



Agenda Item No. (8)

To: Finance-Auditing Committee/Committee of the Whole
Meeting of June 24, 2021

From: Alice Ng, Director of Fiscal Resources
Joseph M. Wire, Auditor-Controller
Denis J. Mulligan, General Manager

Subject: **ANNUAL REVIEW OF DISTRICT'S 457(b) DEFERRED
COMPENSATION AND 401(a) DEFINED CONTRIBUTION PROGRAMS**

Recommendation

This report is provided for informational purposes only and does not require any action.

Summary

This is the annual staff report to the Board regarding the Golden Gate Bridge, Highway and Transportation District's (District) 457(b) Deferred Compensation Plan and 401(a) Defined Contribution Plan (collectively as "the Plans"), both administered by ICMA-RC ("ICMA"). The purpose of this report is to review and report on the Plans' funds and service provider's performance and to summarize amendments and/or changes made to the administration of the Plans and Policy Statement for the 2020 calendar year.

On March 23, 2021 and May 18, 2021, District staff, led by NFP Retirement, Inc. ("NFP"), the District's deferred compensation and defined contribution consultant, conducted an annual review of the Plans' investment fund performance and ICMA, as the Plans' service provider, and found both to be satisfactory.

Below is a summary of the amendments and/or changes to the administration of the Plans as well as selected fund statistics and information regarding Plans' asset allocation, Plans' fund performance, watch list, and Plans' fees and charges.

Amendments and/or Changes to the Administration of the Plans

In April 2020, as offered by the CARES Act, the District opted in for the option available by ICMA to provide relief for "qualified" participants by permitting certain coronavirus-related distributions, which permits qualified employees to withdraw up to \$100,000 across both Plans as well as waiving the limit of two in-service withdrawals for the 401(a) plan. During 2020, there were 102 CARES Act-related distributions totaling \$1.5 million.

In March 2021, ICMA announced that it will be rebranding its name to “MissionSquare Retirement”. With the change, MissionSquare Retirement will remain the same non-stock, non-profit, mission-based company focused on delivering results-oriented retirement plans, education, investments, and advice. There will be no changes to service or action steps required by the District as a result of the brand name. ICMA will update the District and participants as appropriate with communications as it transitions to MissionSquare Retirement over the next 18 months.

Investment Policy Review

The Investment Policy Statement establishes the framework for investment asset class options, fund selection, and fund performance evaluation. The current Investment Policy is applicable to both the District’s 457(b) and 401(a) plans as they both have the same investment line up. As of December 31, 2020, the Plans were in full compliance with the Investment Policy Statement.

457(b) Plan

<u>457(b) Fund Statistics</u>		
	2020	2019
Plan Assets at December 31:	\$ 110,166,453	\$ 97,669,277
Plan Participants:	974	947
Active Plan Participants:	597	619
Average balance/participant	\$ 113,107	\$ 103,135
Contributions	\$ 5,024,149	\$ 4,980,301
Average contribution/participant	\$ 8,416	\$ 8,046
Rollouts/Lump Sum	\$ 542,833	\$ 1,642,043
# of Rollouts	5	14
Distributions	\$ 4,080,592	\$ 2,341,042
# of Distributions	783	735

Total assets in the 457(b) Plan were \$110.2 million as of December 31, 2020, an increase of \$12.5 million (or 13%) from \$97.7 million as of December 31, 2019. Total 457(b) Plan participants (current employees and retirees) increased to 974 at December 31, 2020, from 947 as the number of active Plan participants decreased to 597 from 619 during the same period. Contributions in 2020 were flat as compared to 2019, at just over \$5 million, and the average contribution per active participant increased to \$8,416 (from \$8,046 in 2019). The average account balance increased to \$113,107 at December 31, 2020, from \$103,135 at December 31, 2019.

Rollouts decreased from \$1.7 million last year to \$542,833 in 2020, while distributions increased from \$2.3 million to \$4.1 million. The \$4.1 million in distributions in 2020 include \$1.5 million CARES Act-related distributions.

