**MINUTES**

**Louisiana Deferred Compensation Commission Meeting**

**December 18, 2018**

The annual retreat and monthly meeting of the Louisiana Deferred Compensation Commission was held on Tuesday, December 18, 2018 at the Ione Burden Conference Center, 4560 Essen Lane, Baton Rouge, Louisiana, 70809.

**Members Present**

Emery Bares, Chairman, Designee of the Commissioner of Insurance
Whit Kling, Vice-Chairman, Participant Member
Virginia Burton, Secretary, Participant Member
Andrea Hubbard, Co-Designee of the Commissioner of Administrator
Len Riviere, Co-Designee of Commissioner of Financial Institution
James Mack, Designee of the LA State Treasurer
Laney Sanders, Participant Member

**Members Not Present**

Kevin Pearson, Designee of the Speaker of the LA House of Representatives
Margaret Corley, Designee of Senator Barrow Peacock, Designee of John Alario Jr., Louisiana Senate

**Others Present**

Carla Roberts, participant
Marilyn Collister, Senior Director, Legislative and Regulatory Affairs, Denver, CO-Empower Retirement, *via Conference Call*
David Lindberg, Managing Director, Wilshire Consulting
Stephen DiGirolamo, Vice President, Wilshire Consulting
Craig Cassagne, State of Louisiana Attorney General's Office
Connie Stevens, State Director, Baton Rouge, Empower Retirement
Jo Ann Carrigan, Sr. Field Administrative Support, Baton Rouge, Empower Retirement

**Welcome and Introductions**

Ms. Stevens opened the meeting by welcoming and introducing those in attendance.

**Participant Administrative Fee Discussion**

Mr. Lindberg presented a fee structure review including a history lesson on what steps have been taken over the years to manage the Unallocated Plan Assets (UPA). The current fee schedule was designed to reduce participant level fees and at the same time, gradually and intentionally decrease asset levels in the UPA account. If everything stays as is, the UPA will eventually run out of money possibly by 2019-2020. Fees have been reduced and the UPA balance is decreasing. A refund was extended to participants in 2014 which was also a factor in the reduction of the UPA. Mr. Lindberg stated that there is no urgent response required but the UPA must continue to be evaluated. The UPA balance is reviewed monthly by the Commission. Commission members stated that they preferred to maintain a "cushion" in the balance so that obligations/expenses can be met. Mr. Lindberg observed that both the Plan's largest expense and largest revenue are fixed. The current fee scale has participants paying anywhere from $10 to $90 based on participant balances. Mr. Lindberg reviewed an alternative administrative fee schedule concluding that for every 1 basis point change in fees on participant balances there would be an approximate $35,000 effect on the UPA account annually. Mr. Mack suggested that the Commission maintain a minimum balance of $1 Million and a maximum balance of $3 Million in the UPA. Mr. Kling suggested that an alternative fee structure be in place in July but no later than September of 2019 so that fees may increase in January, 2020—preferrably in enough time to alert participants of any changes six months in advance. Mr. Lindberg stated that Wilshire will present alternative funding options early in 2019 for the Commission's review and approval.

**Investment Lineup Review**

Mr. DiGirolamo reviewed the current lineup noting Wilshire's Plan Fund philosophy. The three main tenets of any DC program are: 1) Motivate employees to participate; 2) Increase their ability to invest and 3) Help them invest more appropriately. DC plans are increasingly simplifying their lineup as, based on studies, increased options lead to a lack of confidence, decision making paralysis and potentially decreased participation. Wilshire philosophy of investment offerings include:

- Tier One: Target Retirement Funds-Dynamic asset allocation funds for those who don't want to be actively involved with investing their assets. Selection is age based and assets are professionally managed.
- Tier Two: Funds for building individual portfolios for those who want broad exposure to any or all of the major asset classes in a low cost manner.
- Tier Three: Self-directed Brokerage Window for those who favor actively managed portfolios and/or those who may desire to invest in a particular style of investment.

With any streamlined plan, there will always be some participants preferring more options in the plan. These participants generally represent less than 1% of the total population. The natural tendency of human behavior is to focus on performance which is not a good long-term investment policy. The most difficult decision for participants is asset allocation – active or passive. Mr. Lindberg stated that Wilshire remains pleased with the current platform structure including the Principal Diversified Fund even though it has underperformed. Mr. Mack voiced his concern related to the current fund lineup noting that there were no options in each sub-asset class funds. Specifically, Mr. Mack suggested adding a growth and equity option in US and international markets. Mr. Lindberg stated that the funds in the current asset classes are style-neutral including both growth and value. Mr. Mack observed that there is a fine line between offering too many options (as research suggests) and not offering enough participant choices. Mr. Lindberg stated that if the Self Directed Brokerage Window was not a part of the Plan, he would concur with Mr. Mack's position. Mr. Mack stated that participants may be hesitant to take advantage of the brokerage window due to the additional cost. Ms. Burton suggested that the website include educational pieces related to how to use the Self Directed Brokerage Window. Ms. Stevens confirmed that the current website includes this information in the "Plan Highlights" flier.

