



ADVISORY COMMITTEE MEETING MINUTES
August 11, 2010
ARCHIVES BUILDING
SALEM OREGON

COMMITTEE MEMBERS PRESENT

Peter Farrelly, Vice Chair
Brian Burleigh, Committee Member
Bob Swank, Committee Member
Sharlyn Rayment, Committee Member
Priyanka Shukla, Committee Member
John Lattimer, Committee Member

STAFF MEMBERS PRESENT

Jon DuFrene, PERS
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 Vice Chair Farrelly at 9:30 a.m. Vice Chair Farrelly introduced the two new members; Priyanka Shukla from the Department of Revenue and Sharlyn Rayment, retiree.

I. APPROVAL OF MINUTES:

Vice Chair Farrelly asked for any changes to the minutes from the May 5, 2010 meeting as presented. Jon DuFrene noted he was in attendance and his name was not listed. Farrelly then asked for a motion to approve the minutes. John Lattimer made a motion to approve the minutes as corrected. Bob Swank seconded the motion, and it carried unanimously.

II. OLD BUSINESS:

None

III. ADMINISTRATIVE REPORT:

A. Q2 2010 Service Review: Bill Jasien, Marcy Loomis, Carol Cann and Brian Merrick presented the second quarter service review. Bill Jasien thanked OSGP and the board for the trust they placed in ING by renewing the plan administration contract. Jasien assured they would do a terrific job with the contract renewal. Jasien gave an update on ING splitting the banking and insurance divisions, noting it was moving along very well. They are in the process of disentangling the two organizations and anticipate by year end 2013 to be operating as two independent organizations.

Jasien announced second quarter earnings of \$1.4 billion dollars, compared to last year at this time when there was a reported \$190 million loss, noting it was amazing what a difference a year makes.

Jasien stated that the newsletter known as the Government Plan Sponsor (GPS) has been well received. This newsletter focuses on our ING's customers in the government market. There have been two Advisory Council meetings in which Gay Lynn Bath participates. There are different speakers each time discussing issues, problems and initiatives that ING has found is a great way for customers to dialog about the plan.

Jasien noted they have added two large plans to their record keeping services; the Commonwealth of Kentucky, a \$1.6 billion plan, and the City of Austin Texas, which is a \$250 million plan. The most notable is the Oregon Savings Growth Plan. Priyanka Shukla asked what percentage of the plans are government plans, and Jasien responded in the K-12 market they are number three, in the Higher Ed market they hold a number two position, and in the 401(k) market they hold the top position. In terms of the government market defined contribution plans, they represent about 22-25 percent. Jasien and his team run the government market; there are 23 state plans and 3,500 municipal plans.

Marcy Loomis shared some of the communication initiatives from last quarter; the "come back mailer" was sent out to 3,000 participants who had stopped contributing and were still active in the system. There was a postcard they could tear off and send in to restart their contributions, making the process very easy. Loomis explained that participants forget and are too busy so they simplified the re-enroll process for them. There was a 10 percent response rate from that mailing. Loomis explained that targeting the non-participants is at the top of her list. Loomis left some examples of mailings used to target different demographics.

Loomis noted National Save for Retirement Week is coming up, and in the past couple of years they have developed posters for the open house which have been a huge success. Loomis explained they have launched a microsite for a participant connection and a retiree connection. Loomis left a CD for the Committee to review. There are a lot of new tools to share awareness.

Carol Cann gave an update on the plan assets and activities. Cann noted historically through the downturn in the market that the participation rate and the contribution rates remained consistent. The net cash flow has been positive. Cann explained they have seen other plans have a large drop in participation, and they are not seeing that with OSGP. As of June 30 the assets were at \$985 million; this is an increase of 12 percent from last year. The LifePath options are popular; they have only been in the plan a short time and are very successful; 23 percent of the assets are in LifePath funds. The loan fund has a balance of \$6 million. There were 1,000 loans issued since 2007 with an average loan balance of \$9,000. When it comes to diversification; 21 percent of participants are invested in only one fund, 16 percent

have a portion of their balance in LifePath, and 36 percent of plan participants are invested in the Stable Value. The average monthly deferral increased one percent, from \$411 to \$415, and the average participant balance decreased slightly from \$45,758 to \$42,875. The International Stock Option had the largest positive transfer activity, approximately \$8 million transferred into the fund during the second quarter of 2010. John Lattimer asked why the short term fixed is not doing well and whether those that performance will change in the future? Mike Viteri, from Treasury, explained that the fund is being monitored closely. Vice Chair Farrelly asked if we could look at the statements to more accurately reflect the contribution and earnings on the personal statements. Brian Merrick said that at the next meeting they could provide information regarding personal investment performance.

B. Q2 2010 Performance Report/Discuss Self-Directed Brokerage Account (SDBA): Mike Viteri, Treasury, Jake O'Shaughnessy and Howard Biggs, Arnerich Massena, provided the second quarter performance results. Viteri explained they would be talking about a self-directed brokerage account, and would like some feedback from the Committee.

Howard Biggs gave a market overview of the recent events that caused the volatility in the market and how it has re-bounded, noting the S& P 500 was down this quarter 11.4%; however, it is still up 14.4% from one year ago.

Assets were at \$985 million at the end of June. Biggs stated 20% of the plan assets are in LifePath funds. 18.2% are in the Stable Value product. Large Cap, Small Cap and International options comprise roughly 45%-50% of plan assets. One year ago the plan was at \$965 million.

Mike, Jake and Howard discussed performance of target date funds and fiduciary responsibility for them. Viteri discussed a benchmark study and the Oregon Investment Council's (OIC) role to Priyanka.

