

MINUTES

Louisiana Deferred Compensation Commission Meeting

January 12, 2016

The monthly meeting of the Louisiana Deferred Compensation Commission was held on Tuesday, January 12, 2016 in the offices of the Plan Administrator, 2237 South Acadian Thruway, Suite 702, Baton Rouge, Louisiana 70808.

Members Present

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

Others Present

Lela Folse, Louisiana Department of Treasury
David Lindberg, Consultant, Wilshire Associates-*by conference call*
Steve DiGirolamo, Consultant, Wilshire Associates-*by conference call*
Michael Vallan, State of Louisiana Attorney General's Office
Danette Rausch, Sr. Director of Partner Strategy, Denver, CO, Empower Retirement-*by conference call*
Connie Stevens, State Director, Baton Rouge, Empower Retirement
Jo Ann Carrigan, Lead Office Coordinator, Baton Rouge, Empower Retirement

Call to Order

Chairman Bares called the meeting to order at 9:59 a.m.

Approval of Commission Meeting Minutes of December 15, 2015

The minutes of December 15, 2015 were reviewed. Mr. Kling motioned for acceptance of the minutes. Ms. Sanders seconded the motion. The Commission unanimously approved the minutes.

Acceptance of Hardship Committee Reports of January 8, 2016

Mr. Kling motioned for acceptance of the Hardship Committee Reports of January 8, 2016. Ms. Burton seconded the motion. The Commission unanimously approved the report.

Public Comments: There was no one from the public in attendance.

Minutes
Louisiana Deferred Compensation Meeting
January 12, 2016
Page 2 of 7

Options for Streamlining Investment Lineup

Mr. Lindberg summarized the discussion from the December, 2015 Commission Retreat regarding reducing the number of actively managed funds from 18 to 4 with 3 additional passively managed funds, the Stable Value Fund and the Target Date Funds. The goal is to consolidate the options that currently exist into broad asset class funds that are branded and industry-known (with ticker symbols) with the intention of possibly moving to a white label fund platform in the future. Wilshire recommends consolidating the Plan's fund line-up in domestic equity, international equity, fixed income and real assets from 18 actively managed funds and 3 passively managed funds, to 4 actively managed funds and 3 passively managed funds. The new mutual funds recommended for inclusion in the plan are:

- MFS Core Equity Fund (Mapping 10 existing funds to 1)
- BlackRock Total Stock Market Index Fund (Mapping 2 existing funds to 1)
- American Funds EuroPacific Growth Fund (Mapping 4 existing funds to 1)
- BlackRock Total Intl. ex. US Index Fund
- Prudential Total Return Bond Fund (Mapping 3 existing funds to 1)
- BlackRock US Total Bond Market Index
- Principal Diversified Real Asset Fund (Mapping 2 existing funds to 1)
- The Plan's current Target Date Fund and stable value options would remain the same.

Ms. Stevens stated that Ibbotson has not yet completed the analysis information necessary to confirm if the portfolio design will work with the platform presented by Wilshire. Ms. Stevens reported that there was some delay in completing the research related to the holidays but that Ibbotson is approximately two-thirds of the way through the process and a response is expected this week. Wilshire will enter into discussion with Ibbotson should Ibbotson require additional funds be offered on the platform. Mr. Kling reviewed background history related to why the consolidation is being considered:

- The Plan has become complicated with multiple options that are costly to the plan and the participant;
- It is not cost-effective to have so many options available as evidenced by the lack of participation levels in some of the investment options;
- If the participant prefers additional options, this remains available through the Self Directed Brokerage account.

Minutes
Louisiana Deferred Compensation Meeting
January 12, 2016
Page 3 of 7

Ms. Stevens provided information related to the role Ibbotson plays in the proposed consolidation of funds. If the lineup is unacceptable to Ibbotson, and the service is discontinued, this will affect the Advised Assets Group's ability to offer participants asset allocation, income projection, rebalancing and deferral amount recommendation found on the website and statements; all tools useful in assisting participants in planning for a successful retirement.

