MINUTES

Louisiana Deferred Compensation Commission Meeting

April 18, 2017

The monthly meeting of the Louisiana Deferred Compensation Commission was held on Tuesday, April 18, 2017 in the offices of the Plan Administrator, 9100 Bluebonnet Centre Blvd, Suite 203, Baton Rouge, Louisiana 70809.

Members Present
Virginia Burton, Secretary, Participant Member
Lela Folse, Designee of the State Treasurer
Andrea Hubbard, Designee of the Commissioner of Administration
Whit Kling, Vice-Chairman, Participant Member
Len Riviere, Co-Designee of Commissioner of Financial Institutions
Laney Sanders, Participant Member

Not in Attendance
Emery Bares, Chairman, Designee of the Commissioner of Insurance

Others Present
Emily Andrews, State of Louisiana Attorney General's Office
Jennifer Bailey, Lead Strategist Participant Communications, Empower Retirement
William Thornton, Senior Manager, Client Portfolio Services, Great-West Financial *via Conference Call*
Connie Stevens, State Director, Baton Rouge, Empower Retirement
Jo Ann Carrigan, Sr. Field Administrative Support, Baton Rouge, Empower Retirement

Public: Carla S. Roberts, employee of the Louisiana State Senate; Terrie Hodges, Legislative Aide.

Call to Order
Vice Chairman Kling called the meeting to order at 10:02 a.m.
Roll call was taken by Jo Ann Carrigan.

Approval of Commission Meeting Minutes of March 21, 2017 and April 10, 2017
The minutes of March 21, 2017 and April 10, 2017 were reviewed. Ms. Burton motioned for acceptance of the minutes. Mr. Riviere asked that a correction be made to the March 21, 2017 minutes to remove the statement that Ms. Roberts is a participating member in the Plan. Ms. Roberts confirmed that she is not a participant in the Plan. Ms. Burton revised the motion to accept the minutes of March 21, 2017 once the correction has been made. Mr. Riviere seconded the motion. The Commission unanimously approved the minutes with the correction noted. The March 21, 2017 minutes will be updated and posted to the LA State Boards and Commission website.

The Hardship Committee Report of April 6, 2017 was reviewed. Ms. Hubbard motioned for acceptance of the Hardship Committee Report of April 6, 2017. Ms. Burton seconded the motion. The Commission unanimously approved the report.

Public Comments: There were no comments from the public.

HB 549

Ms. Andrews stated that she had no additional comments to add since her review of HB 549 at the April 10, 2017 Commission Meeting. Ms. Andrews offered to address any questions that Commission members may have related to HB 549. Ms. Folse asked if the Commission will be speaking to the authors of HB 549 and Mr. Kling confirmed that a meeting will be scheduled. Ms. Andrews reported that the bill has been forwarded from the Appropriations Committee to the Committee on Retirement as of April 18, 2017. No date has been posted for a committee hearing.

Attorney Representation and Contract

Mr. Kling noted that at the April 10, 2017 Commission Meeting, a motion was approved instructing the Chairman, Vice Chairman and legal counsel to contact Mr. Bob Tarcza to determine availability to represent the Plan regarding HB 549. In a conversation between Mr. Tarcza, Ms. Andrews and Mr. Kling on April 11, 2017, Mr. Tarcza stated that he is open to representing the Plan and will forward a proposed contract to the Commission for approval. Ms. Andrews stated that the contract is being finalized but provided the following details:

- Mr. Tarcza's hourly rate: $350.00 per hour.
    - James Thompson, Mr. Tarcza's associate's hourly rate: $300.00 per hour.
    - Any other attorney from Mr. Tarcza's office hourly rate: $250.00 per hour.
    - Paralegal hourly rate: $125.00 per hour.
- The term of the contract cannot exceed three years. The contract states that the term will expire on December 31, 2019.
- The contract will be signed by Mr. Bares on behalf of the Commission.

