



ADVISORY COMMITTEE MEETING MINUTES
FEBRUARY 8, 2006
PERS SALEM CENTER
ARCHIVES CONFERENCE ROOM
SALEM, OREGON

COMMITTEE MEMBERS PRESENT

ROMAN MARTUSHEV, CHAIR
FRANK GOULARD, VICE CHAIR
KATHLEEN BEAUFIT COMMITTEE MEMBER
PETER BYEMAN, COMMITTEE MEMBER
JASON EVERS, COMMITTEE MEMBER
BARRY KAST, COMMITTEE MEMBER
WILLIAM ROBERTSON, COMMITTEE MEMBER

STAFF MEMBERS PRESENT

GAY LYNN BATH, MANAGER
PAUL CLEARY, EXECUTIVE DIRECTOR
DENISE HELMS, ASSISTANT TO MANAGER
KATHY PETERSON, PROGRAM COORDINATOR
JUSTIN NAEGLER, EDUCATIONAL REPRESENTATIVE
JACK SCHAFFROTH, LOCAL GOVERNMENT REPRESENTATIVE

I. INTRODUCTION:

Call to Order by Chair Martushev at 9:30 a.m. Chair Martushev asked for roll to be called.

II. APPROVAL OF MINUTES:

Chair Martushev asked for any changes to the minutes from the November 9, 2005 meeting as presented. Chair Martushev asked that Baufait's questions from the last meeting be answered. The first question was regarding language capabilities available at CitiStreet. Signorello explained that languages available are Spanish, Russian, and Vietnamese. In addition, CitiStreet uses the AT&T language line for anyone who calls in with a language barrier. The second question was regarding the number of local government entities eligible to participate in OSGP. Schafroth stated there are 750. Cleary clarified that local government employees do not have to be in the PERS system to be eligible for OSGP. Byeman then moved to adopt the minutes as presented. Kast seconded the motion, and it carried unanimously.

III. OLD BUSINESS:

A) Loan Proposal Discussion: Gay Lynn Bath and Chair Martushev presented additional information to the Committee regarding the loan program collected from research and recent surveys of other plans. Bath stated she and Chair Martushev would like to determine how the Advisory Committee feels about offering loans. Bath stated some of the primary

reasons for offering loans are to reduce the number of hardship withdrawals, as 85 percent of the participants who received a hardship in the last two years never re-enrolled in the plan. Also, loans may attract younger people into the plan. Bath feels the plan might be more attractive if potential participants know they would have access to their money at some point. Loans would provide a backup to unexpected emergencies. Bath reminded the Committee that OSGP is a supplemental plan to their primary retirement so a loan program would not put a participant's retirement at risk. Cleary asked if loans would eliminate the hardships. Bath explained that the participant would have to take a loan before applying for a hardship. Goulard asked the average and maximum dollar amount of the emergency withdrawals. Bath stated the average was \$3000 and stated that there are about 100 hardships each year. Martushev wanted the Committee to review the information provided and then go through and discuss the items to determine what would be in the best interest of the participants, and then make a decision whether to go forward with loans and provide a recommendation to the PERS board.

Chair Martushev had the following questions:

- **Can OSGP implement a two-year pilot program just for state employees?**
Chair Martushev stated some of the Local Governments were not interested in participating, noting they can opt out if they want. Bath asked Signorello what the cost difference would be between a two-year plan and regular implementation, and Signorello said there would be no difference. Kast suggested there be a series of outcomes that must be met in which the pilot would be measured. Evers suggested tracking enrollment to see if more young people joined after implementing the loan program. Bath stated that if the program was eliminated after two years, it would be expensive, and OSGP would lose set-up costs. Signorello stated they had not had anyone do just a pilot. He said that once you offer this type of program to a participant group; it is very hard to take back. Byeman stated he was against the pilot program, asking if we need local government approval. Bath stated we did not, because local government agencies signed separate adoption agreements, and reminded the Committee that the agencies could opt out of the loan program. Beaufait commented that she thought a two-year pilot program was much too short. Cleary brought up the point that an employee can work 25 years for the state, and then move to local government, and then they have access to their money because they have separated from service. Beaufait asked what would happen if a participant moved from one employer that participated in the loan program to one that did not. Bath stated as it says in the rules, if you leave your job, you must pay the loan back in 30-90 days, or it is treated as a distribution. Byeman asked if the state or district could impose a fee on the participant. Bath explained she has never seen that happen, but noted CitiStreet does charge them a fee.
- **Does the Committee think it would be feasible to have a pilot program?**
Beaufait stated we could discontinue the program after a time, if it was not working out. Signorello and Bath reminded the Committee they would still be paying the \$58,000.00 set up fee. Bath said OSGP had the money for the set up fee now. Bath asked the Committee what criteria would constitute failure; Beaufait answered low participation. Byeman asked about the source of the money for the \$58,000 fee and