**<u>Investment Performance & Capital Market Update</u>**

Mr. Lindberg presented the Executive Summary of Investment Performance report that included information as of September 30, 2018. Mr. Lindberg stated that since September, 2018, there has been tremendous volatility in the market. All of the positive returns in the US Market have gone away in the $4^{th}$ quarter. Large Cap stocks have outperformed Small Cap stocks. Mr. Lindberg observed that capital market year-to-date numbers are not good. Mr. DiGirolamo noted that with the return of volatility, the anticipation is that active managers will outperform benchmarks. The EuroPacific Growth Fund returns reflect Brexit and trade war concerns. Mr. DiGirolamo stated that Wilshire is still very comfortable with the BlackRock Life Path Funds and they remain a good option.

**<u>Fiduciary Training, Legislative & Regulatory Update</u>**

Ms. Collister, via conference call, reviewed fiduciary responsibilities and legislative updates with the Commission. Topics included:

- Fiduciary Responsibility Applicable to 457(b) Plans. Government plans are governed by:
    - Internal Revenue Code-Sec 457(g)
    - State Law – LA follows the Uniform Prudent Investor Act.
    - Most governmental plans use Employee Retirement Income Security Act of 1974 (ERISA) rules as a guide.
- Identify Your Fiduciaries and train them to ensure they understand that their duties and responsibilities are subject to basic standards of care.
- Fiduciary Standards of Conduct
- Lessons Learned from Lawsuits
- Steps to Limit Fiduciary Liability
- Legislative Update

**<u>2018 Plan Events</u>**

Ms. Stevens reviewed Plan level and participant level events that took place in 2018.

**<u>Call to Order</u>**
Chairman Bares called the meeting to order at 2:16 p.m. Roll call was taken by Jo Ann Carrigan.

**<u>Public Comments:</u>** There were no public comments. NOTE: Carla Roberts, participant, re-joined the meeting at 2:21 p.m.

**<u>Approval of Commission Meeting Minutes of November 13, 2018</u>**
The minutes of the November 13, 2018 Commission Meeting were reviewed. Mr. Kling motioned for the acceptance of the November 13, 2018 minutes. Ms. Burton seconded the motion. The Commission unanimously approved the minutes.

**<u>Acceptance of the Hardship Committee Report of December 6, 2018</u>**
The Hardship Committee Report of December 6, 2018 will be reviewed at the January, 2019 Commission Meeting. The Committee did not receive the report for review prior to December 18, 2018 meeting.

**<u>Administrator's Report</u>**

**Plan Update as of November 30, 2018:** Ms. Stevens presented the Plan Update as of November 30, 2018. Assets as of November 30, 2018: $1,685.08 Billion; Asset Change YTD: $2.89 Million; Contributions YTD: $88.32 Million; Distributions YTD: $109.87 Million. There were three divisions (39 participants) that left the Plan in November. Net Investment Difference YTD: $24.44 Million.

**UPA-November, 2018:** Ms. Stevens reviewed the UPA for the month of November, 2018. The UPA balance as of October 31, 2018 was $2,220,130.73. Additions included interest and a contribution adjustment. Deductions included payment to Wilshire Associates, Great-West Financial and a loss on a contribution correction. The UPA balance as of November 30, 2018 was $1,767,977.72.

**<u>Other Business</u>**

**Designation of Nominating Committee:** Ms. Stevens reported that a Nominating Committee meeting is scheduled to follow the Hardship Committee Meeting on January 3, 2019. Those attending will be: Ben Huxen, Reta McFarland, Kent LaPlace and Lindsey Hunter. Mr. Kling is up for election in 2019.

**Commission Meeting Schedule:** Ms. Stevens reviewed the proposed 2019 meeting schedule noting that the February meeting will not fall on the third Tuesday of the month due to President's Day holiday. Instead, the February meeting is scheduled for February 12th. Ms. Stevens asked the Commission to decide what day the meeting should be held in April due to the Easter holiday. The Commission decided to meet on April 23rd. Calendar placeholders will be emailed to each Commission member. The Commission will not meet during the month of September due to the NADGCA Conference that is held in September.

## Adjournment

With there being no further items of business to come before the Commission, Chairman Bares declared the meeting adjourned at 2:21 p.m.

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Virginia Burton, Secretary