

DRAFT

# MINUTES

June 14, 2018

## Deferred Compensation Board

State of Wisconsin



### Location:

State Hill Farms Building – CR N802

4822 Madison Yards Way, Madison, WI 53705

1:00 p.m. – 4:00 p.m.

### BOARD MEMBERS PRESENT:

Ed Main, Chair

Gail Hanson, Vice-Chair

Art Zimmerman, Secretary

Jason Rothenberg

John Scherer

### PARTICIPATING EMPLOYEE TRUST FUNDS (ETF) STAFF:

John Voelker, Deputy Secretary

Deferred Compensation Program:

Shelly Schueller, Director

Division of Retirement Services:

Matt Stohr, Administrator

Bureau of Budget, Contract Administration  
and Procurement:

Bonnie Cyganek, Joanne Klaas

Division of Trust Finance:

Cindy Klimke-Armatoski

Office of Internal Audit:

Yikchau Sze

Office of Policy, Privacy and Compliance:

Laura Patterson, Lucas Strelow

Office of the Secretary:

Lisa Gurley, Board Liaison

### OTHERS PRESENT:

Coleman & Williams:

Bill Coleman, Devin Fox-Maklary

Empower Retirement:

Emily Lockwood

ETF Staff:

Monica Anderson, Anne Boudreau,

David Ehlinger, Diana Felsmann, Pam

Henning, Tarna Hunter, Connie

Koberle, David Nispel, Michelle Thode,

Cherylynn Wilkins

Great-West Financial:

Bill Thornton (via teleconference)

Wipfli LLP:

Bryan Johnson, Zach Mayer

Mr. Main, Chair, called the meeting of the Deferred Compensation Board (Board) to order at 1:00 p.m.

Board	Mtg Date	Item #
DC	11.15.18	2A

## **ANNOUNCEMENTS**

Ms. Schueller announced that Lisa Gurley is the new Board liaison for the Deferred Compensation Board, taking over for Cheryllynn Wilkins. She also offered to give a brief informal tour of the new Department of Employee Trust Funds (ETF) space in the Hill Farms building following the meeting.

## **MINUTES**

***MOTION: Ms. Hanson moved to accept the March 22, 2018 Open Session minutes as submitted by the Board Liaison. Mr. Zimmerman seconded the motion, which passed unanimously on a voice vote.***

## **2017 CONTRACT COMPLIANCE AUDIT RESULTS**

Ms. Schueller referred the Board to the 2017 Contract Compliance Audit Results memo (Ref. DC | 6.14.18 | 4) and provided an overview of the purpose of contract compliance audits. She also noted the existing contract with Wipfli LLP continues through the audit scheduled for calendar year 2019.

Mr. Johnson referred the Board to the State of Wisconsin Deferred Compensation Program independent accountants' report (Ref. DC | 6.14.18 | 4 attachment). He provided an overview of the audit testing as completed by Wipfli LLP, which highlighted participant verification, enrollment, deferrals, special contributions, distributions (hardship and non), domestic relations orders, deferral re-directions, and transfers.

Mr. Johnson stated that within the report, Wipfli made suggestions regarding controls that should be set in place. He also noted that with the change to electronic processing, it is becoming harder for the auditors to verify certain processes. Lastly, he stated that Wipfli will be looking at how to address participants' hesitation/suspicion when auditors call to verify information.

Mr. Johnson gave a brief overview of what a SOC-1 report looks at and stated that internal controls over processes are a focus of this report. Ms. Schueller added that, consistent with the recommendations included in Wipfli's last report, ETF staff, including Internal Audit, has been doing more review of the SOC-1 reports.

***MOTION: Mr. Zimmerman moved to accept the results of the 2017 contract compliance audit as presented by Wipfli LLP. Mr. Scherer seconded the motion, which passed unanimously on a voice vote.***

## **SELF-AUDIT: SCOPE DISCUSSION OF WDC PROGRAM**

Ms. Schueller referred the Board to the Scope Discussion of Wisconsin Deferred Compensation Program Self-Audit memo (Ref. DC | 6.14.18 | 5). She reminded the

Board that this discussion was sparked by the expressed interest in an internal department review or self-audit of the WDC. She informed the Board of the recurring audits that currently exist with contracted independent CPA firms, including annual financial statement audits by Coleman & Williams and biennial contract compliance audits by Wipfli LLP. She also included information showing that the Department of Employee Trust Funds (ETF) completes reviews of the most current Empower Retirement SOC reports as well as information security reports provided annually by Empower Retirement.

Mr. Zimmerman stated that he would like ETF to examine state statutes, the Wisconsin Administrative Code, the Plan and Trust document and the Board's governance manual to determine which areas of Board responsibility a self-audit should focus on. Ms. Hanson suggested developing a checklist that could be used annually to review all Board responsibilities. The Board could compare what the Board is responsible for versus what has been covered throughout the year. Ms. Schueller will gather more fiduciary information that is relevant to the Board, draft a checklist per the suggestion, and bring this information back for Board review and discussion at a future meeting.