During 2020, despite COVID-19, ICMA Retirement Plan Specialist, Kim Hammond, and ICMA’s Financial Planning Manager, Bill Eagan, continued to meet with participants (current employees

and retirees) through virtual appointments, resulting in 229 one-on-one consultations during the year. As part of ongoing education and communication with District employees, ICMA conducted various seminars and webinars covering a variety of topics of interest to retirees and near retirees.

401(a) Plan

<u>401(a) Fund Statistics</u>		
	2020	2019
Plan Assets at December 31:	\$ 705,658	\$ 534,157
Plan Participants:	27	22
Active Plan Participants:	21	18
Employer Contributions	\$ 45,792	\$ 38,535
Employee Contributions	\$ 35,792	\$ 28,535
Total Contributions	\$ 81,584	\$ 67,070

The assets in the 401(a) Plan are administered by ICMA in the same manner as the 457(b) Plan. Both Plans also share the same investment line up. The total assets in the 401(a) Plan were \$705,658 as of December 31, 2020, an increase of \$171,501 (or 32%) from \$534,157 as of December 31, 2019.

There are three employee eligibility groups in the 401(a) Plan:

- (1) **“SERP” Group** – In December 2012, the Board authorized the adoption of the ICMA 401(a) Defined Contribution Plan and the termination of the District’s defined benefit Supplemental Retirement Plan (“SERP”). SERP assets of the four participants were then rolled into newly established participants’ accounts in the 401(a) Plan. As of December 31, 2020, there are two active participants in the SERP eligibility group. In accordance with the SERP Group’s participants’ employee contracts, the District contributed \$10,000 (for two active participants) in 2020 and 2019. Employees in the SERP Group may not voluntarily contribute into the 401(a) Plan.
- (2) **“PEPRA” Group** – With Board approval in 2015, this eligibility group was established for non-represented employees who are considered “new members” (hired on or after January 1, 2013, without reciprocity) under the California Public Employees’ Pension Act of 2013 (“PEPRA”), who are in the District’s sponsored CalPERS 2% @ 62 Plan. The District’s employer contributions for the PEPRA eligibility group is a 100% employee match. Once the eligibility requirement is fulfilled, the PEPRA employee is required to contribute the CalPERS’ 2% @ 62 Plan’s employee contribution rate (stipulated by CalPERS as 50% of normal cost, which increased to 7% in 2019) on his/her PERSable wages that exceed the wage limit set by PEPRA for the applicable calendar year (i.e., \$124,180 for 2019; \$126,291 for 2020). In 2020, there were 16 employees (compared to 10 in 2019) who earned wages that exceeded the wage limit set by PEPRA. Total employee contributions for the PEPRA Group from these 16 employees totaled \$27,394 in 2020 (compared to \$20,638, in 2019), that the District matched 100%. Note that the PEPRA wage limit has increased to \$128,059 for 2021.

- (3) **“2% @ 60” Group** – In August 2016, the Board authorized adding a new eligibility group for non-represented Classic 2% @ 60 employees to supplement the difference in pension benefits between the two classic CalPERS plans (2% @ 60 vs. 2.5% @ 55). A 2% @ 60 employee contributes the difference between the CalPERS’ 2.5% @ 55 Plan’s employee contribution rate (currently at 8% as stipulated by CalPERS) on his/her PERSable wages, and the CalPERS’ 2% @ 60 Plan’s employee contribution rate (currently at 7% as stipulated by CalPERS). The District matches the 2% @ 60 employee's contribution. Six employees in 2020 and 2019, were eligible for this eligibility group. Total employee contributions for the 2% @ 60 Group totaled \$8,398 in 2020 (compared to \$7,897 in 2019), of which the District matched 100%.

