

COV 457* Deferred Compensation Plan Update

January 30, 2018

*Commonwealth of Virginia, Administered by Virginia Retirement System

Virginia Beach Deferred Compensation 457 Plan - Now Is the Time To Consider Our Options

- Current VB 457 contract expiring: *Empower Retirement* (June 30, 2018) is **record keeper only—not funds manager**. (Board selects funds)
- Hybrid Retirement Plan spurred evaluation of City/School 457 Plans (1-1-14)
 - Defined Contribution (DC) Plan will decline as participants retire or terminate and new employees are added to the hybrid plan; **plan fees will likely increase**.
- **Virginia Code 51.1-603.1** authorizes a locality to enter into an agreement with VRS to allow its employees to use the COV 457 deferred compensation plan
 - As of Jan 1, 2014, City Council authorized City hybrid employees to use COV 457
 - COV 457 offers low-cost, effective fund options—**significant** savings to participants on both **record keeping fees** as well as **fund fees**
 - Brokerage option allows participants to keep their current funds if desired.

Due Diligence

- City 457 Plan is managed by a 10 person Board who are **fiduciaries**— must act in best interest of employees. Board selects funds, makes policy, hires record keeper and advisor

Finance Director	Payroll Administrator
HR Director	CBO Director
School CFO	Retiree Representative
City Council member	Employee Relations Manager
School Board member	Sheriff Representative

- **Due Diligence** over last 3 years, intensely over last 7-8 months
 - Consultant reviewed COV 457 Plan & Virginia Cash Match Plan
 - Impacts of hybrid employees on City 457 Plan
- On September 13, 2017, the City's Deferred Compensation Board voted to move the City's plan to the COV 457 Plan

COV 457 Plan Professionally managed, best practices

- **Passively managed** Collective Investment Trusts v. mutual funds
 - Passive management is INDEX FUNDS
 - Over the last 15 years, 82% of all U.S. funds trailed their respective benchmarks
 - View that active managers can't pick stocks well enough to justify their fees;
 - Active managers that do beat their indexes can't sustain it
- **White Labeling** instead of named fund
 - Generic name for fund, identified by **asset class, not** investment house
 - Offers automatic diversification within that asset class
 - Easy for participants to implement their investment decisions
- **Fund selection is separate process from record keeping provider**
 - Current record keeper is ICMA-RC
- **Explicit fees for record keeping** instead of current implicit fees
- **Size of funds** command **low fund** fees as well as low **record keeping fees**—COV 457 is much larger which drives fees down

Expenses and fees

- **Expense Ratio—Implicit fees—Fund fees**
 - Annual fee that mutual funds charge their shareholders to cover the expenses incurred to operate the fund.
 - Lowers the return to shareholders (the investors)
 - It is an implicit fee to fund investors, i.e. it is not charged directly to participant accounts
 - Expense ratios of actively managed funds are larger than for passively managed (INDEX) funds
 - Record keeper does **not** control the fund fees. They are controlled by the fund house, and also the size of the share class.
- **Record Keeping Fees—more implicit fees**
 - Cost of maintaining the records for each individual shareholder. If Record keepers are maintaining records on behalf of the fund, fund managers pay record keepers which is part of fund fees. Mutual fund returns are reported net of fees, so it is hard to tell how much you are paying in fees
 - Today, best practice is to use explicit fees for record keeping, i.e. fees charged directly to the participants account, instead of paying record keeper fees through fund fees

Significant cost savings to the participant with COV/457

- Fund fees are generally lower due to the size of the COV 457 Plans and use of passively managed funds
 - Over **\$2.95 billion** under management compared to **\$280 million** for City
 - Larger share classes will have lower fund fees
 - Plans the size of VB 457 cannot compete for the lower cost funds
- **Based on NAGDCA SURVEY, average cost for our size plan is 0.55%. COV 457 with \$3 Billion, average fund fees and record keeper fees are substantially less. Stand alone plans cannot compete with COV 457.**
- All participants pay an explicit fee of \$30.50/year/person for record keeping;

Why Fees Matter - Fee Example

Investor A

- Contribute \$6,000/year beginning at age 25
- 6% annual return on investment
- **0.50% annual fee**
- Account value at age 65: \$858,068

Investor B

- Contribute \$6,000/year beginning at age 25
- 6% annual return on investment
- **1.50% annual fee**
- Account value at age 65: \$656,195

1.00% increase in fees equals \$201,873 less in account at age 65.

Examples provided by Mercer for illustrative purposes only.

