

# State of Colorado



**Bill Ritter, Jr.**  
*Governor*

**Rich Gonzales**  
*Executive Director*

**Jennifer Okes**  
*Deputy Executive Director*

**JoAnn Vondracek**  
*Committee Chair*

## DPA

Department of Personnel  
& Administration

457 Deferred Compensation Committee  
1313 Sherman Street, First Floor  
Denver, Colorado 80203  
Phone (303) 866-3434  
Fax (303) 866-3879  
[www.colorado457.com](http://www.colorado457.com)

### NOTICE OF STATE DEFERRED COMPENSATION and PUBLIC OFFICIALS' AND EMPLOYEES' DEFINED CONTRIBUTION PLAN COMMITTEE MEETING

**FROM:** Suzanne E. Kubec, DC Plan Administrator

**SUBJECT:** Meeting December 13, 2007 **Note Location/Room Change**

**PLACE:** 200 E. 14<sup>th</sup> LAC Bldg Rm. B  
Denver, CO 80203

The meeting will be broadcast live at <http://www.colorado.gov/dpa/dhr/benefits>, under "Hot Topics" click on "Listen to 457 Committee Meeting Live 12-13-07". The legislative page opens then choose "Legislative Audit Committee Hearing Room".

**TIME:** 1:30 p.m. - 4:30 p.m.

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| 1. Roll Call   | 2 mins.  | 1:30 p.m. |
| 2. Approval of Minutes – November                                | 5 mins.  | 1:32 p.m. |
| 3. Approval of Agenda  | 3 mins.  | 1:37 p.m. |
| 4. Announcements – Suzanne Kubec                                 | 15 mins. | 1:40 p.m. |
| 5. Public Comments   | 5 mins.  | 1:55 p.m. |
| 6. Plan Recordkeeping Analysis – Howard Biggs, Arnerich Massena  | 60 mins. | 2:00 p.m. |
| Break  | 15 mins. | 3:00 p.m. |
| 7. Semi-Annual Fund Performance Review – Howard Biggs            | 60 mins  | 3:15 p.m. |
| - State 457 Plan – Great-West - Record keeper                    |          |           |
| - State DC Plan – Great-West, Hartford, ICMA - Bundled Providers |          |           |

**NOTE:**

The next Deferred Compensation Committee meeting will be on **January 10, 2008 at 1390 Logan St., Credit Union of Colorado, third floor conference room**. The Executive Committee meets to discuss agenda items one week prior to each committee meeting. Since the time and place vary, please call 303-866-4066 for specific information.

Special accommodations will be provided upon request for person with disabilities. If you are a person with a disability who requires special accommodation to participate in this meeting, please notify Paula Manzanares at 303-866-4066 within 72 hours of meeting date.

**Minutes of the Meeting of December 13, 2007  
Legislative Services Building (LSB)  
200 East 14<sup>th</sup> LAC Room B  
Denver CO 80203**

**DEFERRED COMPENSATION COMMITTEE**

<b>Present:</b>	Dave Loomis Billy Kwan- excused Les Shenefelt	Rep. Richard Mutzebaugh Joann Vondracek Ben Stein	Sen. Lois Tochtrop Dean Conder-excused Patrick Byrne-excused
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<b>Attendees:</b>	Department of Personnel & Administration	Suzanne Kubec Karen Fassler	Paula Manzanares Vinita Biddle Jennifer Okes
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ICMA	Britt Palmer
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Great West	Rick Kramer Liz Davidsen David Smith	Andrew Ahrens Kevin Navarro
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JeffCo	Lynn Acker	Lisa Eacker
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Attorney General's Office	Heidi Dineen
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Hartford	Donna DeLong Steve Bresler	Bill Abramowicz
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Innovest	Wendy Dominguez
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Arnerich & Massena	Howard Biggs
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**Roll call** Joann Vondracek called the meeting to order.  
Paula Manzanares called the roll.

**Approval of Minutes November 8, 2007** **Dave Loomis motioned to approve the minutes as corrected. Representative Mutzebaugh seconded the motion. The motion carried unanimously.**

**Approval of Agenda** There were no changes to the agenda.

**Follow up from  
November 2007  
Suzanne Kubec**

**Performance  
Audit**

Suzanne thanked those Committee Members that sent in comments on the draft Request For Proposal (RFP). All of the suggested comments have been included in the draft. The State Auditor's office has decided that they will review Department of Personnel & Administration's (DPA) internal procedures; the Plan Administrator, the Committee and DPA Executive Office. They will send out an RFP for the technical piece of the performance audit. The RFP has not yet been released.