Bath explained that OSGP has some funds that pay rebates/ revenue sharing and one fund has been in the plan since 1998, and was originally set up so only a portion of the rebate could go back directly to the participants; the balance was put into a separate account to be used for the benefit of the plan. For example, it can be used to pay for communication material, mailings, system changes to enhance the program, and education. OSGP and CitiStreet recently changed this policy and the entire rebate will now go back into the fund. Any participants in that specific fund on the day the rebate is processed will receive the rebate.

- **Can OSGP offer a fixed versus variable interest rate?** Currently, most plans use prime plus one. Signorello said you have to charge a fair rate of interest; and the industry standard is prime plus one. If you do not, someone has to take on the liability of deciding what the fixed rate should be. Cleary asked the duration of the repayment period. Signorello stated for general-purpose loan it is five years; for residential loans, the payback period is either 10 or 15. Chair Martushev stated OSGP would use prime plus one for the rate.
- **What happens to a loan upon termination of employment?** Signorello stated that if the subject terminates employment, it is a distributable event and the participant would have to pay back the loan within 90 days or it would be treated as a distribution. Signorello will check to see if we can go longer than 90 days. Byeman expressed concern regarding giving advice on paying back the loan. Bath said the participant would be signing an agreement that would set out the terms of the loan.
- **What happens to a loan upon the death of the participant?** Signorello said they do not move the loan to the beneficiary. It is treated as a distribution to the participant.
- **Can OSGP provide a loan calculator on the website?** Signorello noted there is a calculator available, and it will calculate interest and payment amounts. It would be updated quarterly.
- **What fees would be charged to participants?** Signorello said there is a loan activation fee of \$50. There are no ongoing fees.
- **What are the minimum and maximum loan amounts?** Bath stated the minimum standard is \$1000, and a participant would have to have at least \$2000 in his account. The maximum allowable amount is 50 percent of a participant's account balance, not to exceed \$50,000. Signorello said residential loans were only for a primary residence, not a second home. Additional paperwork is required for residential loans. Residential loans can be for 10 or 15 years; the Committee agreed the loan could be for 15 years. Signorello also stated that all payments must be made through payroll deduction only; a participant cannot make extra payments, but they can pay the loan off in full at any time.

- **What kind of training and/or education will be provided?** Signorello explained that CitiStreet will educate participants on the loan program, but will not give advice. CitiStreet’s customer service representatives are well versed in loans. Signorello also stated that he would work with Bath’s team to develop any communication materials needed. Beaufait wants a disclaimer that none of this information should be interpreted as advice. Kast noted that participants should be responsible for their decisions, and we cannot protect them from making bad decisions, but they should be provided with complete information about the “cons” of taking out a loan from the plan.

