MINUTES
Louisiana Deferred Compensation Commission Meeting

August 20, 2019

The monthly meeting of the Louisiana Deferred Compensation Commission was held on Tuesday, August 20, 2019 in the offices of the Plan Administrator, 9100 Bluebonnet Centre Blvd., Suite 203, Baton Rouge, Louisiana, 70809.

Members Present
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
Laney Sanders, Secretary, Participant Member
J. Douglas Buras, Co-Designee of Commissioner of Financial Institution

Members Not Present
Kevin Pearson, Designee of the Speaker of the LA House of Representatives
Margaret Corley, Designee of Senator Barrow Peacock, Designee of John Alario Jr., Louisiana Senate

Others Present
Craig Cassagne, State of Louisiana Attorney General's Office
John Morris, State of Louisiana Attorney General's Office
William Thornton, Senior Manager, Client Portfolio Services, AAG *via telephone from Denver*
Marybeth Daubenspeck, Vice President, Government Markets, Empower Retirement, Denver
Danette Rausch, AVP Partner Strategy, Empower Retirement, *via telephone from Denver*
Wayne Veal, RPA, 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 10:04 a.m. Ms. Carrigan called roll of members in attendance.

Public Comments: There were no public comments.

Approval of Commission Meeting Minutes of July 16, 2019
The minutes of the July 16, 2019 Commission Meeting were reviewed. Ms. Burton motioned for the acceptance of the July 16, 2019 minutes. Ms. Sanders seconded the motion. The Commission unanimously approved the minutes of July 16, 2019.

Acceptance of the Hardship Committee Report of August 1, 2019
The Hardship Committee Report of August 1, 2019 was reviewed. Ms. Burton motioned for acceptance of the Hardship Committee Report of August 1, 2019. Mr. Guerin seconded the motion. The Commission unanimously approved the report.

Administrator's Report

Plan Update as of July 31, 2019: Ms. Daubenspeck presented the Plan Update as of July 31, 2019. Assets as of July 31, 2019: $1,793 Billion; Asset Change YTD: $177.25 Million; Contributions YTD: $59.96 Million; Distributions YTD: $70.58 Million. Net Investment Difference YTD: $187.87 Million.

Marketing Report – 2Q19: Ms. Daubenspeck presented the Marketing Report for 2Q19. There were 508 new applications and the LA team is at 93% of the quarterly goal of 325 group meetings. Ms. Daubenspeck stated that she was confident that the annual group meeting goal would be met as an additional Retirement Plan Advisor has been added to the staff. Mr. Buras suggested that group meetings at agencies begin with a group presentation with one-on-one consultations following the presentation. Mr. Mack asked that future marketing reports include the 2018 annual results so that there is a basis of comparison. Ms. Daubenspeck also offered to include the total number of individual meetings to the report going forward. Ms. Daubenspeck explained that the annual group meeting goal is arrived at by evaluating the number of representatives available and the number of locations that the representatives are allowed access.

UPA-July, 2019: Ms. Daubenspeck reviewed the UPA for the month of July, 2019 reflecting an ending balance $1,573,458.15. Additions included interest for the month July and gains on a contribution correction. Deductions included payment to Capital City Press and Wilshire Associates.

Case Reconciliation – 2Q19: Ms. Daubenspeck reviewed Case Reconciliation information: Total fees owed to Empower Retirement: $437,041.25. Fees collected by the contract: $380,197.65; Net In-quarter Amount Due to Plan/GWLA: -$56,843.60. Stable Value assets for the quarter $639,642.20; Revenue calculated on the Stable Value: $285,603.32.

