not the Auto Enroll program. Greg Settle confirmed that auto enroll had not yet passed California legislation, but could be enacted by labor unions. There were 124 new enrollments over the past 12 months with an average deferral election of 10% and 28% enrolled in the annual increase program. Employee participation has increased from 85% in 2012 to 88% in 2016. Participant engagement by phone was 74% compared to a 63% peer average and 71% online, of which 66% completed at least one transaction. Fidelity conducted 11 communication and education campaigns; which included 11.1 million messages (1.3 million by direct mail and 9.8 million by e-mail). This resulted in a 16% action rate – 194 participants increased deferrals, 0.2 million changed asset allocation, and 44 enrolled in the Plan.

4. **Investment Strategy & Distribution Brainshark Presentation** – Dan Weber showed the Committee the Fidelity online and by phone Planning and Guidance Center “Investment Strategy Tool Enhancements” presentation that reviewed how a representative would help a participant understand what type of investor s/he is and which investment category is the best fit. The “Representative Distribution Advice Tool” presentation reviewed how the tool allows the Fidelity representative to present a series of questions to access the participant’s needs and make a recommendation to stay in their plan, roll over to a new workplace plan, or roll over to an IRA. The cash option is never recommended because of the tax ramifications and tax penalty if under age 59 ½.
5. **Staff Report** – Lisa Sorani reported that the Plan budget as of May 2017 was \$0 in the District \$105,500 account, \$337,410, and \$31,837.40 in the new Participant Fees Account. A total of \$105,500 was paid to Hyas Group and Fidelity from the District account within the first five months of 2017. The Settlement Account of \$42,970 was the result of fund companies investigated by the SEC and making negotiated settlements that were distributed to plans. The funds could not be moved to the Revenue Share Account as previously thought because the monies had to be tracked separately, but could be used to pay Plan expenses. Lisa explained that the Forfeiture Account of \$2,258 is used for adjustments, corrections, overfunding, gains/loss, etc. when contributions funding is over or short, when a correction of adjustment creates a gain/loss, or when there is a reconciliation of outside funds. The 20 “Road Show” presentations were conducted by four Committee Members (Skoda, Beyer, Minn and Valenzuela), Staff, and Greg Settle of Hyas Group. The overall feedback was positive in that it provided employees a broad picture of finances, informed them of the Committee, and provided fee transparency. Committee Members were reminded to inform Staff of any interest to attend the annual NAGDCA Conference.
6. **Regulatory Update** – Greg Settle reported that in a surprise move the Department of Labor had allowed the new Fiduciary Rules to go into effect without any changes. The most direct impact to the Plans will be in how roll-outs to IRA’s are handled by investment companies. There was no legislation pending in the California Assembly to allow for Automatic Enrollment into DC Plans.

7. **Financial Markets & Economic Report** – Greg Settle reported that though the reported GDP growth for the first quarter of 2017 was lower than expected, the Fed and most observers believed the economy to be strong. Unemployment remained low and the Fed indicated that it would continue with rate increase plans and begin a slow liquidation of its huge bond portfolio. Stocks remained high, though doubts about the Trump administration's ability to deliver on tax and regulatory change. Greg also talked about the shrinking number of publicly traded companies and how a recent study revealed that 85% of active managers failed to beat their benchmark indexes over the past 15 years.
8. **Investment Performance** – Greg Settle reviewed Plan investment performance and noted that none of the Plans' investments underperformed the standards set forth in the Plans' Investment Policy Statement. The target date fund assets climbed close enough to \$100 million that Vanguard will allow the EBMUD Plans to switch to their lower cost, "Institutional" share class, and the Committee voted to switch the Vanguard Target Retirement Investor Shares funds to the newly available and lower cost Vanguard Target Retirement Institutional Share funds.
9. **Review and Update of Investment Policy Statement** – Greg Settle of the Hyas Group reported that his team had reviewed the IPS last updated in August of 2015 and found no changes were needed at this time.
10. **Share Class Change for Vanguard Target Retirement Funds** – Lisa Sorani informed the Committee of the need to vote on Vanguard's offer to change the Vanguard Target Retirement Funds from the 15 basis points Investor Class to the 10 basis point Institutional Class, which would save participants approximately \$50,000. If approved, the Vanguard Target Date 2010 would be merged with the Retirement Income and a new 2065 fund would be added. Fidelity assured that none of the fund changes would incur a fee. A motion was made by Sophia Skoda to replace the Vanguard Target Retirement Fund Investor Class with the new lower cost Institutional Class. The motion was seconded by David Valenzuela and carried (6-0) by the following: AYES (Barzel, Brunson, Humphrey, Skoda, Valenzuela, and Woodring), NOES (none), ABSTAIN (none), ABSENT (Beyer and Minn). Participants would receive notice of the change July 21 or 24, 2017. The change will be effective early September 2017. Greg Settle suggested EBMUD issue a communication to participants and Fidelity highlight the information during presentation and appointments.

ITEMS CALENDARED FOR FUTURE MEETINGS

Vanguard presentation

ADJOURNMENT

A motion was made by Sophia Skoda and seconded by Dari Barzel to adjourn the meeting. The motion carried (6-0) by the following: AYES (Barzel, Brunson, Humphrey, Skoda, Valenzuela, and Woodring), NOES (none), ABSTAIN (none), ABSENT (Beyer and Minn). The meeting adjourned at 11:52am.