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Louisiana Deferred Compensation Commission Meeting August 19, 2014

The Monthly Meeting of the Louisiana Deferred Compensation Commission was held on Tuesday, August 19, 2014 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
Lela Folsie, Designee of the State Treasurer
Andrea Hubbard, Designee of the Commissioner of Administration
Susan Pappan, Participant Member
Len Riviere, Designee of Commissioner of Financial Institutions

Not Present

Virginia Burton, Secretary, Participant Member
Whit Kling, Vice-Chairman, Participant Member

Others Present

Felicia Bennett, Consultant, Wilshire Associates, Inc.
Perry Christie, VP PNP Major Accounts – Denver GWF
Lindsey Hunter, Louisiana Attorney General's Office
Bill Thornton, Sr. Manager Client Portfolio Services AAG–Denver GWF (*by Conference call*)
Connie Stevens, Director, Client Relations and Plan Counseling, Baton Rouge GWF
Grady Savoie, Retirement Plan Counselor, Baton Rouge, GWF
Steven Guidry, Retirement Plan Counselor, Baton Rouge GWF
Jo Ann Carrigan, Lead Office Coordinator, Baton Rouge GWF

Call to Order

Chairman Bares called the meeting to order at 10:00 a.m.

Approval of Commission Meeting Minutes of July 22, 2014

The minutes of July 22, 2014 were reviewed. Ms. Hubbard motioned for acceptance of the minutes. Mr. Riviere seconded the motion. The Commission unanimously approved the minutes.

Acceptance of Hardship Committee Report of August 1, 2014

Mr. Riviere motioned for acceptance of the Hardship Committee Report of August 1, 2014. Ms. Folsie seconded the motion. The Commission unanimously approved the report.

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Public Comments: No member of the public was in attendance.

Administrator's Report

Ms. Stevens introduced Steven Guidry to the Commission members. Mr. Guidry was recently hired by Great-West Financial as a Retirement Plan Counselor for the East Baton Rouge, St Helena, East and West Feliciana parishes. Mr. Guidry filled the position previously held by Chris Burton, who retired in April, 2014.

The Quarterly Plan Review for the period ending July 1, 2013 to June 30, 2014 was presented by Ms. Stevens. Assets in the Plan have continued to grow as a result of a positive market experience during the last five years. From the period of 2004 to 2014, the average account balance has increased from \$16,229 to \$38,954. The Fixed Fund Rate seems to have stabilized at 2.5%. The contribution history of the Plan reflects 2011 as the year with the highest contributions at \$108.43 Million. Contributions in 2014 are at \$98.38 Million which remains strong. Since 2010, the number of participants in the Plan has decreased by approximately 3,500. Distributions from the Plan are primarily the result of separation from service and retirement, reflecting the reduction of Civil Service employees in the last few years.

Enhanced Retirement Roll-In Services was reviewed by Ms. Stevens. This service was developed in 2011 by the Retirement Education Solution Center of Great-West as assistance to participants who wish to roll money into the Plan. In the government market, 354 Plans have adopted this type of service. The Plans who have adopted the service, have seen a 65% increase in the number of participants and a 111% increase in assets. There is no cost to the Plan or to the Commission to offer this service but it will require an addendum to the contract as this service is not included in the current contract. Ms. Hunter will review the current contract and the amendment and report back to the Commission so that a decision on whether or not incorporate this service into the Plan can be made.

Marketing Report

Mr. Savoie reviewed the Marketing Report for the month of July, 2014. There were 267 new applications received during the month of July averaging \$3,270 per application. New applications YTD: 1,503. There were 231 increases and restarts in July at an average of \$6,510 per request. Increases and Restarts YTD: 1,338. The majority of activity during the month of July came from the following agencies: LSU HSC-New Orleans and Shreveport, LSU-Baton Rouge and the St Charles Parish Sheriff's Office.

