

MINUTES
Louisiana Deferred Compensation Commission Meeting
April 21, 2020

The monthly meeting of the Louisiana Deferred Compensation Commission was held on Tuesday, April 21, 2020 via video conference at 10:00 a.m.

Members Present *via video conference*

Whit Kling, Chairman, Participant Member
Virginia Burton, Vice Chairman, Participant Member
Stewart Guerin, Designee of the Commissioner of Insurance
Andrea Hubbard, Co-Designee of the Commissioner of Administration
James Mack, Designee of the LA State Treasurer
Scott Jolly, Co-Designee of Commissioner of Financial Institution
Laney Sanders, Secretary, Participant Member

Members Not Present

Representative Lance Harris, Designee of the Speaker of the LA House of Representatives
Senator Ed Price, Designee of the President of the Louisiana State Senate

Others Present *via video conference*

Marybeth Daubenspeck, Vice President, Government Markets, Empower Retirement, Denver
Stephen DiGirolamo, CFA – Managing Director, Wilshire Associates
Craig Cassagne, State of Louisiana Attorney General’s Office
Shannon Dyse, Relationship Manger, Empower Retirement, Baton Rouge
Rich Massingill, Manager of Participant Engagement, Empower Retirement, Baton Rouge
Jo Ann Carrigan, Sr. Field Administrative Support, Empower Retirement, Baton Rouge

Call to Order

Chairman Kling called the meeting to order at 10:00 a.m. Ms. Carrigan called roll of members in attendance via video conference.

Public Comments

Mr. Kling stated that the meeting is accessible to the public and invited anyone who had joined the video conference to participate in the call. There were no public comments.

Justification for Video Meeting-Certification

Mr. Kling explained that, in compliance with the Governor’s Executive Order, the Commission issued a “Certificate of Inability to Operate Due to a Lack of Quorum”, operating under the exceptions provided by the executive order to the “Open Meetings Law”. The certificate was posted to the Boards and Commissions website prior to the April 21, 2020 meeting.

Approval of Commission Meeting Minutes of February 11, 2020

The minutes of the February 11, 2020 Commission Meeting were reviewed. Ms. Sanders motioned for the acceptance of the February 11, 2020 minutes. Mr. Jolly seconded the motion. The Commission unanimously approved the minutes of February 11, 2020.

Election Results – Laney Sanders

Ms. Carrigan reported that petitions were mailed to State payroll departments inviting any qualified participant to request their name be placed on a ballot to be included in the election of the “participant member” seat that Laney Sanders holds on the Commission through June 30, 2020. No petition was received therefore, no election was required. Laney Sanders, having run for the “participant member” seat unopposed, will continue to serve on the Commission.

Plan and Current Market Conditions

Mr. DiGirolamo shared that we are living in unprecedented times noting that any investor alive has not lived through this type of situation in their lifetime. The volatility of the market has been extremely dramatic over the past couple of months. A new portal has been added to the Wilshire website that includes a timeline designed to give the reader a feel for all of the events that have happened in 2020, year-to-date:

- Equity Markets: The first quarter has been the worst quarter since the global financial crisis of 2008-2009.
 - US Equities: Down almost 21% for the first quarter. The good news is that since March 23, 2020, the US Equity Market is up about 20% thus making up some of the loss.
 - Individual Sectors:
 - Energy: Oil prices have dropped significantly. Oil affects every sector and every corner of the market.
 - Consumer Staples and Health Care sectors have performed better during the quarter.
- International Equities: In general, International Equities were down between 22-24% with Emerging Markets showing worse than Developed Markets.
- Bond Markets – US: The yield curve has significantly decreased. The quarter ended historically low with the 10 year at about 70 basis points. High yield bonds were down about 13% for the quarter. There was a significant drop in spreads but there has been recent comeback due in part to the government passage of the stimulus bill and some of the programs that have been announced to help bring stability to the market.

Mr. DiGirolamo stated that 2019 was a strong year across most asset classes with low unemployment, stable GDP growth and higher wages. In 2020, all of these positive indicators have gone away and the world economy is moving into a new world of uncertainty. Mr. DiGirolamo stated that high volatility should be the expectation going forward. The Wilshire website link was offered as a reference tool for information during this time.