Plan Asset Allocation

Asset allocation of the combined assets of both Plans at December 31, 2020, and 2019, is summarized in the table below. The largest two asset allocations at December 31, 2020, remain in U.S. Stock Funds at \$48.1 million (43.4%) of assets and in stable value/fixed interest income at \$28.8 million (26%) of assets.

	At December 31, 2020		At December 31, 2019	
	COMBINED PLANS		COMBINED PLANS	
	Plan	%	Plan	%
	Assets	of Assets	Assets	of Assets
Stable Value/Money Market Funds/CDs	\$ 28,827,955	26.0%	\$ 25,239,385	25.7%
Bond Funds	\$ 6,393,768	5.8%	\$ 5,581,856	5.7%
Balanced/Asset Allocation Funds	\$ 15,189,112	13.7%	\$ 14,145,753	14.4%
U.S. Stock Funds	\$ 48,146,393	43.4%	\$ 44,468,101	45.3%
International Stock Funds	\$ 11,881,307	10.7%	\$ 8,601,870	8.8%
Self Directed Brokerage	\$ 433,575	0.4%	\$ 166,469	0.2%
Total	\$ 110,872,110	100.0%	\$ 98,203,434	100.0%

Plan Fund Performance

The individual fund performance for all the funds in the Plans is detailed in Exhibit A. Results utilizing NFP’s Scorecard Methodology, as per the Plans’ Investment Policy, showed many funds received good and acceptable scores (7-10). Two funds with scores of 5-6 in the first two quarters of 2020 are on the Watch List and are discussed in the section below. All other funds not on the Watch List were reviewed and met qualitative reviews and/or scoring acceptable to good.

Watch List and Lineup Changes

The Watch List (Exhibit B) contains funds that did not meet the criteria standards as outlined in the Investment Policy, such as scoring 6 or below in the Scorecard Point System. Although the two funds on the Watch List both have scores of acceptable scores (8-9) in quarters three and four of 2020, their scores of 5-6 in the first two quarters of 2020 results in them to be “procedurally” reported on the Watch List.

The District Investment Policy sets forth that the glide path associated with a set of Target Date Funds (TDFs) should be reviewed to make sure it is appropriate and continues to be appropriate, for the Plans and the Plans' participants. Based on the pension and social security benefits available to the District's participants, staff concluded that an aggressive glide path continues to be appropriate for the Plans and the Plans' participants. Under NFP's guidance, staff reviewed incumbent Vanguard TDF series with other TDF options with similar risk glide paths. After comparing the criteria of fees, tracking, and performance, TIAA-CREF Lifecycle Index Institutional was selected to replace the Vanguard series. Though TIAA's tracking was slightly higher than the 3 options, its fees were the lowest and its performance was at par with the other options. Staff also appreciated TIAA-CREF long history in the market place.

Staff will work with ICMA to target the transfer of the TDF assets in mid-July. In June, ICMA will provide notification of the change to all participants.

Fees and charges

The Plans' expenses (both fund fees and Plan administration expenses) are paid by the participants. The District pays no fees to ICMA. The Participants continue to enjoy high performing funds with the lowest-cost share classes or indexes available to the Plans, as well as 2019's renegotiated reduction in plan administrative fee by 54% from 14.75 basis points (0.1475%) to 6.75 basis points (0.0675%). The total dollar weighted net expense ratio was approximately 28 basis points (0.28%) in 2020 (estimated at \$274,095), compared to 25 basis points (0.25%) in 2019 (estimated at \$249,732).

