

**METROPOLITAN DISTRICT COMMISSION
SPECIAL MEETING
PERSONNEL, PENSION & INSURANCE COMMITTEE
MONDAY, JUNE 4, 2018
3:30 P.M.**

Location

Board Room
District Headquarters
555 Main Street, Hartford

Commissioners

Camilliere	Marotta
Currey	Pane
DiBella (Ex-Officio)	Patel
Fitzgerald	Salemi
Kowalyshyn	Sweezy (VC)
Lester	Taylor (C)
Magnan	

Quorum: 7

1. CALL TO ORDER
2. PUBLIC COMMENTS RELATIVE TO AGENDA ITEMS
3. APPROVAL OF MEETING MINUTES OF MAY 7, 2018
4. CONSIDERATION AND POTENTIAL ACTION RE: MODIFICATION OF 457(b) COMMITTEE
5. CONSIDERATION AND POTENTIAL ACTION RE: MODIFICATION TO 457(b) PLAN INVESTMENT OPTIONS
6. CONSIDERATION AND POTENTIAL ACTION RE: RATIFICATION OF COLLECTIVE BARGAINING AGREEMENTS (POSSIBLE EXECUTIVE SESSION)
7. CONSIDERATION AND POTENTIAL ACTION RE: EXEMPT AND EXCLUDED EMPLOYEE BENEFIT CHANGES
8. OPPORTUNITY FOR GENERAL PUBLIC COMMENTS
9. ADJOURNMENT

**RESOLUTION AMENDING THE COMPOSITION OF THE DEFERRED
COMPENSATION COMMITTEE AS THE DISTRICT'S
ADMINISTRATOR OF 457(B) PLAN**

To: Personnel, Pension and Insurance Committee for Consideration on June 4, 2018

WHEREAS, The Metropolitan District (the "Employer") is the sponsor of The Metropolitan District Commission Eligible 457 Governmental Deferred Compensation Plan (the "457(b) Plan"); and

WHEREAS, the District Board of the Employer has the authority to adopt documents pertaining to the 457(b) Plan at any time and from time to time; and

WHEREAS, the District Board of the Employer by resolution adopted on June 1, 2009, adopted 457(b) Plan documents that incorporate the requirements of the Internal Revenue Code of 1986 ("Plan Documents") as amended; and

WHEREAS, upon adoption of the Plan Documents, the District Board of the Employer authorized the District's Personnel, Pension and Insurance Committee ("PPI") to designate individuals or positions to serve as members of the Deferred Compensation Committee ("Committee"), the duly appointed administrator of the 457(b) Plan;

WHEREAS, on July 14, 2014 and September 11, 2017 the Personnel, Pension & Insurance Committee amended the composition of the Committee;

It is therefore **RECOMMENDED** that it be:

RESOLVED: That PPI hereby amend the composition of the Deferred Composition Committee to include two retired employees of the District appointed by the Chairperson of PPI.

Respectfully submitted,



Scott W. Jellison
Chief Executive Officer

**RESOLUTION MODIFYING THE DISTRICT'S
457(B) PLAN INVESTMENT OPTIONS**

To: Personnel, Pension and Insurance Committee for Consideration on June 4, 2018

WHEREAS, The Metropolitan District (the "Employer") is the sponsor of The Metropolitan District Commission Eligible 457 Governmental Deferred Compensation Plan (the "457(b) Plan"); and

WHEREAS, the District Board of the Employer has the authority to adopt documents pertaining to the 457(b) Plan at any time and from time to time; and

WHEREAS, the District Board of the Employer by resolution adopted on June 1, 2009, adopted 457(b) Plan documents that incorporate the requirements of the Internal Revenue Code of 1986 ("Plan Documents") as amended; and

WHEREAS, upon adoption of the Plan Documents, the District Board of the Employer authorized the District's Personnel, Pension and Insurance Committee ("PPI") to designate individuals or positions to serve as members of the Deferred Compensation Committee ("Committee"), the duly appointed administrator of the 457(b) Plan;

