MINUTES

Louisiana Deferred Compensation Commission Meeting

January 10, 2017

The monthly meeting of the Louisiana Deferred Compensation Commission was held on Tuesday, January 10, 2017 in the offices of the Plan Administrator, 9100 Bluebonnet Centre Blvd, Suite 203, Baton Rouge, Louisiana 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
Connie Stevens, State Director, Baton Rouge, Empower Retirement
Jo Ann Carrigan, Lead Office Coordinator, Baton Rouge, Empower Retirement

Call to Order
Chairman Bares called the meeting to order at 10:00 a.m.
Roll call was taken by Jo Ann Carrigan.

Approval of Commission Meeting Minutes of December 13, 2016
The minutes of December 13, 2016 were reviewed. Mr. Kling motioned for acceptance of the minutes. Mr. Riviere seconded the motion. The Commission unanimously approved the minutes.

Acceptance of Hardship Committee Reports of December 14, 2016, December 21, 2016, December 29, 2016 and January 4, 2017 were reviewed. Mr. Kling motioned for acceptance of the Hardship Committee Reports of December 14, 2016, December 21, 2016, December 29, 2016 and January 4, 2017. Ms. Sanders seconded the motion. The Commission unanimously approved the reports.

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

<u>Administrator's Report</u>

Ms. Stevens presented the Plan Update as of December 31, 2016. Assets as of December 31, 2016: $1,510.74 Billion. Asset change YTD: $51.84 Million; Contributions YTD: $93.67 Million. Distributions YTD: $127.90 Million. The Net Investment gain YTD: $86.07 Million. Ms. Stevens pointed out that three political subdivisions left the Plan in 2016 resulting in a loss of $20.1 Million. Flood distributions accounted for $3.8 Million. Ms. Stevens stated that it was a very good year in investment gain.

UEW Flood Update: Total number of cases reviewed as of January 4, 2017: 287. Total multiple requests received: 22. Total amount disbursed for flood: $3,830,575. Average request amount: $13,346. The figures provided reflect actively employed participants and do not include distribution requests from retirees that may have been submitted related to flood damage/loss.

The IRS 2016-30 Bulletin expires on January 17, 2017. Ms. Stevens presented a time-line of events related to the Commission's written request to Senator Cassidy and other legislative representatives to extend the deadline of the Bulletin. To date, no response has been received. As it stands, Ms. Stevens reported that IRS 2016-30 will expire January 17, 2017 as initially stated. The Hardship Committee is scheduled to meet on Wednesday, January 11, 2017 and again at Noon on Tuesday, January 17, 2017. All approved requests must be processed by 3:00 p.m. on January 17, 2017. The LADCP website includes a bulletin and banner noting January 13, 2017 as the deadline as Monday, January 16th is a holiday. Ms. Burton asked that the Commission extend a word of appreciation to the members of the Hardship Committee for their dedication and hard work during this special provision period.

Unallocated Plan Asset Account Report – December, 2016: Ms. Stevens reviewed the UPA for End of Year, 2016. Ending balance as of December 31, 2016: $2,506,449.55. Deductions included the LA Office of State Register. Additions included interest for the month of December. The annual cost to run the Plan is $1.864 Million. Ms. Stevens reported that the Attorney General has not been paid for services since July, 2015. These fees are in the budget but no invoices have been received. Ms. Stevens has contacted the Attorney General's office requesting invoices so that payment can be made.

E-Delivery of Statements: Ms. Stevens reopened discussion on E-Delivery of statements – a topic introduced at the December, 2016 Commission Educational Retreat. The states of Idaho and Tennessee have already implemented the default to E-Delivery of statements with very little participant response. The reason for the suggested change in delivery is two-fold: environmental responsibility and identity security. Mr. Kling observed that statements (past four years) are already stored electronically, regardless of whether the statements are mailed or emailed noting that this, in itself, is a security risk. According to Ms. Stevens, approximately 10,000 statements are delivered electronically on a quarterly basis. Mr. Enright suggested that participants might be more open to receiving electronic statements if quarterly administrative fees were reduced as a result of selecting the E-Delivery option. Ms. Burton suggested that participants receive one, annual hard-copy statement. Ms. Stevens will confer with Empower Retirement to determine if annual statements are available for mailing. If so, the suggestion was to include an annual statement with the Commission ballot mailing. Mr. Kling suggested that existing participants be given the opportunity to opt out of E-Delivery but that all new participants be automatically set up to receive statements electronically with one, mailed annual statement. The Commission agreed that all participants in the Plan must be notified of any change in statement delivery with an announcement sent in 2017 for implementation in 2018. Currently, there are 20,000 email addresses on file. Ms. Hubbard asked that research be done to determine if participants who enter valid email addresses online will be notified when an electronic statement becomes available. Mr. Kling stated that participants must be notified when an electronic statement becomes available as this is a common practice of most financial institutions. The cost savings of converting to E-Delivery of statements will result in a savings of $1.00 per head annual fee ($.25 per quarter). Ms. Stevens will research options and report results to the Commission at a future meeting.