In accordance with the District's renegotiated agreement with ICMA, effective July 1, 2019, Plan administration fees were reduced from 14.75 basis points (.1475%) to 6.75 basis points (0.0675%) of managed assets and were approximately \$66,519 in 2020 and \$100,662 in 2019. The 0.0675% administration fees are comprised of 0.04% (4 basis points) paid to ICMA to administer the program and 0.0275% which ICMA collects on behalf of the District as an annual allowance for the District to pay for certain administrative and education costs to monitor the Plan. The District uses these funds to pay for the NFP consulting contract (annual investment review and Plan Provider RFP/renegotiation process), legal fees, and other education courses (i.e., NAGDCA) for District staff relating to the Plans. The District received \$27,100 as its annual administrative allowance for 2020, and \$27,018 for 2019. Staff periodically reviews the accumulated balance in the administrative allowance account and if expenses are lower than what is needed, the District rebates the amount not needed back to its participants. For instance when the accumulated balance in the administrative allowance account was \$76,582, \$50,000 was rebated back to the participants during the second quarter in 2019. At May 20, 2021, the administrative allowance account is \$42,251.

Fiscal Impact

There is no fiscal impact associated with this informational report.

Attachment: Exhibit A: Fund Performance
Exhibit B: Watch List and Lineup Changes

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Returns Analysis

Performance as of 12/31/2020

Asset Allocation	Ticker/ ID	QTR	YTD	Annualized Returns				Since Incept.	Share Class Inception	Strategy Inception	Expense Ratio		
				1 Year	3 Year	5 Year	10 Year				Gross	Net	
Asset Allocation													
Conservative													
Vanguard Target Retirement Income Inv	VTINX	5.15	10.02	10.02	6.86	6.86	5.88	5.64	10/27/2003	10/27/2003	0.12	0.12	
StyleBenchmark		5.09	10.50	10.50	7.11	7.01	5.81	-	-	-	-	-	
Moderate Conservative													
Vanguard Target Retirement 2015 Inv	VTXVX	5.72	10.32	10.32	7.11	7.78	7.04	6.49	10/27/2003	10/27/2003	0.13	0.13	
StyleBenchmark		7.22	11.36	11.36	7.53	7.93	6.40	-	-	-	-	-	
Moderate													
Vanguard Target Retirement 2025 Inv	VTTVX	9.33	13.30	13.30	8.73	9.88	8.54	7.33	10/27/2003	10/27/2003	0.13	0.13	
StyleBenchmark		10.19	14.15	14.15	9.22	10.11	8.24	-	-	-	-	-	
Moderate Aggressive													
Vanguard Target Retirement 2035 Inv	VTTHX	11.62	14.79	14.79	9.50	11.11	9.51	8.03	10/27/2003	10/27/2003	0.14	0.14	
StyleBenchmark		12.43	15.48	15.48	10.01	11.40	9.24	-	-	-	-	-	
Aggressive													
Vanguard Target Retirement 2045 Inv	VTIVX	13.90	16.30	16.30	10.20	12.09	10.09	8.56	10/27/2003	10/27/2003	0.15	0.15	
StyleBenchmark		13.85	16.66	16.66	10.77	12.42	10.13	-	-	-	-	-	
Vanguard Target Retirement 2055 Inv	VFFVX	13.97	16.32	16.32	10.22	12.09	10.10	11.21	8/18/2010	8/18/2010	0.15	0.15	
StyleBenchmark		13.84	16.65	16.65	10.76	12.41	10.13	-	-	-	-	-	

