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Louisiana Deferred Compensation Commission Meeting November 19, 2013

The Monthly Meeting of the Louisiana Deferred Compensation Commission was held on Tuesday, November 19, 2013, 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
Andrea Hubbard, Designee of the Commissioner of Administration
Len Riviere, Designee of Commissioner of Financial Institutions

Not Present

Whit Kling, Vice-Chairman, Participant Member
Lela Folse, Designee of the State Treasurer
Troy Searles, Participant Member

Others Present

William Thornton, Senior Manager, Client Portfolio Services *by Conference Call*
Lindsey Hunter, Louisiana Attorney General's Office
Connie Stevens, Director, Client Relations and Plan Consultants, Baton Rouge GWF
Jo Ann Carrigan, Lead Office Coordinator, Baton Rouge GWF

Call to Order

Chairman Bares called the meeting to order at 10:13 a.m.

Approval of Commission Meeting Minutes of October 15, 2013

The minutes of October 15, 2013 were reviewed. Ms. Burton motioned for acceptance of the minutes. Ms. Hubbard noted a typo on page 3 of the report referencing David Lindberg of Wilshire as David Wilshire. Ms. Hubbard seconded the motion with the understanding that the minutes would be amended to correct this error. The Commission unanimously approved the minutes.

Acceptance of Hardship Committee Report of November 8, 2013

Mr. Riviere motioned for acceptance of the Hardship Committee Report of November 8, 2013. Ms. Burton seconded the motion. The Commission unanimously approved the report.

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

Administrator's Report

Plan Summary as of October 31, 2013, was presented by Ms. Stevens. Assets as of October 31, 2013: \$1,336.86 Billion. Asset change YTD: \$126.08 Million. Contributions YTD: \$85.68 Million. Distributions YTD: \$89.85 Million. Ms. Stevens noted that distributions surpassed contributions by \$4.17 Million YTD leaving a Net Investment gain YTD of: \$130.25 Million.

Participation by Asset Class and Investment Option: Ms. Stevens presented the assets in order of percentages of assets by asset class: Target Dates 8.3% of total assets in the Plan with the largest holding being the 2020 Fund; International 8.21% with the largest holding being American Funds Capital World Growth and Income; Small Cap 4.36% with the largest holding being Perkins Small Cap Value; Mid Cap 5.97% with the largest holding being Touchstone Mid Cap Growth; Large Cap 19.61% with the largest holding being Blackrock Russell 1000 Index; Bond 5.36% with the largest holding being PIMCO; Stable Value 46.6%.

Plan Review for the period ending October 1, 2012 to September 30, 2013: Ms. Stevens highlighted key points of the review. Assets as of September 30, 2013 was \$1,311.24 Billion. Contributions (tracking back 12 months) were at \$100.11 Million. Distributions were \$100.96 Million. Ms. Stevens pointed out that the difference over the past twelve months can be attributed strictly to investment gain. Asset History comparison reflected an asset history of \$603,519,603 in 2004 as compared to \$1,311,244,801 in 2013. This figure has more than doubled in a ten year time period. The number of participants in the Plan peaked in 2009 (41,204) and are currently at 37,658. The Stable Value rate is currently at the lowest it has been (2.70%). Contribution history: The figures presented on the chart reflect through the third quarter of 2013. If the trend continues, the twelve month contribution figure should be approximately \$103 Million which is an improvement over 2012 contributions (approximately \$100 Million). The report reflects 22,074 contributing participants which is the lowest number in ten years. The average annual participant contribution has steadily increased. Benefit Payment Distributions reflect three different categories: Full withdrawals, partial withdrawals and periodic payments. Full withdrawals were up in dollar amount and in number of participants. Purchase of Service credits (Partial Withdrawals) reflect fewer withdrawals than the previous year but is still very strong. There has been a 21% increase in the dollar amount distributed out of the Plan over the past 12 months and a 10% increase in number of participants requesting distributions.

