



## **ADVISORY COMMITTEE MEETING MINUTES**

**MAY 10, 2006**

**PERS HEADQUARTERS**

**BOARDROOM**

**TIGARD, OREGON**

### **COMMITTEE MEMBERS PRESENT**

ROMAN MARTUSHEV, CHAIR  
FRANK GOULARD, VICE CHAIR  
WILLIAM ROBERTSON, COMMITTEE MEMBER  
JASON EVERS, 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 SCHAFROTH, 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 February 8, 2006 meeting as presented. Paul Cleary asked that clarification of the maximum amount for loans to be added in the summary. The maximum loan amount will be \$50,000 or 50 percent of the account balance whichever is less. Chair Martushev asked that Kast's request of ensuring the consequences of a loan were understood, and would be clearly posted. Chair Martushev asked for clarification on number five of the summary. Bath explained it should read that participants on disability would be able to suspend their loans. Chair Matushev asked about the timelines, and it was explained that participants would have up to five years to pay back general purpose and fifteen years to pay back residential loans. Goulard then moved to adopt the minutes as presented. Evers seconded the motion, and it carried unanimously.

### **III. OLD BUSINESS:**

A) **Eddy Award:** Gay Lynn Bath presented the Eddy Award trophy. She explained that OSGP won first place in the initial education for public plans with more than 5,000 participants. Signorello asked if he could snap a photo of the team for the newsletter.

#### IV. ADMINISTRATIVE REPORT:

- A) Performance Review:** Mike Mueller from Treasury presented the quarterly performance review. Mueller gave an overview of the performance, focusing on the one-year numbers. He explained that all options except the short term option have exceeded their benchmarks. They have been able to increase performance while reducing risk, which has created more efficient portfolios for the plan. There have been only four fund changes since 2001. The most recent changes approved by the OIC were to replace the Fidelity Blue Chip Growth with the Wells Fargo Advantage Endeavor Select One fund and to change the benchmark of the Stable Value Option to the 5-Year Constant Maturing Treasury (CMT). Mueller explained benchmark performances and how they are established, noting they have done a good job in maintaining strong portfolios. Chair Martushev voiced concern of the performance of one of the funds. Bath noted that the Smith Barney fund's name changed to Legg Mason.
- B) Service Review and Rebalance Option:** Tony Signorello from Citistreet stated the market is doing very well. The assets are currently at \$874.7 million, which is a 14.4 percent increase from the previous year. The net cash flow has increased from \$6.4 million to \$7.16 million. Signorello suggested that OSGP focus on the rollovers in and out of the plan to determine why participants want to roll out and find out what kind of accounts the rollovers are going to. Neagle said some older participants are concerned about not having individual advice; they do not want to have to manage their own accounts.

Signorello said there was a definite spike in the call volume across Citistreet in the first quarter. The maximum hold time was 65 seconds in January. Average talk time was 3.37 minutes. Signorello stated that more participants were calling in to check on their accounts. Bath asked where the participant count came from for these statistics. Signorello said the count included employees who were not terminated and who were eligible to defer. Signorello shared information about the advice product Citistreet is currently using. He will forward information to Bath to give to the Committee. Cleary asked if we surveyed people when they rolled their money out of OSGP. Schafroth noted we did do a survey on the state side. It was usually directed to a specific company that was marketing the agency. If Naegle or Schafroth notice a rash of rollouts to a specific company, they call the participants and ask why they are rolling out of OSGP. Goulard asked Signorello what percent of eligible state employees are not in the plan. Cleary said we could get gross estimates from the actuarial reports that come out in June.