**HR Directors List**

The contact list for the HR Directors was sent to the providers the week of November 19, 2007, immediately following the release of the November Advisor, a publication for HR administrators in the State Departments. Suzanne will continue to work with the providers on access to the departments to provide ongoing investment education to all employees.

**Additional follow-  
up items- January  
2008  
Annuity Shopping  
Service**

Per David Loomis request at the November meeting, Suzanne will research the last discussion the Committee had on the topic of annuity shopping service and provide information at the January 2008 meeting.

**School Districts  
Contribution  
formula**

Suzanne has contacted some of the school districts only to find out that some districts calculate 457 Plan percent deferrals on total gross, some on PERA includable salary and some don't offer a percent deferral. Suzanne will have the completed review for further discussion on contributions, so that the Committee can continue the discussion of the amendment that was proposed at the November meeting.

**Reconciliation  
Meeting**

Suzanne will provide a summary of the outcomes of the reconciliation meeting, which will be held on December 21, 2007.

**Announcements  
December 2008  
DC Meetings**

Paula called to reserve the current facility Legislative Audit Room for next years' meetings, however because the Legislature is in session, there is no guarantee that we wouldn't be bumped at the last minute. Therefore, at least for the first six months of 2008, the Deferred Compensation meetings will be held at the Credit Union of Colorado, 1390 Logan third floor conference room. Suzanne thanked those who listened over the internet for the past few months. Until we can provide the meetings live again, one can always visit any of the provider's web-sites or the DPA/DHR/Benefits/Retirement website at [www.colorado.gov/dpa/dhr/benefits/FY07/retire.htm](http://www.colorado.gov/dpa/dhr/benefits/FY07/retire.htm) to view the agendas and previous month's minutes or attend a meeting in person on the second Thursday of every month. If anyone has any comments or questions about the live broadcast please call Suzanne Kubec at 303-866-3954. The Credit Union will provide free parking but Suzanne needs to get your make and model of your vehicle so that your vehicle will not be towed.

**Change in the  
accounting  
representative**

Janet Sobczyk, DPA Accounting, has been assigned to provide the financials for the plans effective December 1, 2007. Janet will attend the March 2008 meeting to review the last quarter 2007 financials. We have moved the quarterly financial review to the third month following the end of quarter because most information needed for the quarterly review is not received until after the meeting of the second month of the quarter.

This should provide the Committee with more current information as re-allowance checks should be received and recorded by the time the Committee meets. The Committee had some concern with the lag time receiving information as late as March.

**Public Comments**

There were no public comments.

**Plan  
Recordkeeping  
Analysis-Howard  
Biggs, Arnerich**

Howard Biggs, investment consultant with Arnerich & Massena, provided a very detailed report on the Defined Contribution Recordkeeping Analysis. Howard stated there are two structures of recordkeeping that are currently used by the State of Colorado. The State DC Plan statutorily has three bundled providers and the State 457 Plan has a single recordkeeper. The Committee decided that it was absolutely essential that an analysis should be conducted to determine the pros and cons of each type of structure and to make sure that the Committee is meeting its fiduciary responsibility by periodically reviewing the recordkeeping structure.

Howard supplied the Committee with a PowerPoint summary entitled Defined Contribution Plan Record Keeping Analysis Multiple vs. Single Providers. There are three key components to the Plan Sponsor Responsibilities. They are; Plan Design, Plan Operations (includes ongoing management of the Plan) and Plan Investments. There are also three Recordkeeper Types: (1.) Unbundled/Third Party Administrators, (2.) Bundled and (3.) Open Architecture / Partially Bundled. Open architecture/partially bundled is what the State of Colorado is offers in both Plans. This means that the providers offer all services but use an open investment platform. Although Colorado's statutory terminology states that the State DC program is a "bundled recordkeeper" this verbiage has not been widely used since the late 90's. Howard stated for this presentation he would refer to all providers as recordkeepers.

Howard then discussed recordkeeper cost allocations. He stated that costs are allocated over plan assets and/or participants account balances. The larger the number of participants or assets equals lower cost per participant or a lower cost as percentage of assets. On the other hand, lower number of participants or assets equals higher cost per participant or higher cost as a percentage of assets. The more recordkeepers that the plan has the more the burden is placed to reconcile all of those accounts and overhead. From the Plan Sponsor perspective all processes needed to administer the plan is multiplied

by the number of providers performing those processes. In addition where plan level reporting is required, multiple recordkeepers information must be consolidated before reporting at the plan level.

