

## MINUTES

### Louisiana Deferred Compensation Commission Meeting

December 12, 2017

The annual educational retreat and monthly meeting of the Louisiana Deferred Compensation Commission was held on Tuesday, December 12, 2017 at the Ione Burden Conference Center, 4560 Essen Lane Baton Rouge, LA 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, Co-Designee of the Commissioner of Administrator  
Whit Kling, Vice-Chairman, Participant Member  
Len Riviere, Co-Designee of Commissioner of Financial Institution  
Laney Sanders, Participant Member

#### **Others Present**

John Morris, Assistant Attorney General, State of Louisiana Attorney General's Office  
Craig Cassagne, Assistant Attorney General, State of Louisiana Attorney General's Office  
Stephen DiGirolamo, Vice President, Wilshire Consulting  
Perry Christie, Director, Government Markets, Empower Retirement  
Marilyn R. Collister, Senior Director, Legislative and Regulatory Affairs, Empower Retirement  
Marybeth Daubenspeck, Vice President, Government Markets, Empower Retirement  
William Thornton, Senior Manager, Client Portfolio Services AAG  
Connie Stevens, State Director, Empower Retirement  
Jo Ann Carrigan, Sr. Field Administrative Support, Empower Retirement

#### **Welcome and Introductions**

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

#### **Dynamic Retirement Manager**

Mr. Thornton reviewed the Dynamic Retirement Manager program for educational purposes only – no action needed by the Commission at this time. The Dynamic Retirement Manager Program is designed to assist participants to be better prepared for retirement. The strategy of the program is to automatically transition a retirement plan participant from a target date investment option during the “accumulation phase” to a managed account during the “retirement phase”.

#### **Custom Stable Value Investment Policy Statement Review**

Mr. DiGirolamo addressed the proposed use of derivatives noting that if the use of derivatives would be approved, they would be used sparingly as a “risk hedge” against unforeseen events in

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the market and not for the purpose of adding to yield. As requested in a previous meeting, any time a derivative is used, it would be reported to the Commission either monthly or quarterly – whatever timeframe the Commission preferred. Upon request of the Commission, Mr. DiGirolamo will provide the following information at the January, 2018 Commission Meeting:

- Verbiage to be added to Appendix A of the Stable Value Fixed Income Fund “Investment and Guidelines” to include definition, intent and duration of the use of derivatives.
- Verbiage to be added to the quarterly letter noting either no use or the number of derivatives used.

### **Plan Fee Evaluation**

Mr. DiGirolamo reviewed the history of action taken to manage fees with the intent of:

- Increasing fee transparency and predictability
- Reducing Plan costs and fund expense ratios
- Managing the Unallocated Plan Assets (UPA) balance

At the beginning of 2015, the UPA had a little over \$3Million in assets. At the end of November, 2017, the account had \$2.1Million in assets and is decreasing by approximately \$74,000 each quarter. The current and previous fee scales were reviewed by Mr. DiGirolamo noting that the objective was to make them as simple as possible. The projected plan budget was presented. The fee per head will be reduced to \$11.75/quarter from \$12.00/quarter in April of 2018 once statements are converted to electronic distribution from paper. Revenue in the UPA comes from two sources: Interest on UAF and Administrative Fees. Results of stress tests run were presented to determine how hypothetical market conditions and/or changes in administrative fee structure would affect revenue. The goal is to establish an even balance that would not shock participants and that no single participant group would bear the burden. Mr. DiGirolamo stated that at the current rate of expenses/revenue, it would take a little over five years to deplete the UPA. At that point, there was discussion regarding establishing a course of action to establish a “glide path” with a modest increase in fees over a period of years to prevent shock and help keep the balance at a comfortable total. Mr. DiGirolamo presented a 2017 NAGDCA Fee Survey noting that the Plan is less expensive but similar to other public plans.

### **2017 Plan Events**

Ms. Stevens reviewed the events of 2017 noting the following:

#### **Plan Level Events**

- August-2016 Flood-UEW total processed \$4.5 Million.
- Participant website upgraded on September 27, 2017.

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- Legislation proposed in the regular session resulting in the addition of Vanguard Intermediate Term Treasury Fund.
- Communication Campaign led by Commission members in preparation for e-delivery of statements in 1Q18.

#### **Operations**

- Auto term implemented for increased efficiency in processing distributions.
- Multi-Factor Authentication implemented to increase participant security for online access.
- Review of all processing continues (global and local).

#### **Field Activities**

- Retirement Plan Advisors conducting Retirement Readiness Reviews in one-on-one meetings.
- LSU e-mail sent to 914 non-contributing employees resulting in 52 new participants in two months.
- Deferred Comp Awareness Days adopted by many employers.
- LASERS produced a video promoting participation in Deferred Comp as a means to improve retirement.
- Political Subdivisions: Gained 8; Lost 3.