Ms. Burton pointed out that at recent NAGDCA conferences, the issue of offering several options within a Plan has been addressed. Based on participant behavioral studies, it was found that offering too many choices leads to participant inactivity as a result of confusion/not knowing what to do. The trend in the industry is to simplify the fund lineup to assist the less sophisticated participant but at the same time, allowing the sophisticated participant the option of participating in the Self Directed Brokerage Account.

Mr. Henson stated that while the goal may be laudatory, the Treasurer is concerned that the proposed lineup change seems to be taking away opportunities for employees to make their own individual decisions and to be able to find the niche that fits them best. Mr. Henson suggested that emphasis should be placed on developing a better education program. If the LADCP could be marketed properly to the department secretaries with the assistance of the divisions, knowledge of the program could be vastly increased to assist the employee in properly deciding what is best for his/her particular economic environment. Mr. Henson used the example of the history of the college savings program called, START, which began in 1997. At the end of the first year of START, there were 2,800 participants, \$4 Million in assets and two fund options. Today, there are 53,613 participants, \$632 Million in assets and ten fund options. The growth in the program is attributed to:

- Greater selection opportunities
- An aggressive marketing program

The Treasurer believes that the proper way to proceed is to educate employees through the departmental process in order to help employees understand the options that will best meet their individual needs. The Treasurer is concerned with the recommended reduction in the overall service opportunities available to employees.

Minutes
Louisiana Deferred Compensation Meeting
January 12, 2016
Page 4 of 7

Mr. Kling provided information related to the Plan's current education/marketing program which includes:

- Quarterly newsletters
- Plan website
- Six Retirement Plan Counselors assigned to specific regions throughout the state of LA

Mr. Lindberg stated that the industry is finding the restructuring of plans is a best practice in developing a platform today. Data shows that participants do much better with a

streamlined fund platform as it becomes paralyzing to them to make choices when there are so many.

Ms. Stevens noted that having access to agencies has always been a challenge. There is very little support in allowing representatives access to State agencies and their employees. Ms. Stevens introduced a new initiative called "Active Choice" whereby an employee is faced with actively choosing not to participate rather than simply choosing to participate. Mr. Henson suggested that LADCP literature be part of every new employee's handouts that are provided on the first day of work. Further, Mr. Henson suggested that the Plan begin seeking contact with the secretaries of each division. Mr. Henson offered to begin marketing the program through the Treasurer's office (website) to help educate employees of their options. The goal is to raise the knowledge of employees and participants.

Ms. Stevens stated that she and Mr. Lindberg will review Ibbotson's report once it becomes available to be able to present to the Commission all the information needed to make a final decision on Wilshire's recommendation.

Ms. Rausch reviewed the process that was followed in selecting Ibbotson. Legislation in the early 2000's required that if a discretionary managed account program is offered, an independent financial expert must be hired. Advised Assets Group is a subsidiary of Empower Retirement. Advised Assets Group selected Ibbotson as the independent financial expert from a field of 5-6 other companies who applied for the role. Ibbotson is considered a vendor within the overall program as recordkeeper. Within the methodology offered, Ibbotson requires asset fund coverage for the asset class needs. Ibbotson is reviewing Wilshire's recommendation to determine if the offerings meet the

Minutes

Louisiana Deferred Compensation Meeting

January 12, 2016

Page 5 of 7

needs of the coverage. In summary, Advised Asset Group offers a service. The service must be given by an independent investment advisor which is Ibbotson. The advice provided by Ibbotson and is offered through the investment advisor arm of the Empower Retirement recordkeeping entity. The Commission ultimately authorizes the funds that are offered.

Mr. Kling motioned to move forward with the offerings recommended by Wilshire with the caveat that if Ibbotson requires an additional allocation, the Commission authorizes Wilshire to make an additional recommendation to be adopted at the February meeting thus sticking to the original time frame. Ms. Burton seconded the motion. Roll call was taken and the motion was approved with only Mr. Henson casting a dissenting vote.

