VENTURA COUNTY
SUPPLEMENTAL RETIREMENT PLAN COMMITTEE
Channel Islands Conference Room
July 8, 2020
2:00 p.m.

Members Present	Members Absent	Also Present
Kaye Mand	Steven Hintz	Wanda Crane
John Polich		Amanda Diaz
Shawn Atin		Tracy Sewell
Jeff Burgh		Anna Toy
		Eric Lee
		John Garrett
		Rob Best

Ms. Mand called the meeting to order at 2:05 p.m.

1. **Public Comments:** None.

2. **Committee Member Comments**. None.

3. **Minutes of February 20, 2020.** Mr. Burgh moved, and Mr. Atin seconded, to approve the minutes. The motion carried.

4. **Transition to Principal Financial Group and Approval of Continuity Agreement**. Ms. Sewell reviewed the memo prepared by Ms. Dowdy to the committee and highlighted the following: Principal acquired Wells Fargo in 2019, the transition for servicing of the plan is expected to take 18 months and this requires action by the committee; consent and authorization need to be obtained. The agreement has been reviewed by Mr. Polich. The Transition to Principal will take place in 2021, and Wells Fargo cannot move forward without consent from the Board. There will be a change in the share cost, from 1bps to 6bps. Principal leadership is aware of concerns regarding the change in share cost. Wells Fargo will discuss this after 2/2021 and try to re-negotiate cost(s) at that time. Staff recommends approval of the continuity agreement at this time. Ms. Mand asked for clarification as to when the increase would take place; Mr. Lee stated the transition of accounts would take place in September 2021. He mentioned that this is a long process to ensure it's done well and seamlessly. The transition will be from the F class to the N class, and it may be decided later to use other investments. Mr. Best, Principal Financial, discussed the merger between Principal and Wells Fargo to create a new organization, Principal Global Advisers. He then provided some background on Principal: they have over 32 years of experience and they focus on retirement, investments, and insurance specialties. They are a Fortune 500 company based in Des Moines, IA with midwestern values with over 750 clients, $630bil in assets, and they manage over $30mil in assets. Principal is committed to our business and want to continue working with Ventura County. Mr. Best added that their focus is on fixed income. They've worked with agencies, such as CalSTRS and CalPERS, and can provide investment expertise. Mr. Best noted that they have a strong investment performance and are committed to the retirement and asset business. He added that he will be the leader of the new business unit, and they do not want to make any changes or disrupt the relationship with the County. Mr. Burgh motioned to move to Principal. Mr. Atin seconded the motion. The motion was carried. Mr. Atin motioned to receive and file the Principal presentation. Mr. Burgh seconded the motion. The motion was carried.