WHEREAS, the Committee retained Retirement Plan Advisors ("RPA") for plan consulting, plan design, investment advisory and fiduciary services to the 457(b) Plan;

WHEREAS, RPA provided a letter of opinion dated May 23, 2018 recommending converting the 457(b) Plan to MassMutual's Reflex platform in order to avoid expected fee increases due to the current 457(b) Plan including an option for participants to invest in a General Investment Account ("GIA") with a guaranteed minimum credited interest rate of 4%, a feature no longer available in today's marketplace. Currently, 43% of plan assets are in the GIA, approximately \$21 million. There are no recordkeeping fees associated with the GIA. This results in the 57% of plan assets in the variable investment options covering the entire costs the 457(b) Plan. As a result of the conversion to MassMutual's Reflex platform, the 457(b) Plan will no longer offer plan participants the GIA investment option.

It is therefore **RECOMMENDED** that it be:

VOTED: That PPI recommends to the District Board passage of the following resolution:

RESOLVED: The Metropolitan District Commission Eligible 457 Governmental Deferred Compensation Plan (the "457(b) Plan") be converted to MassMutual's Reflex platform under the terms and conditions

described in Retirement Plan Advisors' opinion letter dated May 23, 2018.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Scott W. Jellison". The signature is stylized and cursive.

Scott W. Jellison
Chief Executive Officer

To: Metropolitan District Commission 457(b) Committee
From: Zach Karas, Principal – Retirement Plan Advisors
Date: May 23, 2018
Re: RPA Letter of Opinion & Due Diligence Meeting Follow-up:
MassMutual Proposal, Plan Design Recommendations & Fund Line-up Changes

The Current Plan Analysis

- The current plan investment and recordkeeping contracts were executed in November 1982 with The Hartford Insurance Company and have not been updated to reflect industry developments and best practices. The original contract included a General Investment Account (GIA) with a guaranteed minimum credited interest rate of 4%, a feature no longer available in today's marketplace. Approximately 43% of plan assets are in the fixed interest account. There are no participant recordkeeping fees assessed against the GIA.

Further, MassMutual is no longer able to maintain the 4% GIA contract under the current plan pricing structure and will be implementing a fee increase on the variable investment options.

The current costs of plan administration and recordkeeping are funded 100% from revenue generated by the plan's variable investment options using underlying mutual funds. These funds have revenue sharing arrangements with the recordkeeper, MassMutual. MassMutual receives all the revenue share from the variable funds and utilizes this revenue to cover the costs of running the plan. The amount of revenue sharing varies from fund to fund, ranging from 0% to 0.75% (see attached revenue MassMutual disclosure for details on revenue generated). There is no uniformity to the amount of revenue share the funds generate. As a result, your plan participants are not contributing equally to the cost of operating the plan. In fact, some participants are paying nothing.

- Today's fiduciary best practice for defined contribution plans is for plan recordkeeping fees to be assessed equally on a pro rata basis on all plan assets to ensure all plan participants contribute equally to the cost of operating the plan. Currently, 57% of the plan assets are paying 100% of the plan fees while 43% of the plan assets are paying nothing. Essentially, the plan's variable investors are subsidizing the plan's fixed account investors' interest rate, to their detriment.

The Solution (see attachment labeled MDC Pricing Proposal MassMutual)

- RPA worked with MassMutual to develop three alternatives to avoid the fee increase and migrate the plan to a best-practices level-fee structure (see attached). RPA recommends Option 4 – converting the plan to MassMutual’s Reflex platform, switching from the GIA to SAGIC DIV II, and implementing a level fee pricing structure.