Returns Analysis

Performance as of 12/31/2020

Active	Ticker/ ID	QTR	YTD	Annualized Returns				Since Incept.	Share Class Inception	Strategy Inception	Expense Ratio	
				1 Year	3 Year	5 Year	10 Year				Gross	Net
U.S. Equity												
Large Cap Value												
Large Cap Value I1 (Putnam Equity Income R6)	97183K381	15.29	6.37	6.37	8.59	11.71	11.85	10.31	-	6/30/1977	0.29	0.29
Russell 1000 Value Index		16.25	2.80	2.80	6.07	9.74	10.50	-	-	-	-	-
Large Cap Blend												
Vanguard Dividend Growth Inv	VDIGX	8.98	12.06	12.06	13.70	13.53	13.15	9.08	5/15/1992	5/15/1992	0.27	0.27
Russell 1000 Index		13.69	20.96	20.96	14.82	15.60	14.01	-	-	-	-	-
Large Cap Growth												
Large Cap Growth I1 (ClearBridge LCG)	97182V248	9.01	31.43	31.43	20.33	18.59	16.88	10.43	-	8/1/1995	0.29	0.29
Russell 1000 Growth Index		11.39	38.49	38.49	22.99	21.00	17.21	-	-	-	-	-
Small Cap Value												
Small Cap Value I1 (BMO Disciplined SCV)	97181N296	29.94	1.65	1.65	1.53	8.54	10.80	11.89	-	7/1/2010	0.40	0.40
Russell 2000 Value Index		33.36	4.63	4.63	3.72	9.65	8.66	-	-	-	-	-
Small Cap Blend												
JPMorgan Small Cap Equity R5	JSERX	25.75	18.73	18.73	11.68	14.57	13.30	11.28	5/15/2006	12/20/1994	0.85	0.80
Russell 2000 Index		31.37	19.96	19.96	10.25	13.26	11.20	-	-	-	-	-
International/Global Equity												
Global Equity												
American Funds Capital World Gr&Inc R6	RWIGX	14.61	15.78	15.78	9.44	11.86	9.56	11.65	5/1/2009	3/26/1993	0.42	0.42
MSCI ACWI NR		14.68	16.25	16.25	10.06	12.26	9.13	-	-	-	-	-

Returns Analysis

Performance as of 12/31/2020

Active	Ticker/ ID	QTR	YTD	Annualized Returns				Since Incept.	Share Class Inception	Strategy Inception	Expense Ratio		
				1 Year	3 Year	5 Year	10 Year				Gross	Net	
Fixed Income													
Core Fixed Income													
Core Bond I1 (Lord Abbett TR Composite) 🇺🇸	97183J566	1.88	7.67	7.67	5.25	4.90	4.59	5.71	-	1/1/1999	0.21	0.21	
BB Aggregate Bond		0.67	7.51	7.51	5.34	4.44	3.84	-	-	-	-	-	
U.S. Government TIPS													
PIMCO Real Return Instl 🇺🇸	PRRIX	2.04	12.09	12.09	6.04	5.41	3.79	5.92	1/29/1997	1/29/1997	0.53	0.53	
BB TIPS		1.62	10.99	10.99	5.92	5.08	3.81	-	-	-	-	-	
Cash Alternatives													
Stable Value													
Vantagepoint PLUS Fund Class R10	92208J709	0.52	2.22	2.22	2.32	2.21	2.10	2.17	1/2/1991	8/10/2016	0.53	0.53	
No Benchmark Data		-	-	-	-	-	-	-	-	-	-	-	
Money Market													
VT 5 Year BoA CD Account		-	-	-	-	-	-	-	-	-	-	-	
Fidelity Government MMkt	SPAXX	0.00	0.26	0.26	1.19	0.82	0.42	2.67	2/5/1990	2/5/1990	0.42	0.42	
No Benchmark Data		-	-	-	-	-	-	-	-	-	-	-	
Specialty													
Specialty													
VantageBroker (NNM)		-	-	-	-	-	-	-	-	-	-	-	
No Benchmark Data		-	-	-	-	-	-	-	-	-	-	-	

