

Indiana Deferred Compensation Plan

Report to the Board of Finance

July 23, 2001

IC 5-10-1.1-4(g) requires the Deferred Compensation Committee (Committee) to report to the State Board of Finance at least annually on the status of, and any changes to, the State Deferred Compensation Plan (Plan). This report is intended to satisfy that statutory requirement.

The Plan includes a Section 457 Plan and a 401(k) Plan covering approximately 29,100 participants. This includes approximately 24,000 state participants and 5,100 participants represented by 169 local units of government.

As of June 1, 2001, the Plan's assets totaled \$504.2 million allocated between two firms: the Lincoln National Life Insurance Company and the Great West Life Assurance Company. This total represented \$282.3 million in fixed value assets and \$221.9 million in variable assets. An exhibit (Exhibit 1) summarizing the current allocation of assets under the Plan is enclosed for your reference.

HEA 1193 enacted by the 2001 General Assembly made several changes to the Plan. The legislation:

- Permits local units of government that are participating in the State 457 Plan to participate in the 401(a) defined contribution plan (employer match).
- Clarifies that State contributions to the 401(a) employer match are limited to state appropriations determined by the Budget Agency to be available for such purpose.
- Permits the Committee to use funds available under the plan to hire or contract with qualified attorneys, financial advisors or other professional or administrative persons to assist in administering the plan.
- Clarifies members terms and permits the Committee to elect a chairperson and secretary.
- Directs the Committee to adopt provisions under the 401(a) Plan to convert unused excess accrued leave to a monetary benefit for employees.

The Committee has been working with the State Personnel Department to coordinate implementation of the leave conversion program. The Committee had expected to submit changes to the 401(a) Plan to the Internal Revenue Service this summer. The State Personnel Department had indicated it would promulgate new rules so the program could be implemented by July 1, 2002. However, the delay in reaching settlements with the unions could impact the implementation date.

The Plan is undergoing additional changes the Committee believes will directly benefit the participants. Under Indiana Code 5-10-1.1 the Committee is charged with approving proposed funding offerings for the Plan. The Committee is working on restructuring investment options to be offered on a stand-alone basis outside of the current annuity contract platform. The Committee intends to select firms to fill the following eleven variable investment roles:

Large Cap Growth Equity	Small Cap Growth Equity
Large Cap Value Equity	Small Cap Value Equity
Passive – S&P 500 Index	International Growth Equity
Mid Cap Growth Equity	International Value Equity
Mid Cap Value Equity	Social Awareness
Fixed Income Core	

Earlier this year the Committee issued a Broad Agency Announcement (BAA) for the new variable funds. The provider response was good with a total of twenty-seven different firms submitting proposals. The Committee is currently in the process of making fund selections and has retained William M. Mercer Investment Consulting, Inc. to provide investment consulting advice in relation to selection of the new alternatives. The Committee believes the new funds will provide participants with an appropriate range of choices from funds that are among the top performers in each respective fund category.

In July the Committee issued a BAA for a new fixed fund manager. Proposals are due August 2, 2001. The Committee is hopeful both the new fixed product and the new variable funds will be available to participants by the end of the year.

Respectfully Submitted,



Daniel A. Novreske
Chairman, Deferred Compensation
Committee

Exhibit 1
State of Indiana Deferred Compensation Plan
(457 and 401(a) match Plans)
As of June 1, 2001

<u>Great West Life Assurance Company</u>		<u>Lincoln National Life Insurance Company</u>			
<u>Fund</u>	<u>Managed By</u>	<u>Fund</u>	<u>Managed By</u>		
		Total Net Assets (in millions)	Total Net Assets (in millions)		
Great-West Fixed Fund (Guaranteed Fund)	Great-West Investment Management	\$31.5	Lincoln Life Fixed Fund (Guaranteed Fund)	Lincoln Investment Management	\$238.1
Money Market Portfolio	Maxim	\$12.7	Managed Fund (Balanced Fund)	Vantage Global Advisors	\$7.5
Corporate Bond	Loomis Sayles	\$1.3	Global Asset Allocation Fund (Balanced)	Putnam Investments	\$5.1
Equity/Income Portfolio	T. Rowe Price	\$2.0	Equity-Income Fund	Fidelity	\$8.6
Growth & Income	Vista	\$6.5	Growth & Income Fund	Vantage Global Advisors	\$59.6
Twentieth Century Ultra	American Century	\$33.1	Social Awareness Fund	Vantage Global Advisors	\$24.3
Mid-Cap Growth Portfolio	T. Rowe Price	\$6.3	Capital Appreciation Fund	Janus	\$40.4
Standard & Poor's Small Cap 600 Index Portfolio	Maxim	\$2.1	Special Opportunities Fund (Mid- Cap Growth)	Vantage Global Advisors	\$5.2
International Equity	Templeton	\$3.7	Aggressive Growth Fund (Mid-Cap Growth)	Putnam Investments	\$16.2
TOTAL		\$99.2	TOTAL		\$405.0