Option 4:

- o Moves all plan assets to a level fee structure in line with today’s best fiduciary practices.
- o Reduces the plan asset fee by 47%, from the 17 bps (0.17%) MassMutual is proposing under the current structure to 9 bps (0.09%) for Option 4.
- o The SAGIC II fund has a current net rate after all fees of 3.9%, only 0.10% lower than the current MDC 4% rate. SAGIC II is guaranteed for principal, and the interest rate is adjusted quarterly. Note: we are currently in a rising interest rate environment, which bodes well for this transition.
- o MassMutual’s Reflex platform gives the plan complete open architecture, allowing us to always utilize the lowest cost share class in our fund selection. As a result, several current funds will move to a lower-cost share class, saving participants additional fees.

Fund Change Recommendations 5/15/2018 Meeting (see attached cover letter from 1Q2018 Due Diligence Report):

Share Class Changes

Current Fund	Ticker	Expense Ratio	Map to	New Fund	Ticker	Expense Ratio
Western Asset Core Bond FI	WAPIX	0.80	→	Western Asset Core Bond IS	WACSX	0.42
Putnam High Yield A	PHYIX	1.07	→	Putnam High Yield Y	PHAYX	0.62
Invesco Equity and Income A	ACEIX	0.80	→	Invesco Equity and Income R6	IEIFX	0.39
American Century Income and Growth A	AMADX	0.92	→	American Century Income and Growth R5	AICGX	0.47
MFS® Core Equity A	MKGAX	1.02	→	MFS® Core Equity R6	MRGX	0.68
PIMCO Stocks PLUS® Absolute Return A	PTOAX	1.04	→	PIMCO Stocks PLUS® Absolute Return Instl	PSPTX	0.64
Carillon Scout Mid Cap I	UMBX	1.03	→	Carillon Scout Mid Cap R-6	CSMUX	0.93
Invesco Small Cap Value A	VSCAX	1.11	→	Invesco Small Cap Value R6	SMVX	0.72
Invesco Small Cap Growth A	GTSAX	1.23	→	Invesco Small Cap Growth R5	GTSFX	0.74
Hartford Global Growth HLS IB	HBGLX	1.07	→	Hartford Global Growth HLS IA	HIALX	0.62
JPMorgan SmartRetirement® 2020 A	JTTAX	0.81	→	JPMorgan SmartRetirement® 2020 R6	JTTYX	0.45
JPMorgan SmartRetirement® 2025 A	JNSAX	0.84	→	JPMorgan SmartRetirement® 2025 R6	JNSYX	0.46
JPMorgan SmartRetirement® 2030 A	JSMAX	0.86	→	JPMorgan SmartRetirement® 2030 R6	JSMYX	0.48
JPMorgan SmartRetirement® 2035 A	SRJAX	0.88	→	JPMorgan SmartRetirement® 2035 R6	SRJYX	0.49
JPMorgan SmartRetirement® 2040 A	SMTAX	0.89	→	JPMorgan SmartRetirement® 2040 R6	SMTYX	0.50
JPMorgan SmartRetirement® 2045 A	JSAAX	0.89	→	JPMorgan SmartRetirement® 2045 R6	JSAYX	0.50
JPMorgan SmartRetirement® 2050 A	JTSAX	0.89	→	JPMorgan SmartRetirement® 2050 R6	JTSYX	0.50
JPMorgan SmartRetirement® Income A	JSRAX	0.72	→	JPMorgan SmartRetirement® Income R6	JSIYX	0.41

Real Estate Fund

RPA recommends the elimination of the real estate asset class because today's best practices favor a plan that focuses on core asset classes rather than the "specialty" asset classes. Real estate represents only 2% of the U.S. equity market and, as such, is a specific and limited sector within the U.S. economy. Including a real estate fund on your menu is a risk to participants, as they may overly concentrate their portfolio in real estate. Additionally, the plan's large cap funds include real estate given it is a component of the S&P 500 Index.

Further, should the Committee move forward with our recommendation, I have confirmed that real estate is not a required asset class in the plan's Investment Policy Statement (IPS). Additionally, the employee notification of the change will clearly note that the mapping will be from the Real Estate Morningstar Category to the Large Cap Blend Morningstar Category.

