

REVIEW OF THE STATE OF NEW HAMPSHIRE
PUBLIC EMPLOYEES
DEFERRED COMPENSATION PLAN
DECEMBER, 1987



State of New Hampshire

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TO THE FISCAL COMMITTEE OF THE GENERAL COURT:

We have conducted a review of the State of New Hampshire Public Employees Deferred Compensation Plan. In connection with the review of the plan, we have been in contact with members of the New Hampshire Deferred Compensation Commission and with H. C. Copeland Administrative Services, Inc., the plan administrator.

Our primary objectives were to determine the overall effectiveness of the plan's administration and the general level of satisfaction of the plan participants. To accomplish our objectives, we interviewed several individuals connected with the plan, solicited information from various organizations involved with deferred compensation programs and mailed 100 surveys to active members of the plan.

This report results from our review and evaluation of various aspects of the deferred compensation program in New Hampshire and is intended solely to inform the Legislative Fiscal Committee of our findings.

We very much appreciate the assistance we received from the New Hampshire Deferred Compensation Commission, members of the State Treasurer's Office and the plan administrator.

Office of Legislative Budget Assistant
OFFICE OF LEGISLATIVE BUDGET ASSISTANT

December, 1987

Executive Summary

General

The State of New Hampshire began its deferred compensation plan in September of 1980. The purpose of the plan is to allow any eligible state employee to elect to delay receipt (defer) a portion of their salary in order to reduce their current associated liability for federal income taxes. As of June 30, 1987, the plan had accumulated a balance of \$21.9 million and had an enrollment of approximately 1,800 employees, a participation rate of 18.6% of all eligible employees.

Investments

Under the provisions of the deferred compensation plan, the State is required to invest the amounts deferred at the direction of the employee in certain types of investments authorized by statute. 83% of plan assets (\$18.1 million) as of June 30, 1987 were invested in a fixed annuity product called Travelers T-Flex. This product pays a fixed interest rate on contributions (with a guaranteed minimum) which varies depending upon the rate in effect at the time of deferral. The remaining 17% (\$3.8 million) of the assets in the plan were spread between several plan options listed on page eight of this report.

Administration of the Plan

RSA 101-B (Appendix H) established a Deferred Compensation Commission and charged it with the responsibility of contracting with an administrator or custodian of deferred compensation plans. After a competitive bidding process, H. C. Copeland Administrative Services, Inc. (Copeland), Iselin, New Jersey, was chosen as administrator of the plan. As plan administrator, Copeland is responsible for directing employee salary reductions to the appropriate investment vehicles, recordkeeping and reporting to both the employee and Commission. Copeland also provides numerous other services as required by their agreement with the Commission such as the preparation of explanatory literature for employees, group and individual enrollment sessions and all other activities necessary for the day-to-day administration of the plan. The Deferred Compensation Commission, however, has final decision authority with respect to the plan's administration.

Conclusions and Recommendations

In general, the plan administrator has been effective in the administration of the plan. However, the administrator's performance, and the Deferred Compensation Commission's oversight of that performance, has been seriously deficient in one important area.

Conclusions and Recommendations (Continued)

An annual audit is required to be performed and submitted to the Deferred Compensation Commission no later than ninety days after the end of the plan administrator's fiscal year (June 30), according to the terms of the agreement between Copeland and the Commission. For the first five years of the plan's operation, an audit had not been performed. The first audit report covering fiscal year 1986 was not received until April of 1987. A copy of this audit report follows as Appendix F.

We attribute the lack of effective oversight for the performance of the audit, in part, to the Commission's membership structure. Because the Commission's membership is comprised of state employees whose time is already under constraint by virtue of their normal duties, and because the deferred compensation plan is required to be operated without expense to the State (aside from incidental expenses of payroll reductions), responsibility for administrative accountability has not yet been fixed in one office.

We recommend the Legislature reconsider the structure of the Deferred Compensation Commission and its placement within state government. We also recommend the Commission be given the resources it needs to effectively oversee the management of the assets for which the State holds fiduciary responsibility.

The other primary objective of our review was to measure the degree of participant satisfaction with the plan. Again, we believe plan participants are fairly pleased with the administration of the plan. In a survey of 100 plan participants which covered various aspects of the plan, including investment return and the performance of the administrator, average responses fell between 6.05 and 6.93 on a scale of 1 to 10, with 10 being the most favorable rating. In other words, satisfaction with the plan is above average. The survey is included in this report as Appendix I.

In spite of this participant satisfaction, we believe the Commission should continually assess the quality and competitiveness of the investment products offered under the plan. It appears that relatively little consideration has been given to offering new or different products, since the most recent product was added in 1983. The Commission should also strengthen its oversight of the administrator in other important areas relative to timely plan reviews and duplicate records and further, by enforcing all of the provisions of its agreement with Copeland.

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INTRODUCTION

Two recent events have increased interest in deferred compensation plans.

With the passage of the Tax Reform Act (TRA) in 1986, we expect renewed interest in deferred compensation plans due to the changes that were made relating to individual retirement accounts (IRA's). Prior to the TRA, individuals were entitled to participate in an IRA as well as a retirement plan. The TRA has eliminated the tax deductibility of an IRA when the individual is also actively participating in a retirement plan. However, the tax advantages of deferred compensation plans have escaped reform and deferred compensation plans remain as a significant means of deferring income until retirement, easing the tax burden during the highest income years and shifting it until retirement, when the tax liability will most likely be lower.

A second event leading to our interest in the New Hampshire Deferred Compensation Plan relates to the Governmental Accounting Standards Board (GASB) Statement No. 2 - Financial Reporting of Deferred Compensation Plans adopted under the provisions of Internal Revenue Code (IRC) Section 457. This statement requires employers using governmental fund accounting to include IRC Section 457 deferred compensation plan balances in an agency fund in the Comprehensive Annual Financial Report (CAFR). Prior to the issuance of this Statement, the assets and liabilities of the plan were not reported in the CAFR. The balance sheet should display plan assets with a corresponding liability to employees for deferred compensation and accumulated net earnings thereon. It also requires footnote disclosure explaining plan ownership and the government's fiduciary responsibilities under the plan. The inclusion of the deferred compensation plan balances in the State's CAFR will increase the Trust and Agency Fund by approximately \$21.9 million in fiscal year 1987.

In September of 1980, the State of New Hampshire introduced a new benefit to state employees through the adoption of a deferred compensation plan under the provisions of IRC Section 457. The plan is available to any state employee wishing to defer receipt of a portion of their salary and the associated liability for federal income taxes, generally until the time of retirement. Employees or their beneficiaries are also entitled to withdraw plan assets upon termination of employment, death, or upon the occurrence of an unforeseeable emergency.

To place New Hampshire's plan in perspective in relation to similar plans offered in New England, the following chart provides basic information related to deferred compensation plans offered by other New England states.

DEFERRED COMPENSATION PLAN¹
New England Comparisons

Plan Profiles
As of 1986

	<u>Maine</u>	<u>Vermont</u>	<u>Conn.</u>	<u>Mass.</u>	<u>R.I.</u>	<u>N.H.</u>
Total Plan Assets (in millions)	\$ 28.0	\$ 13.6	\$ 63.8	\$ 150.0	\$ 24.0	\$ 14.9
Eligible State employees	14,000	6,500	26,000	85,000	20,000	10,000
Enrollments	1,632	1,632	4,042	16,500	1,358	1,817
Participation Rate	11.7%	22.4%	12%	20%	5%	18.6%
Total Yearly Deferral (in millions)	\$ 3.6	\$ 2.9	\$ 13.1	\$ 13.0	\$ 3.3	\$ 3.6
Avg. Annual Deferral per participant	\$ 2,571	\$ 2,208	\$ 2,752	\$ 867	\$ 2,623	\$ 1,976

¹ For states other than New Hampshire, data was extracted from National Association of Government Deferred Compensation Administrators - National Survey-1986. Data for New Hampshire was obtained from the plan administrator.

PROVISIONS OF INTERNAL REVENUE CODE
SECTION 457 - HIGHLIGHTS

An eligible deferred compensation plan, according to IRC Section 457, is subject to the following requirements:

- a. All amounts of compensation deferred under the plan,
- b. All property and rights purchased with such amounts, and
- c. All income attributable to such amounts, property, or rights,

shall remain (until made available to the participant or other beneficiary) solely the property and rights of the state (without being restricted to the provision of benefits under the plan) subject only to the claims of the state's general creditors.²

IRC Section 457 allows for independent nongovernmental third party administration of the plan or the governmental entity itself may choose to administer the plan. In either case, the assets and related earnings of the plan belong to the government. However, plan participants generally assume the risk for losses that may arise from plan investments, given that due care has been exercised by both the plan administrator and the governmental entity in managing the investments and in selecting a third party administrator.

SUMMARY OF ENABLING STATE LEGISLATION

RSA Chapter 101-B established the public employees deferred compensation plan in statute. RSA 101-B:1 defines employee as "any person whether appointed, elected or under contract, providing services for the state, county, city, town or other political subdivision, for which compensation is paid." The New Hampshire Deferred Compensation Commission was established by statute in RSA 101-B:2. The Commission consists of the State Treasurer, the State Comptroller, the Insurance Commissioner, and the Attorney General or their designees. One additional member is appointed by the Governor, with the advice and consent of the Council, as a public employee at-large for a term of three years. The Commission is required to operate the plan without cost to the state or any political subdivision and the State's liability is limited to the value of the fixed or variable life insurance or annuity contract purchased on behalf of the employee.

² GASB Statement No. 2 - Financial Reporting of Deferred Compensation Plans adopted under the Provision of Internal Revenue Code Section 457, pg. 1.

SUMMARY OF ENABLING LEGISLATION (Continued)

Investments are limited by statute to fixed annuities, variable annuities, life insurance, mutual funds or bank accounts. The Commission is also charged by statute in RSA 101-B:3 "to contract with an administrator or custodian of deferred compensation plans for the administration of assets accumulated under each employee participant's account" through a competitive bidding process.

PLAN ADMINISTRATION

From the outset of the plan offering, and after engaging in competitive bidding, the State of New Hampshire has chosen to use an independent third party administrator, H. C. Copeland Administrative Services, Inc. (Copeland) to help develop, implement and administer the plan. They are also responsible for marketing the plan and assisting eligible State employees with technical questions, providing assistance related to the administration of participant accounts, and providing comprehensive reports to individual participants and to the New Hampshire Deferred Compensation Commission. The contract with Copeland was initially signed for a three year period on July 11, 1980 with automatic three year renewal periods unless otherwise notified in writing. Copeland has been retained as the exclusive plan administrator to date.

Our review of the agreement between H. C. Copeland Administrative Services, Inc. and the New Hampshire Deferred Compensation Commission has revealed an important provision that has been neglected or unenforced throughout the first five years of the contract. Copeland failed to provide the State with an annual audit for the first five years of the plan as required in paragraph 10(b) of the agreement. We feel the failure of Copeland to provide the audit, and the failure of the Commission to secure an annual audit, is evidence of a severe lack of administrative oversight on the part of the Commission and on the part of Copeland.

We attribute the lack of the Commission's oversight, in part, to the structure of the Commission. Because the Commission is structured in such a way as to enlist the part-time assistance of members, whose time is already under constraint by virtue of their positions within State government, the responsibility for maintaining administrative accountability has not been fixed in one office. The membership composition of the Commission has also undergone several changes over the years which has magnified the lack of administrative oversight.

During these transitions, important historical data covering plan contributions, investment income and plan deductions has been misplaced and cannot be reconstructed. Paragraph 13(b) of the agreement between Copeland and the Commission says "the plan administrator shall keep duplicate computer tapes or discs of all records being maintained by the Plan Administrator in connection with its administration of the

PLAN ADMINISTRATION (Continued)

Deferred Compensation Plan. Those duplicate records shall, at all times, be kept in a place of safe keeping as approved by the Commission and shall be updated at least semi-annually." Despite this clause, Copeland has not kept duplicate records. The failure to maintain duplicate records, combined with the failure of the Commission to insist upon receiving annual audited financial statements, has resulted in a reporting gap from September, 1980 through June 30, 1985.

