



**Deferred  
Compensation  
Board**

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Diana Jones Ritter  
Robert F. Mujica  
Blake G. Washington

November 12, 2015

**Memorandum To:** Files

Minutes of the November 12, 2015  
Public Meeting of the  
New York State Deferred Compensation Board

A public meeting of the New York State Deferred Compensation Board (the “**Board**”) was held on November 12, 2015, in Room 2B of the offices of Shearman & Sterling LLP in New York, New York. The meeting began at approximately 12:05 p.m. and adjourned at approximately 3:10 p.m. A separate memorandum to the files, also dated November 12, 2015, lists the material prepared for and referred to during the meeting.

**In attendance:**

Board Members: Robert F. Mujica, Blake G. Washington

Staff Members (“**Staff**”): David Fischer, Sharon Lukacs, Peter Drao

Shearman & Sterling LLP (“**S&S**”): Kenneth Laverriere, Kelly Hamren-Anderson, Rebecca Hayes

GSAM Stable Value, LLC (“**GSAM**”): John Axtell, Marie Mastro, Ryan Lavin

Callan Associates Inc. (“**Callan**”): Millie Viqueira, Tom Shingler, James Veneruso

Robert F. Mujica acted as Chairperson and Rebecca Hayes acted as Secretary of the meeting. Mr. Mujica called the meeting to order at approximately 12:05 p.m.

**I. INVESTMENT CONSULTANT PRESENTATION**

David Fischer of Staff opened the meeting by explaining that the purposes of the meeting are to discuss the investment structure for the Deferred Compensation Plan for Employees of the State of New York and Other Participating Jurisdictions (the “**Plan**”) and to prepare for the upcoming Request for Proposal (“**RFP**”) process for the investment options to be offered under the Plan.

Millie Viqueira of Callan then started a presentation on the Plan's current investment structure and Callan's recommendations regarding the design of a new investment lineup for the Plan. Ms. Viqueira presented a number of priorities Callan had identified for improving the Plan's investment structure. Ms. Viqueira emphasized that part of the proposed design would incorporate research on participant investment behavior and would be intended to create an investment structure for the Plan that would have a greater probability of fostering better investment outcomes for participants.

Ms. Viqueira and James Veneruso of Callan then discussed how a defined contribution plan's investment structure and investment lineup can affect investment behavior. Mr. Veneruso described how plan design can affect participant inertia and momentum market timing. Mr. Veneruso elaborated upon how investment fund disclosure or "framing effects" and overwhelming choice can negatively impact the investment decisions made by participants.

A general discussion then followed regarding these principles. After this discussion, Ms. Viqueira reviewed the following recommended design changes for the Plan. As an initial matter, Ms. Viqueira noted that it would be important to work with Nationwide Retirement Solutions ("**NRS**") to develop new ways to communicate with and better educate participants about the different funds for the Plan. With respect to investment options, Ms. Viqueira noted that Callan was proposing to streamline the small- and mid-cap equity offerings and reduce duplicative large-cap equity offerings. Ms. Viqueira also recommended replacing the narrowly defined (government securities only) active Core Bond option currently offered with a more diverse Core Plus Bond offering. Other priorities mentioned included eliminating the standalone emerging markets fund and considering the addition of a diversified real asset fund to provide inflation protection.

Ms. Viqueira next discussed the advantages and disadvantages of using "white label" funds as opposed to registered funds. A general discussion then followed on this topic. In response to a question, Ms. Viqueira next discussed actively managed as opposed to passively managed (or index) options, and indicated that Callan was recommending that the core options in the Plan continue to afford participants a choice between actively and passively managed investments.

Callan then presented a "clean sheet" investment structure consisting of three tiers: asset allocation, core, and specialty options. Callan recommended minimizing the number of fund options available to participants to avoid overwhelming participants with redundant options, contributing to confusion and investment inertia. In connection with this recommendation, Callan noted that the average defined contribution plan features 15 investment options, whereas the Plan currently offers 21 options. Callan also commented on the high levels of Plan assets invested in the Stable Value Fund, noting that the Target Date Funds may be underutilized and that participants would benefit from additional education about these types of funds and their benefits. A general discussion then ensued regarding the use of default investment options by other government defined contribution plans and the possibility and logistics of modifying the Plan enrollment process to introduce a default option at some point in the future.

Callan then reviewed the details of each of its recommended changes. Callan's presentation was punctuated by various questions from the Board and Staff on each of the recommendations.

Following Callan's presentation, Robert Mujica and Blake Washington asked a number of questions regarding the potential downsides of reducing the number of funds, both from a participant's perspective and

from a competitive pricing perspective, and there was a general discussion about the investment philosophy behind Callan's streamlined investment structure. As part of this conversation, Kenneth Laverriere of S&S noted that, in contrast to the old investment lineup, which was based on a philosophy of having a core investment option in each major asset class, the new approach proposed by Callan is geared towards improving participant investment behavior. Ms. Viqueira elaborated on this idea, reiterating industry research that supports the view that offering too many investment options can lead to confusion and reduce participant engagement as a result of inertia and overwhelming choice.

In response to a question from Mr. Laverriere, John Axtell of GSAM noted that Callan's recommendations did not appear to raise any significant concerns from GSAM's perspective with respect to the Stable Value Fund or the wrap providers.

Callan and Staff then discussed next steps and noted a Board decision on the new investment structure would be advisable in the first quarter of 2016 so that the new design can be properly addressed in the RFP process. After further discussion, the Board agreed to resume discussion of the topic during the Board's regular quarterly meeting, scheduled for the following day, November 13, 2015.

## **II. ADJOURNMENT**

There being no further matters for discussion, the meeting was adjourned at approximately 3:10 p.m.

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Rebecca Hayes  
Secretary of the Meeting