Administrator's Report

Self-Directed Brokerage Reduced Minimum Requirements: Ms. Stevens reported that there are optional reduced minimum core requirements as of November 30, 2015. Ms. Stevens proposed that action be taken to make the Self Directed Brokerage more accessible to participants based on the reduced minimum requirements. Currently, the core minimum is 50% or \$2500. The core minimum is the Plan's offered investments. If the percentage required is removed, leaving only a required dollar amount, more of the account balance could be transferred to the Self Directed Brokerage. Currently, there is less than 1% of the population within the Self Directed Brokerage. A "core minimum" is held in the Plan to cover administrative fees. It has been determined that \$2500 is sufficient to cover costs. Mr. Kling motioned that the contract be modified to include a fixed dollar amount only. Mr. Riviere seconded the motion. The motion was unanimously approved.

Plan Update as of December 31, 2015 was presented by Ms. Stevens. Assets as of December 31, 2015: \$1,458.90 Billion. Asset change YTD: \$21.17 Million; Contributions YTD: \$101.80 Million. Distributions YTD: \$97.33 Million. The Net Investment gain YTD was: \$16.70 Million. Ms. Stevens highlighted that the Plan ended the year with more contributions than distributions.

Unallocated Plan Asset Account Report – December, 2015: Ms. Stevens reviewed the UPA Accounts for December, 2015. Cash balance on hand as of November 30, 2015: \$3,038,368.21. Additions included interest for the month of December. Distributions included Great-West Financial recordkeeping. Cash balance on hand as of December 31,

Minutes

Louisiana Deferred Compensation Meeting

January 12, 2016

Page 6 of 7

2015 was \$2,607,408.58. The annual budget to run the Plan is approximately \$1,8 million. Ms. Stevens noted that \$446,000 in revenue sharing from investments and \$1.49 Million in administrative fees were collected in 2015. With the projected changes to the fund lineup, all revenue sharing will be eliminated when the fund change takes place. The new fund lineup with no revenue sharing will result in an annual loss of total revenue to the UPA of approximately \$400,000.

Tax Reporting for Plan Participants: The tax law changed in 2011 which stated that anyone who prepares or assists in preparing federal tax returns for compensation must have a valid 2016 PTIN before preparing returns. Empower Retirement employees cannot fulfill this function for the Plan. Originally, the Plan was set up to tax report under its own Tax ID#. Globally, most every other plan within the Empower Retirement universe reports under Empower Retirement's Tax ID#. The question that must be addressed from the State's perspective is if there is a rule that requires

distributions to be reported under this Plan using the Plan's Tax ID# instead of moving it to Empower Retirement's Tax ID#. Mr. Vallen reviewed statutes and could not find a definitive statement requiring that it has to be handled one way or the other. The issue then becomes one of policy instead of requirement. A possible solution could be that Empower Retirement continue preparing forms under the existing Plan Tax ID# but that a credentialed entity be hired to review the information thus serving as the tax filer. Ms. Burton motioned to agree to the recommendation made by Empower Retirement to file all withholding and reporting under Empower Retirement's Tax ID# instead of the Plan's Tax ID#. The motion was unanimously approved. Ms. Stevens will follow up with Heinz Macaluso regarding their role as auditors in relation to tax reporting.

Marketing Report

Ms. Stevens reviewed the Marketing Report for the month of December, 2015. There were 136 new applications, averaging \$2,742 per application and 453 increases/restarts averaging of \$7,905 per application. The majority of activity in December came from the following agencies: Ouachita Parish Sheriff's Office, City of DeRidder, Calcasieu Parish Sheriff, DOTD, LSU Med Center of New Orleans and LSU-Baton Rouge.

Minutes
Louisiana Deferred Compensation Meeting
January 12, 2016
Page 7 of 7

Other Business

Nominating Committee Meeting Report

The Nominating Committee met on Friday, January 8, 2016. The Committee members were:

Carl Berthelot, Chairman
Kent La Place
Reta McFarland
Susan Pappan
Lindsey Hunter

The Nominating Committee nominated Whit Kling for reelection and Mr. Kling expressed interest in continuing to serve. Petitions will be mailed or emailed to each payroll department within two weeks allowing for participants to be nominated through petition.

Reminder of Change in Meeting Location in February

The Office of Louisiana Deferred Compensation will be relocating to 9100 Bluebonnet Centre Blvd., Suite 203, Baton Rouge, LA 70809 on January 28, 2016.

Adjournment

With there being no further items of business to come before the Commission, Chairman Emery Bares declared the meeting adjourned at 11:15 a.m.

Virginia Burton, Secretary