SUN ‘N LAKE OF SEBRING IMPROVEMENT DISTRICT
RETIREMENT COMMITTEE
MEETING
Tuesday, February 12, 2019
MINUTES

The Retirement Committee meeting of Sun ‘n Lake of Sebring Improvement District was held Tuesday, February 12, 2019 at the Community Center, 3500 Edgewater Drive, Sebring, FL 33872.

The meeting was called to order at 2:00 p.m. by General Manager, Tanya Cannady.

SUPERVISORS PRESENT:
Mr. William Stegall

The General Manager, Tanya Cannady; Board Secretary, Chrissy Hardman; Omar DeJesus, Finance Director; Robert Dingle, Lead Operator and David Bazzle, Nationwide were present; there were approximately 6 people in attendance.

1. Call to order-2:00 p.m.
2. Discussion/Presentation-Omar DeJesus, CPA, Finance Director:
   a. **Provider Comparison-ICMA vs. Nationwide Local vs. Nationwide State**
   b. **Plan Fees & Examples**
3. **David Bazzle, ChFC, CRC, CBC-Discussion Plan Design**

   Mr. DeJesus reviewed discussions which took place during the October 31, 2018 Retirement Committee meeting and affirmed the objectives identified was: the District’s “fiduciary responsibility”, customer service, employee education, plan design, flexibility and service costs. During that meeting there were five providers presented that were “narrowed down” to Nationwide Local and State. Mr. DeJesus announced a Provider comparison for ICMA, Nationwide Local and State to which he explained that with the District’s current provider (ICMA) there are 49 investment options available with an average cost to employees of 1.34%. Included in that percentage are the “Record/Admin” fees which represents.39% of that total.

There is $665,000 in the plan and at the 1.34%, the total cost to all employees is (approximately) $8,000 to take part in the plan (on average) to which Supervisor Stegall asked if the District contributes? Mr. DeJesus replied that is not the case, adding this is something that should be considered. He referenced the "BCA Analysis" and explained how the information was provided by the consultant. The consultant distributed the $665,000 (equally) among each fund because they cannot do a line-by-line comparison. Mr. DeJesus pointed out the fourth column, "Total Net Expense Ratio" and how some options had varying percentages, such as 1.37, .94, and.98 with some jumping as high as 2.25. He elaborated how these figures represent an average of the entire fund line up with ICMA (as the account stands). Mr. DeJesus confirmed that ICMA offers "managed services" for an additional four basis points which would ensure representatives manage your account, and select funds for an additional cost of .04%. The comparison for Nationwide Local is the same combination of a 401A/457 Plan; however, the lineup is reduced to 32 investment options, the total cost decreasing by.84% on average. They include the same administrative fees for investment options; however, Nationwide Local will not charge as high a premium on their basis points. With the assumption of $665,000 in Plan Assets multiplied by the.84% average, the calculations show the costs will decrease by (roughly) $3,000 to $5,500 for all employees. He was hoping there would be a way to negotiate and reduce that amount; however, the District will manage the funds with support from Morningstar (almost eliminating the need to have a "managed service"). With that said, if employees still feel they would prefer to have their accounts supervised, then they can (for an additional.65%) to which Supervisor Stegall said that is not a real high figure. David Bazzle arrived and apologized for being delayed to which Mr. DeJesus reviewed the conversation. He said the question of "negating" the need for managed services arises and from his perspective it is a "personal choice". He affirmed it is not a feature that an employee must take and (typically) about 10% to 30% of active participants elect to have someone perform these choices for them. Mr. DeJesus asked if managed services will permit "open architecture", or would the options be limited to 32 investment funds to which Mr. Bazzle confirmed the latter. He compared it to a "Target Date Fund" which considers a person's age; it moves over time whereas, a "Risk Based Fund" measures an individual's risk then adheres to that profile.