The current Commission members recognized the importance of an audit and have obtained the first audit report from Copeland since the inception of the plan (Appendix F). The audit covered fiscal year 1986 but was not available until April of 1987, despite the fact the agreement with Copeland stipulates that annual audit reports are to be submitted no later than ninety days after June 30. In December of 1987, two months later than stipulated, the Commission received the audit report for fiscal year 1987 (Appendix G).

Recommendation

We recommend the Legislature reconsider the structure of the Commission and its placement within state government in light of the Commission's administrative failings as well as the significant growth of the plan. As of June 30, 1987, plan assets totalled \$21.9 million. Given this size and the expected continued growth of approximately \$6 million per year, we feel the plan is deserving of increased attention, including access to the advise of professional money managers.

In the meantime, requirements as significant as annual audited financial statements and the maintenance of historical records cannot continue to be overlooked. The Commission should be provided with the resources to effectively manage the assets for which the State holds fiduciary responsibility and the Commission should organize itself so that major oversights do not occur.

PLAN PROFILE

Growth

The growth of the plan is summarized in the chart below which captures many of the statistics associated with the Deferred Compensation Plan in New Hampshire since it began in September, 1980.

SUMMARY OF PLAN GROWTH³

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
Number of Participants	300	954	980	1,176	1,308	1,329	1,817
Gross Contributions	\$ 312,269	1,532,120	1,870,650	2,263,982	2,818,807	3,102,998	3,591,119
Average Annual Deferral	\$ 1,040	1,605	1,908	1,925	2,155	2,334	1,976
Eligible Employees	9,682	9,562	10,602	9,462	9,412	9,375	9,777
Participation Rate - %	3.1%	10.0%	9.2%	12.43%	13.9%	14.18%	18.6%

³ Eligible employees per New Hampshire Division of Personnel. Other information provided by Plan Administrator, H. C. Copeland Administrative Services, Inc.

Description of Investment Products

The Commission is responsible for selecting and approving investment products offered under the plan. The State offers a number of alternatives to plan participants. They include savings accounts, fixed annuities and variable annuities.

Variable Annuities

A variable annuity is linked to the performance of a specified pool of investments. Both the premium paid by the investor and the annuity payment is affected by the investment pool. The State offers variable annuity products ranging from conservative investments in relatively secure money market instruments to highly aggressive stock funds investing in speculative and emerging growth stocks. Several bond funds are also offered aimed at seeking high current income with varying degrees of risk depending upon the individual fund objective. Other options include funds covering all investment types (stocks, bonds, money market instruments, options, convertibles) managed to take advantage of changing market conditions. Naturally, the more aggressive the approach, the greater the potential return and the greater the risk. A summary of the variable annuity funds and their objectives is provided in Appendix A on page twenty-three. Appendix B provides a summary of the various fees and withdrawal penalties imposed by the carriers of the variable annuity products offered to plan participants.

Fixed Annuities

A fixed annuity, as opposed to a variable annuity, offers the investor an annuity payment set at the time the annuity begins. During the deferred period, premiums are accumulated at rates of interest set by the carrier. The State offers three fixed annuity alternatives summarized in Appendix C on page twenty-five in addition to the variable annuity options explained in Appendix A.

Savings Accounts

The plan also offers investment in standard savings accounts which pay the current interest rate to all money on deposit. This option is carried by a New Hampshire bank.

Investment Portfolio

As of June 30, 1987 the deferred compensation plan in New Hampshire was invested in the following mix of investment products. Plan participants have invested 83% of the assets in a conservative fixed annuity product, Travelers T-Flex.

<u>INVESTMENT</u>	<u>PLAN ASSETS AS OF</u> <u>JUNE 30, 1987</u>
Keystone Amer. Liquid Trust	\$ 163,812.73
Keystone B-1	49,502.18
Keystone B-2	51,766.02
Keystone B-4	14,581.07
Keystone S1	154,297.34
Keystone S3	191,280.48
Keystone S4	160,463.93
Lincoln Corporate Bond	7,881.28
Lincoln Growth Fund	6,264.86
Lincoln Fixed Only GFA	4,498.82
Merchants Savings Fund 11	130,510.06
Merchants Savings Fund 22	101,977.59
Travelers T-Flex	18,068,444.36
Travelers UA Growth Stock	469,360.80
Travelers Quality Bond	126,580.43
Travelers Aggressive Stock Trust	7,795.63
Travelers Managed Asset	49,603.53
Travelers UA Money Market	856,395.75
Travelers 15A	521,513.48
Travelers 15ADB	172,092.28
Travelers 15A1	120,855.83
Travelers 15A1 DB	37,142.67
Travelers 16B	404,230.43
	<hr/>
Total Value	\$ <u>21,870,851.55</u> ⁴

⁴ The Copeland Companies, Plan Administered System Quarterly Report as of June 30, 1987 dated August 14, 1987, pgs. 229-232 and Summary of Reconciling Values under cover letter dated December 31, 1987.

Recommendation

The Commission should be continually assessing the quality and competitiveness of investment products offered under the plan. It appears that relatively little consideration has been given to offering additional products or replacing products that have not performed to expectations, since the most recent product added to the plan was in 1983. We recommend the Commission study alternative investment products and take the necessary action to provide plan participants with the most secure and attractive products available in the marketplace today.

This continual assessment is particularly important because the administrator, H. C. Copeland Administrative Services, Inc., is a wholly-owned subsidiary of the Travelers Corporation, the seller of virtually all of the products offered under the plan. This study of alternative investment products and a continual assessment of products offered under the plan would provide plan participants with some comfort concerning possible perceptions of a conflict of interest.

Plan Performance

The performance of the deferred compensation plan in New Hampshire should be considered in light of the overall performance of the financial markets in general. Therefore, general market indicators have been provided as a point of reference in evaluating the performance of the deferred compensation plan's investment alternatives. We have included the Dow Jones Industrial Average and the Standard and Poor's 500 Composite Index, expressed in terms of their annual percentage change (increase or decrease) from 1980 through 1986 for comparison with the variable annuity funds. Prime interest rates and U.S. Treasury Securities (3 year and 10 year) have been provided for comparison with the rates of return for the fixed annuity funds. Appendix D on page twenty-six summarizes the performance of the variable funds since 1980 while Appendix E provides the rates of return on fixed annuity products for the same period.

Other performance comparisons were provided to the Commission by Copeland in their Plan Review, dated April, 1987. The review was submitted to the Commission as required by paragraph 6(m) of the agreement between the New Hampshire Deferred Compensation Commission and Copeland. The Commission should use this document in its evaluation of the investment products made available under the plan.

While any judgement concerning the performance of the plan's investments is admittedly subjective to a certain degree, we believe the returns experienced by the plan's assets were reasonable in comparison to the experience of the financial markets in general.

Benefits

Benefits under the deferred compensation plan can become payable at the retirement, death or separation from service of the participant. In addition, benefits can be payable in the event a participant becomes disabled or in the event of unforeseeable emergencies. It should be noted these are the only circumstances under which benefits can be paid under the plan. Participants do not have the ability to make withdrawals at will.

Should the employee become employed by another employer within the State of New Hampshire which maintains an eligible IRC Section 457 plan, the State may, with the participant's approval, transfer the value of the participant's account to that other employer. However, the other employer's plan must provide for the acceptance of such a transfer.

The participant can choose from among several payout options depending upon individual circumstances. Section VII of the New Hampshire Deferred Compensation Plan (as amended) addresses plan benefits. Section 7.02 entitled Payment Options lists the following options provided they are consistent with the limitations set forth in section 7.03:

- a. Life Annuity,
- b. Life Annuity with payments guaranteed for 5, 10, or 15 years,
- c. Unit Refund Life Annuity,
- d. Joint and Last Survivor Annuity,
- e. Lump Sum,
- f. Payments for a designated period of from 3 to 20 years, and
- g. Any other method of payment agreed upon between the Participant and the Employer.

As of March 31, 1987, 121 individuals were receiving benefits from the plan. Total benefits paid for the quarter ended March 31, 1987 were \$134,640. Another 88 participants elected to defer payout until some future date.

PARTICIPANT SURVEY

One of the primary objectives of our review was to measure the degree of participant satisfaction with the plan. To accomplish this objective, we mailed questionnaires covering various aspects of the plan to 100 plan participants with the largest account values in April of 1987. Gross contributions averaged \$29,880 per participant and account values averaged \$39,480. Naturally, those participants with the largest accumulated assets tended to be employees who have participated in the plan the longest. More than half of those responding have participated for at least six years. We received 82 replies, or an 82% response rate. An overwhelming 91% of the participants intend to continue making contributions until retirement. Four individuals were unsure and only three did not intend to contribute until retirement. These responses make it clear the plan will continue to grow significantly.

Several of the questions centered on determining whether plan participants are generally satisfied with the service and advice they have received from the plan administrator, Copeland. Nearly half of the respondents indicated they relied upon the advice of the administrator when deciding which investment products to choose. The other half relied upon other sources, primarily from personal investment experience. Sixty-five percent indicated they have had occasion to deal with Copeland for reasons other than initiating their account. This degree of reliance on the plan administrator, for both investment advice and account maintenance, is not unexpected. The effectiveness of the plan administrator is a key determinant in evaluating the overall success of, and satisfaction with, the plan.

In general, we feel plan participants are fairly pleased with the deferred compensation plan in New Hampshire. Average responses fell between 6.05 and 6.93 on a scale of one to ten when asked about general satisfaction with plan management. The responses were fairly evenly divided (42 no; 36 yes) when asked if they would like additional investment options added to the plan. They were also asked to comment specifically on additional options they would prefer. It appears, after reviewing the written comments, that plan participants are not as fully informed as they should be in regard to existing plan options. Several responded with requests for additional options, such as mutual funds, that are currently offered in the plan. It's difficult to determine whether they are unaware of these funds or whether they simply want additional funds from which to choose. Several individuals also requested the ability to transfer between funds upon request and without penalty. A copy of the survey is included in Appendix I to this report on page thirty-eight and verbatim comments received from respondents are included in Appendix J.

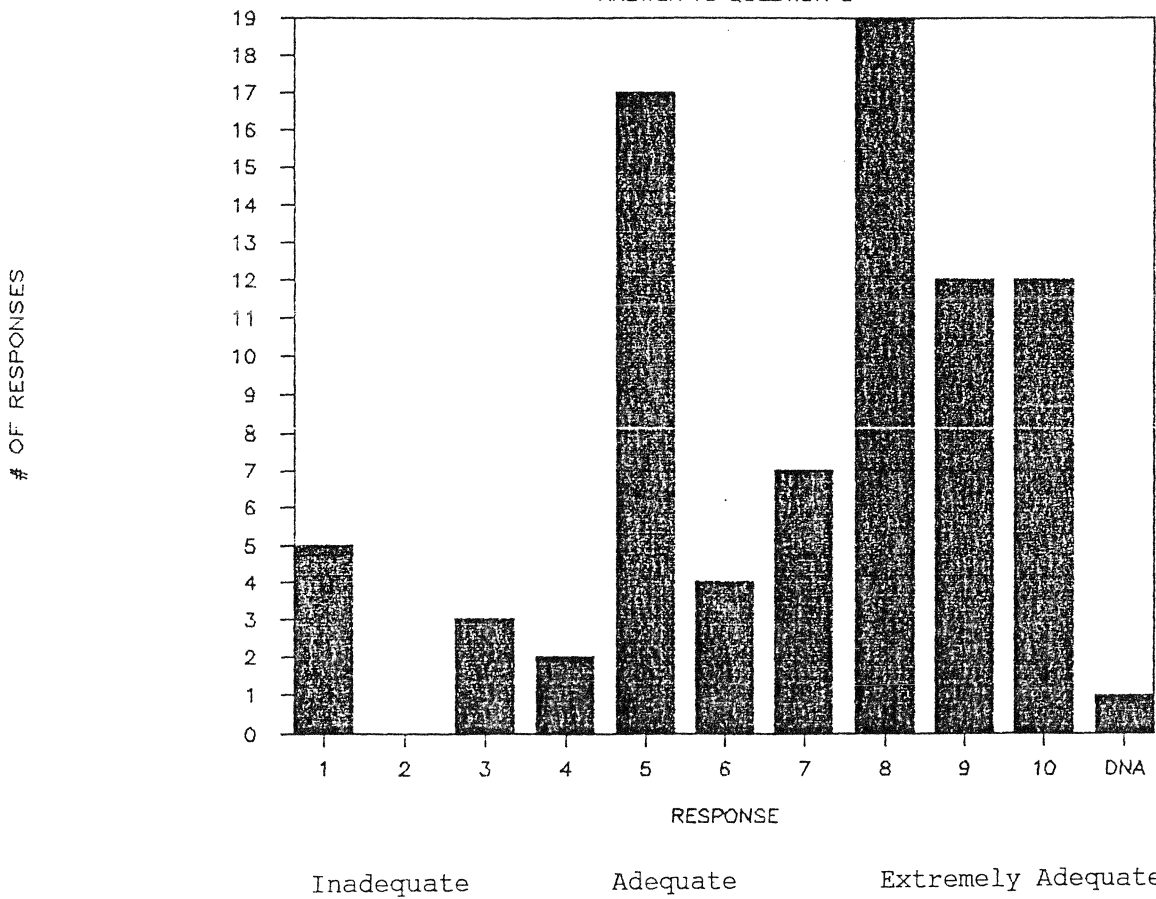
PARTICIPANT SURVEY (Continued)

The following graphs relate the responses we received to various questions posed to participants regarding general satisfaction with the plan administrator. Participants were asked to rate their satisfaction on a scale of one to ten - one being least satisfied, ten being the most satisfied. The question precedes the graph to which it relates.

