

DRAFT

MINUTES OF MEETING
STATE OF WISCONSIN
DEFERRED COMPENSATION BOARD

March 4, 2008
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: Dave Stella, Secretary
Bob Conlin, Deputy Secretary
Shelly Schueller, Director, Wisconsin Deferred
Compensation Program
Sharon Walk, Board Liaison

OTHERS PRESENT: Jim Bye, Great-West Retirement Services
Rhonda Dunn, Executive Assistant
Shelley Fredrick, Great-West Retirement Services
Jean Gilding, Division of Retirement Services
Tom Gilland, Retired, City of Milton
Jon Kranz, Office of Internal Audit and Budget
Ann McCarthy, Board Liaison
Dave McLeod, Advised Assets Group
Sue Oelke, Great-West Retirement Services

Edward Main, Chair, called the Deferred Compensation Board (Board) meeting to order at 1:02 p.m.

Ms. Shelly Schueller announced that the Wisconsin Deferred Compensation (WDC) Program is now part of the Division of Retirement Services (DRS) in the Department of Employee Trust Funds (Department). She introduced her new supervisor, Jean Gilding, DRS Deputy Division Administrator.

Consideration of Minutes of November 13, 2007, Meeting

Motion: Mr. Drury moved acceptance of the minutes of the November 13, 2007, meeting as submitted by the Board Liaison. Ms. Hanson seconded the motion, which passed without objection on a voice vote.

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Election of Officers

Motion: Mr. Drury moved to cast a unanimous ballot for the current slate of officers (Ed Main, Chair; John Nelson, Vice-Chair; and Martin Beil, Secretary) for a one-year term. Ms. Hanson seconded the motion, which passed without objection on a voice vote.

Managed Account Services

Ms. Schueller reminded the Board that for the past year they have discussed the managed account service, Reality Investing, offered through Advised Assets Group (AAG). The Board asked the Deferred Compensation Investment Committee (Committee) to review this service and report back to the Board with its findings. As part of the review, Department staff conducted due diligence research by issuing a Request for Information (RFI) to ascertain what other services might be available to participants. Eight vendors responded to the RFI. Ms. Schueller referred the Board to the memo that summarized the managed account marketplace. None of the eight responses were as complete as the AAG proposal, due to either high cost, lack of experience in managed accounts, or the inability to allow outside financial resources to be included. Staff recommended that the Board consider offering the Reality Investing service provided by AAG to WDC Program participants.

Dave McLeod, managing director, AAG, discussed the *Preferred Pricing* feature available through Reality Investing. *Preferred Pricing* would become effective when the 10% threshold of assets criteria is met.

Motion: Ms. Hanson moved approval of the staff recommendation to offer the AAG managed account service, Reality Investing, to WDC participants, contingent upon the review of the contract and awareness campaign materials by the Investment Committee, and final approval of the Board at the May 2008 meeting. Mr. Drury seconded the motion, which passed without objection on a voice vote.

Great-West Retirement Services (GWRS) Recordkeeping Errors

Ms. Schueller advised the Board that GWRS made two investment-related recordkeeping errors during the second half of 2007. One error involved the daily interest rate from July through August of 2007. The rate that was credited was 4.897% when it should have been 5.009%, a difference of 0.112%. This error affected 2,868 of the approximately 46,000 WDC participants.

The second error occurred when the BGI EAFE Equity Index "W" was merged into the "T" fund. GWRS staff did not realize that the exchange of shares was not a one-to-one ratio. This error affected approximately 7,750 participants. GWRS has corrected the accounts and the participants received a letter describing what was done. Shelley Fredrick from GWRS provided a short explanation of what occurred, how GWRS addressed the problem and assured the Board that this type of error would not occur in the future.

Financial Emergency Hardship Application Trends

Ms. Schueller discussed the memo that had been provided to the Board regarding hardship application trends. Local GWRS staff review each hardship application to ensure that the appropriate documentation is completed before it is forwarded to the Department for approval or denial. The number of hardship applications has increased over the past four years. The most cited reasons for requesting a withdrawal were home foreclosures, loss of income and medical expenses. Ms. Schueller reminded the Board that it discussed offering loans at its May 15, 2007, meeting and decided not to offer them. Ms. Schueller mentioned that if the hardship workload continues to increase, it might be necessary to review the current processes to determine whether changes should be made.

