

DRAFT

MINUTES OF MEETING

**STATE OF WISCONSIN
DEFERRED COMPENSATION BOARD**

**November 13, 2007
1:00 p.m.**

**801 West Badger Road
Conference Room GB
Madison, Wisconsin**

- BOARD PRESENT:** Edward Main, Chair
John Nelson, Vice-Chair (via conference call)
Michael Drury
Gail Hanson
- BOARD ABSENT:** Martin Beil, Secretary
- PARTICIPATING STAFF:** Bob Conlin, Deputy Secretary
Shelly Schueller, Director, Wisconsin Deferred
Compensation Program
Mary Alice McGreevy, Division of Management Services
Sharon Walk, Board Liaison
- OTHERS PRESENT:** Roxanne Brazeau, M&I Bank
Jim Bye, Great-West Retirement Services
Joanne Dollarton, Vanguard
Rhonda Dunn, Executive Assistant
Richard England, Atlanta Capital
Jean Gilding, Division of Retirement Services
Jeff Johnson, Vanguard
Sari King, Division of Retirement Services
Jon Kranz, Office of Internal Audit and Budget
Robert Lawler, Vanguard
Emily Lockwood, Great-West Retirement Services
Ann McCarthy, Board Liaison
Mike Metz, T. Rowe Price
Sue Oelke, Great-West Retirement Services
Alex Roitz, Advised Assets Group
Dave Stella, Secretary
Christine Teske, Calvert
Eric Zeegers, Great-West Retirement Services

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

Board	Mtg Date	Item #
DC	03/04/2008	1

Ms. Schueller announced that the Employee Trust Funds Board appointed Dave Stella as Secretary of the Department of Employee Trust Funds (Department) at its September 2007 meeting. Following the appointment, Mr. Stella asked Rhonda Dunn to continue in her position as Executive Assistant. Mr. Stella also appointed Bob Conlin to fill the position of Deputy Secretary. Mr. Conlin had been serving as the Department's Director of Legislation, Communication and Planning.

Consideration of Minutes of May 15, 2007, Meeting

Motion: Ms. Hanson moved acceptance of the minutes of the May 15, 2007, meeting as submitted by the Board Liaison. Mr. Drury seconded the motion, which passed without objection on a voice vote.

2008 Meeting Dates

The Board was asked to consider the following meeting dates for 2008: February 26, May 20 and November 4. Each of these dates presents a conflict for one or more of the Board members. The board liaison will send new proposed dates to the Board members for consideration.

Legislative and Regulatory Update

Mr. Conlin reviewed recent federal legislative action. He discussed an appropriations bill being considered by Congress that would allow governmental § 457(b) plans to offer a qualified Roth contribution option. Under this provision, participants in § 457(b) governmental plans like the Wisconsin Deferred Compensation (WDC) program would be able to make after-tax Roth account contributions.

Mr. Conlin advised the Board that the U.S. Senate Committee on Banking, Housing and Urban Affairs passed the Sudan Accountability and Divestment Act (SADA) out of committee. The SADA provides a framework by which states can divest from Sudan.

Mr. Conlin also discussed a feature of the Pension Protection Act (PPA) of 2006 involving automatic deferrals. Under this provision, an employer could enroll an employee in an automatic deferral program in a 401(k), 457, or 403(b) plan. If the employee did not want to be in the program, the employee could choose to opt out. The Department of Labor (DOL) has proposed regulations that are intended to protect both employers and employees and has developed proposed guidelines regarding the default investment option. These regulations apply primarily to plans covered under the Employee Retirement Income Security Act (ERISA), not government plans like the WDC. However, state and local government plans have often modeled themselves after ERISA. The regulations indicate that a stable value fund is not adequate as a default option. Lifecycle, target retirement date, and professionally managed funds are acceptable. While a short-term default into a stable value fund is allowed, the funds need to be moved to an acceptable default fund after a certain period of time. The Board was advised to keep this in mind when a WDC fund is closed, as currently the Board has designated the money market as its default fund.

WDC Benchmarks: EuroPacific Growth and US Microcap

Ms. Schueller recapped the discussion the Board had last spring about the benchmarks used by the EuroPacific Growth Fund and the US Microcap Fund. The Deferred Compensation Investment Committee (DCIC) discussed these benchmarks at its September 2007 meeting and is asking the Board to consider replacing the MSCI Europe, Australasia, Far East (EAFE) Index for the EuroPacific Growth Fund with the MSCI All Country World Index (ACWI). The DCIC also asked that the Board consider adding the Russell Microcap as another benchmark for the US Microcap Fund.

