



**ADVISORY COMMITTEE MEETING MINUTES
MAY 5, 2010
PERS HEADQUARTERS
TIGARD OREGON**

COMMITTEE MEMBERS PRESENT

Peter Farrelly, Vice Chair
Kathleen Beaufait, Committee Member
Bob Swank, Committee Member
Keith Baldwin, Committee Member
Brian Burleigh, 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
Jon DuFrene, PERS

INTRODUCTION:

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

I. APPROVAL OF MINUTES:

Vice Chair Farrelly asked for any changes to the minutes from the February 10, 2010 meeting as presented. Farrelly then asked for a motion to approve the minutes. Bob Swank made a motion to approve the minutes. Kathleen Beaufait seconded the motion, and it carried unanimously.

II. OLD BUSINESS:

None

III. ADMINISTRATIVE REPORT:

A. Update on Stable Value: Sharon Hoppel from Dwight gave an update and overview of the Stable Value Fund. As of March 31, 2010 the fund was at \$180 million, and that amount has dropped \$3.3 million since April, primarily due to about \$3.7 million in negative cash flow; participants moving out of the Stable Value Fund into other investment options. The market to book value at the end of March was 98.7 percent. In April it rose to 99.47 percent, which means if you had to liquidate today, you would be .49 percent short of the actual book value. The participant would still receive 100 percent of the value due to having the wrap contracts. Viteri asked Hoppel to explain any exceptions; for example, if the plan made changes that would cause the risk to increase; such as adding a money market option with direct transfers. If a plan decides they are going to send communication to a participant

that steers them away from Stable Value, that also could trigger movement by participants so that could also be reflected as a trigger. Hoppel explained these are rare and they stay in close communication with Gay Lynn to ensure these problems don't happen. The Money Market Fund is a competitor to the Stable Value Fund. Bath noted that we have a 90-day equity wash in place, wherein participants can not transfer directly to the Short Term Fixed Option or Intermediate Bond Option.

Beaufait noted the wrap fees have doubled and asked if there was any chance they will go back down? Hoppel explained in the last 14-15 months the risk in the Stable Value portfolio has been more recognized than it was in the past. Over the past year, wrap providers have increased wrap fees and have decided not to take on any more exposure. Mike Viteri from Treasury clarified triggers and indicated that one trigger would be employee termination; for example, if the state should lay off a large number of employees who had money in the Stable Value.

Bath noted there are a lot less companies offering wrap contracts, Hoppel explained there is a large demand for these wrap contracts and very little supply. Most companies offering them have doubled their fees. Wrap products are not as available as they were 18 months ago, however there are other products offered by large banking institutions and insurance companies that look like wrap products that will be available. The current fees in the Stable Value Fund are 29 basis points. Hoppel gave a legislative update regarding reserve requirements.

- B. Q1 2010 Service Review/ING Update:** Harriet Jacobs, Carol Cann, Brian Merrick and Ron Campana presented the ING report. Carol Cann gave an overview of the performance for the last quarter starting with an initiative from the last meeting to increase participation on the active but not contributing population. The assets stand at \$1.043 billion, an increase of approximately 25 percent from March of 2009. Currently 22 percent of the plan assets are in LifePath funds and 23 percent in Stable Value. The loan fund equals \$5.80 million, representing 1 percent of the total plan assets. There have been 452 loans since the loan program started in 2007 and the average loan balance is \$9,012. The net cash flow continues to be positive at \$3.8 million. The average monthly deferral increased from \$409 to \$411, an increase of 1.2 percent; the average participant account balance decreased from \$25,198 to \$24,034. LifePath options had the largest positive transfer activity; approximately \$9.3 million transferred into the funds during the first quarter of 2010.

Cann explained that 3,000 post cards were sent out in the "easy enroll" campaign. These groups of individuals were targeted because they are active but not contributing. This was to make it as simple as possible to restart their contributions; they just have to check a couple of boxes on the form and send it back in. Cann noted they were tracking the responses and would report the results to the Committee.

Ron Campana, the communications director commented on the “come back mailer” noting that when people have too many choices they shut down. The easy enroll campaign is used for this reason. Campana brought a presentation on micro sites. The customer can decide how they want the pages on the website set up; they can be changed at any time. Participants can blog, see videos, play games, do surveys and get participant feedback. Plan sponsors can completely customize this site for their participants. Campana shared there is a nationwide survey coming out regarding financial behavior of government and public sector employees. This is being done by an outside company and will be published by July.

