

**DRAFT MINUTES OF THE TOWN OF GILBERT, ARIZONA DEFERRED COMPENSATION  
BOARD OF TRUSTEES MEETING  
VIRTUAL MEETING VIA WEBEX, GILBERT, ARIZONA  
February 21, 2023**

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**MEMBERS PRESENT:** Hakon Johanson, Chairperson  
Michael Burkhart, Secretary  
Ray Savoie  
Hondo Judd

**MEMBERS ABSENT:** N/A

**STAFF PRESENT:** Donna Pedrera, Sr. Benefits Analyst – Total Rewards Team

**GUESTS PRESENT:** Jim Keeler, Program Director, Nationwide  
Matt Gayman, Nationwide  
Gordon Tewell, Innovest  
Troy Jensen, Innovest

**1. Call to Order**

Mr. Johanson called the meeting to order at 4:37 PM.

**2. Roll Call**

Ms. Pedrera called roll and a quorum was declared.

**3. Overview of the Secure Act 2.0 Innovest & Nationwide**

*Discussion only.*

Mr. Tewell, Innovest reviewed chronologically the major provisions effective 2023 of the Secure 2.0 Act of 2022 which included:

- **Increased Required Minimum Distribution Age:** Required Minimum Distribution age is increased to age 73 starting on 1/1/23 and age 75 starting on 1/1/33
- **Permit Employer Contributions on a Roth Basis:** Employer may optionally add a provision allowing participants to elect employer matching or non-elective contributions paid on a Roth basis. This is applicable to 401(k), 403(b) and governmental 457(b) plans
- **Reduction in penalty for failure to take RMDs:** Penalty is reduced from 50% to 25%
- **Governmental section 457(b) plans change in deferral rate:** Participants can change their deferral rate at any time versus just at the beginning of a month
- **Hardship Withdrawal Self-Certification:** Participants may self-certify that they had a qualified event that constitutes the need for a hardship withdrawal
- **Qualified Federally Declared Disaster Distributions:** Previously, Congress established rules for each disaster. The new rules allow for penalty-free distributions of up to \$22,000 per participant per disaster, and participants can recontribute distributed amounts to the plan within three years

- **Distributions for qualified public safety employees:** Distributions (up to \$3,000/year) to pay insurance premium payment benefit can be excluded from gross income. Payments are no longer required to be made directly to insurance companies. Exemption from early withdrawal penalty is extended to any public safety officer with 25 years of service, regardless of age
- **Collective Investment Trusts (CITs) in 403(b) Plans:** The ability for 403(b) plans to offer CITs wasn't fully resolved and will likely require securities law changes.

Mr. Tewell then reviewed the Secure 2.0 Act of 2022 provisions effective 2024 stating that some will have to be complied with, and others will be optional, and how and when Gilbert will need to decide when to make the decision to implement or not implement, those provisions included the following:

- **Force-Out Distributions:** Permits force outs up to \$7,000 (raising the upper limit from \$5,000)
- **Catch-up Contributions Must be Roth:** Under current law, catch-up contributions can be made on a pre-tax or Roth basis (if permitted by the plan sponsor). Effective for taxable years beginning after December 31, 2023, all age 50+ catch-up contributions made by employees making more than \$145,000 per year must be made to Roth accounts
- **Emergency Savings Accounts:** Permits employers to offer non-highly compensated employees opportunity to save through a retirement plan linked emergency savings account. Employers may automatically opt employees into these accounts at no more than 3% of their salary, and the employee's contribution is capped at \$2,500
- **Matching Contributions Based on Student Loan Payments:** Employers are permitted to make a matching contribution to a 401(k), 403(b) or 457(b) with respect to an employee's qualified student loan program
- **403(b) Hardship Distributions:** 403(b) plan hardship rules conform to 401(k) rules
- **Penalty-free In-service Withdrawals:** Domestic abuse survivors and participants with unforeseeable financial needs are permitted pre-determined in-service withdrawals
- **Employer Roth RMD rules:** Eliminates the pre-death required minimum distribution requirement for Roth accounts in employer plans

Mr. Tewell moved on to review the Secure 2.0 act of 2022 provisions effective 2025 and beyond, those provision included the following:

- **Higher catch-up limit to apply at ages 60, 61, 62, and 63:** Increased to the greater of \$10,000 or 150% of standard catch-up for that year and applies to 401(k), 403(b), and 457 plans
- **Expanding coverage for part-time workers:** The required eligibility for long-term part time employees was reduced from 3 years to 2 years. Previously applicable to only 401(k) plans, Secure 2.0 added this provision to 403(b) plans subject to Employee Retirement Income Security Act (ERISA)
- **Retirement savings lost and found:** A database will be established that collects benefits owed to missing, lost, or nonresponsive participants and beneficiaries to search for the contact information of the plan administrator
- **New plan automatic enrollment mandate:** All 401(k) and 403(b) plans established after December 31, 2024 will be required to enroll participants automatically at 3% and increase each year by 1% until it reaches at least 10% but not more than 15%.

