

PENSION ADVISORY BOARD/HEALTH & WELFARE BOARD OF TRUSTEES
JUNE 10, 2015
QUARTERLY MEETING

The Pension Advisory Board/Health & Welfare Board of Trustees, met for their Quarterly Meeting on Wednesday, June 10, 2015, 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: Eric Medrow, Chairperson; David G. Kraynik, Vice Chairperson; Thomas Minger, Jr. Others present were: Sudha Suryadevara, Non-Uniformed Representative; Sara Evans, HR Director; Nick Hiriak, Finance Director; Mark Lasyone, Regional Manager, ICMA-RC, Eugene Espinosa, ICMA-RC. Chief Tom Nolan, Secretary; Supervisor Greg Waks, Trustee; and Sgt. Andy Fidler, Police Representative were absent.

MEETING MINUTES:

It was moved by Mr. Kraynik, seconded by Mr. Minger, all voting "Aye" to approve the May 13, 2015 Meeting Minutes as submitted. None opposed. Motion approved 3-0.

PRESENTATION BY MARK LASYONE, REGIONAL MANAGER, ICMA-RC RE: HOW ICMA-RC UTILIZES TECHNOLOGY TO HELP INVESTORS BUILD RETIREMENT SECURITY

Mr. Mark Lasyone, Regional Manager, ICMA-RC, stated his presentation would address the Stable Value Fund (Plus Fund) and discuss its comparison to other investment choices that are available in the plan. He indicated he would also take a look at asset allocation for both the 401(a) and 457 plan by age group and focus on technology.

Mr. Lasyone indicated Gene Espinosa is one of 105 retirement plan specialists in the field nationally. He said ICMA is well known for their educational services and the technology offered is an enhancement to the services already provided to individuals in the field. Mr. Lasyone provided some highlights of the retirement featured areas of the website

ICMA was founded in 1972 through the assistance of a grant from the Ford Foundation and is the only non-profit exclusively serving the public sector for the last 42 years. Today ICMA-RC serves more than 1 million participant accounts.

Mr. Lasyone reviewed ICMA's plan services focusing specifically on the Plus Fund which is their stable value investment choice in the plan lineup. The Plus Fund has always had a positive rate of return which is currently at 1.83%. It is a pooled Stable Value Fund and features what they have called guaranteed investment contracts which are agreements with insurance companies. They operate a lot like bank CD's but do not have FDIC insurance. Mr. Lasyone explained essentially ICMA loans money to an insurance company and they agree to repay it in a fixed period of time at a rate of interest.

Mr. Lasyone reviewed the asset allocation of the 401 plan versus all those nationally and this year through the end of March the first quarter is pretty much on track and is running almost textbook averages in the different investment areas.

Referring to the stable fund, Mr. Minger asked if these are different allocations that each participant has the option of choosing or if it is a model portfolio. Mr. Lasyone responded there are 49 different investment choices that are available in the lineup. He said it sounded like Mr. Minger's question was about what they call target date funds, lifestyle funds or target risk funds. Mr. Lasyone indicated there are two types of predesigned portfolios both of those types as well as a brand name fund falls in the balanced or asset allocation area. If someone elects to participate in the balanced or asset allocation area under most circumstances they are getting a complete investment portfolio because it is a predesigned portfolio.

Mr. Medrow asked who manages the funds. Mr. Lasyone responded it depends upon whether they are the brand name mutual funds or ICMA's in house mutual funds which are known as the Vantage Point funds.

Mr. Medrow asked if the funds other than Vantage are the ones managed by outside managers. Mr. Lasyone responded in the affirmative. Mr. Medrow asked if ICMA is using typical mutual fund management companies. Mr. Lasyone responded in the affirmative.

Mr. Lasyone stated ICMA is unique in another respect. He explained normally Vantage Point funds are proprietary funds; however, Morningstar considers these funds nonproprietary and the reason for that is ICMA is the adviser. In most circumstances with almost all of the Vantage Point funds except one which is the Plus Fund or Stable Value Fund they use multiple managers to make the day to day investment decisions.

