



**Indiana Deferred Compensation Plan – Hoosier S.T.A.R.T.
Report to the State Board of Finance
August 23, 2004**

I.C. 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 Compensation Plan (Plan), commonly known as Hoosier S.T.A.R.T. This report is intended to satisfy that statutory requirement.

As of June 30, 2004, the Committee members were:

Mike Gery, Chairman (Governor's appointee)
 Jeff Heinzmann, Secretary (Auditor's appointee)
 Betsy Burdick (Treasurer's appointee)
 Mike Puro (D), (Participant member)
 Tom Williams (I), (Participant member)

As of June 30, 2004, the Plan's total assets were \$618,633,513, up from \$590,559,826 on December 31, 2003. That total breaks down as follows:

	457 Plan	401(a) Plans
State Employees:	\$482,226,227.78	\$37,479,546.37
Local Subdivision Employees:	\$ 98,615,257.85	\$ 312,480.80

Investment options and the June 30, 2003 and 2004 allocation of plan assets among them are:

Fund Name	Assets as of 6/30/03	Assets as of 6/30/04	Participants Invested
Indiana Stable Value Fund	347,722,062.50	354,478,649	32,876
Alliance Bernstein Growth and Income Fund	57,408,506.34	71,133,919	10,995
Wells Fargo Large Company Growth Fund	41,926,074.80	48,349,540	12,758
Vanguard Capital Opportunity Fund	24,447,607.18	42,402,486	8,438
Vanguard Institutional Index Fund	15,980,962.46	21,738,515	5,197
Domini Social Equity Fund	15,879,495.53	19,012,091	3,599
PIMCO Total Return Fund	10,152,51.86	8,588,188	4,013
Fidelity Low-Priced Stock Fund	8,640,889.63	15,178,517	4,626
Indiana Moderate Life Style Portfolio	5,190,227.38	12,501,449	2,368
Fidelity Diversified International Fund	4,125,328.84	7,747,276	2,896
Great West Guaranteed Certificate Fund: 84 mo.	4,220,321.80	974,893	1,420
Indiana Aggressive Life Style Portfolio	3,501,849.75	6,327,242	1,561
Indiana Conservative Life Style Portfolio	2,370,371.43	5,236,043	1,009
Brown Capital Management Small Co. Fund	1,713,204.31	3,209,382	1,220
Fidelity International Growth & Income Fund	331,896.74	1,755,322	962
TOTAL	\$543,611,312.55	\$618,633,513	

A copy of the most recent month-end performance data for the Plan's investment options is attached to this report as Exhibit 1.

As of June 30, 2004, the 457 Plan covered 30,107 participants, 23,339 of which are 401(a) Plan participants. Actively contributing state employee participants total 19,881. There are 197 local units of government that have adopted the State's 457 Plan. In 2002, local subdivisions became eligible to adopt their own 401(a) matching plan, and to date 12 have, with a total of 168 participants.

In the past year, the Committee has adopted a more regular meeting schedule to coincide with quarterly evaluation of the investment options offered to Hoosier S.T.A.R.T. participants. Before then, Committee meetings were scheduled on a more ad hoc basis, creating scheduling problems and a lack of routine in addressing the regular course of business. The new schedule guarantees at least four public Committee meetings each year and has established a more regular work flow that has kept Committee members better informed and better prepared to address the ongoing business of the Plans.

Last fall, the Committee engaged the services of Buck Consultants, now known as Mellon Consultants, to provide investment-consulting services to the Plans. To date, as a result of recommendations from Mellon, the Committee has succeeded in making two share-class changes in investment options, resulting in lower fees to participants selecting those investment options in the annual amount of approximately \$67,000, and we will see another share-class change on December 1 of this year, resulting in additional annual savings to affected participants of approximately \$60,000. Hoosier S.T.A.R.T. participants remain a generally conservative group of investors, with over 57% of plan assets invested in the Indiana Stable Value Fund.

The Committee is presently in the process of consolidating the two international fund investment options, which together hold slightly more than 1.5% of plan assets. The reason for the consolidation is that the two underlying investment options had significant overlap in their holdings, creating the risk of a false sense of diversification for any participants directing a portion of their investments to both funds. The Committee's consultant and Fidelity Investments, which provides both the international fund options, concurred in the Committee's decision that consolidating the two international funds was a prudent course of action.

This year, the Committee also adopted an Investment Policy Statement to provide guidance to its members and assurance that a consistent, coherent, and sound investment philosophy guide its fiduciary decisions respecting the investments offered to Plan participants.

Finally, the Committee has an outstanding RFP for a new small cap value fund investment option to be added to the Plans' menu of investments. The reason for this is because the Fidelity Low-Priced Stock Fund, the current small cap value option for the Plans, closed to new individual investors as of July 30, 2004. Participants who had already staked a position in the Fidelity Low-Priced Stock Fund by that date remain eligible to continue contributing to the fund, but those participants who had not selected the fund as an option by that date, as well as new participants joining the Plans after that date, are ineligible to direct investment into the Fidelity Low-Priced Stock Fund. Consequently, the Committee, with the assistance of its investment consultant, is in the process of selecting another small cap value fund to augment the Hoosier S.T.A.R.T. menu of investment options so that all participants will have a small cap value option to choose from.

Change in the makeup of the Committee is expected within the next month. Due to the change, the quarterly meeting scheduled for August 25, 2004 has been changed to an introductory meeting and training session to be held if new committee members are selected and able to attend. The regular quarterly meeting to examine the Plans as of the end of the second quarter will be rescheduled at a date agreeable to Committee members, and the third quarter meeting is scheduled for November 18, 2004.

Respectfully submitted,

Jeff Heinzmann
Secretary, Deferred Compensation Committee