



**ADVISORY COMMITTEE MEETING MINUTES  
MAY 13, 2009  
PERS HEADQUARTERS  
TIGARD OREGON**

**COMMITTEE MEMBERS PRESENT**

Frank Goulard, Chair  
Jason Evers, Vice Chair  
Jon DuFrene, Committee Member  
Brian Burleigh, Committee Member  
Kathleen Beaufait, Committee Member  
Peter Farrelly, Committee Member

**STAFF MEMBERS PRESENT**

Paul Cleary, PERS Director  
Gay Lynn Bath, Manager  
Denise Helms, Assistant to Manager  
Justin Naegle, Educational Representative  
Jack Schafroth, Local Government Representative  
Kathy Gannon, Program Coordinator

**INTRODUCTION:**

Call to order by Chair Goulard at 9:30 a.m. Chair Goulard asked for introductions.

**I. APPROVAL OF MINUTES:**

Chair Goulard asked for any changes to the minutes from the February 11, 2009 meeting as presented. Jason Evers noted the location of the May 13, 2009 meeting should have been Tigard, not Salem. Goulard then asked for a motion to approve the minutes as corrected. Beaufait made a motion to approve the minutes. Jason Evers seconded the motion, and it carried unanimously.

**II. OLD BUSINESS:**

None.

**III. ADMINISTRATIVE REPORT:**

- a. **Local Government Q1 Status:** Chair Goulard changed the agenda and moved Jack Schafroth's local government report forward due to Schafroth having to leave for a new employer meeting. Schafroth reported there are over 3000 participants putting the local government's participation around 6%. Schafroth noted the assets have dropped the last quarter, but he is hopeful by the end of the year to hit the average monthly deferral of a million dollars.

Schafroth noted the new adoptions this quarter are Coos County; bringing the total number of counties to 9, City of Colburg, Port of Astoria and Tillamook 911 District. There are currently 10 adoptions pending, and are continuing to have positive feedback. Schafroth explained with the volatile market participants have been concerned about deferring, so he is trying to help them gain some perspective in the current market given

the history these past few months. Chair Goulard asked what the status of Portland Public Schools was. Schafroth explained he did not see it happening this year. However, he is seeking the help of Carruth Compliance; a company that does compliance for a number of the school districts, and we have quite a few districts that overlap with his. Schafroth said this time of year with school districts there is always budget cuts and other crisis happening so it is easy for them to put us off. He will keep persevering.

- b. Stable Value Option Overview:** Andy Apostol and Sharon Hoppel from Dwight Asset Management Company presented an update on the Stable Value Option. Apostol noted the Stable Value Option has been in the financial press recently, and he wanted to go over some of the themes they discussed in those articles. Apostol started with an industry update. Stable Value has two primary objectives; capital preservation and to earn a competitive return. As of 3-31-09 the Stable Value Fund produced earnings of 3.8 %. This outperformed money market funds by 246 basis points and intermediate bonds by 186 basis points. Typically a Stable Value fund will produce a return of 150 basis points over money market funds and comparable to intermediate duration bonds over a full market cycle. Apostol noted they saw a lot of money move into the Stable Value; from the end of 2007 our Stable Value fund went from 135 million to 200 million by March of 2009.

Apostol explained wrap issues. Stable Value funds are basically intermediate duration bond funds paired with insurance wrap contracts to smooth out the volatility of the intermediate duration bond fund. Because of the asset growth wrap capacity has been constricted. The companies that offer these wraps are all large financial institutions and they have been looking to limit risk on their balance sheets. Demand for wrap contracts is high, so they are increasing their underwriting standards; asking more details of the plans regarding historically cash flow, investment options and plan events to quantify the risks they will be wrapping. Prior to last year the average wrap fee was 7-8 basis points, currently with the rate increase we are paying 11 basis points. Almost the entire group of wrap issuers are raising their fees 12-15 basis points. And strategist

- c. BGI LifePath Funds Overview:** Dagmar Nikles the product manager and strategist from Barclays Global Investors gave an overview of the LifePath Funds. Barclays is one of the largest asset managers globally. Currently there are 160 billion dollars in defined contribution assets, and about 20 billion in target date funds. Nikles explained the purpose of target date funds. In the early 90's Barclays when launched its first target date funds, they found that participants needed to make their own investment choices, and they were poorly equipped to do that. The three factors to a successful investor, one; an interest to invest, two; knowledge to invest and three; time to balance and create a portfolio. Participants often do not have the time, therefore target date funds have become very popular. There is 170 billion dollars currently under management, which is a significant increase since they were launched in 1993. 2008 was the first stress test for target date funds. Nikles shared a comparison of the target date fund returns for 2008. They chose the 2010 fund as the basis for comparison; noting the huge performance differences anywhere between negative 10 percent to negative 34 percent. Director Cleary asked what they used for the payout period. Nikles explained they use a 30-year post retirement horizon, noting people use their most liquid funds. Cleary then asked

what we should be advising people in terms of investment time horizon. Nickles said there is not one LifePath fund that is specific to each person. Nickles explained the goal was to minimize the risk that a participant in retirement needs to change his/her consumption spending because of poor market events, focusing on minimizing the risk.

Chair Goulard asked Gay Lynn Bath about auto enrollment. Bath explained it would take legislation to pass due to the garnishment laws. Cleary added that auto enrollment was not something that was being asked for at this time given the fact people are struggling to stay enrolled. Bath also explained Texas has auto enrollment now.

