**MINUTES**
**Louisiana Deferred Compensation Commission Meeting**
**May 18, 2021**

The monthly meeting of the Louisiana Deferred Compensation Commission was held on Tuesday, May 18, 2021 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
Scott Jolly, Co-Designee of Commissioner of Financial Institution
James Mack, Designee of the LA State Treasurer
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*
Stephen DiGirolamo, CFA – Managing Director, Wilshire Associates
William Thornton, Senior Manager, Client Portfolio Services, AAG, Denver
Craig Cassagne, State of Louisiana Attorney General's Office, Baton Rouge
Shannon Dyse, Relationship Manger, Empower Retirement, Baton Rouge
Rich Massingill, Manager, Participant Engagement, Empower Retirement, Baton Rouge
Karen Scott, Senior Client Service Manager, Empower Retirement – Denver
Jo Ann Carrigan, Sr. Field Administrative Support, Empower Retirement, Baton Rouge

**Call to Order**
Mr. Kling called the meeting to order at 10:01 a.m. Ms. Carrigan called roll of Commission members who were attending the 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.

**Wilshire Quarterly Investment Performance Summary-1Q21**

Mr. DiGirolamo presented the 1Q21 Investment Performance Summary to the Commission. Mr. DiGirolamo noted positive economic signs which included, GDP growth that was up to approximately 6.5% in the US, unemployment dropping to about 6%, good job growth numbers and consumer and producer spending both increasing in the first three months of the year. The global stimulus packages have pushed markets up which helped drive the economy ahead in the United States and also globally. Inflation has increased with the CPI going up to about 4.2%. The ten-year break-even point has gone above 2.5%. The best performing sub asset classes year-to-date are Energy related (real assets). Real Assets were the worst performing asset classes in 2020. US and non-US Equities had a strong performance for the first quarter. Bringing up the rear were Fixed Income and Bonds. Investment grade level bonds had negative performance for the first three months of 2021. The Wilshire 5000 Index Fund was up 6.5% for the first quarter. The one-year number is up over 62% which is the best year of performance ever from this Wilshire 5000 Index. Within US Equities in the first quarter, Large Cap stocks underperformed Small Cap stocks fairly significantly (by about 8%). During the same period, value stocks outperformed growth stocks by about 8%. Each sector within the Wilshire 5000 Index was positive led by Energy and Financials. Non-US Equities had positive performance for the first quarter as well as a positive number for the one-year period with the total market up 50% (not quite as high as US Equities). Developed markets outperformed emerging markets for the quarter which is a reversal of what has worked over the long run. Europe had strong performance for the quarter with some negative performance out of the individual sectors due to such things as rolling shutdowns in the UK related to COVID Virus spikes. China was flat for the quarter. China's central bank is attempting to slow down growth or at least slow down lending but still produce some growth out of the economy. The Barclays AG Benchmark was up 7.5% in 2020. Today, the ten-year is at about 1.65 which is significantly up from year-end even though this figure reverted back some.

Mr. DiGirolamo stated that the story going forward is going to be inflation. In particular, how fast inflation is going to hit different markets and how much of that inflation has been priced into markets already. The expectation is volatility especially in Equities for the rest of the year.

At the end of the first quarter, the Plan ended a little over $2.1 billion in assets. U.S. Equities continue to be the largest portion of the Plan followed by Stable Value. This dynamic hasn't changed over the last year with very little change in transition of assets between asset classes. There is strong performance in the Plan on an absolute perspective for the quarter and for the year. Long-term holdings and quality companies over the long run is what has worked for the funds.

Mr. DiGirolamo concluded by stating that the portfolio and the Plan itself, performed well for the quarter and is positioned well. Individual funds reacted as expected.

**LA Capital Markets Overview and CSVF Review 1Q21**

Mr. Thornton stated that there has been a big bounce back from the third quarter of 2020. The fourth quarter was 4% and the first quarter of 2021 advanced estimate is 6.4% which is driving the inflation that Mr. DiGirolamo mentioned in his presentation. A big portion of the first quarter's GDP gain was government funded with the stimulus. The big headline is inflation with March at 8.6% and April at 8%. The biggest portion of the CPI is Energy (up 25%) and the Gas index up almost 50% over last year. Transportation Services was up almost 3% in April which trickles into the core CPI. The biggest gain in core CPI was in used cars and trucks which was up 10% in April – its biggest monthly increase since it started tracking in 1953. Oil is currently selling for $66 per barrel reflecting lower output and the fact that people are starting to return to work/increase driving. There will probably be more pressure on oil prices as early as mid-year. Good gains were seen in employment for March and April. There were 266,000 jobs created in April which was a little less than what economists had expected. Jobs/employment are bouncing back in the hospitality industry, areas that were hardest hit by the pandemic.