Brian Merrick ended by briefly engaging a discussion on the legislative front of the Roth 457. House Bill 4213, American Workers, State, and Business Relief Act 2010 introduced in December of 2009; this bill passed by the House and Senate however the House amended the Bill without the Roth 457. Bath noted that the Roth 457 was on the Extenders Bill which has already gone through the Senate. If there are no objections, it could go through. Bath explained we do have support from Congresswoman Allyson Schwartz (D-PA) who said she would speak out if need be. In addition it should be voted on by Memorial Day.

- C. Q1 2010 Performance Report:** Mike Viteri, Treasury and Howard Biggs and Jake O’Shaughnessy of Arnerich Massena presented the first quarter’s performance review. O’Shaughnessy stated there was healthy rebound in equity markets. The Plan has crossed the \$1 billion dollar threshold. The Stable Value Option holds 17 percent of plan assets with almost \$180 million invested with Dwight.

O’Shaughnessy said they created a series of white papers; the first of which covered behavioral financial characteristics that are exhibited by participants in fund contribution rates. The paper discusses participants having paralysis of choice. They become overwhelmed, and then they do nothing. If people can’t make an informed decision they will make none at all. O’Shaughnessy talked about having a 3-tier plan; 1) For those participants who don’t want to be involved in further decision making; target date funds are a good choice; 2) for those who want greater control and the ability to create their own mix, a core menu of funds is key; and, 3) for the participant who wants a broader selection of investment options to choose from, a brokerage window could be the appropriate choice. These choices would capture 99 percent of the participants. Arnerich Messena will be creating white papers on the different options. Keith Baldwin asked if the Roth 457 would be a choice. O’Shaughnessy said this is a grey area and they are not available to 457 plans yet. Bath noted there were calculators on the website. Bath will send information on the white paper to the Committee.

- D. Plan Update/Committee Opening/ State Q1 2010 Status:** Gay Lynn Bath will cover the statistics in Kathy Gannon’s absence. Bath gave credit to Justin Naegle for writing “An increase today may make a big difference tomorrow,” one of the feature

Bath highlighted the plan statistics; new enrollments are down from 277 last year to 188. Bath noted there have not been as many new hires as in previous years. The loans have been averaging about 30 per month, with the average dollar amount about \$9,000. Bath explained when participants call for a financial hardship; they are required to get a loan first, unless it puts them in a worse financial situation. The unforeseeable emergencies have increased from last year; 18 to 28 this year. The main reasons for these requests are foreclosures, spouse's loss of income, and furlough days. This quarter rollovers-in are up, with a total increase of \$2.5 million. We are seeing a large rollovers coming in from the IAP; when participants retire they like to consolidate their accounts. Bath asked the Committee to postpone the discussion on auto-enrollment. It will be tabled until the next meeting.

E. State Q1 2010 Status: Justin Naegle highlighted the goals for 2010. Naegle said the workshops have been well attended, with a 5 percent increase over last year. Participants are more interested this year in having an overview of the investments. Participants that were in the Stable Value option are ready to come out of it and get back into the active market and want to know how. Naegle explained employees seem to be more interested in savings, although new enrollments are down' he feels it is a lot to do with the state hiring fewer employees. Naegle will continue to hold brown bag lunch meetings.

F. Local Government Q1 2010 Status: Jack Schafroth shared the highlights of the first quarter statistics noting the 6.7 percent participation, which is still fairly low but progressing up. Schafroth is concentrating this year on the 45,000 eligible local government employees that are not participating in OSGP. There is more competition with the local governments because most of them have 2-3 other providers offering 457 plans, 403(b) plans or some other type of savings program. There were three new employers brought on during the last quarter; Kings Valley School District, South Coast ESD and Southwestern Oregon Community College. There are 11 new adoptions in progress.

Schafroth followed up on the 11 employers that have zero participation in our plan. All of these employers have other providers. Among these 11 employers there are a total of 511 eligible employees. Bandon School District and Columbia Gorge Community College make up over 300 of the 511 eligible employees. Schafroth stated they were never able to do a complete roll-out with Columbia Gorge Community College and he is planning on doing that before summer. There are a

large number of part-time employees. He has also followed up with Bandon SD, and their employer representative suggested he contact the principal of each of the schools to set something up. Schafroth explained that he made attempts to contact all 11 employers; some have not responded. He will most likely stop by and pay them a visit, a few of them have less than 5 employees, and some are part-time.

At this time Vice Chair Farelley expressed his thanks to Kathleen for her insight and wisdom, and noted that Kathleen has vigilantly represented her retirees. He then wished her well.

IV. NEW BUSINESS

None

V. Audience Participation:

None

VI. Adjournment: The next meeting is August 11, 2010 in Salem

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

Respectfully submitted,

Denise A Helms
Assistant to the Deferred Compensation Manager