Managed accounts consider a person’s age and risk level which is thereafter adjusted on behalf of the employee (quarterly). This means in a managed account, a representative will not have a (100%) certainty for what an account will be affected by: the market and/or retirement of any account managers (and their assigned replacement). Mr. Bazzle considered it a more proactive approach, adding that the “My Interactive Planner” would be available permitting employees to enter their own data. He affirmed this option will be available at the end of March to which Mr. DeJesus said a major issue the District has with ICMA is customer service. Mr. DeJesus asked if Nationwide will assign a representative to meet with employees (at least) twice a year to which he confirmed. He further explained that Nationwide works with a third party (Wilshire and Associates) which protects the employee because Nationwide representatives are not making biased choices. Another reason Nationwide collaborates with a third party is because they work off of an “industry scale”. He reassured him that the representative would still be a Nationwide agent; however, they would handle education. Mr. DeJesus announced Nationwide State and explained how the fee decreases (by .52%) and applies to the total investment of $665,000. There would be a reduction in investment fees which hints at other costs for the employer. Employees would experience a reduction by $3,400; however, additional costs for the District would apply. He presented a “generic” example which assumed an employee balance of $40,000 with ICMA. The annual “total” fee will increase to 1.34% or (approximately) $500 to $600 by the end of the year for that balance. If the employee chooses managed services, then the staff member would pay an additional $160. There would be no payments for FICA; however, there are some on the 457 plan. Taking the same example and applying it to Nationwide Local, fees would be $592 (a reduction of almost $100) if the employee uses managed services. Without this option, there is a decrease of (approximately) $200 in fees. A complication arises with the State option because originally it was only $3,300 in cost to the employee but now the District will be charged in addition $5,700 because all District contributions will go into the 457 plan, which are subject to FICA tax. The employee would have a total cost of (approximately) $351 with the District picking up an additional $143 (per payroll) because of FICA taxes.

In his opinion, the District would have less fiduciary responsibility with this option because of the "state board" taking over; however, there would still be no customer service or plan flexibility. Mr. Bazzle confirmed the State option offers managed account services; however, for representation there are 5 providers to which Mr. DeJesus concurred that would be a customer service problem because employees would meet with different people. It would increase the difficulty for the Finance Director in counseling employees to which Mr. Bazzle confirmed there are "two co-fiduciary products". The first has an Administration fee and is (typically) reserved for newer, smaller start-up plans (such as the District). In consideration for the District, the idea was to use the same product without the "0% administration expense ratio" to which the District is (almost) at a point where that would be appropriate. Mr. DeJesus referenced documentation (Mr. Bazzle provided) and asked if there is a guideline for employees that would explain what the costs are (for comparative purposes) to which he confirmed. Mr. DeJesus continued that he was looking for a side-by-side comparison (with the 0% Administration fees) to which Mr. Bazzle replied the District would have the same investment options but the difference is that one choice would have an administration fee (while the other does not). The option with the fee carries a "slightly" higher fixed rate and with the State requirement of 1% (and interests rates the lowest they have been) that 3.5 guarantee is not extended to this offer. He did not feel this was the best program, adding his summation was based on the analysis for the District's plan. Mr. DeJesus referenced Supervisor Stegall's previous comment, and said it would be possible to select the Nationwide Local plan, pointing out how the District does not contribute to that they would pay it through the employee (out of their fund balance). He confirmed the District on average contributes at 6% (roughly) an $80,000 total cost for contributions. If they went with the State option that would mean the District would pay $80,000 plus $5,700. Mr. Bazzle mentioned that the plan on the screen reflected multiple providers to which Mr. DeJesus presented a graph that represented the consultant's analysis (on a 30 point scale). The results of which gave Nationwide Local 22 out of 30 points, and Nationwide State 19 out of 30 points. He explained the biggest items that contributed to the rating fluctuation was customer service. What this means is if they chose the State option, they would remove the District from fiduciary responsibility; however, there is no customer service or flexibility.