MOTION: Mr. Drury moved to accept the recommendation of the DCIC with respect to the benchmarks for the EuroPacific Growth Fund and the US Microcap Fund. Ms. Hanson seconded the motion, which passed without objection on a voice vote.

2007 Quarterly Investment Performance/Benchmark Review

Alex Roitz, Senior Analyst, Advised Assets Group (AAG), presented the *Fund Performance Review as of June 30, 2007*, to the Board. He reviewed the performance of the funds and noted that, per the Board's Investment Policy Statement, each of the investment options should be outperforming at least one of their respective benchmarks over a five-year period. The Calvert Social Investment Equity and Vanguard Long-Term Investment have trailed their respective benchmarks over a five-year period. He noted that the Stable Value Fund has had strong performance over the one, three and five-year periods.

Mr. Roitz said that the DCIC requested an update on Fidelity's procedures with respect to the receipt of travel, entertainment, gifts and gratuity. Mr. Roitz contacted Fidelity and, while he was unable to get anything in writing, he did have a phone conversation with staff at Fidelity. Fidelity stated that, in addition to new management, it has provided staff with training and developed new reporting requirements. Mr. Roitz will continue to monitor this situation.

Mr. Roitz reviewed the lifecycle options. He noted that the Vanguard Target Retirement Funds are in line with their composite indices over the one- and three-year time periods.

Robert Lawler, Relationship Executive with Vanguard, along with Jeffrey Johnson, Senior Investment Analyst, and Joanne Dollarton, Principal, updated the Board on the performance of the Vanguard Long-Term Investment-Grade Fund and the Vanguard Target Retirement Funds.

Richard England, Portfolio Manager, Atlanta Capital Management, and Christine Testke, Vice President, Calvert, updated the Board on the performance of the Calvert Social Investment Funds. Mr. England mentioned that, effective December 31, 2007, he will assume the position of Lead Portfolio Manager at Atlanta Capital Management, replacing Daniel Boone III, who is retiring. Mr. England stated that the philosophy and strategy of the organization will remain the same under his guidance.

FDIC Fixed/Floating Rate Decision

Ms. Schueller discussed fixed/floating interest rate allocation for the Federal Deposit Insurance Corporation (FDIC) bank option. AAG provided an analysis and recommendation for the Board's consideration. AAG recommends that the allocation be kept at seventy-five percent (75%) for the fixed portion and twenty-five percent (25%) for the floating portion.

MOTION: Ms. Hanson moved to allocate seventy-five percent (75%) to the fixed portion and twenty-five percent (25%) to the floating portion in the FDIC option. Mr. Drury seconded the motion, which passed without objection on a voice vote.

Barclays MidCap Fee Change Proposal

Ms. Schueller reported that in September 2007, the DCIC was advised of potential changes to the fees charged by Barclays Global Investors (BGI). BGI had proposed a fee increase from 4 basis points to 7 basis points in the BGI MidCap "W" fund. If the Board would prefer to keep the fees the same, BGI recommended transferring assets from the "W" fund to the "F" fund. Participants will receive a 30-day advance notice of a one-day blackout so Great-West Retirement Services (Great-West) can make the change.

MOTION: Ms. Hanson moved to accept the recommendation of staff to move the WDC assets from the MidCap "W" fund to the MidCap "F" fund, effective as soon as practical. Mr. Drury seconded the motion, which passed without objection on a voice vote.

WDC Fixed Options Review

Ms. Schueller discussed the number of fixed options that are offered through the WDC. The DCIC and staff recommend that the Board replace the M&I FDIC option and the Vanguard Admiral Money Market option with a single FDIC insured money market fund. This change would require a Request for Bid.

MOTION: Ms. Hanson moved to accept the recommendation of staff to pursue a Request for Bid to identify an insured money market fund to replace the M&I FDIC option and the Vanguard Admiral Money Market option. Mr. Drury seconded the motion, which passed without objection on a voice vote.

Consideration of a Statutory Revision to Wis. Stats. 40.08 (2)

Ms. McGreevy asked the Board to consider approving an amendment to Wis. Stats. 40.08 (2) and 40.80. The amendment would permit retired public safety officers who have a WDC account to take advantage of § 845 of the PPA. This provision provides a \$3,000 annual tax exclusion for distributions used to pay health and long-term care insurance premium payments.

MOTION: Ms. Hanson moved to authorize staff to pursue a statutory change to allow annuitants to take advantage of § 845 of the PPA. Mr. Drury seconded the motion, which passed without objection on a voice vote.

