

MINUTES
Louisiana Deferred Compensation Commission Meeting
May 19, 2020

The monthly meeting of the Louisiana Deferred Compensation Commission was held on Tuesday, May 19, 2020 via video conference at 10:00 a.m.

Members Present *via video conference*

Whit Kling, Chairman, Participant Member
Virginia Burton, Vice Chairman, Participant Member
Stewart Guerin, Designee of the Commissioner of Insurance
Andrea Hubbard, Co-Designee of the Commissioner of Administration
James Mack, Designee of the LA State Treasurer
Scott Jolly, Co-Designee of Commissioner of Financial Institution
Laney Sanders, Secretary, Participant Member

Members Not Present

Representative Lance Harris, Designee of the Speaker of the LA House of Representatives
Senator Ed Price, Designee of the President of the Louisiana State Senate

Others Present *via video conference*

Marybeth Daubenspeck, Vice President, Government Markets, Empower Retirement, Denver
William Thornton, Senior Manager, Client Portfolio Services, AAG, Denver
Craig Cassagne, State of Louisiana Attorney General's Office, Baton Rouge
Shannon Dyse, Relationship Manger, Empower Retirement, Baton Rouge
Rich Massingill, Manager of Participant Engagement, Empower Retirement, Baton Rouge
Jo Ann Carrigan, Sr. Field Administrative Support, Empower Retirement, Baton Rouge

Call to Order

Chairman Kling called the meeting to order at 10:02 a.m. Mr. Kling acknowledged Commission members who were attending the video conference.

Public Comments

Mr. Kling stated that the meeting is accessible to the public and invited anyone who had joined the video conference to participate in the call. There were no public comments.

Approval of Commission Meeting Minutes of April 21, 2020

The minutes of the April 21, 2020 Commission Meeting were reviewed. Ms. Burton motioned for acceptance of the April 21, 2020 minutes. Ms. Sanders seconded the motion. The Commission unanimously approved the minutes of April 21, 2020.

Administrator's Report

Mr. Dyse shared an email from Dan Morrison, Senior Vice President, Head of Government Markets with Empower Retirement that was sent to all clients regarding Covid-19. Mr. Morrison's email conveyed Empower Retirement's plan to continue to service clients in a virtual manner over the next several weeks/months. The transition back to an office environment from a "work from

home” environment will be a gradual and slow process. Mr. Dyse offered to forward Mr. Morrison’s email to anyone who may not have previously received a copy.

Plan Update as of April 30, 2020: Mr. Dyse presented the Plan Update as of April 30, 2020. Assets as of April 30, 2020: \$1,775.50 Billion; Asset Change YTD: -\$100.84 Million; Contributions YTD: \$35.69 Million; Distributions YTD: \$35.37 Million. Net Investment Difference YTD: -\$101.16 Million.

UPA - April 2020: Mr. Dyse reviewed the UPA report for the month of April, 2020. There was one deduction in April which was paid to Wilshire Associates. Increases included interest for the month of April and participant recoveries. The closing balance as of April 30, 2020 was \$1,590,014.52.

Acceptance of the UEW Hardship Report – April, 2020: The UEW Hardship report of April, 2020 were presented by Mr. Dyse.

Quarterly Fee Reconciliation – 1Q20: Mr. Dyse pointed out a possible discrepancy found in the 3/31/2020 column, third row under “Quarterly Asset fee”. The report reflects a significant drop in recoveries during the 3/31/2020 quarter which Mr. Dyse stated was the result of either a typographical error or something wrong on the set-up side. Research is being conducted to determine the cause of the error. The results of the findings along with a corrected report will be presented to the Commission at the June 2020 meeting.

Securities Sold-March 2020: Mr. Dyse reviewed the securities sold during the month of March, 2020.

