Minutes of the Meeting of September 25, 2008
Legislative Services Building
200 E. 14th, Room B
Denver CO 80203

DEFERRED COMPENSATION COMMITTEE

Present:	Dave Loomis Billy Kwan David McDermott	Rep. Richard Mutzebaugh-Excused Joann Vondracek Ben Stein	Senator Lois Tochtrop Dean Conder Patrick Byrne
Attendees:	Department of Personnel & Administration Great West	Suzanne Kubec Karen Fassler Adam Bannister Theresa Cruz-Myers Rick Kramer	Paula Manzanares Tom Montoya Tanya Olsen Kevin Navarro
	PERA	Katy Kaufmanis	
	Hartford	Bill Abramowitz	Donna Delong
	JeffCo	Lisa Eacker	Lynn Acker
	Attorney General's Office	Heidi Dineen	
	ICMA	Gary Helm	

Roll call

Joann Vondracek called the meeting to order.
Paula Manzanares called the roll.

Approval of Minutes July 24, 2008

The minutes were reviewed and some changes were made.

Dave Loomis motioned to approve the minutes as amended.
Ben Stein seconded the motion
The motion carried unanimously.

Approval of Agenda

Suzanne noted that she will discuss the NAGDCA conference during her announcements and that the Hartford Fund change discussion will also be included in her announcements and can be removed as a separate item on the agenda. The Plans' Investment Policy discussion will also include the Stable Value fund investment policy. No other changes were made to the agenda.

Follow up from July 2008 Suzanne Kubec Election 2008	The votes were tallied and Dean Conder won the 457 Committee Election for another four-year term. Suzanne has contacted Dean and Tom and sent an email as well.
Forfeiture Account	Suzanne sent two letters to Great West to receive funds from the forfeiture account. One for $165,000.00 to cover outstanding expenses for FY08 and one for $135,000 to add an estimate for expenses for the 1st quarter of FY09. The Committee can revisit this on a quarterly basis and Suzanne stated that providing a letter to Great West worked very well for this process. Great West can send the funds to the Treasury via the Automated Clearing House (ACH). Adam Bannister, DPA will verify the transactions have been completed and will then reflect this on the monthly budget sheets.
Fund Changes	As a result of the discussion with Howard at the July meeting, the Committee made the following changes in the funds offered in the Plans'. The Hotchkis & Wiley fund will be replaced by Mgrs AMG Large Cap Value in both the Great-West fund line-up and Hartford's fund line-up. Great-West will make the change at the end of October. ICMA had the addition of two new funds and replacement of two funds. The two new funds are DFA International Large Cap Value and River Source Mid Cap Value. These funds will be added to the fund line-up on September 26, 2008. The replacement funds are: American Funds Growth Fund of America RF to replace VT Growth Fund Large Cap Growth and; VT Royce Value Plus to replace Fidelity Small Cap Growth. These changes will take place on September 24, 2008. Suzanne has reviewed the notice to participants for both the Great-West and ICMA fund changes. Hartford will be adding one new fund, Harbor International Large Cap Value, and replacing Hotchkis and Wiley as noted above. Suzanne received a request asking which share class to use for the two new funds. Suzanne discussed with Howard and he recommended the institutional classes for the funds being offered by Hartford. Hartford is still working on adding these to their platform, which they have noted will take 8-10 weeks. Once that occurs they can send notices to participants. Joann asked if it normally takes this long to add and Donna Delong stated "yes". Suzanne will keep the Committee updated.
Audit Of Great West Fannie Mae (FNMA) Freddie Mac (FDMC)	The Committee requested a copy of the Deloitte & Touche audit for the Colorado Stable Value Fund. A copy was provided in the monthly packet. Al Cunningham, Great West also provided a market review regarding the Fannie Mae (FNMA) and Freddie Mac (FDMC) issues at that period of time. Considering the latest developments on the government takeover Suzanne asked Al Cunningham for his or Cathe Tochers' thoughts regarding the Stable Value Fund in light of today's headlines. They responded with "The short answer is that this is all good news from the bond holders (like CO Stable Value Fund) perspective. The actions yesterday bring the government's long implicit guarantee of Fannie/Freddie Bonds much closer to an explicit guarantee.