Ms. Andrews advised the Commission that a "cap" should be placed on the contract. The previous contract between the Commission and Mr. Tarcza from six years ago was capped at $30,000. Ms. Andrews stated that a new contract and approvals are needed as Mr. Tarcza's previous contract with the Commission has expired. Once the contract has been finalized, it must be submitted for review by the Attorney General's office and then to the Division of Administration. Title 49 requires that State agencies, as defined as "a commission of the State", must go through an established approval process when contracting for legal services. Ms. Andrews will oversee contract particulars to assure that the details conform to the checklist criteria.

Ms. Andrews noted that Mr. Tarcza's $350 hourly rate is not within the Attorney General's fee schedule. As a result, a justification letter is required. A draft of the justification letter has been received from Mr. Tarcza. Mr. Andrews stated that Mr. Tarcza's $350 hourly rate is the same rate that he charges LASERS for representation. LASERS has an agreement with Mr. Tarcza that he cannot offer a lesser rate of pay to another entity. If he does, LASERS must be given the lesser rate. Ms. Andrews also stated that, in her opinion (coming from private practice), it is a very reasonable rate. The scope of services of the contract was presented by Ms. Andrews as follows:

> Counsel hereby agrees to furnish the following services: Professional legal services and representation to LDCC on matters that may impact LDCC, its members and prospective members primarily for the purpose of tax advice and related legal matters including legislative and administrative consulting as directed by the Board and general counsel from time-to-time. There is no requirement that LDCC consult with the counsel on any matter and this agreement does not include a retainer amount on an ongoing basis.

Ms. Andrews clarified that LDCC stands for the LA Deferred Compensation Commission. Legal representation is being hired by the Commission (LDCC), not the Plan. Ms. Andrews stated that the scope of services does address the possibility that representation would have to testify to the legislature, if the need arose.

Ms. Burton and Mr. Riviere expressed concern with the time period related to approvals needed for hiring representation and the noted deadlines included in HB 549. Ms. Andrews stated that there is a provision in the law that allows for representation to be paid if work begins before the contract is approved.

Ms. Burton motioned to enter into agreement for the services of Mr. Tarcza for up to three years with a $50,000 cap (that can be amended) for the purpose of meeting the stated scope of services at an hourly rate of pay of $350.00. Ms. Stevens questioned why the contract expiration date was noted as December 31, 2019 as opposed to December 31, 2020 which would represent a three year period. Ms. Andrews offered to revise the contract to reflect December 31, 2020 as the expiration date. Ms. Andrews also recommended that the motion be changed to state that the agreement be made between the Commission and Tarcza and Associates, so that younger attorneys on Mr. Tarcza's staff may be allowed to address issues (at a reduced rate).

Ms. Burton revised her motion to include the changes noted. Ms. Hubbard seconded the revised motion. There was no objection and the motion passed. Mr. Kling stated that Mr. Tarcza would be contacted after the meeting.

AG Opinion Request

The Commission reviewed a letter written by Senator John Milkovich and Representative Valarie Hodges addressed to The Honorable Jeff Landry requesting an opinion regarding the activities of the Commission. Ms. Andrews reported that the opinion request has been assigned to Mr. John Morris who is in the Attorney General's Public Finance Section. In most cases, Ms. Andrews would be involved in letters such as these but she has recused herself as she serves as the Commission's attorney. Ms. Andrews advised Mr. Bares to write a letter to Mr. Morris requesting that the Commission be given an opportunity to respond to the letter from Senator Milkovich and Representative Hodges. Mr. Bares' letter was mailed on March 29, 2017 and to date, there has been no response. Ms. Andrews asked that the Commission designate a person who would be responsible for responding to the opinion request outlining the Commission's position. It is Ms. Andrews' understanding, however, that the Attorney General's opinion policy is not to issue an opinion when there is pending or proposed legislation. Ms. Andrews reported that the opinion request will be suspended until the legislature has been given a chance to weigh-in on the issue. Ms. Andrews does not think it is necessary for the Commission to formulate a response to the request but feels it is important that if the opinion request becomes "unsuspended" that someone designated by the Commission be prepared to respond. Ms. Andrews will communicate the name of the designee to the Attorney General's office for reference if and when a response becomes necessary. Ms. Hubbard motioned that the Commission Chairman and Vice Chairman be designated to respond as needed. Ms. Burton seconded the motion. The motion carried with no objection.

