



ADVISORY COMMITTEE MEETING MINUTES
November 10, 2010
PERS HEADQUARTERS
TIGARD OREGON

COMMITTEE MEMBERS PRESENT

Peter Farrelly, Chair
John Lattimer, Vice Chair
Bob Swank, Committee Member
Sharlyn Rayment, Committee Member
Priyanka Shukla, Committee Member
Keith Baldwin, Committee Member
Brian Burleigh, 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 Chair Farrelly at 9:30 a.m. Chair Farrelly.

I. APPROVAL OF MINUTES:

Chair Farrelly asked for any changes to the minutes from the August 11, 2010 meeting as presented. Chair Farrelly then asked for a motion to approve the minutes. Vice Chair Lattimer made a motion to approve the minutes as corrected. Bob Swank seconded the motion, and it carried unanimously.

II. OLD BUSINESS:

Gay Lynn Bath announced that Justin Naegle is now working for ING. Naegle will be working with Jack Schafroth on increasing participation with the local governments. Bath explained she is in the process of replacing Naegle as the state representative. Chair Farrelly asked what Schafroth's role was; Bath explained his main goal will be to bring on new employers, but will also be holding presentations and working with employees.

III. ADMINISTRATIVE REPORT:

A. Q3 2010 Service Review: Carol Cann and Brian Merrick presented the third quarter service review.

Carol Cann gave an overview on the plan assets and activities. Cann explained they did a quick comparison of the plan assets from September 30, 2009 to September 30, 2010, there has been an increase in the assets of approximately 11 percent in one year; from \$964 million last September to back over a billion this September. Cann noted 49 percent of the increase was attributed to contributions, and 51 percent was

to earnings. The \$78 million in contributions also includes \$11 million in rollovers-in. The plan composition indicates that the LifePath funds hold 23 percent of the assets; Stable Value remains consistent at 14 percent; the loan fund is up to \$6.68 million representing 1 percent of the total plan assets. The loan program was added in 2007; since then there have been 1,260 loans issued, and the average loan is \$6,698. In total, 6 percent of the active participants have a loan. Cann surveyed other government clients to see if that 6 percent was comparable, and it was, Colorado has 7 percent, and their program has been going longer than OSGP. Cann noted they would monitor this percentage. Vice Chair Lattimer asked if the website directed the participant to the pros and cons, Bath explained. Cann noted they could add a link directing them to read specific information before taking a loan. The average monthly deferral has decreased from \$415 to \$397 since June of 2010, a decrease of 4 percent. The average participant balance increased from \$42,875 to \$46,581. The market had helped the average participant balance. The Intermediate Bond had the largest positive transfer activity for the last quarter; approximately \$9.5 million, and the LifePath option had the largest transfer out activity; \$5.2 million.

Cann gave a communications update highlighting National Save for Retirement week. ING provided great give-a-ways, posters, cupcakes and some great news articles. Cann and Kenje Mallot participated this year for the first time and thought it was a great turn out. Participants were engaged and very interested in getting more information on the best way to save for their retirement and what funds are the best for them. Participants actually enrolled on the spot. Cann explained the first quarter of 2011 initiatives will start with a re-branding project. They will be changing the look and feel of the communication pieces we currently have. They will be working with Gay Lynn Bath and Marcy Loomis developing a new branding option for all communication. In the first quarter they will also be launching the participant micro site.

Chair Farrelly asked about making the graphs easier to read and more accurate; reflecting actual percentage of account performance. Brian Merrick explained new technology on participant statements they are working on for next year. Another benefit will be that the participant can pick up to 10 investments, and put dates in they want to see the performance and it will display the information. Merrick explained that you currently have the ability to customize your statement on the website now. ING will also put more information on the web to educate participants.

Priyanka asked if the LifePath was the default. Bath explained we do not have a default fund as new participants have to choose their investments at the time they enroll. Bath went on to explain that Justin and Jack are both providing education and workshops.