## **2017 FINANCIAL STATEMENTS**

### **Report and Audit Results**

Ms. Klimke-Armatoski referred the Board to the 2017 Financial Statements Report and Audit Results memo (Ref. DC | 6.14.18 | 3). She reminded the Board that as part of its overall responsibilities, the Board receives requires an audited annual financial statement report on the Wisconsin Deferred Compensation Program (WDC). Ms. Klimke-Armatoski gave a brief overview of the financial highlights from the years ending December 31, 2016 and 2017. She highlighted an increase in WDC net assets available for plan benefits, overall rate of return on mutual fund investments, employee contributions, plan participants, distributions, and participants' distributions in 2016 to 2017.

Ms. Klimke informed the Board that upon approval of the 2017 Financial Statements Report, the reports will be finalized to reflect today's date and Coleman and Williams's transmittal letter will include the same date.

Mr. Coleman stated that their opinion was clean and unmodified and that no deficiencies were located during the audit. He also stated that there were no proposed changes to the financial statements and that there were no disagreements with ETF management.

Ms. Schueller stated that there is one more year remaining on the contract with Coleman and Williams. The Board should anticipate Coleman and Williams returning in 2019 for the audit of the 2018 financial statements report audit.

***MOTION: Mr. Zimmerman moved to approve the State of Wisconsin Public Employees Deferred Compensation Plan and Trust Financial Statements as of December 31, 2016 and December 31, 2017. Ms. Hanson seconded the motion, which passed unanimously on a voice vote.***

## **PROCUREMENT OF CONTRACT COMPLIANCE AUDITORS**

Ms. Cyganek referred the Board to the Procurement of Contract Compliance Audit Services memo (Ref. DC | 6.14.18 | 6). She provided a high-level overview of the purpose of third party administrator audits, which are used to ensure the record keeper's adherence to contract terms and conditions as well as compliance with applicable statutes, rules and regulations.

Ms. Cyganek explained that audits also provide assurance that benefit programs are being administered effectively and efficiently. She added that it is a best practice to periodically have the contract performance of vendors reviewed by independent experts, depending on the nature of the program and experience with the vendor being audited. Ms. Cyganek also indicated that the specialized expertise needed for specific contract compliance audits is unavailable within ETF. She also provided an overview of why a consolidated approach to procuring these services is appropriate.

***MOTION: Ms. Hanson moved to accept ETF's recommendation that the Board delegate its authority to the ETF Secretary to solicit proposals for and contract with a qualified firm(s) to perform contract compliance audits of the Wisconsin Deferred Compensation Program's (WDC) third-party administrator (TPA), in conjunction with a consolidated Request for Proposals process to acquire the same services for other ETF program TPAs and providers. Mr. Zimmerman seconded the motion which passed unanimously on a voice vote.***

## **BOARD POLICIES REVIEW AND UPDATE**

Mr. Strelow referred the Board to the Board Policies Update memo (Ref. DC | 6.14.18 | 7) and provided a brief overview of the policies that need to be updated or added to improve consistency and enhance the Board's governance foundation. The policies being presented are the Communications Policy, Conflict of Interest Policy, and Resignation Procedure.

Mr. Strelow provided information regarding the Communications Policy and explained that the purpose is to outline what communication scenarios are appropriate among board members in accordance with Open Meetings Laws.

Ms. Patterson provided an explanation of the changes or updates that have taken place within the policies to provide clarification as to the importance of including them in the Governance Manual. She stated that the purpose of the Conflict of Interest Policy and Resignation Procedure was to outline scenarios which the Board members may encounter and explain how they should recuse themselves from certain discussions or votes to avoid a conflict of interest. She also outlined the procedures to resign from the Board.

***MOTION: Mr. Scherer moved to approve the new Communications Policy, Conflict of Interest Policy and Resignation Procedure for incorporation into the Board Governance Manual as provided by ETF Staff. Ms. Hanson seconded the motion, which passed unanimously on a voice vote.***

## **INVESTMENT PERFORMANCE AND EXPENSE RATIO REVIEW AS OF MARCH 31, 2018**

Mr. Thornton referred the Board to the March 31, 2018, Investment Performance and Expense Ratio report (Ref. DC | 6.14.18 | 8). He provided an overview of the report and began by stating that the returns for the first quarter of 2018 are on target and performing at or above expectations. He also informed the Board that they will need to review the FDIC bank option and decide what will be done with the fund moving forward, because the option provider (Nationwide) has announced that it will be leaving the retail bank business by the end of the year.

Mr. Thornton explained that investment performance has been solid overall within the funds, but there was some downturn in the markets for S&P 500 (large cap) as well as S&P 600 (small cap) funds in the first quarter. Mr. Thornton stated that the funds are holding up well over the last three months and are hitting their benchmarks.