Economic Review and Outlook, 1Q20

Mr. Thornton presented the Capital Markets Overview for the First Quarter of 2020. Mr. Thornton stated that there has been a tremendous transformation on the capital markets/economic-side in a short period of time. All of 2019 and early 2020, indicators were solid with a GDP in the 2% range, unemployment numbers were good and there was not much inflation. The GDP through March, 2020 is -4.8% which is not as bad as some estimates. The consumer continues to purchase items but it’s different and slower as a result of online ordering and taking out food from restaurants. Multiple sectors have suffered. CPI for the month of April was at -.8% which was the largest decline since December of 2008. CORE CPI was down .4% in April. Gasoline and oil were down 10% in March and 20% in April. Inflation is coming down. The labor market had been very robust but in April the unemployment rate had risen to 14.7%. Recovery is not anticipated to be rapid and will look more like a “check-mark” rather than a “V” in the visual representation of how quickly recovery occurs. Oil is currently priced at \$33 per barrel as opposed to \$20 per barrel at the end of March. The price of oil will continue to increase as demand increases. Rates have dropped dramatically from the end of 2019 to March, 2020. The yield curve is steepening but remains very low on the short-term side. There has been volatility within the Stable Value Fund ranging from 1.3% to 3.1%. It is unusual to see this kind of volatility within the Stable Value Fund. The federal government extended the CARES Act which served as a backstop for

whatever is needed to keep everything operating. The downside for the fund is that the CARES Act will probably work to keep rates low.

Custom Stable Value Report – 1Q20

Mr. Thornton presented the 1Q20 Custom Stable Value Report stating that there have been no big changes. Rates are set for all Stable Value Funds based on the data as of the middle month of the previous quarter. The second quarter rate of 2.55% was set from the month of February. Rates have come down since February but the capital side has risen which serves to balance it out.

Credit Letter: Mr. Thornton pointed out that an additional security, Occidental Petroleum, has been downgraded to a Ba1/BB+/BB+ due to lower cash flow estimates, higher leverage and elevated financing risk due to a combination of the Covid-19 pandemic and a price war with Saudi Arabia and Russia. The investment team recommends retaining the position as refinancing efforts are achievable with regard to both oil prices and Covid-19 economic impacts.

Strategic Partnership Plan: Mr. Dyse informed the Commission that the Strategic Partnership Plan presentation has been deferred until the June, 2020 meeting.

Robert Tarcza Contract Update: Mr. Kling asked to move the Robert Tarcza Contract Update prior to the Secure Act and Cares Act discussion on the agenda. Mr. Kling reported that Mr. Cassagne was extremely instrumental in getting the contract signed. The only material change from the old contract signed in 2017 and the new contract is the fee. The fee is the same in which Mr. Tarcza is asking from other retirement systems. Mr. Cassagne stated that the contract can be effective on the current date or on the day following the 2017 contract expiration. Mr. Jolly motioned to accept the new, three-year contract. Ms. Sanders seconded the motion. The motion was unanimously approved.

Secure Act and CARES Act

Mr. Kling opened discussion noting that both acts have mandatory and optional provisions. The mandatory provisions are mandatory and do not require the Plan document be amended until 2024. Mr. Cassagne pointed out that no rule-making entity can supersede mandatory federal law. Mr. Dyse stated that Empower Retirement is and will be in compliance of the mandatory provisions within the Secure and CARES Acts. No action must be taken other than to confirm that the record keeper has the ability to provide the mandatory services. The mandatory provisions of the Secure Act are:

- The required beginning date age for required minimum distributions (RMDs) is increased from age 70 ½ to age 72 – effective for participants who turn age 70 ½ on or after January 1, 2020.
- A 10-year rule for payment of a participant’s entire account balance following death applies to beneficiaries with certain exceptions – effective for deaths occurring on and after January 1, 2022.

The mandatory provisions of the CARES Act are:

- Waiver of the required minimum distribution (RMDs) due in 2020.

Mr. Kling reviewed the optional provisions of the Secure Act that apply to the Plan:

- Penalty-free withdrawal of up to \$5000 for birth or adoptions.
- Permissible in-service withdrawals from 457(b) plans at age 59 ½.

Action will be required to adopt the optional provisions including, at a minimum, developing an “Emergency Rule Notification”.

Secure Act:

1. Penalty free withdrawals of up to \$5000 for birth or adoption.

Mr. Dyse stated that implementing this provision to the Plan would not be an issue with Empower Retirement as it would simply be a matter of adding this particular distribution option to the current list of approved distribution options.

2. Permissible in-service withdrawals from 457(b) plans at age 59 ½.

Mr. Kling stated that it is up to the participant to decide whether or not this option would be best.