Brian Merrick gave an update on the third quarter corporate results for ING. Earnings continue to be strong as a result of new growth. There was a press release regarding the split of ING. The likely path will be a dual IPO structure; a European led IPO and a United States focused IPO. Priyanka asked if the Dutch government

has been paid back by ING. Merrick said it had not been paid back yet, but that when the IPO split takes place, the sale funds will go toward the repayment. The IPO will be complete by 2013, and it will not impact the business.

Merrick discussed the payroll administration project. ING currently has a program for payroll administration which is a web based program ideal for smaller employers that currently send payroll in through manual feeds. This has been done successfully for a number of other clients. Currently OSGP has over 150 local governments that send manual files to ING. This documentation includes hard copies; Excel spreadsheets, deferral changes and checks. All of this information is currently faxed back and forth between OSGP, ING and the employer. ING envisions deploying a web-based tool that employers can use to receive and submit employee deferrals and loan repayments. This will accelerate processing through ACH debit funding and provide a web-based tool for employers to update participants' demographic information. This will also proactively monitor timeliness of employer payroll submissions. Unique ID numbers will be created for individuals at OSGP for processing of the payroll for miscellaneous agencies and local governments. ING will create on-line files for employers to download and send e-mail notification when a new file is available. ING will assign a project manager to facilitate the process. There will be a series of webinars to provide education, and ING will also provide administrative guides with detailed procedures. Roll-out will begin March 2011 with a target date of July 2011 to go live.

B. Q3 2010 Performance Report/Discuss Self-Directed Brokerage Account (SDBA): Mike Viteri, Treasury and Jake O'Shaughnessy, Arnerich Massena, provided the third quarter performance results. Viteri provided some background regarding the self-directed brokerage window. Viteri noted that OSGP signed the contract with ING a few weeks ago. Since then they have started the analysis on the self-directed brokerage window options. There are three candidates to work with; TD Ameritrade, Charles Schwab and State Street Global Management. Viteri explained they are going through the study to find out what kind of options they have in regards to no-load mutual funds and fee structures. Arnerich Massena has done a lot of research, and the next steps will be to have in-person or web demos on the interfaces. The goal is to bring the findings to the February advisory meeting. Viteri has gone to the mutual fund providers to negotiate lower fees; he will let us know the results at the next meeting.

Jake O'Shaughnessy, Arnerich Massena, gave the overview of the third quarter performance. While volatile throughout the third quarter, it closed with a strong September. The S&P 500 Index had a 3.9 percent return which was generated mostly in September. U.S. markets finished higher than domestic markets, while emerging and frontier markets closed in September with year-to-date returns of nearly 10 percent. Bond returns have remained strong with Barclay's Aggregate Bond Index returning 8 percent year-to-date. Economic data has been mixed. It was a very strong quarter for emerging markets in the international space, commodities,

and U.S. Equities. O'Shaughnessy highlighted the OSGP investments and target date funds. Vice Chair Lattimer commented on employees/workforce staying after retirement age. O'Shaughnessy explained people are working past retirement as they need more because what they had calculated for retirement will not be enough. Viteri noted that private sector employees are also working longer.

- C. Plan Update/Roth 457 Survey/Update on Save for Retirement Week:** Gay Lynn Bath shared the highlights of the newsletter. Bath noted there was information in the newsletter regarding National Save for Retirement Week. This year OSGP held workshops all week and throughout the day of open house. There was an excellent turn-out; 30 to 35 people each session. Jack and Justin designed a special presentation to fit the time they had allowed. On Wednesday the open house was well-attended. Bath explained that Kenje Mallot and Carol Cann from ING were in attendance as well as PERS' director Paul Cleary, and Mike Viteri from Treasury. Bath said the best way to reach people is through the state library list serve. Bath will continue to contact people through this e-mail system on a quarterly basis with any new information regarding the plan. Bath explained ING provided posters to give out to state and local government agencies notifying them of the event. Denise, Jack and Justin took the posters to the local agencies to they could put them up in their break rooms and staff areas. Bath noted we will continue to hold events for National Save for Retirement week. In addition we had a proclamation signed by Governor Kulongowski.