Heidi Dineen, Attorney Generals' Office had inquired of Al to address the Lehman Brothers (LEH) bankruptcy. The Stable Value Fund shows a global note with a par value of $500,000.00. She asked him to discuss the amount of loss to the Stable Value Fund portfolio as a result of the bankruptcy. She asked him to access the probability of collecting any principal or interest on this note. She also wanted him to address the steps that Great West is taking to perfect our claim under the bankruptcy court.

Al responded "that the holding company filed for bankruptcy protection, its subsidiaries did not. The filing was surprising due to a widely held belief that the Primary Dealers' Liquidity Fund had provide investment banks with sufficient liquidity to weather the current market turmoil. The Colorado Stable Value fund holds a $500,000 LEH bond in the portfolio which represents .36% of total assets." He also stated "with respect to the affect on the Stable Value Funds' returns, the book value treatment remains the same. Any ultimate loss that may occur will be amortized over the expected duration of the fund (currently 3.9 year). Given the size of the position and the likelihood that some part of the investment will be recovered, the affect on the credited rate should be relatively modest."

David McDermott asked if there was a loss of principle he also asked if we hold a bond from Lehman. Heidi stated that our rights as a creditor are protected. Theresa will follow up with Al on the Stable Value fund.

There was some discussion about how many phone calls from concerned participants. Suzanne had only received one. Theresa, Great-West, stated that they have received quite a few. Participants were asking "Can I get my money out? What should I do? Great West has compiled a handout on this issue that can be posted to the 457 website.

Dave McDermott noted that DPA provided a venue for employees to come and hear from Andrew Ahrens, Great West regarding the financial crisis. Dave stated that there was a low turnout from DPA and that some folks in his office stated to him that they did not have a 457 account. Joann asked of PERA if they had anything on their website as she had not seen anything. Katy Kaufmanis, PERA stated that it is on the PERA website under "latest news". Great West will send something to participants in the September statements.

Announcements for September – Suzanne Kubec Performance Audit update	We are still awaiting the draft recommendations from the Office of State Auditors. The Legislative Audit Council hearing is scheduled for November 6, 2008 from 1:00 – 2:30 p.m.
Stable Value Fund interest rates for 4th quarter 2008.	The Stable Value Fund rates for the 4th quarter FY08 will decrease by .10% from 3rd quarter to 4.80% (457/Match) and 4.75% for the State DC Plan.
Public Comments	No public comments were made.

NAGDCA

Suzanne provided comments on the recent NAGDCA conference that she, Dave Loomis, Billy Kwan, Dean Conder and Representative. Mutzebaugh attended in Baltimore the week of September 15, 2008. Suzanne commented that the networking opportunities are invaluable. She learned about some different techniques on how to communicate to employees about the importance of saving in a 457 Plan. She also noted that the IRS update is always the highlight of the conference especially in light of the financial crisis with the financial institutions which was a hot topic last week. Dave Loomis talked about how auto enrollment was highly stressed and in the process of auto enrollment the States eventually had to 'ratchet higher'. This trend is ahead of the State of Colorado.

Dave also noted that some states don't have a DB plan as well as they did not offer a match plan. Dave Loomis stated what more can we do to encourage employees to participate in retirement plans? Ben Stein echoed that the Committee should review the option of auto enrollment and target based funds at a future meeting. Joann wondered if legislation is required for auto enrollment. Heidi noted that yes; legislation is required to make the plan mandatory. Lisa, JeffCo Schools, noted that after they implemented auto enrollment, participation decreased.

Billy Kwan and Dean Conder added the similar sentiments that Suzanne and Dave Loomis stated. That the sessions offered at NAGDCA are invaluable.