5. **Wells Fargo Semi-Annual Investment Review** Mr. Lee, Wells Fargo, began the semi-annual investment review. The previous quarter was dismal as the market declined 20%, most of the decline, taking place in March. There was a plunge in oil prices and things seized up as the pandemic has taken hold of the economy. For the quarter ending 3/3/2020, the market moved away from stocks, bonds and anything other than government bonds. The interest rates lowered with the 10-year Treasury at 3%, and the 30-year being less than 1%. Corporate bonds went higher, people moved away from risk assets and we experienced a global shutdown due to the global pandemic. Mr. Lee then discussed the cash flow going from $29mil to $25mil; there was a $4mil loss the previous quarter. The account value is $10 million and has $6 million since inception; $11 million the last ten years. The net contributions faced a difficult quarter with significant losses. Mr. Lee then highlighted the Investment Policy Summary, discussed target allocations, allocations within each class, underweight vs. overweight, and 2.6% rebalance at the end of the quarter. He noted there has been more erosion in the market and also more market volatility. There were no changes in the funds, indexing and account investments in the portfolio. The portfolio didn't do well; the results were weaker, relative to the benchmark. The damage was mostly done in fixed income; the small cap manager has done very well with active management. Mr. Lee also said the equities did well, fixed income was less than 3%, compared to 1.3%, lost 2% and was a poor quarter. Mr. Lee stated that this was mostly done by international bonds, County exposures and that this was not just domestic issues, but there were also international issues. He then discussed total returns: their expectations of rising interest rates, until the pandemic hit, when interest rates dropped; this caused underperformance. As of 4/30/20, the portfolio did better than the benchmark, did well in equities and fixed income, which were up 2.66% and the benchmark was up 1.84%. He noted that Quarter 1 was rough, with a reprieve in April through June, and results are expected to be good. Mr. Lee said they are cautious, but optimistic from the portfolio standpoint. Most losses from February and March were recovered. There has been a lot of uncertainty with the pandemic and re-opening(s). Thus far, we have seen things bounce back due to portfolio positioning. There will be an update provided in the June 2020 report. Mr. Lee directed the attention to the top of the table on page 39, the F class performance through 5/31/2020. The same portfolio was shown in the N class, the class we'll move to in September 2021. He added that we may make other decisions later, if appropriate. The net effect shown in the blue box, the difference, was 2.4% bps as of today, which is over $6,600 per year in additional costs. Wells Fargo is working on the cost difference from the F class to the N class. We will have a milestone to compare against moving forward, and Wells Fargo wants to provide total transparency. Mr. Lee then went over the information on page 41, Timing the Market. There have been volatile days, with a lot of good and bad days. The difference is to time market strategy that fits your objective, knowing that there will be volatile markets ahead. We've had success with staying consistent. Ms. Loy discussed the transition from F to N shares and current fees. There is growth and longstanding relationships between the County and Wells Fargo, so they proposed a 10bps fee reduction, starting effective October 2020 and a difference in share class change from F to N; this would be from .4% currently, down to .3%. Ms. Loy will email the fee agreement for signature, which is needed before the end of July. Mr. Atin motioned to accept the new rates, and Mr. Burgh seconded the motion. The motion was carried. Mr. Atin motioned to receive and file the report from Wells Fargo. Mr. Burgh seconded the motion. The motion was carried.

6. **SRP Plan Conversion** Ms. Sewell presented an overview of the plan design change, which the committee has already approved. Different EE/ER contributions and buyout options were discussed with the group, noting that there is a 7.5% contribution required for the plan, which can be comprised of any combination of EE plus ER rates. Current employees must opt in from the DB plan; the opt-in must remain as an EE contribution of 3%. Ms. Sewell discussed the first option: ER contribution at 4% and EE at 3%, with no change to the EE contribution. Mr. Atin added that the difference in cost, in staying in the current DB or changing to a DC plan over a 20-year timeframe, is $1.4mil as presented. Mr. Garrett noted that the risk of