QUESTION: How would you rate the adequacy of the advice you received from the Plan Administrator, H. C. Copeland, upon joining the plan?

DEFERRED COMPENSATION PLAN SURVEY

ANSWER TO QUESTION 5

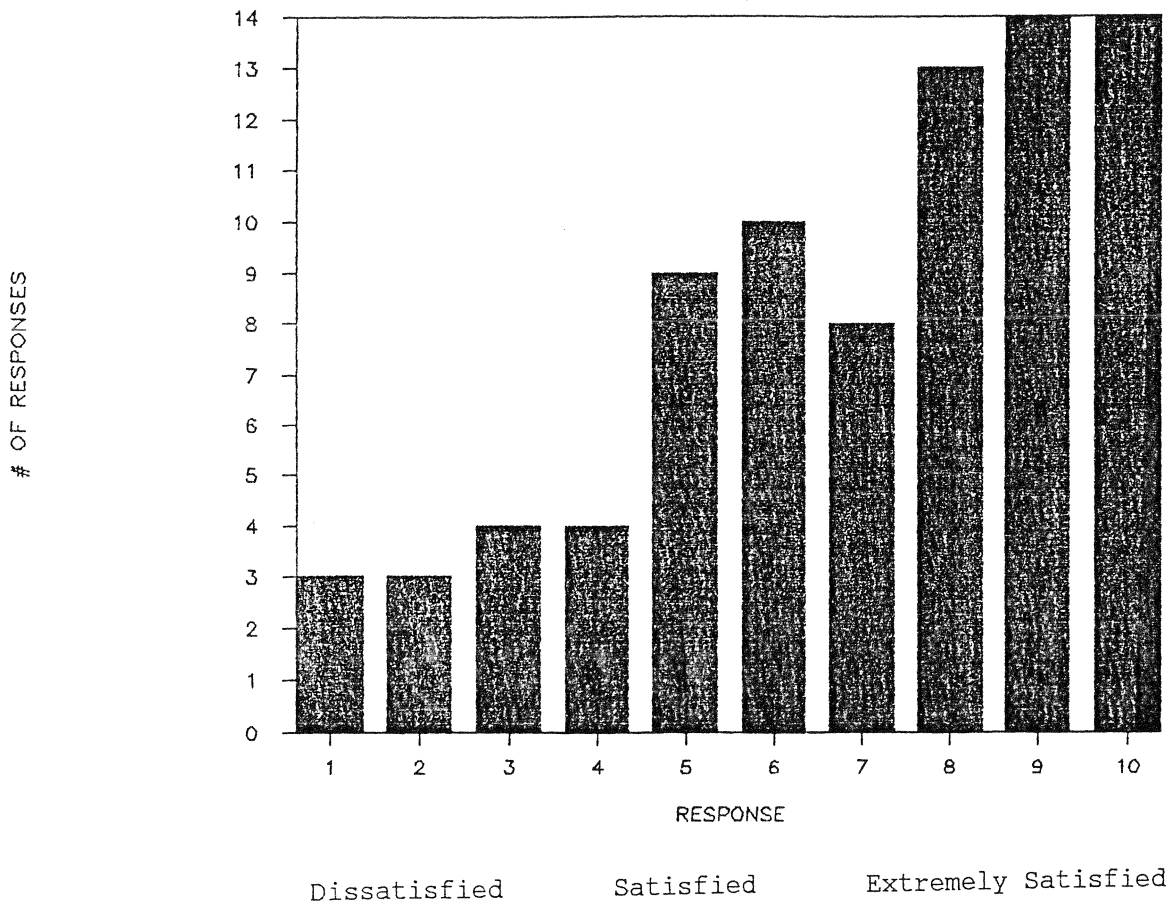


Average - 6.91

QUESTION: How satisfied are you with the level of service you have received since joining the plan?

DEFERRED COMPENSATION PLAN SURVEY

ANSWER TO QUESTION 6

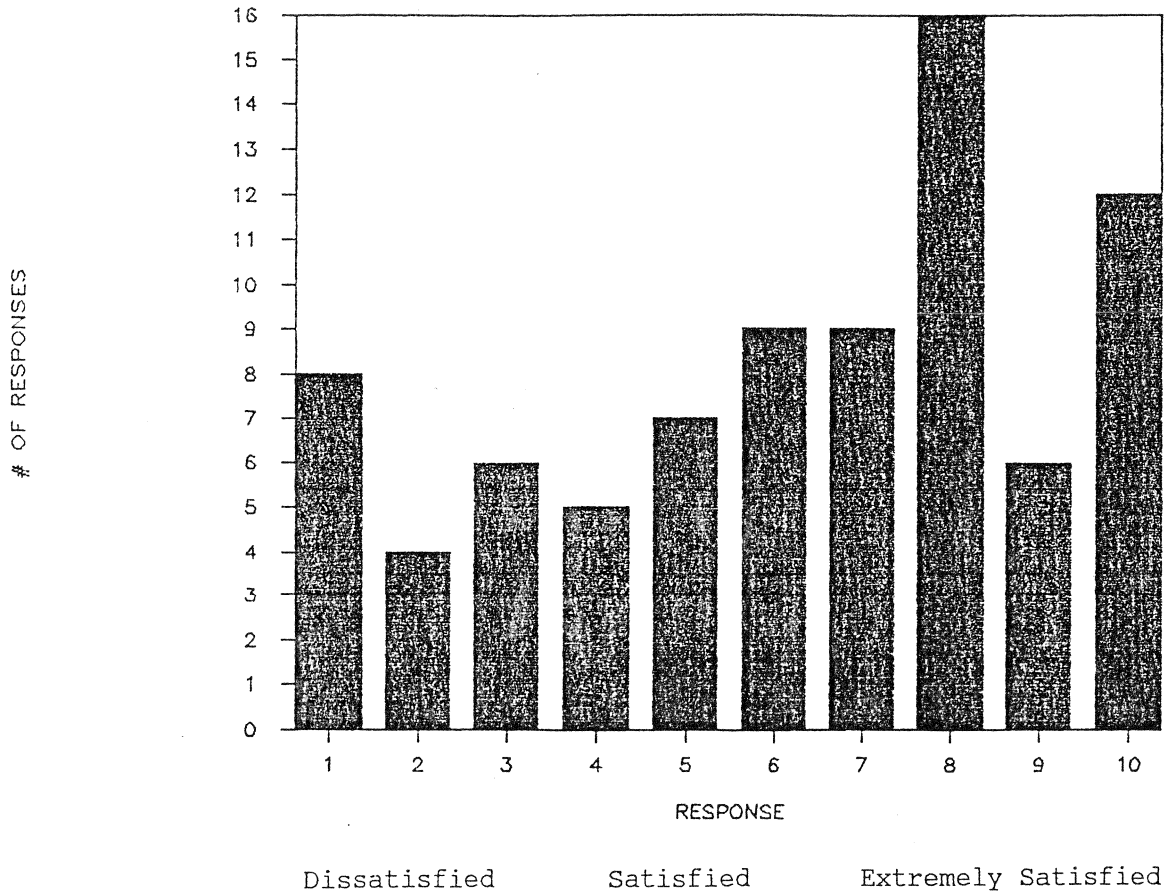


Average - 6.93

QUESTION: How satisfied are you with the timeliness of statements you receive relative to your account?

DEFERRED COMPENSATION PLAN SURVEY

ANSWER TO QUESTION 7

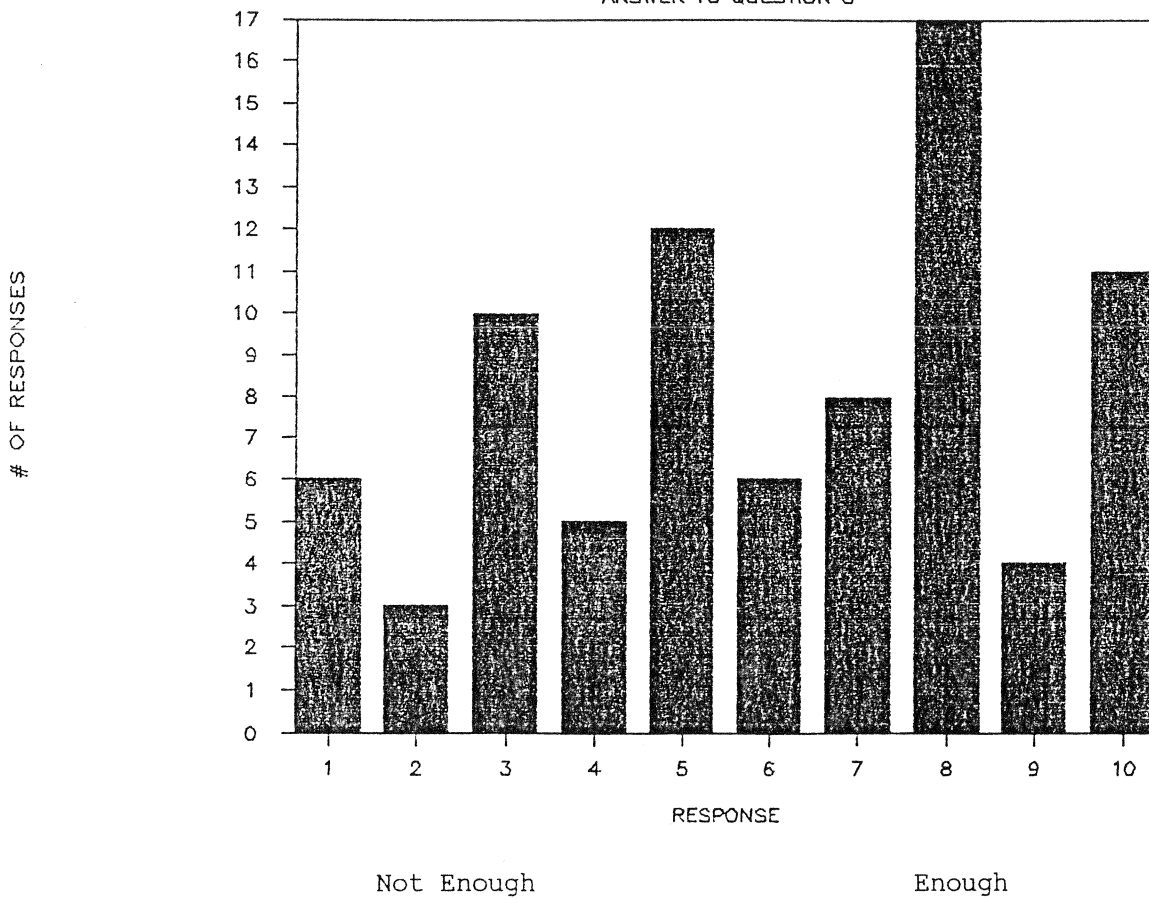


Average - 6.19

QUESTION: Do you receive enough information from the Plan Administrator to evaluate the performance of your investment?

