

**California Public Agencies
Self-directed Tax Advantaged Retirement System (STARS)**

**Board of Trustee--401 Trust (Teleconference)
Phone number: 877-826-6967, Conference ID: 298.171.3895**

Friday, April 15, 2011, 10:55 am

Agenda

<u>Estimated Time (Min.)</u>	<u>Item</u>	<u>Description</u>
2	1.*	Approval of Minutes (Action) Minutes of the January 26, 2011 meeting.
2	2.**	Performance Review for MFS and Consideration of Engagement Termination (Action) The Board will discuss Stanley's responses to his written performance review and decide on the status of his contract with STARS.
2	3.	Compensation for MFS (Discussion/Action) If contract termination is the outcome of Agenda Item 2, the Board will consider a compensation plan for MFS for its services prior to contract termination.
2	4.	Taking the STARS Program Forward (Discussion/Action) (a) Appointment of an interim Financial Advisor (b) Announcement to sponsors and participants (c) Recruitment of new Financial Advisor (d) Other necessary tasks
2	5.	Other Business
	6.	Adjournment

* Attachment

** Attachment distributed separately

Attached are the April 15th meeting agendas and the minutes of the meetings on 1/26/11. The following is Stanley's response received on April 2nd to items 1 to 4 in his performance review. Stanley sent the second part of his response for items 5 to 6 on April 8th that was sent to you in Richard's e-mail.

Looking forward to talking with you this Friday,

Joe

Gentlemen:

! & 2) I have reviewed the process for enrolling new plan sponsors and the reporting requirements for participating sponsors with UTC. They believe strongly that the system as it is currently designed provides the greatest opportunity for them to successfully service plan sponsors and participants. They are committed to this format.

3) ABAG has thirty-five participants enrolled in the 457 program. While I would always like to have a higher level of participation, as a percentage of the total population for a new program, I don't think this is a bad start. At this point, efforts now should be split between obtaining rollover assets from current participants and obtaining feedback on the priorities of the ICMA participants.

4) How you can be more effective is a big question and will depend on how active and at what level you want to participate. I think an equally important question is what you communicate. As you are already aware, it is my view that marketing communication is not a replacement of the sales cycle. If you review the materials published by our competitors, it is consistently a very simple message. The flyer that we use for the STARS program highlights the governance and transparency issues that distinguish the program from our competitors.

5 & 6) I will forward my comments early next week.

Sincerely,

Stan

Stanley Morrical

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On Tue, Apr 12, 2011 at 7:58 AM, Richard Averett <raverett@rgs.ca.gov> wrote:

Great. Talk to everyone at 10:00. The toll free # is [877.826.6967](tel:877.826.6967) and the conference i.d. # is 298.171.3895.

Joe is working on an outline of the topics we want to cover, which will serve as our agenda. We'll make an oral report, so the reading assignment is the letter and emails sent yesterday.

From: LaRae Brown [mailto:lbrown@ci.millbrae.ca.us]
Sent: Tuesday, April 12, 2011 6:51 AM
To: Richard Averett
Cc: 'Amy Koenig'; 'Herbert Pike'; 'Joseph Chan'
Subject: RE: STARS Board meeting to consider MGS performance review

Good Morning,

Yes, I can meet by telephone of Friday. Just let me know the number etc.....

Take care,

LaRae Brown

Finance Director

City of Millbrae

621 Magnolia Ave, Millbrae, CA 94030-1852

Phone: [\(650\) 259-2433](tel:(650)259-2433)

Fax: [\(650\) 697-8459](tel:(650)697-8459)

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From: Richard Averett [mailto:raverett@rgs.ca.gov]
Sent: Monday, April 11, 2011 7:03 PM
To: LaRae Brown (Millbrae); 'Amy Koenig'; Herbert Pike; Joe Chan
Subject: STARS Board meeting to consider MGS performance review

To address Stanley's performance, the attachment was sent to him March 15 for his response by April 1. Below are his responses, received March 15 and April 8.

I would like to discuss our continued affiliation with MGS. Can you meet this Friday at 10:00 a.m. by telephone?

Richard Averett

Regional & Local Government Services Authorities

831.308.508

Email received 4/8/2011

Gentlemen:

5 & 6) You assert that the success of the program is contingent on STARS 'being seen as a public-sector driven program.' Otherwise, 'the program is just another private, for-profit offering.' My experience to date with sponsors and participants isn't consistent with your assertion.

In preparation of the STARS rollout, I had the opportunity to analyze our competitors including their materials for sponsors and participants. I have spent time reviewing Calpers public information to familiarize myself with their communication to sponsors and participants. I also attended a presentation by the chief actuary at the CSMFO conference to get insight into how they communicate information about their investing strategies and the types of questions being asked by the finance community of what for many, is their primary retirement income source.

I invited Kevin Nolt to present at the rollout in October to provide a legal perspective on the fiduciary status of government sponsors in the California statute. The language is clear and consistent with ERISA.

I anticipated the current STARS and UTC/MFS approach would be met with a range of reactions and it has. Some sponsors have a greater degree of sensitivity to their role as

plan fiduciaries than others. With those that do, the issues of plan governance, including transparency, disclosure, and participant outcome resonate.

One plan we are currently reviewing has twenty million dollars in assets. The provider is an insurance company and the product is a group variable annuity. The provider only publishes return information on the website. Administrative and investment expenses aren't easily obtained and require a detailed review of the service agreements. The UTC/MFS approach to transparency and disclosure resonates.

