COUNTY OF SAN MATEO
HUMAN RESOURCES DEPARTMENT

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SAN MATEO COUNTY DEFERRED COMPENSATION COMMITTEE AGENDA – NOVEMBER 2, 2017 (9:00 AM– 12:00 PM) 455 COUNTY CENTER, 4th Floor- Room 405)

Committee Members	Appointed As…
Donna Vaillancourt	Human Resources Director
Joe Demee	Tax Collector-Treasurer
Bridget Love	Non-Management Appointee
Andy Armando	Non-Management Appointee
Steve Perry	Non-Management Appointee
David Whisman	Non-Management Appointee
Lillibeth Dames	Management Appointee
Michael Wentworth	Management Appointee
Vacancy	Management Appointee

Staff	MassMutual	SST Benefits
Lisa Okada	Bob Gleason	Bill Tugaw
Marife Viola	Patrick Washington	Paul Hackleman
Jay Castellano	Jeff Blanchard (by phone)	Vince Learned
	Una Morabito, Sr. VP	
	Will Porter, Chief Info Officer	

CALL TO ORDER

1. Review and Approve Minutes of May 18, 2017 Regular Meeting
2. Review and Approve the Following Items from the August 17, 2017 Meeting (no quorum)
   - Quarterly Investment Review
   - Actions Regarding Rollovers
   - Quarterly Plan Summary
   - 2016-17 Deferred Compensation Committee Year-End Report
   - MassMutual Education Plan

ACTION/DECISION ITEMS

3. Communication to Participants in Default Investments
   - Review Analysis of Auto Enrollees Above 1% (County Staff)
   - Review and Approve General SAGIC Communication (SST)

4. Update on Rollover Information in SamCERA Packets (County Staff)

5. Provider Performance Standards / Penalties
   - Review MassMutual 2016 Performance (MassMutual)
   - Action on Failure to Meet Phone Response Standard (SST)

6. Financial Soundings Strategy (SST)
   - Discuss Capacity and Services of Financial Soundings vs MassMutual Retire Smart
   - Action on Financial Soundings, as needed

7. Review and Approve Updates to Education Policy Statement (SST)

8. Review and Approve Updates to Investment Policy Statement (SST)

9. Update and Discussion of Technology in MassMutual (MassMutual)

10. Review and Approve SST Annual Investment Review (SST)

11. Review and Discuss Quarterly Plan Review (MassMutual)

12. Review and Approve 2018 Education Plan for Participants and Committee (SST)

INFORMATIONAL ITEMS

13. Legislative Update (SST and MassMutual)

14. NAGDCA Highlights (SST, County Staff)

15. Update on Committee Vacancy—Management Appointee (County Staff)

16. 2018 Meeting Dates:
    - February 22, 2018
    - May 24, 2018
    - August 23, 2018
    - November 8, 2018

17. Other Issues

FUTURE DISCUSSION ITEMS

- Discussion and Development of a Fee Policy Statement (SST)
- Discuss Potential Changes to Target-Date Fund Glide Path (SST/NFP)
- Review and Approval of Fund Balance Policy (County Staff)
- Review and Approval of Reserve Policy (County Staff)

RECURRING QUARTERLY AGENDA ITEMS

February 2018 • MassMutual Quarterly Plan Review • MassMutual Quarterly Investment Review • Final Education Plan for Committee and Participants • Plan Document Review	**August 2018** • MassMutual Quarterly Plan Review • MassMutual Quarterly Investment Review • Committee Year-End Report • Discussion of Survey Topics • Education Policy Review
May 2018 • Mass Mutual Annual Plan Review • MassMutual Quarterly Investment Review • Plan Summary Information • Finalize NAGDCA conference attendees • Provider Performance Review • Budget / Workplan	**November 2018** • MassMutual Quarterly Plan Review • SST Annual Investment Review • Investment Policy Review • 2019 Education Plan for Participants • 2019 Education Plan for Committee • 2019 Meeting Dates • NAGDCA Highlights

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SAN MATEO COUNTY
DEFERRED COMPENSATION COMMITTEE MEETING
August 17, 2017 MINUTES

Committee Attendees	Committee Absentees
Donna Vaillancourt Joe Demee Steve Perry	Lillibeth Dames Andy Mariano Glenn Kulm Bridget Love Michael Wentworth David Whisman

Staff	MassMutual	SST Benefits
Lisa Okada Marife Viola Jay Castellano	Bob Gleason Patrick Washington Jeff Blanchard (by phone)	

The meeting was convened at 9:14.
NOTE 1: With three attendees, the Committee did not have a quorum, and the meeting proceeded for information and discussion purposes only. Agenda items requiring Committee action may have been discussed for informational purposes only; action was deferred to the November 2, 2017, meeting.
NOTE 2: Glenn Kulm retired on August 12, 2017 and will no longer serve on the Committee. Staff will work with the Chair to fill the Committee vacancy created by Glenn Kulm's retirement.

Description of Item for Discussion	Action Taken by Committee
1. Approval of May 18, 2017 Meeting Minutes	This agenda item was deferred to the November 2 meeting.
2. Update of Communication to Participants in Default Investments	Bob: As a result of recent targeted communications to two groups of plan participants—those whose default investment was the legacy General Account and those who are primarily invested in the SAGIC—Patrick Washington has had an increased number of meetings with employees and with some retirees to learn about additional investment opportunities. At the November 2 meeting… • Staff will provide any available data on how auto-enroll participants are investing above the default 1%. • SST will provide for review a draft communication to SAGIC participants.

3. Review and Approval of Quarterly Investment Review	Highlights of Jeff Blanchard's presentation • A • A • A • A • A
4. Review and Approval of Actions Regarding Rollovers	Bob: Rollover Checklist—The checklist has been reviewed and edited by SST Benefits and MassMutual and is now used in HR operations. Bob: Cover Letter—The cover letter was finalized at the August meeting and is now used in HR operations. Lisa: HR has permission to include rollover information in the SamCERA packets. For the November 2 meeting, we will confirm with SamCERA whether or not that information is already in operations.
5. Discussion and Approval of Provider Performance Standards/Penalties	This agenda item was deferred to the November 2 meeting.
6. Update on NAGDCA Award Consideration	Jay: Despite the quality nomination prepared and submitted by Caitlin Weisgerber, NAGDCA notified the County that we are not being considered for an award at this year's NAGDCA conference.
7. Review and Approval of Quarterly Plan Summary	Bob: Highlights: • Plan assets were $417 million of June 30, 2017. • Loan balances flat at $6.5 million, averaging about $8,600 per loan. • Pre-tax (versus Roth) cash flows increased year-over-year about 15% ($12 million for first two quarters in 2016, $13.8 million for first two quarters in 2017). • Participation is 6,552, up 214; 74% of active employees are now participating. • Account balances are holding steady. • Average number of investments is up slightly from 3.1 to 3.6. Bob will check if mobile device inquiries are included in the number of website visits. Acceptance of the report was deferred to the November 2 meeting.

8. Review and Approval of 2016-17 Deferred Compensation Committee Year-End Report	Jay: Highlights: • Plan assets exceeded $400 million for first time. • County plan won NAGDCA's Plan Design Award, presented at the annual conference. • 2017-18 Initiatives: - Transition default investment option from stable value to target-date funds. - Strategic communications will target minimizing plan rollouts and maximizing new enrollments of non-participants. - Migration of health reimbursement account from MassMutual to EBA in order to match the slate of investment options in the 457(b) plan. Acceptance of the report was deferred to the November 2 meeting.
9. Discussion and Approval of Financial Soundings Payment/Strategy	This agenda item was deferred to the November 2 meeting. Note: Any decision to move away from Financial Soundings in 2019 (and focus on MassMutual's RetireSmart) must be made by the May 2018 meeting, in time for Open Enrollment communications.
10. Review and Approval of Updates to Education Policy Statement	This agenda item was deferred to the November 2 meeting.
11. Review and Approval of MassMutual Education Plan	Patrick: Highlights: • Last year: 55% action ratio. • 2017 target of 1700 individual consultations; already over 1200 as of August 2017. • Expanded efforts to collaborate with SamCERA seminars and SCORPA meetings. • July campaign was on consolidation. September campaign will be on allocation. • Additional staff and seminars during Save For Retirement Week. Acceptance of the report was deferred to the November 2 meeting.
12. Demonstration of EBooks Access to Future Deferred Compensation Agendas	Marife provided the demonstration. EBooks access will be available starting with the November 2017 meeting agenda.
13. Discussion of Target Date Fund Glide Paths	This agenda item was deferred to the November 2 meeting.

INFORMATIONAL ITEMS	
14. Legislative Update	No updates beyond SST's News & Views.
15. Next Meeting: November 2	No additional information
16. Update on Transition of Retiree Health Reimbursement Account from HART to EBA	Discussed as part of the 2016-17 Year-End Report.
17. Other Issues	No additional information.

The Committee adjourned at 11:15am.

November 2, 2017

San Mateo County 457 and 401(a) Retirement Plans

Review of available participant investment guidance and advice options

The following services are currently available through MassMutual:

- Services offered through Patrick Washington, Education Specialist (available to participants and non-participants):
    - Investment Guidance
    - Retirement Projections, including Gap Analysis – TRAK Software
    - Referral to MassMutual Financial Advisor for financial planning

- Services offered through MassMutual's RetireSmart Website (available to plan participants):
    - Access to RetireSmart Ready Tool that provides:
        - Retirement Projections
            - Includes Gap Analysis
            - Ability to input outside assets
            - Ability to input Defined Benefit Income
        - Investment Guidance
        - Managed Accounts (Investment Advice)
            - Standard charge is 50 basis points
            - Accounts from $200,000 - $400,000 = 40 basis points charge
            - Accounts over $400,000 = 30 basis points charge

- No additional cost to the county for any of the above services offered by MassMutual

In addition to services offered by MassMutual, county employees may also seek retirement projections and investment advice through Financial Soundings as follows:

- Service Available to Participants and Non-Participants
- Statement mailed to employees home annually
- Provides employees with third party investment advice relative to the San Mateo County 457 plan investment options
- Includes Retirement Income Projections (includes SAMCERA and Social Security projections)

- Employees can customize information through FS Website to enhance financial projections
- No cost to the employee
- 100% funded by the County ($18,565 was cost for 2017)
  - Flat fee of $2,500 plus $9 per statement produced
  - In 2017, there were 1,785 employees who received a report
    - 1,535 were plan participants
    - 250 were non-participants

- Long-term results
  - 394 employees have been receiving FS report since 2013 (first year FS was offered)
    - 322 were participants
    - 72 were non-participants
    - Today, 37 of the 72 non-participants are enrolled in the plan
    - Average contribution rate for this group has increased from 4.9% of pay to 8.1% of pay

EDUCATION POLICY STATEMENT

FOR THE

457(b) DEFERRED COMPENSATION PLAN

SAN MATEO COUNTY

Table of Contents

INTRODUCTION

Background

The County of San Mateo ("Plan Sponsor") offers to all eligible employees a Deferred Compensation Program ("Program") through a 457(b) Plan ("Plan"). The Plan Sponsor seeks to comply with the Internal Revenue Code section 457(b) and other applicable laws and regulations.

The Plan Sponsor recognizes the vital role of education for both plan fiduciaries (Boards, Councils, Committees, plan administrators and support staff) and plan participants. The details of educational programs are divided into two parts: Part 1 covers the duties and responsibilities for **fiduciary education**. Part 2 covers the duties and responsibilities for **participant education**.

The Education Policy Statement ("Policy") is based on established ERISA and state regulatory requirements and industry best practices regarding both Plan Sponsor and Provider responsibilities for education. The Policy is intended to aid Plan Sponsors in meeting fiduciary and other responsibilities pertaining to the Plan.

Purpose

The purpose of this Education Policy Statement is to document the procedures demonstrating "care, skill, prudence and diligence" that will be used by the Plan Sponsor in the selection and monitoring of educational programs for the Plan fiduciaries in Part 1 and participants in Part 2.

The Policy intends to establish procedures for the identification, communication and evaluation of educational programs to allow participants to make informed decisions regarding their retirement planning, investments and distributions. Further, the Policy intends to establish educational programs to allow fiduciaries to fulfill their fiduciary due diligence responsibilities in managing the Plan.

PART 1: EDUCATION POLICY – DECISION-MAKERS

1.1 Intent

For plan fiduciaries and staff, it is the assertion of this Policy that the Plan Sponsor and Provider must:

- Acknowledge that it is critically important that fiduciaries make informed judgments on all matters which come before them.
- Understand the primacy of all actions for the benefit of plan participants and their beneficiaries.
- Adopt the types of objectives and procedures for plan participants as stated in Part 2 of this Policy.
- Offer regular, recurring educational programs to fiduciaries and staff that cover plan compliance, legislative and regulatory activities, fund selection and monitoring, and "best practices" in operational standards.
- Encourage fiduciaries to participate to the fullest extent possible in educational activities provided by recognized associations and institutes for defined contribution plans.
- Establish and make a commitment to ongoing funding for internal and external educational programs as appropriate for the Plan.
- Develop an annual plan of scheduled educational programs for fiduciaries and staff.
- Expressly focus attention on new fiduciaries and staff to assure they know and understand their fiduciary roles.
- Establish mutually agreeable performance standards for the delivery of education to fiduciaries and staff.

1.2 Objectives of Fiduciary Education

The goal of fiduciary education is to assure that all trustees and support staff understand their fiduciary and due diligence responsibilities in the actions they take on behalf of plan participants and their beneficiaries. The objectives of fiduciary education are to:

- Assure that new fiduciaries and staff receive comprehensive education covering all of their responsibilities.
- Especially for Investment Performance review, assure that fiduciaries and staff understand basic fund evaluation methodology, fund objectives and characteristics and appropriate benchmarks.
- Increase fiduciary awareness of national best practices in plan monitoring, especially in educational programs available to plan participants.

- Understand and help shape plan review content and frequency.
- Incorporate essential performance standards and financial guarantees into all requests for proposals and renegotiation of services by Providers.
- Supply sufficient communication of information and education.
- Wherever possible, screen and participate in the types of education programs offered to participants (e.g. education, guidance and advice services, basic Provider education programs).

1.3 Types of Educational Programs.

Below are a series of categories and types of information provided in education to fiduciaries. These categories and informational types are meant to be illustrative, not exhaustive.

- For new fiduciaries, a comprehensive review of basic plan features, documents (e.g. Plan Document, Investment Policy Statement, Education Policy Statement, By-Laws, Reserve Policy) forms, past fiduciary actions (prior year of minutes).
- Detailed review and understanding of charts / graphs used in Provider or third-party fund performance reviews.
- Detailed review and understanding of performance standards and guarantees used in Provider performance reviews.
- Familiarity with plan participant education, guidance and advice services,
- Understanding special plan responsibilities, even if the task is outsourced, covering unforeseen emergencies, catch up provisions (both 50+ and traditional), loan options, domestic relation orders and Roth options.
- Awareness of rollover options and strategies for encouraging plan participants to remain in the plan after retirement.
- Coordination of defined benefit and defined contribution assets to influence both asset allocation strategies as well as retirement objectives.
- Use of outside educational programs such as the National Association of Defined Contribution Administrators (NAGDCA), International Foundation of Employee Benefit Plans (IFEBP), International Foundation of Retirement Education (InFRE).

1.4 Process for Reviewing Education Objectives

At least annually, the Plan Sponsor will review the Education Policy Statement and identify upcoming education based on Plan Sponsor priorities. The Plan Sponsors will determine the frequency of fiduciary education with the intent of having short education modules frequently and broader, more comprehensive education at least periodically.

PART 2: EDUCATION POLICY – PLAN PARTICIPANTS

2.1 Intent

For plan participants, it is the assertion of this Policy that the Plan Sponsor and Provider must:

- Acknowledge that the purpose of education is to enable participants to make self-interested, informed decisions regarding their retirement planning and security.
- Offer regular, recurring educational programs and services to plan participants that incorporate basic plan information as well as investment guidance and advice.
- Make Certified Financial Planning services available to participants, especially those near or in retirement.
- Tailor educational content to participants in different agencies / departments or at various stages in their life / career (from early employment through retirement).
- Utilize diverse mediums and formats (face-to-face, print, electronic and internet) to maximize participant education.
- Develop an annual plan of scheduled educational programs to meet the diverse needs of plan participants.
- Communicate to plan participants, at least annually, the content and schedule of upcoming educational programs.
- Evaluate educational programs primarily based on participant satisfaction but also considering other behavioral impacts including: plan participation, contribution, diversification, rebalancing and distribution management.
- Establish mutually agreeable performance standards for the delivery of participant education.

2.2 Plan Objectives

The goal of the Program is to provide all employees with a comprehensive, prudently managed voluntary retirement savings program. The Plan objectives are the following:

- The Plan is established for the exclusive benefit of the participants and their beneficiaries.
- The Plan is a vehicle through which eligible employees and participants may accumulate assets to provide for a portion of their retirement needs.
- The Plan seeks to provide a broad range of educational programs recognizing participants' diverse demographics and their differing retirement objectives.
- The Plan will assure that investment guidance and advice programs are readily available with no or reasonable cost to plan participants. Ideally, the range of programs will allow participants to manage their own investments without

assistance, to manage their own investments with assistance or to have their investments managed entirely by a designated Provider of services to the plan.

- The Plan will regularly, at least annually, review its educational policies, educational curriculum, performance standards and procedures to assure that strong and effective strategies for plan participants are represented.

2.3 Duties and Responsibilities

The Plan Sponsor must identify individuals responsible for carrying out Plan duties. Typically, the Plan Sponsor will appoint a Deferred Compensation Committee (“Committee”), whose general duties and responsibilities for Plan participant education are as follows:

- Establish educational services offered by providers to plan participants.
- Require Provider adherence to this Education Policy.
- Develop education-specific Provider performance standards based on goals and financial guarantees that will be part of ongoing Provider evaluation.
- Review this Policy at least annually and recommend amendments to the Policy at any time to reflect changes in the procedures or to incorporate requirements based on new regulations and / or best practices.
- Approve annual educational topics, establish the schedule of on-site educational programs targeted to both current employees and retiree participants and assure that the programs are easily accessible by all plan participants.
- Identify multi-channel (i.e., electronic, one-to-one, printed, etc.) educational programs which are made available to participants.
- Provide input and approve ongoing communication / marketing of educational programs.
- Promote plan participant use of guidance and investment advice services.
- Encourage coordination of defined benefit and defined contribution information as well as other participant assets in order to achieve the most comprehensive development of asset allocation strategies.
- Establish and monitor, at least annually, the impact of educational programs on participant behavior including, but not limited to, the number of participants in the plan, total and average plan contributions, number of fund selections per participant, frequency of re-balancing by participants, and participant usage of different components of the educational program. Wherever possible, the identified information will be distinguished by gender, age and department / occupation.
- Assure that the Education Policy Statement is easily accessible by plan participants as appropriate.
- Although the Employee Retirement Income Security Act of 1974 (ERISA) does not apply to the Plan, the Committee intends to operate the Plan generally in conformance with ERISA 404(c).