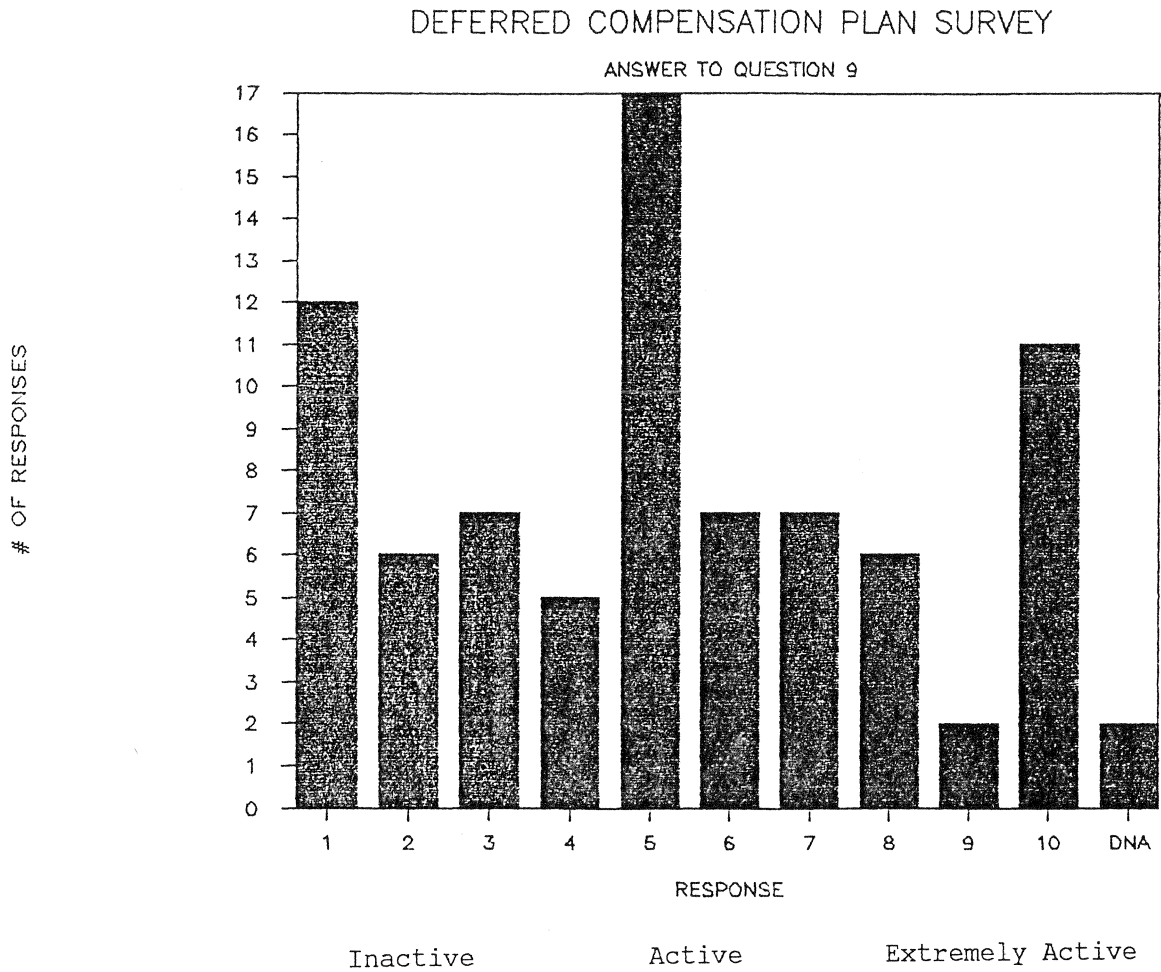
DEFERRED COMPENSATION PLAN SURVEY

ANSWER TO QUESTION 8



Average - 6.05

QUESTION: How active are you in managing your funds?



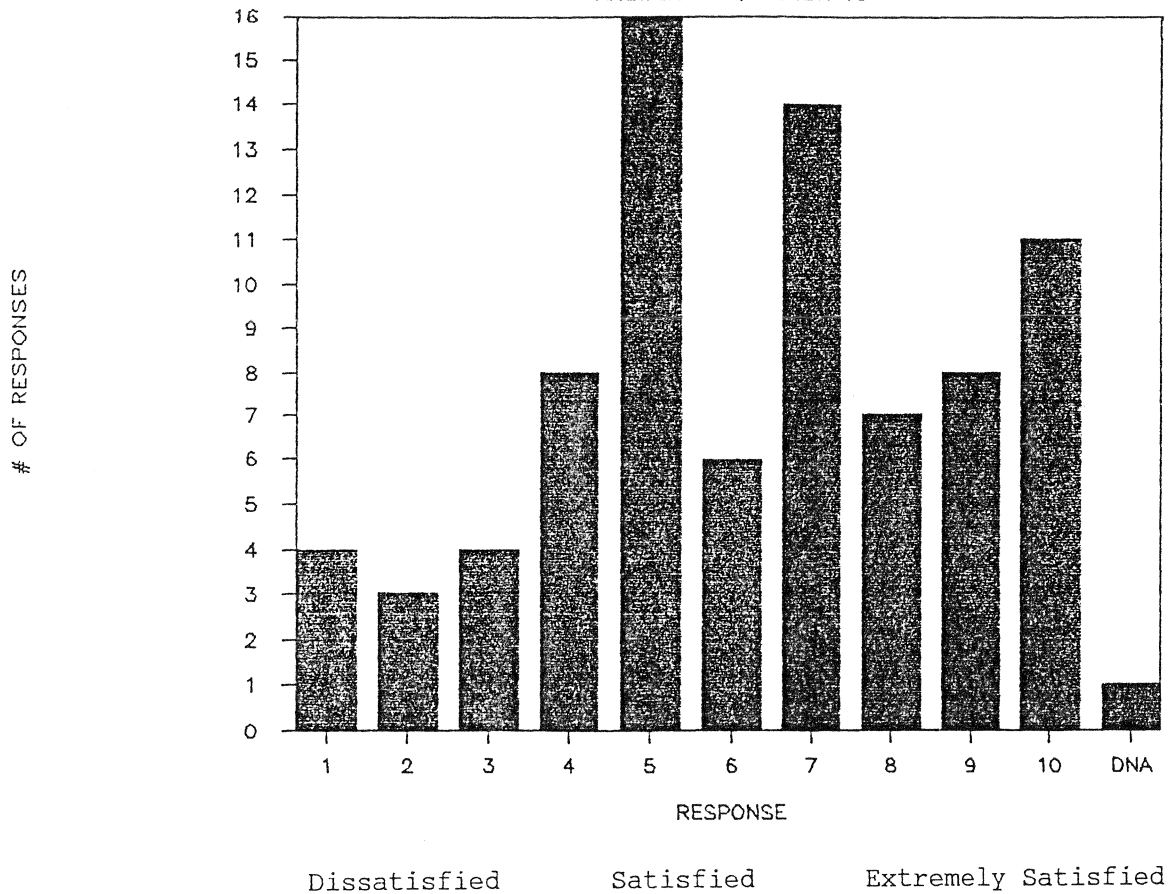
Average - 5.21

Other questions, indirectly related to the plan administrator and more properly related to general management of the plan, are reprinted below.

QUESTION: Are you satisfied with the rate of return that you have received on your investment?

DEFERRED COMPENSATION PLAN SURVEY

ANSWER TO QUESTION 10

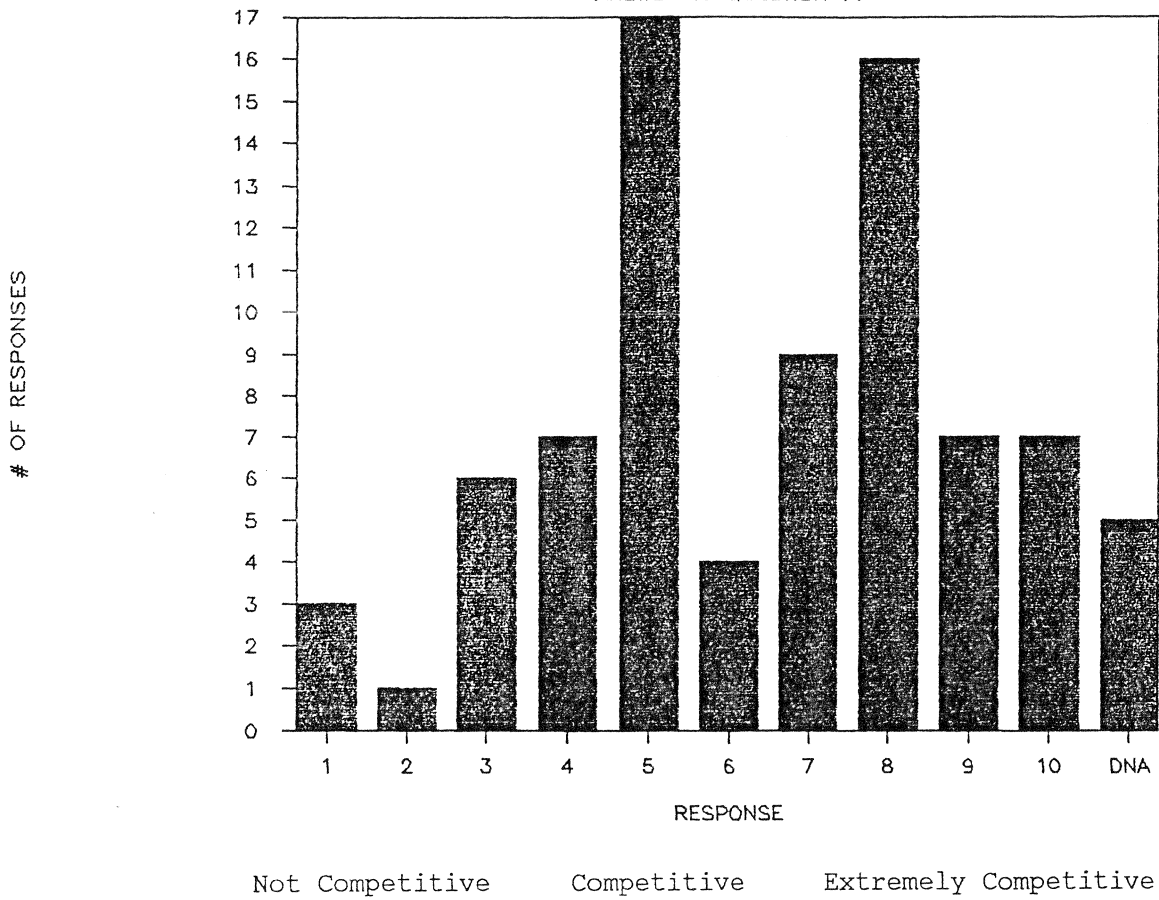


Average - 6.25

QUESTION: Do you feel that the investment products offered in the plan are competitive with other similar investments in the open market?

DEFERRED COMPENSATION PLAN SURVEY

ANSWER TO QUESTION 11



Average - 6.29

JURISDICTION OF THE DEFERRED COMPENSATION COMMISSION

Chapter 264:20 of the Laws of 1977 amended RSA 101 by adding a new chapter, Chapter 101-B, Public Employees Deferred Compensation Plan. This chapter authorized the State and its political subdivisions to contract with any employee to defer any portion of that employee's compensation. It also stipulated that "each county, city, town or other political subdivision shall designate an officer to administer the deferred compensation program."

Chapter 360 of the Laws of 1979 amended Chapter 101-B with the creation of the Deferred Compensation Commission. Chapter 360 deleted all references to the authority of the State's political subdivisions to administer their own deferred compensation plans. Yet, the Deferred Compensation Commission limits itself exclusively to the State's plan, ignoring those of the political subdivisions.

Recommendation

The Legislature should consider legislation which would clarify the role of the Deferred Compensation Commission in the deferred compensation plans of its political subdivisions.

