

MINUTES OF MEETING
STATE OF WISCONSIN
DEFERRED COMPENSATION BOARD

November 9, 2004
1:00 p.m.

801 West Badger Road
Conference Room GB
Madison, Wisconsin

BOARD PRESENT: Edward Main, Chair
John Nelson, Vice-Chair
Martin Beil, Secretary
Jon Traver

BOARD ABSENT: Michael Drury

PARTICIPATING STAFF: Eric Stanchfield, Secretary
David Stella, Deputy Secretary
Rhonda Dunn, Executive Assistant
Pam Henning, Director, Division of Management Services
Shelly Schueller, Director, Wisconsin Deferred
Compensation Program
Jon Kranz, Budget Director
John Vincent, Acting Director, Division of Trust Finance
and Employer Services
Sharon Walk, Board Liaison
Robert Weber, Chief Legal Counsel

OTHERS PRESENT: Todd Forwood, T. Rowe Price (by telephone)
Thomas Harty, Fidelity Investments (by telephone)
Bill McClenahan, Martin Schreiber and Associate
Curt Morrow, Nationwide Retirement Solutions (by telephone)
Tim Noel, T. Rowe Price (by telephone)
Sue Oelke, Nationwide Retirement Solutions

Edward Main, Chair, called the meeting to order at 1:03 p.m.

Consideration of Minutes of September 2, 2004, Meeting

Motion: Jon Traver moved acceptance of the minutes of the September 2, 2004, meeting as submitted by the Board Liaison. John Nelson seconded the motion, which passed without objection on a voice vote.

Introductions by Dave Stella

Several personnel changes have occurred within the Department of Employee Trust Funds (DETF) recently. Dave Stella introduced the following persons to the Board:

- Pam Henning has been promoted to Director of the Division of Management Services. Ms. Henning was previously the Director of the Office of Strategic Services.
- Rhonda Dunn has accepted the position of Executive Assistant. Ms. Dunn had been the Acting Executive Assistant and was previously the Director of the Division of Management Services.
- Jon Kranz has been hired as the Budget Director. He will also be working with Shelly Schueller on the Deferred Compensation Program.
- Jean Gilding has accepted the position of Deputy Administrator of the Division of Retirement Services. Ms. Gilding was previously the Administrator of the Division of Trust Finance and Employer Services.
- John Vincent will become the Acting Director of the Division of Trust Finance and Employer Services.

Approval of 2005 Meeting Dates

Proposed meeting dates for 2005 were presented to the Board members for consideration: February 22, 2005; May 10, 2005; and November 15, 2005. Mr. Main stated that any questions concerning the meeting dates should be directed to the Board Liaison, Sharon Walk.

Recommendations for Plan & Trust Document Amendments

Shelly Schueller presented the Board with proposed revisions to the Wisconsin Plan and Trust document. The changes were recommended in order to maintain compliance with federal regulations that govern the WDC program. The revisions are based on two recent Internal Revenue Service (IRS) publications: Revenue Procedure 2004-56 and Revenue Ruling 2004-12.

Revenue Procedure 2004-56 provides model amendments for use by section 457(b) plan sponsors such as the WDC. The model amendments reflect changes made to section 457 by the Economic Growth and Tax Relief Reconciliation Act of 2001.

Revenue Ruling 2004-12 is a special distribution timing rule. It clarifies that section 457(b) plans may permit "anytime distributions" from dollars rolled into the plan from other eligible plans and Individual Retirement Accounts (IRAs) if the plan sponsor chooses to offer this option.

Ms. Schueller recommended that the revisions be adopted in order for the WDC to remain in compliance with federal regulations.

Motion: Mr. Nelson moved to adopt the plan and trust document changes as highlighted in the memo. Mr. Traver seconded the motion, which passed without objection on a voice vote.

Report and Recommendation Regarding Participant Fees for 2005

Ms. Schueller presented a memo on participant fee recommendations from Robert C. Willett, CPA and Chief Trust Financial Officer for the Department of Employee Trust Funds. Mr. Willett recommended no change regarding participant fees. The WDC's goal is to maintain 50% of the expenses needed to operate the WDC in the administrative account on a year-to-year basis. As of July 1, 2003, there was a balance of 73% of annual expenses in the account. The balance dropped to 60% in the past year. Mr. Willett recommends that this balance be carefully reviewed next year in light of possible reductions in fund provider reimbursements which may occur as some investment providers are removed from the WDC.

The Board concurred with this recommendation. No further action was taken.

WDC Participant Survey Results

Ms. Schueller presented a summary of the 2004 Participant Survey Results. This survey was conducted in response to a request from the Board to seek WDC participant input regarding improvements in the services and options available under the WDC program. Approximately 1.9% of WDC participants (768) completed the survey.

The 2004 WDC participant survey results offer the following points:

- 1) More WDC participants (31%) said they are enrolled in the asset allocation service offered by the WDC than actually use it (20%). E.g., more survey responses were returned by WDC participants in the asset allocation service than the actual percentage enrolled.
- 2) WDC participants are a varied group of people who rely on the Board to select and monitor the mix of funds offered by the WDC. (Over 28% of respondents indicated that they didn't know what mix of investment options they preferred, while 62% prefer a mix of active and passive options.)
- 3) The majority of survey respondents are aware of investment risk and consider their tolerance for it when selecting investment options.
- 4) Lifestyle and lifecycle funds are of great interest to WDC participants.
- 5) Participants are interested in accessing and using customized online retirement tools.