Rates are reflected by a steeper yield curve. Short-term rates are down and long-term rates are up. The Federal Government has stated that it will not raise rates in the foreseeable future which may be why there is a steepening of the yield curve. While rates have come up in the first quarter, spreads continue to contract (tighten). As rates come up, the market value of the portfolio declines resulting in the market-to-book ratio coming down.

Mr. Thornton has spoken with Maria Mendelsberg, AVP Portfolio Manager and Daniel Gargan, Client Portfolio Manager, and reported that they are keeping duration a little short of the benchmark. They are finding value in corporates in the five-year range. They are looking at 15-year mortgages instead of the 30-year mortgages because of concern related to an increase in rates. Ms. Mendelsberg and Mr. Gargan are not anticipating a great deal of change in allocation from where we are at quarter end. While the fixed income, as a whole was down almost 3.5% for the quarter, participants were unaffected which is one of the nice things about the Stable Value.

**Louisiana Credit Letter:** Mr. Thornton reported that there were no changes in the credit rating letter. The Lehman Brothers' Bond is still the only out-of-policy bond. There have been no updates since late last year; however, Mr. Thornton is hopeful that he will hear something in the near future regarding another payout. Derivatives were not needed or used.

**Approval of Commission Meeting Minutes of April 20, 2021**

The minutes of the April 20, 2021 Commission Meeting were reviewed. Ms. Burton motioned for acceptance of the April 20, 2021 minutes. Ms. Sanders seconded the motion. The Commission unanimously approved the motion.

**Administrator's Report**

**Plan Update as of April 30, 2021:** Mr. Dyse reviewed the Plan Update as of April 30, 2021. Assets as of April 30, 2021: $2,185.21 Billion; Assets increase YTD: $103.49 Million; Contributions YTD: $35.66 Million; Distributions YTD: $46.07 Million. Net Investment Difference YTD: $113.90 Million. The change in asset value is almost a 5% increase over the previous year. Distributions continue to outpace contributions into the Plan. The overall gain at the Plan level is the result of a change in market value.

**Quarterly Fee Reconciliation:** Mr. Dyse stated that there are no surprises in the report but did make a correction to a comment that he made during the April meeting related to fees. Mr. Dyse previously reported that the Commission could expect to see a drop in Empower's contractual fees – particularly participant fees in 2021. This reduction in fees will go into effect on January 1, 2022 – not this year as previously reported.

**UPA – April 30, 2021:** Mr. Dyse reviewed the UPA report for the month of April, 2021. Additions included gains on contribution corrections, participant recoveries and interest for the month of April. Deductions included the State of LA-Office of the State Registrar and Wilshire Associates. The closing balance as of April 30, 2021 was $1,587,265.51.

**Blackrock Pricing Correction**

Mr. Dyse asked that item 8 (Blackrock Pricing Correction) on the agenda be moved under the Administrator's Report. Mr. Dyse reported that Black Rock is sending a credit due to a pricing correction or pricing error totaling approximately $2600. These funds will be added to the UPA once received instead of spreading it across a large number of participant accounts. The pricing correction is related to the J Fund Series.

**UEW Report – April, 2021:** Mr. Dyse presented the UEW Report for the month of April, 2021. Four requests were submitted with three being approved and one being denied as there was no qualifying event.

**Securities Sold-March and April, 2021**

Mr. Dyse reviewed the securities sold within the Stable Value product during the months of March and April, 2021.

