HOOSIER S.T.A.R.T.®
SAVE TODAY AND RETIRE TOMORROW

Indiana Deferred Compensation Committee
Report to the State Board of Finance
December, 2006

Indiana Code 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 for 2006.

1. **Plan Assets.**

As of June 30, 2005, the Plan's total assets were $711,553,475, up from $654,821,586 on June 30, 2005, reflecting growth in assets of 5.78% in the 2006 fiscal year. Investment options and the June 30, 2005 and 2006 allocation of plan assets among them are:

Fund Name	**Assets as of 6/30/05**	**Assets as of 6/30/06**
Indiana Stable Value Fund	374,675,235	371,112,977
Alliance Bernstein Growth and Income Fund	76,351,182	74,363,740
Wells Fargo Large Company Growth Fund*	47,360,465	0
Wells Fargo Advantage Capital Growth Fund*	0	50,463,198
Vanguard Institutional Index Fund	24,241,572	26,880,221
Domini Social Equity Fund	18,897,423	18,396,163
Vanguard Capital Opportunity Fund	45,280,407	50,643,482
Janus Mid Cap Value Fund*	0	1,503,483
PIMCO Total Return Fund	10,889,401	11,924,150
Fidelity Low-Priced Stock Fund	21,680,906	19,690,503
Indiana Moderate Life Style Portfolio	18,073,187	23,490,211
Fidelity Diversified International Fund	15,208,921	28,046,095
Julius Baer International Equity Fund*	0	1,939,869
Indiana Aggressive Life Style Portfolio	7,470,808	11,905,591
Indiana Conservative Life Style Portfolio	6,960,632	8,322,743
Goldman Sachs CORE Small Cap Equity Fund*	0	12,871,049
Brown Capital Management Small Co. Fund*	2,667,997	0
American Beacon Small Cap Value Fund*	3,186,279	0
TOTAL	**$672,672,485**	**$711,553,475**

* Wells Fargo Large Company Growth Fund discontinued as investment option 12/7/2005.
* Wells Fargo Advantage Capital Growth Fund, a locally managed fund, was added to the investment options on 12/7/2005. Funds were mapped from Wells Fargo Large Company Growth Fund into this fund.
* Janus Adviser Mid Cap Value Fund was added to the plan's investment options 12/7/2005.
* Julius Baer International Equity II Fund was added to the plan's investment options 12/7/2006.
* Goldman Sachs CORE Small Cap Equity Fund was added to the plan's investment options on 12/7/2005. Funds were mapped from Brown Capital Management and American Beacon Funds.
* Brown Capital Management Small Company Fund discontinued as investment option 12/7/2005. Funds mapped to Goldman Sachs CORE Small Cap Equity Fund.
* American Beacon Small Cap Value Fund discontinued as investment option 12/7/2005. Funds mapped to Goldman Sachs CORE Small Cap Equity Fund.

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The June 30, 2006 total assets break down between the four Hoosier S.T.A.R.T.® plans as follows:

	457 Plan (deferrals)	401(a) Plans (matching)
State Employees:	$541,876,141.76 (up 4.58%)	$52,927,726.47 (up 15.83%)
Local Subdivision Employees:	$115,931,700.00 (up 7.11%)	$ 817,907.12 (up 51.02%)

Hoosier S.T.A.R.T.® participants remain a generally conservative group of investors, with over 52% of plan assets invested in the Indiana Stable Value Fund (down from 56%). As of November 30, 2006, total plan assets were over $755 million, with less than 50% of plan assets invested in the Indiana Stable Value Fund.

Total contributions to the plans in the 2006 Fiscal Year were $54,789,271.17, compared to total withdrawals of $59,521,509.35. Of the four plans, however, only the State 457 plan saw net withdrawals exceed contributions. Contributions and withdrawals by plan were as follows:

	Contributions	Withdrawals	Net
State 457	$36,754,106.64	-$46,496,988.50	-$9,842,881.86
State 401(a)	$ 7,918,993.88	-$ 3,678,202.52	$4,240,791.36
Local 457	$ 9,862,924.64	-$ 9,229,022.08	$ 663,902.56
Local 401(a)	$ 253,246.01	-$ 17,296.25	$ 235,949.76
TOTAL	**$54,789,271.17**	**-$59,521,509.35**	**-$4,732,238.18**

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

2. **Committee Composition.**

The members of the Indiana Deferred Compensation Committee were unchanged in the 2006 fiscal year. They remain as follows:

Ryan Kitchell, Governor's appointee
Jeff Heinzmann, Auditor's appointee
Hon. Tim Berry, Treasurer's appointee
Hon. Judy Rhodes (R), Board of Finance Appointee
Tony Armstrong (D), Board of Finance Appointee.

3. **Participation.**

As of June 30, 2005, the Hoosier S.T.A.R.T.® Plan covered 30,368 participants. As of June 30, 2006, that total was down to 29,851, and it was up to 29,956 as of September 30, 2006:

	6/30/05	6/30/06	9/30/06
State 457 plan:	25,005	24,533	24,618
State 401(a) plan:	23,534	23,212	23,366
Local 457 plan:	5,363	5,318	5,338
Local 401(a) plan:	240	270	273

The difference in the state numbers between the 457 and 401(a) plans represents inactive accounts that pre-date the establishment of the state 401(a) plan, offset by participants who have made an unforeseeable emergency withdrawal from their 457 account, but still have a 401(a) balance. Actively contributing state employee participants totaled 18,602 at fiscal year end.

The overall decline in participation in the state plans is likely a reflection of the net reduction in total state payroll during the 2006 fiscal year. State participation actually increased during the final quarter of the 2006 fiscal year, adding a net of 186 accounts to the 457 plan and 213 accounts to the 401(a) matching plan. This increase is the result of efforts on the part of the Auditor's Office and the plan's Third Party Administrator, Great-West Retirement Services, and is discussed below.

