# MINUTES

## Louisiana Deferred Compensation Commission Meeting
## February 14, 2012

The Monthly Meeting of the Louisiana Deferred Compensation Commission was held on Tuesday, February 14, 2012, in the offices of the Plan Administrator, 2237 South Acadian Thruway, Suite 702, Baton Rouge, Louisiana 70808.

**Members Present**
Emery Bares, Chairman, Designee of the Commissioner of Insurance
Virginia Burton, Secretary, Participant Member
Robert Henderson, Participant Member
Andrea Hubbard, Designee of the Commissioner of Administration
Len Riviere, Designee of Commissioner of Financial Institutions
Troy Searles, Participant Member

**Members Absent**
Whit Kling, Vice-Chairman, Designee of the State Treasurer
Troy Searles, Participant Member (latter part of meeting)

**Others Present**
David Lindberg, Consultant, Wilshire Associates, Inc. *By Conference Call*
Felicia Bennett, Consultant, Wilshire Associates, Inc. *By Conference Call*
Perry Christie, VP, Denver GWRS
Sarah Flanagan, Sr. Communication Specialist, Denver GWRS
Steve Kohlts, Senior Plan Services Account Manager, Denver, GWRS
Lindsey Hunter, Louisiana Attorney General's Office
Connie Stevens, Director, Baton Rouge GWRS
Jo Ann Carrigan, Lead Office Coordinator, Baton Rouge GWRS

**Call to Order**

Chairman Bares called the meeting to order at 10:04 a.m.

**Approval of Commission Meeting Minutes of January 17, 2012**

The minutes of January 17, 2012 were reviewed. Ms. Burton motioned for acceptance of the minutes. Mr. Riviere seconded the motion. The Commission unanimously approved the minutes.

## Acceptance of Hardship Committee Reports of February 3, 2012

Mr. Riviere motioned for acceptance of the Hardship Committee Reports of February 3, 2012. Ms. Hubbard seconded the motion. The Commission unanimously approved the report.

## Administrator's Report

**Plan Update** as of January 31, 2012 was presented by Ms. Stevens. Assets as of January 31, 2012: $1.126 billion. Asset change YTD: $33.61 million. Contributions YTD: $8.94 million. Distributions YTD: $7.04 million. Net Investment gain YTD: $31.71 million. In January, the S&P was up 4 ½%; Mid Cap was up 6.6% and Small Cap was up 7%.

**Participation by Asset Class and Investment Option:** Stable Value/Fixed Income: 50.01% which is slightly lower due to loss of participants (distributions), January begins a new tax year prompting more distribution activity, Purchase of Service requests and market growth.
**Performance on the Funds:** The one month column reflects substantial growth in January. The three year average has also increased because this period no longer includes 2008 numbers. The five year numbers are still struggling because they include 2008. Bonds were the "place to be" in the five year category reflecting the best averages.
**Stable Value:** The Quarterly Portfolio Manager Letter highlighted the Lehman Brothers holding noting that The US Bankruptcy Court recently approved the bankruptcy plan for Lehman. These notes will receive a recovery of 21.1% to be paid out semiannually over a period of three years. There were no securities sold in the month December, 2011 in the Stable Value Portfolio.
**Stable Value 4$^{th}$ Quarter Statement as of December 31, 2011:** Market Value of Assets to Book Value of Liabilities is 105.8% representing the strength of the portfolio. The Current Yield of the Portfolio based on book value is 3.57%. After amortization is added and less investment management fees and the asset based admin fee, the figure is about 3.5%. The current rate quoted to participants is 3.35%. The anticipation is that this rate will continue to drift down due primarily because of new money coming in from contributions and maturing holdings in the portfolio that must be reinvested into new bonds with rates that are low. Mr. Al Cunningham will be presenting an in-depth review of this in the future. Lehman Brothers Holdings: Par Value is $2 Million; the Purchase Price is $400,000; The Market Value as of December 31, 2011 was $475,000. These holdings are not rated.

**4Q11 Economic and Capital Markets Review:** The GDP increased 1.7% for 2011, versus a 3.0% increase in 2010. The Consumer Price Index increased 3.4% for the 12 month period ending in November, 2011 due in large part to the 19% increase in gasoline. There is some decline in the unemployment rate and an increase in housing starts. Stocks during Presidential election years have had positive returns except for 2000 and 2008. Domestic equities were up; International equities were up but not as much due to Japan being in negative territory. Fixed Income: TIPS, due of inflation, are the highest performing; high yield is seeing investors looking for more yield. Periodic Table of Investment Returns over the Last 15 Years: Bonds were the place to be last year. It was a flat year for domestic equities and a down year for international equities.