Howard Biggs explained self directed brokerage accounts (SBDA) and stated that they are an option within the plan that the participant can access, similar to a brokerage account that people can open on their own. They can access different mutual funds, and in some instances, they may also have access to stocks and bonds through an account created by the record keeper. The record keeper actually outsources the brokerage functions, and in this case we are evaluating TD Ameritrade, Charles Schwab, and State Street to provide the brokerage option. Adding the SDBA is a way to provide more choice to participants in the plan without having to provide the same level of fiduciary oversight or due diligence for these types of options. According to Hewitt's "Trends and Experience in 401(k) Plans for 2009" the number of Plans offering SDBAs is 26 percent, and that number has increased 44 percent since 2007. According to Vanguard's "How America Saves," 10 percent of the Plans offer SDBAs, ING has 61 percent of their governmental clients who offer SDBAs. They are all different depending on the record keeper. The Plan Sponsor has the ability to limit the types of allowable investments.

Howard explained the next steps; analysis of fees, level of restrictions, amount of participant asset to allow into SDBA, and language in the waiver participants must sign before entering the SDBA.

Bath shared the responses/comments to the survey she sent out regarding SDBAs. Bath noted 4,200 people responded, and 65 percent of those were already enrolled in OSGP. 84 percent of 3,900 employees said they would like a brokerage account option, 73 percent of those not participating said it would not sway them either way, 49 percent said they would consider using it, 42 percent said it would encourage them to keep their money with OSGP when they retire, and 36 percent currently have a brokerage account.

Bath explained that the Committee needed to make a decision about whether or not they were interested in having a brokerage window. Bath noted we would move forward with the research if there is an interest to do so. The Committee agreed, and John Lattimer asked that Treasury and Arnerich Massena complete their due diligence and bring the information back to the Committee. Mike Viteri explained he will be presenting a recommendation to the OIC.

C. Plan Update/Settlement Check/Save for Retirement Week/SDBA Survey: Gay Lynn Bath shared the highlights of the newsletter. One topic was regarding the ability to purchase PERS credits with OSGP money. Bath explained the new law will allow them to use the pre-tax dollars to buy service credit, including military, waiting, or refunded service. There is an A-Z on the PERS website with all the information about what types of waiting periods are available for purchase. More information will be available on the use of OSGP money before September 2011 when the new law goes into effect.

Bath explained October 17-23 is National Save for Retirement Week. We have reserved the Archives conference room for the week so that Jack and Justin can provide workshops and training for participants. On Wednesday, October 20, there will be an open house from 10 a.m. to 4 p.m. Bath invited the Committee to stop by.

Bath asked for the Committee to determine the best way to distribute the settlement check from Nationwide. She gave each member a detailed explanation of the settlement prior to the meeting and also listed out several different options for distribution. Bath indicated that ING said the most common method was to distribute pro-rata across the fund to all participants. Bob Swank made a motion to spread the money pro-rata, John Lattimer seconded the motion, and it passed unanimously

Bath explained they completed the Request for Proposal (RFP) process for record keeping services. ING and Great West were the finalists, and after reviewing and scoring the responses, ING came out on top. The fee structure went from 14 basis

points to 10 basis points, and the contract will include an on-site representative from ING to help with promoting participation with local government and schools. The contract is still being finalized.

D. State Q2 2010 Status: Justin Naegle discussed his main goals of increasing participation and building assets. The trend this year with participants is how much they should save. More people have moved toward the target date funds. Naegle noted employers are encouraging new hires to get started saving early. It has been challenging with all of the furlough days. Naegle said we have had a good deal of rollovers-in from PERS IAP accounts. Naegle explained there was an increase in roll-outs due to the July retirements.

E. Local Government Q2 2010 Status: Jack Schafroth noted there are 6.8 percent of local governments participating. He indicated there is more competition with providers and said there was one adoption in the second quarter, Warrenton-Hammond School District. Schafroth wrote an article for the PERS Perspectives newsletter, advising employers that they can participate in OSGP if they adopt the plan. Schafroth has mailed out seven new adoption kits. One of Schafroth's 2010 goals was to add 14 new employers; and at the end of June he had added 4. There are eight benefit fairs scheduled so far.

Schafroth said he is continuing with his most popular workshop; the overview workshop. Planning and investing is also popular. He is continuing with site visits and is working on a target mailing with David Crosley, PERS' Communication officer. John Lattimer asked him how OSGP gets new employers in the plan. Schafroth explained that it was mostly word of mouth, attending conferences and other functions. Lattimer asked if he did cold calls with administrators, and Schafroth said he would move make that a priority. .

F. Q2 2010 Plan Statistics: Kathy Gannon shared the second quarter statistics. Last year's enrollments were at 183 and we are currently at 289. There has been an increase in Higher Ed enrollments. The loans are still averaging at 30 requests per month; last year there were 92 loans in the second quarter, this year we are at 122. Unforeseeable emergencies are down; there were 20 last year; 17 so far this quarter. Rollovers-in last year at the end of the second quarter were at 109; this year they are at 125. The IAP rollovers make up a good portion of them. Rollovers-out were up from 86 last year to 116 this year.

IV. NEW BUSINESS

Confirm New Chair/Elect Vice Chair:

Priyanka Shukla moved to nominate Vice Chair Farrelly to Chair, no one opposed. Chair Farrelly moved to nominate John Lattimer as Vice Chair, Sharyln Rayment seconded the motion and it carried unanimously.

V. Audience Participation:

None

VI. Adjournment: The next meeting is November 10, 2010 in Tigard

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

Respectfully submitted,

Denise A Helms
Assistant to the Deferred Compensation Manager