MINUTES

Louisiana Deferred Compensation Commission Meeting

May 17, 2016

The Monthly meeting of the Louisiana Deferred Compensation Commission was held on Tuesday, May 17, 2016 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
Doug Buras, Co-Designee of Commissioner of Financial Institutions
Lela Folse, Designee of the State Treasurer
Andrea Hubbard, Designee of the Commissioner of Administration
Whit Kling, Vice-Chairman, Participant Member
Laney Sanders, Participant Member

Members Not in Attendance
Virginia Burton, Secretary, Participant Member

Others Present
Emily Andrews, State of Louisiana Attorney General's Office
Thomas Enright, Executive Counsel-State Treasurer
Brendan Brosnan, Participant *via conference call*
Byron Nagel, Participant
Captain Jeffrey J. Robert, Participant
Connie Stevens, State Director, Baton Rouge, Empower Retirement
Reggie Wheeler, RPC, Baton Rouge, Empower Retirement
Jo Ann Carrigan, Lead Office Coordinator, Baton Rouge, Empower Retirement

Call to Order
Vice-Chairman Kling called the meeting to order at 10:00 a.m.

Roll call of Commission members was taken.

Mr. Bares motioned to re-order the meeting agenda by moving Item 5, Public Comments to the 4th item on the agenda. Mr. Buras seconded the motion. The Commission unanimously approved the motion.

Approval of Commission Meeting Minutes of April 19, 2016
The minutes of April 19, 2016 were reviewed. Mr. Bares motioned for acceptance of the minutes. Ms. Hubbard seconded the motion. The Commission unanimously approved the minutes.

Acceptance of Hardship Committee Reports of May 1, 2016

Ms. Hubbard motioned for acceptance of the Hardship Committee Report of May 1, 2016. Mr. Bares seconded the motion. The Commission unanimously approved the report.

Public Comments

Captain Robert expressed his opinion on the upcoming fund change noting that this appears to be a massive change unlike any that has previously taken place. Captain Robert stated that he does not like losing investment options that he may choose from. According Captain Robert, Morningstar rated past performance and future projections of the new funds as average. Captain Robert stated that he could not see the advantage to making this fund change as he does not anticipate an improvement in returns. Captain Robert is taking advantage of the Self Directed Brokerage option but believes that many participants will not take this extra step.

Mr. Nagel stated that as a 20 year participant in the Plan, he has never seen such a wholesale elimination of funds. Mr. Nagel's greatest concern is that the new fund lineup does not include any small or mid cap funds noting that this is a huge section of the market that is no longer available to participants. Mr. Nagel is aware of the Self Directed Brokerage option but stated that this is not how he prefers to manage his account especially as he has never had to pay commission fees in the Plan. Mr. Nagel stated that he did not recall being appraised of the proposed change prior to the announcement and that this decision was made entirely by the Commission. Further, Mr. Nagel noted that the reduction in fund options has eliminated all but one fund family, BlackRock. Mr. Nagel stated that he could not understand why, after an 18 month study and on recommendation by Wilshire, that a conclusion could be drawn that this would be a better way to go. Mr. Nagel stated that he was unable to find holdings or prospectuses on the new funds and on those he could find, returns were not nearly as good as the returns of current lineup of funds. Mr. Nagel concluded his comments by stating that Plan members deserve better than this.

Mr. Brosnan stated that all participants in the LA Deferred Comp Plan are also participants in the State Retirement Plan. Mr. Brosnan's conclusion is that Deferred Comp participants are using the Plan as a supplement to retirement where they may do things such as "sector bet" with their funds. Mr. Brosnan commented on Wilshire's memo of May 12, 2016 stating that the flaw in the rationale is found in the second sentence of the summary paragraph where a comparison is made between Defined Benefit Plans with Defined Contribution Plans. Mr. Brosnan felt that this comparison is not a comparison of apples to apples. The statement may be true for corporate America where the 401k is replacing the Defined Benefit Plan. The State of LA, however, still has a very good Defined Benefit Plan in addition to the LA Deferred Comp Plan in which participants may voluntarily participate. Mr. Brosnan noted that he has six accounts. Mr. Brosnan views his asset allocations as all being in one bucket. Mr. Brosnan does not concern himself with whether one particular account is over-weighted in a particular asset class because it is offset by something else in one of the other accounts. Mr. Brosnan stated that he is very targeted with his investments based on his age and economic situation. As such, Mr. Brosnan urged the Commission to keep within the fund lineup the availability of BlackRock Sector Funds as they are well diversified and very prudent. Mr. Brosnan stated that he was confident that there are other participants like himself with multiple accounts and asked the Commission to revisit the decision to streamline funds, and thereby continue to represent this 10-20% of participant population, which they deserve.