Signorello gave a handout on the rebalance feature explaining it would be available to all participants with an account. Fund balances can be realigned according to a participant's current election percentages. Frequency may be set monthly/quarterly/semi-annually/annually. A confirmation reminder of an upcoming rebalance date is mailed to participants two weeks in advance. Interim investment election changes or participant transfers will cancel scheduled rebalancing. Participants may elect the feature via the IVR/CSR/Web. There is a one-time fee of approximately \$13,000. Participants will not be charged for this feature. Signorello noted that participants can cancel this feature at any time, and the participant will get a confirmation when they do so. Chair Martushev

suggested that the plan not offer the ability to rebalance on a monthly basis, as it could bring up fees in the increased activity. This feature should be activated by August. The date for rebalancing will be optional for each participant. Chair Martushev asked for a motion, Goulard moved to approve the rebalance feature, Evers seconded the motion, and it carried unanimously. There will be an article in the next newsletter regarding the rebalance feature.

- C) Local Government Status Report:** Jack Schafroth shared that local government assets have increased over \$13 million from the first quarter of last year, and the approximate total monthly deferrals are at \$600,000. He explained over the next three months there should be a dollar increase because the schools will be receiving three paychecks for the summer. Schafroth noted that OSGP is on track to reach the goal of increasing participation by 25 percent for the first quarter.

Schafroth gave an overview of his site visits, and explained that he conducts group workshops, as well as one-on-one meetings for employees. He does whatever works best for the individual agency. Schafroth has completed 23 site visits this year, and he found that about 75 percent of the employers had no enrollments 60 days prior to his visit, and approximately 65 percent showed enrollments 60 days after his visit. Schafroth will continue to track the status of these site visits. Rollovers are continuing to increase; the goal is to complete 150 for the year, and there were 42 completed at the end of the first quarter. Southwest Lincoln County Water District and McMinnville Public Schools adopted the plan this last quarter, and Clackamas Community College, City of Sisters and Nyssa School District are in the process of doing so. Goulard asked Schafroth to explain what it takes to get the new employers on board. Schafroth said often the employees have a spouse in the plan, or possibly a new employee who was eligible for the plan at a previous employer. Interest is also generated at benefit fairs, the “no pressure” sales approach is always appealing, as well as the low fees and the oversight from the Oregon Investment Council (OIC).

Schafroth shared with the Committee that he and Bath are discussing developing a local government newsletter. Goulard suggested sending a list of participating local governments to new prospects, or adding a list to the newsletter, so that other local governments could see the participation of other agencies. Chair Martushev asked for the current number of eligible local governments. Schafroth explained the last data we had was 750, and said he would review current information and report back at the next meeting. Cleary asked about the city of Salem, and Schafroth responded that it had previously hesitated joining due to the amount of providers they currently had. Schafroth will contact them again.

- D) State Status Report:** Justin Naegle gave an overview of the first quarter goals. The first goal was to have 1300 participants attend workshops this year, and during the first quarter, 442 attended. Naegle noted the Human Resource (HR) administrators are showing excellent support by helping distribute the flyers and posters electronically. Additionally Naegle has some evening workshops set up and is posting information in the union newsletter. Martushev reminded Naegle to bring up to participants that they received an additional eight hours of personal business this year in the current union contract,

suggesting they could use that time if their agency would not allow them time to attend the workshops. Chair Martushev asked Naegle why there was such a low participation in the Department of Human Services (DHS). Naegle stated that the response he got most from the participants at his workshops was that it was a personal financial decision. Naegle will go to any agency and provide brown bag presentations or any other presentation they need. Naegle said higher education is a challenge, the human resources administrator at one of the universities said they do not allow advertising on campus; in addition they currently have nineteen 403(b) providers. Naegle stated that OSGP processed 159 rollovers in the first quarter, noting the rollouts are higher than we would like to see. He will continue to monitor them. Bath commented that one of the goals is to increase enrollments and Vonda Fauth is tracking the number of enrollment kits she sends out that are requested by an employee completing an interest card, and Vonda is following up by email or letter if she does not receive the information back after it was requested. Bath also noted that other ways to improve communications are being considered, including adding a new calculator to the website, and the new rebalance feature that will be available in August. By the end of the year, CitiStreet will be adding a paycheck calculator. Chair Martushev made some suggestions on moving information on the website. Bath explained OSGP is going forward with the loan program, and she is currently working on an administrative rule that is scheduled to go before the board in July. Cleary stated that due to the time it takes to go through the rule making process, the loan program would most likely not be available until the first part of 2007. The last goal Bath shared was to decrease address errors, and she explained that Doug Pederson is tracking this information. Participants are not updating their addresses, and they need to be reminded to go through their employer to do so. Peterson noted there is program used by PERS to find "lost lambs" that has been helpful in this area.