2.4 Objective of Educational Programs

Each year, sufficient educational programs will be offered to cover the breadth of participant needs. The Plan Sponsor has deliberately chosen to organize individuals into targeted groups based on their next best step towards retirement success. The purpose of the education program is to help and encourage employees to save, save more and save smarter in preparation for spend-down in retirement. The five key goals are: sign-up, save, allocate, consolidate and retirement success. To ensure that the messaging resonates with the intended audience, most communications materials will segmented by age group, gender and preferred communication medium (mail/email).

All education programs have been designed to elevate participant understanding about retirement and financial goals; as well as the financial impact of inertia when planning for retirement.

2.5 Types of Educational Information

Below are a series of categories and types of information provided in an educational program. These categories and informational types are meant to be illustrative, not exhaustive. The goal is to provide each participant and non-participant with at least one of the following campaigns on an annual basis that is based upon that individual's next best step towards reaching their retirement goal.

GOAL: Sign-Up
We will encourage those not yet participating to enroll in Deferred Comp.

Deliverables:

- Communications – Segmented by age (18 – 34, 35-54, 55+) and gender (Female/Male)
  - Target eligible employees not yet enrolled in the plan via their preferred medium (Mail/Email)
- On-Site Education – invite those who are eligible, not yet participating to attend:
  - Group enrollment seminars
  - 1 on 1 consultations
- Web-Ex Education
  - Enrollment seminar
- RetireSMART webinars
  - Emails and posters to promote our online seminar series
    - Example: Budgeting Your Way to Financial Success

GOAL: Save
We will encourage those not saving enough to increase their contributions.

Deliverables:

- Communications – Segmented by age (18 – 34, 35-54, 55+) and gender (Female/Male)
  - Target anyone saving less than 12% via their preferred medium (Mail/Email)
- On-Site Education – invite individuals in this demographic to attend:
  - Group seminars focusing on saving more
  - 1 on 1 consultations
- Web-Ex Education
  - Demonstrate the RetireSMART Ready Tool

- RetireSMART webinars
    - Emails and posters to promote our online seminar series
        - Example: Save More without BIG Sacrifices

<u>GOAL: Allocate</u>

We will encourage plan participants to diversify appropriately.

Deliverables:

- Communications - Segmented by age (18 – 34, 35-54, 55+) and gender (Female/Male)
    - Target anyone with less than 4 investment options, excluding those in an asset allocation (lifecycle/lifestyle) strategy via their preferred medium (Mail/Email)
- On-Site Education
    - Group seminars focusing on asset allocation and diversification
    - 1 on 1 consultations
- Web-Ex Education
    - Website demonstration highlighting how to review asset allocation and make appropriate changes
- RetireSMART webinars
    - Emails and posters to promote our online seminar series
        - Example: Finding an Investment Strategy in Uncertain Times

<u>GOAL: Consolidate</u>

Encourage participants to consolidate retirement accounts, when appropriate.

Deliverables:

- Communications - Segmented by age (18 – 34, 35-54, 55+) and gender (Female/Male)
    - Target anyone with less than 5 years of service who hasn’t processed a roll-in from another plan via their preferred medium (Mail/Email)
- On-Site Education
    - Group seminars highlighting the potential benefits to consolidation
    - 1 on 1 consultations
- Web-Ex Education
    - Incorporate consolidation message into web-based seminars
- RetireSMART webinars
    - Emails and posters to promote our online seminar series
        - Example: Five Obstacles that Prevent Financial Success (and what you can do about them)

<u>GOAL: Retirement Success</u>

We will provide information to retirees to help them maximize their chances for retirement success.

Deliverables:

- Communications – Targeted to the retiree population
    - Provide helpful tips on topics such as diversification in retirement and making your retirement income last
- On-Site Education – specifically invite this demographic to attend:
    - 1 on 1 consultations
- Web-Ex Education
    - Demonstrate the RetireSMART Income Planner
- RetireSMART webinars
    - Emails and posters to promote our online seminar series
        - Example: Social Security and Your Retirement

2.6 Disclosure of Fees and Charges for Educational Services

Educational services requiring payment of participant fees and charges must be fully disclosed to the Plan Sponsor and fiduciaries before services are made available to plan participants.

In addition, participant fees and charges for educational services must be disclosed to all participants at enrollment and at any other time as appropriate.

2.7 Communication to Participants

Information about education programs and services will be made available to Plan participants. The Plan Sponsor will communicate at least annually announcing the schedule of educational on-site programs, the schedule of Provider representative availability for individual participant appointments, website educational material and special support programs (covering guidance and advice services, managed account options and any other financial planning services). Communication will be delivered in such format(s) to reach the widest participant audience, as determined by the Plan Sponsor.

____ ____________________

Chairperson, 457 Deferred Compensation Committee Date

County of San Mateo
Deferred Compensation Plan

Investment Policy and Procedures Statement

Approved on September 2, 2014
By the Deferred Compensation Committee

PURPOSES

This investment policy has been developed for the Deferred Compensation Plan to document: **Page**

INVESTMENT PHILOSOPHY

POLICY:

The Deferred Compensation Plan (Plan) is a long-term retirement savings vehicle and is intended as a source of retirement income for eligible Participants. The investment options available from the Plan will cover a broad range of investment risk and reward appropriate for this kind of retirement savings program. Participants bear the risk and rewards of investment returns that result from the investment options that they select. The investment options (funds) made available will be determined by the Deferred Compensation Committee (Committee) and may change from time to time.

Risk Tolerance: Participants should seek levels of risk exposure that are in line with their investment objectives and their individual tolerance for risk.

The mix of investment options appropriate for a Participant depends on the combination of a number of factors, including, among others, age, current income, length of time to retirement, tolerance for investment risk, income replacement objectives, and a Participant's other assets. To permit Participants to establish different investment strategies, the Plan may offer a variety of investment categories, all of which have varying return and volatility characteristics. It is the responsibility of each Participant to evaluate the investment options and to select an appropriate mix. A Participant should consider, among others, the following risks:

Volatility: The risk of significant decreases in account value (including the loss of principal) over relatively short periods of time.

Accumulation: The risk of not accumulating sufficient assets to retire.

Understanding: The risk of investing for the wrong reasons.

Diversification: The risk of concentrating investments and suffering large losses from a single investment category or similar categories that do not perform well.

A risk/reward structure is basic to investments. Generally, investment vehicles offering the greatest return over time also carry the highest risk or volatility of return. The inherent conflict between volatility and long range accumulation can be lessened through diversification among asset classes. To provide Participants the opportunity to select risk/reward strategies and to diversify the Deferred Compensation assets, the Plan will offer a number of investment alternatives.

INVESTMENT PHILOSOPHY (CONTINUED)

Participants can control their exposure to accumulation and volatility risks by allocating investments among these options. For example, a Participant nearing retirement with high sensitivity to volatility risk might invest more heavily in the Stable Value Fund or General Account (subject to the claims paying ability of the provider) or FDIC insured Certificate of Deposit than a Participant who has many years until retirement. Many other investment options exist. This number and these types were selected because they: (1) each offer a distinct utility to the Participants; (2) provide a spectrum of volatility and accumulation choices; and (3) can be administered, communicated and understood within practical constraints of the Plan's resources.

The Committee will provide Plan Participants with an array of suitable fund selections with an objective of reducing fund fees, expenses, and administration fees normally associated with these investments.

Although the Employee Retirement Income Security Act of 1974 (ERISA) does not apply to the Plan, the Committee intends to operate the Plan generally in conformance with ERISA 404(c). However, the Plan participants will be solely responsible for the investment decisions and investment transactions that they make under the Plan.

DESCRIPTION OF INVESTMENT OPTION CATEGORIES

Asset allocation, quality, and sector concentration guidelines will be dictated by the stated policies of the manager or prospectus of a fund.

A **Money Market Option** invests in cash equivalent securities with maturities of less than one year. The average quality of the portfolio must be A1, P1, or AAA. The objective of the fund is to protect underlying principal value and produce a reasonable level of current income. While the volatility risk of this option is the lowest, accumulation risk is the highest. A money market fund may not be necessary if the stable value options do not have restrictions on interfund transfers from the stable value fund to other funds in the portfolio.

A **Stable Value, General Account or Fixed Account Option** invests in book value investments which may include General Account annuity products, Separate Account products, Guaranteed Accumulation Accounts (GAAs), Guaranteed Investment Contracts (GICs), Bank Investment Contracts (BICs), "Synthetic" GIC arrangements and money market instruments, and may invest in intermediate term fixed income securities. Investments may either be made directly or through pooled arrangements. The objective of the fund is to provide higher income than a money market fund while still providing no fluctuation in principal value. The overall credit quality of the fixed interest / stable value option must have a rating of Excellent or higher.

A **Bond Option** invests in cash equivalents and marketable fixed income securities. The portfolio may have an average duration that is short, intermediate or long term. The average portfolio quality shall be AA or better as rated by Standard & Poor’s or may have an a comparable rating or better by other rating companies, such as Moody's or Fitch's. Sector and issue concentration guidelines will be dictated by the stated policies of the manager of the fund(s) and may include non-U.S. issuers. The investment objective is to provide longer term preservation of capital while earning a high level of current income. However, principal values may fluctuate over time, primarily in response to changes in interest rates and /or other economic conditions that may affect the capital markets.

A **Large Capitalization* (Large Cap) Option** invests in those companies that comprise the top 70% of the overall stock market capitalization. This asset class may contain **value** funds that invest in stocks of companies the investment fund manager believes the stock market undervalues and has the potential for market appreciation. This asset class may also contain **growth** funds that invest in stocks of companies the fund manager believes will grow at a faster rate than its peers or the corresponding market. This asset class may include funds that are **blended** to include both value and growth stocks. Stocks in this asset class may provide additional investment growth through the reinvestment of dividends.

DESCRIPTION OF INVESTMENT OPTION CATEGORIES (CONTINUED)

A **Medium Capitalization* (Mid Cap) Option** invests in companies that comprise the next 20% of the overall stock market. This asset class may contain **value** funds that invest in stocks of companies the investment fund manager believes the stock market undervalues and has the potential for market appreciation. This asset class may also contain **growth** funds that invest in stocks of companies the fund manager believes will grow at a faster rate than its peers or the corresponding market. This asset class may include funds that are **blended** to include both value and growth stocks. Mid-sized companies may be less able to weather economic shifts or other adverse developments than larger, more established companies.

A **Small Capitalization* (Small Cap) Option** invests in companies that comprise the remaining 10% of the overall stock market capitalization. This asset class may contain **value** funds that invest in stocks of companies the investment fund manager believes the stock market undervalues and has the potential for market appreciation. This asset class may also contain **growth** funds that invest in stocks of companies the fund manager believes will grow at a faster rate than its peers or the corresponding market. This asset class may include funds that are **blended** to include both value and growth stocks. Small-sized companies may be less able to weather economic shifts or other adverse developments than larger, more established companies.

An **International /Equity Option** invests primarily in common stock of non-U.S. issuers. This fund can be expected to be subject to risk factors not prevalent in domestic markets, including currency risk.

A **Global Equity Option** (aka World Equity Option) invests in common stocks of non-U.S. issuers as well as domestic common stocks as deemed appropriate by the fund managers. These funds are appropriate for a portion of a Participant's account for which additional risk is acceptable in exchange for diversification from options tied to domestic markets. Currency fluctuation will contribute to increased return volatility.

An **Index Fund Option** invests identically or nearly identically to the market index whose return it seeks to duplicate. The objective of an index fund is to provide market diversification and a market average rate of return reflective of the market segment represented by a given index, e.g., the Standard & Poor's 500.

Description of Investment Option Categories (Continued)

Asset Allocation Funds (Model Portfolios) offer an allocation of investments, principally stocks, bonds, and cash or cash equivalents, which are appropriate for a given stage or age of an individual's investment lifecycle. An aggressive asset allocation fund or an age targeted fund with a longer timeframe will have greater weighting in stocks than a moderate or conservative asset allocation fund or age targeted fund with a shorter timeframe. A conservative asset allocation fund will be more heavily weighted toward current income and protection of capital. The objective of an asset allocation fund is to provide a composite rate of return from current income and capital appreciation which is appropriate for a given stage of an individual's investment life cycle. The investment objective is to provide a diversified investment return of current income and capital appreciation.

Socially Responsible Investing ("SRI")* is a mutual fund that has SRI as a stated prospectus objective and which attempts to invest in companies with sustainable business models without compromising investor returns. SRI funds combine thorough financial analysis with environmental, social and corporate governance ("ESG") screening. Although screening criteria varies across the SRI fund universe, these funds will generally avoid companies that are significantly involved in the manufacture of weapons or weapons-related products, manufacture of tobacco products, are involved in gambling as a main line of business, or engage in unethical business practices. In addition to these traditional SRI screens, these funds may look for companies that have positive impacts on the environment, fair workplace practices, robust corporate governance, high product integrity and positive community involvement.

*The Committee may decide to provide one or more Socially-Responsible Investment (SRI) options in the list of core options, for Participants that are interested in this style of investment choice. SRIs may be categorized in various asset classes. The SRI must remain competitive to its specific asset class and will be subject to investment analysis and potential replacement in the ongoing fund review process. Additionally, the SRI fund must also adhere to its socially responsible criteria. Departures from the criteria must be documented with the Committee and may result in deletion.

Specialty Funds are mutual funds that specialize in specific investment instruments or sectors.

Self-Directed Brokerage Account (SDBA) will offer a wide array of stocks, bonds and mutual funds that can be accessed by individual Participants. Participants electing the SDBA will be required to acknowledge that they are sufficiently sophisticated and knowledgeable about investment matters that they are capable of making, managing, controlling their own investment choices. Funds in the SDBA are not subject to the Committee's due diligence of the core fund offerings.

*Market capitalization is determined by multiplying the total number of outstanding shares of stock by the market price of the stock. Market capitalization changes with the changes in the price of the stock and increasing or decreasing the outstanding number of shares. Morningstar® will be used to determine actual capitalization levels. To maintain consistency the 70%, 20%, 10% is used to determine equity asset classes.

INVESTMENT OPTION CHARACTERISTICS

	Money Market Option	Stable Value / Fixed Option	Bond Option	Large Cap Equity Option	Mid Cap Equity Option	Small Cap Equity Option	Inter-national Equity Option	Global Equity Option	Index Funds	Asset Allocation Funds	Socially Responsible Investment (SRI)	Specialty Fund
Investment Objective	Stable principal and income growth	Moderate level of current income with stable principal value. The fixed option may include an FDIC insured Certificate of Deposit	Higher level of current income and increasing principal appreciation values over the long-term	Moderate capital growth and often distribute current dividend income	Long-term growth of capital, less emphasis on current dividend income	Maximum capital gains, little or no emphasis on current dividend income	Long-term growth of capital, little or no emphasis on current dividend income	Long-term growth of capital, little or no emphasis on current dividend income	Closely replicates the performance of a specific market index with consideration for expense and tracking errors	Preselected diversified portfolios, managed as a single fund; funds may be risk based or estimated retirement date/age based	Moderate capital growth; may also provide for higher levels of current income	Moderate to maximum capital growth or higher levels of current income
Invests Primarily In...	Highest quality money market instruments	General and Separate Account Annuities, GICs, BICs, Money Market instruments, intermed-iate-term bonds	Gov't, agency, investment grade corporate bonds	Common stocks of high quality, relatively mature companies with that often distribute dividends	Common stocks with prospects for growth superior to that of the broad market	Common stocks which may be of smaller, higher risk busi-nesses	Common stocks of non-U.S. issuers with prospects for growth	Common stocks of primarily non-U.S. issuers with prospects for growth	Domestic stocks or international stocks or bonds, depending on the designated index	Combinations of internation-al stocks, domestic stocks, bonds, AND stable value, at varying proportions	Domestic stocks and/or international stocks and bonds. Investments must meet generally accepted socially responsible criteria	Domestic stocks and/or interna-ional stocks and/or bonds

	Money Market Option	Stable Value / Fixed Option	Bond Option	Large Cap Equity Option	Mid Cap Equity Option	Small Cap Equity Option	Inter-national Equity Option	Global Equity Option	Index Funds	Asset Allocation Funds	Socially Responsible Investment (SRI)	Specialty Fund
Primary Source of Return	Short-term interest income	Intermed-iate-term interest income	Long term interest rate income and capital changes	Capital growth and reinvested dividends	Capital growth and long-term growth of dividends	Capital growth	Capital growth	Capital growth	Capital growth and/or income, depending on the designated index	Growth and interest income	Capital growth and may have long term interest income	Capital growth and/or may have intermedi-ate or long term interest income
Volatility Risk Potential	Lowest	Very low	Low to Moderate	Moderate volatility, similar to the Russell 1000 index	Potential high short-term volatility	Higher short-term volatility; periods of several years may elapse before showing superior perform-nce	Highest short-term volatility; subject to risk factors not prevalent in the domestic markets, such as currency fluctu-aions	Highest short-term volatility; subject to risk factors not prevalent in the domestic markets, such as currency fluctu-ations	From high to moderate short term volatility, depending on the designated index	Low to moderate, depending on the allocation selected	Moderate to average volatility	Moderate to high volatility
Minimum Participant Invest-ment Time Horizon‡	Less than one year	1 to 3 years	1 to 3 years	4 to 5 Years	5 years	5 to 10 years	5 to 10 years	5 to 10 years	3 to 5 years	1 to 40 years, depending on the allocation selected	1 to 7 years	1 to 10 years
Ten Year Accumu-lation Risk Potential‡	Highest	Moderate to high	Moderate	Low	Low	Low	Low	Low	Moderate to low, depending on the designated index.	Moderate to low.	Moderate to low	Moderate to low

INVESTMENT OPTION CHARACTERISTICS (CONTINUED)

	Money Market Option	Stable Value / Fixed Option	Bond Option	Large Cap Option	Mid Cap Option	Small Cap Option	Inter-national Equity Option	Global Equity Option	Index Funds	Asset Allocation Funds	Socially Responsible Investment (SRI)	Specialty Fund
Participant Perception‡	Safe	Safe. Transfer restrict-ions need to be carefully commun-icated	The interest rate volatility concept may be hard to understand as is understand-ing the different types and quality of the investments in the bond fund portfolio.	Concept may be difficult to understand due to the variety available , e.g. concen-trated funds with a limited number of holdings versus funds with a large number of holdings. Also, differences between value & growth & capitaliza-tion variations can be difficult to comprehend	Concept may be difficult to understand due to the variety available -additional risk of investing in midcap stocks needs to be understood and differences between value & growth & capital variations can be difficult to compre-hend	Concept easy. Partici-pants need to understand risks of investing in small and in some instances micro stocks and differences between value & growth & capital variations can be difficult to comprehend	Concept may be mis-under-stood.; risk factors need to be commun-icated carefully	Concept may be mis-under-stood; risk factors need to be communi-cated carefully	Premise of index funds duplicating performance of a specific market segment – must be commun-icated	Simple way to invest in a broadly diversified portfolio	Need to understand that two factors, financial and socially responsible, determine the underlying investments	Need to understand the risks are greater due to limited investment diversificati on

‡ The above information is not meant as investment advice and is for informational purposes only.