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STATE OF NEW HAMPSHIRE DEFERRED COMPENSATION PLAN

VARIABLE ANNUITY COMPARISON 1

APPENDIX A

Insurance Company	Lincoln National Pension Insurance Company	The Travelers Insurance Company	Copeland Financial Services Inc.	Keystone Provident Life Insurance Company												
Name of Product	Multi-Fund	Universal Annuity	IN-TIME INVESTING Travelers Universal Annuity	Keystone One Hundred Variable												
Number of Funds	5 + fixed option	6 + fixed option	2	8												
Type of Fund, Investment Media and Objective	<ul style="list-style-type: none"> o SPECIAL OPPORTUNITIES Common Stocks and securities convertible into common stock. Seeks maximum capital appreciation o GROWTH FUND Common Stocks - seeks long-term capital appreciation o CORPORATE BOND FUND Investment Grade Bonds seeks high current income o MANAGED FUND Bonds, Stocks, Money Market instruments, and convertibles. Seeks maximum long-term total return (capital gains plus income) o MONEY MARKET FUND Short-term Money Market Instruments Seeks current income and liquidity o FIXED OPTION Portfolio Plus method of crediting interest. Rates are declared monthly and are applied to all deposits received during that month and the next eleven subsequent months. After the guarantee period a portfolio rate is applied to all money. <table border="0" style="margin-left: 20px;"> <tr> <td colspan="2">Current rate - 7.60%</td> </tr> <tr> <td colspan="2">Guaranteed rates:</td> </tr> <tr> <td style="padding-right: 20px;">Years</td> <td>Rate</td> </tr> <tr> <td>1 - 5</td> <td>4.5%</td> </tr> <tr> <td>6 - 10</td> <td>4.0%</td> </tr> <tr> <td>11+</td> <td>3.5%</td> </tr> </table> 	Current rate - 7.60%		Guaranteed rates:		Years	Rate	1 - 5	4.5%	6 - 10	4.0%	11+	3.5%	<ul style="list-style-type: none"> o AGGRESSIVE STOCK TRUST Median quality common stocks that generally move faster than the market o GROWTH STOCK FUND Growth Stock Fund Seeks capital appreciation and retention of net investment income o QUALITY BOND FUND Intermediate-term Debt fund Seeks maximum income consistent with safety of principal o HIGH YIELD BOND TRUST Longer Term Bonds Seeks maximum income without undue risk of principal o MANAGED ASSETS TRUST Managed Portfolio of all types of investments taking advantage of market trends o ACCOUNT MM Money Market Fund Seeks preservation of capital, high liquidity and highest possible current income o FIXED OPTION A Portfolio Method of crediting interest. Current interest is applied to all money on deposit Current rate - 5.00% Guaranteed rate - 3.50% 	<ul style="list-style-type: none"> o GROWTH STOCK FUND Growth Stock Fund seeks capital appreciation and retention of net investment income o MONEY MARKET ACCOUNT Short-term Money Market Instruments seeks current income and liquidity 	<ul style="list-style-type: none"> o KEYSTONE LIQUID TRUST - KLT A high quality money market fund seeking preservation of capital and yields available from short-term money market investments. o MONEY MARKET/OPTIONS INVESTMENTS, INC. - MM/OI A unique money market fund, designed to provide the conservative investor with long-term total returns. The fund invests in money market instruments with participation in the equity market through a tightly-controlled option buying program. o CONSERVATIVE BOND FUND B-1 This fund seeks a high level of income consistent with preservation of principal through investing in high and good grade bonds, and short-term money market instruments. o INVESTMENT GRADE BOND - FUND B-2 Current income with relative stability principal is the objective of B-2. This corporate bond fund is substantially more conservative than the average stock fund, but more aggressive than B o DISCOUNT BOND - FUND B-4 The most aggressive of the bond funds seeking high yields through a portfolio lower-grade and discount bonds. o BLUE CHIP STOCK - FUND S-1 Seeks capital appreciation and growth income from a portfolio of large, well-known companies with established dividend records. Sensitivity to price changes has historically been similar to the market, as measured by the S & P 500. o GROWTH STOCK - FUND S-3 Aims for long-term growth of capital from a diversified portfolio of leading cyclical and growth stocks with wide price fluctuations and varying dividends. The fund's sensitivity to price changes typically greater than average. o AGGRESSIVE STOCK - FUND S-4 A portfolio of speculative and emerging growth stocks seeking highest attainable capital appreciation. Since this fund is among the most aggressive in seeking growth, its price sensitivity is the highest of all Keystone Funds.
Current rate - 7.60%																
Guaranteed rates:																
Years	Rate															
1 - 5	4.5%															
6 - 10	4.0%															
11+	3.5%															

¹ Source: State of New Hampshire, Deferred Compensation Plan, Plan Review, April, 1987, provided by Plan Administrator, H. C. Copeland Administrative Services, Inc.

STATE OF NEW HAMPSHIRE DEFERRED COMPENSATION PLAN

VARIABLE ANNUITY COMPARISON¹

APPENDIX B

Insurance Company	Lincoln National Pension Insurance Company	The Travelers Insurance Company	Copeland Financial Services Inc.	Keystone Provident Life Insurance Company
Transfers	- Minimum of \$500 allowed every 30 days - Fixed value transfers may not exceed 25% in any twelve month period - No charge	- Any amount at any frequency desired - No charge	- Funds are automatically transferred based on timed signals	- Transfers between funds, without charge up to 5 times among separate account in a calendar year or three times in a calendar quarter.
Sales Charge	None	None	None	None
Administrative Charge	\$25 Annually	\$30 Annually (not applicable if only Fixed Option is used)	\$30 one time fee (IN-TIME) \$30 annually (Universal Annuity)	\$30 Annually
Asset Charge:			1.25% annual charge assessed quarterly	
Management Fee	Charge .48% of 200 million NAV .40% of next million NAV .30% of over 400 million NAV	Fund Charge Growth Stock .3233% Quality Bond .3233% Fund MM .3233% Agressive Stock .70% High Yield Bond .50% + 2% of gross dividends and interest income Managed Asset .50%	Fund Charge Growth Stock .3233% Fund MM .3233%	Fund Charge Liquid Trust .50% MMOI .61% B-1 .46% B-2 .55% B-4 .56% S-1 .53% S-3 .57% S-4 .60%
Mortality Risk	1.002%	1.25%	1.25%	1.00%
Withdrawal Provisions				After the first contract year 7% of the accumulated value may be withdrawn per year without penalty.
- Free Withdrawal	15% of the contract value on the first partial withdrawal may be withdrawn without penalty in any contract year	10% of account value may be withdrawn per year after first twelve months. Applies to partial withdrawals only	10% of account value may be withdrawn per year after first twelve months. Applies to partial withdrawals only	
- Withdrawal Charge	Based on contract year as follows: Contract Year Charge 1 - 5 8% 6 - 10 4 11 + 0	5% for 5 years deferred sales charge on each payment. Charged only on payment amount, not appreciation.	5% for 5 years deferred sales charge on each payment. Charged only on payment amount, not appreciation.	Monies withdrawn beyond the Free Withdrawal Allowance will be subject to a Contingent Deferred Sales Charge as follows: Year Charge 1 5% 2 4 3 3 4 2 5 1 6+ 0
- Waiver of Withdrawal Charges	o Death o Disability o Annuitization o Periodic payout of 3 years or more o Financial Hardship	o Death o Annuitization o Periodic payout of 3 years or more o Financial Hardship	o Death o Annuitization o Periodic payout of 3 years or more o Financial Hardship	o Death o Disability o Five-year payout or more o Financial Hardship

¹ Source: State of New Hampshire, Deferred Compensation Plan, Plan Review, April, 1987, provided by Plan Administrator, H. C. Copeland Administrative Services, Inc.

STATE OF NEW HAMPSHIRE ¹
 FIXED ANNUITY COMPARISON
 Prepared By The Copeland Companies
 April 1987

Insurance Company	Lincoln National Pension Insurance Company	The Travelers Insurance Company	The Travelers* Insurance Company								
Name of Product	Group Fixed Annuity	T-Flex	16(b)								
Front End Sales Charge	None	None	None								
Administrative Charge	None	None	\$5.00 quarterly deducted from excess interest								
Interest Crediting Method	Portfolio Plus. Rates are declared quarterly and are applied to all deposits received during that quarter and the next three subsequent quarters. After the guarantee period a portfolio rate is applied to all money.	Investment Year Method. The new money interest rate is determined at beginning of each month for that month. All contributions at the time of deposit are guaranteed to earn the current rate for at least twelve months.	A Portfolio Method fixed dollar account. Current interest rate is applied to all money on deposit.								
Current Interest Rate	8.00%	8.00%	8.50%								
Guaranteed Interest Rate	<table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="text-align: left;">Contract Year</th> <th style="text-align: left;">Charge</th> </tr> </thead> <tbody> <tr> <td>1 - 5</td> <td>6.0%</td> </tr> <tr> <td>6 - 10</td> <td>4.0</td> </tr> <tr> <td>11 +</td> <td>3.5</td> </tr> </tbody> </table>	Contract Year	Charge	1 - 5	6.0%	6 - 10	4.0	11 +	3.5	3.50%	3.50%
Contract Year	Charge										
1 - 5	6.0%										
6 - 10	4.0										
11 +	3.5										
Withdrawal Provisions											
- Free Withdrawal Provisions	None	10% per year after the first twelve months on partial withdrawals only	Years 1 and 2 - \$500 Years 3 through 15 - 10% of Cash Value								
- Withdrawal Charges	<p>Based on contract year as follows:</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="text-align: left;">Contract Year</th> <th style="text-align: left;">Charge</th> </tr> </thead> <tbody> <tr> <td>1 - 5</td> <td>8%</td> </tr> <tr> <td>6 - 10</td> <td>4%</td> </tr> <tr> <td>11 +</td> <td>0%</td> </tr> </tbody> </table> <p>* Applies to termination of employment for other than retirement or disability. Also applies to capital transfers. An interest adjustment may also be applicable for entire plan termination. Withdrawals are processed on a FIFO basis</p>	Contract Year	Charge	1 - 5	8%	6 - 10	4%	11 +	0%	<p>The deferred sales charge is a level 7% for 5 years on each payment. Each payment starts its own five-year period. Charge assessed only on the payment amount, <u>not</u> on the appreciation.</p>	<p>If a participant requests a surrender amount in excess of the "Free Withdrawal Allowance" there will be a Reduction in Excess Interest for Premature Surrender. It is assessed in the following manner: <u>Contract years 1 and 2:</u> No charge on the first \$500 of the contract's cash value; 7% charge on amounts over \$500. <u>Contract years 3 through 10:</u> No charge on 10% of the contract cash value as of surrender date, less any previous surrenders during the contract year; 7% charge on surrenders above that amount. <u>Contract years 11 through 15:</u> No charge on 10% of the contract cash value as of surrender date, less any previous surrenders during the contract year; 6% charge on surrenders over this amount.</p>
Contract Year	Charge										
1 - 5	8%										
6 - 10	4%										
11 +	0%										
- Waiver of Withdrawal Charge	<ul style="list-style-type: none"> - Death - Disability - Annuitization - Periodic payout of 3 years or more - Financial Hardship - Lump sum distribution at retirement 	<ul style="list-style-type: none"> - Death - Annuitization - Periodic payout of 3 years or more - Financial hardship 	<ul style="list-style-type: none"> - Death - Annuitization - Any level periodic payout of 5 years or longer without rights of commutation 								

* This product not currently being sold to new clients. Please contact your Copeland Account Executive for more complete information.

¹ Source: State of New Hampshire, Deferred Compensation Plan,
 Plan Review, April, 1987, provided by Plan Administrator, H. C.
 Copeland Administrative Services, Inc.