Plan Update – 1Q20

Mr. DiGirolamo reviewed Asset Allocation and Performance as of March 31, 2020. Mr. DiGirolamo stated that, in general, active managers have done a good job of “active defense” during the quarter. The Stable Value Fund continues to meet expectations regardless of the type of market condition. Market returns and plan asset returns were down for the quarter. Mr. DiGirolamo stated that in this type of market environment the most vulnerable participants are those in retirement or close to retirement. There is some comfort in the fact that the safety strategies within the portfolio (Stable Value, Intermediate term fixed income bond funds and the

retirement fund within the Target Date funds) have held up fairly well and protected assets the way they are expected to. This is a refresher to understand why the Plan is built the way that it is. All things considered, the Plan has held up well during the past three months of market volatility.

Black Rock Life Path Fund Fee Agreement – Approval Ratification

Mr. Kling reminded the Commission that the Black Rock Life Path Fund Fee Agreement has been previously introduced for discussion. To be able to take advantage of fee reductions that were available within a certain timeframe, Mr. Kling executed a preliminary agreement after receiving approval from the Attorney General’s office to move forward subject to ratification by the Commission. Mr. DiGirolamo shared that Wilshire has ongoing conversations with fund managers regarding fees available to the Plan. One of these discussions led to the potential of lowering the Black Rock Life Path Fund fees within the Plan. The Black Rock Life Path Fund has a new collective trust that is now available to the Plan that is run similarly to the current co-mingled trust in place today but with a lower fee schedule. The result is that the Collective Trust Series will change from a “J” to an “L” which will change the overall fee for each of the individual funds from 15 basis points to 8 basis points. The new co-mingled trust structure has a lower fee and is recommended by Wilshire as a way to lower fees without changing the Plan structure or the way that the money is managed. Mr. Dyse shared that the agreement must be executed by the end of the month of May with the actual transition scheduled for May 29, 2020. An Empower Retirement basic “funds transfer” letter to participants has been drafted and will be mailed this week. Ms. Burton motioned to approve the new fee arrangement with Empower Retirement and to ratify the preliminary agreement signed with Black Rock. Mr. Guerin seconded the motion. The motion was unanimously approved by the Commission.

Wilshire Management Changes

Mr. DiGirolamo shared that Wilshire has undergone a restructuring of the overall management of the firm. Wilshire has always had four different divisions: Consulting, Fund Management, Analytics and Private Market. Each division had its own president. Changes have been made to make Wilshire truly one company that shares resources across the board. There is no need for individual presidents any longer. The president of the Wilshire Consulting Division, Andrew Junkin, resigned from the firm at the end of February after serving in that capacity for five years. Jason Schwarz has been named the Chief Operating Officer that will oversee all four Wilshire division, replacing the four presidents. Mr. Schwarz has been with Wilshire for 15 years and was previously the president of both the Analytics and Funds Management divisions. Mr. DiGirolamo reports to David Lindberg and Steve Foresti, Chief Investment Officer. Mr. DiGirolamo offered to have Mr. Schwarz meet the Commission via video conference at the Commission’s time preference.

Administrator’s Report

Plan Update as of March 31, 2020: Mr. Dyse presented the Plan Update as of March 31, 2020. Assets as of March 31, 2020: \$1,670.37 Billion; Asset Change YTD: -\$205.97 Million; Contributions YTD: \$27.50 Million; Distributions YTD: \$29.66 Million. Net Investment Difference YTD: -\$203.81 Million.

Marketing Report, 2019: Mr. Dyse reviewed the Marketing report as of December 31, 2019 noting that the group meeting annual goal of 1,300 meetings was met and exceeded. Mr. Dyse

cautioned that meeting this goal may be a challenge in 2020 due to the current social distancing rules related to Covid-19.

UPA, February and March, 2020: Mr. Dyse reviewed the UPA reports for February and March, 2020. Everything that is expected to flow through the forfeiture account did so without exception. Deductions from the UPA were approved ahead of time. The closing balance as of March 31, 2020 is \$1,357,241.60.

Banking Fees: Mr. Dyse presented a detailed report of both the JP Morgan Chase bank account and the US Bank account. The JP Morgan Chase account is where contributions and distributions flow through. Mr. Mack asked if distribution requests had increased as a result of the Covid-19 situation and Mr. Dyse stated that he would email that information to the Commission. Empower Retirement's position in relation to RMD's is that RMD withdrawals will not be forced out in 2020.

