

### AGENDA ITEM SUMMARY

<b>Meeting Date:</b>	JULY 17, 2019
<b>Agenda Category:</b>	NEW BUSINESS
<b>Agenda Item Number:</b>	11 A
<b>Subject:</b>	RECOMMENDATION – NATIONWIDE RETIREMENT SOLUTIONS (CITY MANAGER/FINANCE DIRECTOR)

<b>Attachments:</b>	Memorandum; correspondence from Nationwide
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<b>Staff Contact:</b>	City Manager Fettrow/Assistant City Manager & Finance Director Trine
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<b>Background:</b>	Nationwide Insurance Solutions, the investment broker for the City's 457(b) and 401(a) retirement plans, will be making a change to its guaranteed minimum interest rate of the fixed annuity contract within the two plans. The City has been provided with three options, which are outlined in further detail in the attached memorandum, and staff is recommending the selection of Option No. 1.
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<b>Reference:</b>	City retirement plans
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<b>Suggested Action:</b>	Approve recommendation of staff to select Option No. 1
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# Memorandum

**To:** Dr. Fettrow  
**CC:** Corey Harris  
**From:** Matthew D. Trine  
**Date:** 07/17/2019  
**Re:** Nationwide Recommendation

*approved to  
go to Council.  
Dr. Fettrow  
7/8/2019*

The City is in receipt of notification from Nationwide Retirement solutions, the investment broker of both our 457(b) defined contribution plan and our 401(a) plan. All monies in this plan are fully vested to the participants, with the 457(b) monies being only those contributed by the employees. This notification informs us that Nationwide will be making a change to the Guaranteed Minimum Interest Rate of the fixed annuity contract within these two plans. Currently, 65.1% of all 457(b) participant assets and 100% of all 401(a) assets are in this investment vehicle. Although the initial deadline stated in the attached indicates March 15<sup>th</sup>, the City staff has negotiated for additional time within which to finalize this decision.

The City of Rockledge, as plan sponsor, may choose one of three alterations to the current contract:

1. The actual rate of return may not change, but the guaranteed amount will be reduced in the following way:

Year	2019	2020	2021	2022
<b>Guaranteed Rate of Return</b>	3.5%	2.5%	2.0%	1.0%

2. The investments guaranteed rate of return will be as above, but the actual rate of return will be .1% lower. However, in exchange, nationwide will offer a greater liquidity for pulling the funds out by participants, from 20% to 40% per allowable period.
3. Those inside will be grandfathered in, but no new contributions will be made, and a new guaranteed fund contract must be signed with one of the two options
  - a. Future contributions will go into a new fixed contract with a guaranteed return of .5%, and an initial actual return of 1.2%
  - b. Offer no continuing fixed contract, investments formerly directed to this fund will go into the default alternative

Upon review of the options, it is staff's recommendation that the City consider Option 1. This option is most favorable as it provides a longer decision making path for the individuals currently invested within the plan, and allows for retaining of the same investment option, with a declining guaranteed rate of return.

Respectfully,



Matthew D. Trine  
Assistant City Manager  
Director Finance & Risk Management



Dear CAROL D KING,

RE: CITY OF ROCKLEDGE

Nationwide is proud to partner with the United States Conference of Mayors. As the endorsed sponsor administering 457(b) deferred compensation and 401(a) defined contribution plans, Nationwide works to help city employees save with confidence. Our goal is to help America's workers prepare for and live in retirement.

One of the ways we work to achieve this goal is by periodically evaluating our suite of products, tools and resources. These evaluations lead to adjustments which allow for the continued delivery of an *On Your Side*® service experience to you and your participants.

We've recognized a need to change the Guaranteed Minimum Interest Rate of the fixed annuity contract available in your plan. As a contract holder, you have options. The following packet includes all the steps required to make the necessary changes to your plan.