#### **Fiduciary Training-Legislative & Regulatory Updates**

Ms. Collister presented a fiduciary training refresher and reviewed legislative and regulatory updates including:

##### **Fiduciary Refresher:**

- Fiduciary Responsibilities under Louisiana Law (Uniform Prudent Investor Act and the Internal Revenue Code – Section 457G (1999)).
- Employer Functions versus Fiduciary Duties
- Fiduciary Standards of Conduct
- Lessons Learned from Participant Lawsuits.

##### **Tax Reform 2017, Legislative Updates and Regulatory Updates**

- The Retirement Plan Simplification and Enhancement Act of 2017
- The Automatic Retirement Plan Act of 2017

There was discussion regarding the type of money that can be used for an “Unforeseeable Emergency” under the Tax Reform Act of 2017. The question was related to whether or not earnings and employer contributions can be included in an Unforeseeable Emergency distribution. The Plan’s current practice is to allow the distribution of earnings and employer contributions. Ms. Collister stated that she would research this issue and report back to the Commission noting that there is no concept in the 457 Plan of an “employer contribution” like there is in a 401A, 401K or 401B. Any money that an employer puts into a 457 Plan is considered an elective deferral subject to IRS contribution limits.

**Empower Update and Overview**

Ms. Daubenspeck reviewed Empower Retirement's position and standing within the retirement provider community.

- The second largest retirement provider in the country.
- The number one provider in government marketplace. Since 2009, Empower Retirement has been number one in plan assets, plan participants and state 457 plans.
- One out of three public employees, who save, saves with Empower Retirement.
- Provides retirement services for more than 8,000,000 participants and 36,000 plans.
- Empower Retirement goal: Singularly focused on empowering people to save enough today to help generate the income they need to enjoy at retirement.

Ms. Daubenspeck reviewed the Lifetime Income Score Methodology which involves using employee data to run comprehensive analytics to determine a person's lifetime income score. The employee's retirement goals are also figured into the score. Statistics show that prior to the inception of the Lifetime Income Tool at plan conversion, the average score was 68%. When using the Lifetime Income Tool, the estimated income replacement at retirement increased by nearly 15%. It was found that 35% of the participants who "touched" the "slider" tool on the website made a positive action.

Empower Retirement is committed to a multi-channel approach in presenting the message to participants. The digital approach to encouraging participants to take action allows the information to be adapted/personalized for each particular person.

Ms. Daubenspeck reviewed Empower Retirement's effort to keep participant data safe and secure:

- Robust information security program is based on the international standard ISO72001.
- Disaster recovery methods are tested throughout the year for effectiveness.
- Affirmation of security and controls is through third-party Verizon Cybertrust Certified Enterprise.

Ms. Daubenspeck noted that fraud is a serious problem in retirement plans and that the vast majority is the result of criminal activity (not family members). In 2018, there will be a "Step Up Authentication" added to the website when a participant requests action on the website, i.e., distributions, beneficiary changes. Hourly scans are run to identify certain IP addresses and phone numbers. The FBI is notified when an IP address pattern is observed. Suspicious Activity Reports are filed when fraud is detected.

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**Regular Meeting**

**Call to Order:** Mr. Bares called the meeting to order at 2:28 p.m.

Ms. Carrigan took roll call of Commission members present.

Mr. Kling made a motion to amend the printed minutes to include the review of the Commission Meeting Minutes of November 14, 2017.

**Approval of Commission Meeting Minutes of November 14, 2017**

The minutes of November 14, 2017 were reviewed. Mr. Kling motioned for the acceptance of the November 14, 2017 minutes. Ms. Burton seconded the motion. The Commission unanimously approved the minutes.

**Administrator's Report**

**Plan Update-November 30, 2017:** Ms. Stevens presented the Plan Update as of November 30, 2017. Assets as of November 30, 2017: \$1,678.07 Billion; Asset Change YTD: \$167.33 Million; Contributions YTD: \$87.07 Million; Distributions YTD: \$98.84 Million. Net Investment Difference YTD: \$179.10 Million—primarily due to investment gains.

**UPA-Novemeber 2017:** Ms. Stevens reviewed the UPA for the month November, 2017. Cash balance on hand as of October 31, 2017: \$2,569,016.40. Ending balance as of November 30, 2017: \$2,110,348.78. Additions included: Interest for November. Deductions included: Tarcza & Associates LLC, Wilshire Associates Incorporated and Great-West Financial. Ms. Stevens noted that if the proposed tax legislation passes and it affects the 457 Plan, services from Tarcza & Associates may be required to amend the Plan Document.

**Other Business**

**Designation of the Nominating Committee:** Mr. Kling motioned to authorize Mr. Bares and Ms. Stevens to designate members of the Nominating Committee for 2018. Mr. Riviere seconded the motion. There was no objection and the motion carried.

**Commission Meeting Schedule of 2018:** Ms. Stevens noted that three of the proposed meetings were changed from the third Tuesday of the month due to conflicts with holiday schedules (January, February and November). Invitations will be sent electronically to Commission members for the proposed 2018 meeting dates.

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**Adjournment**

With there being no further items of business to come before the Commission, Chairman Bares declared the meeting adjourned at 2.30 p.m.

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Virginia Burton, Secretary