Howard went on to discuss the primary sources of revenue to pay for plan costs. There are two types; a per participant fee allocation and/or revenue sharing from investment funds. For example a recordkeeper might charge the plan \$28 per participant per year or \$7 per quarter as a fee allocation. Revenue sharing from investment funds is the portion of the investment management fee that the fund pays the recordkeeper. Some plans utilize one method while others may implement a combination of methods. There are different revenue sharing fees dependent on the share classes offered within the fund; some are more expensive than others. Plans with larger assets and more participants have the buying power to request share classes with lower revenue sharing fees. Whereas, plans with smaller assets and less participants typically use share classes with higher revenue sharing fees as recommended by the provider to cover administrative costs. This means the benefit to participants is a higher net return on investments when the expense ratio is lower. Howard stressed that the investment costs have a significant impact to participants.

Reviewing expense ratios of investment funds along with performance when choosing investments offered in the plans is one aspect of the Committee's fiduciary duties. The Committee is responsible for prudent monitoring of the plan in terms of investments, plan operations and management and investment and operating costs. Private sector is bound by strict ERISA standards for fiduciary responsibility. Although Government is exempt from ERISA they generally follow similar standards.

Trends in the private sector, which are governed by ERISA guidelines, show that 99% of organizations utilize single recordkeepers. In the public sector all defined contribution plans, government 457 and non profit 403(b), use the same basic structure. Government plans according to the 2006 NAGDCA (National Association of Governmental Defined Contribution Administrators) survey provides that 94% of State plans have a single recordkeeper. Most recordkeeper searches today for government plans are consolidating from many recordkeepers to one recordkeeper. The survey showed a negative impact on participation if too much choice is offered. One firm offered 24, 000 mutual funds. Representative Mutzebaugh asked for copies of the statutory language for those states that have a single recordkeeper.

In summary, Howard stated that plan sponsors should manage plans with the most cost efficient process in the best interest of the participants, not whether the providers will be happy or not. Dave Loomis noted that throughout the presentation he was hearing Howard recommending that the Committee combine record keeping activities

for the State DC 401 a Plan and the 457 Plan. He asked Howard if this was a correct statement. Howard stated yes, but the manner in which the State of Colorado DC statutes are written the plan is subject to a multiple recordkeeper environment. Although the language used as ‘bundled’ does not exist any more. Howard recommended working through the process of changing the statutes. Logically based on the research it would be beneficial to have a ‘recordkeeper’ for both plans. The economies of scale in the aggregate are a better package if both plans are together. Dave stated that if this was to take place he wanted to make sure that the actual costs were separate due to the fact that one of these plans (457) is a supplemental plan.

Representative Mutzebaugh stated that if we combine both plans for purposes of computing the fee all participants would benefit due to the fact that the larger plan [457] would have more participants and assets, yet the smaller one [State DC] participants would also reap the benefit. Howard agreed with this statement. Ben Stein asked if we bid both Plans together even though they have different objectives (i.e. supplemental and retirement) wouldn't we need to offer different menu options. Howard replied that inside the menu whether you have the same array of choice or not you still have the cost burden that would be shared. Your cost burden on average would be lower. Ben also asked, “What type of experience in a reasonable time frame has your firm completed a search going from a multiple recordkeeper to a single recordkeeper?” Has your firm done this type of a search? Have any of your clients expressed dissatisfaction? As far as Howard could recall they did not have any dissatisfied clients. They have performed single to single, and multiple to single, and one plan went from multiple to multiple for political reasons.

Ben also noted that in the examples of the economies for share class you showed the fund always charging .3% and the savings being in the revenue share to the recordkeeper. When the plan has more assets, is the savings only in the decrease to the recordkeeper's revenue sharing? Howard stated that there are two types of savings; the biggest driver is the share class differences in the revenue sharing. Aggregating assets does have an advantage for the recordkeeper but in some instances provides further advantages with the fund company.

Ben asked, What is the Committees' fiduciary obligation or responsibility to provide an analysis of options? An employee ends up defaulting to the stable value fund and potentially never changing. How much obligation to restrain someone from what is not financially prudent with his/her own money through our own array? Howard suggested providing the self directed accounts structure in the election materials with a complete acknowledgement of individual responsibility. Howard does not know if we have this in our documents but recommended that we have this in our documents.

Les Shenefelt, State Controller, asked what is the difference between

457 and 401a plan recovery of costs. In the 457 Plan we get direct recoveries, reallowances, and asset and accounting fees. In the State DC the charge is to the recordkeeper. Howard confirmed that the bottom line is the participant ultimately bears the burden of cost.

