MINUTES

Louisiana Deferred Compensation Commission Meeting

August 23, 2016

The monthly meeting of the Louisiana Deferred Compensation Commission was held on Tuesday, August 23, 2016 in the offices of the Plan Administrator, 9100 Bluebonnet Centre Blvd, Suite 203, Baton Rouge, Louisiana 70809.

Members Present
Emery Bares, Chairman, Designee of the Commissioner of Insurance
Virginia Burton, Secretary, Participant Member
Whit Kling, Vice-Chairman, Participant Member
Len Riviere, Co-Designee of Commissioner of Financial Institutions
Laney Sanders, Participant Member

Members Not in Attendance
Andrea Hubbard, Designee of the Commissioner of Administration
Lela Folse, Designee of the State Treasurer

Others Present
Emily Andrews, State of Louisiana Attorney General's Office
Danette Rausch, Sr. Director of Partner Strategy, Empower Retirement-*By Conference Call*
Bill Thornton, Sr. Manager, Client Portfolio Services, Empower Retirement-B*y Conference Call*
Connie Stevens, State Director, Baton Rouge, Empower Retirement
Susan Allsup, Senior Administrative Assistant, Baton Rouge, Empower Retirement
Jo Ann Carrigan, Lead Office Coordinator, Baton Rouge, Empower Retirement

Call to Order
Chairman Bares called the meeting to order at 10:04 a.m.
Roll call was taken by Jo Ann Carrigan.

Approval of Commission Meeting Minutes of July 19, 2016
The minutes of July 19, 2016 were reviewed. Mr. Kling motioned for acceptance of the minutes. Ms. Sanders seconded the motion. The Commission unanimously approved the minutes.

Public Comments: There was no one from the public in attendance.

Acceptance of Hardship Committee Report of August 19, 2016

Mr. Kling motioned for acceptance of the Hardship Committee Report of August 19, 2016. Ms. Burton seconded the motion. The Commission unanimously approved the report.

Administrator's Report

Unforeseeable Emergency (Flood) Requests:

Ms. Stevens reported that several participants have contacted the LADCP Plan Administrator's office regarding an emergency distribution of funds as a result of the August 11, 2016 flood event in LA. Ms. Stevens reviewed the Plan Document noting the duties of the Commission and the conditions for distribution of funds under hardship. The Plan Document defines an "Unforeseeable Emergency" as an illness, loss due to casualty, extraordinary and unforeseeable circumstances arising as a result of events beyond the control of participant or beneficiary.

Section 105 of the Plan Document lists the duties of the Commission which includes appointing an emergency committee comprised of at least three individuals for the purpose of reviewing applications and support documentation submitted. The participant is responsible for furnishing the Committee with documented evidence to substantiate the existence of an unforeseeable emergency. If an application for a withdrawal based on unforeseeable emergency is approved, the amount of the withdrawal shall be limited to the amount required to meet such emergency.

Ms. Stevens reviewed action previously taken by the Commission as a result of Hurricanes Katrina and Gustav which allowed for a maximum distribution of $5,000 per participant based on proof of residence showing that he/she lived in a parish that had been declared an emergency. If the participant requested a second emergency withdrawal, he/she was required to document how the previously distributed funds were used. Ms. Stevens found no record of why the amount of $5,000 was chosen.

Ms. Andrews stated that using Hurricane Katrina as a model of how to manage the flood disaster is flawed as Hurricane Katrina had special IRS standards. The absence of an IRS issuance of a special code similar to that issued for Hurricane Katrina and Hurricane Sandy, limits the Commission in amending Unforeseeable Emergency procedures. There is a possibility that the IRS will issue a special code for the flooding event in LA but this has not been announced as of today. Ms. Andrews stated that in the absence of an IRS special ruling, there is no legal basis for the Commission to amend Unforeseen Emergency procedures. There was a suggestion that NAGDCA be contacted to determine if the IRS has or anticipates issuing a special ruling for emergency withdrawals as a result for the flooding in LA. All members of the Commission agreed that the flooding event constituted a natural disaster but understood that an IRS special ruling must be released before any amendment to the procedures could be made. Rule promulgation is an option but this is a lengthy process (four months) and there are limits based on IRS rules. Emergency rule promulgation takes approximately 30 days to complete.

The members of the emergency committee will consist of the current Unforeseeable Emergency Committee members. The frequency of the meetings will increase, as needed, so that requests can be approved more quickly.

