

MINUTES

Louisiana Deferred Compensation Commission Meeting

December 13, 2016

The annual educational retreat and monthly meeting of the Louisiana Deferred Compensation Commission was held on Tuesday, December 13, 2016 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, 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

Emily Andrews, State of Louisiana Attorney General's Office
Shannon Dirmann, State of Louisiana Attorney General's Office
Stephen DiGirolamo, Vice President, Wilshire Consulting
David Lindberg, Managing Director, Wilshire Consulting
Jack Brown, Vice President, Separate Accounts, Great-West Financial
William Thornton, Senior Manager, Client Portfolio Services, Great-West Financial
Marilyn Collister, Senior Director, Legislative and Regulatory Affairs, Empower Retirement
Amy Heyel, Vice President, Southern Region-Government Markets, Empower Retirement
Danette Rausch, Assistant, Vice President, Partner Strategy, Empower Retirement
Michele Bryceland, RPC, Baton Rouge, Empower Retirement
Reggie Wheeler, RPC, Baton Rouge, Empower Retirement
Connie Stevens, State Director, Baton Rouge, Empower Retirement
Jo Ann Carrigan, Lead Office Coordinator, Baton Rouge, Empower Retirement

Welcome and Introductions

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

Investment Policy Review

Mr. Thornton reviewed the investment objectives and guidelines of the Stable Value Fund. Mr. Thornton suggested that it may be an opportune time to look at BBB and 5-year concentrated treasuries with the objective of getting the most out of the portfolio with as much yield/credit and performance as possible. An amendment to the current Investment Policy Statement will be discussed at a future meeting.

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The Effect of Interest Rates on Fixed Income Markets

Mr. Brown presented the Great-West Life Investment organization chart noting that there are 39 investment professionals running the portfolio with expertise in multiple asset classes.

Mr. Brown discussed the two most pertinent topics, as they relate to the Louisiana Custom Stable Value fund: the election and what the election means for interest rates.

Investment Education – Capital Market Assumptions: Expected Returns and Risk

Mr. Lindberg reviewed environment and performance related to where we have been, where we are right now and how capital market expectations are developed. It has been a low return environment. Asset Class Performance reviewed from 2011 through 2016 indicate that diversification works.

Consumer credit is beginning to trend just below the historical average. Many businesses are borrowing from private credit funds particularly in middle market lending.

It has been a strong market over a five-year period. International equities have not kept up with domestic equities. Capital is flowing into the United States from other countries because the US offers a better rate than other countries. The US treasury yield curve continues to rise.

Expected annualized returns over the next ten year period for: US Equity: 6.25%; Core Bonds 2.85%; Inflation 1.6%. Inflation is a significant driver of returns. The Fixed Income Yield Curve is a good forecaster of what expectations will be. The expectation is that the rates will rise but not to the high of the past 30 years. Forward looking returns and risk assumptions of the Life Path Funds: 2030, 2035, 3040 = 6% expected return; 2045, 2050, 2055, 2060 = 7.7% expected return. Mrs. Burton asked that charts be developed to reflect the purchasing power of the retiree noting the areas that retiree money is going toward.

Current trends in the Defined Contribution arena are:

- Streamlining of fund lineups.
- White Label Funds and Custom Target Date Funds.
- Active Management vs. Passive Management.
- Environmental, Social and Corporate Governance (ESG) options.

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Participant statements are reflecting the amount waived vs. what people are actually paying on Principal Diversified Real Asset Fund. The statement currently reflects gross instead of net. It was suggested that the statements be revised to include a footnote clarifying this issue. The goal is to provide a more accurate presentation to the participant.

DOL/Fiduciary Update (moved from the 1:30 p.m. time slot due to traveling constraints)

Ms. Collister provided a fiduciary refresher noting legislative and regulatory updates. The applicable law is not subject to ERISA but to State Law (The Uniform Trust Act and the Uniform Prudent Investor Act). The concepts are the same as ERISA. Functions of the employer and the fiduciary must be separate. The employer functions are actions or decisions made by the employer as the employer. Fiduciaries must act in the best interest of the Plan and carry out the decisions made by the employer. Fiduciaries must be trained on the basic duties and standards of care:

- Loyalty
- Prudence
- Diversification
- Demonstrate fulfillment of fiduciary duties

Mrs. Burton suggested that Wilshire Consultants provide a statement that Wilshire is in compliance with the fiduciary processes.