#### **Next Steps**

As part of this change, we are asking you to consider the options outlined in the *Guaranteed Minimum Interest Rate Change: Explanation of Options* and take the associated actions by March 15, 2019. As Plan Sponsor, you have a responsibility to make decisions on behalf of the Plan regarding products and features available to your Plan participants.

Please take time to review the options and sign and return the required documents to Nationwide. If you do not select one of the options provided, new contributions will no longer be accepted to your current Fixed contract. This includes, but is not limited to, payroll contributions, rollovers, transfers and exchanges.

#### **Questions?**

Refer to the enclosed FAQ for more information. If you have additional questions about this change or the options available for the adjustment, please contact our service center at 877-496-1630 or your local Nationwide Retirement Solutions Representative. Our specialists are available Monday through Friday, 8 a.m. to 8 p.m. Eastern time.

Thank you for your partnership as we mutually work to help your participants prepare for and live in retirement.

Sincerely,

Nationwide Retirement Solutions

Tom Cochran

CEO and Executive Director

United States Conference of Mayors

Nationwide Retirement Solutions and Nationwide Life Insurance Company (collectively 'Nationwide') have endorsement relationships with the United States Conference of Mayors. More information about the endorsement relationships may be found online at [www.nrsforu.com](http://www.nrsforu.com). Nationwide, the Nationwide N and Eagle and Nationwide is on your side are service marks of Nationwide Mutual Insurance Company. © 2018 Nationwide.

NRM-17093AO (05/18)



### Guaranteed Minimum Interest Rate Change: Explanation of Options

Please consider your available options before making a selection on the *Guaranteed Minimum Interest Rate Change: Options Form* (the *Options Form*). The *Options Form* and required documents can be found in the enclosed folder.

#### 1) Option One

Your contract is amended to lower the Guaranteed Minimum Interest rate annually on the following schedule:

2019	2020	2021	2022
3.5%	2.5%	2.0%	1.0%

The contract's quarterly Crediting Rate<sup>1</sup> will continue to be set based on Nationwide's normal business practices and may vary depending on market conditions and investment performance.

#### 2) Option Two

The contract is amended to lower the Guaranteed Minimum Interest Rate annually on the same schedule shown in Option One. Additionally, the per participant exchange and transfer limit is also increased from 20% to 40%.

The contract's quarterly Crediting Rate will continue to be set based on Nationwide's normal business practices and may vary depending on market conditions and investment performance. However, because of the increased exchange and transfer limit, the Crediting Rate under this option will be less than under Option One. At the time of this letter, this difference is 0.1% annually, but the variance is not guaranteed to remain at this level.

#### 3) Option Three (Default Option)

The existing balance in your current Fixed Contract will maintain the current GMIR for these existing balances only, unless otherwise agreed to by Nationwide and the Plan Sponsor. New contributions will no longer be accepted to your current Fixed contract. This includes, but is not limited to, payroll contributions, rollovers, transfers and exchanges. This change will be effective in 2019.

Accordingly, you will need to provide direction for your participants' future allocations to replace their current Fixed allocation. Two options are available. If this option is chosen, you will also need to select a sub-option:

- A. Continue to offer Nationwide Fixed Contract. An application for a new Fixed contract is enclosed. This contract will be established with an initial Crediting Rate of 1.2% and a 0.5% GMIR.
- B. Utilize the Plan's existing Default Investment Alternative (DIA). If the Participant does not elect a new investment to replace the Fixed option, it will be treated as if no investment direction has been given and the Default Investment Alternative will be used for future contributions. Your plan's current fund lineup can be viewed online at [www.nrsforu.com](http://www.nrsforu.com).

**Please Note:** if you do not take action, you are electing to place those participant allocations in your existing DIA. The participants will be notified of the change so that they may have the opportunity to change their allocation.

<sup>1</sup>The Crediting Rate is the interest rate credited as an annual effective yield.



## **FAQ: Guaranteed Minimum Interest Rate**

What is changing?

