

MINUTES

Louisiana Deferred Compensation Commission Meeting August 16, 2011

The Monthly Meeting of the Louisiana Deferred Compensation Commission was held on Tuesday, August 16, 2011, 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
Whit Kling, Vice-Chairman, Designee of the State Treasurer
Len Riviere, Designee of Commissioner of Financial Institutions
Troy Searles, Participant Member

Members Absent

Steven Procopio, Designee of Commissioner of Administration

Others Present

Perry Christie, VP PNP Major Accounts, Denver GWRS
Laura Whitlock, AVP Marketing, Denver GWRS
Sarah Flanagan, Sr. Communication Specialist
Lindsey Hunter, Louisiana Attorney General's Office (by phone)
Connie Stevens, Regional 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 July 19, 2011

The minutes of July 19, 2011 were reviewed. Ms. Hubbard motioned for acceptance of the minutes. Mr. Kling seconded the motion. The Commission unanimously approved the minutes.

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Acceptance of Hardship Committee Report of August 5, 2011

Mr. Kling motioned for acceptance of the Hardship Committee Report of August 5, 2011. Mr. Riviere seconded the motion. The Commission unanimously approved the report.

Administrator's Report

Plan Update as of July 31, 2011 was presented by Ms. Stevens. Assets as of July 31, 2011: \$1.108 billion. Asset change YTD: increase of \$57.89 million. Contributions YTD: \$61.27 million (an average of just under \$9 million per month). Distributions YTD: \$37.34 million (averaging \$5.3 million per month). Net Investment gain YTD: \$33.96 million.

Participation by Asset Class and Investment Option: The “top 5” in dollar amount are: Stable Value, BlackRock Russell 1000, T. Rowe Price Equity Income, Americans Funds Capital World Growth and Income, American Funds Growth Fund of America. The “top 5” in participants: Stable Value, T. Rowe Price Equity Income, American Funds Growth Fund of America, American Funds Capital World Growth and Income, Janus Twenty Fund.

Web/VRU Transaction History Report: Web usage was highest in October 2010 and January 2011. Most Distinct Users: 5,642 (October 2010); 6,253 (January 2011). Total Logins: 31,578 (October 2010); 33,364 (January 2011). The increased activity is attributed to the release of statements in the months of October and January. The majority of participant web activity includes reviewing account balances, contribution amounts, electronic statements and rates of return.

Investment Performance as of 7/29/2011: Equities, in general, were down in July. Bonds were up. Year to date: all asset classes are up. Trailing one year numbers are still very strong.

Plan Review for the period ending: July 1, 2010 – June 30, 2011: Net: \$45 Million in contributions during this 12 month period. Contributions have held up very well with good cash flow into the Plan. Participants in the plan are increasing their contributions. Asset growth: Growth has been steady in equity performance since 2008. Mr. Christie stated that since the Plan has about 48% in the Stable Value Fund, it has mitigated some of the market fluctuations. The Stable Value Fund also has a good rate. Asset History: Contributions and assets have increased over time due to long-term participants still accumulating and increasing. The average account balance is going up primarily because

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smaller account balances are leaving the Plan due to de minimis distributions. Life Path Funds: As the year 2015 approaches, participants in that fund will move into the LifePath Retirement fund and the 2055 Fund will be added. The Fixed Fund Rate (3.55%) is falling slightly but is still very attractive. Contribution history reflects steady growth from 2007 (\$6.9 million) to 2011 (\$9 million). Plan Participation: 40,413 participants with money in accounts over the 12 month trailing period – seeing some flattening out when compared to previous years. LOANS: Average Loan Balance: Not much fluctuation from 2007 (5,452) to 2011 (5,332). This may be attributed to participants with lower balances requesting loans. Number of participants with loans has increased from 2007 (990) to 2011 (2,880). Loan defaults occur in 70-80% of participants who are not making payroll deduction payments. REALITY INVESTING: A “spend down” feature now offers participants about to leave the Accumulation Period to determine how much money to spend on an annual basis so that the money lasts. The Great-West Current Ratings take into account the quality of the company and the wrapper on the Stable Value product. Many competitors during the same period had several downgrades, Great-West had one downgrade from Fitch due to the ownership of Putnam.

Commission Activity Fund (CAF): Year-to-date beginning balance: \$2.346 million; ending balance: \$2.736 million. Deductions for the month of June included: Tarcza & Associates, Wilshire, Great-West reimbursement for Commission election expenses, State Register Line Charges, legal fees paid for two quarters to the Attorney General’s office, NAGDCA registration and Duplantier, Hrapmann, Hogan & Maher for ballot certification.

Revenue Reconciliation for the second quarter: Total fees collected: \$410,000. Additional revenue coming into the Plan: There is a slight reduction in the mutual fund revenue (lowered on May 24th), a full reduction in the BlackRock Fund revenue (went to zero on 4/1/11) and a 50% reduction in the Stable Value revenue. Recordkeeping expense: there were 37,797 participants receiving statements in the second quarter at \$16.50 (1 quarter of annual fee of \$66) resulting in \$120,000 net added to the CAF account.