**Secure Act 59 ½ In-Service Distribution**

Mr. Kling reminded the Commission of their previous decision to implement the Secure Act into the Plan. Within the Secure Act provisions, there was a reduction in age for in-service distributions from 70 ½ to 59 ½. Currently, there is a caveat within the Plan Document that specifically states that contributions must be suspended to be able to make an in-service distribution. A motion was made at the April 18, 2021 meeting to seek advice from Mr. Tarcza, the Commission's Tax Counsel, for assistance in wording of the provision in accordance with what is allowed under the law. The second part of the question was whether or not continued participation in the Plan would be allowed once a 59 ½ In-Service Distribution was taken that could be extended through 70 ½. Mr. Tarcza's opinion letter confirmed that the Commission was correct in its interpretation of being able to allow In-Service Distributions at 59 ½ years of age. This change in the Plan Document should be done via a Plan Amendment. The Plan would also need to be amended to allow individuals to continue to participate in the Plan through age 70 1/2 once an In-Service Distribution is taken. Mr. Cassagne stated that it would be a somewhat simple fix as this was a drafting oversight on the part of Mr. Cassagne's when the Commission originally adopted the emergency rule under Section 701 where distributions are referenced. The Plan currently reads: "…the calendar year in which an in-service participant attains the age of 70 ½ but only if the participant revokes all deferrals, etc." Mr. Cassagne stated that the original emergency rule simply removed the age 70 ½ from the verbiage and added the age 59 ½. To fix this oversight, Mr. Cassagne suggested that the 70 ½ age be put back into the verbiage and create a new item that would allow for In-Service Distributions at 59 ½ without the stoppage of deferrals as a caveat. Mr. Cassagne stated that he could make this change to the emergency rule and then renew the rest of the emergency rules that the Plan is currently under for the Secure Act. Since the Secure Act emergency rule was completed in February, it would come up again in June for renewal. In the process of renewing the emergency rule, Mr. Cassagne would make the change under Section 701 at the same time. Mr. Dyse reported that judging by participant response to the 59 ½ rule/no stoppage of deferrals including those whose requests are pending awaiting the outcome of the Commission's decision, that this would be a positive move. Ms. Burton asked if a Hardship Distribution would accomplish the same thing as an In-Service Distribution. Mr. Dyse stated that an In-Service Distribution is less stringent than a Hardship distribution due to the qualifying factors in determining whether or not a person's Hardship request is approved. An In-Service 59 ½ distribution would be an easier path for participants. Mr. Dyse also shared that he has not noticed a high volume of participants withdrawing their money under the 59 ½ In Service Distribution provision of the Secure Act. Ms. Burton motioned to ask Mr. Cassagne to reissue the emergency rule which already exists at 59 ½ but to also include that the participant be allowed to make contributions after an in-service distribution has been made. Mr. Jolly seconded the motion. The motion unanimously passed.

**Louisiana District Attorneys Association**

Mr. Dyse provided an update on the deconversion activity related to the LA District Attorneys' Association. Mr. Dyse stated that within the last month, he had made the 18th Judicial District Attorney's office aware that Empower cannot continue to support loan remittance payments after the deconversion takes place. There is one outstanding loan that can either be defaulted or transferred to the new vendor. Further, the participant could also choose to pay the loan off before the transition of the assets. To date, Mr. Dyse has not heard back from the agency regarding how the loan is to be handled. The deconversion is scheduled to be completed by the end of May.

**Other Business**

**LSU Participation:** Mr. Kling stated that LSU has submitted questions related to what else can be done to enhance their experience. Efforts are being made to establish meetings with Donna Torres and her team to discuss what LSU is looking for in relation to treatment of the LSU system and to enhance their participation in the Plan.

**Commission Meetings:** Mr. Kling reminded the Commission of their decision to resume meeting in person at the July 20, 2021 meeting. Mr. Kling revisited the decision based on recent CDC and State government guidelines which seem to make an in-person meeting in June a possibility. The Commission agreed to resume meeting in person at the July 20, 2021 Commission Meeting as previously agreed upon.

**Secure Act and Death RMD Rules:** The Plan receives Empower's full-service administration of RMD's. The Plan must define death RMD rules for deaths subject to the Secure Act. Empower has defined the rules in a document provided to the Commission. Mr. Kling presented the Secure Act Death RMD Rules to determine whether or not changes would be needed to the Plan rules assuring that there would be no conflict between Federal and State Laws. Mr. Cassagne stated that he briefly reviewed the Plan Document and stated that nothing jumped out as a glaring direct conflict. Mr. Cassagne stated that the Commission could adopt an emergency rule to implement the provisions of the Secure Act as it pertains to RMD's authorizing the Commission to execute any agreements with the Plan Administrator to carry out the provisions. Mr. Cassagne stated that to go through a full Plan Document amendment for this item would be something that would take a significant amount of time which is probably why Plans have been given until the end of calendar year 24 to actually amend a Plan Document. Mr. Kling's stated objective is to eliminate any potential litigation. Mr. Cassagne stated that he could include this item in the revision to the emergency rule that he is submitting related to the In-Service 59 ½ issue. This would prevent multiple emergency rules with different renewal dates. Ms. Hubbard motioned that the Commission adopt an emergency rule that allows the Plan to follow Federal requirements and to enter into an agreement with the Plan Administrator to basically administer the Plan as it pertains to RMD Rules in accordance with the Federal Law. Mr. Guerin seconded the motion. The motion unanimously passed.

**Plan Document Changes:** Ms. Burton suggested that the Commission put together information to give to Mr. Tarcza to review any permanent Plan changes that might need to be made.

**Adjournment**

With there being no further items of business to come before the Commission, Mr. Kling adjourned the meeting at 11:16 a.m.

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Laney Sanders, Secretary