We're adjusting the GMIR to ensure we can continue offering current and future participants valuable retirement plan solutions. Accordingly, Nationwide must align with the market and gradually reduce the GMIR in our fixed annuity contracts.

Why is Nationwide making this change now?

As we survey the retirement plans market, we've recognized a need to change a feature of our product suite—the Guaranteed Minimum Interest Rate (GMIR) of the fixed annuity contract available in your plan. Over the past five years, many providers have lowered their GMIRs. During that time, Nationwide did not take any action; however, interest rates have only increased modestly, creating an interest rate environment in which we can no longer offer an above-market rate.

For the last several years, the industry has operated in a consistently low interest rate environment, which has directly impacted the investment returns available in the market. During this time, Nationwide has continued to provide an above-market rate to participants invested in our fixed contract, but now recognizes the need to adjust the GMIR.

What is a Crediting Rate?

The Crediting Rate is the interest rate credited as an annual effective yield to participants that are invested in the fixed annuity on a daily basis. The Crediting Rate is determined on a quarterly basis by Nationwide and is different than the GMIR.

What is a Guaranteed Minimum Interest Rate?

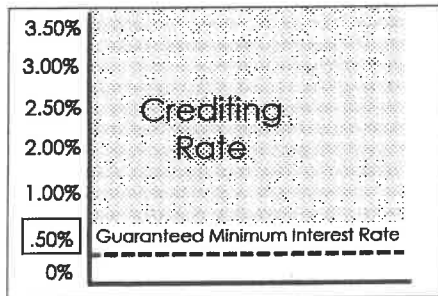
The Guaranteed Minimum Interest Rate is the lowest Crediting Rate that Nationwide will credit to participant accounts under the terms of the contract.

What is the difference between a Crediting Rate and a GMIR?

While the quarterly Crediting Rate may vary depending on market conditions and investment performance, the GMIR is the minimum interest rate established under the Contract. It is meant to act as a floor, meaning regardless of market conditions or investment performance, participants with assets invested in the Contract will not receive a rate of return less than the GMIR.

What happens when the crediting rate wants to drop below the GMIR but is limited by the guarantee?

Nationwide’s goal is to pay a competitive crediting rate to participants. Reducing the Guaranteed Minimum Interest Rate may not have a direct impact on the crediting rate that is paid to the participant. Even though Nationwide will annually step down the Guaranteed Minimum Interest Rate to 0.5%, the crediting rate may change quarterly. And while it may be reduced occasionally due to market conditions or investment performance, it will never drop below the Guaranteed Minimum Interest Rate. See the graphic below:



What can I expect from Nationwide?

You can expect Nationwide to continue to offer a competitive crediting rate to your participants. Our goal is to help America’s workers prepare for and live in retirement and we will help do this through the products and services that we offer. Nationwide can also provide materials and tools to help communicate this change to affected participants upon request.

The following applies to Options 1 or 2 only:

When will the change to the GMIR be effective for Options 1 and 2?

This adjustment will begin in the first quarter of 2020, meaning participants with assets invested in the fixed annuity contract will still receive their current GMIR throughout 2019. Additionally, the GMIR will step down over a period of five years, giving participants ample time to evaluate future asset allocation decisions. Please refer to the Guaranteed Minimum Interest Rate Amendment: Option Sheet for an illustration of the schedule.

What is the schedule of the GMIR step down?

2019	2020	2021	2022
3.5%	2.5%	2.0%	1.0%

Please note: reducing the GMIR may not have a direct impact on the crediting rate that is paid to the participant. Even though Nationwide will gradually step down the GMIR to 0.5%, the crediting rate may change quarterly. And while it may be reduced occasionally due to market conditions or investment performance, it will never drop below the GMIR.

What is the exchange and transfer limit under Option 2?

The percentage of the participant’s assets invested in the contract which can be exchanged or transferred out of the contract per year. If the limit is exceeded, no further exchanges or transfers will be permitted until the following year.