The following information is provided for information only. The Deferred Compensation Committee does not provide any type of oversight for Self-Directed Brokerage Accounts. The responsibility for selecting, monitoring and deleting investments in the Self Directed Brokerage Account is the responsibility only of the participant. Participants will be required to acknowledge their voluntary decision to utilize the Self-Directed Brokerage Account and release the County of San Mateo, the Committee and the provider from any fiduciary (or other) liability and responsibility for any losses incurred or other adverse consequences experienced in connection with their SDBA investment decisions.

	Self Directed Brokerage Account
Investment Objective	DETERMINED BY PARTICIPANT
Invests Primarily In...	Domestic stocks and/or international stocks and/or bonds and / or alternative investments that are either purchased individually or as a mutual fund
Primary Source of Return	Capital growth and/or may have short intermediate or long term interest income
Volatility Risk Potential	DETERMINED BY PARTICIPANT
Minimum Participant Investment Time Horizon	Determined by the individual Participant
Ten Year Accumu-lation Risk Potential	Low to high depending on the investment
Participant Perception	Needs to understand that ***only*** the Participant is responsible for the researching, selecting, managing, controlling and evaluating the investments and the associated risks

INVESTMENT FUND EVALUATIONS

POLICY:

The Committee retains the authority to periodically, but no less than annually, evaluate and deselect investment funds. Conditions may arise that create a need for an evaluation on a more frequent basis. It is the responsibility of the Consultant and/or the Provider to bring the reason for the evaluation with accompanying analysis and recommendation to the Committee. During each scheduled review, other factors considered will include:

A. Change of investment manager

B. Change of sub-advisor

C. Significant change in ownership or control

D. Significant change in fund management style or drift over a prolonged period

E. Substantive change in portfolio turnover that significantly exceeds the fund's history

F. Any violation of SEC rules or regulations

G. Operational difficulties concerning fund transfers or pricing

H. Excessive costs or trading practices

I. Negligible use by Participants

PROCEDURE:

The Committee will conduct quarterly reviews to assess the continuing compliance of all of the Plan's investment funds. The Committee may perform more frequent monitoring as necessary.

The quarterly review will be used to determine the following:

- Whether performance remains within the standards established by the Policy.
- Whether the investment fund manager's investment category has remained consistent.
- What changes in benchmarks and objectives have been made and the impact of these changes on future results and performance monitoring criteria.
- Changes in the regulatory requirements that may necessitate changes in the monitoring criteria.

For supported asset classes, an investment manager "score card" will be maintained and documented (see addendum) to substantiate acceptable levels of manager performance and appropriate style characteristics. Based upon objective criteria, derived from Modern Portfolio Theory concepts, each fund will receive a score reflecting overall performance.

Asset Allocation funds (risk-based) will be scored and monitored using the previously described guidelines. Unlike other funds which are monitored and scored individually, these funds should be evaluated as a group. Due to the unique importance of these professionally managed and diversified vehicles for participants in the plan, funds failing to achieve criteria standards will be carefully reviewed before removal from the plan (in the absence of a reasonable alternative).

Target-Date (age-based) funds will have strategies that allow the funds to grow more conservatively over time until a certain retirement date or life expectance date. This roll down process is commonly referred to as a "glide path". The glide path associated with a set of target-date funds should be reviewed to make sure it is appropriate, and continues to be appropriate, for the Plan and Plan's participants.

Investments where no score is applied due to specialty focus, short time history or other unique circumstances should be reviewed using a qualitative framework.

The foregoing investment monitoring criteria shall not, under any circumstances, be taken a definitive, conclusive, or controlling for removal, termination, or continuation of an investment option. All determinations should be made by the Committee, in its sole discretion, taking into consideration all relevant facts and circumstances.

WATCH LIST

POLICY:

If an investment fund fails to meet the minimum standards of investment performance outlined in this document, the Investment Subcommittee may take the following steps.

Step 1. PROCEDURE for MAINTAINING or ELIMINATING FUNDS on the WATCH LIST

If a fund fails to meet the criteria standards, as determined by its score, it may be placed on a Watch List. In the event a fund receives a score which is below that of Watch List status, or experiences extraordinary circumstances which may render it inappropriate to maintain, it may be considered for removal at the earliest administratively reasonable date. If this fund continues to remain on the Watch List for the following three (3) quarters, or four (4) of the following seven (7) quarters, the fund should be considered for possible removal.

If the fund meets criteria standards for four (4) consecutive quarters, it may be removed from the Watch List.

On a quarterly basis each fund on the Watch List will be reviewed and monitored to determine if further action is necessary at that time.

Investment funds that do not satisfy the retention criteria at the end of that Watch List period will be considered for replacement—see Step 2. If after one year on the Watch List the fund's performance does not warrant removal from the Watch List, and the Deferred Compensation Advisory Committee determines that the fund should not be deselected at that time, the fund will remain on the Watch List and the rationale for retaining this fund will be documented.

Step 2. PROCEDURE for REPLACING FUNDS

A fund search may be initiated and a replacement fund selected. An alternative to identifying and selecting a new replacement fund may be to transfer the assets of the deleted fund into an existing fund in the portfolio that has similar investment characteristics.

Regarding the Plan assets already deposited with the deleted fund, each Participant will be notified of the deletion of the fund and the selection of a replacement fund. Each participant will have a transition period of a length set by the Deferred Compensation Advisory Committee, but not less than 60 days in which he or she may transfer their assets to the replacement fund or a fund option of the Participant's choice. During the 60 (sixty) day transition period, reminders may be sent to Participants monthly prior to eliminating the fund.

In the event a Participant does not voluntarily select a replacement fund(s) by the end of the 60 (sixty) day transition period, the Deferred Compensation Advisory Committee will direct the provider to transfer the current balance of the deleted fund to the most appropriate existing and/or replacement fund within the asset class/ category. In the event the provider does not offer or cannot obtain another investment in the same asset class/category, the deleted fund will be transferred to the stable value fund of that provider.

INVESTMENT FUND SELECTION – STABLE VALUE FUND

There are several different types of stable value funds, including separate and general account annuity products, GIC funds and FDIC products. Also, there is not, for most of these products, a standardized data base with performance and other pertinent information that would enable a search process to be conducted. There is also a need to enter into negotiations with the provider regarding investment strategy and style in situations where that is in the discretion of the Plan sponsor. For these reasons, the selection of one or more stable value fund products will be conducted through a written request for proposal process directed by the Committee.

INVESTMENT FUND SELECTION - MUTUAL FUNDS

I. Alignment of Mutual Funds

A. Mutual funds offered by the Deferred Compensation Plan will be by groupings of like investment objectives and risk characteristics (volatility of returns).

B. Contracted mutual fund companies will be used to determine the groupings of mutual funds including index funds, if appropriate, by investment option characteristics. These investment option characteristics are subject to annual verification by the Deferred Compensation Advisory Committee.

C. The following is a target portfolio that includes the asset classes and asset categories ~~and numerical range~~ of available funds that may comprise the portfolio for the County of San Mateo Deferred Compensation Plan. Consideration must be given for temporary style drift.

D. At the time of selection, the fund category established by the contracted fund providers for the previous six quarters, will determine the category placement of a fund under the Plan. In the event that a fund has not had consistency of placement within a category over the six quarters prior to selection, it shall be placed in the category most recently determined by contracted fund providers. It is recognized that the placement of a fund within its category may be a consideration in its selection. For example, if a fund has consistently, over a period of time, moved toward the outside ranges of its category, it may not be an appropriate candidate for selection since it may have a high probability of changing categories.

INVESTMENT FUND SELECTION - MUTUAL FUNDS (CONTINUED)

	Number of Funds		
Money Market Fund	0 to 1 Fund*		
Stable Value/Fixed Account Fund	1 Fund		
Bond Fund	1 to 2 Funds		
Global Equity Fund	1 to 2 Funds		
International Equity Fund	1 to 2 Funds		
Index Fund	1 to 5 Funds		
Asset Allocation Fund**	6 to 8 Funds		
Equity Capitalization/Style	**Value**	**Blend**	**Growth**
Large Capitalization	1 to 2 Funds	1 to 2 Funds	1 to 2 Funds
Mid-Capitalization	1 to 2 Funds	1 to 2 Funds	1 to 2 Funds
Small Capitalization	1 to 2 Funds	1 to 2 Funds	1 to 2 Funds
Socially Responsible Investment Fund	1 to 2 Funds***		
Self Directed Brokerage Account	Limited to 50% of Account to specified retail fund list, individual stocks and bonds		

*Money market funds may not be necessary if the stable value/general account is liquid and without monetary encumbrances to the Participant.

**Asset Allocation category may include balanced funds, risk based lifestyle funds or time/age based life-cycle funds.

***The Committee may decide to provide one or more Socially-Responsible Investment (SRI) options in the list of core options, for Participants that are interested in this style of investment choice. SRIs may be categorized in various asset classes. The SRI must remain competitive to its specific asset class and will be subject to investment analysis and potential replacement in the ongoing fund review process. Additionally, the SRI fund must also adhere to its socially responsible criteria. Departures from the criteria must be documented with the Deferred Compensation Advisory Committee and may result in deletion.

II. Minimum Criteria for Selection

To be considered for inclusion in the Plan, a fund should first meet the size and history criteria above. Next it must satisfy the Minimum Operational Criteria below:

A. **Minimum Size and History Criteria**

1. Size: To be considered, a fund should be at least $100 million. Total assets in all share classes can be considered if under the same management team. The intent is to restrict selection of mutual funds to the size appropriate for the potential cash flow to be generated by the Plan. If, however, this restriction reduces the potential pool of funds inappropriately, this criterion may be reduced to broaden selection. Any criteria reduction proposed by the consultant/provider is reviewed by the Committee. The Committee shall approve, change or modify the consultant's recommendation. The change will be documented in the recommendation report to the Committee.

2. Period of time in operation: A mutual fund (or a clone fund under the same management) should have been in operation for a period of 5 years prior to selection.

B. Minimum Operational Criteria

1. It must guarantee transactions at the prior day's price.
2. Front end loads and fund surrender charges must be waived.
3. It must be compatible with the Plan's administrative and record keeping accounting and system practices.
4. The County will have the ability to request mutual funds to pay the County a fee for performing administrative services.

III. Selection of Funds

The selection process is used to add a new fund or to delete a current fund. The recommendation to add or delete a fund will be documented in writing for the Committee's consideration. The written report, which is typically prepared by the Committee's consultant, will contain the reasons for the recommendation to add or delete a fund and the factors considered to support the recommendation using the following process:

INVESTMENT FUND SELECTION - MUTUAL FUNDS (CONTINUED)

A. Screening Funds

1. The initial screening of a new fund will produce a listing of funds that have outperformed the average of their respective peer group according to their score cared. For all funds, including a new fund or deleting an existing fund in the Plan may also occur for the following reasons:

   a) The fund is closed.
   b) The fund has a policy of not being available for deferred compensation plans.
   c) The fund has loads that it is not willing to waive.
   d) The fund has an expense ratio that is uncompetitive in relationship to similarly managed funds.
   e) The risks taken are too high for the achieved performance as determined through a Sharpe Ratio analysis.

2. If the criterion stated above in Step 1 above is too restrictive, the Committee may modify one or more of the criteria in the initial screening process and, as a result, may include in the evaluation/selection funds that do not meet all of the criteria stated. The reason(s) supporting the exception and the methodology used to develop the initial list for consideration must be documented and included in the minutes of the Committee meeting.

3. The initial list of funds produced in Steps 1 and 2 above shall be compared to the fund(s) relative peer group and within the peer group shall be ranked according to the fund's annualized performance over the most recent five-year investment period. The numeric ranking will be identified. The relative peer groups may include:

   a) Small Capitalization (value, blend and growth styles may be considered)
   b) Mid Capitalization (value, blend and growth styles may be considered)
   b) Large Capitalization (value, blend and growth styles may be considered)
   c) Bond (may include domestic and foreign investments)
   d) International Equity (may include large, mid and small cap investments)
   e) Global Equity (may include large, mid and small cap investments)
   f) Money Market Funds
   g) Stable Value, General Account or Fixed Account Option
   h) Index Funds
   i) Asset Allocation Funds/Target Date Funds

j) Specialty Funds
k) Socially Responsible Funds

Note: Self-Directed Brokerage Accounts (SDBA) are not monitored by the Committee. Participants who invest in SDBAs are responsible for the selection, management and control of these investments.

B. Fund Review

1. Once the peer group ranking list is determined in Screening of Funds, each fund will be reviewed for the following:

   a) Annual performance over each of the immediately preceding five calendar years will be evaluated. Consistent performance return in each year of the five year period will be preferred. Consistent performance includes moderate Standard Deviation, (as determined by a comparison with the average standard deviation for that investment style), portfolio manager tenure, outperforming the appropriate benchmark for the three- and five-year periods and a consistent Risk and Return profile as determined by Morningstar.

   b) The fund's investment category placement over the last three years will be reviewed and funds that remain in the same category will be preferred.

   c) Issues to be addressed in determining fund selection shall-include:

      i. Number of funds managed per manager
      ii. Portfolio manager tenure
      iii. Equity investment style , including average market capitalization, portfolio turnover, number of holdings, consistency of style, sector weighting, risk, information ratio where appropriate, and security selection
      iv. Fixed income investment style, including duration management, sector selection, credit quality and security selection style. This question should include review of investment process, ability to articulate process as well as consistency of style or process.
      v. Fees and expenses
      vi. Confirm Minimum Operational Criteria compliance

vii. Disclosure that, based on the knowledge of the provider, the fund family has not participated in unethical trading practices

Funds that exhibit consistent performance and satisfy the Minimum Operational Criteria will be preferred.

2. Based on the information collected during the evaluation of the funds, each fund being considered for addition or deletion to the Plan will be reviewed and may be eliminated based on:

a) Inconsistent performance history
b) Excessive movement within investment category
c) Qualitative factors such as excessive account turnover or an inappropriate investment style
d) Inability to satisfy the Minimum Operational Criteria
e) Fund's assets are so large that the portfolio manager lacks flexibility to buy and sell securities in an efficient and timely manner.

C. Final Selection

The Committee will review the written recommendation and review the reports submitted documenting the review process for each fund being considered for inclusion in the Plan and/or deletion from the Plan. The Committee approves all new funds added to the Plan and all funds to be deleted from the Plan.

LOANS

POLICY:

Subject to Internal Revenue Service and United States Treasury rulings and regulations, the plan may give Plan Participants the ability to obtain loans from their Deferred Compensation account. Loans would be administered directly by the Plan Provider. Participants must be active employees and eligible for contributions to the Deferred Compensation Plan. Non repayment of the loan will be subject to current applicable Federal and State taxes and penalties that apply. The Committee reserves the right to limit the amount loaned and the number of loans available to an eligible Participant.

Blackout Period

POLICY:

The Plan will give Plan Participants a minimum of 30-day advance notice of "blackout periods" affecting their rights to direct investments, take loans (if available) or obtain distributions. Blackout periods may occur when plans change record-keepers, record-keeping systems or investment options. Individual Participants will receive a blackout notice that contains, among other things:

- The reasons for the blackout period;
- A description of the rights that will be suspended during the blackout period;
- The start and end dates of the blackout period; and
- A statement advising Participants to evaluate their current investments based on their inability to direct or diversify assets during the blackout period.

Disclosure of Fees, Commissions And Charges

POLICY:

All fees, commissions and charges for each selected investment option must be fully disclosed to the Committee before the option can be made available to Plan Participants. That is, in its review of a fund's performance history, the Committee must be shown the fund's gross performance less all applicable fees, commissions and charges, and the resulting net return.

In addition, these fees, commissions and charges will be disclosed to all Participants at enrollment and at any other time as appropriate. It will be disclosed to Participants the nature of all variances between gross return and net return.

INVESTMENT COMMUNICATIONS TO PARTICIPANTS

POLICY:

Information about each investment option will be given or made available to Participants to help them to make informed investment choices. The Plan shall provide at least quarterly statements of fund performance to each Participant.

Upon request, copies of investment fund prospectuses or similar equivalent information, list of underlying investments for a given fund, and other information that the Committee has available will be provided to Participants electronically, in hard copy or through a web link.

INVESTMENT EDUCATION

POLICY:

It is the Committee's objective to provide employees with ongoing investment education. The purpose of the investment education program is to provide information and tools to assist in the development of a personal investment strategy for employees and facilitate the achievement of savings and retirement goals.

REVIEW

POLICY:

The Committee will review this document annually. If, at any time, a Provider or Consultant feels that these policy standards cannot be met, or that the guidelines contained herein constrict the appropriate management of the investment funds, the Provider or Consultant must submit the specific recommendation and reasons for such a recommendation in writing to the Committee. The Committee will review the policy recommendation and determine whether to support or not to support the Provider's or Consultant's policy recommendations.

