

PENSION ADVISORY BOARD/HEALTH & WELFARE BOARD OF TRUSTEES
JULY 9, 2014
QUARTERLY MEETING

The Pension Advisory Board/Health & Welfare Board of Trustees, met for their Quarterly Meeting on Wednesday, July 9, 2014, in the Township Building. The meeting was called to order at 5:30 p.m., followed by a pledge to the flag.

ROLL CALL:

The following members of the Pension Advisory Board/Health & Welfare Board of Trustees were present: Supervisor Greg Waks, Board of Supervisors Liaison; David Kraynik, Township Manager and Vice Chairperson; Nick Hiriak, Finance Director; Sara Evans, Director of Human Resources; Chief Tom Nolan, Secretary; Eric Medrow, Chairman; Sgt. Andy Andreyko, Police Representative; Steven Geckle, Chairman, Upper Merion Police Officers Bargaining Unit; Sudha Suryadevara, Non-Uniformed Representative.

MEETING MINUTES:

It was moved by Mr. Kraynik, seconded by Chief Nolan, all voting "Aye" to approve the May 14, 2014 Meeting Minutes as submitted. None opposed. Motion approved 4-0.

PRESENTATION BY MARK LASYONE, REGIONAL MANAGER, ICMA-RC, RE:
NON UNIFORMED PENSION PLAN AND EUGENE ESPINOSA, RETIREMENT
PLAN SPECIALIST

Mr. Eugene Espinosa stated he is responsible for the large ICMA-RC accounts in eastern Pennsylvania and all of New Jersey and has served as the Retirement Plan Specialist for Upper Merion Township for the past 12 ½ years. He explained the difference between ICMA-RC and ICMA. ICMA is a professional organization with a membership of most township managers across the country. ICMA-RC is a non-profit created by ICMA in 1972 and their sole mission is to serve public service employees. The company employs a large group of Certified Financial Planners (CFP) which is a highly respected professional designation in the industry. All their employees are salaried; none are on commission. Mr. Espinosa pointed out the ICMA-RC has a retention rate from employers of over 99.5%.

Because of the heavy focus on educating investors about investing, Mr. Espinosa regularly has one of the certified financial planners come to the township and conduct employee seminars and presentations.

Mr. Espinosa noted ICMA-RC created the first national 457 plan which has since become very popular with many other companies.

Mr. Medrow asked what the "RC" stands for, and Mr. Espinosa responded, "Retirement Corporation."

Mr. Medrow asked for clarification about the 457 plan. Mr. Espinosa reiterated ICMA-RC created the first national 457 plan. Mr. Mark Lasyone commented they were the first to offer the portable 457 and make it available nation-wide.

Mr. Mark Lasyone, Regional Manager, ICMA-RC, provided some of his biographical background prior to answering the written questions submitted by Mr. Phil Fogli to Mr. Medrow for forwarding to ICMA-RC prior to this meeting. Mr. Medrow noted Mr. Fogli was in attendance at this meeting as a private citizen and has no official capacity.

Who selects the funds for the 457 and 401(a) plans at Upper Merion?

Individuals have a standardized line of 39 different investment choices from which they can choose. Different areas of the Morningstar spectrum are represented as well as stand-alone portfolios. There are portfolios where an individual would select a target date when they are planning to retire and in exchange they receive a complete portfolio that includes various asset areas. These portfolios age automatically over the course of time gradually becoming more conservative as that individual draws closer to their chosen target date. Lifestyle funds are also offered. It is a risk-based portfolio where an individual makes a selection based on the level of risk that they choose. The risk profiles of those asset allocation models do not change over the course of time so an individual who wants to reduce their risk must move between those as stepping stones over the course of their career. These investment choices are monitored on a daily basis in the ICMA-RC home office.

Mr. Medrow asked about ICMA-RC's involvement with specific major fund groups, and Mr. Lasyone responded accordingly.

Mr. Medrow asked how many proprietary funds are in the group. Mr. Lasyone responded they are the ones named Vantage Point funds which is about a third of the overall funds. Anything that is VT is in the trust, but it is a brand name mutual fund.