Mr. Medrow asked how that affects the management fees. Mr. Lasyone responded typically the brand name mutual fund, unless it is a really large fund, tends to be a little higher as a result of ICMA bringing their expertise and making the fund available within the platform. Typically their Vantage Point funds or namesake funds tend to be a little lower because of their ability to negotiate the

fees with the subadvisors they utilize; they tend to be really competitive. A cost comparison could be done. They are usually at about two-thirds of the cost overall of mutual funds as defined by Morningstar.

Mr. Medrow asked for an example of their lowest fee. Mr. Lasyone responded the average plan expense to the participant is 0.79%. If you were to consult Morningstar they would say the average mutual fund in America is in the 1.35% range.

Mr. Espinosa pointed out about eight years ago ICMA removed the administrative fee that was in place since its inception and as a result Upper Merion is getting these funds at net asset value.

With regard to the asset allocation of the 401 plan, Mr. Lasyone stated Mr. Espinosa will look at these periodically to see if he can determine any trends so he and the certified financial planner can focus their educational sessions on specific areas. He said as people age they want to be more conservative so they will naturally select a larger stake in the Stable Value fund. Younger participants tend to really like the predesigned portfolios with the convenience of one stop shopping and the ability to receive a complete portfolio by only making a single investment choice.

Mr. Minger asked if there is an overview of the asset breakdown in the different lineups. Mr. Lasyone responded at the end of the first quarter of this year the 401 had \$21 million and the 457 plan assets at the end of first quarter was \$16.3 million. Individuals tend to be a little more aggressive in the 457 plans. It is possible the thought process is they think of the 401 as more of their pension and as a result tend to be more conservative by embracing the stable value component. The 457 is an area where people take a little more risk. Mr. Lasyone stated Mr. Espinosa works with individuals to get a feel for not only their time horizon, but more importantly their risk tolerance guiding them towards an appropriate investment choice as to appropriate and responsible investment choices within that lineup. A lineup of 49 funds can be pretty confusing to the average lay person.

Mr. Minger asked what the default investment choice is. Mr. Lasyone responded the employer gets to elect that and he believes it is the Qualified Default Investment Alternative (QDIA). He said the Department of Labor determines Milestone funds or Target Date funds or Default Investment Allocation and what is done strategically is if someone does not make a decision ICMA has a formula to find the nearest equivalent investment within the lineup of the milestone funds in five year increments.

Mr. Lasyone stated they take a close look at the plan asset allocation based on age to determine if there are any issues requiring education. He said it

looks like the older groups have endorsed the balanced asset allocation funds and ICMA is fine with that.

Mr. Minger asked if there is a list of the balanced funds available for the Pension Advisory Board to look at. Mr. Lasyone responded he could get that information. Mr. Minger asked if the majority of those assets are in target risk or target date funds. Mr. Lasyone responded that it was a good question. He mentioned if you look at Morningstar ratings versus participant usage all plans would start with Vantage Point and that is retirement income. Because that is milestone you would essentially add those last percentages. Mr. Minger said it looks like most of them are in milestones. Mr. Lasyone responded milestone tends to be more popular. He indicated ICMA's first foray into this pre-design portfolio genre was with Target Risk funds and that may be a trend going forward. Those individuals moved over into the retirement income of milestone because it was such a similar structure.

Mr. Minger commented there have been many studies about investing for retirement accounts and it is noted frequently people are probably better off with five options rather than 50 which can be overwhelming. He asked about the participation rate [for the 457 plan]. Mr. Lasyone responded Upper Merion's participation rate is about 60% which is pretty strong for a voluntary plan.

Mr. Minger asked if there has been any thought or discussion about minimizing the options as a group. Mr. Kraynik commented as a group that type of decision has not been made as it is more of an individual choice. Mr. Lasyone indicated the domestic stock market is broken up into large, medium size or smaller companies. ICMA likes to have at least one choice within each category. Mr. Minger said that is still a lot of confusion.

