

DRAFT

MINUTES OF MEETING
STATE OF WISCONSIN
DEFERRED COMPENSATION BOARD

May 6, 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
David Nispel, Deputy Chief Legal Counsel
Shelly Schueller, Director, Wisconsin Deferred
Compensation Program
Matt Stohr, Director of Legislation, Communications, and Planning
Sharon Walk, Board Liaison

OTHERS PRESENT: Jim Bye, Great-West Retirement Services
John Caswell, Galliard Capital Management
Rhonda Dunn, Executive Assistant
Jean Gilding, Division of Retirement Services
Tom Gilland, Retired, City of Milton
Brent Hartman, Fidelity Investments
Sari King, Division of Retirement Services
Jon Kranz, Office of Internal Audit and Budget
Emily Lockwood, Great-West Retirement Services
Zach Meyer, Wipfli
Ann McCarthy, Board Liaison
Dave McLeod, Advised Assets Group
Mike Norman, Galliard Capital Management
Sue Oelke, Great-West Retirement Services
Jared Oosterhouse, Wipfli
Alex Roitz, Advised Assets Group

Edward Main, Chair, called the Deferred Compensation Board (Board) meeting to order at 1:04 p.m.

Board	Mtg Date	Item #
DC	11/18/2008	1

CONSIDERATION OF MINUTES OF THE MARCH 4, 2008, MEETING

Motion: Mr. Drury moved acceptance of the minutes of the March 4, 2008, meeting as submitted by the Board Liaison. Ms. Hanson seconded the motion, which passed without objection on a voice vote.

2007 INVESTMENT PERFORMANCE REVIEW

Alex Roitz, Senior Analyst, Advised Assets Group (AAG), presented the *Fund Performance Review as of December 31, 2007*, to the Board. The report consists of a first quarter 2008 update, an executive summary, fund highlights and observations, 2007 performance benchmarking, lifecycle options, economic overview, the Board's Investment Policy Statement and benchmarks, and a glossary.

Mr. Roitz noted that the weighted average return for all Wisconsin Deferred Compensation (WDC) Program participants as of December 31, 2007, was 10.07%. During 2007, the WDC Program experienced steady growth in new deferrals and investment income. As of December 31, 2007, the WDC Program has nearly 47,000 participants and assets exceeding \$2.29 billion.

STABLE VALUE FUND SUBADVISOR

John Caswell, Managing Partner, and Mike Norman, Principal, Galliard Financial Management (Galliard), discussed Galliard's evaluation of the investment performance of one of the Stable Value Fund's sub-advisors, Alliance Bernstein. Alliance Bernstein has been on Galliard's watch list for poor performance. At the end of 2007, their three-year and five-year performance returns ranked in the 60th to 80th percentile, resulting in a "D" grade from Galliard. Galliard recommends that Alliance Bernstein be replaced by Aberdeen Asset Management.

Ms. Schueller noted that in researching previous action on Stable Value Fund sub-advisors, she discovered that the Board had previously delegated authority to the Department of Employee Trust Funds (Department) to add or replace sub-advisors for the Stable Value Funds with approval from the Deferred Compensation Investment Committee (Investment Committee). Since this item was already on the Board's May 6, 2006, agenda, and the Investment Committee had not met to discuss this topic, Ms. Schueller asked the Board to make a determination on the replacement of Alliance Bernstein.

MOTION: Ms. Hanson moved to accept the recommendation of the Department to replace the current Stable Value Fund sub-advisor Alliance Bernstein with Aberdeen Asset Management and to affirm the policy that permits the Department to make sub-advisor changes to the Stable Value Fund with the approval of the Investment Committee. Mr. Drury seconded the motion, which passed without objection on a voice vote.

LEGISLATIVE UPDATE

Matt Stohr, Director of Legislation, Communications, and Planning, updated the Board on recent legislative activity. Mr. Stohr noted that the 2007-2008 general legislative session concluded March 13, 2008. He discussed Assembly Bill (AB) 893, a technical bill that was signed into law as Act 131. This act conforms state law with current practices and with federal law, creates

efficiencies in the operations of Department programs, and eliminates several inequities with previous laws.

Mr. Stohr also mentioned AB 851 and Senate Bill (SB) 471, companion bills that would have allowed health and long-term care insurance premiums to be deducted from the WDC Program or Wisconsin Retirement System accounts of public safety officers. Neither of these bills passed during the legislative session.