Comparison of Virginia Beach Lineup and Expense Ratios with COV 457

COV 457 Equivalent	Exp. %	VB Fund	Exp. %
Stable Value Fund (Galliard)	.28%	Va. Beach Fixed Fund	.40%
Money Market Fund (Blackrock)	.08	NA	
Bond – Bond Fund (Blackrock)	.04	Vanguard Total Bond Market Institutional	.10
Inflation-Protected (Blackrock)	.03	NA	
High-Yield Bond Fund (JP Morgan)	.40	NA	
Stock Fund (Blackrock)	.02	Delaware Value Inst.	.72
		American Century Equity Growth	.67
		Vanguard Institutional Index	.10
		American Funds Growth Fund of America	.68
		Janus Forty	1.21
Small/Mid-Cap Stock Fund (Blackrock)	.04	MFS Mass Investors Growth	.74
		Alliance Bern Discovery Value	.90
		Vanguard Mid Cap Index	.20
		Mass Mutual Select Mid Cap Growth Eq.	.83
		Baron Small Cap	1.32
International Stock Fund (Blackrock)	.09	Eagle Small Cap Growth	.75
		William Blair Int. Growth	1.42
		Templeton World Fund	1.07
Real Estate - Global Real Estate Fund (Blackrock)	.11	NA	
Brokerage Window	varies	NA	
Asset Allocation:			
Target Date Funds (Blackrock)		American Funds Target Date Funds	
		Target Date 2010	.41
		Target Date 2015	.40
2020 Portfolio	.08	Target Date 2020	.42
2025 Portfolio	.08	Target Date 2025	.44
2030 Portfolio	.08	Target Date 2030	.46
2035 Portfolio	.08	Target Date 2035	.47
2040 Portfolio	.08	Target Date 2040	.48
2045 Portfolio	.08	Target Date 2045	.49
2050 Portfolio	.08	Target Date 2050	.49
2055 Portfolio	.08	Target Date 2055	.50
2060 Portfolio	.08	Target Date 2055	.51
Retirement Portfolio	.08	NA	
VRS Investment Portfolio (VRS)	.58	NA	

Overview of the COV 457 Plan, cont'd

- **Fund profiles** on VRS website
- **Additional asset classes available through COV 457**
high-yield bond fund (actively managed), inflation protected bond fund, real estate, the brokerage window, and the VRS Investment portfolio (actively managed)
- **Roth 457 option** available
- **A dedicated representative on site**
- **VRS Board of Trustees fiduciary for the COV 457 Plan—professionally evaluated funds**
 - Several long term projects underway e.g. target date funds, employee education
- **myVRS member portal** more holistic view of retirement

COV 457 Investment Paths

- Investment options organized into three pathways
- Designed to make it easier for participants to implement investment decisions
- Mix and match investment options within each path
- Helps participants meet objectives, risk tolerance and overall investing style