____
Human Resources Director, Chair, Deferred Compensation Committee

____
Date

Scorecard System Methodology™

The **Scorecard** System methodology incorporates both quantitative and qualitative factors in evaluating fund managers and their investment strategies. The **Scorecard** System is built around pass/fail criteria, on a scale of 0 to 10 (with 10 being the best) and has the ability to measure Active, Passive and Asset Allocation investing strategies. Active and Asset Allocation strategies are evaluated over a five year time period, and Passive strategies are evaluated over a three year time period.

Eighty percent of the fund's score is quantitative (made up of eight unique factors), incorporating modern portfolio theory statistics, quadratic optimization analysis, and peer group rankings (among a few of the quantitative factors). The other 20% of the score is qualitative, taking into account things such as manager tenure, the fund's expense ratio relative to the average fund expense ratio in that asset class category, and the fund's strength of statistics (statistical significance). Other criteria that may be considered in the qualitative score includes the viability of the firm managing the assets, management or personnel issues at the firm, and/or whether there has been a change in direction of the fund's stated investment strategy. The following pages detail the specific factors for each type of investing strategies.

Combined, these factors are a way of measuring the relative performance, characteristics, behavior and overall appropriateness of a fund for inclusion into a plan as an investment option. General fund guidelines are shown in the "Scorecard Point System" table below. The Scorecard Point System is meant to be used in conjunction with our sample Investment Policy Statement, in order to help identify what strategies need to be discussed as a "watch-list" or removal candidate; what strategies continue to meet some minimum standards and continue to be appropriate; and/or identify new top-ranked strategies for inclusion into a plan.

Scorecard System Methodology

Active Strategies

Active strategies are investment strategies where the fund manager is trying to add value and out-perform the market averages (for that style of investing). Typically, these investment strategies have higher associated costs due to the active involvement in the portfolio management process by the fund manager(s). For this type of investment strategy, the **Scorecard** System is trying to identify those managers who can add value on a consistent basis within their own style of investing.

	Scorecard Point System	
	Good:	**9-10 Points**
	Acceptable:	**7-8 Points**
	Watch List:	**5-6 Points**
	Poor:	**0-4 Points**

Weightings	Active Strategies	Maximum Points
Style Factors 30%	**Style Analysis:** Returns-based analysis to determine the style characteristics of a fund over a period of time. Fund passes if it reflects the appropriate style characteristics. Style analysis helps ensure proper diversification in the plan.	**1**

	Style Drift: Returns-based analysis to determine the behavior of the fund/manager over multiple (rolling) time periods. Fund passes if the fund exhibits a consistent style pattern. Style consistency is desired so that funds can be effectively monitored within their designated asset class.	1
	R-Squared: Measures the percentage of a fund's returns that are explained by the benchmark. Fund passes with an R-squared greater than 80%. This statistic measures whether the benchmark used in the analysis is appropriate.	1
Risk/Return Factors **30%**	**Risk/Return:** Fund passes if its risk is less than the benchmark or its return is greater than the benchmark. Favorable risk/return characteristics are desired.	1
	Up/Down Capture Analysis: Measures the behavior of a fund in up and down markets. Fund passes with an up capture greater than its down capture. This analysis measures the relative value by the manager in up and down markets.	1
	Information Ratio: Measures a fund's relative risk and return. Fund passes if ratio is > 0. This statistic measures the value added above the benchmark, adjusted for risk.	1
Peer Group Rankings 20%	**Returns Peer Group Ranking:** Fund passes if its median rank is above the 50^{th} percentile.	1
	Information Ratio Peer Group Ranking: Fund passes if its median rank is above the 50^{th} percentile. This ranking ranks risk adjusted excess return.	1
Qualitative Factors 20%	Two points may be awarded based on qualitative characteristics of the fund. Primary considerations are given to manager tenure, fund expenses and strength of statistics, however, other significant factors may be considered. It is important to take into account non-quantitative factors, which may impact future performance.	2
	Total	**10**

MassMutual

MassMutual@WORK

Your Plan Review

MassMutual @work for you

San Mateo Deferred Compensation Plan

Current Period: July 1, 2017 – September 30, 2017
Prior Period: April 1, 2017 – June 30, 2017

Executive Summary

Plan Statistics

	6/30/2017	9/30/2017	Plan Trend
Total Plan Assets	$417,163,142	$431,925,755	▲ 4%
Total Outstanding Loan Balances	$6,492,224	$6,542,051	▲ 0%
Participant Contributions			
Participant	$7,190,646	$7,643,902	▲ 6%
EE Pre-Tax	$5,717,739	$6.134,167	
EE Roth	$857,349	$978,802	
Rollover	$1,594,726	$1,236,403	▼ 22%
Distributions			
Withdrawals	($1,061,941)	($1,356,359)	▲ 28%
Terminations	($3,176,908)	($4,776,649)	▲ 50%
Loans	($715,993)	($663,916)	▼ 7%
Expenses*	($57,839)	($61,382)	▲ 6%
Investment Income	$9,253,144	$12,614,759	▲ 36%

Notes Terminations = termination and retirement

Withdrawals = in-service withdrawal, death benefit, minimum distribution, installment payment, loan defaults

*The expenses shown reflect expenses deducted from plan assets. Expenses billed directly to the plan sponsor or expenses related to the expense ratio of investments under the plan are not reflected. The Contribution data displays the combined dollar value of Contributions & Loan Repayments, if applicable.

Executive Summary

Participant Activity

	6/30/2017	9/30/2017	Plan Trend
Total Participants	6,574	6,784	▲ 3%
Participation Rates: Average Percentage	74%	76%	▲ 2%
Average Account Balance	$63,457	$63,668	▲ 0%
Average Number of Investments	3.3	4.7	▲ 42%
Number of Outstanding Loans	751	739	▼ 2%
Percent of Participants With a Loan	10%	9%	▼ 10%
Average Loan Balance	$8,645	$8,853	▲ 2%
Total Calls to 800#	61	61	◄ ► 0%
Total Visits to Website	12,348	12,712	▲ 3%

Notes **2Q 2017 eligible – 5585 (does not include extra help) total # contributing – 4151 – 74%**

3Q 2017 eligible – 5654 (does not include extra help) total # contributing – 4273 - 76%

457 Plan Balances by Investment

Asset Allocation

Investment Options	Balances as of 6/30/2017	Percentage*	Plan Activity July 01, 2017 through September 30, 2017						Balances as of 9/30/2017	Percentage*
			Contributions	Other Activity	Transfers	Distributions	Expenses**	Investment Income		
SAGIC (61869)	$154,027,335	36.92%	$2,455,314	$293,266	($13,215,327)	($2,986,152)	($22,441)	$1,191,527	$141,743,523	32.82%
PIMCO Real Return Asset Fund	$2,134,435	0.51%	$51,291	$6,309	$68,551	($14,297)	($316)	$42,966	$2,288,939	0.53%
PIMCO Total Return Fund	$12,229,798	2.93%	$138,161	$9,179	$409,586	($210,763)	($1,782)	$184,010	$12,758,188	2.95%
Vanguard Total Bond Mrkt Index Fund	$1,203,766	0.29%	$48,176	$3,451	$636,055	($65,629)	($289)	$7,451	$1,832,982	0.42%
Loomis Sayles Bond Fund	$3,473,924	0.83%	$63,359	$6,049	$19,022	($89,868)	($505)	$50,580	$3,522,561	0.82%
Premier High Yield Fund (Barings)	$401,150	0.10%	$11,905	$637	$76,973	($5,837)	($51)	$8,526	$493,302	0.11%
Oppenheimer International Bond Fund	$708,850	0.17%	$17,896	$1,010	$59,531	($2,658)	($100)	$17,374	$801,902	0.19%
Oakmark Equity & Income Fund	$21,662,824	5.19%	$307,032	$30,976	($14,026)	($204,567)	($3,094)	$817,114	$22,596,258	5.23%
Vanguard Target Retirement 2015 Fd	$4,308,404	1.03%	$138,638	$7,182	$467,778	($24,262)	($627)	$120,744	$5,017,856	1.16%
Vanguard Target Retirement 2025 Fd	$13,359,603	3.20%	$636,953	$25,334	$3,350,567	($97,696)	($2,120)	$551,507	$17,824,147	4.13%
Vanguard Target Retirement 2035 Fd	$7,392,407	1.77%	$633,842	$27,706	$3,132,588	($85,034)	($1,216)	$407,047	$11,507,339	2.66%
Vanguard Target Retirement 2045 Fd	$5,801,879	1.39%	$728,438	$9,227	$3,544,916	($138,237)	($1,102)	$398,421	$10,343,542	2.39%
Vanguard Target Retirement 2055 Fd	$1,339,077	0.32%	$605,171	$2,523	$2,003,764	($7,017)	($313)	$141,491	$4,084,696	0.95%
Vanguard Target Retirement Incm Fd	$1,139,654	0.27%	$8,172	$57	$126,015	($1,131)	($169)	$23,596	$1,296,193	0.30%
American Funds American Mutual Fund	$15,825,739	3.79%	$192,690	$29,546	($269,273)	($321,305)	($2,269)	$775,520	$16,230,648	3.76%
American Funds Fndmntl Invstrs Fnd	$37,696,280	9.04%	$328,471	$40,971	($121,336)	($448,146)	($5,466)	$1,995,918	$39,486,691	9.14%
Parnassus Core Equity Fund	$2,668,195	0.64%	$63,037	$3,994	($162,814)	($9,733)	($453)	$87,212	$2,649,438	0.61%
Vanguard Institutional Index Fund	$16,539,692	3.96%	$229,089	$27,038	$396,398	($297,744)	($2,466)	$748,363	$17,640,371	4.08%

*Due to rounding, percentages may not total 100 percent.
**The expenses shown reflect expenses deducted from plan assets. Does not include expenses billed directly to the plan sponsor or expenses related to the expense ratio of investments under the plan.

457 Plan Balances by Investment

Asset Allocation

Investment Options	Balances as of 6/30/2017	Percentage*	Plan Activity July 01, 2017 through September 30, 2017						Balances as of 9/30/2017	Percentage*
			Contributions	Other Activity	Transfers	Distributions	Expenses**	Investment Income		
Vanguard Total Stock Mkt Index Fd	$7,968,058	1.91%	$233,516	$10,527	$124,901	($276,529)	($1,145)	$364,766	$8,424,093	1.95%
American Funds Grth Fund of America	$26,976,939	6.47%	$269,469	$30,521	($272,201)	($378,324)	($4,055)	$1,364,554	$27,986,902	6.48%
American Century Mid Cap Value Fund	$5,536,544	1.33%	$85,143	$3,591	($119,635)	($5,612)	($782)	$140,638	$5,639,887	1.31%
Vanguard Mid Cap Index Fund	$3,864,136	0.93%	$105,517	$10,696	($1,472)	($12,587)	($551)	$135,312	$4,101,051	0.95%
Select Mid Cap Gr Fd (TRP/Frontier)	$11,472,100	2.75%	$127,833	$13,887	($153,620)	($146,159)	($1,653)	$486,740	$11,799,128	2.73%
JP Morgan Small Cap Value Fund	$384,085	0.09%	$8,744	$841	($148,571)	($2,764)	($44)	$10,514	$252,805	0.06%
Vanguard Small Cap Index Fund	$6,995,081	1.68%	$123,083	$9,594	($22,081)	($42,457)	($1,006)	$322,858	$7,385,072	1.71%
Wells Fargo Small Company Growth Fd	$8,199,951	1.97%	$98,977	$12,731	($133,824)	($130,549)	($1,175)	$400,808	$8,446,920	1.96%
American Fnds Cap Wld Gr and Inc Fd	$9,787,263	2.35%	$141,142	$25,293	$5,184	($150,062)	($1,502)	$500,447	$10,307,765	2.39%
Vanguard Developed Markets Index Fd	$855,543	0.21%	$54,986	$2,610	$196,790	($14,687)	($173)	$54,176	$1,149,246	0.27%
Amer Funds EuroPacific Growth Fund	$8,747,879	2.10%	$119,929	$13,334	$57,409	($267,694)	($1,377)	$594,716	$9,264,196	2.14%
Oppenheimer Developing Markets Fund	$2,394,921	0.57%	$60,408	$4,454	$516,360	($46,374)	($452)	$199,787	$3,129,104	0.72%
Invesco Real Estate Fund	$2,444,378	0.59%	$47,341	$3,487	($174,962)	($34,285)	($330)	$18,569	$2,304,197	0.53%
Bank of The West Savings	$5,451,175	1.31%	$52,078	$2,910	($209,893)	($35,031)	($774)	$26,635	$5,287,101	1.22%
Hartford Healthcare HLS Fund	$5,476,455	1.31%	$74,698	$6,640	($115,529)	($58,208)	($794)	$89,872	$5,473,135	1.27%
MFS Utilities Fund	$5,237,653	1.26%	$62,533	$7,561	($5,061)	($185,526)	($790)	$223,160	$5,339,531	1.24%
Schwab PCRA	$3,457,969	0.83%	$0	$0	($52,765)	$0	$0	$111,841	$3,517,046	0.81%
Total	$417,163,142	100%	$8,323,031	$683,130	----	($6,796,925)	($61,382)	$12,614,759	$431,925,756	100%

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401a Plan Balances by Investment

Asset Allocation

Investment Options	Balances as of 6/30/2017	Percentage*	Plan Activity July 01, 2017 through September 30, 2017						Balances as of 9/30/2017	Percentage*
			Contributions	Other Activity	Transfers	Distributions	Expenses**	Investment Income		
SAGIC (61869)	$942,187	56.22%	$55,876	($6,730)	($18,288)	($14,590)	($132)	$7,588	$965,911	48.43%
PIMCO Real Return Asset Fund	$2,146	0.13%	$311	$0	$18	$0	($0)	$45	$2,519	0.13%
PIMCO Total Return Fund	$1,864	0.11%	$346	($190)	$13	($94)	($0)	$26	$1,965	0.10%
Vanguard Total Bond Mrkt Index Fund	$2,346	0.14%	$410	($188)	($536)	($92)	($1)	$14	$1,953	0.10%
Loomis Sayles Bond Fund	$732	0.04%	$0	$0	$0	$0	($0)	$11	$743	0.04%
Premier High Yield Fund (Barings)	$4,216	0.25%	$0	$0	($3,032)	$0	($0)	$19	$1,203	0.06%
Oppenheimer International Bond Fund	$1,431	0.09%	$101	$0	$3	$0	($0)	$36	$1,570	0.08%
Oakmark Equity & Income Fund	$165	0.01%	$0	$0	$0	$0	($0)	$6	$171	0.01%
Vanguard Target Retirement 2015 Fd	$62,303	3.72%	$26,864	($1,254)	$0	($618)	($10)	$1,965	$89,250	4.48%
Vanguard Target Retirement 2025 Fd	$69,152	4.13%	$30,268	($836)	$3,167	($412)	($11)	$2,956	$104,284	5.23%
Vanguard Target Retirement 2035 Fd	$83,093	4.96%	$30,947	($1,741)	$0	($858)	($13)	$4,021	$115,449	5.79%
Vanguard Target Retirement 2045 Fd	$215,063	12.83%	$76,757	($2,440)	$11,555	$0	($33)	$11,745	$312,647	15.68%
Vanguard Target Retirement 2055 Fd	$177,303	10.58%	$74,626	($2,817)	$2,825	$0	($28)	$9,846	$261,756	13.12%
Vanguard Target Retirement Incm Fd	$39	0.00%	$0	$0	$0	$0	$0	$1	$40	0.00%
American Funds American Mutual Fund	$4,516	0.27%	$644	($260)	$142	($128)	($1)	$232	$5,144	0.26%
American Funds Fndmntl Invstrs Fnd	$10,399	0.62%	$2,948	($67)	$51	($33)	($2)	$647	$13,943	0.70%
Parnassus Core Equity Fund	$2,192	0.13%	$484	($65)	$10	($32)	($0)	$80	$2,669	0.13%
Vanguard Institutional Index Fund	$6,825	0.41%	$1,879	($67)	$4,020	($33)	($2)	$405	$13,028	0.65%

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401a Plan Balances by Investment

Asset Allocation

Investment Options	Balances as of 6/30/2017	Percentage*	Plan Activity July 01, 2017 through September 30, 2017						Balances as of 9/30/2017	Percentage*
			Contributions	Other Activity	Transfers	Distributions	Expenses**	Investment Income		
Vanguard Total Stock Mkt Index Fd	$17,383	1.04%	$2,867	($66)	$2	($33)	($3)	$855	$21,005	1.05%
American Funds Grth Fund of America	$7,150	0.43%	$647	($274)	$146	($135)	($2)	$368	$7,900	0.40%
American Century Mid Cap Value Fund	$1,471	0.09%	$111	($63)	$52	($31)	($0)	$40	$1,580	0.08%
Vanguard Mid Cap Index Fund	$6,587	0.39%	$992	($132)	$12	($65)	($1)	$243	$7,636	0.38%
Select Mid Cap Gr Fd (TRP/Frontier)	$3,851	0.23%	$111	($69)	($2)	($34)	($1)	$165	$4,021	0.20%
JP Morgan Small Cap Value Fund	$599	0.04%	$134	($30)	($33)	($15)	($0)	$29	$685	0.03%
Vanguard Small Cap Index Fund	$28,894	1.72%	$1,079	($64)	$38	($32)	($4)	$1,365	$31,275	1.57%
Wells Fargo Small Company Growth Fd	$1,895	0.11%	$143	($33)	$100	($16)	($0)	$102	$2,190	0.11%
American Fnds Cap Wld Gr and Inc Fd	$4,901	0.29%	$168	$0	$833	$0	($1)	$278	$6,178	0.31%
Vanguard Developed Markets Index Fd	$4,444	0.27%	$884	($492)	($32)	($242)	($1)	$236	$4,798	0.24%
Amer Funds EuroPacific Growth Fund	$3,758	0.22%	$194	($217)	$2,634	($107)	($1)	$431	$6,691	0.34%
Oppenheimer Developing Markets Fund	$3,557	0.21%	$233	($258)	$312	($127)	($1)	$286	$4,002	0.20%
Invesco Real Estate Fund	$1,267	0.08%	$281	$0	($164)	$0	($0)	$9	$1,394	0.07%
Hartford Healthcare HLS Fund	$3,873	0.23%	$344	$0	($3,847)	$0	($1)	$76	$445	0.02%
MFS Utilities Fund	$351	0.02%	$0	$0	$0	$0	($0)	$15	$366	0.02%
Total	$1,675,951	100%	$310,650	($18,355)	----	($17,726)	($249)	$44,140	$1,994,412	100%

*Due to rounding, percentages may not total 100 percent.
**The expenses shown reflect expenses deducted from plan assets. Does not include expenses billed directly to the plan sponsor or expenses related to the expense ratio of investments under the plan.

