

DRAFT

MINUTES OF MAY 19, 2009, MEETING

**STATE OF WISCONSIN
DEFERRED COMPENSATION BOARD**
801 West Badger Road
Conference Room GB
Madison, WI

BOARD PRESENT:

Ed Main, Chair John Nelson, Vice-Chair	Michael Drury Gail Hanson
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BOARD NOT PRESENT:

Martin Beil, Secretary

PARTICIPATING ETF STAFF:

Dave Stella, Secretary Bob Conlin, Deputy Secretary Jean Gilding, Division of Retirement Services	Matt Stohr, Office of Legislation, Communications and Quality Assurance Bob Willett, Office of Trust Finance and Data Analysis Sharon Walk, Board Liaison
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OTHERS PRESENT:

ETF Office of the Secretary: Rhonda Dunn, Cindy Gilles ETF Office of Budget and Trust Finance: Jon Kranz, Bob Willett ETF Office of Policy, Privacy and Compliance: Mary Alice McGreevy Advised Assets Group: Alex Roitz	Galliard Capital Management: Karl Tourville Great-West Retirement Services: Theresa Cruz Myers, Sue Oelke M&I Bank: Roxanne Brazeau, Doug Nelson, Rick Phelps
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Edward Main, Chair, called the meeting of the Deferred Compensation Board (Board) to order at 1:04 p.m.

CONSIDERATION OF MINUTES OF THE NOVEMBER 18, 2008, MEETING

Motion: Ms. Hanson moved acceptance of the minutes of the November 18, 2008, meeting as submitted by the Board Liaison. Mr. Nelson seconded the motion, which passed without objection on a voice vote.

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ELECTION OF OFFICERS

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

LEGISLATIVE UPDATE

Matt Stohr, Director of Legislation, Communications, and Quality Assurance, updated the Board on recent legislative activity. Assembly Bill (AB) 75, the state biennial budget bill, is the only bill currently pending that will have a direct impact on the Wisconsin Deferred Compensation (WDC) Program. The bill contains a provision which would allow a domestic partner to receive benefits of a WDC member. If this provision is passed, the *WDC Plan and Trust Document* would need to be modified to reflect the changes.

On the federal level, House of Representatives Bill (H.R.) 1413, also known as the Healthcare Enhancement for Local Public Servants Act of 2009 (HELPS II), was introduced. HELPS II would permit all public employee retirees to use tax-free deductions from Wisconsin Retirement System (WRS) and WDC accounts to pay health insurance and long-term care insurance premiums. Currently only retired public safety personnel are eligible for the federal income tax exclusion.

H.R. 7327, the Worker, Retiree, and Employer Recovery Act of 2008 (Recovery Act), was signed into law in December 2008. Generally, participants in qualified plans are required to take required minimum distributions (RMD) by April 1 of the year following: 1) the year they retire, or 2) the year they attain age 70½, whichever is later. The Recovery Act provides a temporary, one-year moratorium on required minimum distributions from individual retirement plans (e.g., IRAs) and defined contribution plans qualified under Code §§ 401(a), 403(a), 403(b), and governmental plans under § 457(b). The one-year moratorium is effective for minimum distributions beginning after December 31, 2008. Great-West Retirement Services (GWRS) mailed a notice to all affected WDC participants earlier this year, explaining the moratorium and asking participants to contact GWRS if they would like their RMDs suspended. The participants will continue to receive their RMDs if they do not contact GWRS.

2008 ANNUAL INVESTMENT PERFORMANCE REPORT

Alex Roitz, Senior Analyst, Advised Assets Group (AAG), presented the *Fund Performance Review as of December 31, 2008*, to the Board. He also briefed the Board on preliminary results for the first quarter of 2009.

Mr. Roitz noted that the performance of the WDC Program's fund options, even with the poor market environment, has been better than established benchmarks over the past year. The majority of WDC investment options continue to meet or exceed their benchmarks.

Mr. Roitz explained the benchmark index that has been developed by AAG for monitoring the performance of microcap funds. The Deferred Compensation Investment Committee (Investment Committee) reviewed the new benchmark index at its February 2009 meeting and

agreed that it was appropriate to include both the Russell Microcap index and AAG's microcap index as benchmarks.

MOTION: Ms. Hanson moved to affirm the Investment Committee's recommendation to include both the Russell Microcap index and Advised Assets Group's Microcap Index as benchmarks for the Dimensional Fund Advisors U.S. Micro Cap Fund. Mr. Drury seconded the motion, which passed without objection on a voice vote.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC) BANK OPTION UPDATE

Roxanne Brazeau, Vice-President, Doug Nelson, Regional President, and Rick Phelps, Senior Vice President, M&I Bank, attended today's meeting and updated the Board on the bank's financial status in light of the current economic situation. The Board asked for a more detailed explanation of the assets and liabilities of M&I. M&I will provide a chart showing the percentage of M&I Bank loan defaults in Wisconsin. The Board also asked that staff explore options under banking regulations for participants with balances over the FDIC insurance limit of \$250,000. Ms. Schueller will follow up on these items and provide information to the Board members.

