

LAKE ARROWHEAD COMMUNITY SERVICES DISTRICT

MEMORANDUM

DATE: NOVEMBER 13, 2018

TO: BOARD OF DIRECTORS
Lake Arrowhead Community Services District

FROM: 
NATALIE POTTER, Human Resources Manager


CATHERINE CERRI, General Manager

SUBJECT: CONSIDER RESCINDING RESOLUTION NO. 99-01
RATIFYING THE ADOPTION OF AN AMENDED AND
RESTATED IRC SECTION 457 DEFERRED
COMPENSATION PLAN TRUST/CUSTODIAL DOCUMENT

A. RECOMMENDATION

Consider rescinding resolution No. 99-01 ratifying the adoption of an amended and restated IRC Section 457 Deferred Compensation Plan Trust/Custodial document and authorize the General Manager to execute the necessary agreement(s).

B. REASON FOR RECOMMENDATION

Following discussions between the District and the Utility Workers Union of America, Local 557 and the Managers, Supervisors and Confidential Employees Unit, we recommend the Board of Directors rescind resolution 99-01 since it no longer represents the existing plan with Nationwide. In addition, the District will be implementing a second 457 Deferred Compensation Plan with Voya alongside the current Nationwide plan to improve the administration of the Deferred Compensation Program and reduce fees for employees.

C. BACKGROUND INFORMATION

Under Section 457(b) and 401(a) of the Internal Revenue Code (IRC), government entities may sponsor a deferred compensation plan, while meeting fiduciary responsibilities under California law, to allow employees to defer income tax on retirement savings into the future. For several years, the District has provided employer sponsored deferred compensation plans under Section 457(b) of the IRC administered by Nationwide. Under the California State Constitution, Article XVI Section 17, government entities that sponsor a 457(b) plan have fiduciary responsibilities to ensure that the operation and investment of the public retirement plan is for the exclusive purpose of providing benefits to participants and beneficiaries. The fiduciary responsibilities are to:

- engage in a prudent process for making all decisions related to the operation of the plan, including decisions related to the plan's investments and related services.

Because of the complexity of the investment process and responsibilities, Human Resources and Finance met together to review our current plan with Nationwide. In reviewing the plan documents and history of the plan, we found that our contract and Plan Document needed to be updated per current law.

As a fiduciary, the District has a responsibility to control the investment choices made available in the plans. To ensure the plan and its assets were in accordance with applicable laws and regulations, we requested a marketing comparison from the current carrier Nationwide plus American Fidelity, Principal Financial and Voya Financial. Staff's review of the current program contract included administrative fees associated with the plan, investment options, asset values, fixed account interest rates, and additional fees that may be charged by the plans.

Based on the District's analysis, it was determined that the plan's participants as a whole would benefit by moving to Voya Financial. Voya Financial (NYSE: VOYA) is a premier retirement, investment and insurance company servicing the financial needs of approximately 13 million individual and institutional customers throughout the United States. Voya Retirement Insurance and Annuity Company, a member of the Voya® family of companies, is the plan's proposed recordkeeper. The District is able to obtain lower plan fees, enhanced investment options and a competitive fixed interest rate from Voya.

The District estimates a 32% reduction in plan fees and investment costs, and an increase of 64% in fixed interest earnings, thus providing the opportunity for improved retirement incomes for both employees invested in a conservative manner, as well as those seeking returns through mutual funds invested in the stock market. In addition to the positive financial impact, Voya will provide participants with a comprehensive single online platform, educational services and a third-party investment advisor through Morningstar Associates, LLC. Making this change will better support employees by providing interactive retirement planning tools, simplified account management, and improved customer service.

The District met with both employee unions to discuss the change and came to an agreement that Voya will be offered to all new enrollees and current employees while allowing a handful of employees to remain on Nationwide if desired. Voya will perform the migration of the deferred compensation plan and will assist the District in performing its fiduciary responsibilities with respect to 457(b) plans under California law.

D. FISCAL INFORMATION

There is no fiscal impact to the District. Lower fees and higher fixed interest rates will benefit employees participating in the District's deferred compensation plan.

E. ATTACHMENTS

Resolution 2018-11

Resolution 99-01

Comparison

RESOLUTION NO. 2018-11

**A RESOLUTION OF THE BOARD OF DIRECTORS OF THE
LAKE ARROWHEAD COMMUNITY SERVICES DISTRICT,
COUNTY OF SAN BERNARDINO, STATE OF CALIFORNIA, RESCINDING
RESOLUTION NO. 99-01 RATIFYING THE ADOPTION OF AN AMENDED
AND RESTATED IRC SECTION 457 DEFERRED COMPENSATION PLAN
TRUST/CUSTODIAL DOCUMENT**

WHEREAS, On February 2, 1999, the Board of Directors of the Lake Arrowhead Community Services District adopted Resolution No. 99-01 ratifying the adoption of an amended and restated IRC section 457 Deferred Compensation Plan and Trust/Custodial Document;

WHEREAS, the Board of Directors desires to rescind Resolution No. 99-01, and authorize the General Manager to negotiate and implement the Employee Deferred Compensation plan(s).