Mr. Tewell asked if there were any questions; no questions came from the Board, so Mr. Tewell turned over the discussion to Mr. Keeler, Nationwide. Mr. Keeler stated that Nationwide was waiting on for the Internal Revenue Service (IRS) to come out with some clarifications on the rulings and that plan documents do not

need to be update until 2027, but there are some mandatory provisions along with some optional provisions which the Board may want to put in place, such as the unforeseen Emergency provision which would be effective January 2024. Mr. Keeler stated the one provision that the Board will need to discuss is the ratification of the provision which requires that catch up contributions and the elimination of the next month rule. Mr. Keeler turned the discussion over to Chairperson Johanson who asked if the Board members had any questions; there were no questions from the Board, so Chairperson Johanson moved on to the next agenda item.

#### **4. Review of Administrative, Legislative and Economic Reports – Nationwide**

*Discussion only.*

Mr. Keeler, Nationwide began by reviewing the 4<sup>th</sup> quarter combined plan sponsor statement, stating that we saw a downturn in the market in both equities and bonds and inflations going up as well. Mr. Keeler next shared his screen, showing the Combined Town of Gilbert 457 & 401(a) Plan Sponsor Quarterly Statement for the 4th Quarter 2022, showing that as of the end of December 31, 2022 the 457 balance of \$51,074,066.01 and the 401(a) balance of \$1,153,487.43, stating that Innovest will review the economy in their presentation. Mr. Keeler stated that as of yesterday's closing the 457 plan balance was over \$60,000,000; January 2023 has been good but now we are seeing some volatility. Moving to the investment performance report, Mr. Keeler stated that the Nationwide administrative fee which is .065% and reviewed the investment options shown on the statement, stating that during 2022 there was not much safety even in traditional bonds, fixed accounts even though it is a guaranteed account was only paying 1.62% not outpacing inflation. Mr. Keeler turned it over to Mr. Gayman, Nationwide to review the Plan Health Report.

Mr. Gayman, who reviewed the report, stated during 2022 there were 57 new enrollments, the average contribution was \$499 which is fantastic, and the online engagement as of 12/31/2022 showed that out of 850 participant enrolled 716 participants have an online account. Moving down in the report, Mr. Gayman then showed that in the area showing retirement readiness 479 participants in the 457 plan have gone through Nationwide's retirement planner and have set a retirement goal for themselves. Mr. Gayman then moved on to page 5 of the report which showed that of the 57 new enrollments in 2022, 49 were done online, and showing page 6 showing additional demographics with 603 actively deferring, 805 participants in the 457 plan, 239 members are inactive and 8 members took payouts. The average balance in the 457 plan as of 12/31/2022 was \$61,160.00 a little bit below plans out size. Mr. Gayman moved on to show page 8 of the report which showed that 6% of participants increased their contributions, and 7% of participants have automatic contribution increases. Mr. Gayman discussed the 2022 & 2023 IRS contribution limits and also the average diversification of the five (5) asses classes shows that 75.6% of participants are invested in 5+ asset classes. Mr. Gayman moved on to page 10 and reviewed the highlights of the asset breakdown, stating the participants are invested for the long term, growth orientated. Moving on the to 401(a) plan, Mr. Gayman stated that as of 12/31/2022 there were 139 participants, 28 new enrollment for 2022 Mr. Gayman completed his presentation and asked the Board if they had any specific questions on the plan demographics or any of the activity in the plan. Chairperson Johanson stated that he did not have any questions and no questions came from the other Board members, so Chairperson Johanson turned it over to Mr. Tewell with Innovest to present the next agenda item.

#### **5. Review of 4th Quarter Investment Performance Reports of Deferred Compensation Plans - Innovest**

*Discussion only.*

Mr. Tewell, Innovest began by showing the Town of Gilbert 457(b) Plan Summary. Reviewing the listing of plan features, design, and provisions, referencing the Secure Act 2.0 provisions, and then moving on to

the plan specific information, briefly looking at the Investment Policy Statement, stating that Innovest will be adding some very minor updates. Moving on to the Annual Fee Review for both the Gilbert 457 and 401(a) which shows the current annual fee for the Investment, Recordkeeping and Administrative Costs are 0.54% which is good compared to the average of 0.87% for similar size plans. Mr. Tewell then reviewed the Menu Coverage page and reviewed the type of funds that make up the three Tiers and the Asset Allocations for both the 457 and 401(a) accounts and the changes that have occurred in Q4, commenting that that the recent changes made with moving from Vanguard funds to Fidelity funds do show now on this page.

Mr. Tewell moved on to discuss the Asset Allocation of the 457 account stating that the plan was up 8.3% reflecting the high deferral rate that Mr. Gayman referenced. He said it was a little less than 25% of participants are enrolled in the Target Date funds, with a little decline in the Fixed Income account.

Mr. Tewell then moved on to review the Markets focusing on the economic and market date through the 4<sup>th</sup> quarter, stating it was a difficult year with the bond return the worst in history. During the 4<sup>th</sup> quarter 2022 there was a good recovery, international stocks did better than U.S. Stocks over the course of quarter 17.3% increase in places like Europe and Japan. In the U.S. Stocks large company stocks increased 7.6%, small company stocks up 6.2% and emerging market stocks up 9.0% and finally bonds up a modest 1.9% over the course of the quarter. Mr. Tewell then discussed Global inflation stating that it was very high showing a graph which showed that inflation was starting to come down in the U.S., with the United Kingdom and European Union still very high. Currently the U.S. inflation rate is down to 6.4%, which is still high for the Feds and what is really shaking to markets. Helping a little bit is the slowing in wage growth and reduction in the money supply growth.