Mr. Thornton mentioned that there is some concern regarding performance lagging with the Vanguard Long Term Investment Fund, due to rising interest rates for the first quarter. His concern is that unless there is a decrease in interest rates, the performance of the Vanguard Long Term Investment fund may continually lag that of its peers. Mr.

Thornton stated that assets are climbing consistently for the plan. He also pointed out that there were no significant changes in overall plan expense ratios, as this remained steady at 28 basis points. Target date funds continue to do very well.

## **2018 WDC STRATEGIC PARTNERSHIP PLAN UPDATE**

Ms. Lockwood referred the Board to the 2018 WDC Strategic Partnership Plan Update report (Ref. DC | 6.14.18 | 9A) and provided an overview of the initiatives covered in the report which included the New Employee Experience (NEE) website, updating your beneficiary campaign, save more/increase your contribution campaign and an employer newsletter. She explained that within the NEE, participants can easily enroll with one click, translate savings into estimated monthly retirement income, see the impact of healthcare costs in retirement, model different saving scenarios, compare their savings behaviors with those of their peers and integrate their health and financial wellness.

Ms. Lockwood also provided a demonstration of the WDC website to show individuals how to navigate the new layout of the website. She also explained how to access individual personal information and adjust contributions to see how changes may affect participants paychecks now versus their estimated retirement amounts.

## **YEAR IN REVIEW – 2017 STATISTICS**

### **Letter from Empower to ETF**

Ms. Schueller referred the Board to the letter from Empower to ETF (Ref. DC | 6.14.18 | 10A), which discussed the Annual WDC Plan Review outlining the growth figures for 2017 and summarized the efforts and results from Empower Retirement's outreach efforts to participants during 2017. Highlights included a 31% success rate of those individuals who met with a Retirement Plan Advisor acting on their account, a continued upgrade in communication efforts to highlight the benefits from the use of technology, and the success of one-on-one appointments between participants and Retirement Plan Advisors.

### **Annual Plan Review from Empower: January 1, 2017 – December 31, 2017**

Ms. Lockwood referred the Board to the 2017 Annual Plan Review Report (Ref. DC | 6.14.18 | 10B) and provided an overview of the information included. Highlights included an addition of nine new local employers, a reduction of six discontinued employers due to restructuring and mergers, and an increase of 1,789 plan participants. There are currently 922 local employers participating in the WDC and one state employer. Ms. Lockwood also explained that there was a 2.06% increase in contributions from the prior year. She also shared that there were 980,077 unique logins to the WDC website identified in 2017, up from 777,334 in 2016.

Ms. Lockwood provided a demonstration of the new Empower Retirement website and the Lifetime Income Score (LIS) calculator tools available to members. Of the participants who have already logged into the new look site at other Empower clients,

35% have increased their contribution amount. The new website will also provide advanced data analytics that ETF may be interested in utilizing to refine and target member communications. Online enrollment will soon be added to the new website.

Ms. Schueller reviewed the WDC assets and participation as of December 31, 2017. She highlighted the following:

- stable contributions
- demographics of the WDC participant population by classification of state or local employee
- those that were eligible versus enrolled
- gender
- ages
- fee and contribution history
- deferrals by asset class
- assets by investment option and asset class
- target date fund usage
- 2017 Empower advisory services usage
- WDC self-directed brokerage account usage
- benefit payment history
- 2017 WDC participant hardships
- website and call activity
- WDC group and individual counseling meetings and attendance overview.

## **OPERATIONAL UPDATES**

Ms. Schueller referred the Board to the Operational Updates in the Board packets (Ref. DC | 6.14.18 | 11) and highlighted the following: the quarterly review is different than in the past, due to new data that can be collected from the website rollout; and Empower Retirement will include legislative updates in the quarterly report.

Ms. Schueller reiterated that Nationwide will be exiting the retail bank business and that the Deferred Compensation Investment Committee (DCIC) meeting will be reviewing options at the June 27 meeting. She also reminded the Board that the change from institutional-level mutual funds to Collective Investment Trusts (CITs) for the Vanguard Target Funds and the move from the actively managed Calvert fund to the Indexed Calvert Equity Fund will take place August 17, 2018.

## **FUTURE ITEMS FOR DISCUSSION**

Ms. Schueller informed the Board that they may need to evaluate a forthcoming Stable Value Fund proposal from Empower at a future meeting and that Board may need to authorize use of an independent consultant to review the proposal due to Bill Thornton working for Great-West Financial and potential conflict of interest concerns. She stated that a high-level overview of possible next steps will be discussed at the DCIC meeting on June 27.

**ADJOURNMENT**

***MOTION: Mr. Zimmerman moved to adjourn. Ms. Hanson seconded the motion, which passed unanimously on a voice vote.***

The Board adjourned at 3:25 p.m.

Date Approved: \_\_\_\_\_

Signed: \_\_\_\_\_

Arthur M. Zimmerman, Secretary  
Deferred Compensation Board