Individual participants come to enrollment meetings with a range of investment experience. Very few have the ability to construct a portfolio with broad asset allocation characteristics appropriate for their individual status. The vast majority, regardless of income, educational or professional credentials, can articulate in any detail their current retirement plan holdings or the asset allocation characteristics of their holdings. Often, participants use investment return information or perceived safety considerations to make choices. As each of you have heard me present, that is not how Calpers makes allocation and investment selection choices on their behalf nor it is the method UTC/MFS believes is likely to achieve the best outcome for participants in their defined contribution plan. There is a significant amount of behavioral finance information available on participant actions as well. I have provide some to you.

The majority of enrolled participants in the STARS/UTC/MFS program have chosen the managed account option. We are also in the process of rolling assets for two additional participants to the wealth management side at UTC. The message is clearly resonating with some participants. The wealth management accounts will also be in the managed account option.

I have now had several months to meet or speak with finance and human resources employees involved in the administration of 401 and 457 plans in a variety of different size agencies with equally varying plan assets. I have also the opportunity to meet with or speak with many individual participants in your respective groups. My experience has resulted in a consistent view of plan governance within public sector sponsors.

I am always interested in improving the communication of the distinguishing characteristics of the program to sponsors and participants. Based on interactions so far, I am reasonably comfortable with the effectiveness of the message to sponsors. As I had stated at the outset of our relationship, UTC provides fewer communication resources for enrollment meetings than the insurance company or mutual fund vendors so I am looking to improve the presentation but the core message seems to be reaching participants.

We seem to have a different view on the level of importance of the distinguishing characteristics of the program and the effectiveness of the communication efforts to date. The affinity with STARS is one of the distinguishing characteristics, but as with the other characteristics, is viewed with varying degrees of importance in the sponsor community.

Sincerely,

Stan

Stanley Morrical

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M) [415.609.5537](tel:415.609.5537)

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From: Richard Averett [<mailto:raverett@rgs.ca.gov>]

Sent: Tuesday, March 15, 2011 3:28 PM

From: Richard Averett

Sent: Friday, April 01, 2011 5:03 PM

To: Herbert Pike; Joe Chan

Subject: FW: STARS-MGS performance review

It's been a busy couple of weeks, so let me know if I've somehow missed Stanley's response. But I don't recall see a formal response, which was due by April 1.

I tend not to rest on technicality, so I'm inclined to call him now and ask if he intends to respond. If he does not, then our decision is easy. If he does, but needs more time (because of family reasons, whatever) then I'd like your approval to grant a reasonable

extension (under the circumstances, it could be Monday or a week, for example). If an extension is not warranted, in my opinion after hearing him out, I would want to tell him then.

So, are you okay with giving me leeway as described above?



RHA response 3/15/11

Thank you for your initial response and the seriousness with which you received our letter. We look forward to a full response.

Richard

From: Stanley Morrical [<mailto:smorrical@morrical.com>]
Sent: Tuesday, March 15, 2011 6:36 PM
To: Richard Averett
Cc: 'Joe Chan'; 'Herbert Pike'
Subject: RE: STARS-MGS performance review

Richard:

Thanks for the note. I will put together a more complete review of the issues you have outlined but I am aware of your concerns and have additional concerns of my own. Based on the initial work that has been completed with sponsors and participants, I am confident this is the right program at the right time.

I will comment briefly on the issues about knowledge and trust that are raised in section 4. Similar comments were referenced when we met a couple of weeks ago and I take those comments seriously. I also put them in the context of successes and other comments that I have received. One of the most interesting things about the pension business in working with sponsors and participants is the range of knowledge and investment experience that people have and use when buying these services in their role as sponsor or making investment decisions as a participant. It is also not correlated to educational or professional credentials.

A participant with LGS that is employed by MTC has rolled a six-figure IRA account to the wealth management group at UTC. This process began immediately after the first enrollment meeting attended by this participant and culminated in the transfer of assets in January. The participant scheduled an individual meeting with me following the enrollment meeting and enrolled their 457 account in a managed portfolio. I did basically the same meeting with the group that included this participant that I have done with others and this person grasped the concepts that I hoped to communicate thoroughly. Clearly, the comments in your letter and this success represent a range of reaction to the information provided that I need to evaluate.

Richard may find this interesting, but I was also told by a mature participant in an individual review following the meeting in which Richard was a participant that it was the best enrollment meeting they had attended. Again, a range of reactions. I hope to have a narrower range of reactions in the future and have been working on it.

I have already spoken with Unified Trust(prior to today) about working with us to develop participant communication efforts. I think we will want to do communication outreach in advance of meetings in the future. I will continue to work on this and address it.

When we began this process, I knew initially that we would have a broad range of reactions from sponsors and that is what I have experienced.

I have met with LaRae at the City of Millbrae and we will be scheduling enrollment meetings with Millbrae ee's in the near future. We are going to communicate with the ee's in advance of the enrollment meetings.

I appreciate the effort that each of you have put into this so far and I think you are aware that I have committed significant time and resources as well. I am committed to the success of the program.

Sincerely,

Stan

From: Richard Averett
Sent: Tuesday, March 15, 2011 3:28 PM
To: 'Stanley Morrical'
Cc: Joe Chan; 'Herbert Pike'
Subject: STARS-MGS performance review

Stanley,

Since our last meeting with you, the Executive Committee has discussed at length the issues in the attached letter. This letter captures the collective points of view of the Committee, and we would appreciate your written reply by April 1.



Richard Averett

Executive Director/CFO, tele. [831.308.1508](tel:831.308.1508)

Regional & Local Government Services Authorities

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