STATE OF NEW HAMPSHIRE - DEFERRED COMPENSATION PLAN
VARIABLE ANNUITY - FUND PERFORMANCE
(PERCENT CHANGE)

APPENDIX D

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
<u>MARKET INDICATORS</u>							
Dow Jones Industrial Average ¹	14.96%	-8.60%	19.86%	19.09%	-3.28%	25.60%	22.58%
Standard and Poor's 500 ²	25.77%	-9.73%	14.76%	17.27%	.008%	26.72%	15.52%

<u>VARIABLE FUND PERFORMANCE</u> ³							
<u>Insurance Company</u>							
(a)							
Keystone 100							
Money Market Funds							
Keystone Liquid Trust	+12.61%	+16.68%	+11.10%	+ 7.21%	+ 8.74%	+ 6.34%	+ 4.90%
Money Market/Option Investments, Inc.	+32.95	- 5.55	+26.11	+ 6.71	- 4.31	+17.24	+16.30
Bond Funds							
Keystone B-1	+ 1.83	+ 5.3	+35.41	+ 7.70	+ 9.86	+20.48	+12.78%
Keystone B-2	+ 6.18	+ 9.2	+32.27	+ 9.35	+ 5.94	+22.09	+11.42
Keystone B-4	+ 8.48	+10.1	+30.25	+14.46	+ 3.80	+19.28	+ 8.61
Balanced Fund							
Massachusetts Fund	+14.32	- 2.6	+26.97	+18.15	Fund Closed 11/24/84		
Stock Funds							
Keystone S-1	+23.47	-13.9	+23.39	+19.17	- 3.14	+23.00	+16.14
Keystone S-3	+30.39	- 3.3	+24.11	+23.94	-10.33	+21.98	+15.01
Keystone S-4	+60.53	-23.3	+18.93	+22.75	-21.81	+26.97	+ 4.95
(b)							
Lincoln Multi-Fund							
Growth	--	--	+24.31%	+15.85%	- 2.20%	+30.25%	+16.38%
Corporate Bond	--	--	+26.27	+ 9.36	+11.43	+20.55	+16.18
Money Market	--	--	+10.44	+ 8.13	+ 9.30	+ 6.90	+ 5.52
Special Opportunities	--	--	+31.23	+22.18	-12.65	+39.29	- 3.54
Managed	--	--	--	+ 2.10	+ 5.04	+22.62	+13.31
(c)							
Travelers Universal Annuity							
Growth Stock	+42.2 %	- 9.4 %	+17.93%	+14.19%	- 1.38%	+19.09%	+14.15%
Quality Bond	+ 5.6	+11.1	+22.93	+ 7.83	+12.30	+15.30	+10.88
Fund MM	--	--	--	+ 7.47	+ 9.50	+ 6.46	+ 5.34
Aggressive Stock	--	--	--	--	-11.75	+28.43	+18.57
High Yield Bond	--	--	--	--	+10.35	+16.79	+ 6.64
Managed Asset	--	--	--	--	-19.19	+25.22	+17.57
IN-TIME INVESTING*	--	--	--	--	+ 5.60	+14.50	+14.10

*IN-TIME first became available on July 16, 1984.

- (a) Pre-1982 Keystone figures are for those mutual funds available prior to the existence of the Keystone One Hundred Variable Annuity Contract. Consequently, figures for 1979-1981 do not consider the 1% a year insurance charge that is assessed under the annuity contract.
- (b) Lincoln Multi-Fund became available September 1981 and the Managed Fund began on May 1, 1983.
- (c) Travelers Universal Annuity first became available May 1983. The Growth, Quality Bond and Money Market Funds were available under a previous contract.

¹ The Dow Jones-Irwin Business and Investment Almanac-1987-Dow Jones-Irwin.

² Wall Street Journal, Stock Market Data Bank as of December 31 of each year 1979-1986 and as of August 27, 1987.

³ Information provided by Plan Administrator, H. C. Copeland Administrative Services, Inc.

STATE OF NEW HAMPSHIRE DEFERRED COMPENSATION PLAN
FIXED ANNUITY - FUND PERFORMANCE
 (AVERAGE PERCENT PER ANNUM)

APPENDIX E

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
<u>MARKET INDICATORS</u> ¹							
Prime Interest Rate	15.27%	18.87%	14.86%	10.79%	12.04%	9.71%	8.50%
U.S. Treasury Securities:							
- 3 year	11.55%	14.44%	12.92%	10.45%	11.89%	9.15%	7.06%
- 10 year	11.46%	13.91%	13.0 %	11.10%	12.44%	10.13%	7.68%

<u>FIXED ANNUITY PORTFOLIO-</u>							
<u>Insurance Company</u> ²							
Lincoln							
(a)							
G F A	--	--	12.00-14.15%	11.15-12.00%	11.00-12.00%	10.25-11.50%	8.50- 9.70%
(b)							
Multi-Fund Fixed Option	--	--	--	10.25-10.50%	10.25-11.75%	10.25-11.50%	8.25- 9.70%
Numerica (Merchants Savings)	--	--	11.00%	10.50-11.00%	10.60-11.50%	9.60-10.90%	8.00- 9.35%
Travelers							
T-Flex	10.50-11.10%	11.60-13.00%	12.00-13.00%	11.00-11.75%	11.25-13.00%	10.00-11.50%	8.00-10.00%
(c)							
Universal Annuity Fixed Option	--	--	--	7.25%	7.00- 9.50%	7.00- 7.50%	6.00- 6.50%
16	10.00-11.10%	11.60-13.00%	12.00-13.00%	11.00-10.50%	10.00%	9.50%	8.75- 9.00%

(a) Contract first became available in 1982.

(b) Fixed Option first became available in 1983.

(c) Contract first became available in 1983.

¹ Dow Jones-Irwin, page 405 for information through mid-1986. Federal Reserve Bulletins for remaining data.

² Information provided by Plan Administrator, H. C. Copeland Administrative Services, Inc.

STATE OF NEW HAMPSHIRE
DEFERRED COMPENSATION PLAN

Schedule of Cash Received, Invested and Earned
and Plan Balance (Cash Basis)

June 30, 1986

To The Plan Administrator
State of New Hampshire
Deferred Compensation Plan:

We have examined the Schedule of Cash Received, Invested and Earned and Plan Balance (Cash Basis) of the State of New Hampshire Deferred Compensation Plan administered by The Copeland Companies at June 30, 1986, and for the year ended June 30, 1986. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As described in the note, the schedule is prepared based upon cash receipts and disbursements; consequently, contributions are recognized when received, earnings are recognized upon notification from the company with which the funds are invested, and withdrawals are recognized when paid. Accordingly, the accompanying schedule is not intended to present the activity and plan balance in conformity with generally accepted accounting principles.

In our opinion, the schedule referred to above presents fairly the plan balance of the State of New Hampshire Deferred Compensation Plan administered by The Copeland Companies at June 30, 1986, and the cash received, invested and earned for the year ended June 30, 1986, on the basis of accounting described in the note to the schedule, which has been applied in a manner consistent with that of the preceding year.

Coopers & Lybrand

Hartford, Connecticut
April 20, 1987

STATE OF NEW HAMPSHIRE
DEFERRED COMPENSATION PLAN
ADMINISTERED BY THE COPELAND COMPANIES

SCHEDULE OF CASH RECEIVED, INVESTED AND EARNED
AND PLAN BALANCE (CASH BASIS)

for the year ended June 30, 1986

Cash contributions received from July 1, 1985 to June 30, 1986 on behalf of participants	<u>\$ 3,292,348</u>
Cash invested with The Travelers Insurance Company and Keystone Provident Life Insurance Company, affiliates of The Copeland Companies	\$ 3,257,694
Cash invested with The Lincoln National Life Insurance Company and Merchants Savings Bank	<u>34,654</u>
	3,292,348
Cash paid to participants for contract surrenders	(948,923)
Plan earnings	<u>1,703,871</u>
	4,047,296
Plan balance at July 1, 1985	<u>10,874,036</u>
Plan balance at June 30, 1986	<u>\$14,921,332</u>

Note: The State of New Hampshire Deferred Compensation Plan ("Plan") was established pursuant to Section 457 of The Internal Revenue Code and relates to an agreement between the State of New Hampshire Deferred Compensation Commission and The Copeland Companies. The Plan is an arrangement whereby a public employer (political subdivision of a state) may establish a plan and permit their employees to voluntarily authorize a portion of their current salary to be withheld and invested in annuity products with various insurance carriers. The Copeland Companies were engaged by the State of New Hampshire to provide administrative services to the Plan. The Plan commenced operations in July 1980. Plan contributions are recognized when received, withdrawals when paid and earnings upon notification by the company with which the funds are recognized.

STATE OF NEW HAMPSHIRE
DEFERRED COMPENSATION PLAN
ADMINISTERED BY THE COPELAND COMPANIES

Statement of Changes in Plan Balance

June 30, 1987

STATE OF NEW HAMPSHIRE
DEFERRED COMPENSATION PLAN
ADMINISTERED BY THE COPELAND COMPANIES

STATEMENT OF CHANGES IN PLAN BALANCE

INDEX

	<u>Page</u>
Accountants' Report	1
Statement of Changes in Plan Balance for the year ended June 30, 1987	2
Notes to Statement of Changes in Plan Balance	3

To the Plan Administrator
State of New Hampshire
Deferred Compensation Plan:

We have examined the Statement of Changes in Plan Balance of the State of New Hampshire Deferred Compensation Plan administered by The Copeland Companies for the year ended June 30, 1987. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As described in the notes, contributions are recognized when received, earnings and adjustments to plan value are recognized upon notification from the company with which the funds are invested and withdrawals are recognized when paid. Accordingly, the accompanying financial statement is not intended to present the activity and plan balance in conformity with generally accepted accounting principles.

In our opinion, the statement referred to above presents fairly the plan balance of the State of New Hampshire Deferred Compensation Plan administered by The Copeland Companies at June 30, 1987 and 1986, and the changes in the plan balance for the year ended June 30, 1987, on the basis of accounting described in the notes to the statement, which has been applied in a manner consistent with that of the preceding year after giving retroactive effect to the change, with which we concur, in the method of accounting for annuity contracts as described in Note 2 to the statement.

Coopers & Lybrand

Hartford, Connecticut
October 21, 1987

STATE OF NEW HAMPSHIRE
DEFERRED COMPENSATION PLAN
ADMINISTERED BY THE COPELAND COMPANIES

STATEMENT OF CHANGES IN FUND BALANCE

for the year ended June 30, 1987

Cash contributions received from July 1, 1986 to June 30,
1987 on behalf of participants:

Cash invested with The Travelers Insurance Company and Keystone Provident Life Insurance Company, affiliates of The Copeland Companies	\$ 3,993,821
Cash invested with The Lincoln National Life Insurance Company and Merchants Savings Bank	54,480
	<u>4,048,301</u>
Cash paid to participants for contract surrenders	(265,455)
Cash paid to participants under annuity contracts	(440,747)
Plan earnings and adjustments to plan values	1,974,657
	<u>5,316,756</u>
Plan balance at July 1, 1986 as previously reported	14,921,332
Adjustment for inclusion of annuity contracts	1,632,764
	<u>16,554,096</u>
Plan balance at July 1, 1986 as restated	
Plan balance at June 30, 1987	<u><u>\$21,870,852</u></u>

STATE OF NEW HAMPSHIRE
DEFERRED COMPENSATION PLAN
ADMINISTERED BY THE COPELAND COMPANIES

NOTES TO STATEMENT OF CHANGES IN PLAN BALANCE

1. Plan Description:

The State of New Hampshire Deferred Compensation Plan ("Plan") was established pursuant to Section 457 of The Internal Revenue Code and relates to an agreement between the State of New Hampshire Deferred Compensation Commission and The Copeland Companies. The Plan is an arrangement whereby a public employer (political subdivision of a state) may establish a plan and permit their employees to voluntarily authorize a portion of their current salary to be withheld and invested in annuity products with various insurance carriers. The Copeland Companies were engaged by the State of New Hampshire to provide administrative services to the Plan. The Plan commenced operations in July 1980. Plan contributions are recognized when received, withdrawals when paid and earnings and adjustments to plan values upon notification by the company with which the funds are recognized.

2. Restatement of Plan Balance at July 1, 1986:

Effective July 1, 1986, the Plan adopted Governmental Accounting Standards Board Statement Number 2, Financial Reporting of Deferred Compensation Plans adopted under the Provisions of Internal Revenue Code Section 457 (GASB#2). GASB#2 requires the remaining value of annuity contracts purchased for retired participants to be accounted for as assets of the Plan. Accordingly, the beginning plan balance has been restated to include annuity contracts with a payout value of \$1,632,764 at July 1, 1986. The corresponding payout value of annuity contracts at June 30, 1987 is \$2,816,844.