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The dollar amount in loans reflects approximately \$19 Million in outstanding loan balances with \$5.4 Million of this figure in default. The number of participants with loans is 3,472 with 1,124 of these participants defaulting. Ms. Stevens will present more information at the December 2013 meeting regarding loan default totals. Ms. Stevens suggested that as an extension to the automation of payrolls, going forward, loan payments should also be payroll deducted vs. coupon payments. Commission members agreed to discuss this in more detail at the December meeting and possibly vote on a loan payment policy. Ms. Hunter noted that the Plan Document already specifies that loan payments are to be payroll deducted.

Unallocated Plan Assets: Ms. Stevens presented the UPA activity for October, 2013. The cash balance on hand as of September 30, 2013 was \$3.276 Million. The cash balance on hand as of October 31, 2013 was \$3.775 Million. October additions included: participant recoveries, interest and Mutual Fund Fees (revenue sharing). Deductions included Wilshire Associates fees. Additions YTD are \$2.359 Million and deductions are \$1.601 Million. Ms. Stevens noted that more is coming into the account than is going out. The Revenue Reconciliation Report reflected third quarter administrative fees deducted from participant accounts of \$386,438.49. The total revenue fees collected from investments as of 9/30/2013 were \$126,645.44 which is down from \$256,489.81 collected in December of 2012 due to steps taken by Wilshire and the Commission to reduce incoming revenue. The net balance coming into the Plan for 3Q13 is \$75,947.93.

3Q13 Custom Stable Value

Mr. Bill Thornton reviewed the 3Q13 Custom Stable Value Report. There were no major changes in market value of assets to book value of liabilities (102.2% vs. 102.1% last quarter). There were no major changes to the average life and average duration from this quarter to last. The participant-credited interest rate for 3Q13 was 2.85% and for 4Q13 is 2.70%. Interest rates have stabilized now that the amount of “tapering off” talks by the Federal Reserve has subsided. The Lehman Brothers bond continues to be held anticipating an increase in market value. The Western Union bond also appears on the exception list with an interest rate of 5.38% through 2020. Ms. Burton asked Mr. Thornton to offer his opinion on the concept heard at the recent NAGDCA Meeting that Stable Value is no longer appropriate for 457(b) Plans. Mr. Thornton stated that there are three options in a participant-directed plan that is “dollar stable with very little risk”: Money market (zero to minimal return), Stable Value and General Account product (investing in the balance sheet of the provider with less clarity). The majority of the discussion related to Stable Value involves funds that have “outside/3rd party” wrap arrangements. Great-West is the wrap provider of the Stable Value funds. Mr. Thornton continues to believe that Stable Value is the best alternative because it offers a stable, conservative option to the participants in the Plan.

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Securities Sold in the Louisiana Stable Value Portfolio September and October, 2013. Ms. Stevens reviewed the securities sold in the LA Stable Value Portfolio during the months of September and October.

Payroll Automation Update

One year ago, there were 225 non-automated payrolls in the Plan. As of November 18, 2013, there are now 74 non-automated payrolls in the Plan (a 66% conversion rate). The remaining payrolls are small in size. A third letter was mailed to payrolls in October and three additional payroll automation webinars were offered. Payrolls, who have not automated by January, 2014, will be identified and a course of action will be determined at that time.

Beneficiary Records Update

Action taken regarding non-electronically stored beneficiary information for the third quarter includes: An article in the newsletter (5th time), a message on the statements, a blank beneficiary form included in the statement envelope, and a “pop-up” message on the web page on both post and pre-login screens. To date, there are 2,639 participant members without electronic beneficiary information. Proposed action to be taken with the 2,639 no-beneficiary files: 1) Temporary staff to be hired to “scrub” paper files for missing beneficiaries; 2) Great-West has agreed to accept “old paper forms” that will be entered on to participant electronic files; 3) Great-West will contact remaining participants with no beneficiary on record. Ms. Hunter noted that the Plan Document states in section 301 that if no beneficiary is in place at the time of death, the surviving spouse becomes the beneficiary. If there is no spouse, the beneficiary becomes the estate of the deceased. Ms. Stevens noted that the files currently stored in the Plan Administrator’s office also include Hardship paperwork. Ms. Stevens stated that she would contact Great-West attorneys to determine how long Hardship records must be kept for audit purposes. Ms. Hunter stated that she would review the Policy to determine if there is a record-retention requirement noted.

Evaluation Committee Report

Ms. Burton presented the Annual Plan Evaluation letter from the Commission to be posted on the website. The letter is similar to letters that have been submitted in years past and includes an overview of the role of the Commission on a regular basis. Wilshire is usually asked to prepare a Plan Administrator Review on a bi-annual basis but this was not conducted due to the RFP process. Ms. Burton suggested that Wilshire be assigned this task at the December meeting for next year. Mr. Bares asked that the letter be signed by the Evaluation Committee members. Ms. Hubbard made a motion to amend the agenda for the purpose of making committee appointments. Mr. Reviere seconded the

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motion and roll call was taken. Mr. Bares recommended the following Commission members to serve on the Evaluation Committee: Ms. Burton as chairperson, Mr. Kling and Mr. Riviere. Mr. Bares recommended that the Hardship Committee consist of the same individuals who served on the committee the previous year with no chairperson designated. Ms. Hubbard made a motion to approve the proposed committee members and Mr. Riviere seconded the motion. There was no objection and the motion carried. The Evaluation Letter will be redrafted after the Evaluation Committee has had an opportunity to review and sign the letter. The letter will be presented in December for Commission approval. Ms. Burton will send an email to Wilshire requesting that a Plan Administrator Review be conducted on a bi-annual basis.

Marketing Report

Ms. Stevens reviewed the Marketing Report for the month of October, 2013. There were 179 new applications received during the month of October averaging \$2,752 per application. 2013 YTD figures: 1,862 new applications averaging \$3,734 per application. There were 204 increases and restarts during the month of October at an average of \$7,439 per request. 2013 YTD figures: 2,458 increases/restarts averaging \$8,253 (a record high). The majority of activity during the month of October came from the following agencies: Lincoln Parish Sheriff, St Tammany Parish Sheriff, DHH-Office of Secretary, Department of Corrections and Hunt Correctional.

Other Business

2014 Contribution Limits: Ms. Stevens reported that the IRS has announced that there are no changes to contribution limits for 2014. Maximum contribution limit for participants under the age 50 is \$17,500. Maximum contribution limit for participants over the age 50 is \$23,000. Maximum contribution limit for participants qualifying for Standard Catch Up is \$35,000.

Covered Call Writing for Self-Directed Brokerage: Ms. Stevens offered follow up information related to Mr. Lindberg's opinion (presented at the October meeting) that Covered Call Writing is not appropriate for a Deferred Compensation Plan. The Great-West Legal Department agreed with Mr. Lindberg's opinion noting that Covered Call options are derivative securities which are useful tools for investors but involve a risk level more suitable for sophisticated investors. Operationally, Covered Call Writing can be done, however. The Commission determined to agree with Mr. Lindberg's/Great-West's conclusions and closed the issue to add this feature to Self-Directed Brokerage accounts.

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Legal Contract Renewal:

Ms. Hunter provided new 3-year contract paperwork from the Department of Justice as the previous contract expired in June of 2013. Mr. Bares signed the contract as Chairman of the Commission.

Boards and Commissions Website: Ms. Hunter reviewed the website for accuracy and noted that a correction must be made to the Treasury citation number as the number on the website contains an additional number. Ms. Stevens stated that she would have the number corrected.

December 17, 2013 Retreat:

Ms. Stevens reminded Commission Members that the December 17th meeting will be held at the Ione E. Burden Conference Center in Baton Rouge. Guests scheduled to attend the meeting include representatives from American Funds (keynote speakers), Bill Thornton, Perry Christie, Marilyn Collister (to perform fiduciary training) and Wilshire representatives. Ms. Hunter reminded the Commission that the option of receiving Roth contributions into the Plan must be revisited during the December meeting. If approved in December, Roth contributions could be allowed into the Plan as early as July of 2014.

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