- d. Q1 Service Review/ING Update:** Kim Alger and Harriet Jacobs presented the first quarter 2009 service review. Harriet Jacobs gave a brief update of ING and it's completion of the integration. Jacob's commented that Obama's administration is backing off of the mandatory auto enrollment they had been pushing for with the 401(k) plans. Jacobs explained that the integration has gone smoothly. Oregon is one of the longest standing clients that they have had on the Citistreet/State Street side as a governmental client. Jacobs noted ING remains very strong financially and are on track. One of the new programs called "back to basics" is a refocusing on the business lines that they have already proven to be successful. Retirement services have been named as a core business for ING.

The first quarter earnings were just released and they reported a loss of about 305 million euro, which is about a tenth of the fourth quarter loss. Since the fourth quarter they have been able to cut the operating budget by 13 percent, the goal was to shrink the balance sheet by 10 billion euro's; they are 70 percent to the goal. All six lines of business have improved over the last quarter. The banking side has returned to profitability, and retirement services continue to do very well. For the third year ING has been named number one in outsourcing in 11 of the 18 categories. Jacobs congratulated OSGP on being finalist in the Plan Sponsor of the year.

Kim Alger shared that ING goes green with a program called 'Orange goes Green'. In the effort to conserve resources and help the environment, ING will offer participants the choice to receive their statements and confirmations online or by mail.

Alger explained the plan assets have dropped to 778 million, which was about a 4 percent decrease from the prior quarter. Net cash flow increased from the prior quarter 9.5 million to 9.9 million. Alger noted she will send a revised chart to reflect the participation rates. The average contribution by age has gone from \$419 to \$408 a month. Alger noted there has been a lot of participants move to the Stable Value, and the LifePath Funds.

Alger noted the Stable Value assets have increased to 25.93 percent, about a 3 percent increase. Account balances have dropped from the last quarter.

Alger noted there were 146 rollovers into the plan totaling \$1.79 million and 87 rollovers out totaling \$4.13 million. There were 79 loans issued the average loan amount was \$9,143.

Alger reported the call center statistics noting there has been a huge increase in web usage. Participants are becoming more comfortable accessing their accounts online. January is a high call volume month due to the market changes and tax type questions. There were over 50,000 paperless transactions completed this quarter.

- e. **Q1 Performance Report/Consultant for OSGP:** Mike Viteri and Tom Lofton from Treasury gave an overview of the last quarter. Viteri shared this quarter has started out much better than last. Viteri noted he has met with both BGI and Dwight investments several times regarding the wrap providers, and they have been very forthcoming saying they are struggling with industry constraints.

Viteri reported in this first two months of 2009 seem to be on track, then in March equities have come back almost 40 percent, almost everything has rallied back. Interest rates are still at 25 basis points. Total return so far for 2009 the market for US equities was negative 10.41 percent, international ended up negative almost 14 percent. The best performing sub-sector was the US Corporate High Yield posting almost a 6 percent return for the quarter. All options out performed their benchmarks. Viteri stated they have negotiated a fee reduction in the Short Term Fixed option with State Street from 11 basis points to 5 basis points; as a result to current market conditions.

Viteri explained the need for a consultant to OSGP and the current RFP process.

- f. **State Q1 Status:** Justin Naegle presented a brief overview. There has been a decline in enrollments, but there has been an increase in attendance to the planning and investing and the retirement workshops. Naegle shared the importance on educating the participants on what type of investor are you, and how to manage your assets.

Naegle explained people are not rolling in and out as much, possibly holding off seeing where the market will go.

Chair Goulard asked if Kathy Gannon was to present stats. Gannon noted we added a new statistic; emergency withdrawals. Gannon also stated rollouts were down, and also the enrollments were at there lowest level ever.

#### IV. NEW BUSINESS

- a. **Plan Sponsor Finalist/Status of AC:** Gay Lynn Bath reported she posted the opening for the three Advisor Committee openings in the last Plan Update. Bath works with a Committee at PERS and they have chosen the three replacements and it will go to the PERS board for review on May 29<sup>th</sup>. Bath will let the Committee know by e-mail. Bath highlighted the article regarding the Plan Sponsor finalist. The Committee congratulated OSGP. Bath explained she sent out the administrative rules regarding the Advisory Committee positions.

- b. Election of New Chair/Vice Chair:** Chair Goulard opened the floor for new nominations. Kathleen Beaufait nominated Jason Evers for Chair, Brian Burleigh seconded the nomination, Chair Goulard asked for other nominations, none given he closed the nomination and moved by acclamation of the sole nominee, it was unanimous. Next Chair Goulard asked for nominations for Vice Chair, Brian Burleigh nominated Pete Farrelly for Vice Chair, Jason Evers seconded the nomination. Kathleen Beaufait moved to close the nominations, Chair Goulard closed the nominations. Chair Goulard asked for a vote, and it was unanimous.

Kathleen Beaufait thanked Chair Goulard by acclamation for his service to the Committee; Gay Lynn Bath seconded the motion.

- V. Audience Participation:**  
None

- VI. Adjournment:** The next meeting is August 12 in Salem

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

The next meeting will be on August 12, 2009 in Salem.

Respectfully submitted,

Denise A Helms  
Assistant to the Deferred Compensation Manager