

MINUTES

Louisiana Deferred Compensation Commission Meeting December 13, 2011

The Monthly Meeting of the Louisiana Deferred Compensation Commission was held on Tuesday, December 13, 2011, at the LSU Rural Life Museum, 4560 Essen Lane, Baton Rouge, LA 70809.

Members Present

Emery Bares, Chairman, Designee of the Commissioner of Insurance
Virginia Burton, Secretary, Participant Member
Andrea Hubbard, Designee of the Commissioner of Administration
Whit Kling, Vice-Chairman, Designee of the State Treasurer
Len Riviere, Designee of Commissioner of Financial Institutions
Troy Searles, Participant Member

Members Absent

Robert Henderson, Participant Member

Others Present

David Lindberg, Consultant, Wilshire Associates, Inc.
Felicia Bennett, Consultant, Wilshire Associates, Inc
Richard McGimsey, Director, Civil Division, Louisiana Dept. of Justice
Lindsey Hunter, Louisiana Attorney General's Office
Perry Christie, VP PNP Major Accounts, Denver GWRS
Theresa Myers, Vice President, PNP Client Relations, Denver GWRS
Steve Bresler, Director of Retirement Plan Counseling, Denver GWRS
Connie Stevens, Regional Director, Baton Rouge, GWRS
Chris Burton, Account Executive, Baton Rouge, GWRS
Donnie Roberts, Account Executive, Baton Rouge, GWRS
Grady Savoie, Account Executive, Baton Rouge, GWRS
Reggie Wheeler, Account Executive, Baton Rouge, GWRS
Jo Ann Carrigan, Lead Office Coordinator, Baton Rouge GWRS

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How to Conduct an RFP as presented by Rick McGimsey.

Under state law, a new RFP proposal process must be entered into to select a contract with an administrator. The current contract is with Great-West until it expires. A team to evaluate the proposals received, consisting of Whit Kling, Virginia Burton and Len Riviere, was selected at the November, 2011 Commission Meeting. The role of the team is to evaluate each proposal based on criteria set forth in the RFP which Wilshire will assist in preparing. Once the RFP is posted, confidentiality must be maintained during the evaluation period. Mr. McGimsey discussed guidelines to follow when evaluating proposals. Sample evaluation criteria include: technical merits, methodology, experience, and cost. NOTE: In some cases, cost is considered outside of the evaluation or after all other factors are taken into consideration. Evaluating or scoring: If possible use a 100 point scale, be consistent with all proposals. Typical schedule of evaluators: Orientation, Initial meeting with Project Director; Receive proposals; Individual scoring of proposals; Presentations (top 3 proposers are invited to make a presentation to the committee); Evaluation Committee discussion – turn in scoring; Summarize scoring of proposals; Recommend award to highest scorer to the Commission. The State Office of Contractual Review (LCF) has an RFP review checklist that should also be worked into the schedule.

Wilshire Consulting representatives met privately with the Commission to present a Comprehensive Fund Review and other topics. Great-West personnel did not attend this portion of the meeting.

Call to Order

Chairman Bares called the monthly meeting to order at 1:12 p.m.

Approval of Commission Meeting Minutes of November 15, 2011

The minutes of November 15, 2011 were reviewed. Ms. Burton motioned for acceptance of the minutes. Ms. Hubbard seconded the motion. The Commission unanimously approved the minutes.

Acceptance of Hardship Committee Reports of December 2, 2011

Mr. Kling motioned for acceptance of the Hardship Committee Reports of December 2, 2011. Mr. Riviere seconded the motion. The Commission unanimously approved the reports.

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Administrator's Report

Plan Update as of November 30, 2011 was presented by Ms. Stevens. Assets as of November 30, 2011: \$1.088 billion. Asset change YTD: \$37.74 million. Contributions YTD: \$93 million. Substantial distributions YTD: \$62 million. Net Investment gain YTD: \$6.61 million.

Participation by Asset Class and Investment Option: Stable Value: 51.2% followed by the Large Cap (17.2%), International (8.3%) and Target Date Funds (7.8%).

Commission Activity Fund (CAF)-November: At the beginning of January, 2011, the CAF account totaled \$2.346 million. For the month of November, after adding participant recoveries, Stable Value Revenue, Mutual Fund revenue sharing, and Maxim Fund revenue sharing; the closing balance as of November 30, 2011 is \$2.874 million. The Plan has had a substantial reduction in revenue coming into the Plan as a result of lowering investment costs.

Securities sold in the Louisiana Stable Value Portfolio for the months of October and November, 2011: October: five securities sold; November: No securities sold.

Annual Review as presented by Mr. Christie.