OBRA Plan Balances by Investment

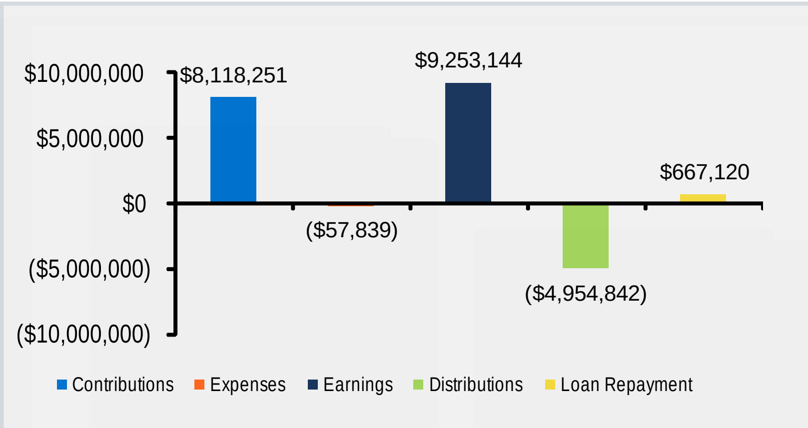
Asset Allocation

Investment Options	Balances as of 6/30/2017	Percentage*	Plan Activity July 01, 2017 through September 30, 2017					Balances as of 9/30/2017	Percentage*
			Contributions	Transfers	Distributions	Expenses**	Investment Income		
457 OBRA									
SAGIC (61869OB)	$3,519,081	100.00%	$694,508	$0	($34,223)	($512)	$20,016	$4,198,870	100.00%
Total	$3,519,081	100%	$694,508	----	($34,223)	($512)	$20,016	$4,198,870	100%
401a OBRA									
SAGIC (61869OB)	$12,810,141	100.00%	$0	$0	($247,683)	($1,758)	$60,562	$12,621,262	100.00%
Total	$12,810,141	100%	$0	----	($247,683)	($1,758)	$60,562	$12,621,262	100%

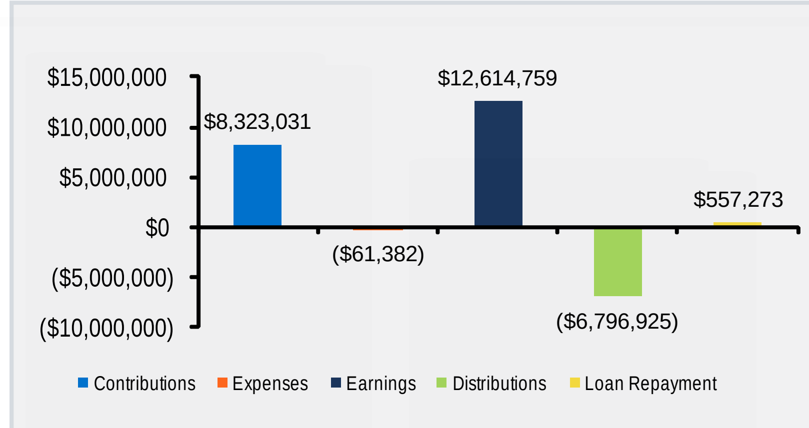
*Due to rounding, percentages may not total 100 percent.
**The expenses shown reflect expenses deducted from plan assets. Does not include expenses billed directly to the plan sponsor or expenses related to the expense ratio of investments under the plan.

Cash Flow Analysis

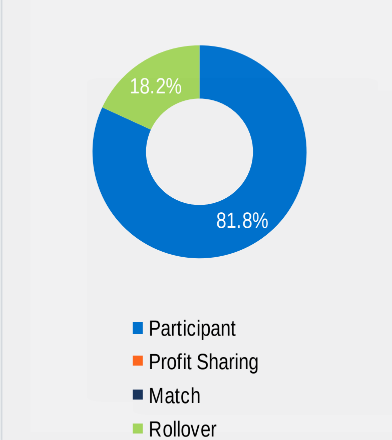
Prior Period 4/1/2017 – 6/30/2017



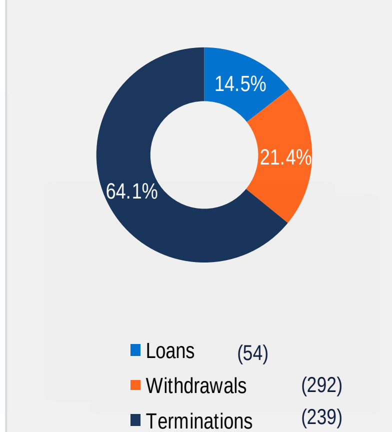
Current Period 7/1/2017 – 9/30/2017



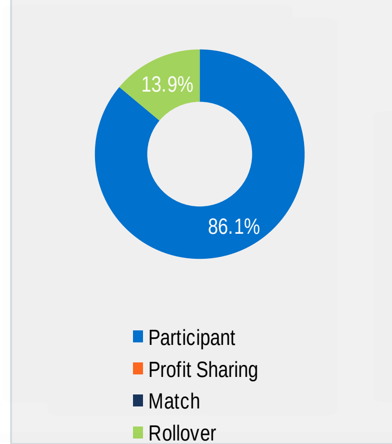
Contribution Analysis*



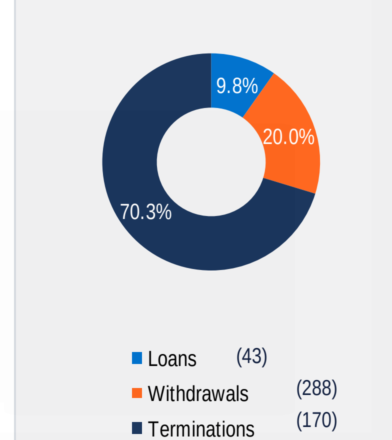
Distribution Analysis



Contribution Analysis*



Distribution Analysis



*The Contribution Analysis Pie Charts display the percentage of the combined dollar value of the Contributions & Loan Repayments

Total Investment Balance

as of September 30, 2017

Participant Demographics

Investment Options	PARTICIPANTS							
	Active	Beneficiary	Retired	Terminated	QDRO	Participants in Option as of 6/30/2017	Participants in Option as of 9/30/2017	Investment Selection Percentage*
SAGIC (61869)	$60,369,213	$1,310,710	$14,640,867	$64,984,073	$438,660	3,931	2,570	15.2%
PIMCO Real Return Asset Fund	$1,701,417	$0	$149,913	$437,610	$0	251	264	0.4%
PIMCO Total Return Fund	$7,540,740	$43,375	$1,128,867	$4,043,499	$1,707	768	770	1.3%
Vanguard Total Bond Mrkt Index Fund	$1,577,558	$0	$89,024	$166,400	$0	205	229	0.4%
Loomis Sayles Bond Fund	$2,600,555	$0	$94,925	$824,930	$2,151	310	311	0.5%
Premier High Yield Fund (Barings)	$327,179	$0	$0	$166,123	$0	26	47	0.1%
Oppenheimer International Bond Fund	$605,796	$0	$31,039	$165,067	$0	206	221	0.1%
Oakmark Equity & Income Fund	$10,771,450	$779,021	$2,961,385	$8,039,645	$44,757	720	720	2.5%
Vanguard Target Retirement 2015 Fd	$3,820,018	$0	$354,257	$843,569	$12	147	198	1.9%
Vanguard Target Retirement 2025 Fd	$14,485,425	$33,919	$241,006	$3,052,995	$10,802	440	682	9.5%
Vanguard Target Retirement 2035 Fd	$10,273,212	$59,879	$5,508	$1,168,740	$0	441	781	12.7%
Vanguard Target Retirement 2045 Fd	$9,629,355	$0	$6,130	$691,042	$17,013	494	1,004	16.3%
Vanguard Target Retirement 2055 Fd	$3,910,446	$0	$0	$174,249	$0	512	933	17.2%
Vanguard Target Retirement Incm Fd	$578,935	$49,302	$299,960	$367,995	$0	28	33	0.1%
American Funds American Mutual Fun(	$10,881,919	$245,162	$801,456	$4,260,921	$41,189	892	903	1.7%

Total Participants 6784: 4877 Active, 31 Beneficiary, 204 Retired, 1660 Terminated, 12 QDRO

*The investment selection percentages reflect participants with an active status. Due to rounding the percentages may not total 100%. Contracts with multiple plans may result in participants maintaining balances in more than one plan.

Total Investment Balance

as of September 30, 2017

Participant Demographics

Investment Options	PARTICIPANTS							
	Active	Beneficiary	Retired	Terminated	QDRO	Participants in Option as of 6/30/2017	Participants in Option as of 9/30/2017	Investment Selection Percentage*
American Funds Fndmntl Invstrs Fnd	$22,137,444	$294,077	$2,862,918	$14,141,634	$50,619	1,314	1,323	3.5%
Parnassus Core Equity Fund	$2,257,144	$0	$82,373	$309,921	$0	274	295	0.5%
Vanguard Institutional Index Fund	$10,709,666	$270,763	$1,677,570	$4,963,715	$18,657	634	650	1.8%
Vanguard Total Stock Mkt Index Fd	$7,048,196	$0	$85,274	$1,290,623	$0	416	427	1.3%
American Funds Grth Fund of America	$17,475,116	$85,387	$2,028,794	$8,349,904	$47,702	1,102	1,120	2.9%
American Century Mid Cap Value Fund	$4,011,789	$15,596	$72,130	$1,540,372	$0	526	536	0.6%
Vanguard Mid Cap Index Fund	$2,981,249	$0	$373,587	$746,215	$0	421	442	0.6%
Select Mid Cap Gr Fd (TRP/Frontier)	$8,455,901	$15,716	$627,290	$2,650,592	$49,629	836	843	1.3%
JP Morgan Small Cap Value Fund	$172,342	$0	$4,335	$76,127	$0	187	191	0.1%
Vanguard Small Cap Index Fund	$5,422,912	$11,099	$276,271	$1,664,451	$10,339	664	682	1.0%
Wells Fargo Small Company Growth Fd	$5,737,343	$32,175	$140,474	$2,510,294	$26,635	794	808	0.9%
American Fnds Cap Wld Gr and Inc Fd	$7,196,180	$150,763	$510,425	$2,434,373	$16,024	721	743	1.2%
Vanguard Developed Markets Index Fd	$878,093	$0	$17,010	$254,142	$0	199	217	0.4%
Amer Funds EuroPacific Growth Fund	$6,216,189	$9,287	$488,691	$2,531,519	$18,510	747	755	1.1%
Oppenheimer Developing Markets Fund	$2,393,011	$0	$141,295	$594,798	$0	410	436	0.5%

Total Participants 6784: 4877 Active, 31 Beneficiary, 204 Retired, 1660 Terminated, 12 QDRO

*The investment selection percentages reflect participants with an active status. Due to rounding the percentages may not total 100%. Contracts with multiple plans may result in participants maintaining balances in more than one plan.

Total Investment Balance

as of September 30, 2017

Participant Demographics

Investment Options	PARTICIPANTS							
	Active	Beneficiary	Retired	Terminated	QDRO	Participants in Option as of 6/30/2017	Participants in Option as of 9/30/2017	Investment Selection Percentage*
Invesco Real Estate Fund	$1,597,406	$0	$114,414	$585,751	$6,627	387	413	0.4%
Bank of The West Savings	$2,733,058	$0	$458,216	$2,095,827	$0	286	280	0.6%
Hartford Healthcare HLS Fund	$3,727,256	$0	$410,355	$1,335,524	$0	331	340	0.6%
MFS Utilities Fund	$3,514,804	$0	$387,435	$1,435,741	$1,551	419	416	0.7%
Schw ab PCRA	$1,812,179	$0	$288,798	$1,416,069	$0	51	51	
Total	**$255,550,497**	**$3,406,229**	**$31,851,992**	**$140,314,452**	**$802,586**	**-----**	**-----**	**100%**

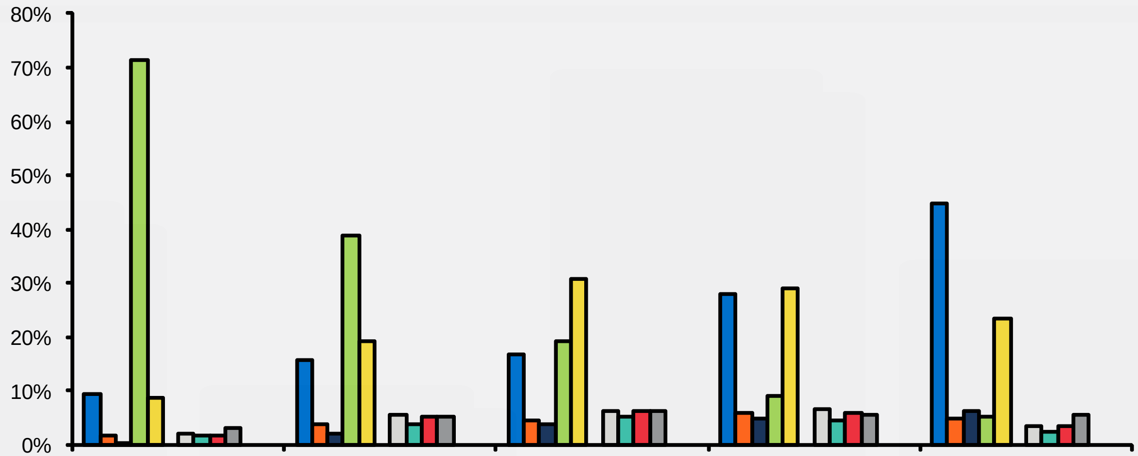
Total Participants 6784: 4877 Active, 31 Beneficiary, 204 Retired, 1660 Terminated, 12 QDRO

*The investment selection percentages reflect participants with an active status. Due to rounding the percentages may not total 100%. Contracts with multiple plans may result in participants maintaining balances in more than one plan.

Balances by Age

as of September 30, 2017

Age	Under age 30	Age 30-39	Age 40-49	Age 50-59	Age 60 and Over	Total
Number of Participants	692	1,455	1,618	1,501	1,518	6,784
Group Balance	$3,301,299	$26,371,264	$82,286,880	$118,930,530	$201,035,783	$431,925,756
Average Account Balance	$4,771	$18,125	$50,857	$79,234	$132,435	$63,668

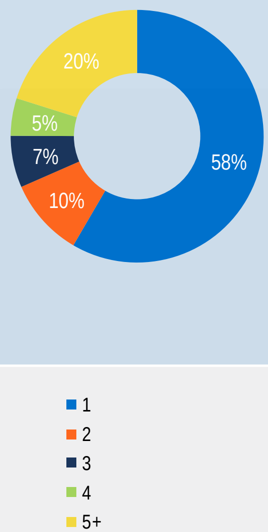


Asset Category:	Under age 30	Age 30-39	Age 40-49	Age 50-59	Age 60 & Over	Total All Ages
Stable Value	$308,493	$4,180,551	$13,944,351	$33,245,676	$90,064,452	$141,743,523
Fixed Income	$62,122	$1,043,822	$3,790,984	$6,971,630	$9,829,316	$21,697,874
Asset Allocation/Lifestyle	$192	$588,620	$3,276,058	$5,923,581	$12,807,808	$22,596,259
Asset Allocation/Lifecycle	$2,360,165	$10,252,160	$15,918,300	$10,856,056	$10,687,094	$50,073,775
Large Cap Equity	$286,938	$5,113,663	$25,441,525	$34,681,198	$46,894,819	$112,418,143
Multi Cap Equity	$0	$0	$0	$0	$0	$0
Mid Cap Equity	$65,045	$1,464,668	$5,185,211	$7,933,772	$6,891,370	$21,540,066
Small Cap Equity	$61,900	$977,409	$4,353,771	$5,445,307	$5,246,410	$16,084,797
Intl/Global Equity	$57,778	$1,385,834	$5,233,185	$7,055,381	$6,989,028	$20,721,206
Specialty	$98,667	$1,364,538	$5,143,494	$6,817,928	$11,625,487	$25,050,114

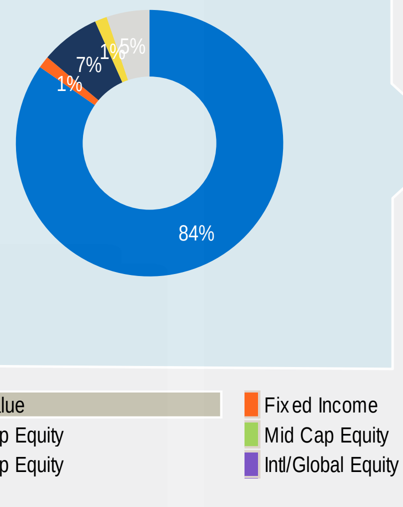
Participant Diversification

July 01, 2017 through September 30, 2017

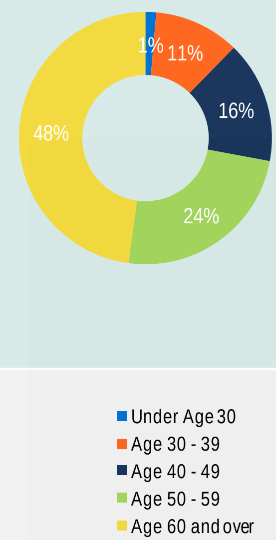
Number of options held by participants



Percentage of participants in one option by asset category group



Percentage of participants in one option in most utilized asset category group by age



	Period Ending 9/30/2015	Period Ending 9/30/2016	Period Ending 9/30/2017	Industry Average *
Average number of options	N/A	3.3	4.7	5.4
Number of participants in one option	N/A	3115	3963	N/A