- E) **Asset Report:** Gay Lynn Bath shared the most recent asset report, noting that in the future, because this information is covered in the service review and posted to the website, she will not address it during the meetings. The committee will continue to receive the handouts.
- F) **Plan Update:** Gay Lynn Bath highlighted the most recent articles on the Eddy Award and excessive trading policies. In addition, there was an article that explained how to manually rebalance a participant's OSGP account. Bath commented that there is a link in this edition to participate in the OGSP survey. Bath reminded the Committee that if they had any ideas for the Plan Update, they should notify her.
- G) **OSGP Statistics:** Kathy Peterson noted that the total monthly contributions are close to \$5 million. New enrollments were at 351 in the first quarter. The total number of rollovers in was 182, and rollover outs were 116. These figures include state and local governments. Peterson stated there were 21 new participants in the 3-year catch-up program this year so far. Chair Martushev asked for the months to be written on page three of the statistic report and asked for the summary totals to be added. Peterson reported that so far this year OSGP has received 101 requests for IAP rollovers, and 65 have been processed.

## V. NEW BUSINESS:

**A) Trading Restrictions:** Bath explained that she and Kevin Nordhill from Treasury are discussing the implementation of trading restrictions throughout the plan. The initial discussion was to implement a 90-day round trip restriction. In addition, dollar restrictions would be added to the International and Small Mid-Size options, wherein trades could not be over \$100,000, and no more than \$250,000 in the other options. Bath explained that she would be willing to lower the 90-day to 30-day roundtrip but would want the flexibility to increase to 90 days if any of the mutual funds implemented redemption fees. Bath stated they would like to move forward on changing the policy. Martushev asked for the guidelines or proposals, and Bath explained the two choices were the 30 or 90-day round trip.

Bath reminded the Committee that in December the PERS board had given OSGP more clarity on their authority to implement trading restrictions in case of excessive or inappropriate trading activity. Bath also noted large trades are monitored on a daily basis and handled individually, with restrictions being implemented accordingly, and could include restricting participants to paper trades. Goulard asked why we need to impose further trading restrictions, and Bath noted we have participants who will not adhere to these restrictions, and this has created a lot of work for Nordhill and Bath, and also added expenses to the plan for Department of Justice attorney fees, and transaction fees for excessive traders. Bath would like to put in a 30-day roundtrip restriction, with the option to change to 90-day if necessary. Cleary asked when the draft rule would be finished so that the Advisory board could review. Bath will initiate the rule and get the information to the Committee. Goulard asked where the costs would come from. Signorello explained that it is mostly from the investment provider as these trades throw off the cash flow because the mutual fund cannot anticipate the trades, and they can take away from the returns for everyone in those specific funds. It also increases transactional costs. Cleary stated for the day-trader there are other vehicles for them to use, and that OSGP is not designed for that type of trading.

Evers asked how many excessive traders we had and Bath explained there were between 12 and 15. Evers asked if they were responsive to requests to limit their trading activity, and Bath explained that some are while some are not. In fact, one participant will not pick up certified letters sent to him by OSGP. Bath noted that Washington State just implemented a 30-day trading restriction across all funds in its deferred compensation plan. Bath told the Committee she would send them a copy of Washington's brochure. Chair Martushev asked at the next meeting to have the upcoming changes, the impact, and the reasons why we need the rule. Bath stated she would provide this information before the next meeting. Cleary explained the restrictions would be presented as initial rule making at the July board meeting. At the November meeting, the rule will be brought back to the Advisory Committee for review, and then the committee can make any final recommendation. The PERS board will take final action on the rule at its November meeting.