Consideration of Proposed Wisconsin Administrative Code Scope Statements

Ms. Schueller discussed changes to Wisconsin Administrative Code ss. ETF 70.08 (3), ETF 70.10 and ETF 70.02. ETF 70.08 (3) would change the start date for the fund phase-out process from January 1 of the year following the Board's decision to six months after the Board makes a decision to remove a fund.

ETF 70.10 permits financial emergency financial hardship withdrawals. The PPA expanded financial emergency hardship withdrawals to include hardships for a named beneficiary. The *WDC Plan and Trust Document* provides for this type of hardship withdrawal but there is no similar provision in the administrative code.

The revision to ETF 70.02 would add the word "beneficiary" to the code.

MOTION: Ms. Hanson moved to authorize staff to pursue the statutory changes as recommended by staff. Mr. Drury seconded the motion, which passed without objection on a voice vote.

PPA Changes to the Plan and Trust Document

Ms. Schueller discussed several proposed revisions to the WDC's *Plan and Trust Document*. The following changes have been recommended in order to implement certain optional provisions of the PPA:

1. s. 824, permitting rollovers to Roth IRAs;
2. s. 826, expanding financial emergency hardship withdrawals to include beneficiary hardships;
3. s. 829, adding non-spouse beneficiary rollovers; and
4. s. 845, providing tax-free distributions of up to \$3,000 for retired public safety officers paying health and long-term care insurance premiums directly to insurance companies.

Staff proposed that the *Plan and Trust* article regarding beneficiaries include language on waiving rights to WDC benefits and the intentional killing of a WDC participant. If approved, these changes would make WDC policies regarding beneficiaries consistent with those of the Wisconsin Retirement System.

Staff also recommends a change to clarify that, per state statutes, the Department will determine whether a participant or beneficiary is faced with an unforeseeable emergency that satisfies the criteria established by the WDC and federal regulations. This section would further state that the amount necessary to pay any federal, state, or local income taxes or penalties resulting from the hardship release may be included in the funds released.

MOTION: Mr. Drury moved to authorize the changes to the Plan and Trust Document as recommended by staff and to authorize the Board chair to sign the Plan and Trust Document after the changes have been made. Ms. Hanson seconded the motion, which passed without objection on a voice vote.

Designation of Records Custodian

Ms. Schueller discussed the need for the Board to designate a legal custodian of its public records. She asked the Board to consider designating the person holding the position of director of the WDC program as the public records custodian.

MOTION: Ms. Hanson moved to designate the director of the WDC program as the Board's records custodian. Mr. Drury seconded the motion, which passed without objection on a voice vote.

Consideration of Administrative Rule

The final draft report of the rule relating to hearsay evidence was discussed. The rule allows the Board increased discretion in evaluating evidence presented in an appeal.

MOTION: Ms. Hanson moved approval of the final draft report with respect to Clearinghouse Rule #07-066. Mr. Drury seconded the motion, which passed without objection on a voice vote.

Excessive Trading Policy Revision

Ms. Schueller advised the Board that staff is requesting a change to the excessive trading policy procedure to make the WDC compatible with Security and Exchange Commission (SEC) Rule 22c-2. This rule permits either a fund house or the recordkeeper to do the monitoring of participants. Currently, in the WDC, only fund houses are allowed to monitor excessive trading by participants. With the change in the SEC rule, some fund houses are asking Great-West to take on this responsibility.

MOTION: Ms. Hanson moved to authorize the third-party administrator to enforce the Board's excessive trading policy. Mr. Drury seconded the motion, which passed without objection on a voice vote.

Miscellaneous

Ms. Schueller advised the Board that the WDC received a Leadership Award from the National Association of Government Defined Contribution Administrators (NAGDCA) for the "Steppingstones" presentations. The award recognizes the joint presentations that the WDC, the Wisconsin Retirement System, and the Social Security Administration conducted around the state for public employees. This was a very successful program and will be continued.

Ms. Schueller discussed the financial statements audits that were included in the Board packet. The auditors indicate that the WDC needs to do more monitoring and that the

plan should not rely on the auditor to create the financial statements. Ms. Schueller has discussed this with the recordkeeper and the auditor. There is a plan in place to improve the financial statements process for the WDC program beginning in 2007.

Adjournment

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

The meeting was adjourned at 2:54 p.m.

Date Approved: _____

Signed: _____

Martin Beil, Secretary
Deferred Compensation Board