MINUTES

Louisiana Deferred Compensation Commission Meeting
March 15, 2011

The Monthly Meeting of the Louisiana Deferred Compensation Commission was held on Tuesday, March 15, 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
Andrea Hubbard, Co-Designee of the Commissioner of Administration
Robert Henderson, Participant Member
Whit Kling, Vice-Chairman, Designee of the State Treasurer
Len Riviere, Designee of Commissioner of Financial Institutions
Troy Searles, Participant Member

Members Absent

Virginia Burton, Participant Member
Steven Procopio, Designee of Commissioner of Administration

Others Present

Felicia Bennett, Consultant, Wilshire Associates, Inc
Perry Christie, VP PNP Major Accounts, Denver GWRS
Lindsey Hunter, Louisiana Attorney General's Office
Jo Ann Carrigan, Lead Office Coordinator, Baton Rouge GWRS

Call to Order

Chairman Bares called the meeting to order at 10:03 a.m.

Approval of Commission Meeting Minutes of February 15, 2011

The minutes of February 15, 2011 were reviewed. Ms. Hubbard motioned for acceptance of the minutes. Mr. Kling seconded the motion. The Commission unanimously approved the minutes.

Acceptance of Hardship Committee Reports of March 4, 2011

Mr. Kling motioned for acceptance of the Hardship Committee Report of March 4, 2011. Mr. Riviere seconded the motion. The Commission unanimously approved the report.

Administrator's Report

Plan Update as of February 28, 2011 was presented by Mr. Christie. Assets as of February 28, 2011: $1,083.85 billion. Asset change YTD: $33.29 million. Contributions YTD: $17.57 million. Distributions YTD: $10.67 million. Net Investment gain YTD: $26.39 million. The Plan continues to receive a significant amount of contributions in comparison to distributions. This is a mature/growing plan having been on the books since 1980. Most plans this age reach a point where the distributions and contributions are in the same range – this is not the case with LA Deferred Comp. One of the reasons sited for this is that Louisiana has and always has had a higher emphasis on marketing which affects numbers such as new participants in the Plan. If the Plan did not have a team of people going out and communicating in the field, numbers would decrease.

Participation by Asset Class and Investment Option: The LifePath Index Funds were added in November of 2010. Going forward, the expectation is that this will become the most popular asset category. Stable Value, however, will always be a significant player as it is now (47.14% of assets/23,787 participants).

2010 Archive Report: This Plan has always done well. It survived Hurricane Katrina and economic downturns. Participation growth and contribution growth has always been steady. The Plan has never gone through any major concerns. The Stable Value Fund has a significant amount of assets now but initially, diversification was a challenge. There has been strong contribution growth in the Plan from $4M in 1988 to $105M in 2010. The average contribution per participant is very good.

Commission Activity Fund (CAF): The CAF Account balance as of February 2010 was $2.5 million. $863,958.05 was taken in during the month of February, 2011 minus deductions of $668,711 resulting in a closing balance of $2.5 million. Major deductions included two quarters of legal fees and the annual Wells Fargo custodian fee.

Automating Payroll Activities: The Plan has numerous payroll entities. While it is not required that payroll entities participate in an automated process, it is preferred. As a result, specific state payroll entities are being encouraged to change from a manual process to an automated one. In a very short time, three payroll entities have agreed to automate their processes: LSU HSC-New Orleans, LSU HSC-Shreveport and The City of De Ridder. NOTE: All LSU HSC's are separate entities. To get one LSU HSC payroll to agree is not to get them all.

Marketing Report

New participants added to the plan in February, 2011: 173; YTD: 335. The average deferral per application was $4,081. Increases and restarts: 270 with an average per application of $4,555. Increases and restarts serve as good barometers of the effectiveness of the Plan and its services. Most participants understand the value of saving money and will begin making minimal contributions. If they are satisfied, they will increase their contributions.

The five/six account executives serve as the "face" of this Plan. Mr. Christie shared the various factors that are reviewed in evaluating the effectiveness of the AE's. These factors involve activity such as group and individual meetings, the quality of meetings and informal surveys. (It has been approximately two years since the last survey and may be time to consider sending another. This will be reviewed with Ms. Stevens upon her return.) Ms. Stevens reviews each AE with a great deal of detail as part of her job. Corporate Office personnel review activity in comparison to other Plans throughout the country. Client Services personnel keep track of any major negatives reported by participants. This information is forwarded to account managers and regional directors. Mr. Christie offered to discuss with Ms. Stevens the possibility of bringing a detailed report in the future to the Commission related to AE performance evaluation.