No action was taken by the Board with respect to the survey results.

Recommendation to Consider Adding Lifecycle Funds

The WDC Board Investment Committee discussed the merits of lifecycle and lifestyle funds at their August 19, 2004, meeting. Based on that meeting, the Investment Committee recommended that the Board add a series of lifecycle funds to the WDC Investment Spectrum. Ms. Schueller advised the Board that if they agree with the recommendation to add lifecycle funds to the investment spectrum, DETF staff will work with NRS to review lifecycle fund options. An Investment Committee meeting will be held in late 2004 or early 2005 and the recommendations from that meeting will be presented to the full Board at their meeting in February 2005.

Motion: Mr. Traver moved to approve reviewing lifecycle fund options for inclusion in the WDC in 2005. Mr. Nelson seconded the motion, which passed without objection on a voice vote.

Scope Statement for New "Fax" Rule

Robert Weber, Chief Legal Counsel for the DETF, presented a scope statement to the Board for approval. Mr. Weber explained that the DETF was asking the Board for approval to proceed with drafting a rule which would modify the original "fax rule" promulgated in 1995. The proposed rule would liberalize the Department's acceptance of documents via fax. Mr. Weber stated that the scope statement had been approved by the Employee Trust Funds Board, Teachers Retirement Board and Wisconsin Retirement Board at their June meetings.

Motion: Mr. Traver moved to approve the scope statement and to have the DETF come back to the Board when the final draft of the rule had been written. Mr. Nelson seconded the motion which passed without objection on a voice vote.

Recommendation to Remove and Replace the T. Rowe Price International Fund

Ms. Schueller reported that the Investment Committee met in August to review the performance of the T. Rowe Price International Stock Fund. As a result of their review, the Investment Committee has determined that T. Rowe Price is no longer desirable as an investment option to be offered to WDC participants.

The Investment Committee made the following recommendations to the Board:

- Initiate the removal of T. Rowe Price from the WDC core spectrum, following established fund phase-out procedures; and
- Add the EuroPacific Growth Fund (Class R5) to the WDC core spectrum.

Motion: Marty Beil moved to remove the T. Rowe Price International Stock Fund from the WDC core spectrum, following the WDC's established fund phase-out process, and to replace the T. Rowe Price International Stock Fund with the EuroPacific Growth Fund (Class R5). Mr. Nelson seconded the motion which passed without objection on a voice vote.

T. Rowe Price International Fund Redemption

Ms. Schueller advised the Board that there has been a recent change in the redemption fee policy of the T. Rowe Price funds. A redemption fee is a fee that is charged to an investor who sells shares of a mutual fund within a designated holding period as specified by the fund. Beginning January 1, 2005, T. Rowe Price will impose a 2% redemption fee and a 90-day holding period on the T. Rowe Price International Stock Fund. Staff requested an exemption to this policy for WDC participants in light of the fact that the fund may be removed from the WDC core investment spectrum, but T. Rowe Price did not grant an exemption.

Ms. Schueller asked that the Board direct staff to inform WDC participants of the T. Rowe Price redemption fee via a special mailing to all participants at a cost of approximately \$21,800, as well as including the new policy on the WDC Web site and in an article in the January 2005 *Money Talks*.

Motion: Mr. Beil moved to authorize staff to spend \$21,800 to conduct a special mailing for the purpose of advising WDC participants of the T. Rowe Price redemption fee. Mr. Nelson seconded the motion which passed without objection on a voice vote.

FDIC Option Update and Recommendation for Establishment of Fixed and Floating Rate Assets for 2005

M&I Bank of Southern Wisconsin has been under contract to offer the Federal Deposit Insurance Corporation (FDIC) bank option for WDC participants since January 1, 2001. WDC participants holding assets in the FDIC account receive a blended rate of interest based on the fixed/floating interest rate allocation selected by the WDC Board. That allocation is set annually by the Board.

Curt Morrow, Investment Services Manager for NRS, provided some projections and recommended continuing the same split as last year, i.e. seventy-five percent (75%) of the account assigned to the floating interest rate and twenty-five percent (25%) to the fixed interest rate.

The Board agreed that no change was needed at this time. No further action taken.

Motion to Convene in Closed Session

Mr. Main announced that the Board would convene in closed session pursuant to the exemptions contained in Wis. Stats. §19.85 (1)(g), for the purpose of deliberating or negotiating the investing of public funds. Staff from the Department of Employee Trust Funds (DETF) were invited to remain during the closed session deliberations.

MOTION: Mr. Beil moved to convene in closed session pursuant to the exemptions contained in Wis. Stats. §19.85(1)(e), for deliberations which involve the investing of public funds. Mr. Traver seconded the motion, which passed without objection on the following roll call vote:

MEMBERS VOTING AYE: Beil, Main, Nelson and Traver

MEMBERS VOTING NAY: None

The Board convened in closed session at 2:13 p.m. and reconvened in open session at 2:35p.m.

Announcement of Action Taken on Business Deliberated on During Closed Session

The Board discussed the options available regarding the administrative services contract for the WDC Program. The Board authorized the development and release of an RFP for a full range of services including, but not limited to, administration and recordkeeping of the WDC to be approved by the chair before actual issuance of the RFP.

Adjournment

Motion: Mr. Traver moved to adjourn. Mr. Beil seconded the motion, which passed without objection on a voice vote.

The meeting was adjourned at 2:40 p.m.

Date Approved: _____

Signed: _____

Martin Beil
Secretary