Returns Analysis

Performance as of 12/31/2020

Passive	Ticker/ ID	QTR	YTD	Annualized Returns				Since Incept.	Share Class Inception	Strategy Inception	Expense Ratio	
				1 Year	3 Year	5 Year	10 Year				Gross	Net
U.S. Equity												
Large Cap Blend												
Vanguard Institutional Index I	VINIX	12.15	18.39	18.39	14.15	15.19	13.86	10.34	7/31/1990	7/31/1990	0.04	0.04
Vanguard Total Stock Mkt Idx Adm	VTSAX	14.69	20.99	20.99	14.49	15.42	13.78	7.82	11/13/2000	4/27/1992	0.04	0.04
Russell 1000 Index		13.69	20.96	20.96	14.82	15.60	14.01	-	-	-	-	-
Mid Cap Blend												
Vanguard Mid Cap Index Admiral	VIMAX	18.02	18.24	18.24	12.04	13.28	12.40	10.53	11/12/2001	5/21/1998	0.05	0.05
Russell Mid-Cap Index		19.91	17.10	17.10	11.61	13.40	12.41	-	-	-	-	-
Small Cap Blend												
Vanguard Small Cap Index Adm	VSMAX	27.10	19.11	19.11	11.22	13.60	12.01	9.68	11/13/2000	10/3/1960	0.05	0.05
Russell 2000 Index		31.37	19.96	19.96	10.25	13.26	11.20	-	-	-	-	-
SMid Cap Blend												
Vanguard Extended Market Index Admiral	VEXAX	27.43	32.21	32.21	15.34	16.05	13.22	9.30	11/13/2000	12/21/1987	0.06	0.06
Russell 2500 Index		27.41	19.99	19.99	11.33	13.64	11.97	-	-	-	-	-
International/Global Equity												
International Large Cap Blend												
Vanguard Developed Markets Index Admiral	VTMGX	16.93	10.26	10.26	4.81	8.31	5.92	4.60	8/17/1999	8/17/1999	0.07	0.07
MSCI EAFE ND USD		16.05	7.82	7.82	4.28	7.45	5.51	-	-	-	-	-
Fixed Income												
Core Fixed Income												
Vanguard Total Bond Market Index Adm	VBTLX	0.67	7.72	7.72	5.39	4.46	3.80	4.39	11/12/2001	12/11/1986	0.05	0.05
BB Aggregate Bond		0.67	7.51	7.51	5.34	4.44	3.84	-	-	-	-	-

Disclosure

Performance data quoted represents past performance and does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted.

The performance data quoted may not reflect the deduction of additional fees, if applicable. Additional fees would reduce the performance quoted.

Performance data is subject to change without prior notice. Expenses shown reflect the fund's prospectus Net and Gross expense ratios.


Some funds, accounts, or share classes may not be available for investment. Performance history prior to inception (if applicable) reflects another share class or account reflecting the manager's historical performance record.


Fund Inception Date - the date on which a fund commenced operations.

Share Class Inception Date - the date on which a fund's share class was introduced.



Contact NFP with any questions about this report or for the most current month-end performance at (800) 959-0071.

Considerations

Watchlist															
Active	Asset Class	Ticker/ ID	Style			Risk/Return			Peer Group		Qual	Score			
			Style	Style Drift	R ²	Risk/ Return	Up/ Down	Info Ratio	Return Rank	Info Ratio Rank	2pt Max	Q4 2020	Q3 2020	Q2 2020	Q1 2020
Core Bond I1 (Lord Abbott TR Composite) 	CFI	97183J566	1	1	0	1	1	1	1	1	2	9	8	6	6
			-16.1/ 34.2	12.0	70.5	3.7/ 4.9	109.4/ 106.8	0.23	40.0	38.0		CFI	CFI	CFI	CFI

Watchlist															
Active	Asset Class	Ticker/ ID	Style			Risk/Return			Peer Group		Qual	Score			
			Style	Style Drift	R ²	Risk/ Return	Up/ Down	Info Ratio	Return Rank	Info Ratio Rank	2pt Max	Q4 2020	Q3 2020	Q2 2020	Q1 2020
PIMCO Real Return Instl 	UGT	PRRIX	1	1	1	1	1	1	1	1	1	9	9	5	5
			-84.1/ 84.1	1.9	93.9	3.8/ 5.4	102.7/ 96.2	0.35	8.0	8.0	T	UGT	UGT	UGT	UGT

Summary of Considerations

Watchlist	Asset Class	Fund	Score
	CFI	Core Bond I1 (Lord Abbett TR Composite)	9
	UGT	PIMCO Real Return Instl	9

Considerations:  Add  Delete  Watchlist