Recent lawsuits are changing the fiduciary landscape as a result of the fiduciary not following the processes. Fiduciaries who followed prudent processes were not found liable of fiduciary breach—irrespective of the results obtained.

Regulatory Update:

- DOL Fiduciary Rule: Does not apply to conversations about investments within a non-ERISA government plan but it does apply to IRAs, scheduled to take effect April, 2017.

There was discussion related to dual licensing of RPC's (Series 65) and giving advice based on AAG and analysis.

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IRS Regulatory Activity: IRS newsletter in April of 2015 contained more restrictive views of documentation needed in support of hardship withdrawals and loans.

Enhanced Participant Experience

Ms. Rausch introduced the “Next Generation” participant website noting enhancements designed to affect change in participant behavior. Changes can be made to accounts within 1-2 “clicks.” Two features have been added to the website: Health Care Estimator (approximately 25-35% of projected income) and Social Norming (a comparison of peer saving habits). Further, mobile technology has been added so that the participant may take action on a mobile device instead of being limited to read-only. Ms. Rausch shared an example of a video used to assist in encouraging participants to increase deferral amounts entitled, “Three Simple Ways to Save More.”

Ms. Heyel shared that the likelihood of employers focusing on the financial wellbeing of their employees has doubled in the past two years (2016 data). Ms. Heyel noted that participants/savers need advice. Empower Retirement has always been able to provide education and information. AAG is available to provide advice but the participant must register online or through the Call Center to request this service. Empower Retirement has made the decision to license field staff (Retirement Plan Counselors) so that they may serve the dual role of educating and advising the participant. The entire RPC staff of Empower Retirement will have the Series 65 or 66 in addition to the Series 6 and 63. The goal is to incorporate this dual role in April of 2017. Mr. Kling voiced concern that RPC’s are not employees of the advisory service (AAG). Ms. Heyel stated that RPC’s are employees of Empower Retirement, not the Plan. Mr. Kling asked if the Plan would be liable or subject to lawsuit. Ms. Heyel stated that a legal response to Mr. Kling’s questions would be provided for Ms. Andrews’ review. Ms. Andrews will also review the DOL Fiduciary Rule as it relates to this topic.

Go Green Initiative: Ms. Heyel presented figures that showed that the “world” is more mobile and immediate than ever before. As a result of environmental issues (paper use) and identity security, the trend in the industry is:

- 95% of investors use the Internet and age is not a factor in usage.
- Electronic delivery provides an efficient and reliable means of communicating important plan information, which facilitates superior participant outcomes.
- The largest corporate employers are defaulting retirement plan participants to electronic delivery of documents.
- More government clients are looking to provide electronic delivery (TN and ID are recent adopters).

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Seven percent of fraud/ID theft occurs via the mail. Mr. Heyel presented the possibility of defaulting delivery of statements to E-delivery instead of via the mail. (Participants would have the option of selecting hard/copy, mailed delivery of statements.) This action would save Empower Retirement money that could be passed on to the Plan as a \$1.00 reduction per participant. Participants would be notified of this change in delivery method via a web banner, postcard and newsletter. Mr. Kling asked that a detailed cost structure be presented to the Commission that would reflect the proposed e-delivery of statements. The Commission would review the proposal and make a decision at that time.

2016 Plan Events

Ms. Stevens reviewed the events of 2016 with the Commission. The major Plan events of 2016 were:

- Fund Streamlining
- August Flood-UEW process developed
- Empower Site Visit, Denver, CO
- Self Direct Brokerage Account core minimum was changed to \$2,500 and no percentage minimum
- Tax reporting was changed from the Plan Tax ID to the Empower Tax ID
- Information Security review was conducted
- Managed Account fees were changed to include actual days of service instead of for a full quarter.