**Commission Activity Fund (CAF)-January, 2012:** The balance was at $3.512 Million at the end of January. The primary additions were the fund revenues (mutual funds, stable value), participant recoveries and some interest. Deductions included payment to the Attorney General's Office and Wilshire (quarterly payments). The Great-West recordkeeping fee ($610,186) is expected to be deducted in February and will have a significant effect on the CAF balance. A chart of CAF Annual Balances tracing the historical balances of the CAF Account was presented.

**4Q11 Revenue Reconciliation:** Quarterly fees deducted from participants based on an Asset Fee basis and a Flat Fee basis totaled $444,842.76 for the 4th quarter. Comparison of Mutual Fund fees, BlackRock Fund Revenue, Maxim Fund Revenue and Stable Value Revenue going into the CAF account between 1st Quarter 2011 ($259,234.24) and 4th Quarter 2011 ($148,819.48) shows a marked decrease due to reduction of operating expenses in some of the funds. Great-West will be paid $610,186.50 for the 4th Quarter based on $16.50 per participant and 36,981 participants. The number of participants has been reduced due in part to DeMinimis distributions in addition to an increase in participant distributions. Other Great-West revenue: Loan fees, Self Directed Brokerage and Stable Value Fund Management Services were reviewed.

## Strategic Partnership Plan

The Strategic Partnership Plan shows the partnership between Great-West and the Plan itself as well as a review of industry options available compared to what the Plan offers. Great-West Retirement Services, Public Non-Profit Section, has gone through a restructuring. As the government market has grown, Great-West has segregated its workforce so that personnel are dedicated just to that market. The Government Plan is a different type of business model from the 403B and some 401K Plans. With this restructuring, there will be subtle changes such as new titles. Account Executives are now being called Retirement Plan Counselors in a move to expand the role to encompass assistance from "cradle (enrollment) to grave (retirement)."

**Automatic Enrollment:** The government market is lagging in this area while the corporate market has wholly embraced it into their plans. With auto enrollment, if an employee is enrolled (no matter the percentage), the employee tends to stay in the plan usually at the rate they entered the program. The vast majority of plans with auto enrollment utilize target date products as the plan default investment option. Legislation is necessary to adopt auto enrollment in Louisiana.

**Distributions:** There are four types of distributions: in-service, retirement or separation of service, transfers to other retirement accounts and transfers to IRAs. Reasons for distributions: Established relationship, didn't know they could keep funds in plan, need to purchase IRA, wider variety of investment options, management of assets, retirement planning and fees. Conservation efforts within the state of LA include targeting the topic in the "Keynotes" quarterly newsletter, seminars for retirees and pre-retirees, individual meetings, distribution option flyers. Great-West in Denver is starting an optional conservation project designed to educate participants regarding distribution of funds. (The Deferred Comp Plan is not currently participating in this program.) Since rollout of this program, 51% of participants choose to stay in their respective plans instead of rolling out. Great-West also has a proactive outreach whose purpose is to contact participants with termination dates to make sure they realize options that are available. The focus is on educating the participants so that they may make informed decisions with the objective being to retain assets. In 2011, the following IRA companies in Louisiana received the most rollovers from the Plan: Edward Jones, Fidelity, and Chase. Total rollovers in 2011: $21.6 Million. Rollovers to the top twelve IRA companies in 2011: $12.5 Million. If Great-West distribution service is elected, calls are routed to a specialized call center that will use a "Participant Engagement Model" designed to establish rapport, analyze participant needs, present options and solutions and agree/execute customer's decisions as appropriate. A Great-West IRA is only offered when the participant requests it. If the Commission elects to use this service, a quarterly report is available that would show any LA participants that were transferred to the special unit, how much was saved, how much was transferred and how much went to the IRA. Field representatives in LA are already meeting with participants on these topics. The difference would be in how calls routed through the Home Office would be handled. Ms. Stevens will provide figures related to the number of calls received by the Home Office vs. the number received by LA representatives.

