UNIVERSITY STUDENT UNION
CALIFORNIA STATE UNIVERSITY, NORTHRIDGE
RETIREMENT PLAN COMMITTEE
SEPTEMBER 22, 2017
MINUTES

I. Call to Order
Michael Odinlo called the meeting to order at 2:35 p.m.

II. Roll Call

Present	Absent	Guests
Debra Hammond, Executive Director (voting)	Iris Ramirez, Board Chair (non-voting)	Dennis DeYoung, Certified Financial Planner
Joe Illuminate, Associate Director, Accounting & Finance (voting)	Shelly Ruelas-Bischoff, Associate Vice President of Student Life Student Affairs (voting)	
Jonathan Navarro, Executive Secretary (non-voting)		
Michael Odinlo, Committee Chair (voting)		
Kristen Pichler, Human Resources Officer (voting)		
Avi Stewart, Student Board Representative (voting)		

III. Approval of Agenda
M/S/P (J. Illuminate /K. Pichler) motion to approve the agenda for September 22, 2017.

Motion approved by general consensus.

IV. Approval of Minutes
M/S/P (D. Hammond/ J. Illuminate) motion to approve the minutes for June 13, 2017.

Motion approved by general consensus.

V. Chair's Report
Chair, Michael Odinlo expressed his excitement about working with the committee this year.

VI. Discussion Items

A. Retirement Plan Committee Orientation
Chair, Michael Odinlo, presented the fall 2017 orientation whose purpose is to explain the fundamentals of the Retirement Plan Committee. His presentation included the following topics:

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1. Purpose of the Committee
2. Responsibilities of the committee and individual committee members (Committee Code)
3. The structure of the committee (voting and non-voting members)
4. Fiduciary responsibilities of Committee members
    a. The concept of being a fiduciary,
    b. Fiduciary legal liability,
    c. Limiting fiduciary legal liability
5. USU Retirement Plan partners who share are co-fiduciaries with the committee.

B. <u>Second Quarter 2017 Retirement Plan Review</u>

Financial advisor, Dennis DeYoung, presented the Second Quarter 2017 Retirement Plan Review reporting the plans' cash balances, asset allocations, and the FI360 Fiduciary Score Breakdown report as of June 30, 2017.

The following table summarizes the cash balances and asset allocations of the 403(b) and pension plans:

	403(b) Plan	**Pension Plan**
Cash Balance*	$2,435,382	$1,950,320
Asset Allocation – Stocks	69.7%	69.0%
Asset Allocation – Bonds**	30.3%	31.0%

**"The Cash Balance" for the 403(b) plan includes $104,581 in loans to participants.*
***"The Asset Allocation – Bonds" category includes the Stable Asset Fund.*

D. DeYoung noted that The U.S. stock market continued to perform strongly in the second quarter. Large US companies, measured by the S&P 500 index, increased 1.64% in the second quarter of 2017 and 8.25% year-to-date. This increase has been driven by positive economic and company earnings data. Small U.S. companies, measured by the Russell 2000 index, increased 1.05% during the second quarter of 2017 and 4.2% year-to-date. Equity markets continued their 2017 ascent through the end of May.

DeYoung then discussed the FI360 Fiduciary Score Breakdown report that rates all the investment options in the two retirement plans. The FI360 report uses a color scoring methodology to determine if the investments are meeting the eleven FI360 Fiduciary Score criteria. Funds with scores from zero to 50 are green; funds with scores from 51-74 are yellow; and funds with scores from 75 to 100 are red. The highest score a fund can receive is zero and the lowest score is 100.

As of June 30, 2017, all funds are in the green zone with the exception of the Vanguard Information Technology Idx Adm that is in the yellow zone with score of 68. However, the score has ranged from 28 to 41 for the last one to ten years.

C. <u>Retirement Health Benefits Plan (RHBP) Update</u>

Joe Illuminate explained that the USU's current RHBP was created in 2007.
An employee must be at least 60 years of age and have 20 years of continuous service to be eligible for the plan. This plan was designed as a reimbursement plan because Anthem Blue Cross, the

health insurance provider at the time, would not allow USU retirees to be on the same health plan with active employees. The USU currently has only one retiree in the RHBP.

With a reimbursement plan, the retiree is allotted a certain dollar amount per month to use for allowable health-related expenses per the USU's RHBP Policy. The retiree submits receipts to Foy & Associates, the USU's benefits broker, for reimbursement. The broker reviews the receipts for compliance with the RHBP policy and then reimburses the retiree for valid health-related expenses.

Very few CSU auxiliaries have reimbursement type plans like the USU's plan. Most auxiliaries have a non-reimbursement RHBP. A non-reimbursement RHBP allows both retirees and active employees to be part of the same medical and dental plan. The auxiliary pays the medical and dental premiums directly to health insurance providers.

The retiree stays on the same plan as active employees until they are Medicare eligible. Once the retiree is eligible for Medicare, Medicare then becomes the retiree's primary health insurance. Typically, the auxiliary would purchase a supplementary medical and dental insurance policy for the retiree. Reduced significantly is the cost of postretirement healthcare once the retiree transitions into Medicare because the auxiliary is no longer paying the full cost of insurance premiums.

With a non-reimbursement plan, the USU is eligible to join the Voluntary Employees Benefit Association (VEBA) sponsored by the Auxiliary Organizations Association (AOA). The VEBA provides auxiliaries lie the USU a vehicle to prefund their RHBP so that investment earnings are used to offset postretirement expenses. The USU is has four RHBP options to consider:

1. Maintain the current retiree reimbursement RHBP.
2. Join the RHBP sponsored by Cigna and join the AOA VEBA.
3. Join the RHBP sponsored by CalPERS and join the AOA VEBA.
4. Join the RHBP sponsored by AOA and join the AOA VEBA. The California State University Risk Management Authority (CSURMA) administers this RHBP in conjunction with its partner Alliant Insurance Services.