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2014 Executive Summary of Investment Performance as of June 30, 2014

Ms. Bennett presented the Executive Summary of Investment Performance as of June 30, 2014. The economy is growing and is back on track. It was a very good quarter for the U.S. Equity Market reflecting a 25% rate of return. The Non-U.S. Equity Market was up 5% in the quarter which remains strong despite the current issues in Russia and the Ukraine. The U.S. Fixed Income Market interest rates are coming down which means positive returns for bonds. 44% of assets are in the Stable Value Fund (down from 55%). Target Date Funds represent 9% of assets. Regarding returns, Ms. Bennett pointed out that it has been a challenging market for active management. During this period, three-fourths of actively managed funds under performed. The Fixed Income Composite shows Pimco at 49.41%. Ms. Bennett pointed out that the Co-CEO of Pimco has left the firm. Pimco is a very large organization with a lot of investment talent and it is anticipated that the opening will be filled with six deputy CIO's. Confidence remains in the organization and its management.

Stable Value Review-2014

Mr. Thornton reviewed the Stable Value Fixed Income Fund Quarterly Report with the Commission via conference call. Mr. Thornton reported that there was a good GDP number reported for the quarter as compared to the 1st quarter. There has been a decline in housing numbers over the past few months but permits for the month of July were up by 8% and starts were up 16%. There is anticipation of a gradual increase in rates with the economy being on good footing. Market value and Book-to-Market is also up. Duration has slowly declined due to the direction of rates. The rate has stayed at 2.50%. There have been only minimal changes in investments. The Stable Value Fund has performed very well and continues to be a benefit to participants. The yield remains steady. Lehman Brothers remains an exception and is being monitored.

Unallocated Plan Account Balance Analysis

Ms. Bennett reported that despite annual reductions in fee income to the UPA account each year, higher than expected returns on assets have resulted in continued surplus in the UPA account. Based on current account balances and Plan expenses, the fee revenue to the Plan is expected to exceed expenses by approximately \$353,000/year. Stress tests on the Plan revenues show that, under the current fee model, a surplus would continue to accrue into the UPA until a very draconian decline in asset values of 30% or more. Recommendations to reduce Plan revenues include:

- Reduce both the fund administrative fees (where possible) and the participant administrative fees.

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- Replace three additional mutual fund investment options with lower expense ratio/lower administrative fee share classes that are now available for investment.
- Reduce the maximum fee charged to participants from \$95 to \$90 and move to a one tier fee schedule of 18 bps on assets up to \$50,000.

The goal is to keep the UPA account balance at \$1.5 Million as a comfortable cushion.

Ms. Stevens reported that other Plans within Great-West have used the following methods to reduce existing UPA balances:

- Fee holiday.
- Payment toward extra services, i.e., Managed Accounts, educational forums.
- Refund the money to accounts of participants who are in the Plan.

The goal is to reduce the existing UPA account balance by returning \$2 Million or approximately one year of expenses to participant accounts.

Commission members chose to wait until the October, 2014 meeting to make a final decision on this issue. Ms. Hunter offered to reach out to the two Commission members not in attendance (Ms. Burton and Mr. Kling) prior to the October meeting. Ms. Stevens asked Ms. Bennett for clarification on the fund changes recommended.

Payroll Automation Update

Ms. Stevens reported that as of July, 2014, there are 56 payrolls that have submitted paperwork to automate payrolls but are continuing to process manually. Ms. Stevens has spoken with three of the agencies appearing on the list and found that the issues appear to be security concerns and the fact that contact was not made with the correct person within the agency. Mr. Christie stated that he is not able to quantify the amount of money it takes to process manual payrolls but he believes it is a factor in pricing. The good news is that there are only 56 payrolls involved and an additional 10 payrolls who have never responded. Mr. Christie suggested that a letter be sent from the Attorney General's office to the head of each agency (as opposed to the payroll department representative). Ms. Hunter has drafted a letter and will review recipient names with Ms. Stevens.

Other Business

Plan Document Amendment Update: Ms. Hunter reported that the amendment will appear in the LA Register published on August 20th. The changes become effective three months from August 20, 2014 if there are no negative reports or objections.

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Baton Rouge Office Files: Paperwork to be extracted from the files include: beneficiary information not already electronically stored, QDROS, Death Claims, Hardships and old insurance paperwork from the 1980's. Iron Mountain has been chosen as the shredding service of which the Commission has agreed to pay up to \$500 for services rendered. The project is very close to completion.

September Commission Meeting: There will be no Commission Meeting in September due to the NAGDCA Conference.

Adjournment

With there being no further items of business to come before the Commission, Chairman Emery Bares declared the meeting adjourned at 11:47 a.m.

Virginia Burton, Secretary