contributions lies with volatility in the market, that the defined benefit plan costs more, and bad experience will cost the County more. He also said that a deferred compensation (DC/457) plan is not tied to a risk for the employer and that a 457 plan would reduce contribution risk. The future of the deferred compensation plan is set in regulations, and those do not change. He recalled that Wells Fargo presented an approximate 20% return; in a future year, the cost could be over 6% for the employer contribution for payroll, meaning volatility. The deferred compensation plan does not pose a risk and would allow the County to "de-risk" their retirement funds. Mr. Atin asked Mr. Garrett what the long-term / historical return has been for the current DB plan. Mr. Garrett referred to page 10, with the information on the plan since inception; 6.63%, as it has been over the last ten years. Mr. Garrett noted that we are earning 6.5%, and our liabilities will continue to go up. Mr. Atin then asked what the breakeven point is, where the cost is equal between maintaining the current plan versus converting to a DC plan. Mr. Garrett stated that with the lowering of the fees (discount) offered by Wells Fargo, it would increase the County's liability immediately by about $2.5mil on day one. With current projected liabilities, there will be less of a return. He explained that there is a 12% deviation, so it could possibly be 19% on the high side and -5% on the down side. Mr. Garrett also added that, if there is a problem with the economy like what occurred back in 2008-2009 when there were very volatile market returns, this could impact the County greatly. Mr. Garrett noted that defined benefits are a way to provide career employees an efficient retirement; however, the SRP employees are not a type of population that are efficient in the current plan set-up. The way the current SRP is set up, as a defined benefit, employees are immediately vested, and this creates a problem and a huge liability for the County. He stated that as of today, there is over $24bil in liability for future benefits of employees who have left active service, $8mil in retired employees, and $16mil left for employees who are often employed for a very short period of time, who, upon retirement, will receive an average monthly benefit at the age of 65 in the amount of $35/month. Mr. Garrett said that even with the discount rate being offered by Wells Fargo, we can expect the rate of return to grow to approximately 7.25% per year, causing the plan to no longer be a defined benefit plan. This would accumulate more interest than any other County debt, with the plan costing more than Social Security. Mr. Atin asked Mr. Garrett his opinion on whether it would be prudent to convert to the DC plan, being that there are over 10,000 people in the current DB plan, we can't contact most people who have termed and that number continues to grow. He further asked what the future looks like for the plan. Mr. Garrett said that it depends upon on the returns and the market volatility. He noted that in the past ten years there have been increasing costs, and the liability will only continue to increase. The current plan design does not work, since there is a high turnover with the employees in the plan, the administrative effort is a burden and that the DC plan would offer a better benefit than what we're currently providing. A DC/457 plan would allow termed employees to take funds either through a distribution, rollover and possibly invest if they chose, so there could be growth to it for the employee. Mr. Garrett also stated that there would be efficiency with the funding and less volatility with a 457. He concluded that he would not suggest the current DB plan. Ms. Mand asked about looking at the cost of the plan, as well as the ongoing administration. Mr. Atin noted that, even on the cost side, if we maintain 7.25% assumption rate of return, the plans earns 6.63% and our rates will continue to go up. The cost of $9.2mil for the DB plan will be much higher than a DC plan. Mr. Garett added that there is another aspect to look at: if we close the current DB plan, initiate a "soft freeze", and then close the plan to new employees, buyouts can be offered. This would allow a reduction in liability for the County. The group then discussed the different options and noted that the DB plan investment rates are suffering, our rates keep going up, and over the years they continue to rise. Mr. Atin said that there are two courses of action to consider: 1. Proceed with the DC option, which seems to be the best option. We can go to the unions, convert to the DC plan, with a possible EE contribution rate at 4% or 4.5% and a 3% County match. There would be a benefit of the employees receiving this match immediately and having access to the plan sooner if they left County service; a benefit they don't have with the current DB plan. Mr. Garrett stated that the County will have administrative costs regardless of either plan, but

with the DC plan we can reduce future liability significantly. Mr. Atin noted that, if we can campaign active and inactive employees, and all assumptions are met, with the County contribution at 3%, we will yield savings in almost every category compared to the payouts; the savings over 20 years would be significant. Mr. Garrett said that the value of the liability @ 7.25% will be greater at 6.75%. The focus should be on active and inactive employees; the active employee's benefits will still accrue, but there will be no new employees entering the plan. Initiate the soft freeze and then figure out how to "de-risk" and get actives to transfer to the new plan. He then added that the big benefit will be reducing liability for the County, with the buyouts at 25%, utilizing 6.75%, there will be a reduction of $23mil. Mr. Atin asked Mr. Garrett about the projected model that projects $61mil in liability by 6/30/2039, if there are no changes to the current plan; he explained that if we have 25% utilization for the deferred vested members and 50% of the active members opt for buyouts at a 6.75% rate, it will put our liability at $38mil, which is $23mil less that the $61mil projected by staying in the current DB plan. Mr. Atin motioned to recommended to present an EE contribution of 4.5% to the unions and, if agreed, move to finalize a plan document and offer an 80% buyout to active and inactive participants. Mr. Burgh seconded the motion. The motion was carried.

7. Informational Agenda

- **Wells Fargo Authorized Certification**
    - Document to be signed by committee members.

Ms. Mand adjourned the meeting at 3:50 p.m.

Respectfully submitted,

Amanda Diaz
Safe Harbor Plan Coordinator