NOW, THEREFORE, BE IT RESOLVED, that the Board of Directors of the Lake Arrowhead Community Services District does hereby resolve, determine and order as follows:

1. To rescind Resolution No. 99-1 ratifying the adoption of an amended and restated IRC section 457 Deferred Compensation Plan and Trust/Custodial Document.
2. Authorize the General Manager to negotiate and implement the Employee Deferred Compensation Plan(s)

APPROVED, SIGNED AND ADOPTED by the Board of Directors of the Lake Arrowhead Community Services District on the 13th day of November 2018, by the following vote:

AYES:

NOES:

ABSTENTIONS:

ABSENT:

President of the Lake Arrowhead
Community Services District Board of
Directors

ATTEST:

(SEAL)

Kathleen Field, Secretary of the
Lake Arrowhead Community Services
District and to the Board of Directors

CERTIFICATION

I, Kathleen Field, Secretary to the Lake Arrowhead Community Services District and to the Board of Directors, hereby certify that the foregoing is a full, true and correct copy of **Resolution No. 2018-11** adopted by the Board of Directors of said Agency at the regular meeting of said Board held on the **13th day of November 2018**, by the following vote:

AYES:
NOES:
ABSTAIN:
ABSENT:

Kathleen Field, Secretary to the Lake
Arrowhead Community Services
District and to the Board of Directors

RESOLUTION NO. 99-01

***A RESOLUTION OF THE BOARD OF DIRECTORS OF THE
LAKE ARROWHEAD COMMUNITY SERVICES DISTRICT,
COUNTY OF SAN BERNARDINO, STATE OF CALIFORNIA,
RATIFYING THE ADOPTION OF AN AMENDED
AND RESTATED IRC SECTION 457 DEFERRED
COMPENSATION PLAN AND
TRUST/CUSTODIAL DOCUMENT***

WHEREAS, the Lake Arrowhead Community Services District (hereinafter Employer) has employees currently participating in an IRC Section 457 deferred compensation retirement savings plan (hereinafter Plan) administered by Washington Mutual Bank; and

WHEREAS, the Employer wishes to amend and restate the Plan in its entirety using the FundSelect Specimen Plan and Trust/Custodial Document which includes those statutory revisions made to IRC Section 457 by the Small Business Job Protection Act of 1996; and

WHEREAS, Washington Mutual Bank/FundSelect Advisers are able to administer the Plan for Employer in accordance with the terms of their respective agreements.

NOW THEREFORE, BE IT RESOLVED AS FOLLOWS:

1. The Employer hereby ratifies the General Manager's adoption of the IRC Section 457 Plan and Trust/Custodial Document, attached hereto and incorporated herein as Exhibit A, as a complete amendment and restatement of the Plan.
2. The assets of the Plan shall be held in a Trust/Custodial Fund, with the Employer or its designated officer appointed as and serving as trustee/custodian, for the exclusive benefit of the Plan participants and their beneficiaries, and the assets shall not be diverted for any other purpose. The Employer's beneficial ownership of Plan assets held in Washington Mutual Bank shall

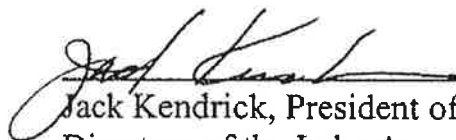
be held for the further exclusive benefit of the Plan participants and their beneficiaries.

3. The Employer or its designated officer is hereby authorized to execute all necessary agreements with FundSelect Advisors, Inc. and Washington Mutual Bank incidental to the administration of the Plan, and shall do all things necessary and proper to implement this Resolution.
4. This Amended and Restated Plan and Trust/Custodial Document adopted by Employer hereby supersedes and replaces any prior plan. It's approval is hereby ratified by resolution of the Plan's governing authority.

APPROVED, SIGNED AND ADOPTED this 2nd day of February, 1999, by the following vote:


AYES:	Field, Huber, Kendrick & Whitney
NOES:	None
ABSTENTIONS:	None
ABSENT:	None

LAKE ARROWHEAD COMMUNITY
SERVICES DISTRICT



Jack Kendrick, President of the Board of
Directors of the Lake Arrowhead
Community Services District

ATTEST:



Gary R. Valladao, Secretary
of the Lake Arrowhead Community
Services District

(SEAL)

**A RESOLUTION ADOPTING A DEFERRED COMPENSATION PLAN
AND TRUST/CUSTODIAL DOCUMENT**

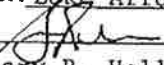
WHEREAS,

1. The Lake Arrowhead CSD (hereinafter "Employer") has employees currently participating in a 457 deferred compensation retirement savings plan administered by ~~Great Western Bank, and~~ Washington Mutual Bank; and
2. The Employer wishes to adopt the FundSelect Specimen Plan and Trust/Custodial Document which includes those statutory revisions made to IRC Section 457 by the Small Business Job Protection Act of 1996; and
3. Great Western Bank/FundSelect Advisers are able to administer the deferred compensation plan for Employer in accordance with the terms of their respective agreements.