PLAN AND TRUST DOCUMENT CHANGES

Ms. Schueller referred members to a memo in their packet that discussed proposed *Plan and Trust Document* changes as a result of state statute revisions stemming from 2007 Wis. Act. 131. Two items affect the WDC *Plan and Trust Document*. The first is a provision in the statutes in sec. 40.80 that relates to Domestic Relations Orders. This was renumbered to a provision in sec. 40.08 relating to assignment of benefits. It was felt this a more logical place for this provision to be located. The references in the *Plan and Trust Document* need to be changed to reflect this. The other change updates the statutory standard sequence for beneficiaries. The surviving spouse of a deceased child would be eliminated as a default beneficiary so that the assets of a WDC participant would pass to the participant's grandchild.

MOTION: Ms. Hanson moved to approve the Plan and Trust Document changes as recommended by the Department and to authorize the Board Chair to sign the revised documents. Mr. Nelson seconded the motion, which passed without objection on a voice vote.

ADMINISTRATIVE CODE REVISIONS

David Nispel, Deputy Chief Legal Counsel, discussed changes to Wisconsin Administrative Code §§ ETF 70.08 (3), ETF 70.10, and ETF 70.02. The proposed modifications would do the following:

1. Adjust the start date for phasing out an investment option in order to reduce complications associated with a fund closure;
2. Expand financial emergency hardship withdrawals to include hardships for a named beneficiary;
3. Provide a definition of "beneficiary."

Mr. Nispel asked the Board to consider approving the final draft report of this administrative rule.

MOTION: Mr. Nelson moved approval of the final draft report of Wisconsin Administrative Code §§ ETF 70.08 (3), ETF 70.10, and ETF 70.02. Mr. Drury seconded the motion, which passed without objection on a voice vote.

DEFAULT FUND DISCUSSION

Ms. Schueller discussed the designation of the default fund to which participant assets are directed when an investment option is removed or replaced, or a participant otherwise fails to make a decision on where their assets should be invested. At the present time, when a fund is removed from the WDC Program, any remaining account balances are moved to the Vanguard Money Market Treasury Fund. Ms. Schueller noted that the federal Pension Protection Act of

2006 included language creating ERISA s. 404 (c)(5), which alleviates fiduciary liability for plan sponsors who meet specific conditions regarding assets invested in a plan's default fund. Department staff conducted a survey of members of the National Association of Government Defined Contribution Administrators as part of its due diligence efforts. The results of the survey indicated that most public plan sponsors have a strong preference for using lifecycle (target retirement date) funds as the default fund.

MOTION: Ms. Hanson moved to change the Board's designated default fund from the Vanguard Admiral Money Market Fund to the Vanguard Target Date Retirement Funds, using 65 as the retirement age to determine the lifecycle fund in which to place a participant's defaulting account balance. Mr. Nelson seconded the motion, which passed without objection on a voice vote.

MANAGED ACCOUNTS/REALITY INVESTING

Ms. Schueller noted that, since 2007, the Board has discussed a new type of service available to participants called "managed accounts." AAG has developed a managed accounts service called "Reality Investing." The Board directed the Investment Committee to conduct additional analysis and to make a recommendation to the Board. The Investment Committee conducted its due diligence research and recommends that the Board approve the addition of Reality Investing services.

MOTION: Mr. Drury moved to authorize AAG to provide Reality Investing to WDC participants and to delegate the authority to sign the contract to the board chair. Ms. Hanson seconded the motion, which passed without objection on a voice vote.

CONTRACT COMPLIANCE AND FINANCIAL STATEMENTS AUDIT REPORTS

Ms. Schueller summarized the results of the recent administrative services contract compliance audit and the annual financial statements audit.

2007 Contract Compliance Audit

Wipfli completed the WDC's contract compliance audit for the calendar year 2007. The executive summary indicates that Great-West Retirement Services (GWRS) is in compliance with the administrative services agreement. Wipfli found no errors or exceptions during its examination of selected transactions, and the records maintained by GWRS are complete and orderly.

Wipfli recommended that the Department and GWRS develop a mutually agreeable deadline for completion and submission of the annual plan status and demographic report. Wipfli also noted that the most recent GWRS SAS 70 report suggested that controls should be in place on any client's systems to ensure that information provided to GWRS is accurate and authorized. The Department believes it is prudent to follow both recommendations and will determine a deadline for the annual plan status and demographic reports with GWRS, and review internal Department controls to make sure data transfers are accurate and secure.