CARES Act:

1. Increased maximum loan limit to \$100,000 or 100% of the vested balance and extension of repayment period. Mr. Dyse confirmed that Empower Retirement has the ability to make changes to the loan limit and repayment extension. Mr. Cassagne confirmed that an Emergency Rule Notification would be required and recommended that Mr. Tarca also review requirements.

2. Allow for “coronavirus-related distributions” up to \$100,000 with the option to repay the amount within three years of time and to temporarily waive the 20% federal withholding tax on the distribution. Participants must self-certify that they have a “coronavirus-related” issue. Mr. Dyse stated that this type of withdrawal would have its own distribution option among the suite of distribution options. This option is not a loan and is not a hardship distribution. Distributions of this type would be handled through the Denver home office. Repayment would be made through Empower Retirement and not through the Office of State Uniform Payroll. Ms. Carrigan reported that there are 26 participants currently waiting to receive confirmation that the Plan will offer Secure and CARES Act provisions. Ms. Carrigan stated that the most frequent inquiry is from the participant wishing to withdraw funds and temporarily waiving the 20% federal withholding tax. Participants are also interested in the loan repayment extension.

Ms. Burton motioned to adopt the optional provisions of the Secure Act and the CARES Act with a request that an “Emergency Rule Notification” be written with Craig’s assistance effective as soon as the rule can go into effect. Ms. Hubbard seconded the motion. The motion was unanimously approved.

Audit Topics

Mr. Kling also reported that the Legislative Auditor has issued correspondence notifying entities that audit completion extensions can be requested due to coronavirus-related obstacles. Mr. Dyse stated that Mr. Cooper has reached out to Empower Retirement requesting specific documents. Empower Retirement has been working with Mr. Cooper for several months. Mr. Kling was unaware of Mr. Cooper contacting Empower Retirement.

Other Business

Fund to Fund Investment Transactions – ending May 10th

Mr. Dyse reported that during this period of volatility (mid-February through May 10th) 424 participants initiated 946 total fund to fund transactions with total money movement of \$33,631,371. Mr. Dyse noted that for clients with similar numbers of participants, the Plan's figures are encouraging.

Empower Product Enhancement

Mr. Dyse introduced the Commission to a new capability being released by Empower Retirement that will automatically update a participant's defaulted investment allocation when the participant's date of birth is changed for plans with target date funds or managed accounts as their defaulted investment strategy. For participants with a defaulted date of birth and defaulted investment allocation, this new capability automatically updates their default investment allocation for future contributions to the most appropriate default investment strategy. There were no objections to this enhancement. Mr. Kling advised Mr. Dyse to release the capability for the Plan. Mr. Kling also asked that this information be posted to the website for participant viewing.

Contract Modification/Extension Proposals-Empower Retirement

Mr. Kling apologized for overlooking this item on the agenda which is why it is being addressed out-of-order. Mr. Kling reported that Mr. Dyse provided information to the Commission on April 27th regarding the impact of Empower Retirement's proposed amendment change if the Commission chose to extend the contract. The proposed amendment would result in an approximate reduction of \$3 per participant in recordkeeping fees in a 1-5 year contract. A 6-10 year contract would result in a reduction of \$5 per participant in recordkeeping fees. The proposal, if accepted, would be effective of January 1, 2021 with an extension of 3 years giving 5 years more on the contract. The Commission was also given the option of choosing to go through an RFP process. Ms. Burton stated that in previous RFP work, it was found that Empower Retirement was the only bidder that could provide a local office with local representation which is desirable. Ms. Burton went on to say that she would recommend that the Commission accept Empower Retirement's proposal that offered the maximum fee reduction. Mr. Mack stated that since it has been over ten years since the last RFP, it might be best to enter into an RFP process. Mr. Mack stated that his comment was not meant to be a knock on Empower as he is of the opinion that Empower is doing a fantastic job. Ms. Burton motioned to accept the proposal taking advantage of the maximum fee reduction as long as there is a continued option of cancelling the contract for any reason in the future. Ms. Sanders seconded the motion. Mr. Kling pointed out that the desire to enact an RFP is not a valid reason for cancelling the contract. There was no objection. The motion unanimously passed. Mr. Kling stated that he will meet with Mr. Dyse, Ms. Daubenspeck and Mr. Cassagne to set up the extension proposals. Mr. Cassagne stated that this action will require a "publication of notice" like any other contract amendment.

Adjournment

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

Laney Sanders, Secretary