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF DIRECTORS OF EMPLOYER AS FOLLOWS:

1. The Employer hereby establishes the deferred compensation plan and adopts the 457 Plan and Trust/Custodial Document.
2. The assets of the Plan shall be held in a Trust/Custodial Fund, with the Employer or its designated officer appointed as and serving as trust/custodian, for the exclusive benefit of the Plan participants and their beneficiaries, and the assets shall not be diverted for any other purpose. The Employer's beneficial ownership of Plan assets held in Great Western Bank shall be held for the further exclusive benefit of the Plan participants and the beneficiaries.
3. The Employer or its designated officer is hereby authorized to execute all necessary agreements with FundSelect Advisers, Inc. and Great Western Bank incidental to the administration of the Plan, and shall do all things necessary and proper to implement this Resolution.

This Amended and Restated Plan and Trust/Custodial Document adopted by Employer hereby supersedes and replaces any prior plan and is hereby approved by resolution of the Plan's governing authority on February 2, 1999.

Employer: Lake Arrowhead Community Services District
Attest: 
Title: Gary R. Valladao, General Manager

Lake Arrowhead Community Services District
Comparison of 457(b) Deferred Compensation Vendors

Comparison of Fees:

	Nationwide (current)	Nationwide (Proposed Option #1)	Nationwide (Proposed Option #2)	Voya Financial
Recordkeeping Fee/Asset Charge	0.43%	0.30%	0.00%	0.40%
Average Mutual Fund Expense	0.79%	0.79%	0.84%	0.31%
TOTALS:	1.22%	1.09%	0.84%	0.71%

Summary:

- *The Recordkeeping Fee/Asset Charge is the administrative fee.*
- *Voya's fee structure offers lower overall expense vs. all offers made by Nationwide.*

Comparison of Stable Value/Fixed Accounts:

	Nationwide (current)	Nationwide (Proposed Option #1)	Nationwide (Proposed Option #2)	Voya Financial
Fixed Account/Stable Value Interest Rate	1.51%	2.35%	2.50%	2.50%
Guaranteed Minimum Interest Rate	0.00%	0.00%	0.00%	1.00%

Summary:

- *Fixed Account/Stable Value Interest Rate is a rate that exceeds the Guaranteed Minimum Interest Rate.*
- *Voya's Fixed Account provides a higher interest rate than Nationwide's current stable value rate, Nationwide's proposed Option #1, and matches the offer under Nationwide's proposed Option #2. Additionally, Voya offers a lifetime contractual minimum guaranteed interest rate while Nationwide does not.*

Comparison of Revenue Sharing Paid to Vendor by Mutual Funds:

	Nationwide (current)	Nationwide (Proposed Option #1)	Nationwide (Proposed Option #2)	Voya Financial
Mutual Fund Revenue Sharing Paid to Recordkeeper	0.29%*	0.29%*	0.57%*	0.00%

**Estimated Revenue Share, Actual number may be higher.*

Summary:

- *Nationwide receives additional revenue from LACSD's plan from revenue sharing payments from investment managers in the plan. Voya will not receive any revenue sharing payments.*

Comparison of Investment Advice and Managed Account Programs:

Account Balance	Nationwide (current)	Nationwide (Proposed Enhancement)	Voya Financial (Investment Advice)	Voya Financial (Managed Account)
The first \$99,999	1.00%	0.65%	No Charge	0.50%
The next \$150,000	0.90%	0.60%	No Charge	0.50%
The next \$150,000	0.75%	0.55%	No Charge	0.50%
The Next \$100,000	0.60%	0.50%	No Charge	0.50%
\$500,000 and above	0.50%	0.45%	No Charge	0.50%

Summary:

- *Voya offers Investment Advice at no charge. Investment Advice is point in time advice on how to invest within the plan. Voya's fee-based managed account program offers lower overall fees since their fee is 0.50% no matter the account size. Nationwide has a tiered fee schedule that charges higher fees for lower account values and only reaches Voya's fee at asset amounts above \$400,000. Managed account programs provide **ongoing** advice on how to invest within the plan.*

Service Capabilities – Voya vs. Nationwide:

- Voya's Award Winning Participant Website featuring the myOrangeMoney tool is available to employees via desktop/laptop computer, as well as via a native mobile app which is available for both iPhone and Android enabled devices.
- Voya's Website and Mobile App both allow participants to change:
 - Investment elections
 - Change contribution rates, and
 - A variety of other transactions
- Nationwide does have a Participant Website, but does not offer a transactional mobile app.
- Voya offers both paper-based enrollment, as well as online enrollment
- Voya online gives you the opportunity to add in other assets and acts as an online financial planner.
- Voya will provide on-site, face to face service for employees just as Nationwide does, but Voya's representative resides in Lake Arrowhead.

Summary:

- *Voya offers enhanced digital/online capabilities vs. what is available through Nationwide.*
- *Employees who prefer face-to-face service will continue to have access to on-site services at LACSD with Voya.*