Plans Investment Policy

With regards to the Stable Value Fund their was much discussion regarding the corporate bonds. The Committee would like Al Cunningham, Great West, to attend the October meeting to ask about the rating of corporate bonds and whether the Plan should remove them from the fund. The Committee would like Cathe Tocher to attend too, if available. There was discussion regarding whether the insurance guarantees the principal. Theresa addressed the questions. She stated that the account value is paid at book value and that there is no loss of principal.

She also said that even if there is a loss in the fund, the interest rate will be adjusted downward but will never be below zero. Ben asked what types of investments should be in the fund? The questions to Al and Cathe are; is the level of risk in the SVF reasonable? Should we offer corporate bonds? The Committee decided that they would ask these questions of Howard Biggs, investment consultant, and request he attend the October meeting or be on a conference call. No motions were made to change the draft at this time.

State DC Policy

Discussion from Ben on page 9 of 14. Ben was concerned about the deletion of the sentence, "It is also expected that the risk of each fund, as defined by standard deviation of returns, be commensurate with the appropropriate market index, and/or peer group." From the 'Active Investment Strategies' under 'Quantitative Measures' in the policy. He thought that the risk should be below 50% percentile of the peer group. He also noted that the same sentence was kept in the 'Passive Investment Strategies'. The Committee decided that clarification was needed from Howard on these changes. They also want Howard to address the level of risk in the bond funds.

Suzanne asked if she could make the few other changes absent this section. The Committee agreed to make those changes but stated that this still is in draft form and to bring it back in October when Howard and Al can respond to the Committee questions.

457 Policy

The same discussion and changes applied to this policy.

Announcements-Joann Vondracek

Joann made an announcement that Patrick Byrne will be leaving OSPB and going to work at CDOT effective October 1, 2008. The Committee wished him well. Patrick noted that he was serving on the Committee at the pleasure of the Governor and thought that it might continue but that he was discussing it with his supervisor.

Joann also introduced Tanya Olsen, the new DPA Controller, who replaced Brenda Berlin.

Consolidation of Tax-Deferred Plans, Update-Suzanne Kubec

Suzanne started the discussion by noting that the confidential draft of the consolidation information was provided to the Committee in their packets. Dave Loomis wondered if we should call an executive session to discuss this "proposed legislation". Heidi commented that there is no legal reason to discuss this in a closed session. Suzanne noted that the Committee has discussed this issue and proposed legislation since January. Heidi noted that she really didn't see any major problems with the draft.

Heidi then proceeded to review with the Committee, those points that she was concerned about which are:

- The Bill Title-needs to be narrow, she offered a suggested title.
- Employers in the 457 Plan. As drafted, the legislation permits any PERA employer to participate in the 457 Plan. The 457 Plan will require significant amendments in order to comply with IRC requirements if it wants to permit nongovernmental tax exempt employers (such as the District Attorneys Council) and their employees to participate in the 457 plan.
- PERA DB Mulligan. As drafted the only group of employees who are not allowed a mulligan to select the PERA DB plan in years 2 to 5 are employees who were participants in the State DC plan, prior to the legislation. This seems inequitable, particularly since certain elected officials receive both 100% vested and an annual mulligan for life.
- Investment mapping. This is not in the bill, but it was suggested by PERA to liquidate all State DC and Match fund investments and dump the funds into the balanced fund. This will create more administrative issues than it will resolve. The general practice is to try and map over current investments to align past and present funds. The majority of participants do not review their statements or the specific mailings regarding fund changes. There is no PERA board liability protection for this investment decision because the participants are not directing the investment of their funds into the balanced fund.

- Fee limit. Both the 457 Plan and State DC plan have operated with a 1% cap on fees deducted from participant accounts. The draft had 457 fees paid from earnings, but Heidi thinks the Committee or Entity should retain flexibility and reserve the right to assess a fee deducted from accounts, or a combination of the two.
- 457 plan creation. The original 457 plan was created in 1981 under different statutes, so Heidi revised the wording to indicate a continuation but change of administration and fiduciary.
- Match merge. PERA suggests merging the Match account into the PERA DC plan which then must be segregated into a separate participant subaccount.