Mr. DeJesus asked Mr. Bazzle to discuss the Morningstar Program to which he replied they designed it to provide fiduciary support. This program asserts fiduciary standards, such as investment policy statements which will provide documentation to explain why the District changed funds. It would in effect reflect the criteria used to monitor the "fund line". This means they will answer questions that may arise from fund line ups through Morningstar (statements, policies and procedures). Without these services the District manages employee support. The reason they consider Morningstar a "co-fiduciary" is because Morningstar will not meet with employees or educate them, which is one of the two components of fiduciary responsibility (investment/education). Nationwide will handle education, and Morningstar manages the investments including policies and procedures. Ms. Cannady asked Mr. DeJesus to talk about "mandatory participation" to which he explained to Mr. Bazzle it is an idea management has considered. He explained that with the 401A option, the IRS has made contributions a restrictive process, so much so that contributions cannot (ever) be altered. The idea was to go to a "mandatory contribution" program to avoid that; however, he was unsure if that option will work. He believed the right direction is to go to a 401A and 457 Plan combination which would avoid FICA taxes by allocating employee contributions to the 457 Plan and the employer contributions transferred into the 401A. There will still be the same line ups (for both plans) to which Mr. Bazzle concurred; however, it is accounted in two different "buckets". He agreed it is a common practice in the "public sector" but the "private sector" uses a 401K. Going with the 401A plan (for the District's contribution) would avoid the FICA tax, saving the District money overall. Ms. Cannady reiterated the inability to adjust plans with the 401A which does not account for circumstances that may arise in "life". She asked if the proposed plan would allow flexibility to which Mr. Bazzle replied the "IRS does not like choice" because the organization believes it is a way for people to avoid paying taxes. He explained how this is the reason the 401A plans are so restrictive. What he has seen is a 401A match; whatever the participant puts into the 457 plan, the employer matches in the 401A. Doing this creates flexibility to which Ms. Cannady acknowledged her understanding. She asked if that takes place once a year to which Mr. DeJesus replied it is something that could be offered. Ms. Cannady asked if a "mandatory participation" of (at least) 1% would be his recommendation to which Mr. DeJesus suggested a tier structure.

It would start at 1%, then increase accordingly to which Ms. Cannady inquired if she were a “new employee”, would her mandatory contribution be 1%? She mentioned Highlands County has a mandatory contribution of 3% to which Mr. DeJesus recommended the figure be 1% because in his opinion, it would get the employee accustomed to how the plan works. With support from Nationwide (education), he expected it would motivate employees to be more involved. Mr. Bazzle agreed the likelihood that an employee will invest more in the long run is high because of the education. With that said, he admitted that there are employees who only put in the minimum because they require it. He affirmed that once they are taking part, Nationwide works to engage the employee which increases participation (especially if a tiered structure is in place). Mr. DeJesus suggested that instead of calling it “mandatory”, it may be a good idea to match contributions ($2 for every $1), incrementally decreasing the figure as they reach 6%. This gives an employee an incentive because they are receiving more for their money to which Supervisor Stegall added in his experience, they had to do the same thing. He cautioned that a big issue for his company (at the time) was “preferred treatment” which meant that higher compensated staff members could contribute more than those who did not make as much. Mr. Bazzle replied that the “public sector” permits the organization to set up tiers. “Higher compensated” employees contribute more; however, if the standard is the same all employees should want to “take action on that”. Education may be a way to encourage this participation; subsequently, Nationwide representatives can analyze who is contributing and focus on the individuals who are not taking part (as much). Supervisor Stegall pointed out that an employee may trust a manager more than a representative from Nationwide to which Mr. Bazzle concurred. The outcome is usually better when the information is coming from a colleague to which Mr. DeJesus said moving forward with the 457, the plan could be written to specify 60 (or 90) day periods to encourage employees to increase their contribution during the following open-enrollment. He affirmed that from his understanding of the committee’s direction, there needs to be a choice between the three options. He recommended picking a vendor, then design a “perfect” plan for presentation to the Board of Supervisors. Mr. Dingle asked what the protocol is if an employee already has an open loan with ICMA to which Mr. Bazzle asked if it is on the 401A fund.