3. Plan Earnings and Adjustments to Plan Values:

Plan earnings and adjustments to plan values consist of earnings of the underlying investment funds and increases in plan values to reflect the payout value of annuity contracts purchased for retired participants.

CHAPTER 101-B

PUBLIC EMPLOYEES DEFERRED COMPENSATION PLAN

101-B: 1	Definition.	101-B: 5-a	Contract to Enroll in Program.
101-B: 2	Commission Established.	101-B: 6	Addition to Other Retirement Benefits.
101-B: 3	Administrator of Program.	101-B: 7	Financial Liability of State, etc.
101-B: 4	Duties and Powers of Administrator.	101-B: 8	Cost to the State.
101-B: 5	Investments.		

101-B: 1 Definition. In this chapter, "employee" means any person whether appointed, elected or under contract, providing services for the state, county, city, town or other political subdivision, for which compensation is paid.

Source. 1977, 264: 20, eff. Aug. 21, 1977.

101-B: 2 Commission Established. A deferred compensation commission is hereby established consisting of 5 employee members. One member shall be the state treasurer or his designee, one member to be the state comptroller or his designee, one member to be the insurance commissioner or his designee, one member to be the attorney general or his designee and one member a public employee at-large to be appointed by the governor with the advice and consent of the council, for a term of 3 years. Three members shall constitute a quorum for the transaction of business and may act on behalf of the commission.

Source. 1977, 264: 20. 1979, 360: 13, Amendments—1979. Amended generally eff. Aug. 22, 1979. by establishing a deferred compensation commission.

101-B: 3 Administrator of Program. The commission shall contract with an administrator or custodian of deferred compensation plans for the administration of assets accumulated under each employee participant's account. The commission shall appoint said administrator or custodian through competitive bidding.

Source. 1977, 264: 20. 1979, 360: 14, Amendments—1979. Provided for the eff. Aug. 22, 1979. administration of the program and the commission to appoint administrator or custodian through competitive bidding.

101-B: 4 Duties and Powers of Administrator. The administrator or custodian appointed pursuant to RSA 101-B: 3, shall assist the commission as directed by the commission. He shall maintain a separate account for each employee participant and provide periodic reports of the status of each account to the commission. The administrator or custodian is authorized to impose a reasonable fee to cover recordkeeping and other administrative costs associated with his duties as administrator or custodian. The amount of such fee shall be subject to the approval of the commission.

Source. 1977, 264: 20. 1979, 360: 15, Amendments—1979. Spelled out duties eff. Aug. 22, 1979. of administrator.

101-B: 5 Investments. Investment permitted under this plan shall include fixed annuities, variable annuities, life insurance, mutual funds or bank accounts. Such investments shall be underwritten and offered in compliance with applicable federal and state laws and regulations by persons who are duly authorized by the commission in accordance with the provisions of this chapter.

Source. 1977, 264:20. 1979, 360:16, Amendments—1979. Provided for permitted investments under the plan. eff. Aug. 22, 1979.

101-B: 5-a Contract to Enroll in Program. The state or any political subdivision may, by contract, agree with any employee or independent contractor thereto, to defer compensation, in whole or in part.

Source. 1979, 360:17, eff. Aug. 22, 1979.

101-B: 6 Addition to Other Retirement Benefits. The deferred compensation program established by this chapter shall exist and serve in addition to retirement, pension or benefit systems established by the state, county, city, town or other political subdivision, and no deferral of income under the deferred compensation program shall affect a reduction of any retirement, pension or other benefit provided by law. Any sum deferred under the deferred compensation program shall not be subject to state taxation until distribution is actually made to the employee.

Source. 1977, 264:20, eff. Aug. 21, 1977.

101-B: 7 Financial Liability of State, etc. The financial liability of the state, county, city, town or other political subdivision under a deferred compensation program shall be limited to the value of the particular fixed or variable life insurance or annuity contract or contracts purchased on behalf of any employee.

Source. 1977, 264:20, eff. Aug. 21, 1977.

FIREMEN'S RETIREMENT SYSTEM

102:11

101-B: 8 Cost to the State. The deferred compensation plan shall operate without cost to the state of New Hampshire or any political subdivision thereof, any of their departments or agencies, or any of their wholly owned institutions and instrumentalities, except for the incidental expense of administering the deduction of the deferred funds from the employee's compensation and the remittance thereof to the program as established by this chapter.

Source. 1979, 360:18, eff. Aug. 22, 1979.

SURVEY OF THE PARTICIPANTS IN THE
STATE OF NEW HAMPSHIRE DEFERRED COMPENSATION PLAN

Name: _____ Soc. Sec. # _____

1. How long have you been a participant in the Deferred Compensation Plan (The Plan)? _____ Years _____ Months
2. Do you plan to continue your contributions to The Plan until retirement? ___ Yes ___ No ___ Unsure
3. Have you had occasion to deal with H.C Copeland for any reason other than initiating your account? ___ Yes ___ No
4. How did you arrive at your decision to choose particular investment options offered by The Plan? _____ Personal Investment Experience
_____ Advice of the Plan Administrator _____ Advice from Other Sources
_____ Other (Please specify) _____

For questions 5-11, provide a rating from 1-10, with 10 being the most favorable rating.

5. How would you rate the adequacy of the advice you received from The Plan administrator, H.C. Copeland, upon joining The Plan?

1	2	3	4	5	6	7	8	9	10
Inadequate			Adequate			Extremely Adequate			

6. How satisfied are you with the level of service you have received since joining The Plan?

1	2	3	4	5	6	7	8	9	10
Dissatisfied			Satisfied			Extremely Satisfied			

7. How satisfied are you with the timeliness of statements you receive relative to your account?

1	2	3	4	5	6	7	8	9	10
Dissatisfied			Satisfied			Extremely Satisfied			

8. Do you receive enough information from The Plan administrator to evaluate the performance of your investment?

1	2	3	4	5	6	7	8	9	10
Not Enough							Enough		

9. How active are you in managing your funds?

1	2	3	4	5	6	7	8	9	10
Inactive			Active			Extremely Active			

10. Are you satisfied with the rate of return that you have received on your investment?

1	2	3	4	5	6	7	8	9	10
Dissatisfied			Satisfied			Extremely Satisfied			

11. Do you feel that the investment products offered in The Plan are competitive with other similar investments in the open market?

1 2 3 4 5 6 7 8 9 10
Not Competitive Competitive Extremely Competitive

12. Would you like additional offerings in The Plan? ___ Yes ___ No
If yes, please specify: _____

13. Please write any additional comments you have in the space below.

State of New Hampshire Deferred Compensation Plan
Survey Respondent Comments

Comments on Question 12: Would you like additional offerings in the Plan?

I would like a higher return.

More varied with additional information on offering. Ranging to tax-exempt, not only deferred.

Higher yield.

More in the line of mutual fund, both in stocks and bonds.

A variable stock/mutual funds offering might be advantageous.

Tax-exempt bond fund.

I think it would be nice if the plan administrator could update new programs with clients and advise regarding their advantages.

Offerings made by companies other than H. C. Copeland. Competitor is needed to obtain better return on our investments.

A better stock plan.

Self-directed plans that would allow the individual to select specific investment portfolio.

Whatever is available.

Tax exempt investments.

Availability of a mutual fund that does not have a hidden load pending or in force. Keystone and Copeland are affiliated. Would Copeland have recommended Keystone otherwise?

Mutual funds.

Not for me in particular because I'm near the end of the line, but for the younger people coming along.

More options and ability to transfer funds.

I just learned that if I did not contribute the maximum amount in earlier years, I can contribute that extra amount in addition to my maximum contribution. I would like to take advantage of that option.

Comments (Continued)

I'd like to see a family of aggressive and defensive mutual funds, which were reported in the local press, and among which contributors could move funds depending on market conditions.

A timing service that is affordable for my size account.

Further "lay-term" information re: value of investments and how earnings accumulate.

To have five or six options with the reserve right to change at any time without penalty, or if required, a very slight penalty.

Have no idea what might be available.

More varied choices with increased ability to change elections.

Any program that would lawfully take over the IRA contributions.

Other mutual funds with a respectable track record.

Were I still working, I would like to have split my contribution between a stock program and the flex program.

Comments on Question 13: Please write any additional comments you have.

Please make sure that all employees are advised of these advantages of tax savings. Several members of the - - - Div. were not aware of same and lost a lot of income. Make more information available to employees desiring same by card check out with follow-up by Copeland. There is no follow-up and very little time to devote to inquiry, but it is understood many times we are talking about small investors and investments.

I feel the plan is a good tax shelter, provides for my eventual retirement, Jay Julian is very helpful and courteous. I have no complaints.

My problem with Copeland is that I have been unable to get statements in the last six months. I have called four times relative to year ending 12/31/86 and still have not received it.

I feel that the Copeland Companies have done a good job with the deferred compensation plan offered to New Hampshire state employees.

Copeland has contacted me for additional offerings and types. I have found them pleasant and cooperative and not too insistent on what I should do.

Comments (Continued)

The Company has been prompt in replying to any requests I have made. The agent (Jay Julian) has been very helpful. The plan has worked well for me as a tax deferred account and a plan to build a retirement plan to supplement my state retirement. I feel that the earnings have been above the average of other plans I have looked into.

Presently, my funds are invested 50% in Travelers A-1 Bond account and 50% in Travelers Stock Fund A. I've invested \$48,968, charges are \$2,060 on an ending value of \$70,927, a gain of \$21,959. I know little about investments, but the way the market has been advancing lately, I was under the impression that the gain should be greater. In any event, I haven't heard from Copeland for advice since I began participating in the plan.

In September, 1986 I signed up for a buyout plan with payments commencing January, 1987. I have called Jay Julian numerous times to straighten this out. He has been most cooperative. The company is bogged down. They are, or were, handling accounts for 35 states. Hopefully things are straightened out now so that payments will come during the first week of the month.

Julian has been most helpful in answering my questions.

I have been satisfied with my relationship with the Copeland people. In fact, I have encouraged others to take advantage of the service. If the state were to match individual contributions as some companies do, it would make a good program into an excellent investment vehicle.

It's a program far superior to the state retirement program. My return in four years is almost equivalent to my 27 years in the retirement program. The state retirement program should have a similar questionnaire.

I plan to retire within two years (early retirement). I would not have been able to do this without the Deferred Compensation Plan.

I would like to diversify some of my funds to other companies. I don't believe in keeping all my investments with one company. At present, if I wish to take advantage of deferring some of the my income I must do it through Copeland to Travelers Insurance Company. They don't have to compete with anyone. Some of my private investments through Prudential-Bache pay over 10% return in government plus funds and not around 8% compounded yearly that I receive from Copeland.

Mutual stock plan offers only adequate performance. Would like to switch to a fixed-rate T-Flex CD fund, but present penalty would eliminate interest earned.

Comments (Continued)

I've been in the plan since its inception in 1981. I wish the plan had been available when I joined the state in 1972.

While it may be insignificant, the calculation of account balances are not precise. Calls to the Copeland office did not result in correction or explanation of variance. What other plans are available to the State? I would think that age group 30-40 are looking for greater growth rates. They are not sure what their tax rate will be 20-25 years from now. Why trade current funds for 10-12% growth? For ages over 55, this is a relatively low problem, since rates are higher than inflation.

In reference to question #6, in July of 1986, I switched from a fixed plan to a variable plan. However, I never received a quarterly statement until March, 1987 and only after constantly making inquiries and finally with the assistance of the State Employees Association.

Not well informed on investments.

I have yet to receive my end of '86 statement. I have had a history of not receiving my statement for several months after the due date.

My experience with Copeland has been "horrendous". Starting in August, 1981, I have continuously contacted the Deferred Compensation Commission of my concerns. I repeatedly requested confirmation of transactions from Copeland to no avail. A serious error was made in my account in 1981 but was not discovered until March, 1986. I sold my Keystone B1 which had been inactive since December, 1984. Copeland's reports to me showed 1314 units with a unit value of \$18.48. Keystone's records showed 1228 units. I did not receive the resulting credit until I pursued the matter. The Securities Exchange Commission would probably be interested. To avoid aggravation, I invest in the Travelers Insurance Program. I am forced to leave money in Keystone in a low-interest bearing account, which defeats the purpose of the plan.