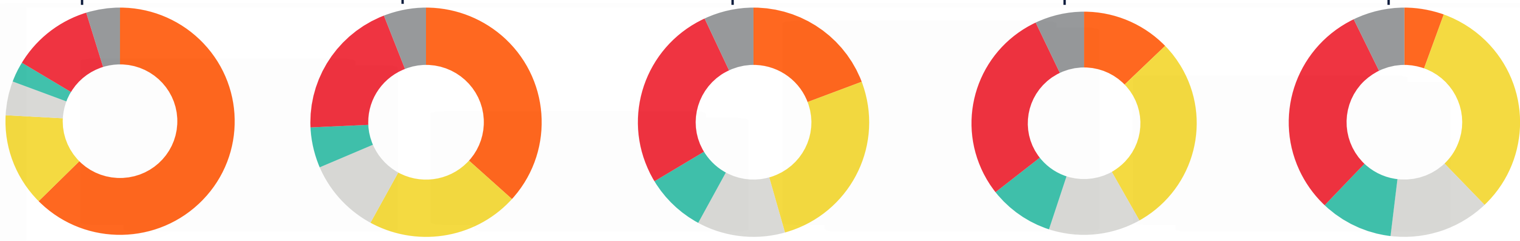
*Source: Hewitt Associates 2016 Universe Benchmarks Report

Diversification by Age

as of September 30, 2017

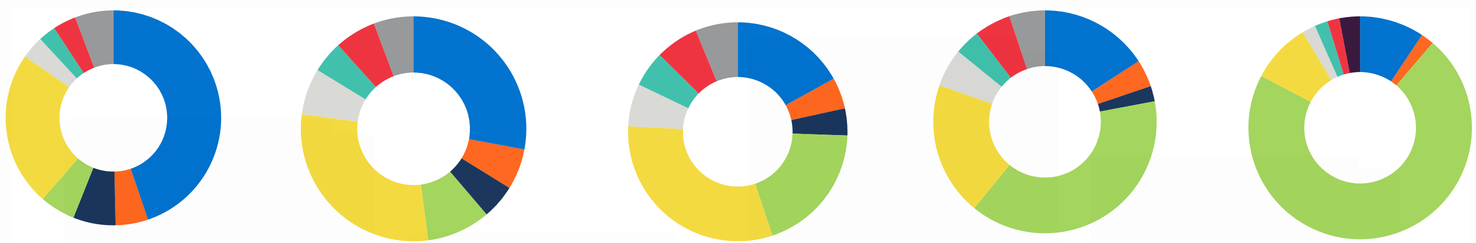
Sample Professionally Managed Age-Based Portfolios*

Sample Income | Sample 2020 | Sample 2030 | Sample 2040 | Sample 2050



Your Plan's Asset Allocation by Age

Age 60 and over | Age 50-59 | Age 40-49 | Age 30-39 | Under Age 30



1518 Participants | 1501 Participants | 1618 Participants | 1455 Participants | 692 Participants

Asset Category:

- Stable Value
- Fixed Income
- Asset Allocation/Lifestyle
- Asset Allocation/Lifecycle
- Large Cap Equity
- Multi Cap Equity
- Mid Cap Equity
- Small Cap Equity
- Intl/Global Equity
- Specialty

*Sample allocations provided by Morningstar Associates, LLC, a registered investment advisor and a subsidiary of Morningstar Inc. Morningstar Associates is not itself a FINRA member firm.

Loan Summary

Loan Data

	Your Plan 06/30/2017	Your Plan 09/30/2017	MassMutual Average 12/31/2016	Industry Averages
Number of loans allowed	1	1	2.0	1.2*
Average number of loans per participant with loans	1.2	1.2	1.2	Not available
Percentage of participants with loans	9.6%	9.4%	11.0%	14.6%*
Average loan balance	$8,645	$8,853	$7,661	$6,216*
Percentage of plan assets loaned	1.6%	1.5%	1.6%	0.7%*

	Your Plan 06/30/2017	Your Plan 09/30/2017
Total number of participants with loans	630	637
Total number of outstanding loans	751	739
Average account balance of participants with loans	$64,491	$68,085
Total value of outstanding loans	$6,492,224	$6,542,051

Current Loan Interest Rate = 5.25%

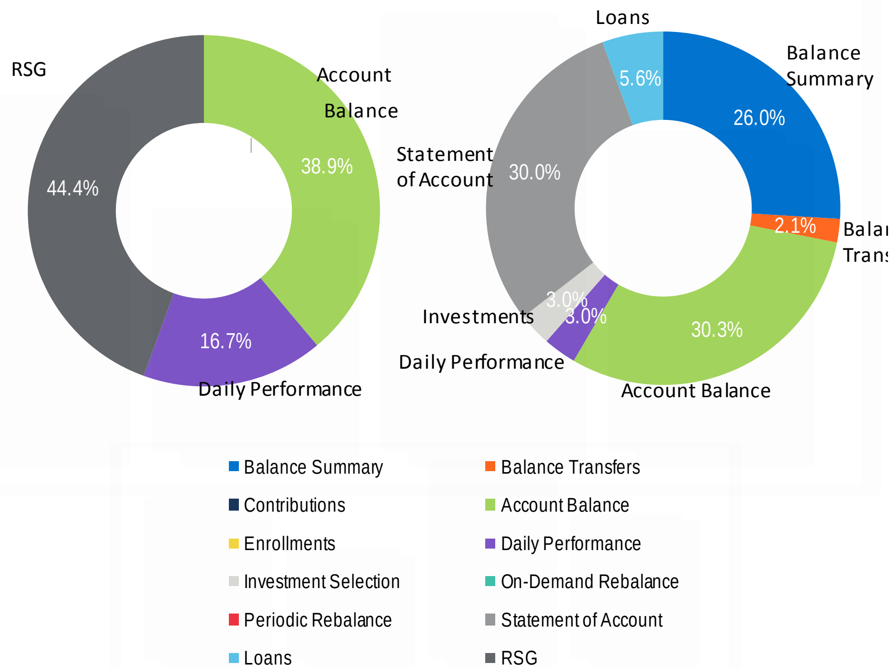
*Source: PSCA's 58th Annual Survey of PS and 401(k) Plans

Participant Interactions

July 01, 2017 through September 30, 2017

	Total Visits
Toll Free 800#	61
Call Center	1,994
Website	12,712

Toll Free 800# **Website (My Account)**



Highlights - Website

My Account	4835
Research	119

Highlights - Retirement Services Call Center

Loans	194
RSG-Retirement Options	119
Withdrawals	115
Investments	95
Transferred Call	93

Miscellaneous Statistics

Activity	Total #	Total $
Total 3Q TRAK calculation	111	
Managed Accounts added in 3Q 2017 Total Managed Accounts	4 19	$229,660.29 $651,165.85
3Q Hardships Processed	10	$49,360.20
Rollovers In	40	$1,181,354.45
Purchase of Service Credit to SamCera	3	$11,132.02
Rollovers Out	40	$3,440,368.20
QDRO	2 finalized QDROs	
401(a) Forfeiture Balance as of 9/30/17	37	$69,870

Onsite meeting results

Prescribe:
Targeted messages, meetings

One-to-One Messaging

Diagnose:
The MassMutual RetireSMART℠ Ready Tool

Date	Location	Group Meeting Attendees	Individual Meeting Attendees	Participant Action					
				Enroll	Save More	Asset Allocation	Consolidate	TRAK	RST
7/10	455	24		24					
7/11	Quarry		7	4	2	5	3	5	5
7/17	YSC		5		2	2		7	3
7/17	1 Davis		6	2	3	3	1	6	4
7/18	801		5		2	1		4	2
7/18	YSC		6	1	2	2	1	0	4
7/24	SMMC		1		1	1		2	1
7/24	SMMC	18			3	4		2	4
7/25	455	14		10				1	
7/25	455		7		3	4		2	4
7/31	801		3		2	1	2	3	3
Total	11	56	45	41	17	23	7	32	30

19

Onsite meeting results

Prescribe:
Targeted messages, meetings

One-to-One Messaging

Diagnose:
The MassMutual RetireSMART℠ Ready Tool

Date	Location	Group Meeting Attendees	Individual Meeting Attendees	Participant Action					
				Enroll	Save More	Asset Allocation	Consolidate	TRAK	RST
8/3	CCS		6		4	3		3	4
8/3	Harbor		2		1	2			2
8/4	YSC			1	2			4	3
8/4	455		1			1	1		1
8/7	455	9		6					
8/8	Univ EPA		2	1	1		1	2	2
8/10	455		6		2	4	1	4	3
8/10	555	14							
8/10	Maple St	13							
8/14	SMMC		9	2	3	6	2	6	7
8/15	801		2		1	1		1	2
8/21	HOJ		1	1	1	1		1	1
8/21	2000		3	1	2		1	3	3
8/21	455	11							
8/22	455		8		3	4	1	1	6
8/23	Quarry		1			1	1		1
8/28	SMMC	23							
Total	17	70	41	12	20	23	8	25	35

Onsite meeting results

Prescribe:
Targeted messages, meetings

One-to-One Messaging

Diagnose:
The MassMutual RetireSMART[SM] Ready Tool

Date	Location	Group Meeting Attendees	Individual Meeting Attendees	Participant Action					
				Enroll	Save More	Asset Allocation	Consolidate	TRAK	RST
9/5	455	8	4	5	1	2	2	2	3
9/5	Maple		5		3	2	1	4	3
9/6	SMMC		3			2	1	3	2
9/7	455	12		7					
9/7	2000		2			1	1	2	2
9/8	Maple		6	1	1	4		4	5
9/13	Coyote Pt	2							
9/15	SMMC		11		4	5	3	7	8
9/18	455	10		7					
9/18	Univ EPA		1		1	1	2	1	1
9/19	455		7		2	4	3	5	6
9/22	SMMC		1		1			1	1
Total	12	32	40	20	13	21	13	27	31

Onsite meeting results

Date	Location	Group Meeting Attendees	Individual Meeting Attendees	Participant Action					
				Enroll	Save More	Asset Allocation	Consolidate	TRAK	RST
JULY	11	56	45	41	17	23	7	27	30
AUG	17	70	41	12	20	23	8	25	35
SEP	12	32	40	20	13	21	13	32	31
Total	40	158	126	73	50	67	28	111	96

Prescribe:
Targeted messages, meetings

One-to-One Messaging

Diagnose:
The MassMutual RetireSMART[SM] Ready Tool

MassMutual

RS-41492-01

County of San Mateo Quarterly Contribution Report

GA #	Calendar Year	Quarter	EE Pre-Tax	EE Roth	Sum
150018	2016	1	$4,074,209.93	$435,589.92	$4,509,499.85
61869-1	2016	1	$785,003.50	$108,057.52	$893,061.02
61869-1	2016	2	$5,837,856.22	$738,468.22	$6,576,634.44
61869-1	2016	3	$5,414,639.16	$735,646.32	$6,150,285.48
61869-1	2016	4	$4,690,748.46	$672,966.46	$5,363,714.92
61869-1	2017	1	$6,237,144.14	$974,332.43	$7,211,476.57
61869-1	2017	2	$5,717,738.53	$857,348.96	$6,575,087.49
61869-1	2017	3	$6,134,167.32	$978,802.21	$7,112,969.53
		Sub Total	$38,891,507.26	$5,501,212.04	
				Total	**$44,392,719.30**

San Mateo County Rollovers Out 3Q 2017

Plan Number	Subscriber Name	Payee Name	Post Date	Payee Type	Gross Amount of Distribution
1	County of San Mateo	SamCERA	7/14/2017	457(b) Plan to Plan Transfer	$3,451.92
1	County of San Mateo	SanCERA	8/30/2017	457(b) Plan to Plan Transfer	$14,118.94
1	County of San Mateo	SanCERA	9/12/2017	457(b) Plan to Plan Transfer	($14,118.94)
1	County of San Mateo	SanCERA	9/12/2017	457(b) Plan to Plan Transfer	$4,118.94
1	County of San Mateo	SanCERA	9/14/2017	457(b) Plan to Plan Transfer	($4,118.94)
1	County of San Mateo	SamCERA	9/14/2017	457(b) Plan to Plan Transfer	$4,118.94
SubTotal Rollover Out to SamCERA					**$7,570.86**

1	County of San Mateo	Allianz Annuity	09/28/2017	IRA Rollover	$100,000.00
1	County of San Mateo	Allianz Life	08/02/2017	IRA Rollover	$194,761.20
1	County of San Mateo	Ameriprise	08/22/2017	IRA Rollover	$633,557.35
1	County of San Mateo	Ameriprise Financial.	09/06/2017	IRA Rollover	$75,891.93
1	County of San Mateo	CHARLES SCHWAB	09/05/2017	IRA Rollover	$347,279.06
1	County of San Mateo	Fidelity Brokerage ServicesLLC	09/18/2017	IRA Rollover	$23,365.00
1	County of San Mateo	Fidelity Management Trust Co	07/11/2017	IRA Rollover	$72,357.93
1	County of San Mateo	FIIOC	09/27/2017	IRA Rollover	$164,155.60
1	County of San Mateo	FIIOC	08/11/2017	IRA Rollover	$629.42
1	County of San Mateo	FMTC	08/01/2017	IRA Rollover	$40.58
1	County of San Mateo	ICMARC	07/18/2017	IRA Rollover	$1.91
1	County of San Mateo	Life Insurance Company of the	09/08/2017	IRA Rollover	$123,515.86
1	County of San Mateo	MassMutual	07/18/2017	IRA Rollover	$10,165.71
1	County of San Mateo	MassMutual	07/21/2017	IRA Rollover	$10,165.71
1	County of San Mateo	MassMutual	07/21/2017	IRA Rollover	($10,165.71)
1	County of San Mateo	Merrill Lynch	08/23/2017	IRA Rollover	$1.13
1	County of San Mateo	Morgan Stanley	09/18/2017	IRA Rollover	$303,620.19
1	County of San Mateo	National Financial Services	08/04/2017	IRA Rollover	$167,981.82
1	County of San Mateo	Nationwide	07/24/2017	IRA Rollover	$9,089.79
1	County of San Mateo	Oppenheimer Funds	08/14/2017	IRA Rollover	$104,122.65
1	County of San Mateo	PERSHING, LLC,.	09/19/2017	IRA Rollover	$30,238.06
1	County of San Mateo	Provident Trust Group	09/05/2017	IRA Rollover	$235,371.83
1	County of San Mateo	Security Benefit.	8/1/2017	IRA Rollover	$2,811.01
1	County of San Mateo	State Street Bank and Trust Co	09/18/2017	IRA Rollover	$27,175.45
1	County of San Mateo	TD Ameritrade	08/15/2017	IRA Rollover	$5,949.70
1	County of San Mateo	Thrift Savings Plan	08/08/2017	IRA Rollover	$171,475.65
1	County of San Mateo	Thrivent Financial	09/26/2017	IRA Rollover	$52,255.54
1	County of San Mateo	TIAA	07/13/2017	IRA Rollover	$8,698.10
1	County of San Mateo	UBS Financial Services	07/21/2017	IRA Rollover	$204,520.55
1	County of San Mateo	Vanguard FTC	09/01/2017	IRA Rollover	$72,601.23
1	County of San Mateo	VFTC	07/24/2017	IRA Rollover	$243,948.03
1	County of San Mateo	Voya Institutional Trust Co	08/31/2017	IRA Rollover	$6,828.28
1	County of San Mateo	Voya Trust Company	09/07/2017	IRA Rollover	$1,528.60
1	County of San Mateo	FOLIOfn Investments Inc.	07/24/2017	Roth IRA Conversion Rollover	$2,148.74
1	County of San Mateo	MassMutual	07/17/2017	Roth IRA Conversion Rollover	$30,000.00
1	County of San Mateo	Ameriprise.	08/22/2017	Roth IRA Rollover	$23,131.32
1	County of San Mateo	Ameriprise Financial	09/06/2017	Roth IRA Rollover	$4,500.93
1	County of San Mateo	FOLIOfn Investments, Inc.	07/24/2017	Roth IRA Rollover	$4,007.43
1	County of San Mateo	Merrill Lynch	08/23/2017	Roth IRA Rollover	$1,540.66
1	County of San Mateo	PERSHING, LLC,	09/19/2017	Roth IRA Rollover	$838.26
1	County of San Mateo	Security Benefit	08/01/2017	Roth IRA Rollover	$2,659.48
1	County of San Mateo	TD Ameritrade.	08/15/2017	Roth IRA Rollover	$9,750.96
SubTotal Rollover Out to Other					**$3,472,516.94**

Total Rollover Out	**$3,480,087.80**

YOUR RETIREMENT

AT YOUR SERVICE.