4. Third Party Administrator

Auditor Nass, as Administrator of the Hoosier S.T.A.R.T.® Plan, selected Great-West Retirement Services as the new third party administrator for the plan in December 2004. The annual administrative fee charged against participants' accounts declined from 30 basis points (0.30%) to 26.5 basis points (0.265%) under the new contract, and the third party administrator added another dedicated account representative to the local plan staff.

The transition was planned and implemented beginning in December 2004 and took place on April 8, 2005. The transition took place with a minimum of disruption and no more than a handful of concerns or comments voiced by participants. The National Association of Government Defined Contribution Administrators (NAGDCA) has awarded the Hoosier S.T.A.R.T.® plan a 2005 Leadership Recognition Award for the transition and its implementation.

In 2006, there has been a renewed emphasis in generating state employee awareness and participation in the Hoosier S.T.A.R.T. plan. Messages have been running regularly on state employee payroll stubs reminding employees of the matching plan. This is money that state employees earn, but which is forfeited if they fail to participate in the plan. Display posters have also been placed in the Indiana Government Center tunnel to remind employees of this fact.

In May 2006, the Auditor's Office and Great-West hosted an event in the Atrium of the Indiana Government Center South called "The Greatest Spectacle in Saving" running through the lunch hours that drew about 500 state employees. Representatives of nearly all plan investment options were on hand, and employees were able to meet with plan representatives, enroll, order personal identification numbers for website access, and learn more about their options to manage their accounts online, through the voice recognition unit, or at the local Hoosier S.T.A.R.T. office. The "Greatest Spectacle in $aving" just recently received a second consecutive Leadership Recognition Award from NAGDCA, as did the plan's Elements of Retirement brochure prepared by Great-West. A second event, a basketball-themed event called "Hoosier START Hysteria," was held in the Government Center South in October.

5. Committee Meetings.

The Committee meets at least quarterly to review plan activities, investment performance, and receive reports from the Administrator (Auditor of State Connie Nass), the third party administrator(Great-West Retirement Services), the Indiana Stable Value Fund manager (Delaware investment Advisors), the investment consultant (Capital Cities), and any other reports the Committee deems necessary.

6. **Investment Consultant.**

The investment consultant contract was awarded to the Indiana firm of Capital Cities LLC in 2005. Capital Cities immediately prepared and presented to the Committee an Investment Structure Evaluation that led to the issuance of four (4) RFPs for various investment options. At the Committee's meeting on August 26, 2005, several investment option changes were decided upon by the Committee after the review and consideration of the four (4) RFPs and Capital Cities' analysis. The new investment options added to the Hoosier S.T.A.R.T.® plan in December 2005 were:

A. Wells Fargo Advantage Capital Growth Fund.
B. Janus Adviser Mid Cap Value Fund.
C. Goldman Sachs CORE Small Cap Equity Fund.
D. Julius Baer International Equity II.

These changes to the investment options were introduced to plan participants during December 2005.

The hiring of Capital Cities LLC and selection of the Indiana-managed Wells Fargo Advantage Capital Growth Fund demonstrate the Committee's willingness and interest in supporting the Governor's "Buy Indiana" initiative when consistent with its fiduciary duty to the Hoosier S.T.A.R.T.® plan and its participants.

7. **Competitiveness of plan investment options**

The following is the list of funds, expense rations, and Morningstar category average for all plan investment options:

Fund	Expense Ratio	Category Average
AllianceBernstein Growth & Income	1.06%	1.34%
Domini Institutional Social Equity	0.65%	1.33%
Fidelity Diversified International	0.94%	1.45%
Goldman Sachs Structured Small Cap Equity I	0.93%	1.48%
Indiana Stable Value Fund	0.26%	n/a
Janus Adviser Mid Cap Value	1.24%	1.45%
Julius Baer International Equity	1.08%	1.60%
PIMCO Total Return	0.43%	1.04%
Vanguard Capital Opportunity	0.42%	1.58%
Vanguard Institutional Index	0.05%	1.33%
Wells Fargo Advantage Capital Growth	0.93%	1.49%

As you can see, the Indiana Deferred Compensation Committee routinely succeeds in negotiating very low expense ratios within each category.

8. Issues for 2007

The Office of Management and Budget recently released a 2006 Report titled “Budgetary and Functional Review of Executive Branch Agencies and Instrumentalities”. Appendix C of the Report contained the following recommendation: “Because of its complimentary nature to employee retirement planning, the State Deferred Compensation Plan should be merged into PERF for improved customer service through a single point of contact for such services.” The Deferred Compensation Committee has not met since this recommendation was released and has taken no position on the recommendation at this time.

The Auditor’s Office has met with the local Great-West office to discuss the establishment of performance targets for the 2007 calendar year with a view toward adopting the performance measurement mindset recently brought to Indiana state government in the hopes of improving participation, participant satisfaction, and overall quality of the plan. These metrics have yet to be established in deference to the preferences of the incoming Auditor of State.

The plan itself has run well in recent years, particularly in 2005 and 2006, when we have experienced no turnover in Deferred Compensation Committee members. This continuity of representation is in sharp contrast to 2003-2004 when ten (10) different people (Mike Gery, Marilyn Schultz, Jeff Heinzmann, Betsy Burdick, Hon. Tim Berry, Mike Puro, Tom Williams, Hon. Judy Rhodes, John Lentz, and Tony Armstrong) served in the 5 committee spots over a one year period. With a new Auditor and Treasurer taking office in 2007, it is likely there will be some turnover on the Committee.

Respectfully submitted,

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Jeff Heinzmann
Secretary, Deferred Compensation Committee