Plan Review – 2Q19: Ms. Daubenspeck presented the 2Q19 Plan Review noting the following: $1,783.40 Billion in assets; $90.41 in asset change from 2018; Average participants from July 1, 2018 to June 30, 2019: 38,864 (approximately 300 more than same period in 2018). The average account balance has increased dramatically over the years even though the number of participants has remained relatively the same. The Assets by Asset Class report reflects good diversification which is an indication that the Plan is educating participants on the importance of diversifying. Ms. Daubenspeck reviewed percentage of assets by asset class noting that there is a shift to more money going into the life path funds instead of Stable Value. The Stable Value Rate for 2Q19: 2.65%. Contribution history reflects an increase of approximately $4 Million from 2018. Contribution history is on track to exceed 2018 numbers. Distributions: 1,405 participants are taking advantage of the Automated Minimum Distribution feature (periodic payments that occur each year).

Outstanding loan balance as of June 30, 2019: $22.02 Million. Ms. Daubenspeck pointed out that there is a steady trend of loan balances going upward as a result of more participants taking out loans than in the past (3,638). Ms. Daubenspeck anticipates the number of participants taking advantage of the "Advice" feature will increase as this has become a free service (fees removed). Ms. Daubenspeck noted that representatives are making attempts to meet with participants who are close to retirement age and who have accumulated wealth so that these particular participants are given every opportunity to plan effectively for retirement. Ms. Daubenspeck noted that a Managed Accounts campaign is scheduled for 1Q20 where a free look will be offered to participants. This campaign will be promoted in an upcoming newsletter. A Managed Account campaign was previously offered in 3Q18. Ms. Daubenspeck stated that Empower Retirement is working on product development related to finding "lost" beneficiaries/participants. Ratings have not changed over the past few years.

Custom Stable Value

Economic Review & Outlook: Mr. Thornton presented the Economic Review of 2Q19 pointing out two "big" themes: Slowing growth and Tariffs and how those tariffs will effect growth. Global growth is slowing down. The International Monetary Fund dropped their estimates from 3.6% to 3.3%. A lot of the volatility in the market over the past couple of months has been related to slowing growth and a possible trade war between the United States and China (the two largest economies in the world). The initial reaction was that this was going to be "really bad" but it hasn't proven to be as bad as originally thought—so far. Inflation continues to be very tame. Housing remains solid with the rate of home price increases coming down. Housing demand is great in most regions of the country. Some of the leading indicators are slowing down including the Citi Economic Surprise Index. Most economist are putting in about a 55-60% likelihood that there will be a recession in 2020. Rates have come down dramatically since the first of the year. The yield curve was very flat at the beginning of the year but still reflected the traditional yield curve where more yield is associated with longer timeframes. Since then, the yield curve has inverted so that the shorter-term timeframes are paying more than the longer-term timeframes. The 30-year bond dropped under 2% last week for the first time ever. The bond market has already priced in at least one more rate cut this year.

Custom Stable Value: There are two parts to the Stable Value: The yield-side and the market value-side. In the credited rate formula, these two parts offset each other. If rates continue to stay low and action is taken to invest contributions and reinvest maturities at lower rates, the rate will trickle down. The most prevalent change in fund allocation is the reduction of mortgage backed securities with funds going instead into treasuries to hedge refinancing of mortgage bonds.

Credit Letter: There have been no changes to the credit letter. Lehman Brothers continues to remain out of compliance with the IPS. There were no derivatives used and now that the market-to-book is back over 100%, Mr. Thornton stated that derivative use is not foreseen in the near future.

Securities Sold-July 2019: Mr. Thornton reviewed the securities sold in July.

Custodian Wells Fargo/Great West Trust

Mr. Kling provided information to Commission members regarding Great West Trust Company along with a list of questions and answers (provided by Ms. Rausch) with regard to the agreement. Mr. Kling requested that Commission members read the information so that a detailed/informed discussion can be had on the possibility of changing to Great West Trust Company.

Edits made to agenda: Mr. Kling brought a list of topics to the Commission that he was not able to incorporate into the agenda prior to the meeting. Mr. Buras made a motion to amend the agenda to include in the Enhanced Plan Services agenda item with specific detail of the action to be performed by Enhanced Plan Services and a review of loan default procedures. Mr. Guerin seconded the motion.