Summary

- Local Government may opt out of the loan program.
 - All state employees would be eligible.
 - The interest rate would be prime plus one percent..
 - A calculator will be available.
 - Participants on disability would be able to suspend loan.
 - \$50 loan initiation fee paid out of participant account.
 - There is no maintenance fee for loan.
 - Minimum loan amount is \$1000. (Beaufait wanted to be noted she does not agree with the \$1000 figure and preferred that it be higher).
 - Maximum loan will be \$50,000 or 50 percent of the account balance whichever is less.
 - There will be two types of loan; general purpose and residential.
 - Participants will have up to 5 years to pay back general purpose and 15 years to pay back a residential loan.
 - Participants will be allowed only one loan at a time.
 - There will be a 12-month waiting period between a new loan and the pay off of a previous loan.
 - The interest paid by the participant goes back into the participant’s account.
- Goulard expressed that he wanted the Committee to agree to recommend if this loan program is rolled out that we post loan information and stress the downside of using retirement funds in this manner. That information should appear on the website and in any brochures associated with the program. Loans should not be encouraged, and it is important that participants understand any “cons” of taking a loan. Kast shared that he appreciated the abundance of materials that were provided by Bath. When asked about the average default rate, Signorello stated that as long as the participant is still working, there would be no defaults, as the re-payment is always through payroll deduction. Kast shared that he his still concerned on what overall effect loans will have on the plan. Cleary asked Schafroth and Naegle if people said they would join if the program had loans. Naegle said no, and Schafroth said some employers have asked but he did not really have any response either way from participants. Goulard asked Cleary if the PERS board had an opinion on loans, and Cleary stated that it had not been brought to the board yet, and it would have to be brought forward to them in the form of a draft administrative rule. Signorello reminded the Committee that because of the way the loan program is constructed, it would be difficult for participants to abuse it.

- Chair Martushev asked for a vote. Goulard moved to go forward with the loan program as summarized, Evers seconded the motion, and Beaufait abstained from voting. Chair Martushev explained OSGP would move forward with this proposal and prepare material for the PERS board meeting. Bath will be in contact with the Committee regarding the program.

IV. ADMINISTRATIVE REPORT:

- A) **Service Review:** Tony Signorello from CitiStreet presented the quarterly service review. Signorello explained that the market is moving upward; interest rates are going up, it was a decent fourth quarter, however, there is still uncertainty in the market place.

Signorello reported the call center statistics, noting that he added average talk time to the slide. The average speed of answer this quarter was 38.2 seconds, and the average call length is 3 minutes and 49 seconds. Signorello left a copy of the statistics they keep on calls, and indicated that if the Committee wanted any other specific statistics, CitiStreet would create it. Goulard asked if there was a statistic to identify people that were on hold longer than 30 seconds. Signorello said CitiStreet did not currently track that, but that the average overall hold time is about 30 seconds.

Signorello shared that the plan assets had reached \$828 million as of the end of 2005. Evers asked Signorello when he projected the plan would reach \$1 billion. Signorello said that depending on the market, it could be this year. Signorello will create a slide showing the average number of investments held by participants. Signorello explained the re-balance feature, explaining that almost 50 percent of CitiStreet's clients offer this feature. Signorello explained the trend in ages, balance by age, age-based participation, noting the numbers have been consistent from the last period. A new pie chart was added on the plan participation chart for local governments.

Evers had asked for information regarding how often participants changed their deferral and allocations. Signorello reported we had 1176 deferral changes and 936 allocation changes during the last quarter of 2005. Approximately \$2.5 million was rolled into the plan from state and local government employees, and \$4.74 million was rolled out of the plan during the same time period. Robertson asked if the rollovers were going to any one particular company. Peterson responded that no, that was not the case, but the majority do go to IRAs.

Robertson asked Signorello about rebalancing. Signorello explained it is was not the same as advice; the standard is that the participant sets it up himself. Participants have to elect to rebalance, it is not forced on them, and they should do it every quarter. A rebalance option would look at a participant's current allocations, and basically put the participant back to his original allocation split. A participant can opt in or out of the rebalance feature.

Goulard asked if Signorello could add the percent of the number of eligible state and local government employees to the report.