Ben has concerns about the Stable Value Fund. Heidi explained that the Committee fiduciary responsibilities would end on June 30, 2009. The Committee would cease to exist. Billy had a question about whether the Plan has to be in a trust? Heidi said IRS says it is necessary. What happens if this doesn't get accomplished by June 30, 2009? Suzanne has to notify the vendors on April 1, 2009 that their contracts might be terminated effective July 1, 2009 pending the outcome of the legislation if it is not known at that time.

There was discussion about the grandfather group prior to July 1, 2009 with 100% vesting. Suzanne clarified that there were actually three groups of people in this proposal;

- the elected officials for whom the plan originally was developed who for those hired prior to January 1, 2006 can switch between the State DC and PERA DB once a year, every year, this will continue in the proposed legislation;
- those employees hired prior to July 1, 2009, including the elected officials, would be grandfathered in at the 100% vesting and
- Those employees hired after July 1, 2009, would choose from the PERA DC or PERA DB and have the choice of switching in years 2 through 5.

Heidi feels that the State DC participants hired prior to July 1, 2009 should have the opportunity to switch to the PERA DB. PERA feels that those participants chose the 100% vesting over the chance to change and shouldn't be given the opportunity again. The main issues are:

a. Investment mapping it will be determined by the PERA Board how to merge the State DC Plan with the PERA DC Plan or whether they want to agree to continue DPAs' existing contracts.
b. Fee cap-Heidi suggests that a fee cap of 1% continue in statute, meaning the Plan cannot charge participants more than 1% of their account balance. PERA is not in agreement with this suggestion.
c. Trust agreement – Heidi believes that there must be a trust agreement for the 457 Plan and 401(k) plan. PERA disagrees that a trust agreement is necessary.
d. Match merge – the 401a Match Plus plan will be merged into the PERA 401(k) plan. The PERA DC Plan will have three components; 401(k), PERA DC 401(a) and the 401(a) match from the 457 Plan.

There was additional concerns regarding whether the self-directed brokerage option (SDBO) and the Stable Value Fund (SVF) can or will move to PERA with the consolidation.

There was also concern over the administrative fund at the Treasury for the 457 Plan and if that can be moved to PERA or not? The amount is for administrative expenses for the 457 Plan only. There is a small fund balance at the Treasury and the forfeiture account at Great-West. The Committee will have to watch expenses closely and consider spending down the administrative fund and have Great West return the forfeiture account to participants prior to the move. Heidi stated that DPA may want to keep some money at Treasury to finalize the merger, and for staff to work on the FY09 audit for both plans and tie up any loose ends for the merger. Ben asked if this Plan ceases to exist, how DPA would be able to continue work on the plan. The funds from the Plan could not be used. Joann echoed these sentiments as well. Suzanne commented that as Karen has stated in the past, she and Paula are on loan to these plans. Suzanne stated that staff will be paid with funds from the Benefits line as reflected in the long bill. She also stated that her understanding of the long bill provides a lump sum of personal services/operating and is split into Benefits, DC and 457 Plan each year. Joann stated that there has to be a funding source to pay for this. Dave McDermott asked if this was funded by agencies. Karen Fassler, DPA stated that it is both by agencies and employee contributions. We would retain our existing FTE and use the Employee Benefits Trust to pay for the work that staff needed to complete for the merger.

Heidi needs to discuss with PERA about taking over the vendor contracts. Billy Kwan asked if the Committee could be provided a timeline of events beyond July 2009. Suzanne will be setting up a meeting with the subcommittee and PERA to discuss these points further before the October meeting.