Acceptance of the UEW Hardship Report – March, 2020

The UEW Hardship reports of February and March, 2020 were presented by Mr. Dyse.

LA Service Team Update

Mr. Massingill, Manager of Participant Engagement, reported that there was a rapid transition to "Work from Home" of the six field advisors and three office administrative staff members in the Baton Rouge office. The physical office closed on March 23rd but all services and processes are being supported via remote capability. During this period, advisor meetings with participants have transitioned from face-to-face to virtual phone and Webex capability. Advisors are proactively reaching out to individuals and payroll representatives to encourage meetings. It is an engagement challenge to transition to the virtual environment due to our southern culture but participants are adjusting to the necessity based on current isolation requirements. Group webinars will be offered over the coming weeks. The objective is to make participants know that Empower Retirement is available to meet with them even under social distancing parameters.

Focus on the 457 Secure Act and CARES Act

Mr. Dyse brought the provisions of both the Secure Act and the CARES Act to the attention of the Commission. Ms. Kling stated there is nothing that needs a decision today and recommended that Commission members review the provisions so that they may be prepared to address them at an upcoming Commission meeting. Mr. Kling is under the impression that there is still more detail to be released and stated that any provisions adopted would require Plan changes. There is one mandatory change to RMD procedures which involves moving the required distribution age to 72 from 70 ½. This update must be made to the Plan Document. Optional provisions that may be adopted by the Plan include: Withdrawals for birth or adoption (penalty free up to \$5000); Permissible in-service withdrawals at age 59 ½ and Portability of lifetime income options (annuities). Mr. Dyse suggested that the in-service provision be thoroughly reviewed as a means of releasing funds at times of hardship instead of or in addition to the UEW request. Empower Retirement does offer annuities. Mr. Kling asked Mr. Cassagne to research if it would be necessary to make changes to the Commission's adopted rules to match the Federal provision since the Commission is required to operate within Federal provisions. Mr. Kling asked the Commission to defer this discussion until more time could be allotted to the process. While provisions could be

added incrementally, it would be best to add them all at one time since adding provisions would require changes to the Plan Document. Other non-Secure Act and non-CARES Act changes are being reviewed to determine if additional changes are needed to the Plan Document. Ms. Burton stated that the Commission previously approved any Federal Government mandated provision be followed thus requiring no changes to the Plan Document. Mr. Cassagne will review and confirm whether or not the mandated provisions will require Plan document changes. Mr. Kling recommended that the other optional provisions be deferred until the next Commission meeting. Mr. Cassagne noted that any rule changes should be made as “permanent” instead of “emergency rule” as emergency rule changes only last 120 days with the option to renew.

CARES Act: Mr. Dyse stated that there will be no “forced out” RMD in 2020. Participants may, however, take voluntary RMD withdrawals. Standing RMD arrangements (periodic payments) will be processed. The optional provisions that need review/approval include: Distributions that can be repaid within three years with repayments treated as rollover contributions; Waiving the 20% withholding tax on distributions; In-service withdrawals of corona-related distributions; Increased loan limits; and Loan payments delayed by one year. The amendment deadline for governmental plans is the last day of the 2024 plan year. Regarding loans, participants would self-certify regarding Covid-19—neither Empower Retirement or the Commission would be responsible for verifying certification. Ms. Carrigan reported that participants are calling requesting information related to any assistance that could be given in relation to loans and loan remittance payments. Ms. Hubbard stated that she attended the Empower Retirement Webinar on April 1st and there was discussion about deferring loan payments and the possibility of offering two loans out at a time. Mr. Dyse stated that the Plan Document must be updated to incorporate any provision approved by the Commission. There was discussion related to how delayed loan payments would be handled to assure that there would be no violation of the Plan Document. Ms. Daubenspeck offered to provide the Commission with scenarios in addition to operational details on how to process the provisions. Ms. Hubbard stated that there is not a clear picture on how the State will handle the months to come, i.e., furloughs, but the provisions should be addressed at the next meeting or at a specially-called meeting in anticipation of a greater need. Mr. Kling invited the Commission to review the provisions and be ready to make decisions at a future meeting.