Plan does not confirm transactions. I made a substantial transfer (10% of total holdings) in January, 1987, yet never received confirmation, other than a new joinings agreement. On mutual funds such transactions are confirmed. Monthly statements - four months can elapse before you see the result of your investment. With mutual funds, performance can be monitored on a daily basis.

This appears to be an excellent fringe benefit. When combined with IRA's, State retirement and Social Security, I look forward to a satisfactory income when I retire, hopefully at age 55.

Comments (Continued)

The person who explained the program originally did not spend enough time explaining clearly enough for people to understand the different programs. I was interested because I returned to work rather late and my social security will be low. The way the interest was to compound is not the way it really is. I don't believe the benefits will be as great as we were led to believe. It should have been explained up front. We should have had a course in investment counseling offered before the plan was offered.

H. C. Copeland has not demonstrated to me that they should have a long-term contract with the state. I like being able to use a 401K plan, especially with the demise of IRA's, but the State and its workers' needs could be better served.

Because this is a state-sponsored program, I feel that interest earned should be free from the New Hampshire Interest and Dividend Tax. Presently, once a participant begins withdrawing interest earned from the fund, the state tax is applicable. This interest money should be treated as though it was invested in a New Hampshire banking institution. I suggest legislation to correct this inequity.

Received no statement between July, 1986 and mid-March 1987, called Copeland four times in February and March before third and fourth quarter statements received. When compared with the service and information I receive from Paine-Webber or Fidelity, Copeland rates poorly. Deferred Compensation has such tax advantages that I plan to continue with it, but it certainly would be a better plan with a more responsive administrator. As indicated by my answers to questions seven and eight, and therefore nine, it is impossible to manage Copeland funds because of the lateness and inadequacy of the statements.

I believe that they have done a good job with my account.

The last I checked, the information on the investment options offered was poor. I'm sure most members don't bother, or can't read and understand a prospectus. Keystone's literature was very poor. Copeland has not contacted me for several years to advise me of new options available. Copeland's reports are remarkably uninformative. All they have to do is look at the reports issued by Fidelity, Dreyfus, IDS or any other to see what they should be telling their investors.

Comments (Continued)

I am very pleased to have had the opportunity to invest money under the deferred plan. It has been a very convenient way to save. Many of these questions do not seem to really apply to me. I chose the annuity type of investment because of the few years I had left before retirement and needing a "safe" investment. I feel the annuity offered compares very favorably with others I have investigated. The only criticism I have of the service is that when the agency explained to me I could "buy" an extra year to make up for a delay in getting in the plan, I did not understand this would mean I would have to start taking out the investment at the beginning of the year after I retired. I had understood I had until age 70. I think at one time or the other, there was a lack of explanation.

The only comment I would make is that I think the quarterly statements are a little vague. Probably could be issued in a more detailed manner. Otherwise the statement seems accurate and the return is excellent.

Would like to know how well the plan works after you retire.

Statements are confusing; when trying to compare YTD statement with prior current period, seems to be certain interpolation factors missing. Whenever I call the representative explains, however, statement should be redesigned so it's self-explanatory.

I do not know what the rate of return on my investment is. I tried to find out two or three years ago from Copeland and from Merchants Banks and did not receive an answer. I think the rate of return should be stated on the quarterly statement of the account for evaluation purposes.

The only reason I am in this plan is because of the savings in income tax. It is my feeling that there must be several other financial institutions that can properly handle the State's account. I could write a book on how the Copeland companies are a detriment to the State employees. I did not receive my 12/31/86 statement. I notified the Concord office of Copeland on 2/24/87 and as of 4/13/87 I have yet to receive this statement.

A member will be given a monthly or quarterly review of one's plan, with the option to make changes - add or subtract - in one's account. An insured protection plan, such as banks have relative to one's savings account, thus allowing the members to feel at ease by investing larger withholdings without fear of loss should the market collapse.

Some of my investments are paying 13%. I am concerned any change in administration might reduce the return to the present rate.

Comments (Continued)

I have been very happy with the plan and think it is a great opportunity for State employees to invest part of their income.

Not satisfied with retirement options of plan. Was planning on an annuity option with monthly withdrawal over a 15-18 year period. I am told that in order to do this I would be locked into a rate of interest at approximately 6.43% for the 18 year period. This seems to be a rip-off considering what we are getting now and what it would be. If we don't want this option, then I guess I could roll over the money into another bank IRA with the options I want.

The basic idea of deferred compensation is highly desirable. The attitude of Copeland that customers are a necessary nuisance is a problem. The Copeland agents with whom I've spoken are changed often and don't seem very knowledgeable.

Question 5: Copeland Assoc. representative presents the pluses and minuses of each plan. Depending upon investment objective dictates the type or kind of investment. There is great danger in the representative "advising" each employee as to the type(s) he should have. If a particular plan (stock, for example) goes down the company is then blamed. I would say they provide as good a service as any other vendor could do.

The "Tax Deferred Compensation Plan" adopted by the State of New Hampshire and administered by H. C. Copeland has proven to be financially beneficial to me and my wife. We hope the commission chooses to continue with H. C. Copeland, a proven administrator.

I have talked with other members of the plan and they feel a more understandable reporting of our record would be very helpful and the management of these records should be more credible with fewer errors. It has been our experience that the recordkeeping is poorly managed. My personal experience has been satisfactory with the exception of my report this year which had an \$8,000 error. The error was corrected and the very congenial and helpful Mike Bourgault of Copeland was the major reason.

We did not feel initially that we received a meaningful statement. The statements now contain more information. The plan I am in becomes less attractive as our income tax decreases under the new tax laws. If a client wishes to have a constant percentage of his or her salary put into one of the Copeland plans, it would be easier for the client if the Copeland representative did the paperwork automatically rather than the client having to ask each time the state employees receive a raise.

Comments (Continued)

For a safe, low-risk investment the plan is very competitive. Jay Julian has been very active and conscientious in his dealings with me and the employees at DES. On two occasions I failed to receive quarterly reports, which upset me and in one instance they made a sizeable mathematical error.

The Copeland employees of the Concord office are always courteous, however their rate of turnover is high and therefore the plan participants often deal with inexperienced personnel. At any rate, the chronic and unacceptable delays seem to originate at the national headquarters in New Jersey. If the participant changes options the following statements will not be received on time and also are usually in error. The statements can be several months late and will be obtained only upon the participant's request.

I have found all of the Copeland people to be helpful and pleasant except for one woman who became rather pushy. This was about two years ago.

Copeland should provide recommendations as to movement of funds based on market conditions, particularly when sizeable funds are involved.

Good system operation and return. All eligible personnel would be well advised to take maximum advantage of such deferred compensation arrangements for their own retirement security.

Since I will be retiring within a year, I plan to continue in my program, but think there are other options the company should offer.

State of New Hampshire

DIRECTOR OF PERSONNEL
Virginia A. Vogel

MANAGER
BUREAU OF EMPLOYEE RELATIONS
Thomas F. Manning



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Division of Personnel**
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January 25, 1988

Thomas F. Manning
FROM: Thomas F. Manning, Chairman
Deferred Compensation Commission

SUBJECT: Response to: "Review of the State of New Hampshire
Public Employees
Deferred Compensation Plan"
Legislative Budget Assistant -
December, 1987

TO: Honorable William F. Kidder, Chairman
Fiscal Committee of the General Court

The following constitutes the response of the Deferred Compensation Commission to the "Review of the State of New Hampshire Public Employee Deferred Compensation Plan" conducted by the Audit Division of the Office of the Legislative Budget Assistant. While the "Review" as a whole represents an extensive, and excellent, commentary on the deferred compensation program, the Commission is responding only to three specific recommendations contained in the "Review" at pages 5, 9 and 21.

Recommendation (Page 5)

We recommend the Legislature reconsider the structure of the Commission and its placement within state government in light of the Commission's administrative failings as well as the significant growth of the plan. As of June 30, 1987, plan assets totalled \$21.9 million. Given this size and the expected continued growth of approximately \$6 million per year, we feel the plan is deserving of greater attention, including access to the advice of professional money managers.

In the meantime, items as significant as audited financial statements and historical records cannot continue to be overlooked. The Commission should be given the resources it needs to effectively manage the assets for which the State holds fiduciary responsibility and the Commission should organize itself so that major oversights do not occur.

Deferred Compensation Commission Response

The Commission membership, by law, consists of the State Treasurer, the Commissioner of Administrative Services, the Insurance Commissioner and the Attorney General or their designees plus one public employee at-large appointed by the Governor and Council. The current membership of the

Commission is: Georgie Thomas - State Treasurer; Thomas Manning - designee of the Commissioner of Administrative Services; Robert Warren - designee of the Insurance Commissioner; Douglas Jones, Esq. - designee of the Attorney General; and, Marshall Quandt of the Department of Corrections - public employee member at-large.

The current Commission membership, serving since October of 1986, has been actively engaged in correcting the deficiencies of the program. Because the program has never had a permanent location for its records, the historical records of the Commission are, at best, incomplete and the job of the current Commission members all the more difficult due to the lack of historical information. This is one reason, but not an adequate reason, for the failure of the Commission to press for and secure a program audit for fiscal years 1981 through 1985.

The Commission agrees with the recommendation that legislative consideration should be given to the placement of this function within state government. In fact, the Commission intends, after consultation with appropriate officials, to seek the introduction of remedial legislation in the 1989 Session of the General Court. That legislation will address the lack of a permanent location for the Deferred Compensation Commission, the lack of funding for needed activities such as independent audits and professional and administrative support for the program.

As to what should be done in the interim, the Commission is now on a regular schedule of meetings (the last Friday of every month) and will continue to seek required adjustments in the performance of the Plan Administrator - The Copeland Companies. It should be noted that it is the Copeland Companies, as Administrator, which has the fiduciary responsibility and not the Commission.

Recommendation (Page 9)

The Commission should be continually assessing the quality and competitiveness of investment products offered under the plan. It appears that relatively little consideration has been given to offering additional products or replacing products that have not performed to expectations, since the most recent product added to the plan was in 1983. We recommend the Commission study alternate investment products and take the necessary action to provide plan participants with the most attractive products available in the marketplace today.

This continual assessment is particularly important because the administrator, H. C. Copeland Administrative Services, Inc., is a wholly-owned subsidiary of the Travelers Corporation, the seller of virtually all of the products offered under the plan. Such a review would also provide plan participants with some comfort concerning possible perceptions of a conflict of interest.

Deferred Compensation Commission Response

In order for the Commission to continually assess the quality and competitiveness of the investment products offered, it would require the services of a professional money manager; a consideration which will be reviewed in conjunction with the other anticipated legislative remedies referenced in our response to the first recommendation.

Adequate assessment is a function of time and expertise; assets in which the Commission is sometimes lacking. We do now have a competent money manager as a member of the Commission, State Treasurer Georgie Thomas, but this current advantage is due to her personal qualifications rather than to the statutory structure of the Commission. Further, the time available to the Commission members does not appear to be sufficient to allow for the type of product review required by the "Review" recommendations.

We agree that continual review of the products offered is a necessary and prudent oversight function and we will forward, as part of our recommended legislation, a more detailed recommendation on our own.

Recommendation (Page 21)

The Legislature should consider legislation which would clarify the role of the Deferred Compensation Commission in the deferred compensation plans of its political subdivisions.

Deferred Compensation Commission Response

The clarification required is that the Deferred Compensation Commission should have no role in the deferred compensation plans of the State's political subdivisions.

By law, the moneys contributed by employees remain the property of the employer until they are distributed at termination or retirement. We cannot see any valid role for the Deferred Compensation Commission in the administration of funds belonging to the political subdivisions or their employees.

Summary

The Legislative Budget Assistant has produced an excellent review and commentary on a program which has suffered from significant inattention from its inception. The Commission concurs in the recommendations offered within this "Review" and will provide its own specific recommendations for legislative review in the next Session of the General Court. In the interim, the Deferred Compensation Commission will continue to meet regularly for the purpose of eliminating plan deficiencies and ensuring the proper administration of the program.