Bath discussed the Roth 457 survey; the President signed the Small Business Act that allows for Roth 457 plans. Bath posted a survey on the Roth 457 and 2,712 employees responded to it.. Of those, 79 percent were currently enrolled in OSGP, 27 percent were currently contributing to a Roth IRA, 78 percent indicated they would contribute to a Roth 457 if one became available, and 48 percent of non-participants said they would be more likely to enroll in OSGP if a Roth were offered. Bath also shared some of the comments posted by respondents. Adding the Roth would require a statute change as well as changes to administrative rules. Bath also noted that the timeframe has passed to introduce a statute change to the legislature this session unless the union or another entity would partner with us to find a sponsor.. Jon DuFrene will find out the rules on taking things to legislation. Vice Chair Lattimer asked about auto-enrollment. Bath explained there would have to be a state statute changed. Vice Chair Lattimer explained that Marion County is very proactive when hiring new employees, regarding retirement and explaining their options on saving.

Bath discussed a session on investment line-ups that she and Jake O'Shaughnessy participated in at the Pension & Investment conference she recently attended. Bath felt our investment line-up was right on track and even more progressive than other plans. By adding the new brokerage window, and having target date funds plus a core line-up, OSGP is giving participants what they are asking for.

D. State Q3 2010 Status: Justin Naegle gave his final report for the state. For the next meeting he will be presenting with ING. Naegle highlighted the goals for the state position; noting attendance has been good in the workshops. The most important workshop to participants is the “How Much Should I Be Saving” and “Understanding Investments.” There have been more people signing up for OSGP at the workshops. Enrollments at Higher Ed have been a challenge, and there has not been a lot of activity. Naegle spoke to the representatives at Fidelity and TIAA Cref at recent benefit fairs, and they said there has not been a lot of new business, mostly participants asking about asset allocation. Furlough days and pay cuts have had an effect on new enrollments. Considering the economic climate, overall participation has been good. Naegle stated that as the younger employees tend to start out deferring at a lower rate than older employees who may have retired. Naegle said he enjoyed this position for the last six years, and is looking forward to his new position with ING working with the local governments.

E. Local Government Q3 2010 Status: Jack Schafroth explained that in the third quarter he was focused on the schools as they are back in session. There are a lot of benefit fairs; from the end of September to the beginning of October there were 13 and most were within a 10-day period. Schafroth noted participation was at 6.8 percent and when Justin starts his new position in 2011, they should be able to increase that number because they will be doubling OSGP’s presence in the field. The local government assets are currently over \$80 million. Schafroth noted he is receiving calls from employees because of the article in Perspectives. Schafroth reported he sent a letter out last year to the counties that were not participating in the plan letting them know they could participate with OSGP; but he not receive many responses. Vice Chair Lattimer said he could assist ensuring Jack contacted the right people. Schafroth stated he would be signing up Polk County soon, as he had dropped off an adoption kit there last week.

F. Q3 2010 Plan Statistics: Kathy Gannon shared the third quarter statistics. Last year’s third quarter contributions were equal to this year. Enrollments were up from 158 last year to 291 this year. Loans in 2009 were at 101, and there are currently 117 loans; the average is 40 loans per month. The dollar amount is about the same as last year. The unforeseeable emergency withdrawals have increased since 2009; in third quarter 2009 we had 12, this quarter we have had 29. In 2009 we had 133 rollovers-in; in 2010 we have had 174. In 2009, there were 97 rollovers out, and in 2010 there have been 128. Chair Farrelly asked if Kathy could put last year’s numbers on her report so we could see the comparison.

Gay Lynn Bath reminded the Committee that the 2011 meeting schedule was in their packet. Bath introduced our previous Chair Roman Martushev to the Committee Roman was the Advisory Committee Chair for six years and is currently working for PERS.

IV. NEW BUSINESS

V. Audience Participation:
None

VI. Adjournment: The next meeting is February 9, 2011 in Salem.

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

Respectfully submitted,

Denise A Helms
Assistant to the Deferred Compensation Manager