2007 Financial Statements Audit

Clifton Gunderson completed the WDC's comprehensive financial statements audit for the year ending December 31, 2007. Financial highlights from this audit include:

- Net assets were \$2.29 billion.
- Mutual fund investment income provided a \$167.3 million gain.
- Employee contributions totaled \$140.7 million.
- Distributions to participants were \$88.8 million.

Clifton Gunderson noted that, for the second consecutive year, one WDC disbursement was incorrectly processed as a hardship when it should have been a separation from service. As in 2006, the error occurred because the participant inadvertently indicated on the distribution form the funds were needed due to financial hardship. GWRS staff determined that the participant had, in fact, separated from service. The distribution form should have been returned to the participant for correction. In the end, the participant was able to access the funds in the account and the distribution was eventually processed correctly. The Department and GWRS have discussed how and why these disbursements were improperly categorized as hardship distributions. GWRS will be closely reviewing distribution requests in an attempt to prevent this from occurring in the future.

The results from both audits demonstrate that GWRS is meeting the substantive requirements of the administrative services contract and the financial statements audit report shows that the WDC continues to grow.

WDC PROGRAM STATISTICS AND SURVEY RESULTS

Ms. Schueller referred the Board to a memo regarding the 2007 WDC Program statistics and survey results. She noted the following:

- WDC participants grew to 47,000 as of December 31, 2007.
- WDC assets as of December 31, 2007, totaled \$2,293.95 million.
- During 2007, WDC participants deferred \$153,081,245 to their accounts. Just over 35% went to large cap funds, 14% to fixed funds. Approximately 9% went to each of the following: international, small cap and lifecycle funds.
- In 2007, the average WDC participant deferred \$4,343. The average account balance was \$48,505. In 2006 the average WDC deferral was \$4,310 and the account balance average was \$44,920.
- More than 5,000 participants received WDC benefit distributions during 2007.

In January 2008, the WDC activated an online survey accessible to participants logged in to their WDC account. The WDC received 261 survey responses. Highlights from this survey include:

- Overall, participants like the WDC: 85% (222 of 261) rated the overall WDC as a "good" or "excellent" supplemental retirement program and 95% would recommend the WDC to a friend or colleague. Seventy-three percent (191 of 261) also rated the program administrator as "good" or "excellent."
- Approximately 88% (231 of 261) ranked the quarterly WDC participant statement as "good" or "excellent."

- Most responding participants felt the WDC local office, field staff and call center representatives provide “good” or “excellent” service.
- The results included 103 participant comments in the “write in any comments and/or suggestions” option. These remarks suggest that while many participants appreciate some features of the WDC (low participant fees, self-directed brokerage option, and some of the WDC Web site features) other participants have additional suggestions for improvement. For example, they would like additional investment options in the core spectrum such as precious metals, energy, real estate, exchange traded funds, and additional international funds. They would also like a managed accounts or advice feature and a Web site that is easier to navigate that includes additional features such as a yearly “rate of return” link for quick access to this information.

MISCELLANEOUS

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

MOTION TO CONVENE IN CLOSED SESSION

Mr. Main announced that the Board would convene in closed session pursuant to the exemptions contained in Wis. Stat. § 19.85(1)(e) for the purpose discussing the renewal of the administrative services contract with GWRS. Staff from the Department of Employee Trust Funds were invited to remain during the closed session.

MOTION: Ms. Hanson moved to convene in closed session pursuant to the exemptions contained in Wis. Stat. § 19.85 (1)(e) for the purpose of discussing the use of public employee trust funds. Mr. Drury seconded the motion, which passed on the following roll call vote:

Members Voting Aye: Drury, Hanson, Main and Nelson

Members Voting Nay: None

The Board convened in closed session at 2:34 p.m. and reconvened in open session at 2:58 p.m.

ANNOUNCEMENT OF ACTION TAKEN ON BUSINESS DELIBERATED DURING CLOSED SESSION

Mr. Main announced that the Board took the following action during the closed session:

The Board moved to renew the administrative services contract with GWRS through November 30, 2010, with the understanding that GWRS would address ETF staff’s concerns regarding legal assistance from GWRS and update the WDC website.

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 3:00 p.m.

Date Approved: _____

Signed: _____

Martin Beil, Secretary
Deferred Compensation Board