- B) Local Government Status Report for 2005; 2006 Goals:** Jack Schafroth reported 2005 was a good year; and that local government assets have doubled in a 2-year period. The dollar amount of monthly deferrals has doubled as well. Schafroth explained his 2005 goal was to increase the number of participants by 20 percent; that goal was exceeded by 10 percent. Schafroth amended his goal for 2006 from a 20 percent increase to 25 percent. The 2005 goal for new employers was to add an additional 25 for a total of 150, and OSGP reached that goal. In 2006, the goal is to add 15 new employers. Schafroth would like to increase his level of service, focusing on getting new participants into the plan from existing employers. The rollover goal for 2005 was 150, and this goal was met. The goal for 2006 is to get 200 rollovers into the plan from local government employees. Schafroth stated his main strategy is to be outside the office meeting with new participants and employers.
- C) State Status Report for 2005; 2006 Goals:** Justin Neagle gave an overview of the status of his 2005 goals, which were to increase participation and assets. Naegle met both goals. In addition, he exceeded the goal to conduct 69 brown bag presentations for 2005, and he will increase that to 76 presentations for 2006. One goal that was not reached was to increase the average monthly deferrals by 10 percent. Martushev expressed this was a hard goal to achieve due to interest rates, and many people did not receive a pay increase with the recent 2-year pay freeze across the state. Naegle explained that if you defer a percent of pay rather than a dollar amount, when you get an increase, the deferral would automatically increase. Beaufait asked that OSGP put page numbers on the goal report. Naegle noted the goal for rollovers into the plan was 500 for 2005; there were 465 rollovers completed, however, there are still 130 rollovers pending, many from the IAP plan. Naegle stated he would like to increase participation by 15 percent for 2006, with a focus on increasing each agency by 5 percent. Evers asked if we had the ability to target agencies with highest and lowest participation levels. Naegle said the highest agency participation is State Police, and the lowest was the Department of Human Services.
- D) Performance Report:** Gay Lynn Bath reported we have had positive outcomes for the past quarter, and for the last year. All options have out-performed the benchmark for the year.
- E) Asset Report:** Gay Lynn Bath shared the most recent asset report, comparing it with one from the same time last year.
- F) Plan Update:** Gay Lynn Bath highlighted the most recent article on tax credits. Bath also explained that OSGP would like to convince participants that deferring a percent of pay rather than dollar amount is a better way save because the deferral would automatically increase with any pay increases. However, the majority of OSGP participants are currently contributing a dollar amount. Bath shared that she is sending the Plan Update to several employers via email or hard copy. Bath had sent an email to all state and local government employers asking if they would like to receive it electronically or hard copy, but there was not a significant response. Bath reminded the Committee to notify her if they had any ideas for articles for the Plan Update.

V. NEW BUSINESS:

- A) Miscellaneous: Eddy Award, Rebalance Feature, Paycheck Stub Message, and LifeStyle Funds:** Bath explained the Eddy award is given out by Pension and Investments for excellence in educating employees about investments. Bath entered OSGP's new communication materials in this contest, and the plan won an award. Bath does not know what place the material received; however, she will be attending the award ceremony at the end of the month in Florida.

Bath shared that Kevin Nordhill from Treasury would like to add LifeStyle funds to the line-up. Kim McCarrell from INVESCO handed out material on LifeStyle funds. There are two types of pre-mixed funds, one is age based and the other is risk based. There are two types of products, one is an off-the-shelf series of funds offered by a third party vendor, and the other is customized using funds already in the plan. Bath said these funds are great for people who do not have a lot of investment education. Kast asked how the fees compare. Bath said they were higher, because they had to be monitored and rebalanced. Chair Martushev reminded that we want to keep our fees low. Bath said Nordhill would provide some options at the next Advisory Committee meeting. Robertson wants to see the performance of these funds relative to other allocations. Bath will have information at the next meeting.

Bath shared that the March 1 pay stubs for state employees will contain a message from OSGP. The cost will only be for the cost of the paper. Bath explained that CitiStreet completed a transaction survey for us. There were only 32 responses and OSGP received an overall satisfactory response. Bath noted she is putting together a customer satisfaction survey that will be posted on the PERS and CitiStreet websites. It will measure both OSGP and CitiStreet service. Bath will provide a link of the survey to the Committee for their review.

- B) OSGP Static's:** Kathy Peterson shared 2005 overall program statistics. The total number of participating employees, which represents anyone with an account balance, was 20,533. Peterson indicated that 106 participants were in the Max-Plus program, 919 took advantage of the 50-Plus Catch-Up.
- C) Withdrawals:** Kathleen Beaufait received two phone calls regarding trading restrictions in the plan. The callers indicated that they did not believe the restrictions were posted appropriately. Bath indicated she would send Beaufait information on how these restrictions have been communicated and where they are posted.

There being no further business, Chair Martushev adjourned the meeting.

Respectfully submitted,

Denise A Helms

ASSISTANT TO THE DEFERRED COMPENSATION MANAGER