Enhanced Plan Services: The Hardship Committee had their final meeting on August 1, 2019. Going forward, the Commission will be provided a report from Enhanced Plan Services summarizing the number of cases reviewed including approvals and rejections with specific notes related to rejections. Any appeals of rejected hardship requests made by participants will be reviewed by the Commission. Hardship requests are reviewed on a daily basis by the Enhanced Plan Services group.

Loan Default Procedures: The Commission had previously ruled that loan defaults that are the result of administrative error, should be brought before the Commission for discussion on whether or not to allow the loan to be reamortized/removed from default on a case-by-case basis. Further, the Commission instructed Empower Retirement to mail "late loan" and "defaulted loan" letters to participants instead of emailing the letters. Since that time, another participant has requested that his loan be reamortized/removed from default as his loan payments never began. The participant received a "late loan payment" email from Empower Retirement on May 16, 2019 and a "default loan" notice on July 1, 2019. Mr. Kling voiced concern that by waiting for Commission action on requests such as these, participants are negatively impacted. Mr. Kling pointed out that defaulted loans do not affect participant credit ratings. Mr. Kling suggested that the following action be taken:

1. Approve and resend the particular participant's loan default status that occurred due to administrative error and place the participant back in good standing with his loan.

2. Allow the administrator, with written (hard copy or email) approval from the Commission Chairman, to correct loan defaults that are clearly the result of administrative error thus allowing timely relief to participants. Any loan default correction made by the administrator would be presented to the Commission at the following monthly meeting.

Mr. Kling stated that since procedures have been changed to include hard copy notices of "late loan" and "loan default" letters, the need for Commission review of loan default removal requests should be extremely rare. Loan issues will continue to be monitored by Ms. Carrigan in the Baton Rouge office of Empower Retirement. Mr. Buras motioned to rescind the default due to administrative error on the specific participant's loan and place him back in good standing. Ms. Hubbard seconded the motion. The motion was unanimously approved. Mr. Mack motioned to allow the administrator to bring loan default issues that are the result of administrative error to the Chairman for review and written approval on behalf of the Commission. Mr. Buras seconded the motion. The motion was unanimously approved.

In Lieu 3121 Participants: Mr. Kling asked that a new item be placed on the agenda related to In Lieu 3121 participants and the loan provision. Ms. Sanders motioned that an agenda item be added related to In Lieu 3121 contributions and the loan provision. Ms. Hubbard seconded the motion. The motion was unanimously approved. Mr. Kling explained that In Lieu 3121 participants are primarily medical residents (700+) or contractors who are allowed to participate under the Plan. The IRS rules are that unless it is clearly stated in a Plan's document, In Lieu 3121 participants are not allowed to take advantage of the loan provision. It has come to the attention of the Plan that nine In Lieu 3121 participants from a specific agency, have taken out loans – seven of which have outstanding balances. Action has been taken to prevent any further loans be processed for participants of this agency. By not allowing In Lieu 3121 participants to take out loans, the loan provision benefit is "taken" from these participants. A second option would be to open up a separate recordkeeping plan, move all of the In Lieu 3121 participants to that plan which would allow for easier management of In Lieu 3121 participants but the restrictions would still exist. The third option would be to make a Plan Document change and seek IRS approval. If approved, this would allow all participants to be treated equally, remove the Plan from non-compliance status and eliminate the administrative burden related to monitoring loan requests from In Lieu 3121 participants. Ms. Burton stated that options two and three would require outside counsel resulting in incurred costs. Ms. Hubbard stated that only State employees who are of a certain age and are not vested with LASERS may participate as In Lieu 3121 contributors. Ms. Hubbard doubted that the IRS would allow In Lieu 3121 participants to take out loans as funds in the account would be considered the participant's primary retirement. It is Ms. Hubbard's opinion that the Commission should not allow In Lieu 3121 participants to take out loans as neither LASERS or Social Security allow loans. Mr. Kling explained that if the IRS approves offering loans to In Lieu 3121 participants and the Plan Document is revised, loans could then be offered. Mr. Mack stated that he was in favor of extending the loan provision to all participants (the third option noted above). Mr. Morris suggested that the current language in the Plan Document be reviewed to determine if In Lieu 3121 participants are already allowed to take advantage of loans. If the language does not include this, the options noted should be reviewed. Mr. Morris also suggested that tax counsel be asked to look into the implications/consequences as Mr. Morris is not tax counsel for the Commission. Mr. Morris stated that tax counsel could also instruct the Commission on whether or not any additional action is needed related to the loans previously taken out by In Lieu 3121 participants. Mr. Morris reminded the Commission that if the Plan Document is to be revised, the process would involve going through rules promulgation under the Administrative Code which would take time and require public comment. Further, Mr. Morris noted that additional action may be needed in relation to the IRS. Mr. Morris suggested that the Commission's tax counsel provide written confirmation of any action needed. Mr. Kling offered to contact Mr. Bob Tarcza (tax counsel), who is on retainer to the Commission, regarding this topic. Upon Mr. Mack's request, Ms. Rausch agreed to look into how other Plans are handling In Lieu 3121 loan processing. Ms. Burton suggested that the loan application be revised to include a box that the participant must check if he/she is participating in the Plan under In Lieu 3121. At this point, there is still the possibility that loans may be processed from In Lieu 3121 participants since there is no way of identifying these participants. Mr. Kling summarized the discussion as follows:

- An "In Lieu 3121" box will be added to the loan application that would include a definition of "In Lieu 3121" .
- No other loans will be processed to known In Lieu 3121 participants.
- No action will be taken related to the existing seven In Lieu 3121 participants with loans.
- Mr. Tarcza, Mr. Morris and Mr. Cassagne will review this issue for the purpose of providing guidance going forward.

Ms. Hubbard motioned to ask Mr. Kling to contact Mr. Tarcza for legal tax advice on the topic of loans and In Lieu 3121 participants. Ms. Sanders seconded the motion. The motion was unanimously approved. Mr. Kling asked that Marilyn Collister, Sr. Regulatory Affairs, Government Markets with Empower Retirement be contacted to weigh in on this topic, as well.

<u>Other Business</u>

Wilshire Associates Contract: Mr. Morris and Mr. Cassagne have reviewed the existing Wilshire Associates contract which has been in place since the year 2000. It was determined at a

Commission meeting held earlier in 2019, that the contract be revised to take on a more standardized format from the "letter" format on file which also does not include any deliverables. The revised contract is being developed in talks with Wilshire Associates and Mr. Morris and Mr. Cassagne. Mr. Morris reported that a final version of the revised contract should be available for review at the October Commission meeting. Mr. Kling stated that Wilshire Associates are currently paid $85,000 annually. The letter of agreement in place allows for increases in fees but Wilshire has never exercised an increase request. As a means of comparison, Wilshire's minimum client fee in 2019 is $185,000. Based on conversations with Wilshire Associates, the Commission should expect to receive a request to increase fees to $125,000 with an annual cost of living increase included going forward. Mr. Morris stated that any change in consulting services companies would not involve RFP procedures. Ms. Burton suggested that a survey be conducted related to fees paid for consulting services by other Plans so that there is proof that the Commission has done its due diligence in selecting the best consultant for the Plan. Ms. Daubenspeck offered to check with Empower Retirement resources and NAGCDA to provide information related to fee structure. Mr. Morris clarified that the current Wilshire Associates contract does allow for a change in fees. Even if the Commission chooses not to enter into an agreement for a new contract, the fees are probably going to increase.