Do-It-For-Me Path

Help-Me-Do-It Path

Do-It-Myself Path

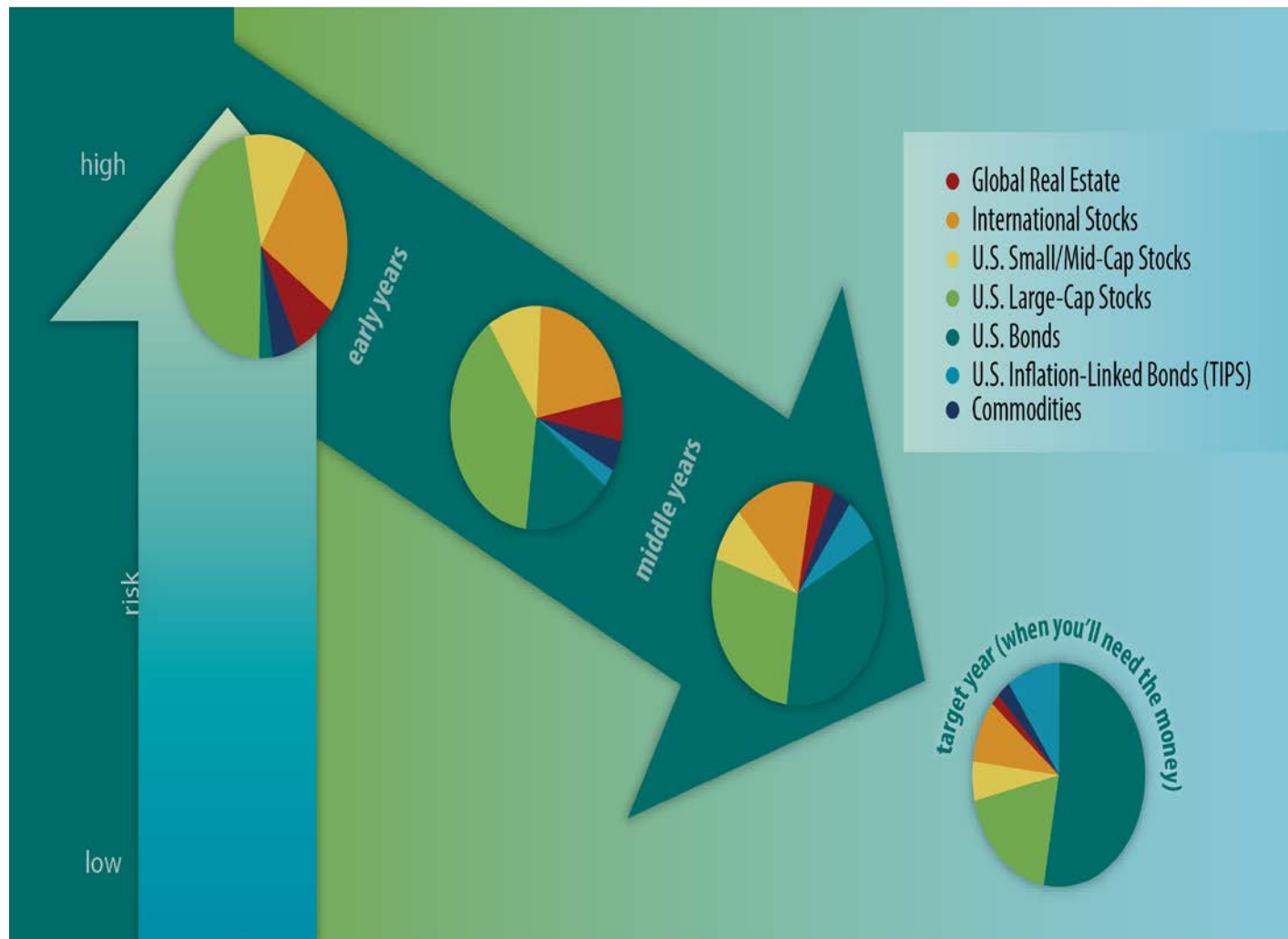
Do-It-For-Me Path

- Includes target-date portfolios for participants who would like a portfolio that's already diversified.
- Select funds based on your projected retirement date and individual needs.

Fund	Expense Ratio	Fund	Expense Ratio
Retirement Portfolio	0.08%	Target Date 2040 Portfolio	0.08%
Target Date 2020 Portfolio	0.08%	Target Date 2045 Portfolio	0.08%
Target Date 2025 Portfolio	0.08%	Target Date 2050 Portfolio	0.08%
Target Date 2030 Portfolio	0.08%	Target Date 2055 Portfolio	0.08%
Target Date 2035 Portfolio	0.08%	Target Date 2060 Portfolio	0.08%

Expense ratios as of 5/31/2017. May change periodically.

Target Date Portfolios — Evolve Over Time-A Simple Way to Save



Help-Me-Do-It Path

Offers a carefully selected menu of funds for those who prefer to take a slightly more active role in investing by assembling their own portfolio of funds.

Fund	Expense Ratio	Fund	Expense Ratio
Money Market Fund	0.08%	Stock Fund	0.02%
Stable Value Fund	0.28%	Small/Mid-Cap Stock Fund	0.04%
Bond Fund	0.04%	International Stock Fund	0.09%
Inflation-Protected Bond Fund	0.03%	Global Real Estate Fund	0.11%
High-Yield Bond Fund	0.40%	Virginia Retirement System Investment Portfolio (VRSIP)	0.58%

Expense ratios as of 5/31/2017. May change periodically.