Field Activities included:

- RPC licensing and training for Retirement Readiness reviews.
- LSU converted to a full PDI (13,000 lives; Online enrollment and deferral change capability).
- Political Subdivisions: Gained 8; Lost 3.
- The Active Choice flyer was introduced in April, 2016.
 - The Plan received an endorsement from Jay Dardenne in June, 2016
 - Jay Dardenne forwarded a message to 46 agency secretaries in July, 2016
 - There was widespread adoption of the Active Choice flyer at New Employee Orientations and Benefit Fairs.

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Active Choice Results:

January – March 2016: 8,538 contributing participants
January – November, 2016: 9,294 an increase of 756 contributing participants.
The stated Strategic Partnership Plan goal in April of 2016 was to increase the participation rate from 24% to 26%. This goal has been accomplished.

Ms. Hubbard asked for a report of responses received from the governor or LA representatives in regard to the letter mailed on November 29th requesting that the special August Flood-UEW processes be extended past January 17, 2017. Ms. Stevens stated that no response had been received to date.

Open Meeting Rules

Ms. Dirmann reviewed Open Meeting Law with the Commission.

Regular Meeting

Call to Order

Chairman Bares called the meeting to order at 2:40 p.m.
Roll call of Commission members was taken by Jo Ann Carrigan.

Approval of Commission Meeting Minutes of November 15, 2016

The minutes of November 15, 2016 were reviewed. Mr. Kling motioned for acceptance of the minutes. Ms. Hubbard seconded the motion. The Commission unanimously approved the minutes.

Acceptance of Hardship Committee Reports of November 16, November 30 and December 7, 2016. Mr. Riviere motioned for acceptance of the Hardship Committee Reports of November 16, November 30 and December 7, 2016. Ms. Burton seconded the motion. The Commission unanimously approved the reports.

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

Administrator's Report

Plan Update as of November 30, 2016: Ms. Stevens presented the Plan Update as of November 30, 2016. Assets as of November, 2016: \$1,508.22 Billion. Asset change YTD: \$49.32 Million; Contributions YTD: \$86.11 Million. Distributions YTD: \$108.77 Million. The Net Investment gain YTD: \$71.98 Million.

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Unallocated Plan Asset Account Report – November 30, 2016: Ms. Stevens reviewed the UPA for the month of November, 2016. Cash balance on hand as of October 31, 2016 was \$2,934,293.71. Ending balance as of November 30, 2016: \$2,501,756.86. Deductions included the Great-West Financial record keeping fee. Additions included interest for the month of November.

Procedural Changes: Ms. Stevens noted that identity theft has recently occurred within the industry resulting in a loss of participant assets. As a result, participants requesting distributions of funds via ACH must now have their signatures notarized or must sign the request in the presence of a Plan Administrator. The ACH fee of \$15 has been waived as a result of the additional expense involved in securing notary services. Ms. Stevens has contacted notaries within the area who may be willing to offer services at a reduced rate. The objective of this procedural move is to add another layer of security in protecting participants from fraud.

Other Business

Designation of Nominating Committee: Laney Sanders' term on the Commission expires in June 30, 2017. Ms. Sanders will submit her written intent to run for reelection to the Commission chairman. Mr. Riviere motioned to designate the following individuals to serve on the Nominating Committee:

Carl Berthelot
Kent LaPlace
Ben Huxen

Ms. Burton seconded the motion. The Commission unanimously approved the motion.

Commission Meeting Schedule: Ms. Stevens reviewed the 2017 Commission Meeting schedule noting the holidays within the year that may require a change in the regularly scheduled meetings of the third Tuesday of each month. The Commission agreed to adjust the meeting schedule as presented.

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Flood Emergency Rule Renewal: Ms. Andrews is working on the language to re-promulgate the Flood Emergency Rule. The language will take into consideration the possibility of the IRS extending the Flood UEW provision past January 17, 2017. Mr. Kling motioned to authorize Ms. Andrews to include language that will take into consideration any IRS deadline extension. Ms. Sanders approved the motion. The Commission unanimously approved the motion.

Mr. Kling extended his personal appreciation to Ms. Stevens and her staff for the effort extended to participants throughout the year.

Adjournment

With there being no further items of business to come before the Commission, Chairman Emery Bares declared the meeting adjourned at 3:04.m.

Virginia Burton, Secretary