LADCP loans are available to participants suffering losses as a result of the flood that have a balance of at least $2,000 and do not currently have an active loan. There was discussion involving the possibility of waiving the loan origination fee of $50 and the $25 annual maintenance fee in recognition that the Commission is sympathetic to participant difficulties. Ms. Stevens pointed out that the loan fees are part of the service agreement and there are currently no mechanisms in place to have the Commission pay the fees. Ms. Rausch stated that to waive any fees would require a system in place to offer this service to only those living in the affected areas. The local office staff would be responsible for monitoring fee exceptions. Commission members further discussed the possibility of allowing participants to take out a second loan (not to exceed $50,000 in total) thus having two outstanding loans at one time. Ms. Andrews offered to research exceptions to current loan provisions when emergencies occur.

Further discussion involved the ambiguity of Section 105-8 (A and B) which could be interpreted in such a manner that would give the Commission power to make special considerations related to emergency withdrawals. Ms. Andrews stated that Section 105-8 (A and B) could not be read in a vacuum but must also take into consideration 709-A 2a. Ms. Andrews reported that the IRS released special tax guidance for Hurricane Katrina and Hurricane Isaac which enabled the Commission to offer special provisions to those in the affected areas. As of today, Ms. Andrews stated that there was nothing in the

IRS law and therefore no legal basis which would allow the Commission to make special exceptions at this time. By way of reference, a special IRS tax guidance was released five weeks after Hurricane Sandy in 2012.

Mr. Kling motioned to follow the guidelines currently in place. If and when the IRS issues specialized guidelines, the Commission authorizes the Plan Administrator to initiate $5,000 in emergency distribution of funds with no additional documentation required up to six months after the disaster has been declared. Mr. Riviere seconded the motion. The Commission unanimously approved the motion.

Mr. Kling motioned to empower Ms. Andrews to research the changing of loan rules going forward. Two issues to be addressed: (1) Rules be amended to allow participants in declared disaster areas and who have previously defaulted on a loan, be allowed to take out an additional loan. (2) Participants in declared disaster areas be allowed to have a second loan prior to paying off the first loan. Ms. Burton seconded the motion. The Commission unanimously approved the motion.

Current Unforeseeable Emergency withdrawal procedures remain in place. The next meeting of the Unforeseeable Emergency Committee is scheduled for September 2, 2016. The Committee agreed to meet more frequently if the need arises. A third member of the Committee is still needed to fill the position vacated by Susan Pappan. The following names were suggested as possible replacements on the Committee: Antonio Ferachi, Lindsey Hunter, Steve Myers and Ben Huxen. Mr. Kling motioned that Steve Myers be contacted to serve on the Unforeseeable Emergency Withdrawal Committee. In the event that Mr. Myers declines to serve, one of the other suggested names is to be contacted. Ms. Burton seconded the motion. The Commission unanimously approved the motion. In the interim, Mr. Riviere motioned that Mr. Kling serve on the Committee until such time as the position is filled so as to prevent delays in approving emergency distributions. Ms. Sanders seconded the motion. The Commission unanimously approved the motion.

Plan Update as of July 31 2016: Ms. Stevens presented the Plan Update as of July 31, 2016. Assets as of July 31, 2016: $1,509.50 Billion. Asset change YTD: $50.60 Million; Contributions YTD: $54.68 Million. Distributions YTD: $67.68 Million. The Net Investment gain YTD: $63.60 Million.

Empower Retirement is changing how fees for the Managed Account service is operationally administered and assessed. The changes for the Managed Account service will take place in the fourth quarter of 2016 and include the following: (1) Participant account balances will be averaged during the billing cycle and fees will be assessed at the end of the billing cycle; (2) Fees will be based on the average daily balances for the days the participant is enrolled during the billing cycle as opposed to the current arrangement of the fee based on the entire quarter and (3) Fees will generally be debited shortly after quarter end. These changes do not require a contract amendment.

Plan Review 2Q16: Ms. Stevens reviewed the Asset Distribution by Fund page of the report as a visual review of the fund change – before and after. There was no significant increase of participants in the Self Directed Brokerage account as a result of the fund change. Complaints from participants regarding the fund change have ceased. Ms. Stevens announced that there will be some procedural changes to loan processing that will be discussed in detail during the October, 2016 Commission meeting. Ms. Rausch will be in attendance at the October meeting. Currently, 3,500 participants have outstanding loans totaling $29.90 Million dollars. Mr. Kling asked Ms. Stevens to follow up with Wilshire on a response to a participant who inquired about fees. Ms. Stevens will contact Wilshire and relay their response to the Commission at the next meeting.

Unallocated Plan Asset Account Report – July, 2016: Ms. Stevens reviewed the UPA for July, 2016. Cash balance on hand as of June 30, 2016: $2,601,896.70. Ending balance as of July 31, 2016: $3,022,184.91.

Statistics-Insurance Participants: Ms. Stevens reported that there remains a total of 128 insurance policies in the Plan. The approximate cash value is about $500,000 and the Death Benefit is $750,000. The Plan, which is the owner of the policies, is restricted from cashing everyone in and moving on. There are 82 of the 128 policy holders that are terminated from State employment. If the policy holder is terminated and can be located, a "Transfer of Ownership" form is being sent so that the policy can be transferred from ownership of the Plan to the participant. If the policy holder is terminated but cannot be located, LexisNexis and Social Security records will be utilized to research the last known address and/or date of death. If the policy holder is deceased, the beneficiary will be notified. If there is no beneficiary, the spouse is paid. If there is no spouse, the money would go to the estate. Ms. Stevens contacted Ms. Kathleen Lobell with the Treasury Department-Unclaimed Properties who explained that a policy owned by the Plan cannot transfer ownership of the policy to the State as it must be liquidated and in the form of cash before transferring to the State. Ms. Stevens will meet again with Ms. Lobell to determine if the State can receive cash from the estate of the deceased policy holder.

Statistics-Departing Political Subdivisions: Two political subdivisions have left the Plan and joined AXA. The stated reasons for leaving were:

- Displeased with the fund change.
- Better service promised by AXA claiming that there are 30 licensed representatives available to service the individual political subdivisions.

An RFI has been issued by the Ascension Parish Sheriff's Office which was highly upset about the fund change and not being individually notified in advance of the change. Captain Robert is in charge of reviewing the RFI. The last report received was that Captain Robert is still reviewing the RFI.

<u>Marketing Report 2Q16</u>
Ms. Stevens reviewed the Marketing Report for 2Q16. There were 637 new participants (570 through paper applications and 67 through online enrollments.). Ms. Stevens is hopeful that the number of new applicants will increase as a result of the Active Choice flyer introduced in June, 2016. The group meeting total as of 2Q16 was 617 (47.5% of annual goal). Ideally, the group meeting goal should be at 50% at this time but the increased phone calls and emails generated by the fund change and requiring attention, caused a delay in group meetings/ normal activity. Individual meetings as of 2Q16 were very high at 3,425. The majority of activity came from: LSU HSC-Shreveport, LSU Medical Center – New Orleans, LSU-Baton Rouge, DCFS Office of Child/Family Services, Terrebonne Parish Sheriff, City of Slidell and LA State Penitentiary (Angola). Ms. Stevens acknowledged the excellent work of Tim Jolly, RPC, who has gained greater access to Angola than previous representatives have been able to arrange. Mr. Jolly now attends the training sessions and new employee orientation meetings.

The memo from Jay Dardenne to department secretaries has been sent and Ms. Stevens will follow up with the secretaries to be sure to get the most mileage out of the memo.

<u>Custom Stable Value</u>

Economic Review: Mr. Thornton presented the Economic Review and Update. There is volatility on the Fixed Income side and equities have recovered from the BREXIT vote. The strategy going forward is:

- Expected interest rates to stay low despite real growth potential.
- Pace of Fed tightening now data dependent, especially with respect to inflation.
- Supply remains robust; wide spreads have tightened since Feb but lingering volatility remains.
- Flight to quality capping US Treasury yields, increased uncertainty re: China/EM/negative global yields driving flows into U.S.
- Cash flow monitoring/timing and yield curve positioning on reinvestment critical.

Stable Value Fixed Income Report – 2Q16:

Mr. Thornton reviewed the Quarterly Statement noting the market value of assets is $671.18 Million. The Market Value of Assets to Book Value of Liabilities is 102.8%. The 2Q16 Credited Rate was 2.45%. The Next Quarter Credited Rate is 2.40%. The expense ratio remains at 18 bps. The overall performance continues to be very good in a low rate environment which will exist for the foreseeable future.

There was only one change to the exception letter. The Western Union bond was sold at the beginning of the quarter. The remaining exceptions are the Lehman Brothers Unsecured Notes and Becton Dickinson & Co Senior Notes.

Other Business

NADGCA Logistics: A total of eight people will be attending the conference from Louisiana. Ms. Stevens briefly reviewed the NADGCA/Empower Retirement schedule with the Commission.

September Commission Meeting: There will be no regularly scheduled Commission Meeting during the month of September.

December Retreat: The retreat will be held at the Ione Burden Conference Center in Baton Rouge on Tuesday, December 13th. Proposed speakers include: Jack Brown and Bill Thornton. Proposed topic: Fixed Income.

Adjournment

With there being no further items of business to come before the Commission, Chairman Emery Bares declared the meeting adjourned at 11:24 a.m.

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Virginia Burton, Secretary