In the event that the Committee determines they prefer to continue to offer the category, RPA would recommend the Principal Real Estate Securities Fund. The table below provides a return comparison for two fund mapping options:

Fund Deletions	Fund Mapping Options	Ticker	Mstar Category	Mstar Rating	Fund Expense Ratio	Category Peer Rankings				Annualized Returns			
						1 Yr	3 Yr	5 Yr	10 Yr	1 Yr	3 Yr	5 Yr	10 Yr
Amer Cent Real Estate		REACX	Real Estate	★★★	1.15%	42	65	50	74	-1.17%	2.78%	4.63%	4.75%
	Principal Real Estate Sec Fd R6	PFRSX	Real Estate	★★★★★	0.82%	8	11	2	12	2.46%	5.04%	6.65%	7.19%
	Vanguard 500 Index Admiral	VFIAX	Large Blend	★★★★	0.04%	31	14	13	22	13.23%	10.54%	12.92%	9.01%

Morningstar data as of 4/30/2018.

Request for Proposal (RFP)

Industry best practice is to conduct an RFP for recordkeeping service every 5 to 10 years. While the current MassMutual plan enhancements bring the plan in line with industry best practices, the plan has not been out to bid for years to benchmark plan fees and service. The Committee may wish to consider an RFP in the future.

MDC PRICING Proposals from Mass Mutual		Retirement Plan Advisors 5-18-18		
457(b) Plan Assets = \$51.1m (GIA = \$21.8m = 42.73%) as of 3/31/18				
OPTION	GIA Crediting Rate	GIA Floor Rate	MassMutal Revenue	MM Net Revenue
CURRENT				
Plan on OMNI	4%	4%	From Separate Account Assets, Zero Rev GIA	15 bps This is what is happening today GIA assets are part of Mass Mutuals Assets
Mass Mutual PRICE INCREASE COMING				
1). Maintain Current Plan on OMNI	4%	4%	From Separate Account Assets, Zero Rev GIA	17 bps This is what will happen when MM raises price soon GIA assets are part of Mass Mutuals Assets
OPTIONS - # 2-4 Mean Giving up the 4% Minimum Rate Fixed Account - #'s 3 & 4 are in line with DC Plan Best Practices				
2). Maintain Plan on OMNI Convert to 1% Floor Contract:				
	Yr 1 3.90%	1%	From Separate Account Assets, Zero Rev GIA	9 bps Give up 4% Guarantee, Fees down 25% (from 15 to 9), GIA assets are part of Mass Mutuals Assets
	Yr 2 3.75%			Pricing model more in line with today's DC Plan Best Practices.
	Yr 3 3.50%			Not the ideal scenario because GIA is not generating revenue
	Yr 4 3.35%			GIA is not a "fee transparent" option
	Yr 5 3.00%			Does not move the plan to upgrades of the new platform
3). Convert to Reflex with 1% GIA Floor:				
	Yr 1 3.90%*	1%	Level Revenue	9 bps Give up 4% Guarantee, Fees down 25% (20 down to 15)
	Yr 2 3.75%*		Wrap Fee on All Assets	GIA assets are part of Mass Mutuals Assets
	Yr 3 3.50%*			Pricing model more in line with today's DC Plan Best Practices.
	Yr 4 3.35%*			GIA is not a "fee transparent" option
	Yr 5 3.00%*			
4). Convert to Reflex with SAGIC DIV II				
	4.05%**	Principal	Level Revenue	9 bps Higher Rate Option - Stable Value, Give up 4% Guarantee Assets are not part of Mass Mutual Assets
			Wrap Fee On All Assets	Pricing model more in line with today's DC Plan Best Practices.
FOOTNOTES:				
* This Rate is Gross of the 9 bps Wrap Fee				
** THIS RATE GOOD FOR 90 DAYS FROM 02/19/2018. This Rate is Gross of the 9 bps wrap.				