COUNTY OF SAN MATEO

DEFERRED COMPENSATION PLAN

2018 PARTICIPANT EDUCATION STRATEGY

Prepared by Patrick Washington l Education Specialist l MassMutual

Plan Overview

Save

- $275.21/ average contributions

Consolidate

- Less than 5 years with the plan
- Agile/Extra Help Consolidation

Sign Up

- 76% eligible employees participating (4,273)
- 24% non-participating

Allocate

- 32.7% in Fixed Account
- 16.8% in asset allocation/balanced funds (all data as of 9/30/17)

# Participant Interactions	# of PPT in Group Seminars	# of Participant Actions	Action Ratio*	# of Rollovers	Trak Demo
1,464	851	805	55%	38	217

Considerations:

- Achieved a 15% increase in participant outreach over 2015
- Addition of Online Meeting Scheduling with RES (VCita)
- Web-Ex Group Presentations
- Feb-Mar 2016 Transition (Transition Meetings)
- Addition of Auto Enroll
- Ease of investment selection due to Target Dated Solutions
- Greater Departmental Penetration
- Participant outreach through custom campaigns/in-person interaction
- All departments/All shifts

2016 Education Results

# Participant Interactions	# of PPT in Group Seminars	# of Participant Actions	Action Ratio*	# of Rollovers	Trak Demo
1,690	845	845	50%	52	350

Considerations:

- At least 10% increase in participant outreach
- Updated Online Meeting Scheduling with RES (VCita)
- Web-Ex Group Presentations
- Addition of Auto Enroll
- Ease of investment selection due to Target Dated Solutions
- Greater Departmental Penetration
- Train the Trainer: Wellness Champions, LMS Admin, Payroll Council
- Participant outreach through custom campaigns/in-person interaction
- All departments/All shifts

2017 Education Goals

# Account Interactions	# of PPT in Group Seminars	# Participant Interactions*	# of Participant Actions	Action Ratio*	# of Rollover	Trak	RetireSMART Ready Tool
1684	971	939	490	52%	54	52	137

Considerations:

- At least 10% increase in participant outreach
- Updated Online Meeting Scheduling with RES (VCita)
- Web-Ex Group Presentations
- Addition of Auto Enroll
- Ease of investment selection due to Target Dated Solutions
- Greater Departmental Penetration
- Train the Trainer: Wellness Champions, LMS Admin, Payroll Council
- Participant outreach through custom campaigns/in-person interaction
- All facilities/ All departments/ All shifts

2017 Education Results

# Participant Interactions	# of PPT in Group Seminars	# of Participate Actions	Action Ratio*	# of Rollovers	Retire SMART Ready Tool
1,860	930	1120	60%	65	350

Considerations:

- At least 10% increase in participant outreach
- More facilities set up with online scheduling with RES (VCita)
- Web-Ex Group Presentations
- Ease of investment selection due to Target Dated Solutions
- Greater Departmental Penetration
- Train the Trainer: Wellness Champions, LMS Admin, Payroll Council
- Participant outreach through custom campaigns/in-person interaction
- Retiree outreach – account retention efforts
- All departments/All shifts

2018 Education Goals

- Group Meetings
  - *Attendance is Key. Approach group education strategically, by participating in events where employees are likely or mandated to attend*
  - *Web-Ex*
  - *New Hire Orientations*
  - *Retirement Seminars*
  - *Department Meetings*
- Personalized Counseling
  - *Departments: Focus on high concentration of participants*
  - *All Hours All Shifts*
- Web-Base Information
  - *Email*
  - *County Website*
  - *MassMutual Participant Website*

NAGDCA Best Practices

- Increase plan participation
    - *Sign-up campaign: custom mailer to those not participating*
    - *Auto Enroll New Employees*
    - *Group & On-site 1 on 1 meetings at County Departments*
        - *Benefits of Saving: Traditional vs Roth*
    - *Department outreach for onsite education and enrollment*
    - *Eligibility data from County to target non-participants*

- Increase deferrals
    - *Save campaign: custom campaign with multiple touch points to those currently deferring*
    - *Promotion of National Save for Retirement Week (All of October)*
    - *Group & On-site 1 on 1 meetings at County Departments*
        - *“Benefits of Increasing Deferred Amounts”*
        - *“Catch Up Options”*
        - *Retire Ready Tool Demo*

Proposed Strategy and Tactics

- Consolidation
  - *Consolidate campaign: target participants in plan 5 years or less with no rollover assets on record*
  - *Discuss consolidation options in enrollment education meetings, new hire orientations and individual sessions*
  - *Provide education during onsite 1 on 1 meetings and introduce rollover service concierge team*

- Diversification
  - *Allocate campaign: target anyone not eligible for Consolidate campaign with 4 or fewer investments (excludes asset allocation and target date options)*
  - *“A Balanced Approach to Investing” education seminars County-wide*

Proposed Strategy and Tactics

January '18

- ❑ Group Education:457 Enrollment & Roth Option
  - ❑ Active Employees:
    - ❑ not enrolled;
    - ❑ not using Post-Tax
  - ❑ Active/Retiree-
    - ❑ Benefits of In-Plan Roth Conversion
- ❑ Sign-Up/Save Campaign – will run Jan/Feb timeframe
  - ❑ Sign-Up: Encourage enrollment for employees not enrolled in the plan
  - ❑ Save: Encourage increases for those currently saving

February '18

- ❑ Group Education: Save More/ TRAK Workshop
  - ❑ Active Employees
    - ❑ Enrolled – How to Save More
    - ❑ Not Enrolled- How to enroll and find where to save

March '18

- ❑ Agile/Extra Help Account Benefits / Transition
  - ❑ Agile/ Extra Help Employees
  - ❑ Employees hired Full-Time after Agile or E/H

2018 Communications Efforts

April ’18

- Group Education: Understanding Social Security
  - Any Active Employees eligible for S.S.

May ’18

- Group Education: Consolidation How-to and Consolidation for Agile/Extra Help
  - Active Employees with previous employer accounts
  - Employees hired Full-Time after Agile or E/H time

June ’18

- Group Education:457 Enrollment & Roth Option
  - Active Employees:
    - not enrolled;
    - not using Post-Tax
  - Active/Retiree-
    - Benefits of In-Plan Roth Conversion

2018 Communications Efforts

July ’18

- Group Education: Catch Up Provisions
  - Active Employees:
    - Approaching Age 50
    - Not Enrolled
- Consolidate Campaign
  - Active employees with less than 5 years of service on record and no rollovers recorded

August ’18

- Group Education: TRAK Demos
  - Active Employees
    - Enrolled – How to Save More
    - Not Enrolled- How to enroll and find where to save

September ’18

- Group Education: Benefits of Asset Allocation
  - Active Employees
    - Participating
    - Full-Time/Part-Time
- Allocate Campaign
  - Goal is to encourage participants to allocate appropriately. Target population TBD.

2018 Communications Efforts

October ’18

- County Benefits Fair 2 Day
- Group Education: Benefits of Participating / Increasing
  - Active Employees
    - Not Enrolled
    - Enrolled- not maximized
- Education: National Save for Retirement Week (NS4RW)
- Retirement Planning Seminar
  - Active Employees
    - Not Participating
    - Not Maximized
    - Nearing Retirement

November ’18

- 2018 IRS Contributions Update
  - Email announcing new limits
- Group Education: Retirement Income Options
  - Active Employees
    - Nearing Retirement

December ’18

- Group Education: Catch Up Provisions
  - Active Employees
    - Not Participating
    - Nearing Retirement

2018 Communications Efforts

NAGDCA 2017 Conference Highlights

The annual conference for the National Association of Government Defined Contribution Administrators (NAGDCA) was held in Milwaukee, WI from September 24-27. The conference provides an excellent opportunity to learn from key Washington personnel what is happening on the legislative, regulatory and IRS audit front and to also hear from industry experts and peers about their best practices. Each year NFP / SST summarizes key conference issues and recommendations.

(*Conference presentations are currently on NAGDCA's website (www.nagdca.org). We encourage you to take time to view the presentations.*)

KEYNOTE SESSION

This year, the conference opened with a presentation entitled *Lessons from Behavioral Economics for Public Pension Plans.* Brigitte Madrian from the Harvard Kennedy School opened her comments by contrasting "traditional" with "behavioral" economics by comparing them to Mr. Spock (Star Trek) and Homer Simpson (The Simpson's). Mr. Spock is rational, thoughtful, unemotional and intentional. Homer Simpson is impulsive, reactive, highly emotional and haphazard. The world of defined contribution plans is complicated. There are lots of choices, uncertainty about the future and limits on how we can learn from experiences. As hard as financial literacy is for experts it is significantly harder for novices. As much as we would like our plan participants to behave like Mr. Spock, we need to acknowledge that they are more like Homer Simpson and we need to develop strategies that account for their behavior.

We all have behavioral biases. We have a bias for the present over the future, for inattention and for heuristic thinking (stimulating interest as a means of furthering investigation). Retirement planning is complex. We offer different designs: Defined Benefits (DB) vs. Defined Contribution (DC) vs. hybrid plans. We provide supplemental DC plans and pre-tax vs. Roth options. We ask participants to think about how much they need to save. We are demanding a lot of our participants in terms of their understanding or their willingness to invest time to understand these complexities, especially when we add procrastination into the mix.

As a result of these challenges we know some facts about participation. There is a direct correlation between number of funds and participation: the greater the number of funds, the lower the participation. When we establish asset allocation choices, participants can more easily evaluate fewer options. They are likely to give more weight to the familiar. Diversification is not automatic. There is a preference for the status quo even when you implement auto enrollment or auto diversification. Options at the beginning of any list will be more highly selected than those at the end and the size of assets or numbers of participants in any option will make us inclined to select that option.

There are solutions to the many biases our participants possess. Plans should make few options available and pick a sensible default option. It is important to simplify the enrollment process through the use of "easy enrollment" strategies or the use of Target Date Funds. Because of inattention it is valuable to repeat communications. We should evaluate opt-in vs. opt out strategies.

The session closed with eleven recommended overall strategies plan sponsors should consider:

1. Seek to implement auto enrollment
2. Differentiate default options (including Traditional or Roth, DB invested or not)
3. Reduce options
4. Make choices comparable
5. Offer active choice
6. Consolidate and simplify enrollment
7. Exploit existing decision moments (Open Enrollment, Secure Retirement Week)
8. Encourage a "fresh start" (New Year resolutions, pay increases)
9. Offer frequent reminders
10. Incorporate planning aids
11. Establish a preference checklist

GENERAL SESSIONS

There were a number of general sessions throughout the conference. Below is a summary of the key remarks and recommendations in these sessions.

The New Washington

This session opened with an announcement that the Congressional designation of Retirement Security Week Resolution was scheduled for the following week. (The resolution was subsequently approved by Congress.)

With the failure of health care reform, Congress is pivoting to tax reform for both corporations and individuals. The two primary sources of revenue that Congress is likely to review are: 1) Employer sponsored health care and 2) Defined Contribution plans. With the later, the term "Rothification" is being used to consider whether all or a portion of contributions should be post- tax instead of pre-tax. The Congressional Budget Office estimates that $680 billion dollars are "lost" through DC pre-tax contributions. Although there is stiff opposition, these tax reforms may be proposed independently or combined with repealing and replacing the Affordable Care Act (ObamaCare). There is also an exploration of numerous other options: 1) whether teachers should be allowed to contribute to both 403(b) and 457(b) plans 2) whether all defined contribution plans should be combined into a single option, 3) whether catch-up provisions should be eliminated, 4) whether having a ten year moratorium on annual maximum contributions should be implemented or 5) whether maximum annual contributions should be divided with $9,000 pre-tax and $9,000 post-tax.

The session also highlighted the fiduciary litigation activities and posed the question of whether non-ERISA plans should be concerned. In the 403(b) area, the use of too many providers and too many fund options are the source of primary concern. In 401(k) plans, it is the absence of due processes for selecting, monitoring and replacing funds that represent the most likely area of exposure.

Above and Beyond: The Latest in Menu Innovations

This session featured the changes made in North Carolina's DB and especially DC plans. The state has nine DB plans with assets of $93 billion. There are three DC plans. The 457(b) plan has 53,080 participants and assets of $1.3 billion. The 401(k) has 247,114 participants and $9.2 billion. The 403(b) has 1,186 participants and $11 million.

The state does not offer either Self Directed Brokerage Account or managed accounts in their plans. In both 2009 and 2011, the plans began to simplify the investment line up, reduce fees and seek to leverage both DB and DC assets to further reduce fees. Since then, the plan has sought to over-communicate, minimize jargon, offer town hall meetings and robo-calls to influence behavior. The State implemented a "white label" approach where funds have a generic name and underlying fund managers are selected by the State. When there are changes to the fund managers, there are no changes to the fund name.

The State seeks to have individuals retire with 80% of income at age 62. At present, 62% of all employees and 73% of employees who also invest in DC options are on track to meet that goal.

Further simplification to the plans has been made in 2017 including changing the TDF glide-path from “to” to “through” and to re-examine both the process and documentation of the State’s actions.

This session also discussed the use of technology to improve education and engagement and to convert assets to income stream for participants. It is also important, where possible, to automate the journey through auto-enrollment, auto-escalation and auto-investing. In general, it is critical to align choices with values and to re-look at the incorporation of Environment, Social and Governance (ESG) standards into investments.

Closing Session

The Closing Session was entitled *Seeing Around the Corner: The Future of Retirement Savings.* The speaker noted that we suffer losses more than we enjoy gains by a margin of 2.25 times. We also have the mistaken impression that “things are worse” now than they have ever been in spite of factual evidence to the contrary.

World poverty is down by 5%; it accounted for 53,000 deaths in 1970 but only 32,000 in 2015. A total of 2,450 calories are necessary to sustain life and world-wide we have an average of 3,200 calories. The “good ole days” weren’t:

- In 1970 we had a $1 trillion dollar economy, there were 3.6 billion people, 110 food famines and insufficient caloric sustainability. Then we had an agricultural revolution which resulted in the increase in caloric intake we enjoy today.
- In 2016, we had a 19 trillion dollar economy, 7.5 billion people and the smallest number of people in the world in abject poverty.

The number of people in the middle class throughout the world has steadily increased. Longevity has also increased and the result is that more people need retirement because they are going to live longer and desire more, in terms of goods and services than were ever needed and desired before.

Robotics is changing the world. Driverless trucks and cars are becoming and will continue become normal, dairy food production will continue to increase. We will enter a period which could be described as the “Internet of Things” where everything that can have a transistor will have a transistor. Telemedicine will re-shape health care delivery. In essence, we will have “direct-to-consumer” everything. 3D printers will reshape manufacturing (from vaccines to appliances to tools). Everything will be personalized.

In this world, retirement will become increasingly important and a world-wide requirement.

CONCURRENT SESSIONS

Education, Guidance vs. Advice

Despite its name, this session didn’t actually focus on the differences between Education/Guidance and Advice, instead, it highlighted a few different methods in which plan sponsors are providing advice.

This session was kicked off by discussing the various ways a participant might have their account managed and how they ended up with that option. While many participants will manage their assets on their own, an increasing number of participants are defaulted into an investment option such as a target date fund (and to a much lesser extent, managed accounts). The speaker emphasized that even though managed accounts are more personal, they are in fact an investment option and must be monitored like any other option in the plan.

Colorado PERA was up next and they focused on building online tools for their participants, but also send representative out in the field to educate and enroll new participants. Colorado emphasized their use of the Financial Engines managed account system as a way to provide additional planning opportunities for those who are willing to provide the required information. The system also shares data with the record-keeper in order to pre-fill much of the needed information.

The Utah Retirement System (URS) was the most interesting presentation due to the extent to which they are involved with one-on-one financial planning with their members. The URS has a staff of twelve individuals, many of which are CFPs that actually meet with participants and help them plan their retirement, a perk that is quite rare in the government plans. This generated a lot of questions from the audience, most of which centered on cost. Providing qualified financial planners with no interest in selling products and who will meet with participants individually is not a cheap proposition, but the URS has seen much success with this effort and it has helped participants save money they might have otherwise spent hiring someone for such advice. The one drawback is that the scope of planning is not the same as if someone engaged an independent fiduciary financial planner due to limitations of being affiliated with the System.

Overall, the session focused more on different advice delivery models than it did on the differences between Education and Advice and when either is appropriate.

Financial Wellness To and Through Retirement

This session explored various facets of the topic of financial wellness. Three broad concepts were explored – holistic planning, healthcare costs, and “mental accounting”. Beginning with the holistic planning portion, employer survey results indicate that: 92% are expanding financial wellness programs; one-third of the workforce is 50 or older; and 73% are planning for increased healthcare costs due to an aging workforce.

Holistic planning is therefore critical. In addition to any defined contribution (DC) assets, the following factors should also be considered: outside assets, income forecasting, and leveraging retirement income/savings to increase social security benefits. Employing a “naïve social security strategy” versus a well-planned one could result in a lifetime benefit difference of tens of thousands of dollars. For example, many individuals have it ingrained in them to delay utilizing DC assets as long as possible. However, using some of these assets in order to delay social security distributions and, in the process, allowing for the social security benefit to increase over time, can result in a greater benefit in the aggregate. Retirees are not using these holistic strategies for several reasons, including human behavior (again, people don’t want to touch their defined contribution plan assets); many “solutions” are just tools / education (they don’t drive action); lack of access to financial help due to asset minimums; and high fees (retail advisor fees often range from 0.85% to 2.00% or more).

The next topic discussed was healthcare. Healthcare costs often represent the largest retiree expense. Additionally, healthcare costs are increasing at a rate faster than the CPI (inflation). One 2016 study found that a healthy retiring couple would need $275,000 for out-of-pocket medical expenses over the course of their retirement. Creating awareness around healthcare costs was identified as a critical goal. A retiree needs to ask 3 questions: 1) How much money do I need?, 2) How much money can I withdraw? and 3) How long will my money last? On average, someone needs to hear a message 7 times before they take action. That’s why constant communication is so important. Healthcare cost calculators can also play an important role.

Five steps participants can take included: 1) Control what they can, 2) Make a ballpark budget, 3) Determine if they’ll receive retiree health insurance, 4) Explore health savings options, and 5) Set aside funds in a retirement account. Participants pay more for healthcare under the following scenarios: 1) if they retire early, 2) as they age, and 3) if they are single.

The concept of “mental accounting” was discussed. This concept asserts that decision-making is exhausting so we tend to “cheat”. Our minds code, categorize, and evaluate economic activities. This allows us to save time, economize thinking, and increase self-control. However, it’s not necessarily benefitting us because it’s usually based on subjectivity, rather than logic.

For example, we categorize funds differently based on their origin. We assign the funds different levels of risk on the “logical to emotional” spectrum. With earned income (i.e. our paychecks), for example, we tend to be very logical with our decision making and risk taking. These funds are usually earmarked for recurring bills. Lottery winnings, on the other hand, would be at the very other end of the spectrum. Very little logic goes into how the funds would be spent. Most would tend to use the funds for frivolous fun and the willingness to take risk with these funds would tend to be high.

Another concept discussed was the various “buckets” of funds that people establish for various goals (education, buying a home, funding retirement, etc.). Instead of trying to fund multiple buckets at once, a more effective approach might be to focus on filling just one bucket and then moving on to the next. Six specific buckets were identified and ordered in importance as follows: 1) Necessities, 2) Healthcare, 3) Emergencies, 4) Fun, 5) Bequests, and 6) Luxury. The first three items were categorized as “Needs for Retirement”. The fourth item (fun) was categorized as a “want”. The final two items were categorized as aspirational or “wishes”.

Participant Action: Using Behavioral Economics to Shape Participant Communications that Engage Participants and Promote Positive Actions

A shorter title for this work was offered as Communicating in Ways that Work. This session opened with a focus on women. There are 6 million more women than men at age 65 and 68% more as age 85+. Women are more likely to be in poverty. They prefer being given “simple, actionable steps”; they want basic knowledge that helps them make informed decisions. For women, finances reside in a context of broader goals. They are more strongly risk averse and more likely to underestimate their own longevity.