Investment Fund Options

Mr. Kling reviewed Stable Asset Fund contract parameters as well as the Stable Value Fixed Income Fund Investment Objectives and Guidelines. Mr. Kling stated that within the core plan, there is a fixed rate guarantee option known as the Stable Asset Fund which is a money market with a guaranteed insurance wrapper. The current contract with Great-West includes a provision that there be no competing fixed rate guaranteed funds within the core group outside of the Stable Asset Fund. If this occurred, the current Stable Value contract is subject to termination. Mr. Kling reported that Wilshire has been contacted to look into potential options in the open marketplace that would possibly offer a fixed rate guarantee.

Wilshire reported that TIPS or some kind of treasury might come close to meeting the objectives but pointed out that there was no 100% guarantee that these options would not have investment issues related to concerns noted in HB 549. Should treasuries or TIPS be added, Wilshire cautioned that Great-West would have to approve an "equity wash position" that would restrict participants from moving funds for 90 days preventing what is known as "chasing the yield curve." Ms. Stevens pointed out that the insurance wrap is the vehicle that protects participant book value. Mr. Kling indicated that Great-West has been contacted to determine if they would be willing or able to offer a separate Stable Value Fund that would meet the parameters. Mr. Kling reported that Great-West does not have the ability to create a fund to address the issues noted in HB 549.

Ms. Burton asked that Wilshire submit a written report detailing efforts made/recommendations that would meet the objectives of the socially conscious participant.

Mr. Riviere asked if a treasury based option could be made available for the exclusive purpose of housing the $2,500 Self Directed Brokerage core minimum requirement. Ms. Stevens stated that TIPS does not fall into the "competing funds" definition. TIPS can move against the participant in a market value as there is no protection of principal. Ms. Stevens pointed out that it is very difficult for recordkeeping to restrict TIPS to $2,500. TIPS would simply have to be a fund option available in the lineup.

Mr. Kling reviewed the issues that the Commission has with HB 549, as noted in the minutes of April 10, 2017. Mr. Hubbard stated that if HB 549 passes as written, she would have to leave the Commission due to the conflict the bill has with IRS regulations and her duty to the participant. Ms. Andrews stated that in her conversations with Mr. Tarcza, if HB 549 passes as is, the Commission members would have to resign.

Mr. Kling stated that he would reach out to the authors of HB 549 to set up a meeting for the purpose of sharing the concerns of the Commission and discussing whether or not the bill is actually needed.

Mr. Thornton stated that the duration of most TIPS is 6-7 years. Mr. Thornton added that regarding defining competing funds, it is not so much what a competing fund would be invested in but rather the duration of the fund. If it is a short termed treasury fund with a duration of two years, it would be considered a competing instrument. If it is a treasury fund with a duration of six years, it would not be a competing instrument. The duration number is what drives this. Mr. Thornton shared concerns that he did not want the impression to be that Great-West is reluctant to give up any money in the Stable Value

Fund. The issue is that when there is a competing fund in the Plan, it changes the risk profile of the Stable Value Fund. If there is another guaranteed fund, and participants are allowed to move money into the fund, it would be necessary to become more conservative to account for the possibility of greater outflows in the Plan thus affecting all participants in the Plan and dropping the credited rate. Ms. Stevens stated that this is a wrap issue industry-wide and not something unique to Great-West. Mr. Thornton stated that if there is a competing instrument there must be some sort of equity wash which is very difficult to record-keep/track.