Mr. Lasyone discussed the ICMA standard web page and the launch of their app which can be used with an android or apple base and is now transactional as of May 18th. This innovation enables an individual to make changes to their account on their smartphone.

Mr. Medrow asked about the risk profile questionnaire. Mr. Lasyone responded ICMA does not have a risk profile questionnaire. Mr. Medrow asked how they determine risk for individuals. Mr. Lasyone responded they typically ask some key questions. There is not a standard template or a standard risk assessment.

Mr. Medrow asked what questions would be asked if ICMA were to ask a certain number of questions to determine risk. Mr. Lasyone responded one of the questions he used to ask when he was in the field was how a person would feel about a 20% loss with a \$2,000 account which goes down to \$1,600 versus the same question asked on a \$25,000 account balance which goes down to \$20,000. With this example there would be a totally different response.

Mr. Medrow said it is critical to determine tolerance for risk.

Mr. Minger asked about the process when a new participant comes into the plan. Mr. Espinosa responded when the investor sits with him one on one their background and knowledge in investing varies and he will ask certain questions. He wants to get a feel for their tolerance for risk, their time frame for investing and knowledge base. These sessions are in half hour slots and the service is free. Mr. Espinosa pointed out he is salaried and not on commission. Mr. Kraynik commented when a new hire comes into the organization one of the main things HR does is give them an ICMA-RC packet which in his case resulted in a meeting with Mr. Espinosa.

Mr. Minger asked if ICMA ever reaches out proactively to participants or if they have to reach out to ICMA. Mrs. Evans responded HR is responsible for overseeing this process and she is in constant communication with Mr. Espinosa. Every quarter Mr. Espinosa comes to Upper Merion for a couple of days for one on one sessions. If the individual wants to be more aggressive but is not sure which funds to select meetings can also be held with Jeff Kaplan, the certified financial planner. Mr. Kaplan also provides retirement seminars for employees and retirees.

Mrs. Evans noted ICMA also provides various resources such as videos which are on the township website as well as various materials that are provided on an ongoing basis for educational purposes.

Mr. Medrow commented a simple explanation of dollar cost averaging would help people not to worry so much about 2008. Mr. Espinosa responded ICMA has that on their website as one of their educational tools as well as other key concepts.

Mr. Espinosa commented on the importance of making individuals aware of the risk of inflation, not just market risk, but also inflation risk and longevity risk.

Mr. Minger asked about the percentage rate of 30 minute consultations that are held with participants. Mr. Lasyone responded ICMA would have to pull some numbers for that feedback. Mr. Minger said he would be interested to know the consultation rate percentage of participants. Mr. Medrow said he would also like to see that information.

Mr. Espinosa pointed out the offer is made for people to meet with him during their work day and he gives them as much time as necessary. He noted the participation rate in Upper Merion is much higher than the rest of ICMA's territory because HR has been so proactive to make sure his services are offered and there is a culture here of people encouraging other people to invest.

Mr. Lasyone discussed some of the informational pieces offered by ICMA on their website and the group listened to some of the short video presentations.

Mr. Minger asked if the videos are tracked to see which ones get the most hits. Mr. Lasyone responded the home office has the tracking information, but he does not have that access. Mr. Lasyone stated Mr. Espinosa sends out specific longer videos that he tags with his introductory information and concludes by offering to discuss one on one with the participant. The videos go through all phases of the 457, 401, Roth IRA plans and all the services offered when a person separates from service and how ICMA continues to serve them.

Mr. Lasyone stated these videos could be incorporated on the township's intranet site. Mrs. Evans pointed out the township's website is going through an organizational change and she would like to have a retirement page solely for the employees on the intranet. Mr. Lasyone said ICMA could work with her to include all the important elements about retirement.