Mr. Medrow asked about management and other servicing fees on their proprietary funds. Mr. Lasyone responded it varies. He said the Index Funds would be the least expensive and run somewhere in the neighborhood of about .4%. Mr. Medrow asked if the Index Funds are on the proprietary list. Mr. Lasyone responded in the affirmative. Mr. Medrow asked what would be the

highest management fee. Mr. Lasyone responded it would be in the international arena, maybe the small cap and it would be slightly over 1%. The average for a mutual fund in this country according to Morningstar is somewhere in the neighborhood of 1.37%.

Mr. Waks asked if these are fee of progressive fee based on assets under management or flat. Mr. Lasyone responded it is flat based upon assets under management. An individual with a higher account balance would pay more because it is always expressed as a percentage which is standard in their industry.

Mr. Waks commented there are also many management funds (using the hypothetical example of \$1 million) where the assets under management might be 1%, and for \$5 million assets under management might be .75%. He said that is quite common in the industry too. Mr. Lasyone noted Upper Merion benefits from the fact that there was a consolidation in 2008 therefore any administrative fees were removed at that time; the other provider had an administrative fee of 1.25% and ICMA-RC had .29% at the time.

In response to further inquiry from Mr. Medrow, Mr. Lasyone responded there are no front end loads and no trailing loads. There is something referred to in the industry impacting four of the funds currently that is called a "redemption fee," and most of them are 30 days. A redemption fee is considered a "friendly fee" in the industry and is designed to combat day trading. The ICMA-RC does not benefit from that fee; neither do the funds benefit from that fee. It reimburses the plan participants who bear the cost.

Mr. Medrow asked what the fee is typically. Mr. Lasyone responded it is generally 1% on anything over the course of the last 30 days and generally that is going to refer to a portion of the last two contributions for most individuals depending on the fund (less than \$1 for most individuals). Investors are educated up front when they move into the fund. In addition if they decide to make a move from the fund he has always computed it for them. Mr. Espinosa does as well. This usually amounts to about .70 cents.

How are the funds monitored and evaluated and how often is this done?

Funds are monitored and evaluated daily. The main reason a fund might be eliminated is because of investment choice performance; however, there are other reasons for making that decision. Sometimes corporately the philosophy of a company or upper management will change. These kinds of situations are monitored more closely. Over the course of the last 10 years there have been fewer than 20 changes to the lineup.

What is the process for deleting and replacing a fund?

Using 7 different metrics on a quarterly basis funds are reviewed. The ideal is meeting all 7 of the metrics; however, if they routinely fall short of the 7 metrics they are placed on a "watch list" for a period of time during which a change might be made to the impacted fund.

Does ICMA provide tax and investment advice to plan participants?

The way the plans are structured is that an employer is a fiduciary for the plans therefore they do not want ICMA-RC making specific investment choices for the individuals. Mr. Espinosa sits down with a number of individuals on a daily basis. He examines their time horizon and looks at their risk tolerance both of which are very important factors in their decision making and how they structure their portfolios. What he will not do is say that the answer is fund A or fund B. He helps structure a complete portfolio and looks for shortcomings in the portfolio.

Mr. Medrow asked how many employees have placed their funds into a money market fund or a very low risk bond fund and left them there. While he did not have a specific number readily available, Mr. Lasyone responded they can provide that information as to the percentage of assets that are in low risk choices such as the Plus Fund.

Mr. Medrow asked if that is a money market fund. Mr. Lasyone responded it is a pooled stable value fund and very different from a money market fund. The main noticeable difference is that it is earning a rate of return. A bond fund on the other hand has risk of loss so there will be a big difference between those two. Mr. Lasyone pointed out there are individuals who are exceptionally conservative in nature and will stay there because that is the level of risk they are comfortable with.

Mr. Medrow commented there are some individuals who are in the very low risk fund because they have no idea what to do. He said if a good job is done explaining the risk tolerance then the individual should have adequate information to possibly make some other choices.