Administrator's Report

Plan Update - Ms. Stevens presented the Plan Update as of March 31, 2017. Assets as of March 31, 2017: $1,560.04 Billion. Asset change YTD: $49.30 Million; Contributions YTD: $25.25 Million. Distributions YTD: $28.54 Million. The Net Investment gain YTD: $52.59 Million which reflected a strong market.

Unallocated Plan Asset Account Report – March, 2017: Ms. Stevens reviewed the UPA for March, 2017. Cash balance on hand as of February 28, 2017 was $2,413,275.11. Ending balance as of March 31, 2017: $2,414,981.10. Deductions included the annual Wells Fargo fee for being the custodian of the Plan. Additions included interest for the month of March and a gain on contribution correction.

Strategic Partnership Plan – 2017

Ms. Stevens presented the LADCP 2017 Strategic Partnership Plan with the Commission. Ms. Bailey was introduced to the Commission as the Communications Consultant with Empower Retirement that works directly with the Plan. Ms. Stevens stated that the purpose of the Strategic Partnership Plan is retirement readiness which requires preparation. Approximately 38% of people are not financially ready for retirement.

A Lifetime Income Score estimates the percentage of working income that American households are on track to replace in retirement. It is a number for individuals that should increase over time. The Lifetime Income Score increases with auto-enrollment and auto-escalation. Louisiana is an anti-garnishment state and therefore cannot offer auto-enrollment without legislative changes. The Lifetime Income Score increases when there is a strategy in place.

Ms. Bailey reviewed targeted campaigns designed to improve participation which included “Three Simple Ways to Save More” and “Start Saving for Your Future.” A video was shared noting how money can be saved within the home that can be applied toward retirement. A second video was shared reviewing how to get started saving for the future.

Rollovers out of the Plan decreased from 800 in 2014 to 675 in 2016. With retention as a goal, Ms. Bailey reported that there are 30,530 participants in the Plan who are over the age of 50. Of this group, only 30% have email addresses on file (9,266). Ms. Bailey stated that results are better with an email campaign than with a direct mail campaign. Ms. Bailey shared a video entitled, “Stay,” as a targeted campaign to improve asset retention.

Ms. Bailey reviewed the ongoing, comprehensive e-delivery campaign designed to let participants know that statements and newsletters will be delivered electronically effective the first quarter of 2018, unless the opt-out feature is selected. Soliciting email addresses from participants is being done through newsletters, ZMag (electronic version of the newsletter), web banners, statement narratives, pop-up messages, payroll contacts, email notification to all valid email addresses and a postcard mailed to all participants. Currently, 8,143 receive their statements via e-delivery and 28,225 receive hard copy statements.

Ms. Stevens announced that the participant website will be upgraded in July and will be demonstrated to the Commission.

Ms. Bailey stated that information is being gathered based on participant online behavior. Ms. Burton suggested that requests for valid email addresses be connected with transaction confirmations. Ms. Bailey stated that she would check to see if this would meet with FINRA approval.

Ms. Stevens reviewed awards won in 2016 including a MarCom Award – Honorable Mention for the Plan newsletter.

Other Business

DOL 60-Day Delay: Ms Stevens reported that the Department of Labor has signed off on a 60-day delay of its new fiduciary rule. The rule's applicability date has been pushed back till June 9th. Under these provisions, advisors must operate under best-interest standard of care, charge no more compensation than is deemed reasonable and avoid materially misleading statements, by June 9. The Best Interest Contract does not go live until January, 2018. Ms. Stevens stated that the DOL ruling, as it relates to the Louisiana Deferred Compensation Plan, primarily affects rolling in ERISA plan accounts and giving advice vs. education.

Ethics Reporting: Ms. Burton reminded Commission Members to complete their ethics reporting document. The document is available on the Ethics Committee webpage and is due by May 1st.

Adjournment

With there being no further items of business to come before the Commission, Vice Chairman Kling declared the meeting adjourned at 11:35 a.m.

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Virginia Burton, Secretary