Great-West is ranked as the fourth largest record-keeper in the country with 4.4 million participants. The recordkeeping business has become a "low margin" business that requires a large number of participants to make it work. There are not nearly as many recordkeeping companies in the game at this time. The largest recordkeeping company is Fidelity who basically does retail selling of mutual funds. Hewitt is big in the 401K. ING is one of our main competitors. In the competitor rankings, Great-West has had the largest increase in percentage of numbers of participants, and is the largest provider of recordkeeping services to the State Government market. Great-West has a very conservative Board of Directors who has always said that the company is not to risk ratings by doing anything risky. As a result, Great-West has grown with ratings and financial strength maintained without accepting government money. Great-West is a major player in the Deferred Compensation market. Government Markets is the largest segment (41%) of Great-West's Retirement Services, and the company is experiencing growth in the institutional side by providing recordkeeping for Wells Fargo, Metropolitan, Fifth Third Bank and Oppenheimer. These companies trust Great-West to provide efficient recordkeeping for them instead of offering these services in-house. Great-West is a retirement services business and will be responding to the bid that will be issued.

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Scope of Services and Industry Best Practices as presented by Ms. Stevens.

Rollover Services: In 2010, the Plan had almost \$20 million in assets rolled out to IRAs. Most of these funds went to 10 rollover firms representing almost 40% of these assets. Many of these firms are advisory firms that provide advice and variable annuities with “bells and whistles.” In general, of the inbound calls received at Great-West from participants inquiring about distribution options, 50% of participants stay in the Plan after the conversation with Great-West representatives; 42% roll the money out of the Plan and the other 8% go to a Great-West IRA which is offered as a last resort to retain participants. Ms. Stevens presented this information so that the Commission could consider whether or not it would be beneficial to offer these services as part of the Plan. When participants were surveyed to find out why they were removing their money, the majority of participants thought they had to move their money and the others felt they would pay fewer fees outside of the Plan. Great-West currently does not sell any GWL products to LA Def Comp participants however, as a last resort, to keep the money in the Plan; it may be advantageous to offer an IRA. Within a month or two, systems will be in place to be able to track volume of calls globally and how much money is retained/rolled over from Plans wishing to offer the IRA. This service is offered by Great-West at no additional cost to the Commission.

Roth 457(b): The Roth 457(b) option was placed in the Plan Document by amendment but it has not yet been implemented. Participants are asking about the Roth 457(b) at this time. Payrolls will be affected as it is a different money type that is contributed to the Plan. Great-West is set up internally to handle the record-keeping for a Roth 457(b). The State Payroll Office would need about six weeks to set up this option. Commission members discussed the benefits of adding a Roth 457(b) to the Plan. Mr. Bares stated that the Commission was not quite ready to offer the Roth 457(b) but would revisit this topic at a later date.

Guaranteed Lifetime Withdrawal Benefits: Participants worry about the volatility of the market resulting in less money in their accounts upon retirement. Participants also have “longevity risk” or concern that they may outlive their money. Inflation is another source of concern as products and goods cost more over time. When reviewing products that address these issues, the following features should be considered: the strength of the companies backing the products (typically by insurance companies), stable and high ratings, do they have sufficient reserves to cover obligations if the products are,

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Purchased, and costs. The features of the product, Secure Foundation, were presented by Ms. Stevens. Ms. Bennett inquired about portability of this product. The portability of the Plan allows the participant to leave the Plan and keep the same product with no disruption of income. If the Plan Sponsor chose a new recordkeeper, the Plan assets would move to the new provider, and a trading agreement between Great-West and the provider would be issued. Great-West is the company that offers and guarantees the product providing a guaranteed level of payout. The risk for the participant is if the market performed well, the participant could end up paying an extra fee for the downside protection that they may not have needed.

Focus on 457 Newsletter by Marilyn Collister, Senior Director, Legislative and Regulatory Affairs: There is legal activity centered on CAF-type accounts in the industry. The Commission has done an excellent job in reducing the cash-flow into the CAF account. There have been a couple of lawsuits mostly in the 401(k) arena centered on the cost of the investments. The Commission was encouraged to: stay active in maintaining the review of the CAF account with Wilshire's assistance, define the purpose of the account (to be printed in the minutes) and define the parameters (1-2 years of expenses). As the RFP is developed, the balances in the CAF accounts are public which may generate questions from participants. Also, there is an attorney in TX looking for participants who might question/challenge excess revenue in CAF accounts.

Other Business

Designation of Nominating Committee: Mr. Kling made a motion to authorize the appointment of a Nominating Committee. Mr. Riviere seconded the motion. Past participants on the Nominating Committee included: Carl Berthelot, Ken DeJean, and Laura Gail Sullivan. Mr. Bares and Ms. Stevens will work together to contact potential Nominating Committee members.

2012 Commission Meeting Schedule: The schedule is to be amended to change the February meeting to February 14, 2012 instead of February 21, 2012 which is Mardi Gras and a state holiday.

December, 2012 Retreat Location: Another location will be selected for the December 2012 Retreat that offers more privacy, comfort and less noise.

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Adjournment

With there being no further items of business to come before the Commission, Chairman Emery Bares declared the meeting adjourned at 2:15 p.m.

Virginia Burton, Secretary