STABLE VALUE FUND UPDATE

Ms. Schueller referred the Board to a memo in their binder that discussed the Stable Value Fund (SVF) and how it operates. Karl Tourville, Managing Partner of Galliard Capital Management, described the two components of the SVF: the income (bond) portfolio and an investment contract issued by a high quality financial institution, also known as "wraps." The Board asked Galliard to provide additional information on whether the SVF has been stress-tested, a review of the liquidity level and any escape clauses that are available through the contracts with the wrap providers. Staff will work with Galliard to provide this information to the Board.

CLOSURE OF VANGUARD ADMIRAL TREASURY MONEY MARKET FUND

Ms. Schueller noted that the Vanguard Mutual Fund Company closed the Vanguard Admiral Treasury Money Market Fund (VUSXX) to all new contributions. There is no indication as to whether this closure is temporary or permanent. Participants who were actively deferring all or a portion of their WDC contributions to the fund were notified via letter that they had until May 4, 2009, to redirect these deferrals to another option. Participants who fail to take action by the deadline will have their VUSXX contributions automatically reallocated to the Vanguard Target Retirement Fund closest to the year in which they will reach age 65.

PARTICIPANT FEE ANALYSIS

Bob Willett, Chief Trust Financial Officer, discussed participant fees with the Board. He reminded the Board that two years ago there was a surplus in the administrative account. The Board took action at that time to reduce participant fees. Since then, there have been unexpected changes in the asset balances. The overall assets of the plan have declined approximately 20%. As a result, the asset base that is generating fees has declined

significantly. At this time, the plan has a sufficient reserve to fund the administrative costs of the plan. The target is to have a reserve account at 50% of annual plan expenses. Mr. Willett indicated that no action is needed at this time. He will continue to monitor this account and will provide another report to the Board at the November meeting.

FINANCIAL STATEMENTS AUDIT REPORT

Ms. Schueller discussed the Financial Statements Audit Report with the Board. The Board contracted with Clifton Gunderson to complete a comprehensive financial statements audit of the WDC for the year ending December 31, 2008. The financial statements audit report findings demonstrate that the WDC is in good condition. Participant deferrals, investment income and expenses are all properly accounted for in the financial statements report.

WDC YEAR IN REVIEW STATISTICS

Ms. Schueller presented the 2008 Annual Statistics Report to the Board. The program has almost 50,000 participants. Forty-four local employers were added in 2008. She reviewed the WDC average account balance, asset growth and participant fee reduction history. Other items of note include the Reality Investing option that was opened for participants in August 2008. About 1800 members have opted to use Reality Investing with the majority utilizing the Managed Accounts feature. In addition, joint workshops were offered for the second year in cooperation with the WRS, Social Security Administration and WDC Program.

GWRS UNAUTHORIZED ACCESS TO MEMBER STATEMENTS

Theresa Cruz Myers, GWRS Central Region Vice President, discussed a security breach that occurred on March 23, 2009, when the WDC website was compromised. The breach occurred because protocol that should have been followed after a software change was not adhered to. The programmer who made the change determined that the change was minor and following the protocol was not necessary. As a result, two UW employees were able access on-line statements of other WDC participants. They were able to view name, address, GWRS user id, and account balance. Social Security Numbers and passwords were not viewable. Thirty-one accounts were accessed. After viewing these accounts, the employees notified GWRS and further access to the accounts was denied.

To rectify the situation, GWRS offered free credit monitoring for a year to the affected members. They were also advised that they could have a special indicator added to their account and that they could change their user id. GWRS quality control has been reviewed and the protocol will be followed in the future.

The Board suggested that GWRS contact the 31 members to see if they were interested in changing their login id. Ms. Myers agreed pursue this. She apologized to the Board for the anxiety this has caused. She will provide information at the next Board meeting about the results of the contacts with members.

MISCELLANEOUS

Ms. Schueller reviewed the miscellaneous items. She noted that excessive trading problems continue to be an issue. In the last quarter, 71 members have been warned and seven have had restrictions placed on them.

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 of discussing 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. Nelson 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 3:22 p.m. and reconvened in open session at 3:38 p.m.

ANNOUNCEMENT OF ACTION TAKEN ON BUSINESS DELIBERATED DURING CLOSED SESSION

Mr. Main announced that during closed session the Board directed staff and the Department to open negotiations with GWRS regarding possible program enhancements and costs for a three- to five-year administrative services contract extension and to make a report to the Board at the November 2009 meeting.

ADJOURNMENT

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

The meeting was adjourned at 3:52 p.m.

Date Approved: _____

Signed: _____

Martin Beil, Secretary
Deferred Compensation Board