Dave Loomis still has concerns about merging the administration with PERA. Ben stated that the Committee motioned that they would pursue draft legislation and then revisit the decision at that time. A question was asked by David McDermott about continuous spending authority. Joann asked who was going to do the budget request for the decision item. Karen Fassler stated that she had submitted the decision item to DPA to have a separate line and our own separate authority and 4.5 FTE's. Senator Tochtrop asked when the decision item was submitted. Karen stated that it was submitted to DPA in July. David McDermott asked where it was within DPA and had it gone over to OSPB? Karen stated that she was unsure of the process once she submitted to EDO. DPA recently has gone through changes and has a new budget officer and that this submittal was bad timing due to these changes. Joann and David asked if this decision item was for FY10 and Karen stated affirmative.

Senator Tochtrop asked to be brought up to speed on how we arrived at these discussions, due to the fact that she has missed meetings as she was in Legislative Session the first months of the year. She asked "Does Mr. Gonzales want out of this Plan"? Karen stated that there is a laundry of issues and items that came about in the audit. DPA does not have the staff to handle all the auditing and other issues with these plans. Karen went on to say that DPA wants what is best for State employees.

The economies of scale that PERA was in the retirement business so it would be a good fit for them to take over these plans. Karen stated that we could resend the options that the Committee previously discussed earlier this year.

Suzanne summarized for Senator Tochtrop the events that led to the discussions. In January all departments were asked to provide their most efficient and least efficient programs. DPA responded to the JBC that administration of the retirement plans was an inefficient process. The fact that Retirement Choice is confusing to new employees and it would be more efficient to have one entity providing that benefit. In addition the last two fiscal year financial audits of the 457 Plan have revealed several operational defects that can be monitored more properly with additional resources, e.g. additional FTE or consolidation of administration with an entity such as PERA. DPA stated at the time that they would begin discussions with the Committee and with PERA.

The Committee summarized the issues that they wanted decisions from PERA on regarding the consolidation. Dave Loomis is concerned with not continuing the 100% vesting in the DC Plan after July 1, 2009 and concerned that there will not be an oversight Committee who is committed to the 457 Plan and dedicated customer service. Where is the concern for participants? He is concerned that the 457 Plan would be meshed into the 401k at PERA.

Ben Stein's concerns were PERA eliminating the fee cap; he thinks it should remain in place for the 457 Plan and State DC Plan. We should continue the 100% vesting for the State DC Plan or offer other ideas for 100% vesting for those who want it. Lastly, Ben would like verification and clarity from PERA on the mapping of funds from the State DC to the PERA DC Plan.

Dean is concerned about the Match Plan and any potential affects to those participants. Suzanne added that participants have the option of taking a loan and/or a hardship from the Match plan. The 401(k) plan also offers loans and hardships so this may not be an issue.

Additional concerns are about whether the contracts will be assigned, if agreed between PERA and the various providers. The Committee is wondering if PERA will continue the self-directed brokerage option (SDBO) and the Stable Value Fund (SVF) or how they will map that to the PERA DC Plan.

Patrick offered a suggestion to PERA when changing the structure to allow those who choose the DC Plan to continue the 100% vesting schedule. Maybe after five years allow them also to move to the DB and purchase time from their DC Plan. He thought it was worth considering. Heidi stated that the way the legislation is written the State DC Plan would merge with the PERA DC Plan. The current State DC participants would be grandfathered with the 100% vesting going forward, however new participants to the PERA DC would be under the PERA DC vesting schedule.

Ben Stein commented that the Committee did not commit to moving the administration to PERA; they agreed to investigate the option and revisit the discussion.

Dave Loomis stated that he does not want the plans to move to PERA but it appears that the Committee has no say in the decision. It is DPA and PERA making the decision. Suzanne will arrange the next meeting with the sub-committee working on this merger.

Joann Vondracek suggested that the quarterly financials and the 457 monthly activity report be moved to the October meeting since it was getting late in the afternoon. DPA accounting and Great-West agreed.

Adjourn

Senator. Tochtrop motion to adjourn.
Patrick Byrne seconded the motion.
The motion passed unanimously.