Do-It-Myself Path

Self-Directed Brokerage Account

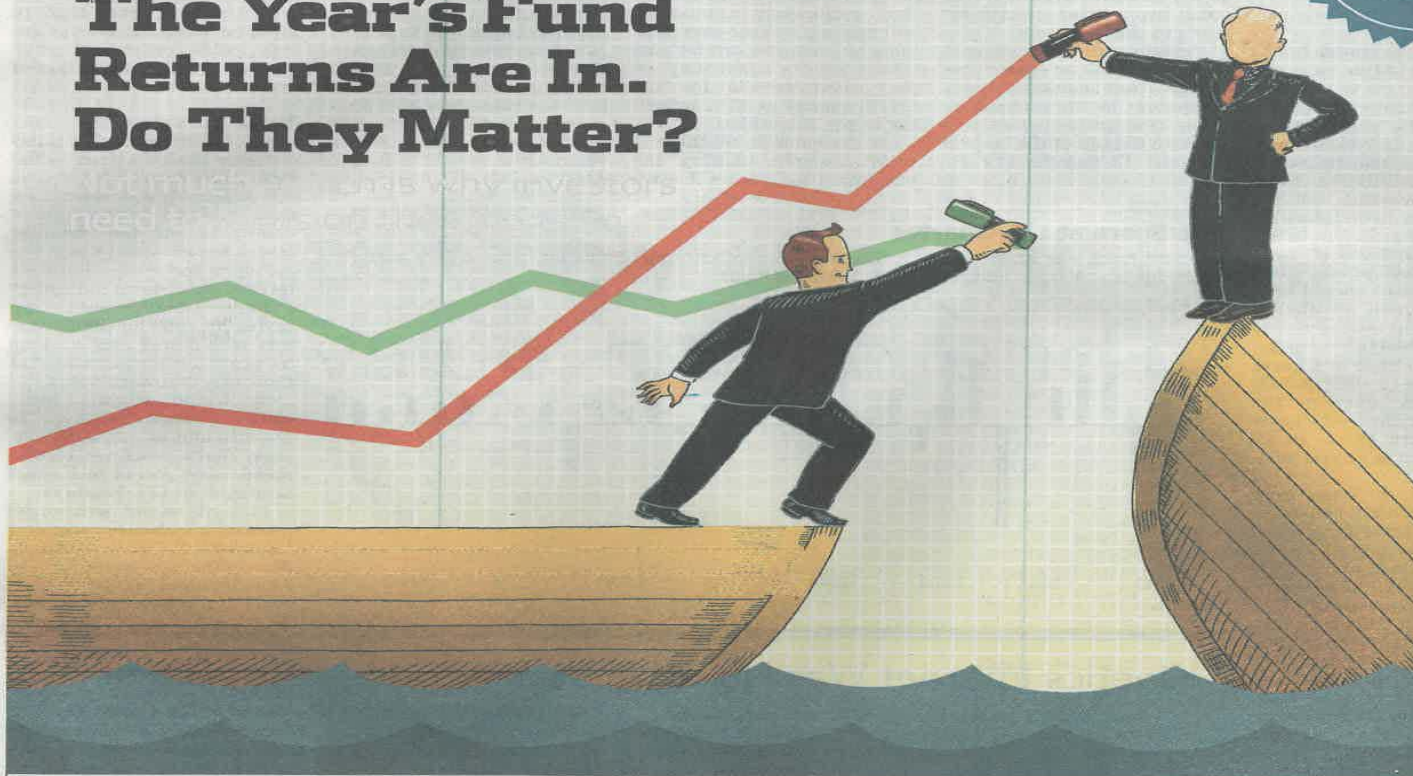
- For knowledgeable investors who wish to manage their investments directly
- Thousands of publicly traded mutual funds, exchange traded funds (ETFs) and individual securities are available*
- Additional fees may apply

*Majority of current investment options are available through the SDBA at comparable costs

INVESTING IN FUNDS

The Year's Fund Returns Are In. Do They Matter?

Not much, it turns out, which is why investors need to focus on the long run.



OSIA

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Education

- COV 457 Plans offers robust educational services
 - Online Tools
 - Meetings, seminars, one-on-one counseling
 - Phone and email support
 - Publications
- Fully custom COV 457 Plan Website with [plan-specific investment pages](#)
- Custom DCP mobile app
- VRS/ICMA-RC will provide on-site representative
- Financial Wellness platform



COV 457 Plan Account Access

- Custom communications and targeted messaging
- Retirement income --suggestions for increasing outcomes

Value as of 07/11/2017 View My Balances & Holdings

MY TOTAL BALANCE \$90,386.10	MY RATE OF RETURN 8.5% Year to Date
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On the go? Use [Mobile Access](#) or [TextAccess](#) to access your account!

401 Virginia Cash Match Plan Plan #108039	Balance \$64,072.06 Current Rate of Return 8.6%	View Account > Contributions >
457 COV 457 Deferred Comp Plan Plan #307042	Balance \$26,314.04 Current Rate of Return 8.2%	View Account > Contributions >

Increase My Retirement Income

By adding just \$100 a month to your current contributions.

[FIND OUT HOW](#)

PROJECTED VALUE \$456,416	Retirement*
Retirement Income: \$1,815/month	

At current contributions
PROJECTED VALUE
\$420,559

Retirement Income:
\$1,673/month

Now Retirement*

*Retirement age is considered 65 years of age. Projected values are based on an average annual return of 6% until retirement. Monthly retirement income assumes a 25 year payout post-retirement based on your projected account value.

Communication

- 3 Briefings open to all employees already held
- Presented at Member Advisory Committee, DLM
- Member Conversations open for employees to attend presentation (can leave after briefing or stay) January 30
- Council will vote Feb 6 (Schools Feb 13)
- **If Approved:**
- March-June—ICMA-RC communications and education
 - Participants given specific information/instructions **March-June**
 - Beam/Member Update/Schools Benefits e-Bulletins
 - On going communications over the 4 month process
 - Goal for transition to be effective no later than June 30, 2018
 - Beachnet & Vbgov pages
 - <https://beachnet.vbgov.com/benefits-services/deferred-compensation/Pages/VRS-COV-457.aspx>