Mr. Dingle confirmed to which he said Nationwide could write the plan to permit those provisions and take over the loan. Mr. Dingle asked if interest would increase, or would the payment schedule change to which Mr. Bazzle replied the typical practice (at least with ICMA) is that enough data is provided to Nationwide to write a plan based on what is already established. The idea is not to change the terms of the loan. He asked if they handle loans through payroll to which Mr. DeJesus replied they process the loans through ACH. Mr. Bazzle confirmed that would remain the same but a new ACH will be drafted (and sent over). Ms. Cannady asked how a new loan would be handled to which Mr. Bazzle replied they would too be ACH; typically "Prime Plus II" and the employer determines the amount of allowable loans. Mr. DeJesus mentioned the current allotment is up to five to which Mr. Bazzle noted the industry is leaning closer to only one (or none). He mentioned his colleague Terry is a representative who has been in the industry for over 20 years (focusing on 401K/457 plans) and she would be the District's representative. Mr. DeJesus asked what customers Nationwide provides services to (locally) to which he replied: City of Sebring, Highlands County, Highlands County Sheriff's Office and Highlands County Clerk of Courts. Mr. DeJesus inquired if the District were to move forward with Nationwide, how would the transition be handled (and how would it affect the employees)? Mr. Bazzle replied it will depend on how long data sharing takes. Typically, Nationwide does a "one day blackout" but ICMA usually requests "five days". Everything goes "black" and they liquidate the accounts then send the funds over to Nationwide where the accounts go live. Ms. Cannady asked if there are any specific time periods Nationwide does this (i.e. 30 or 60 days) to which Mr. Bazzle confirmed 60 days is a minimum. Realistically, 90 days is what it takes to complete the process which he noted depends on the amount of employees. Terry can be on site to work with each individual employee to move them over herself to which Supervisor Stegall felt that was a positive. Mr. Bazzle agreed it allows employees to build a connection with their representative to which Ms. Cannady asked if she (Terri) would set up the account (i.e. username, password). Mr. Bazzle confirmed, adding online enrollment generates a letter which they send to the employee. Each enrollment takes about 25 minutes to which Mr. DeJesus asked if there were questions? He noted loans were a big concern for employees to which Mr. Bazzle said loans are challenging during the individual setup.

He postulated that anyone who has an open loan may be excluded from that process and it is workable. With no further questions Mr. Bazzle thanked the committee and provided his card for future inquiries. Mr. DeJesus announced the next step was to address a recommendation for how to move forward to which Supervisor Stegall said it would not make sense not to. Mr. Dingle asserted he no longer wants to work with ICMA because their communication is sub-par. When he requests documentation, ICMA representatives do not respond other than via email. He affirmed he has not received a statement since the one time they emailed it to which Mr. DeJesus concurred that has been the consistent feedback from other employees. The idea is to transition as seamless as possible and maintain regular communication. Mr. Dingle asked if the contributions will be mandatory (1%) to which Ms. Cannady said it is something that needs to be discussed. She was in favor of the idea (for at least 1%) to which Supervisor Stegall added a 2% match would help. She voiced her favor in going with Nationwide Local to which Mr. Dingle concurred. Mr. DeJesus agreed to work with Mr. Bazzle to present two proposals, one with the Administration fee and one without. Mr. DeJesus showed examples provided by Nationwide without the Administration fee, some percentages decreasing to .65, .64, .08 and .09. He felt strongly that Nationwide allowing the District to join the program (without the Administration fee) would be in the best interest of all involved. Supervisor Stegall asked how many employees the District has to which Mr. DeJesus replied (approximately) 28 are taking part. Thirty-one employees are full time, and only three are not participating which is why he was not sure using the word, "mandatory" is necessary (so long as the offer is lucrative). Supervisor Stegall pointed out employees will always have the option to borrow because they do not lose those funds. Ms. Cannady referenced "vesting" to which Mr. DeJesus confirmed at the previous meeting it was discussed, and a consensus was reached to adhere to the current vesting schedule of "50/100". Ms. Cannady and Supervisor Stegall agreed, adding the further out it is stretched the "harder it is to sell". Mr. DeJesus reviewed the details from the loan discussion during that meeting to which Ms. Cannady confirmed she believes they should allow loans. She asked if a criterion has to be established to which Supervisor Stegall referenced the common practice of stipulating only one loan allowed, which will help the employee with the payment schedule in the long run.

Ms. Cannady agreed to which Mr. DeJesus referenced Mr. Dingle's point considering the refinancing of loans and fees. It would essentially be like a double taxation which is why education is so important. Ms. Cannady noted there are employees who have been "terminated" still in the current plan. She asked if Mr. DeJesus knew how many to which he replied he would have to look the details up. Ms. Cannady noted there is no requirement that these former employees transfer their assets to another plan. Supervisor Stegall did not believe the District wants to continue to carry over those funds to which she concurred. Mr. DeJesus agreed to research the District's ability to add appropriate wording to which Supervisor Stegall noted Nationwide may handle that for the District.

With no further Committee or public comment, the meeting was adjourned.

The meeting was adjourned at 2:44 p.m.