**Guaranteed Income Product:** There were approximately $84 Million in withdrawals in 2011, approximately $20 Million went to outside services and the remainder went to some sort of retirement payout. Guaranteed Income Products are becoming more popular because defined benefit plans are changing all over the country thus taking away the concept of guaranteed income at retirement. The new defined benefit tiers usually require longer service with less payout benefits. A Guaranteed Income Product will guarantee that whatever portion a participant wants in this type of product, the participant will not outlive it. For a 65 year old couple, there is a 50% chance that one of them will live to age 92 and a 25% chance that one of them will live to age 97. Mr. Christie explained how a Guaranteed Income Product worked noting two levels of accounting: Benefit Base (what participant puts into the product plus any growth) and a Fund Value (rides up and down with the market). The Benefit Base is the accounting measure that is going to be used at the time the participant wants to take the money out. These products protect income if the participant thinks the market will be down long-term. If the participant believes the opposite, there is no reason to pay the extra fee for the guarantee. He explained the effect of sequencing risk on a participant's balance in two illustrations. The fee to protect the Benefit Base is 90 bps. This type of product differs from a traditional annuity because of the survivor benefit in the case of a premature death, it does not require an irrevocable decision, and the Benefit Base can increase if the market performs well. Mr. Christie responded to a couple of questions from members: there is no minimum time to hold the investment, but it could not be purchased after age 85, and there is no balance requirement. In fact, it would not be recommended for total balances. Ms. Bennett brought up a portability issue with these products. The product would remain with the originating provider if a change in record keeper were to occur. She recommended waiting until a decision is made on the RFP to add this product to the lineup.

**Spend-Down Capabilities:** The Managed Account program now offers a spend-down program to assist retirees in distributing their funds to last throughout their lifetime and this integrates with the guaranteed income product just discussed.

**Participant Experience/Marketing**: Ms. Stevens reviewed defined territories for field staff and networking opportunities used to advertise the Plan with various professional groups and pension systems. These meetings have resulted in the addition of several political subdivisions to the Plan. Non-automated payrolls were targeted with messages in December and January and several have expressed interest in converting. Ms. Flanagan discussed the Flier Reference Guide, a catalog of materials available to the field staff for topical marketing such as enrollment, asset allocation, market volatility, and increasing contributions. She then reviewed the 2011 Louisiana custom marketing catalog including the BlackRock Target Date Flier. The 2012 Marketing Timeline was presented with deliverables for the themes of each quarter. The new website is anticipated April 1st and a special marketing campaign has been developed around that event.

**Loans:** Ms. Stevens discussed the loan statistics for the Plan and indicated a suggestion for improvement by requiring payroll deduction of all employers would result in reduced fees and a lower default rate.

**Plan Operations:** Mr. Kohlts reviewed his role in implementing the many decisions made by the Commission such as fund changes, de minimis processing, automation of payrolls and website conversion.

**Roth 457**: Ms. Stevens explained that there are two components to adding a Roth 457, the implementation of adding the feature to the Plan and educating the participants on the differences between a Roth 457 and a pre-tax 457 such as the age 59 ½ treatment of distributions, tax treatment of contributions and distributions, and the RMD requirements.

**Fee Disclosure:** 408(b)2 requirements will begin with plan sponsors on April 1st and with participants later in the year. This was e-mailed to all Commission members in October, 2011 via “Focus on 457” newsletters.

**Unique Features Required by Commission:** The requirements of the Plan Administrator by the Commission were reviewed by Ms. Stevens. They include a checking account held specifically for the state payroll, clearing of all state payroll rejects, a separate general ledger, legacy insurance products, acting in the capacity of the Plan’s Administrator and conducting a Commission member election.

## Marketing Update

January saw averages per application at $3710, a significant increase over 2011 averages of $3277.

**4Q11 Investment Performance Review**

Ms. Bennett announced potential fund changes for 2012 including Growth Fund of America for performance reasons, Ariel Appreciation for lower expense ratio and the addition of a 2055 Target Date fund. In equities, indexes outperformed active managers. YTD 2012 performance has rebounded. Legg Mason will see the retirement of manager Bill Miller in April 2012. This is viewed mostly as a positive, but the fund will be watched. MFS International Value was the top performer for 2011 in its peer group.

**RFP Update**

The Commission discussed the RFP with Ms. Bennett of Wilshire.

**Other Business**

**Financial Audit Bid Results:** Hienz and Macaluso was the new firm chosen in the Legislative Auditor bid process, but no letter of engagement has been received as of the meeting date. This will be pursued by Ms. Stevens.

**Deemed IRA Participant Issue:** Noted with Commission.

**P&I Article:** Not discussed as Mr. Searles left prior to the item on the agenda and it was added at his request.

**Ballot Count Certification Service:** It was proposed to continue the service with Duplantier, Hrapmann, Hogan and Maher. Mr. Riviere motioned to continue this service for the 2012 participant election. Ms. Hubbard seconded the motion. The Commission unanimously approved and a letter of engagement will be obtained if an election is to occur.

**Adjournment**

With no further items of business to come before the Commission, Chairman Bares declared the meeting adjourned at 12:47 p.m.

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Virginia Burton, Secretary