Dual Licensing Discussion: Ms. Stevens reported that the topic of dual licensing of field representatives has been thoroughly discussed internally since the December, 2016 retreat. A telephone conference was held on Monday, January 9, 2017 consisting of Mr. Riviere, Ms. Stevens, Amy Heyel and Emily Andrews of the Attorney General's office. (Ms. Andrews was not in attendance at the January 10, 2017 Commission Meeting due to a scheduling conflict.) Ms. Stevens reviewed the service model that is being developed which would change the role of the Retirement Plan Counselor (RPC) to include both educational and investment advisory service. Under the current service model, the role of the RPC is exclusively educational and only AAG investment advisors in the corporate office can provide investment advice. Under the proposed service model, RPC's would be dually licensed and dually monitored so that they could provide a complete, more meaningful service to the participant. Investment recommendations would not be at the discretion of the individual RPC but rather as a result of a software program driven by Morningstar that would include participant information such as, when to retire, what amount to save, how to invest and spend down information after retirement. Ms. Andrews reviewed the proposed service model from a contractual perspective and Mr. Riviere reviewed it from a regulatory perspective. Mr. Riviere stated that the only change in the service model is the ability of the RPC's, who are currently broker/dealer registered representatives of GWFS Equities, to provide investment advice at the local level instead of only through AAG investment advisors at the corporate level. Mr. Kling voiced concern that RPC's technically work for two separate organizations and that retail and advisory roles should never meet due to liability issues. Ms. Stevens pointed out that there are two existing contracts with the Plan: Record Keeping through Great West Life and Annuities (GWLA) and Advisory Services through Advised Asset Group (AAG). Ms. Stevens relayed that it is Ms. Andrews' opinion that there is no additional risk involved in the proposed service model. Using an organizational chart, Ms. Stevens stated that the risk of lawsuits would be to AAG or GWLA not to the Plan itself. Mr. Riviere stated that the risk already exists whether the advice is being provided by local representatives or at the corporate level through AAG. Ms. Sanders asked if, under the proposed service model, RPC's could act in a self-serving manner. Mr. Riviere stated that there are constraints within the program to be used that would prevent RPC's from making individual recommendations. RPC's would enter the pertinent data provided by the participant, and the program would make the recommendation based on the data entered. Ms. Burton suggested that RPC's be instructed to state that investment recommendations are from the software program and not the opinion/recommendation of the RPC. RPC's holding the Registered Investment Advisor licenses are considered fiduciaries and are monitored by the SEC. Mr. Kling stated that he did not fully understand how the RPC, on an individual level, is going to be able to keep the functions of the position separate. Mr. Enright stated that the proposed service model should possibly be considered an efficiency since the Plan is now paying for two contracts but under the proposed service model, the role of the RPC would cover functions of both contracts. Ms. Stevens stated that there are more oversight responsibilities/monitoring under the proposed change as a result of there being over 100 investment advisors as opposed to 6 or 7 in the AAG department.

Ms. Stevens shared information related to a new Department of Labor rule that goes into effect on April 1, 2017 stating that almost every discussion becomes a fiduciary item especially when discussing IRA's or rolling money into a plan.

Mr. Kling stated that he would go along with the proposed service model so long as Ms. Andrews and Mr. Riviere have no issues with the model. Mr. Riviere stated that Mr. Kling's concerns were valid but that the parameters of the program will constrain the field staff thus mitigating the concerns previously voiced. Ultimately, when the RPC is "wearing" the investment advisor hat, they must act in the best interest of the client/participant. The Baton Rouge office currently has four licensed Registered Investment Advisors and three are in the process of earning the license.

Mr. Kling requested that the Attorney General's office be asked to provide information related to contract modifications required as a result of the new service model. Ms. Stevens stated that it is highly probable that the contracts will not require modification because AAG has a separate contract with the Plan and the only change is that the role being performed is moving from the corporate office in Denver to the field. Ms. Stevens stated that she would review the AAG contract to determine if it specifically states that the investment advisory function can only be performed by the corporate office in Denver. There is no change in fees under the proposed service model. AAG will continue to be available to serve in the same capacity as it always has, by phone from Denver. Ms. Stevens stated that the purpose of the discussion was to fully explore/address any questions that Commission members may have. Ms. Andrews will attend the February meeting to address any additional liability/contractual concerns. Ms. Stevens stated that she would be emailing an article from *Pension & Investments* to Commission members for review/information related to the discussion.

Other Business

Ms. Stevens reported that the Nominating Committee is scheduled to meet on Wednesday, January 11, 2017. Ms. Sanders has submitted written verification that she intends to run for the three-year term that begins on July 1, 2017. The Nominating Committee consists of the same members of the Hardship Committee (Ben Huxen, Tinka McFarland, Kent LaPlace) and Lindsey Hunter. There are two ways to be nominated: through the Nominating Committee and through petition.

Ms. Stevens announced that Brent Neese, head of Government Markets, is no longer with the company and that 28 employees have been laid off. Ms. Stevens stated that the layoff is of no great concern since the company hired 600 new employees at the time of the merger of the three companies (Putnam, JP Morgan Retirement Service and Great- West). Since that time (27 months), roles have been integrated for efficiency purposes. A search has begun for Mr. Neese' replacement.

Adjournment

With there being no further items of business to come before the Commission, Chairman Emery Bares declared the meeting adjourned at 11:19 a.m.

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Virginia Burton, Secretary