

MEMO

To: City of Santa Clara Deferred Compensation Plan Committee

From: Hyas Group

Date: January 27, 2021

RE: Recommendation to change to lower cost version of Vanguard target date funds



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Vanguard recently dropped the investment dollar minimum to their institutional share class of target date funds from \$100 million to \$5 million. The institutional share class funds have a lower expense ratio than the City's current funds. As noted in the table below from the City's third quarter performance report, the 457 Deferred Compensation Plan had approximately \$31 million across all vintages of the Vanguard target date series.

Fund	Third Quarter Average Assets	Expense Ratio		Difference	Est. Annual Savings
		Current	New		
Vanguard Target Retirement Income Inv	\$1,407,353	0.12%	0.09%	-0.03%	-\$422
Vanguard Target Retirement 2020 Inv	\$304,340	0.13%	0.09%	-0.04%	-\$122
Vanguard Target Retirement 2025 Inv	\$14,706,972	0.13%	0.09%	-0.04%	-\$5,883
Vanguard Target Retirement 2030 Inv	\$267,099	0.14%	0.09%	-0.05%	-\$134
Vanguard Target Retirement 2035 Inv	\$6,461,108	0.14%	0.09%	-0.05%	-\$3,231
Vanguard Target Retirement 2040 Inv	\$303,707	0.14%	0.09%	-0.05%	-\$152
Vanguard Target Retirement 2045 Inv	\$5,861,445	0.15%	0.09%	-0.06%	-\$3,517
Vanguard Target Retirement 2050 Inv	\$470,554	0.15%	0.09%	-0.06%	-\$282
Vanguard Target Retirement 2055 Inv	\$1,002,325	0.15%	0.09%	-0.06%	-\$601
Vanguard Target Retirement 2060 Inv	\$178,875	0.15%	0.09%	-0.06%	-\$107
TOTAL	\$30,963,780				-\$14,451

The funds are virtually identical (same underlying funds, same asset allocation, etc.). The main difference is the cost as represented by a lower expense ratio. If the Committee votes to move to the less expensive institutional share class, participant savings would be roughly \$15,000 annually.

Hyas recommendation is to move to the less expensive share class of the Vanguard target date funds. If the Committee approves the switch at the February 16 meeting, Nationwide can make the effective date for the change April 16, 2021.

Although there is no deadline to make the switch, the cost of waiting would be roughly \$3,750 per quarter.