Robertson asked for clarification on redemption fees. Bath explained that the investment company could take two percent of a trade if that trade was outside of the fund's trading guidelines. The money from the fee would go back into that specific fund. Signorello explained that in the industry redemption fees worked many different ways. Robertson

asked how the rebalance option would be affected by the trading restrictions. Signorello explained that the rebalancing is a system-generated transaction, and trades made that way would not be subject to trading restrictions or redemption fees. Robertson asked about transferring \$1000 at a time, could you do it 10 times in one day? Signorello and Bath responded it had not been done, but thought that kind of trading activity would be considered to be excessive. Chair Martushev wanted to inform the Committee this is not a trading account, it is a retirement account, and that the committee would like to provide guidelines and trade restrictions for those who use it. This program is for retirement, not day trading. Bath will get a draft of the rule to the Committee in the next week.

**B) Advisory Committee Term Limits:** Gay Lynn Bath noted that Peter Byeman's term has expired and he was not able to attend the meeting today. Bath has sent e-mail to the local government payroll administrators about the opening on the Committee and so far she has received three responses. Bath will review the applications and then take them to the executive staff for further review. Bath and executive staff members will make a final selection and present a recommendation to the PERS board for approval. Bath also noted that Frank Goulard's first term has expired, and he has indicated interest in a second term. Chair Martushev asked for a motion to approve a second term; Robertson made a motion that Frank Goulard be elected for a second term, Evers seconded the motion, and it carried unanimously. The PERS board will be asked to approve the re-appointment.

**C) Marketing Results:** Chair Martushev asked what the response was to the information that was on the back of the paychecks. Bath responded there has not been a count done, but she would check. Peterson noted there had been a spike in calls asking for enrollment kits. Peterson noted that there were also increased calls from participants in the plan asking to raise their current contributions. Chair Martushev asked if that information could be compiled and presented at the next Advisory meeting. Bath noted that this was an inexpensive way to get OSGP exposure.

**VI. Audience Participation:** Jim Wallace, a state employee, asked to speak regarding the trading restrictions. Wallace said he was aware of the reason for the restrictions, the processing costs, and fees involved. He said he doesn't doubt the fees exist, but he thinks, generally speaking, that they were theoretical in terms of quantifying them. He stated he was there to question the restriction, or the appropriateness of putting on trading restrictions. He commended OSGP and its employees for the fine job they have done since he has been an employee, and noted that he had benefited from the plan. He wanted to be sure he understood the restrictions that OSGP was going to implement and he wanted to ensure that the public be notified and be given the opportunity to comment. Wallace indicated that he was concerned that a 90-day roundtrip policy was going to be implemented, but that it appeared that would be a 30-day restriction instead, and he felt that was appropriate.

He indicated that 30 days, for him personally, was fine and that he didn't mind making only one redemption every 30 days. He was concerned that there was going to be a 90-day period across the board, and he felt that that would be excessive. He said his main concern was that the public be given an opportunity to comment on whatever was proposed, and that OSGP provide participants with as much information as possible and explain how any restrictions could impact the participants.

Chair Martushev thanked Wallace for his input, explaining there would be a time to review the administrative rule and that the restriction could be 30, 45 or 90 days, or somewhere in between. Once that has been decided, there will be time for comment. Wallace indicated that OSGP should give consideration for different holding periods for different types of funds.

Chair Martushev thanked Wallace again for his time, noting that that the committee was always open for new ideas and OSGP would try to come up with something that would fit the needs of all participants. Chair Martushev went on to say that OSGP's goal is to keep the fees low, and to not have to increase the fees due to a few excessive traders.

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

Respectfully submitted,

Denise A Helms

ASSISTANT TO THE DEFERRED COMPENSATION MANAGER