Mr. Lasyone stated one of the things Mr. Espinosa would do when he would encounter someone that is 100% in the Plus Fund is discuss their risk tolerance first and foremost. Then he would talk to them about establishing a balance between risk and a potential for reward so that they fully understand the consequences of embracing a low risk philosophy of 100% if, for example, someone who is 25 years of age.

How many Upper Merion Employees are using the Roth Option in the 457 Plan?

Mr. Lasyone stated the Roth is an available option in the 457 Plan, but it is employer elected. At this particular point in time the employer has not elected to offer that particular option in the 457 Deferred Contribution Plan. This is something that can be added at any time if the employer chooses to do so.

Mr. Espinosa pointed out there are approximately 69 plans with different municipalities across eastern Pennsylvania in New Jersey and only one has chosen the Roth 457 so it is not something that is common, but it is available.

Mr. Lasyone said typically the only individuals taking advantage of the Roth feature in the 457 plan are individuals who understand the advantages that can offer them or an individual who is highly compensated who may not be eligible to utilize the payroll deduction Roth IRA. It does tend to be a somewhat limited number of people who make use of that option.

Mr. Medrow asked if Mr. Lasyone would recommend the Roth option in the 457 Plan. Mr. Lasyone responded in the affirmative and said while it would benefit a small number of individuals, it is something the employer should consider offering. Mr. Kraynik commented that is something that will be further discussed with ICMA-RC.

Prompted by a question from the group, a discussion followed during which the difference was clarified between the 457 Plan (no employer contributions) versus the 401 which has an employer contribution).

How and when was it decided to use the 414(h) provision for the municipal contributions to the 401(a) plan?

Mr. Lasyone explained the 414(h) provision is commonly referred to as the "pick up" contribution.

A discussion followed during which Mr. Fogli pointed out the 6% employer contribution to the plan does not pass through payroll; however, the 3% mandatory employee contribution passes through payroll and is subject to social security and state income tax. Everyone agreed this is a topic worthy of a more detailed discussion at a future meeting.

Is the plan limited to only the ICMA Proprietary Vantage Trust (VT) fund or can outside funds be used?

Mr. Lasyone stated all of the funds that are part of the standardized lineup are placed in trust. Previously employee assets in 457 Deferred Contribution plans were actually at risk because they were considered assets of the employer and thus subject to the creditors of the employer. Congress took action in 1996

to get all assets placed in trust. That in effect shields and protects any assets held in those plans from creditors of the employer, creditors of ICMA-RC and the employees personal creditors, including the IRS.

What is the current rate on the stable value and how often does it change?

Mr. Lasyone asked Mr. Espinosa what the current rate is, and Mr. Espinosa responded, "1.75%." Mr. Lasyone indicated it is always stated as an annualized rate so it can be compared to other investment vehicles. That rate is guaranteed for the month and at the end of the month it would be recomputed.

What percent of the plan assets are in the stable value fund?

Mr. Lasyone indicated it is typically approximately 30% of the assets. He indicated it could be pulled because it is going to differ from plan to plan percentage wise. Mr. Medrow indicated he is concerned with a percentage of 1.75% since an individual is going to have to wait 60 years to double their money in that investment. He said it is a terrible risk as far as he is concerned. Mr. Lasyone agreed. Mr. Medrow suggested having that pointed out to anyone who goes into that particular fund.

Detective Geckle indicated he has met with Mr. Espinosa and has had great results moving funds based on his examination. He said Mr. Espinosa painstakingly goes over everything and makes plan participants aware of their options.

Can Participant accounts be managed online?

Mr. Lasyone stated the individual can meet with Mr. Espinosa and make changes to their portfolio or they can do it online or by phone through their toll free number. Virtually all changes can be made online if the employee chooses to do so.

How and when do the plan participants have access to the ICMA Plan Consultant?

Mr. Espinosa indicated plan participants can call him at any time and at least quarterly he makes himself available for one-on-one meetings as well as presentations to large groups.

Do you monitor plan participant activity online and how many participants access your website?