Audit Topics

Mr. Kling deferred the discussion of “Audit Topics” to a later meeting.

Robert Tarcza Contract Update

Mr. Cassagne reported that negotiations with Mr. Tarcza regarding his contract renewal have become difficult. Mr. Tarcza does not agree that the AG’s office has any right or authority to review his contract even though the AG’s office approves all legal contracts for State boards and commissions. In the latest version received, Mr. Tarcza would like to waive multiple statutory provisions which Mr. Cassagne does not see his office approving. (Mr. Cassagne does not personally approve legal contracts – management does.) At the beginning of negotiations, all Mr. Tarcza requested was that his fee increase. When the standard language draft of the contract was sent to Mr. Tarcza, he expressed disapproval of several of the provisions – even the statutory provisions. Mr. Kling stated that while tax attorney services are not critical at this time, services will be required in the near future as changes to the Plan Document become necessary. It was the consensus of the Commission to make one final contact with Mr. Tarcza making him aware that

the Commission will not waive the provisions. If Mr. Tarcza refuses, Mr. Kling will research and bring names of alternative tax attorney recommendations to the Commission.

Contract Modification Amendment No. 4: Education Services-Empower Retirement

Mr. Kling has executed Amendment No. 4. Mr. Cassagne brought to Mr. Kling's attention that the executive order did not waive the publication requirements. Once the Commission ratifies the document, it will be published, as required by statute, through Mr. Cassagne's office. Ms. Sanders motioned to ratify the amendment. Ms. Burton seconded the motion. The motion was unanimously approved.

Contract Modification/Extension Proposals-Empower Retirement

Mr. Kling stated that no action is required on this topic today. The current Empower Retirement contract allows for an extension of the contract through 2025 without the necessity for a solicitation or RFP process. Mr. Kling brought this to the attention of Empower Retirement who indicated that they are interested in an extension. Empower Retirement presented a proposal to be reviewed by the Commission. To take advantage of the five year reduction noted in the proposal, Commission approval is needed with an effective date of January 1, 2021. The proposal gives the Commission the opportunity to reduce the management fee with an offset of the Stable Value Fund. Mr. DiGirolamo has reviewed the proposal and compared it to other record-keeper practices. Mr. DiGirolamo stated that what is currently paid for the Custom Stable Value Fund is 18 basis points which is very low relative to other options. In terms of fees within the "universe" of Stable Value funds, the median is in the low 30's (32-33 basis points) with 25 basis points at the lowest-end. Other record-keepers who may bid on the Plan will most likely charge a higher fee for its Stable Value fund which will affect the "per-participant" fee. The Empower Retirement proposal increases the Stable Value fee from 18 basis points to 25 basis points but lowers the fee per participant from \$47 to \$33 or \$31. The proposal assures that the savings are pushed across to all participants in the Plan and not just to those invested in Stable Value. Ms. Hubbard asked what the value of the increase of the Stable Value Fund would be and Mr. Dyse responded that it would come out to approximately \$11 per person. The last time the Plan was out for bid was in 2012. There is a current built-in extension through 2025 that can be exercised if the Commission chooses to do so. Mr. Mack suggested that this decision be deferred to the May meeting. Mr. Mack and Mr. Kling stated that there is a certain level of interest from other companies. Mr. Kling requested that Empower Retirement provide more definitive numbers of cost increase/cost savings. Mr. Kling stated that by the May meeting, a decision must be made as to whether the Empower Retirement proposal will be entertained or if a solicitation proposal will be necessary which will require 14-18 months for completion.

Other Business

New Authorized Signature: Under the Provisions of Section 16 of the agreement for record-keeping and compensation services between the State of LA and Empower Retirement, a new authorized signature document was signed by Mr. Kling allowing Rich Massingill, Shannon Dyse, Darren Crawford, Lakeisha Rose and Jo Ann Carrigan signing privileges on behalf of the Commission for those instruments that are allowed under the contract.

Mr. Kling wished all parties well and encouraged members to review the Secure Act and CARES Act prior to the next meeting.

Adjournment

With there being no further items of business to come before the Commission, Chairman Kling declared the meeting adjourned at 11:50 a.m.

Laney Sanders, Secretary