Black Rock 2020 Target Date Fund: Mr. Kling reported that correspondence has been received (via Emery Bares' old email address) from Black Rock indicating that a mapping will occur related to the Black Rock 2020 Target Date Fund. In most cases, it would be anticipated that the mapping would roll to the next existing short-term index (Retirement Fund J). This is not what the correspondence seems to indicate. Mr. Kling has asked Wilshire Associates to contact Black Rock for further clarification related to the mapping. Ms. Burton also suggested that the Commission contact information be revised so that pertinent correspondence is not sent to out-of-date addresses. Ms. Sanders suggested that a Commission email address be created to insure that Commission correspondence is received and on a timely basis.

Site Visit: Four members of the Commission (Mr. Kling, Ms. Hubbard, Mr. Sanders and Mr. Mack) participated in the Wilshire site visit on August 5-6, 2019 in Pittsburgh, PA. Mr. Kling reported that the visit provided good insight into the personnel that the Commission relies on for consulting services. Mr. Kling will forward an email version of the Wilshire presentation to all Commission members. While at the meeting, Wilshire announced that Stephen DiGirolamo who has been with the Plan for approximately two years, will be assuming primary Wilshire contact responsibilities for the Plan. David Lindberg, Wilshire's long-time representative to the Plan, has assumed a new role within the company. Ms. Burton requested that this change, once finalized, be communicated in writing to the Commission. Ms. Hubbard stated that Wilshire's majority shareholder is leaving the business. Over a period of five years, this individual will be selling his ownership (70%) to the other partners. Wilshire is an employee-owned firm and has just renewed the office building lease in Pittsburgh, PA. Wilshire is opening a couple of offices overseas but their primary sites remain in Pittsburgh, PA and Santa Monica, CA.

Proposed Model: Ms. Daubenspeck provided an update on the progress being made in finding a replacement for the State Director who recently retired. In the interim, Ms. Daubenspeck and Ms. Rausch have been servicing the Plan. Ms. Daubenspeck submitted an organization chart along with a list of responsibilities of each position to Mr. Kling who will be emailing the information to each Commission member after the meeting. Ms. Daubenspeck stated that the information was provided as a "proposal" and included clarity on bifurcated leadership duties. The Commission is free to decide to stay with the current "State Director" model. Ms. Daubenspeck shared, however, that based on Empower Retirement's experience, it was found that once duties are separated between a leader that is focused on the field team (training, ride-alongs, etc) and a leader that is focused on relationships – both benefit in the long run. Once a decision is made that the model is acceptable to the Commission, efforts will be made to add a manager for participant engagement who will be based within the State of LA. Discussions are ongoing with an internal candidate that has been identified as possibly filling the relationship role in the model presented. This particular candidate has a strong administrative background with a personality/presence that embodies the culture within the State of LA. Ms. Burton stated that she would like to see how the duties will be divided as they relate to the duties specified in the RFP. Ms. Daubenspeck stated that she will review the contract and compare the duties specified to the proposal prior to the next meeting. Mr. Kling stated that this topic will be reviewed in detail at the October Commission meeting. Ms. Daubenspeck confirmed that Empower Retirement does not want to put anything any place that the Commission is not comfortable with. Ms. Daubenspeck added that Empower Retirement wants to honor not only the spirit of the contract but also the long-term partnership that has existed. The vast majority of plans in the country are under this type of model as it has proven to be a "best practice". Ms. Daubenspeck has spoken with LASERS representatives regarding the proposed plan. Mr. Kling reiterated that there is nothing in the current contract that precludes the bifurcated leadership model.

NAGDCA Client Appreciation Event sponsored by Empower Retirement: Ms. Daubenspeck invited Commission members to attend the Empower "Client Appreciation Dinner" at the NAGDCA Conference in New Orleans on Monday night, September 9, 2019. Ms. Daubenspeck offered to follow up with Rick McGimsey regarding a speaking opportunity at the NAGDCA Convention which was something that was previously discussed.

Adjournment
With there being no further items of business to come before the Commission, Chairman Kling declared the meeting adjourned at 12:09 p.m.

Laney Sanders, Secretary