Mr. Lasyone indicated as part of their annual service plan review provided to employers every year it shows the number of individuals accessing their account online.

How many have made investment changes?

Mr. Lasyone stated they do not monitor online investment changes, but are able to determine how many individuals have accessed their account online.

Does ICMA offer custodial services for the IRA?

Mr. Lasyone indicated ICMA-RC is the administrator for the IRA, but they do not serve as custodian for the IRA. Their custodial services are offered by Wilmington Trust where they manage at last count approximately \$61 billion in assets under this custodial arrangement.

Mr. Waks asked for clarification about their Registered Investment Advisor (RIA) status and asked if ICMA-RC has a compliance department. Mr. Lasyone responded even though they do not provide specific investment or tax advice they all have the required RIA designation. He indicated ICMA-RC has a compliance department.

Mr. Waks asked if ICMA-RC uses outside or internal compliance. Mr. Lasyone responded compliance is offered in-house; however, there are some matters requiring outside compliance consultation.

Can a non-uniformed employee have a different investment allocation in the 457 and 401(a) plans?

Mr. Lasyone responded non-uniformed employees can select any one of the 39 different investment choices that are available to them. They can operate each separately or they can be managed together. It is entirely up to the individual.

How is ICMA compensated?

Mr. Lasyone stated each of the individual funds has a fund expense for which they are compensated. Disclosures are made to the employer when going through the plan services review. They disclose not only the cost to the individual, but also their profit margins and revenue streams. Revenue is received from two sources. With proprietary funds they receive compensation as the investment adviser selecting the sub advisors on their brand name funds and they receive it in their non-investment advisory capacity. ICMA-RC is not required to do that by law because these are non-ERISA plans; however, they do so openly because they want to honor the spirit of that law.

Does ICMA accept its fiduciary role?

Mr. Lasyone stated to the extent that applies to an administrator they do, but technically the employer has the fiduciary responsibilities of the plan.

A member of the group asked if ICMA-RC is successful in negotiating costs downward when selecting other funds. Mr. Lasyone responded as one of the largest providers in the financial services industry as it applies to the public sectors, ICMA-RC has a strong ability to lower costs. All of their investment choices are well below or within what they would consider to be appropriate ranges based upon cost.

A member of the group asked if ICMA-RC is considering expanding annuity options for civilian employees. Mr. Lasyone responded ICMA-RC designs a product offering the best aspects of an annuity without some of the negative aspects.

Mr. Medrow asked about some form of immediate annuity to provide a guaranteed income for the rest of the retiree's life. Mr. Lasyone said ICMA-RC is looking at a managed accounts program.

Mr. Medrow asked if Mr. Espinosa is doing any post retirement work with any of the Upper Merion employees either police or administrative. Mr. Espinosa responded former employees call him and/or are working with their certified financial planner who meets with them one-on-one and helps them with their accounts.

Mr. Fogli asked if the 401(a) document allow for in service distributions. Mr. Lasyone responded in the affirmative. He said when you reach the target retirement age it is established in the plan.

Mr. Fogli asked if ICMA-RC is involved in giving any tax advice. Mr. Lasyone responded in the negative. He said plan participants are asked to consult their tax professional.

Mr. Lasyone mentioned ICMA-RC is preparing a written response to the foregoing questions which will be reviewed by their legal and compliance departments.

NEW BUSINESS:

None.

OLD BUSINESS

Det. Geckle stated Sgt. Andy Andreyko is retiring and subsequent to an election which will be held by the members of the bargaining unit the new bargaining unit representative will be introduced to the Pension Board.

On behalf of the Pension Advisory Board/Health and Welfare Board, Mr. Medrow expressed appreciation to Sgt. Andy Andreyko for his many years of service on this board and wished him all the best for the future.

ADJOURNMENT

With no further business to come before the Board, it was moved by Sgt. Andreyko, seconded by Mr. Kraynik, all voting "Aye" to adjourn the meeting 7:00 p.m.

David G. Kraynik
Township Manager and Vice Chairman

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Minutes Approved:
Minutes Entered: