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Louisiana Deferred Compensation Commission Meeting

August 21, 2018

The monthly meeting of the Louisiana Deferred Compensation Commission was held on Tuesday, August 21, 2018 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
Whit Kling, Vice-Chairman, Participant Member
Virginia Burton, Secretary, Participant Member
Andrea Hubbard, Co-Designee of the Commissioner of Administrator
James Mack, Designee of the LA State Treasurer
Kevin Pearson, Designee of the Speaker of the LA House of Representatives
Len Riviere, Co-Designee of Commissioner of Financial Institution
Laney Sanders, Participant Member

Others Present
Margaret Corley, Senate Committee on Retirement
Craig Cassagne, State of Louisiana Attorney General's Office
William Thornton, Senior Manager, Client Portfolio Services, AAG *via Conference Call*
Connie Stevens, State Director, Baton Rouge, Empower Retirement
Jo Ann Carrigan, Sr. Field Administrative Support, Baton Rouge, Empower Retirement

Call to Order
Chairman Bares called the meeting to order at 10:01 a.m. Roll call was taken by Jo Ann Carrigan.

Public Comments: There were no public comments.

Approval of Commission Meeting Minutes of July 17, 2018
The minutes of the July 17, 2018 Commission Meeting were reviewed. Ms. Burton motioned for the acceptance of the July 17, 2018 minutes. Mr. Kling seconded the motion. The Commission unanimously approved the minutes.

Acceptance of the Hardship Committee Report of August 9, 2018
The Hardship Committee Report of August 9, 2018 was reviewed. Mr. Kling motioned for acceptance of the Hardship Committee Report of August 9, 2018. Mr. Riviere seconded the motion. The Commission unanimously approved the report.

Administrator's Report

Plan Update as of July 31, 2018: Ms. Stevens presented the Plan Update as of July 31, 2018. Assets as of July 31, 2018: $1,721.25 Billion; Asset Change YTD: $39.06 Million; Contributions YTD: $56.34 Million; Distributions YTD: $69.46 Million. Net Investment Difference YTD: $52.18 Million.

UPA-July, 2018: Ms. Stevens reviewed the UPA for the month July, 2018. UPA balance as of July 31, 2018: $2,285,559.21.

Case Reconciliation, 2Q18: Ms. Stevens presented the 2Q18 Case Reconciliation report noting the recordkeeping fee reduction that occurred 2Q18. The fee reduction was the result of transitioning to e-delivery of statements.

Plan Review, 2Q18: Ms. Stevens presented the 2Q18 Plan Review noting total assets as of June 30, 2018 as $1,692.99 Billion. Ms. Stevens reported that from July 1, 2017 to June 30, 2018, there were 38,483 participants in the Plan with an average balance of $45,731. The "Assets by Asset Class" and "Percentage of Assets by Asset Class" reports have been updated to match Plan allocation resulting in Small and MidCap being incorporated into US Equity. The number of participants in the LifePath Funds is at an all-time high of 11,392 which reflects an 8% increase over last year with total assets in the LifePath Funds of $181 Million. An email from Jay Dardenne, Commissioner of Administration, sent to all State employees on August 3, 2018 resulted in increased interest and Ms. Stevens indicated that she is measuring the results.

Audit Update

Ms. Burton reported that since the last Commission meeting (July 17, 2018), an audit sub-committee was formed consisting of Ms. Burton, Mr. Riviere and Mr. Kling who were appointed by Mr. Bares. The committee met with auditor, Aaron Cooper, and reviewed concerns of the issued audit report including errors made and the change in accounting practice of reporting participant loans on the financial statements which Mr. Cooper cited as a serious internal control weakness over financial control. Mr. Cooper had written to the Governmental Accounting Standard Board (GASB) requesting an opinion in terms of what is appropriate in reporting loans in financial statements for governmental plans but no guidance was provided stating that it is generally acceptable to look for additional guidance from such sources as the Financial Accounting Standards Board (FASB). In further discussion with the sub-committee, the auditor agreed that, based on the nature of the loans, the report could be changed to reflect that there was a change in accounting presentation in the 2017 audit. There are ongoing discussions related to the dollar amount to be reported on the balance sheet which, per Ms. Burton, would be appropriate to be net of defaulted loans. Empower Retirement loan records include those participants who have defaulted on their loans and received 1099R's because there is some opportunity for the individual to return to work at which time the loan could be paid back, if the participant wished. Mr. Cooper has provided the sub-committee with a draft audit report for review. Ms. Burton asked Ms. Stevens to review the draft report to make sure that the requested wording issues were completed. Mr. Cooper will add a footnote explaining that the issue is in the accounting presentation and not an internal control issue which left the impression that there were improprieties. The loans were always fully disclosed but not included on the balance sheet. The sub-committee was unable to find any examples of states that were excluding them from the balance sheet. There will be a final review of the draft report and then, Mr. Cooper will reissue the report. One of the consequences of reissuing the report is that both the original and the re-issued report will be posted on the LA Legislative Auditor's website. Mr. Riviere stated that as a result of the auditor re-issuing the report, there is no longer a finding on the Plan and it is a definite "clean" audit. No management response is required because there is now no finding on the audit report. Ms. Burton stated that the LA Legislative Auditor requires that audit reports be completed within six months of assignment and this proved to be a factor in the rushed presentation of the report by Mr. Cooper to the Commission. Mr. Cooper had not previously worked on a Plan of this nature, and Mr. Cooper was selected by the LA Legislative Auditor based on a bidding process. Ms. Burton motioned to request that the Commission give the audit sub-committee authority to finalize the revisions to the audit report and that a statement be posted to the LA Deferred Comp website explaining the reason why two audit reports were issued. Ms. Hubbard seconded the motion. There was no discussion and the motion carried. Mr. Kling motioned to have the audit-subcommittee continue to serve on an ongoing basis. Ms. Burton seconded the motion. There was no objection and the motion carried. Mr. Kling stated that future audits should include a defined exit conference to be held with enough time to sit with the auditor to review all information presented in the report prior to it being submitted to the LA Legislative Auditor. Mr. Kling further stated that a draft copy of the audit report be presented/distributed for review to members of the Commission.

<u>Marketing Report</u>

Ms. Stevens reported that there were 540 new participants in 2Q18 with 147 of the new enrollments submitted online via the participant website. In 2Q18, e-delivery of statements began to those participants who had email addresses on file. The December 31, 2017 mailed statement included a notice that all future statements would be sent via E Delivery. Response to this notice resulted in approximately 300 participants calling in January to ask that mailed statements continue. Beginning in March, 2018, participants received an email instructing them to access their statements on line. There was minimal response to E Delivery from the March and June statement distributions. Personalized Participant Communications began on July 25, 2018. Mr. Riviere expressed concern and asked for clarification regarding "who" (i.e., AAG) is making the recommendation in relation to any investment "advice" being given. Ms. Burton suggested that a link be provided in the email to a video explaining the benefits of the investment program. Ms. Stevens stated that she would look into this suggestion. Mr. Mack wanted to confirm that the emails include legal language clearly stating that the email is not intended as

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"advice". Ms. Stevens advised the Commission that she will revisit this topic with additional detail at the October, 2018 meeting. A copy of the email from Jay Dardenne was reviewed. Ms. Stevens stated that some non-State Payroll agencies have become aware of the email and asked for a copy so that it may be shared with their participants. Ms. Hubbard stated that the email was sent to employees with State that have LA email addresses (la.gov) which means that elected officials did not receive the email.

Custom Stable Value

Economic Review: Mr. Thornton presented the Q218 Economic Review noting that the US economy is very strong. The recently released GDP for 2Q18 was 4.1% which is the first time in a while that it has exceeded 4%. The 1Q18 GDP was 2.2%. The biggest factor in the increase of the GDP was in increased personal consumption. Other factors included corporate tax decreases and federal spending. The labor market currently reflects that, for the first time, there are more job openings than unemployed persons. Reasons noted for this is a skills gap and location (areas with job openings but no people to fill the openings). Inflation is the reason for the bump up in interest rates. The Federal Government is planning on three interest rate increases – possibly four. Yields on the Stable Value portfolio have increased but it takes time for that to trickle down into the credited rate. All new money coming in is being invested at a higher rate (3.25% vs. 2%). It is a more positive environment for those who are invested in the Stable Value Fund.

Portfolio Review – 2Q18: Mr. Thornton reviewed the Stable Value Fixed Income Fund quarterly report. Mr. Thornton observed that the Corporate Bond side is up 8% which is being funded by mortgage backed, asset backed and treasuries. The Market to Book ratio is at 98.1% but Mr. Thornton stated that there is no reason to be alarmed that this figure is not 100%. As interest rates stabilize, the Market to Book ratio will return to 100%. The credit rate is at 2.35% for the next quarter. Mr. Thornton reviewed the Credit Rate Letter. The Lehman Brothers Unsecured Notes is the only one out-of-policy. The letter provided an update on the status of the bankruptcy distributions. The bankruptcy distributions are not being paid out on a regular basis and there is no estimation of when the final payout will occur. The conclusion is that it is still in the best interest to hold the bond. Mr. Thornton will talk with Jack Brown, Senior Vice President of Separate Accounts–Portfolio Manager, to clarify the statement in the letter that reads, "3 claimants have received 44.585% of their allowed claims". Mr. Thornton's response will be presented at the October meeting. As of the date of the letter, there were no derivative securities being used within the stable value portfolio.

Securities Sold, April and May, 2018: Ms. Stevens directed the Commission to review the list of securities sold in May of 2018.

Other Business

Mr. Bares reminded Commission members that there will be no September, 2018 Commission meeting due to the NAGDCA Conference scheduled for September 23-26, 2018 in Philadelphia, PA.

Ms. Stevens distributed an updated contact information spreadsheet to each member asking that information be confirmed. Once noted corrections are made, Ms. Stevens stated that she would email the contact information spreadsheet to all members.

Adjournment

With there being no further items of business to come before the Commission, Chairman Bares declared the meeting adjourned at 11:12 a.m.

Virginia Burton, Secretary