Option 1
The current plan is best at controlling long-term postretirement costs, but is not retiree-friendly. The retirees are responsible for submitting receipts for reimbursement. The current maximum annual reimbursement per individual is only $9,000 exposing retirees to significant out of pocket costs.

Option 2
Cigna is the USU's current medical and dental insurance provider. Cigna will allow retirees and active employees to be on the same medical and dental plan. The disadvantage of Option 2 is that there is no guarantee that a successor health care provider will allow retirees and active employees to remain on the same plan.

Option 3
The advantage of CalPERS is that it is the largest retirement plan administrator in the world and offers a variety of health plans. The disadvantage to CalPERS is controlling costs. The CalPERS service eligibility requirement is five years. The USU's service eligibility requirement is 20 years. With a lower service requirement, more employees would be eligible for the plan increasing postretirement costs.

Option 4
This option appears to be the most viable for the following reasons:

1. The USU eligibility requirements (60 years of age and 20 years of service) do not require change with this option.
2. Both retiree and active employees remain on the same health plans.
3. The plan is retiree-friendly because the USU pays health and dental premiums directly to the health insurance providers eliminating the necessity of submitting receipts for reimbursement. Significantly reduced are the retiree out of pocket expenses when compared to the current RHBP.
4. CSURMA and Alliant Insurance Services are respected insurance administrators. Together they are to current general insurance providers to AOA members.
5. Projected costs for this plan are estimated to be lower than cost for Option 3 because the USU's eligibility requirements (60 years of age and 20 years of service) would be maintained.

Next Steps
The USU has hired Brian Demsey of Demsey, Filliger, & Associates to prepare cost scenarios for the various RHBP options. The goal would be for the committee and Board to approve the recommended option by calendar year end in order to go into effect by May 01, 2018, the annual benefits renewal date. If Option 4 were selected, the plan would go into effect on 5/01/18. The subsequent renewal would begin again on January 01, 2019. The AOA's plan benefit cycle is based on the calendar year e.g. January to December.

It may be necessary for the committee to meet more than once during the fourth quarter of the calendar year in order to have the plan approved by December 31, 2017.

VII. Action Items

A. 2017-18 Retirement Plan Committee Goals
M/S/P (D. Hammond /K. Pichler) Motion to accept the 2017-18 Retirement Plan Committee goals as presented:

No.	GOALS
1	Convert the USU's Retirement Health Benefits Plan (RHBP) from an employee reimbursement plan to a plan where the USU would pay medical and dental health premiums directly to the health insurance company on behalf of retirees and their eligible partners. **(April 2018)**
2	Revise the USU's Retirement Health Benefits Policy to include the changes in the RHBP described in Goal 1 (**April 2018**)
3	Join the CSU Auxiliary Voluntary Employee Beneficiary Association (VEBA) **(April 2018)**

The goals are a carryover from fiscal year 2016-17. The completion of Goals 2 and 3 are dependent on completion of Goal 1.

Motion passes 3-0-0

B. Retirement Plan Fund Changes

M/S/P (K. Pichler/J. Illuminate) Motion to approve the addition of the Wells Fargo Special Mid-Cap Value Fund and the deletion of the John Hancock Disciplined Value Mid-Cap fund from the investment line up of the 403(b) and pension plans.

Dennis Deyoung explained that a **Mid-Cap Value Fund** is a stock fund that invests in the stock of undervalued companies. Companies in the Mid-Cap category generally range in capitalization from $2 billion to $10 billion. He also explained that a **Blended Fund or Hybrid Fund** is a stock fund that contains the stock of both value and growth companies

The nature of the John Hancock fund has changed from a mid-cap value fund to mid-cap blended or hybrid fund due to “style drift”. Style drift occurs when fund portfolio managers change their investment strategy to increase investment returns.

The portfolio managers of the John Hancock fund decided to purchase the stocks of **growth** companies where previously they only invested in the stock of value companies. This is significant because The Standard, the USU’s retirement plan provider, requires that a mid-cap **value** fund be included as a fund choice in their automatic asset allocation models available for plan participants to select.

An Asset Allocation Model is an investment strategy that aims to balance risk and reward by apportioning a portfolio's assets according to our retirement plan participant’s goals, risk tolerance and investment horizon. The Standard makes the investment decisions on behalf of the plan participant when an asset allocation model is selected.

Since the Wells Fargo fund no longer meets the definition of a mid-cap value fund, a replacement mid-cap value fund is needed for the asset allocation model. The recommended replacement fund is the Wells Fargo Special Mid-Cap Value Fund. The Wells Fargo fund is very similar to the John Hancock fund in regards to Average Annual Performance, Ratings, and Expense Ratio. Please reference the table below.

	Average Annual Performance			Fund Data		
	1 yr	5 yr	10 yr	Morningstar Rating (10 Yr)	Expense Ratio	Beta (10 Yr)
John Hancock Disciplined Value Mid Cap	11.0%	8.8%	10.6%	★★★★★	0.86%	1.09
Wells Fargo Specialty Mid Cap Value	11.1%	15.9%	9.2%	★★★★★	0.87%	1.01

Approximately $200,000 currently in the Hancock fund will be transferred to the Wells Fargo fund in both the 403(b) and pension plans upon approval of the motion.

Motion passes 3-0-0

VIII. Announcements

None

IX. Adjournment

The meeting was adjourned by Chair, Michael Odinlo, at 3:34 p.m.

Respectfully submitted by,

Jonathan Navarro
Accounting Manager