<u>Wilshire Consulting: Executive Summary of Investment Performance for Quarter Ending December 31, 2010:</u> Ms. Bennett presented the Executive Summary of Investment Performance for Quarter ending December 31, 2010. US Capital Markets: Equity Markets for 2010 finished strong compared to 2009. Small CAP stocks (29%) outperformed Large CAP stocks (16%) as they did in 2009. Despite two strong years in the equity markets, equity markets remain down 11% from 2007 figures. US Capital Markets: Fixed Income figures reflect that the Federal Government is keeping interest rates low in their attempts to stimulate economic growth. Short term rates are anchored around 3%. The Yield Curve was down in the first part of 2010 but rose about 100 basis points in the fourth quarter. When interest rates rise, bond prices fall. As a result, there are negative returns for the quarter for most of the fixed income markets. The only positive return index for fixed income represented by the Plan is the high-yield index. Non-US Capital Markets: The Non-US Capital Markets (MSCI EAFE Index for developed markets) had a positive 8% return for the year. The emerging markets were up 19% for the year. Investment Fund Allocation: $1 billion for the period ending December 31, 2010 with almost half of that in the Stable Value Fund. NOTE: Fees on Index Funds and Stable Value are going to be reduced on April 1, 2011. The other ten mutual funds will move to lower costs in the mid-May, 2011. This will be a low-cost way for participants to access these funds. Investment Fund Performance: Rankings are based on “Benchmarks” and in a “peer universe”. Janus Twenty had a difficult year in 2010. Wilshire still has confidence in this fund despite its underperformance. Legg Mason had a great year in 2009 but underperformed in 2010. Fixed Income Funds Performance: High yield bonds have had a very strong run over the past couple of years. Life Cycle Funds Performance: These funds are managed by BlackRock. They are well-diversified and low cost. A commodities allocation will be added to the Fund by the end of March, 2011 which will be very liquid and futures-based. Investment Fund Performance (Real Estate Funds): These funds struggled in 2010. Wilshire is confident that the long-term numbers will be good. Wilshire has no concerns with any of the funds in the lineup.

Guarantee Lifetime Withdrawal Benefits: Mr. Christie introduced development of Great West Life’s Guaranteed Income Fund. If the Commission is interested, Wilshire could explore the marketplace for comparable offerings so that by the end of the year, the Great West Life Guaranteed Income Fund could be introduced to participants. The greatest concern of participants across the country is the potential of running out of money in retirement. This concern is addressed in Guaranteed Income Funds. There is no minimum age but is most appropriate for participants nearing retirement. Participants must be younger than 85. Two separate books will be kept. One consists of a Benefit Base (the starting point of the guaranteed payment that the participant will reach in future years) and the other consists of the Market (Fund) Value of the account (investment option that has a fluctuating market value. Any amount of money contributed into the product increases the Benefit Base. Once a year (on the participant’s anniversary date), a comparison is made between the Benefit Base and the Fund Value. If the Fund Value is greater than the Benefit Base, it will pull the Benefit Base up. If the Fund Value is not greater than the Benefit Base, the Benefit Base does not change. If the Fund Value is greater than the Benefit Base resulting in an increase of the Benefit Base, the Benefit Base cannot go lower than that figure—guaranteed (with one exception). Exception: Withdrawals from the fund for other than distributions (i.e., loan), will reduce the Benefit Base on a pro-rata basis during the accumulation phase. During the distribution phase, the Benefit Base is compared to the Fund Value on the day the withdrawal begins and will adjust upward if the Fund Value is higher. The Benefit Base will remain the same if the Fund Value is lower. The review date will be based on when the Guaranteed Annual Withdrawals began. The Benefit Base will not increase above $5M. This product addresses the following retirement risks: protection of retirement income when the market goes down, benefit when the market goes up, outliving a retirement income and market returns risk. Fees include: Fund Management (90 basis points), Guarantee Benefit (70-150 basis points) and Revenue Sharing with the Plan Sponsor (.35%). The fees represent “insurance” which is especially important in a volatile marketplace.

The Commission asked Ms. Bennett to explore the program more extensively with the detailed findings to be presented at an upcoming Commission Meeting.

Tarcza & Associates, Inc Contract Amendment: Tarcza & Associates, Inc. had originally signed a contract for $15,000 which was increased in August, 2010 to $25,000. Invoices received to date from Tarcza & Associates total $28,212.25 which is over the limit approved. To date, Tarcza & Associates have been paid $20,720. Ms. Hunter reported that increases of this nature are not uncommon. Mr. Tarcza's hourly rate is $275/hour which is considered "normal" for legal work with the State. Work remaining includes Mr. Tarcza's availability to testify before legislative committee if necessary. Tarcza & Associates has asked the Commission to increase the contract by a minimum of $10,000. Mr. Kling motioned to amend the contract by $10,000 to a total of $35,000. Mr. Searles seconded the motion. There was no objection and the motion passed.

Site Visit: Discussion deferred to another time.

Candidates for 2011 Participant Election: Mr. Troy Searles and Mr. Barry Karns are running for the position of Commission Participant Member. There were no requests from participants to include any other candidates for the position.

Adjournment

With there being no further items of business to come before the Commission, Chairman Emery Bares declared the meeting adjourned at 11:34 a.m.

Virginia Burton, Secretary