All participants seek to build their knowledge and confidence by understanding the basics. It is essential for plan sponsors to segment their audience and make all communication about specific, actionable steps because of the inherent issues of “choice overload” and “inertia”. A newer concept that should be applied by plan sponsors is salience, the prominent or projecting information for any segment of the plan population.

It is critical for plan sponsors to reduce their understanding of participant priorities to needs, wants and barriers. By targeting knowledge through visual disclosure (not charts and graphs) plan sponsors can increase both understanding and action. The use of white space is important as dense texts heighten mistrust. The media for this communication needs to include both print and e-mail as both reach different segments of the plan participant population.

Plan sponsors need to build knowledge and confidence in their participant population by building trust in their communications and focusing on the issues those participants encounter, not by legal or complex explanations of options and choices. The purpose of those communications should be to motivate participants to plan and take action and that is accomplished by understanding the risk aversion and regret aversions participants have.

Behavioral Economics: From Theory to Practice

It is important for plan sponsors to "frame" their understanding of the issues facing their participants. The two top issues are the problem of too many funds and the repeated use of confusing jargon. These two problems argue for the creation of white label funds which are named for their general asset allocation characteristic and not by the specific underlying funds that comprise the option.

A second major strategy in addressing behavior characteristics is to offer active choice which force answers beyond a simple yes or no response to enroll in the plan. Plan sponsors should consider frequent open enrollments beyond those offered to new employees, to force employees to actively select or express their preferences. The panel encouraged attendees to avoid the use of the term "fees" because of its negative connotation (i.e. additional airline fees) which imply they are extraneous. A better term to use with participants is "cost". (This corresponds with the type of information provided in last year's NAGDCA conference regarding specific words that should / should not be used when conveying messages to participants.)

Because participants are more likely to value the here and now than the future, it is important to model different changes participants may easily make to increase by 1% or 2% their contribution and the overall impact that the change has, in the long term, on their retirement security.

It is essential to make taking action easy. It is also important to follow-up initial steps with subsequent messaging that re-enforces the goals individuals seek. Participants can also display "anchoring" which means they are too often relying on extraneous information (what other people would do, what close friends would do). This behavioral characteristic means that participants can too easily emphasize one trait or piece of information when making decisions. Plan sponsors can counter this behavior by offering simple, easy choices communicated in a straightforward way.

One factor often overlooked in auto-enrollment features is the percentage that is recommended initially. The panel believed that the most often used amount of 3% was based on an IRS example of contributions which cited 3% as an example. As a result, it is important for plan sponsors to think through auto-enrollment amounts because they often shape the decision of participants. When 3% is suggested, participants opt for 3% and do not often make changes (arguing for auto-escalation). As a result, it is critical for plan sponsors to invest time when considering auto-enrollment design, not only on the percentage that should be used but how that percentage can and should be modified over time.

Understanding Fees and Avoiding Fee-Based Litigation

This session addressed explicit versus implicit plan fees; current litigation in defined contribution plans and a plan sponsor case study with the Sanitation Districts of Los Angeles County. There are many different fees present in defined contribution plans and may include investment management fees, management fees, administrative fees, revenue sharing fees and more. It is imperative that plan sponsors are aware of the various fees charged to either participants or plan sponsors. These fees can be charged as asset-based, dollar-based or a combination of the two. The presenters suggested that plan sponsors develop a written fee policy and monitor the plans regularly for fee compliance.

Fees have generally declined over the past decade and the use of a plan expense reimbursement allowance has increased over the same period. For instance, the use of plan assets to pay for appropriate plan expenses has increased to 58% of plans in 2015, up from 20% in 2006.

Many, but not all, mutual funds have revenue sharing built into the expense structure of the fund. These revenue sharing arrangements are often called 12b-1 distribution fees, sub-transfer agent fees (sub TA fees), servicing fees and commissions. The most common are 12b-1 and sub-TA fees.

All plans usually have a cost to administer by the plan sponsor and it is considered appropriate for plan assets to pay for appropriate plan expenses. There are various ways to collect funds for these expenses including Method 1: using revenue sharing to offset expenses; Method 2: zero expense revenue investment lineup and an explicit administrative asset charge; and Method 3: lowest all-in fee approach. With the lowest all-in fee approach, plan sponsors need to make sure that any revenue generated be credited back to the participant invested in the fund.

Fee “levelization” has become a popular way to equalize the fees paid for plan administration between participants. There are also three methods of fee levelization, Method 1: Revenue Rebating where the record-keeper collects all revenue sharing and periodically rebates it back to the participant invested in the fund. Method 2: Partial Revenue Offsetting is where revenue sharing is collected up to a point. In the event the revenue does not satisfy the plan revenue requirement, the participant invested in the fund will be charged a wrap fee. Method 3: Full Revenue Offsetting is identical to the partial revenue offsetting with any excess revenue credited back to the participant invested in the fund.

The method by which participants are charged these administrative fees are either an asset based pro-rata charge, a fixed dollar participant charge or a combination of the two. Presenters suggested that the plan sponsor should consider the pro-rata method so as to not significantly disadvantage participants with lower balances.

The most common types of lawsuits are excessive record-keeping or investment fees in the lineup. The key themes in most of these lawsuits are requirements in ERISA (which many times is considered best practice), however governmental plans are exempt from this requirement. Duty of loyalty, duty of prudence and prohibited transactions lead the lawsuit themes. The steps to address these lawsuit concerns generally are to follow best practices. While governmental plan sponsors are exempt from ERISA, most State laws address these issues and many have taken language straight from ERISA.

The case study of the Sanitation Districts of Los Angeles County discussed the 457(b) plan with approximately $292 million in assets for the employees and retirees of 24 separate legal districts in 78 cities around the LA area. They moved to one provider and an open architecture structure in 1996 and do an RFP on the plan every 5 years. They have an explicit fee disclosure, a quarterly asset-based fee charged with no cap. The portfolio is made up of publicly traded mutual funds, institutional share class. A year prior to retirement, their provider has a CFP meet with them to discuss the features of the plan after they separate from service.

Internal Benchmarking for Continuous Improvement

There were two conference sessions discussing benchmarking, both external and internal. External benchmarking helps the plan sponsor identify areas where their plan is behind peers in the industry, and set goals for plan growth and improvement. Internal benchmarking helps the plan sponsor measure internal changes over time, and can help you determine if you are meeting the goals for plan growth and improvement.

Identifying other plans that are like yours will be most useful in external benchmarking. Some of the comparators plan sponsors can use to identify peers will be plan asset size, numbers of participants, optional features offered – such as auto-enrollment, loans, and self-directed brokerage accounts. Once you know your peers, you can look at their plans and how they compare to yours. Find the areas where your plan is significantly different from your peer group and you will have a good start for developing goals, strategies and action steps for improvement.

Once you’ve implemented your strategies, you will want to evaluate the effectives of your efforts. For instance, did you develop an education program that was intended to help non-participants understand the benefits of enrolling? If so, you will want to measure overall participation at the beginning and end of your education period to see if participation has increased.

Other areas where you may want to benchmark include:

- Participant demographics, e.g., participation by age, gender, ethnicity, department, etc.
- Contribution rates
- Average account balance
- Fees and charges
- Investment diversification

NAGDCA conducts member surveys every year, and offers peer averages you can use to compare to your plan. We encourage all our clients to partner with their record keeper to complete the survey; all plan sponsors who complete the survey are given a free copy of the results.

Discussion Deck

For the second straight year, NAGDCA introduced an interactive approach by encouraging participants to join breakout groups to cover specific topics. The chief objective of this design is to have participants learn from one another and to see how different plan sponsors address common issues.

Each table had a deck of cards that posed questions. Participants were dealt cards and then, rotating from one participant to the next, questions were posed and answered by each of the participants based on their own plan's experience.

Questions asked included topics like:

1. What strategies are you employing to reduce asset leakage from your plans?
2. Do you think millennials should be communicated with differently that other groups?
3. Do you have an automatic enrollment feature? Why or why not?
4. Are you concerned about cyber security? What safeguards are in place?
5. Should retired participants convert account balances into some type of ongoing income stream?

These types of questions allowed participants to consider strategies pursued by other plan sponsors and to evaluate whether they had any additional changes they should consider for their own plans.

Government Breakout Sessions

As in the past, NAGDCA also offered six different breakout sessions to government employee participants (not industry participants) to discuss any issues they chose to raise. Because we were unable to attend these sessions, our clients will need to hear from their colleagues about how these sessions evolved and what discussions occurred.

Public Sector Retirement News & Views | Q4 2017

The annual conference for the National Association of Government Defined Contribution Administrators (NAGDCA) was held in Milwaukee, WI from September 24-27. The conference provides an excellent opportunity to learn from key Washington personnel regarding what is happening on the legislative, regulatory and IRS audit front and to also hear from industry experts and peers about their best practices. This issue of *News & Views* summarizes key conference issues and recommendations. Conference presentations are currently on NAGDCA's website (www.nagdca.org). We encourage you to take time to view the presentations.

LESSONS FROM BEHAVIORAL ECONOMICS FOR PUBLIC PENSION PLANS

Everyone has behavioral biases. Many people have a bias for the present over the future, for inattention and for heuristic thinking (stimulating interest as a means of furthering investigation). Retirement planning is complex with different designs offered— defined benefit (DB) versus defined contribution (DC) versus hybrid plans. Additionally, there are supplemental DC plans and pre-tax versus Roth options. Participants are asked to think about how much they need to save which may be demanding too much of participants in terms of their understanding or willingness to invest time to understand these complexities, especially when procrastination is added into the mix.

As a result of these challenges, one can see certain patterns. There is often a direct correlation between the number of funds and participation. The greater the number of funds, the lower the participation. When asset allocation choices are established, it's often easier for participants to evaluate fewer options. They are likely to give more weight to the familiar. Diversification is not automatic, there is a preference for the status quo even when auto enrollment or auto diversification is implemented. Options at the beginning of any list are often more highly selected than those at the end and the size of assets or numbers of participants in any option will many times sway the majority to select that option.

There are solutions to overcoming the many biases participants possess. Plans can make fewer options available and pick a sensible default option. It is important to simplify the enrollment process through the use of easy enrollment strategies or the use of target date funds.

Strategies for plan sponsors to remember:

1. Seek to implement auto enrollment
2. Differentiate default options (including traditional or Roth, DB invested or not)
3. Reduce options
4. Make choices comparable
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7. Exploit existing decision moments (open enrollment, secure retirement week)
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THE NEW WASHINGTON

With the failure of healthcare reform, Congress is pivoting to tax reform for both corporations and individuals. The two primary sources of revenue that Congress is likely to review are: 1) employer-sponsored healthcare and 2) DC plans. With the latter, the term "rothification" is being used to consider whether all or a portion of contributions should be post-tax instead of pre-tax. The Congressional Budget Office estimates that $680 billion are lost through DC pre-tax contributions. Although there is stiff opposition, these tax reforms may be proposed independently or combined with repealing and replacing the Affordable Care Act (ObamaCare). There is also an exploration of numerous other options: 1) whether teachers should be allowed to contribute to both 403(b) and 457(b) plans; 2) whether all defined contribution plans should be combined into a single option; 3) whether catch-up provisions should be eliminated; 4) whether having a 10-year moratorium on annual maximum contributions should be implemented; or 5) whether maximum annual contributions should be divided with $9,000 pre-tax and $9,000 post-tax.

In light of recent fiduciary litigation activities, should non-ERISA plans be concerned? In the 403(b) area, the use of too many providers and too many fund options are the source of primary concern. In 401(k) plans, it is the absence of due processes for selecting, monitoring and replacing funds that represent the most likely area of exposure.

Even though the Department of Labor's Fiduciary Rule was postponed to June 2019, it is unlikely that Congress will overturn this regulation as they would have to do so outside budget reconciliation. There is a similar question about whether rothification can be addressed in budget reconciliation (which only requires 50 percent voting instead of the 60 Senate members for other actions).

ABOVE AND BEYOND: THE LATEST IN MENU INNOVATIONS

North Carolina has nine DB plans with assets of $93 billion and three DC plans—a 457(b) plan with 53,080 participants and $1.3 billion in plan assets, a 401(k) plan with 247,114 participants and $9.2 billion in plan assets and a 403(b) with 1,186 participants and $11 million in plan assets.

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FINANCIAL WELLNESS "TO" AND "THROUGH" RETIREMENT

Many employer survey results indicate that 92 percent are expanding financial wellness programs; one-third of the workforce is 50 or older; and 73 percent are planning for increased healthcare costs due to an aging workforce.

Holistic planning is critical. In addition to any DC assets, the following factors can also be considered: outside assets, income forecasting, and leveraging retirement income/ savings to increase Social Security benefits. Employing a naïve Social Security strategy versus a well-planned one could result in a lifetime benefit difference of tens of thousands of dollars. For example, many individuals have it ingrained in them to delay utilizing DC assets as long as possible. However, using some of these assets in order to delay Social Security distributions and, in the process, allowing for the Social Security benefit to increase over time, can result in a greater benefit in the aggregate. Retirees are not using these holistic strategies for several reasons, including human behavior (again, people don't want to touch their defined contribution plan assets); many solutions are just tools / education (they don't drive action); lack of access to financial help due to asset minimums; and high fees (retail advisor fees often range from 0.85 percent to 2 percent or more).

HEALTHCARE UPDATE

Healthcare costs often represent the largest retiree expense. Additionally, healthcare costs are increasing at a rate faster than the CPI (inflation). One 2016 study found that a healthy retiring couple would need $275,000 for out-of-pocket medical expenses over the course of their retirement. Creating awareness around healthcare costs is a critical goal. A retiree needs to ask three questions:

1. How much money do I need?
2. How much money can I withdraw?
3. How long will my money last?

On average, someone needs to hear a message seven times before they take action. That's why constant communication is so important. Healthcare cost calculators can also play an important role.

Five steps participants can take are:

1. Control what they can;
2. Make a ballpark budget;
3. Determine if they'll receive retiree health insurance;
4. Explore health savings options; and
5. Set aside funds in a retirement account.

Participants pay more for healthcare under the following scenarios:

1. If they retire early;
2. As they age; and
3. If they are single.

UNDERSTANDING FEES AND AVOIDING FEE-BASED LITIGATION

There are many different fees presented in DC plans and may include investment management fees, management fees, administrative fees, revenue sharing fees and more. It is imperative that plan sponsors are aware of the various fees charged to either participants or plan sponsors. These fees can be charged as asset-based, dollar-based or a combination of the two. Plan sponsors can develop a written fee policy and monitor the plans regularly for fee compliance.

Fees have generally declined over the past decade and the use of a plan expense reimbursement allowance has increased over the same period. For instance, the use of plan assets to pay for appropriate plan expenses has increased to 58 percent of plans in 2015, up from 20 percent in 2006.

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All plans usually have a cost to administer by the plan sponsor and it is considered appropriate for plan assets to pay for appropriate plan expenses. There are various ways to collect funds for these expenses including: 1) using revenue sharing to offset expenses; 2) zero expense revenue investment lineup and an explicit administrative asset charge; and 3) lowest all-in fee approach. With the lowest all-in fee approach, plan sponsors need to make sure that any revenue generated be credited back to the participant invested in the fund.

Fee levelization has become a popular way to equalize the fees paid for plan administration between participants. There are also three methods of fee levelization: 1) revenue rebating where the recordkeeper collects all revenue sharing and periodically rebates it back to the participant invested in the fund; 2) partial revenue offsetting where revenue sharing is collected up to a point. In the event the revenue does not satisfy the plan revenue requirement, the participant invested in the fund will be charged a wrap fee; 3) full revenue offsetting is identical to the partial revenue offsetting with any excess revenue credited back to the participant invested in the fund.

The method by which participants are charged these administrative fees are either an asset based pro-rata charge, a fixed dollar participant charge or a combination of the two. Plan sponsors should consider the pro-rata method so as to not significantly disadvantage participants with lower balances.

The most common types of lawsuits are excessive recordkeeping or investment fees in the lineup. The key themes in most of these lawsuits are requirements in ERISA (which many times are considered best practice), however governmental plans are exempt from this requirement. Duty of loyalty, duty of prudence and prohibited transactions lead the lawsuit themes. The steps to address these lawsuit concerns generally are to follow best practices. While governmental plan sponsors are exempt from ERISA, most state laws address these issues and many have taken language straight from ERISA.

The case study of the Sanitation Districts of Los Angeles County discussed the 457(b) plan with approximately $292 million in assets for the employees and retirees of 24 separate legal districts in 78 cities around the L.A. area. They moved to one provider and an open architecture structure in 1996 and conduct an RFP on the plan every five years. They have an explicit fee disclosure, a quarterly asset-based fee charged with no cap. The portfolio is made up of publicly traded mutual funds with institutional share classes. A year prior to retirement, their provider has a certified financial planner (CFP) meet with them to discuss the features of the plan after they separate from service.

INTERNAL BENCHMARKING FOR CONTINUOUS IMPROVEMENT

External benchmarking helps the plan sponsor identify areas where their plan is behind peers in the industry and sets goals for plan growth and improvement. Internal benchmarking helps plan sponsors measure internal changes over time, and can help determine if the plan sponsor is meeting the goals for plan growth and improvement.

Identifying similar plans will be most useful in external benchmarking. Some of the comparators plan sponsors can use to identify peers will be plan asset size, numbers of participants, optional features offered—such as auto enrollment, loans and self-directed brokerage accounts. Once a plan sponsor's peers are identified, comparisons can be made. Plan sponsors should find the areas where their plan is significantly different from their peer group and they will have a good start for developing goals, strategies and action steps for improvement.

Once strategies are implemented, plan sponsors should evaluate the effectiveness of their efforts. For instance, was an education program developed that was intended to help non-participants understand the benefits of enrolling? If so, plan sponsors should measure overall participation at the beginning and end of the education period to see if participation has increased.

Other areas where plan sponsors may want to benchmark include:

- Participant demographics, e.g., participation by age, gender, ethnicity, department, etc.
- Contribution rates
- Average account balance
- Fees and charges
- Investment diversification

NFP GOVERNMENTAL RETIREMENT PLAN EXPERTISE

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