Mr. Tewell then reviewed a table showing the Consumer Sentiment and Stock Performance stating that it relates to the stock market returns showing that we have come off of the bottom and currently at 66 right now. Fixed Income has improved future returns, it is expected to happen within the bond market. Mr. Tewell then showed the Periodic Table of Returns from 2013 to 2022 showing the diversification of the of the asset classes, showing the summary on the far right had side for the last 10 years the diversified portfolio has given the 2<sup>nd</sup> highest annualized return only behind U.S. Stocks, doing so with the 3<sup>rd</sup> least volatility. Mr. Tewell then reviewed the Equity Performance as of December 31, 2022 chart stating that over the course of the 4<sup>th</sup> quarte of 2022 it have been traditionally very stable, with value stocks doing particularly well, versus those high growth rapidly growing companies that pushed the performance of the markets over the last 5 to 10 years were the worst place to be invested, with the large value stocks down 5%. Energy continued to be the big performer along with utility stocks. Consumer staple stocks were the best performers, technology stocks like Amazon were the worst performers over the course of the year.

Mr. Tewell asked if the Board had any specific questions about the market economy, there were no questions, so he turned the presentation over to Mr. Jensen to review the specifics on your plan investments.

Mr. Jensen, Innovest reviewed the Manager Scorecard stating that it was actually reasonably clean scorecard. There are a couple of carryovers from last quarter that Innovest is continuing to monitor, but largely no concerns in the overall column far to right. We continue to monitor T Rowe Price Blue Chip Growth fund and feel comfortable taking the people concern off but will continue to monitor the fund performance. We also continue to monitor the Hartford Mid-Cap performance; it has been down toward the bottom of the rankings in those longer term numbers and we have had some concern there for a while, but we will continue to wait and watch; no recommendation there. Another minor concern is American Funds Pacific Growth due to the performance of the fund and Boston Partners with a people consideration, due to structural change in the management not a real concern, but one that we want to watch more closely because

it does impact the structure of the team running it. Mr. Jensen then moved to the Table of Returns stating that T Rowe Price Blue Chip Growth had a rough 2022 due to being heavily weighted into the consumer discretionary category and was at the bottom of the charts. Amazon being down 25% just in the 4<sup>th</sup> quarter of 2022 hit the fund pretty hard. Mr. Jensen continued to review a couple of funds but did not recommend any changes at this point, as long term most were in good shape. Mr. Jensen stated that the American Funds continued to be the bright spot the Target Date Series the 5 and 7 year averages at the top of the charts, those that chose that as their allocation are getting rewarded for their choice. Mr. Jensen asked if there were any questions or concerns about what has been covered. No questions from the Board. Mr. Jensen then shared the Investment Policy Statement and reviewed some changes that Innovest was recommending, mostly housekeeping changes, no changes to the policy, but also included the fund names with the changes from Van Guard to Fidelity. Mr. Jensen asked if the Board wanted to take a vote to accept the changes to the Investment Policy Statement. Ms. Pedrera stated that the item was only on the Agenda as a Discussion and not a motion, so the Board should wait and take a vote to approve at the next quarterly meeting when the item can be place on the Agenda correctly so that a vote can take place. Mr. Jensen agreed there is no need to rush and have a special meeting as there are no changes to the actual policy. It was agreed that the review and approval of the Investment Policy Statement will appear on the next Board Agenda for discussion and motion. Mr. Johanson asked if there was any questions or comments from the Board; there were none, so he moved to the next Agenda item.

## **6. Staff Update and Future Meeting**

*Discussion only.*

Ms. Pedrera state that she would make sure that the item to review and approval of the Investment Policy statement was added to the Board Agenda for the next meeting. Ms. Pedrera then asked when the 1<sup>st</sup> quarter reports for 2023 would be available so that the next quarterly meeting can be scheduled. Both Mr. Keeler and Mr. Tewell stated that their reports would be ready by the end of April, so the end of May would work. Ms. Pedrera said she would send out dates for late May to the Board for consideration for the next meeting. Ms. Pedrera advised that she would be only posting the Agenda Action Sheet instead of the minutes and would follow up with the meeting minutes at a later date.

## **7. Review and Approval of Minutes of from the November 8, 2022 Meeting**

Mr. Johanson asked for any discussion or corrections on the minutes. No Discussion. Mr. Judd a motion to approve the minutes from the November 8, 2022 meeting. Mr. Savoie second the motion. *The motion passed 4-0.*

## **8. Adjournment**

Mr. Savoie made a motion to adjourn the meeting. Mr. Judd seconded the motion. *The motion passed 4-0.* The meeting adjourned at 5:30 pm.

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Hakon Johanson, Chairperson

ATTEST:

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Michael Burkhart, Secretary