Mr. Lasyone discussed other educational tools such as the "calculator" which helps those who have difficulty saving and shows people how to stretch a dollar and think about the future. For example, to save more in the 457 or do a Roth IRA it will launch over to make that change and pop up documents necessary to make that change. On the investment side there is a tool available through Morningstar that will launch over to guided pathways and three different ways to look at investment choices facilitating the navigation through the 49 individual investment choices to build an investment portfolio. It could be kept simple yet diversified by selecting one of the predesigned portfolios where the target date and target risk are noted. This plan does have the managed account where it is based upon a specific goal.

Mr. Medrow asked if there is a minimum for the managed accounts. Mr. Lasyone responded there is no minimum for an individual to start in the managed accounts.

Mr. Medrow asked who is their professional manager. Mr. Lasyone responded Ibbotson Associates which was purchased by Morningstar. He said Morningstar has their own proprietary system for its managed accounts and they chose not to change Ibbotson's proprietary system. Mr. Lasyone stated Ibbotson is very good at what they do and ICMA is proud to be able to offer that to their individual plan participants. Mr. Minger asked if this is a firm that is going to actively manage their asset allocation versus consulting with ICMA and then having to reallocate. Mr. Lasyone responded in the affirmative. He said this is goal based.

Mr. Medrow said it [professionally managed accounts] may seem to be an answer for some of the 30%ers who then do not have to worry about making their own selections. Mr. Lasyone commented that is true but the only

complication to that system is they do not take risk into account; they base it upon the goal and they work exclusively toward that goal.

Mr. Lasyone showed the video about how to learn and invest smart.

Mr. Lasyone discussed what they call "gamification" of planning for retirement. He said everyone has smart phones and likes playing games and ICMA is tapping into that technology. This concept which shows a person on an island contemplating retirement and the difference it makes over the course of time by increasing contributions.

Mr. Lasyone described the gap analysis tool Mr. Espinosa utilizes in the field when he is talking with individuals about retirement security. The participant's information will be automatically loaded during the meeting and they will be asked some specific questions. Their rate of return will be estimated on the way they are invested and he will talk to them about what they are contributing. The program will create their spending plan in retirement showing the impact of social security, whether or not they have a pension in that mix, outside assets like the 401, 457, Roth IRA and outside assets. It is an important tool that prompts action when individuals utilize it and they are able to see if this does not carry them to age 90. If they are invested in the Stable Value fund they are more apt to see that gap created visually. It will let them know they are running out of money at age 72. The plan can then be adjusted accordingly and they can look at having less at retirement, saving more or working longer.

NEW BUSINESS

RHS PLAN AMENDMENT - DOMA

Mr. Hiriak stated the resolution before the Pension Advisory Board for consideration is needed in order for ICMA to keep their master plan in compliance with federal law and incorporate changes to DOMA as explained in the material provided to board members prior to this meeting. He noted this is basically a housekeeping issue.

Mr. Kraynik asked Mr. Hiriak if he is confident the resolution is something that should be approved by this Pension Advisory Board and not the Board of Supervisors. Mr. Hiriak responded in the affirmative and said over time these issues are brought to the Pension Advisory Board for approval.

Pension Advisory Board Action:

It was moved by Mr. Kraynik, seconded by Mr. Minger, all voting "Aye" to approve the Resolution as presented. None opposed. Motion approved 3-0.

ADDITIONAL BUSINESS

Mr. Medrow stated he will be working with Mrs. Evans to come up with an action plan for the year 2015 as a result of input received from two executive committee meetings held in the past year. Mr. Kraynik said this has been a very diligent effort to take each part of the pension program including the ICMA component, police pension, actuary and pension advisor and reviewing all the questions that have been posed by board members and members of the public. The action plan has been a very diligent effort and will be revealed soon.

ADJOURNMENT

It was moved by Mr. Minger, seconded by Mr. Kraynik, all voting "Aye" to adjourn the meeting at 6:42 p.m. None opposed. Motion approved 3-0.

David G. Kraynik
Township Manager and Vice Chairman

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Minutes Approved:
Minutes Entered: