MINUTES

Louisiana Deferred Compensation Commission Meeting

February 14, 2017

The monthly meeting of the Louisiana Deferred Compensation Commission was held on Tuesday, February 14, 2017 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
Thomas Enright, Designee of the State Treasurer
Andrea Hubbard, Designee of the Commissioner of Administration
Whit Kling, Vice-Chairman, Participant Member
Len Riviere, Co-Designee of Commissioner of Financial Institutions
Laney Sanders, Participant Member

Others Present
William Thornton, Senior Manager, Client Portfolio Services, Great-West Financial *via Conference Call*
Emily Andrews, 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

Call to Order
Chairman Bares called the meeting to order at 9.58 a.m.
Roll call was taken by Jo Ann Carrigan.

Approval of Commission Meeting Minutes of December 13, 2016
The minutes of January 10, 2017 were reviewed. Mr. Kling motioned for acceptance of the minutes. Ms. Burton seconded the motion. The Commission unanimously approved the minutes.

Acceptance of Hardship Committee Reports of January 11, 2017, January 17, 2017 and February 2, 2017 were reviewed. Mr. Kling motioned for acceptance of the Hardship Committee Reports of January 11, 2017, January 17, 2017 and February 2, 2017. Mr. Riviere seconded the motion. The Commission unanimously approved the reports.

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

<u>Administrator's Report</u>

Ms. Stevens presented the Plan Update as of January 31, 2017. Assets as of January 31, 2017: $1,529.36 Billion. Asset change YTD: $18.62 Million; Contributions YTD: $7.88 Million. Distributions YTD: $10.34 Million. The Net Investment gain YTD: $21.08 Million. There were more distributions than contributions in January due in part to flood related distributions from participants waiting until a new tax year to withdraw funds. Ms. Stevens noted that January is generally a busy month for withdrawal requests.

Plan Review, 4Q16: Ms. Stevens presented the Plan Review for 4Q16. Assets as of December 31, 2015: $1,456.31 Billion; Assets as of December 31, 2016: $1,508.36 Billion. Contributions received in 2016: $93.67 Million. Distributions taken in 2016: $127.78 Million. Ms. Stevens reviewed the extraordinary events of 2016 which accounted for the increase in withdrawals including flood hardships and the loss of three political subdivisions from the Plan. Mr. Kling pointed out that because this is a mature plan, the expectation should be that distributions will surpass contributions as state employees retire and positions are not being filled with new employees. Asset growth continues to increase primarily because of investment gain. There was a slight increase in participants (38,101 in 2016 as opposed to 37,910 in 2015) largely due to the introduction of the "Active Choice" flyer. Ms. Stevens indicated that efforts are being made to target agencies/participants that are not participating and added that she was very pleased with the support received from the State in 2016. Ms. Stevens noted that there were significant increases in Key Talk (800#) activity (increase of 1,700 calls) and Internet log in (increase of 43,000). Ms. Stevens has analyzed the LADCP custom website statistics to determine the features most frequently used by participants. The web analytics included:

- 149,477 log ins by LA participants
- 8.31 pages accessed vs. the average universe of 6.78
- 4.32 average minutes per session vs. 3.51 average universe of minutes per session

Those participating in Managed Accounts tend to be participants with lower balances in their late 30's to early 40's age range. Those taking advantage of Advice services tend to be participants who are older in nature (late 50's-late 60's) with lower and higher balances.

Unallocated Plan Asset Account Report – January 31, 2017: Ms. Stevens reviewed the UPA for January, 2017. Cash balance on hand as of December 31, 2016 was $2,506,559.55. Ending balance as of January 31, 2017: $2,845,883.72. Deductions included payment to Wilshire Associates Inc. Additions included interest for the month of January, participant recoveries and gain on contribution correction.

Case Reconciliation 4Q16: Ms. Stevens pointed out that, by design, there is no revenue sharing left on the mutual funds in the Plan. As a result, the Plan is entirely supported by administrative fees received resulting is a ~$80K in quarter deficit after payment of recordkeeping fees.emnul. As of December 31, 2016: $355,755.13 participant Admin Fees were received minus $12/head per quarter = -$80,667 Net In-quarter Amount Due to Plan/(GWLA). The cost to run the Plan is $1.864 Million. There remains a cushion in the UPA but there is a possibility that adjustments may have to be made in the future. Wilshire is relied upon to provide recommendations when deemed necessary.

UEW Flood Update-Final Stats: The special provision for flood UEW's expired on January 17, 2017. Total cases reviewed and processed: 357; Total Amount distributed: $4,524,321; Total Unique Social Security Numbers: 325; Total Multiple Requests: 32; Average request: $12,673. Participants requesting flood UEW's after January 17, 2017, were instructed to submit "non-flood" UEW applications. Ms. Stevens noted that no response was received from congressmen or their staff in response to the Commission's request to consider extending the flood provision deadline.

Principal Diversified Real Asset Expenses: Ms. Stevens reported that the Principal Diversified Real Asset R6 historically reflected a large gross expense ratio which has previously been addressed by Principal and the Board using rebates. Instead of handling this by rebate in November, Wilshire reported that Principal moved another share class into the R6 share class so that the costs are more "normal" now: 1% gross expense/90BP net. Mr. Kling asked that Wilshire provide a greater explanation of what Principal changed to and where the share class came from. Ms. Stevens noted that Wilshire representatives will be in attendance at the March, 2017 meeting.

E-Delivery of Statements: Ms. Stevens reported that she is performing a critical analysis of procedures to determine if enhancement and services now available can be utilized by the Plan. Ms. Stevens has created a "wish list" of enhancements that the Plan can possibly incorporate into current processes that will streamline/automate certain procedures. The "wish list" currently consists of: Loan automation and distribution processing. The goal is to improve the way things are done and move away from a "that's the way we have always done it" mentality. Ms. Stevens will be bringing improvements to the attention of the Commission throughout the year. Ms. Stevens will take into consideration the Service Agreement and Plan Document as she incorporates enhancements.

The Commission reopened discussion on E-Delivery of statements – a topic introduced at the December, 2016 Commission Educational Retreat. There was discussion regarding E-Delivery of statements and the added difficulty to beneficiaries in processing death claims with electronic passwords. The Commission suggested that participants be notified throughout 2017 of the move to E-Delivery of statements with the actual conversion to be made in 2018. Ms. Stevens recapped that e-delivery includes an annual notification to each participant with an account and a price break for the recordkeeping fee. The Commission agreed with this statement.

Dual Licensing Discussion: Ms. Stevens reported that a conversation was held between Ms. Stevens, Ms. Andrews and Ms. Danette Rausch, AVP Partner Strategy, regarding dual licensing of RPC's. Ms. Stevens reviewed the service model that is being developed which would change the role of the Retirement Plan Counselor (RPC) to include both educational and investment advisory service. RPC's have or are in the process of earning their Series 65 or 66 license. Under the current service model, the role of the RPC is exclusively educational and only AAG investment advisors in the corporate office can provide investment advice. Under the proposed service model, RPC's would be dually licensed and dually monitored so that they could provide a complete, more meaningful service to the participant. Investment recommendations would not be at the discretion of the individual RPC but rather as a result of a software program driven by Morningstar that would include participant information such as, when to retire, what amount to save, how to invest and spend down information after retirement. Ms. Andrews stated that, based on her research, the dual licensing service model does not put the Plan at any additional risk. The proposed service model considers the RPC an employee of Empower Retirement and AAG serving in both an educational and investment advisory role. Both Empower Retirement and AAG are owned by Great West. Ms. Andrews conferred with John Moore of the Attorney General's office to assist in critically reviewing the proposed service model. Mr. Moore also concluded that there would be no additional risk to the Plan. Further, Mr. Moore found that there may even be less risk to the Plan as the RPC is no longer tasked with the burden of determining when the participant must be forwarded to AAG for advice. Mr. Kling questioned at what point in time the Empower Retirement employee would be considered an AAG employee based on the two existing separate contracts between Empower Retirement (educational role) and AAG (advisory role). Ms. Stevens clarified that the contracts are actually with Great West Life Assurance Company (GWLA) (Empower Retirement is simply a brand name) and AAG. Mr. Kling expressed concern that there would be no way to track when an employee's compensation shifted from GWLA to AAG. If someone wishes to participate in advisory services through AAG, the participant must pay for the service. The RPC compensation package would not change under the proposed service model. The GWLA contract does not currently provide for the RPC to offer advisory services. The participant is paying AAG a fee but the GWLA employee is providing the service. Questions under review included: Would AAG pay GWLA employees for advisory services since participants are paying a fee for the advice given?

Is the participant getting any additional service since the same Ibbotson program is used by the RPC and AAG representative? Participants may go through the program but are not obligated to take advantage of the services offered. The Department of Labor will undergo changes in fiduciary rules effective April 10, 2017. GWLA is registered as a broker/dealer not an investment advisor. The advisory product/representatives must remain under AAG because AAG is registered as an investment advisor. AAG is responsible for RPC advisory activity. Ultimately, the missing piece of the puzzle is related to compensation: Does the RPC get paid for AAG service that is being performed since the participant is paying AAG? Ms. Stevens will schedule a telephone conference with GWLA upper-management, Mr. Kling, Mr. Riviere and Ms. Andrews for further clarification.

<u>Custom Stable Value</u>

Economic Review 4Q16: Mr. Thornton presented the fourth quarter Economic Review and Outlook highlighting the risks and opportunities for 2017.

The buildings blocks (inflation, employment rates and housing) of the US economy still look good. The domestic economy remains on good footing. The overriding strategy is "Don't fight the Feds." Rates will continue to stay low overall but better than six months ago. The investment team has committed to being duration-neutral (3.5 years in duration range). Cash flow and yield curve positioning on reinvestment remain critical. The strategy is to structure portfolio runoff to mirror expected paths of Fed rate hikes. The new money rate has improved from 189 (November) to 242 (February).

Quarterly Review 4Q16: Mr. Thornton announced that Cathe Tocher, Chief Investment Officer – Separate Accounts, is retiring June 30, 2017 after 31 years of service. Jack Brown, brought to Great West by Ms. Tocher 1.5 years ago, will assume Ms. Tocher's responsibilities in managing the Stable Value Fund. Prior to joining Great West, Mr. Brown served 20 years with Oppenheimer where he managed fixed income mutual funds (especially high yields). Mr. Thornton offered to set up a conference call or visit with Ms. Tocher and/or Mr. Brown upon request of the Commission. The Commission felt that a meeting was not necessary.

Mr. Thornton pointed out that the byproduct of the run-up in rates is the decrease of market value. (As rates increase, the market value decreases.) There were no major changes to the fund allocations.

Investment Policy Statement (IPS) Review: There have been some minor changes in the template IPS. The biggest change would be to allow Triple B investment exposure. Mr. Thornton will incorporate Wilshire's thoughts/recommendations, and will bring a recommendation before the Commission in May, 2017. Revisions to the existing IPS will be highlighted and sent to Wilshire for their convenience in reviewing.

Corporate Letter: The Lehman Brothers Bond, held since 2008, was paid out in mid-January, 2017. Mr. Thornton will forward an email to Ms. Stevens outlining details related to how the Lehman Brothers Bond was handled. The Becton Dickinson & Co. Senior Notes has a rating of BBB+ (S&P) and Baa2 (Moody's). The Portfolio Manager recommends that the Fund continue to hold the security as Becton Dickinson is a large diversified medical products company and business generates significant free cash flow. Mr. Thornton will forward additional information to Ms. Stevens on any securities sold in January, 2017.

Marketing Report, 4Q16

Ms. Stevens reviewed the Marketing Report for 4Q16. Total number of new enrollments (paper and online): 575. Total new enrollments in 2016: 2,654. The total number of group meetings in 2016 totaled 1,208 which was slightly short of the 1,300 annual goal. Ms. Stevens sited the following factors contributing to falling short of the annual group meetings goal:

- RPC's not entering all group meetings into the system so that the meetings could be counted.
- RPC's handling additional phone calls related to the 2016 fund change.
- RPC's handling additional phone calls related to UEW-Flood.

The most active agencies during the fourth quarter included: Lafourche Parish Sheriff, DHH-Metropolitan HSD, University of New Orleans, LSU Baton Rouge, DOTD and Jackson Parish Sheriff.

Other Business

Participant Member Election Update: Ms. Stevens reported that the Nominating Committee met on Wednesday, January 11, 2017 and nominated Ms. Sanders for election to the Participant Member, three-year term that begins on July 1, 2017. Candidate petitions have been sent out to agencies. The deadline for receipt of petitions is Friday, February 17, 2017.

Dept of Labor (DOL) Fiduciary Rule: The new rule goes into effect April 10, 2017. Mr. Kling noted that the new rule will make it more cumbersome and expensive for the consumer to establish IRA's. Any discussion related to IRA's must be conducted with a registered investment advisor. The number of options available to the small investor has lessened under the new rule. Ms. Andrews asked if the proposed strategy must be implemented whether or not the DOL rule goes into effect. Mr. Riviere stated that the strategy must be implemented because Great West is not registered as an investment advisor.

Adjournment

With there being no further items of business to come before the Commission, Chairman Emery Bares declared the meeting adjourned at 11:39 a.m.

____

Virginia Burton, Secretary