Public Safety Officer Health Insurance Premium Deductions

Mr. Conlin mentioned that at the November 2007 Board meeting the Department was directed to develop legislation to address the withholding of health insurance or long-term care insurance premiums for public safety officers from WDC participants' accounts. Mr. Conlin discussed three bills that are pending before the legislature: Assembly Bill (AB) 851, Senate Bill (SB) 471 and AB 801. All three bills contain the WDC provision as well as a Wisconsin Retirement System (WRS) provision. AB 851 and SB 471 are identical proposals which would require the Department to provide this service to public safety officers who elect to have health insurance or long-term care premiums deducted from their WRS annuity. AB 801 is broader and would offer this service to anyone in the WRS. The Department has expressed concern regarding the lack of resources to implement the WRS portion of these bills. This is not a concern for the WDC portion of the bills as the service would be provided by GWRS under the current administrative process.

Proposed Scope Statement Concerning Amendments to Wisconsin Administrative Code ETF 11.11

Mr. Conlin discussed the proposed scope statement relating to Wis. Admin. Code ETF 11.11 dealing with the appointment of counsel to represent the Board. The intent of the proposed scope statement is to provide the Board and the Department with more flexibility in managing the legal caseload. Mr. Conlin noted that the Employee Trust Funds Board, the Wisconsin Retirement Board, the Teachers Retirement Board and the Group Insurance Board have approved the scope statement.

Motion: Mr. Drury moved to approve the scope statement. Ms. Hanson seconded the motion, which passed without objection on a voice vote.

Administrative Code Revision Update

Ms. Schueller updated the Board on the status of the administrative code pertaining to fund closures and phase-out dates. Currently the administrative rule states that a fund closure begins on January 1 and ends on December 31. This has caused problems with end-of-year market closure dates and account reconciliations. In November 2007, the Board approved a scope statement authorizing revisions to the administrative rules so that a fund closure would begin six months after Board approval. The scope statement also defines emergency withdrawals to include the beneficiary of a participant and further defines the definition of a beneficiary. The scope statement that the Board approved in November of 2007 was

published in the December 1, 2007, Wisconsin Administrative Register and the draft rule was submitted to the Legislative Clearinghouse in February 2008. It was published in the Administrative Register on February 29, 2008. A public hearing is scheduled for March 19, 2008. The revision will be on the May 6, 2008, WDC Board agenda for final approval before it is submitted to the legislature.

2006 Financial Statements Audit Letter Response

Ms. Schueller noted that the management letter that accompanied the 2006 Financial Statements Audit Report from the Board's auditors, Clifton Gunderson, identified deficiencies in the administration of the WDC. After discussion with Department staff, GWRS and Clifton Gunderson, an improved general ledger has been developed that will be used to reconcile quarterly statement data. The management report also identified two emergency hardship withdrawals as questionable. Staff reviewed these and determined that while these started out as hardship withdrawals, upon further examination it was noted that both of these participants had separated from service and, therefore, could take a distribution. The 2007 financial statements audit and 2007 compliance audit are now underway.

Fixed Investment Option Request for Proposal (RFP) Update

Ms. Schueller updated the Board on the status of the Fixed Investment Option RFP. This RFP has been on hold, pending the revisions to the administrative code to change the starting date for a fund closure phase-out.

Miscellaneous

Ms. Schueller referred the Board members to the miscellaneous items in their binders.

Future Agenda Items

The following items will be added to a future Board meeting:

- Mr. Nelson requested more information from Galliard on its holdings and exposure, specifically mortgage-backed securities, collateralized debt obligations, structured investment vehicles, and a list of the insurance wrapper providers.
- Ms. Hanson asked for an update on the WDC's default fund selection in light of the 2006 Pension Protection Act changes to Employee Retirement Income Security Act rules.

Adjournment

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

The meeting was adjourned at 2:10 p.m.

Date Approved: _____

Signed: _____

Martin Beil, Secretary
Deferred Compensation Board