Jennifer Okes, DPA Deputy Director was asked to bring forth one concern on behalf of Executive Director Rich Gonzales. Rich has addressed the issue of “choice” with this Committee. As DPA represents the state classified work force we think choice is a primary concern and we did disagree that choice is more than just investments. Participants don’t care about the accounting processes and so forth but there is more to the providers than investments, choice includes customer service. There is a difference between financial institutions and the representatives that provide education to participants. Jennifer stated that she is not a sophisticated investor so she might go to a financial advisor to help choose investments. She can choose any number of funds that provide the proper risk spectrum but what she cares about is customer service. So when she calls vendor A and receives really great customer service and they are very helpful answering my questions, she’s happy, but vendor B might not be helpful, she can’t talk to anyone and might hang up the phone frustrated. I do think that customer service provides a valid argument for choice. Others might be more sophisticated who do care about investment choices and don’t use some portfolio allocation and so having multiple investment choices would be helpful to them. Jennifer stated that the average person, like her, cares about customer service and would want that choice.

Senator Tochtrop asked if we have three providers in statute. Heidi Dineen replied that yes we do.

**Hartford**  
**Comments**

Bill Abramowicz, provided comments on behalf of The Hartford, about the recordkeeping analysis. He was concerned that Howard classified Great-West as unbundled but not Hartford and ICMA. The distinguishing factor being that bundled providers offer their own investment products. Bill pointed out that Great-West provides the Stable Value Fund for the 457 and State DC Plan. Bill stated that all three providers offer open architecture platforms and are partially bundled, therefore Hartford and ICMA could also be called unbundled providers. Howard agreed with Bill. Howard started the presentation with the definitions of bundled, unbundled, partially bundled and open architecture since the statute refers to the State DC providers as bundled. Bill also questioned the accuracy of the 2006 NAGDCA survey and the government retirement market. Bill said that Hartford was just retained by the State of Nevada along side of ING as the two 457 providers for the next five years. Bills noted that Hartford agrees that investment fees are an integral part of any retirement plan, but there are other areas equally important such as investment performance, employee education and choice for employees. Finally, Bill commented that the State DC 401(a) Plan offers very competitive

pricing largely due to competition. It is inaccurate to compare a \$330 million plan to a \$10 million plan and suggest that the State would get better pricing if they move to a single provider for the State DC Plan. If the 457 Plan had 2 or 3 providers, like the State DC Plan, more competition would drive down cost and provide more services to the state employees.

**JeffCo School  
District  
Comments**

Lynn Acker, Jefferson County School District, addressed the Committee and discussed a letter sent to the Committee regarding their comments to the recordkeeping analysis. JeffCo recently consolidated their 403(b) providers from 55 to one provider and joined the State's 457 Plan. Lynn pointed out that the benefits of having one vendor included, "enhanced payroll processing efficiency reduced administrative burden, and consistent messaging and education". Lynn stated that JeffCo was in agreement with the outcome of the analysis.

**Semi-  
Annual  
Performance  
Review – Arnerich  
Massena**

The second part of Howard's presentation was the semi-annual performance review of the funds offered in each plan preceded by an economic overview. Howard provided a handout, referred to as the "stop light review". This is a summary of all of the funds offered among the providers listed by investment options. The stop light approach provides a quick overview of those funds with the ratings of; above expectations (green light), marginal expectations (yellow light) and below expectations (red light). The summary indicates the areas of review including performance, style/cap consistency, expense ratio below average and management team stability. The following funds were recommended to be placed on watch; ICMA Vantagepoint Large Cap Growth, Hotchkis Willey Large Cap Value I class (457 Plan-Great-West), as well as Hotchkis Wiley Large Cap Value A class (Hartford) and American Century Large Cap Value (ICMA). Howard was more inclined to recommend a search rather than a watch status for the Fidelity Small Cap Retire fund offered by ICMA. Howard also recommended a search to add a Mid-Cap Value fund to ICMA fund line-up and add a Large Cap Value to both ICMA and Hartford's line-up. Howard stated that he will provide an interim letter for the on-watch funds.

**Les Shenefelt made a motion to approve all of Howard's fund recommendations. Representative Mutzebaugh seconded the motion. The motion passed unanimously.**

**Les Shenefelt made the motion to search for funds in the missing categories per Howard's recommendation. Ben Stein seconded the motion. The motion passed unanimously.**

**Adjourn**

**Dave Loomis motioned to adjourn.  
Representative Mutzebaugh seconded the motion.  
The motion carried unanimously.**