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Stable Value Fund Update: The Standard & Poor's downgraded US Treasuries the week of August 8, 2011 which caused market fluctuation. The Advised Asset Group (AAG) studied the market and provided insight into how to interpret this action. Standard & Poor's basically lacks confidence that political leaders are making the right choices. The downgrade was viewed as a "message-given" from Standard and Poor's. Moody's reaffirmed their AAA rating of US Credit on August 2 (no downgrade). Fitch kept their rating the same and commented that the risk of sovereign default remains extremely low. AAG stated that the global financial markets decide the credit-worthiness of US Securities, not ratings agencies. Further, the US Government is a high-quality credit risk and the risk of default is extremely. This is important as agency bonds/US Treasuries are held in the Stable Value portfolio. There was a flight to quality after the downgrade which strengthened the value of the Stable Value portfolios (leaving equities and going to US Treasuries). There is no expectation that the downgrade will affect Stable Value. There is no violation in Louisiana's Investment Policy Statement on the downgrade. Cash flow will remain short-term to manage risk.

Securities Sold in the Louisiana Stable Value Portfolio June, 2011: There were five corporate holdings and four agency holdings sold in June.

Recommendation: Lehman Brothers Unsecured Notes: Al Cunningham of Advised Assets Group, recommends that the Fund continue to hold the security in anticipation of the bankruptcy workout and a recovery rate higher than the current market prices.

Quarterly Statement: Stable Value: Asset Based Administrative fees: 6 basis points (down from 12 bps as of April 1, 2011).

Economic and Capital Markets Review: High yield bonds underperformed their safer counterparts. The TIPS sector saw the best performance for the quarter. Both of these were added at the end of last year in anticipation for this time. (See Tab 8 in report binder.)

Marketing Report

New participants added to the plan in July, 2011: 521 with an average per application of \$3,226. YTD average of \$3,395 equates to approximately \$130 per pay period. Existing participants who increase their contributions are averaging approximately \$165 per pay period. The most active in the month of July were the medical centers and the Port of New Orleans who recently reinstated a match @ 6% of income up to a \$2,400 cap.

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Communications Planning Calendar: August 2011-December 2012. Ms. Flanagan noted that the Marketing Department compiled the calendar by identifying goals and themes by months including special emphases, i.e. National Save for Retirement, year-end check list, etc. Upcoming highlights: video presentations called “e-mercials” with participant testimonials that can be sent via email and the launch of an updated website. The “e-mercial” activity can be tracked to determine who opens/forwards the message. The development of a video e-mercial for the state of LA is recommended similar to the award winning video produced for the City of Baltimore.

Website Conversion: A new site was developed using tiles and icons which will rearrange themselves based on the participant’s usage. Upon log-in, there is a link to many options such as bulletins, education, balances, etc. The pages will be much more image-based and easier to navigate. Every option is never more than two clicks away (which is more than best practices of 3-4 clicks away). Forty calculators have been added to the webpage (the current website offers only 3-4 calculators). Phase II of the website conversion will provide projected retirement income information that is unique to the participant. Commission members met with Great-West marketing personnel after the August 16th Commission Meeting to offer input into the design/functionality of the website. The following Commission members participated in the web design discussion: Emery Bares, Andrea Hubbard and Whit Kling. Mr. Christie will present information regarding website security at a later time.

Fliers developed throughout the year: Ms. Stevens reviewed fliers developed for participants: Benefits of Enrolling in Your 457 Plan, Stay with the Plan, Plan Features and Highlights (including an upside-down fee structure pyramid), Account Reduction Loan Highlights, Target Date Fund Education, National Save for Retirement Pre-Retirement Seminar invitation and Louisiana Keynotes (quarterly communication with participants covering topics unique to the Plan such as 2011 contributions limits, Commission election, fund changes).

Other Business:

Hardship Participants and Loans: Of the Hardship distributions from January – July 31, 2011, 55% of those participants had an outstanding loan. Of those participants, 43% had either defaulted on a loan in the past or were currently in default and unable to apply to a new loan. 57% of the participants were actively paying on a loan while obtaining a Hardship distribution. The primary reason for not obtaining a loan prior to Hardship distribution is that the participant could not afford a loan payment. Participants who receive a Hardship distribution are required to stop contributing to the Plan for six months.

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NAGDCA Award: An award will be presented to Commission members attending the National NAGDCA Conference for the work done in October, 2010 related to “National Save for Retirement Week.”

There will be no September, 2011 Commission Meeting as several Commission members will be attending the NAGDCA Conference in New Mexico.

Ms. Burton announced that the Evaluation Committee has begun their work. Ms. Stevens will review Commission Meeting notes from 2010 and provide the Evaluation Committee with highlights. Ms. Burton suggested an article be added to the newsletter to inform participants on what the Commission does to protect their money. The Evaluation Committee will submit their work at the October, 2011 Commission meeting.

Adjournment

With there being no further items of business to come before the Commission, Chairman Emery Bares declared the meeting adjourned at 11:42 a.m.

Virginia Burton, Secretary