<u>Investment Consultant's Fund Recommendation Review</u>

Mr. Kling stated that it was his personal opinion that there were too many fund options to choose from within the Plan. Mr. Kling is an "original member" of the LA Deferred Comp Plan and recalled that initially, the Plan only offered one option. Mr. Kling stated that he understood the perspective of the participants in attendance but pointed out that the vast majority of Plan participants found the lineup too confusing. Mr. Kling stated that the Commission chose to make this all-encompassing structural change for the following reasons:

- It brought more balance to the Plan.
- The move to classes with lower costs represents lowers costs to participants.
- Performance, based on the investment advisor's research.

Mr. Kling stated that the Plan has gone from offering no selections to too many selections and that we must return the focus to satisfying the needs of the vast majority. Those participants desiring more options ought to be willing to pay for it themselves.

Ms. Hubbard stated that she agreed with Mr. Kling's comments. Ms. Hubbard noted that in her many years of service on the Commission, participation rates of state employees is often an item of review and discussion. The current state payroll participation rate is 24%. Mr. Hubbard stated that there is a fear among employees of not wishing to join the Plan because they are so overwhelmed with all of the options.

Mr. Kling stated that there is more engagement on the local level due to greater employer emphasis than at the state level where there is less employer emphasis.

Ms. Folse stated that the Office of State Treasurer expressed concerns at the January, 2016 Commission Meeting regarding the fund change and continues to be concerned. Mr. Folse stated that it was the State Treasurer's opinion that it would be prudent to delay the fund change to allow more time for review.

Ms. Sanders stated that she understood the concerns expressed by the participants in attendance. Ms. Sanders noted that she views the fund change from a holistic investment perspective whereby asset allocation is what drives overall returns. Whether there be twenty options or six options, it is the asset allocation that drives the return, not the particular fund.

Mr. Buras stated that he is not opposed to a reduction in funds as this appears to be a national trend to simplify fund lineups. Mr. Buras' concern was related to timing. Specifically, Mr. Buras wanted to know if the Commission allowed enough time for participant comments and was there an assessment completed of the comments received. Mr. Buras stated that he agreed with Ms. Folse' suggestion to consider delaying the fund change if this remained an option. Mr. Buras stated that the Commission has an obligation to the participants to properly and prudently address their concerns and review options.

Mr. Bares stated that he has been a participant in the Plan since the beginning (1982) and that he believes in the direction the Commission has taken.

Mr. Nagel interjected that the perspective that the Plan was offering too many options was a matter of opinion. Mr. Nagel stated that six options were too few and reiterated that there was no small or mid cap fund included in the new lineup thus depriving the members of these investment options.

Captain Robert stated that he understood what the Commission was trying to do but does not agree that fewer options will increase participation. Captain Robert commented that most people put more effort into planning a two week vacation to Disney World than in planning for retirement. Offering fewer options may be simpler but Captain Robert believes offering fewer options would be to the detriment of those participants who are already paying out-of-pocket for investment advice.

Ms. Stevens stated that as a representative of the record keeper, Empower Retirement, she is neutral in the decision made. Ms. Stevens reported that the streamlined investment lineup was announced to participants via a newsletter, a webpage bulletin and webpage pop-up. Ms. Stevens presented a spreadsheet that compared the fund options in the Plan today to TD Ameritrade. TD Ameritrade has an annual fee of $60 per year (charged $15 per quarter). The majority of funds that are being eliminated can be chosen through TD Ameritrade without paying a commission fee. American Funds and MFS International are not offered commission-fee free. The exchange traded funds are also offered with no transaction fee through TD Ameritrade. Ms. Stevens presented a TD Ameritrade Commissions and Service Fees chart for more detailed information. The chart also included TD Ameritrade contact information.

Ms. Stevens presented figures related to the number of participants who contacted Empower Retirement in Denver and in Baton Rouge after the announcement was made through the statement mailing in April. Investment related calls to the Empower Retirement home office increased 104% (from 26 to 53) during the week of April 24-30. The local office received 35-40 participant fund lineup change calls. In summary, less than 1% of the participant population contacted Empower Retirement to voice concerns. Ms. Stevens noted that it has been a very vocal minority who has called.

Ms. Hubbard stated that the Commission has participated in lengthy presentations regarding the fund lineup change over the course of two years. The information presented noted that the average number of funds held per participant is three over multiple years. The conclusion is that participants are not taking advantage of the multiple options being offered. Mr. Kling noted that the original option was to move to a White Label Fund (individually owned fund) but the Commission felt that this would be too drastic of a change. Mr. Kling stated that the Commission recognizes that this fund lineup is a significant change but sought to offer a structure that was in between too many options and only one (White Label). The Commission's goal is to operate the Plan to the benefit of all participants.

Ms. Hubbard stated that the Commission relies on the investment advisor to make recommendations that are in the best interest of participants. The fact that there is no small or mid cap fund in the lineup was addressed and, as stated in the memo from Wilshire, the current design changes can be reviewed for greater efficiencies in the future.

Mr. Enright reviewed the objection to the fund lineup change noted by Ron Henson, Designee of State Treasuer, at the January, 2016 Commission Meeting recommending that two issues had to be addressed before instituting the change:

- More involvement at the state level;
- Education for the purpose of spreading the word about the Plan.

Mr. Kling pointed out that there is an education program, resources are available along with special training but state agencies choose not to participate. Ms. Folse noted that the Office of State Treasury has met with Ms. Stevens to begin using "Active Choice" when meeting with employees.

Mr. Enright also expressed concern related to past performance of the six new funds. Mr. Enright asked the Commission why they would choose funds with average returns if there is no expectation for change. Mr. Kling stated that there was a qualitative analysis performed on the funds that was not strictly based on performance. Ms. Folse asked for a copy of a report noting the comparison of funds and corresponding fund performance. Ms. Sanders stated that while not speaking for Wilshire, investment options must include not just a review of returns but also must take into consideration the risk factor involved. Funds could have been chosen that outperformed but came with significant more risk. Mr. Enright stated that he was surprised that Wilshire was not available at the meeting today. Mr. Kling stated that Wilshire representatives had a previously scheduled appointment that prevented them from being in attendance.

Ms. Stevens reported that Ibbotson initially had issues with the absence of a mid and small cap funds but ultimately approved the portfolio through the testing performed. Ms. Stevens reported that moving to lower cost funds, would potentially yield a $265,000 savings. Mr. Kling stated that the Plan design is to be more responsive to the majority of participants while at the same time allowing participants to choose funds of their choice through TD Ameritrade at an additional cost.

Mr. Enright responded to comments related to attracting new members by streamlining choices. Mr. Enright, while being unable to find documents that state what the specific fiduciary responsibilities of the Commission are, asked if non-participants are owed a duty over participant members. Ms. Hubbard stated that while non-participation is an ongoing concern, it was not a factor in the decision made to streamline the fund line up. Ms. Stevens pointed out that there is an SEC requirement to notify participants 30 days in advance of a fund change. LA Deferred Compensation participants were notified 40 days in advance.

Mr. Enright explained that his basic understanding of fiduciary duty and prudence, was to not ignore valid concerns raised by sophisticated participants who were given 30 days notice. While there has not been a lot of participant participation, Mr. Enright observed that the comments received to date may be indicative of a larger number of participants who have not yet noticed what's about to take place. Mr. Enright stated that he was speaking on behalf of the State Treasurer and not himself.

Mr. Buras asked the Commission to explore different options that may be available in response to the feedback received. Ms. Stevens pointed out that operationally, the fund change could be cancelled or delayed which would require notification be mailed to 36,000 members. Ms. Stevens noted that there are some participants who have been exposed to the information that have already acted (full withdrawal of funds). Captain Robert stated that even though he has already moved to the TD Ameritrade option, he would approve of the Commission backing off from this change if it was determined it was the right thing to do.

Commission members discussed the option of delaying the fund change to allow the opportunity to address participant concerns and provide more detailed reasoning as to why the change is being made. Mr. Nagel and Captain Robert agreed that timing was not the source of their concern. Mr. Kling noted that the Plan Document gives full authority to the Commission to make the changes. Ms. Andrews confirmed that the Commission acted in accordance with the Plan Document and is meeting today to address participant concerns. Ms. Andrews sited the "Powers and Duties" listed under R.S 42:1303, where duties include selecting investments and entering into contract. Per Ms. Andrews, Commission members are taking fiduciary responsibility amongst themselves and acting in a fiduciary capacity today. Ms. Stevens defined a "fiduciary" as someone who makes a decision about the Plan. All complaints received by participants to date have been forwarded to Regulatory Compliance, a department within Empower Retirement that reviews correspondence (written or verbal). There were no findings of wrongdoing in the review.

Ms. Folse motioned to delay the fund change for one month to allow for a review of a comparison of funds that would also be made available to participants and to address all participant concerns. A special meeting of the Commission would be scheduled with the understanding that Wilshire representatives would be in attendance to address any questions or concerns. Ms. Buras seconded the motion. A roll call vote was taken of the Commission members and the motion failed by a 4 to 2 margin.

Captain Robert suggested that it would be helpful if the Commission provided participants with the reason why the funds were selected. This might serve to bolster participant confidence in the new funds. This information could be provided on the website.

A special meeting will be scheduled prior to June 3, 2016 for the Commission to meet with Wilshire for the purpose of securing additional information to satisfy the concerns noted by Ms. Folse and the participants. Ms. Stevens and Mr. Kling affirmed Captain Robert's suggestion to provide the "whys" of the decision to participants. Mr. Enright noted that every retirement system has a general section of all the fiduciary responsibilities that apply to all of the boards. Mr. Enright is unable to find this information as it relates to the LADCP Commission. Ms. Andrews stated that the absence of the word, "fiduciary" is not concerning and offered to meet with Mr. Enright at a separate time to discuss specific duties outside of Title 11. Ms. Hubbard stated that Commission members are clear on their fiduciary duties due in large part to annual training performed by Empower Retirement Senior Legislative & Regulatory Affairs Director, Marilyn Collister. Ms. Stevens will set up the meeting with Wilshire to be scheduled on or before May 27th. The agenda for the meeting is informational with the intent of receiving something in writing that can be provided to participants explaining why the changes are being made. Ms. Stevens pointed out that there is no cost to participants that stay within the core funds of the lineup in the mapping of funds. Only those participants moving funds to TD Ameritrade will incur costs. The new funds in the Plan will not be "live" until June 6, 2016. The Plan closes on June 3rd (Friday) and will reopen on June 6th (Monday).

<u>Administrator's Report</u>

Plan Update as of April 30, 2016 was presented by Ms. Stevens. Assets as of April 30, 2016: $1,471.29 Billion. Asset change YTD: $12.39 Million; Contributions YTD: $32.52 Million. Distributions YTD: $39.22 Million. Net Investment Gain: $19.09 Million.

Marketing Report-1Q16

Ms. Stevens reviewed the Marketing Report for the first quarter of 2016. There were 523 new applications, averaging $4,696 per application. The group meeting goal for 1Q16 was 348. The total number of group meetings held in 1Q16 was 325. The total number of individual meetings in 1Q16 was 1,413. The majority of activity in the first quarter came from the following agencies: Terrebonne Parish Sheriff's Office, St John Parish Sheriff, DOTD, LSU-Baton Rouge and the House of Representatives. Ms. Stevens reported that efforts are being made to convert LSU Baton Rouge, New Orleans and Shreveport to a fully automated processing method.

Other Business

NAGDCA Registration: The following Commission members intend on attending the NAGDCA Conference to be held in September in Denver, CO, Mr. Kling, Ms. Burton, Mr. Bares. Mr. Rick McGimsey will also be attending the meeting.

Office of Legal Affairs - State Fire Marshall: Ms. Stevens and Mr. Wheeler will attend a meeting today at 1:30 p.m. with the Office of Legal Affairs - State Fire Marshall to address fund change concerns.

Mr. Kling thanked Captain Robert, Mr. Nagel and Mr. Brosnan for their participation throughout the meeting and apologized for not providing more detailed information for their review.

Adjournment

With there being no further items of business to come before the Commission, Vice Chairman Whit Kling declared the meeting adjourned at 11:47 a.m.

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Virginia Burton, Secretary