

MINUTES OF NOVEMBER 17, 2009, MEETING

DRAFT

**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
---	------------------------------

BOARD NOT PRESENT:

Martin Beil, Secretary

PARTICIPATING EMPLOYEE TRUST FUNDS (ETF) STAFF:

Dave Stella, Secretary Bob Conlin, Deputy Secretary Jean Gilding, Division of Retirement Services Steve Hurley, Office of Policy, Privacy and Compliance David Nispel, Office of the Secretary Shelly Schueller, Division of Retirement Services	Matt Stohr, Office of Legislation, Communications and Quality Assurance Bob Willett, Office of Budget and Trust Finance Sharon Walk, Board Liaison
---	--

OTHERS PRESENT:

ETF Office of the Secretary: Rhonda Dunn ETF Office of Budget and Trust Finance: Jon Kranz Advised Assets Group: Alex Roitz Galliard: Mike Norman (via teleconference)	Great-West Retirement Services: Joan McDonagh, Theresa Cruz Myers, Sue Oelke ICMA-RC: J. Mattera
---	---

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

CONSIDERATION OF MINUTES OF THE MAY 19, 2009, MEETING

MOTION: Ms. Hanson moved acceptance of the minutes of the May 19, 2009, meeting as submitted by the Board Liaison. Mr. Drury seconded the motion, which passed without objection on a voice vote.

Board	Mtg Date	Item #
DC	03.02.10	1

ANNOUNCEMENTS

Shelly Schueller announced that Ed Main and John Nelson were reappointed to the Board by the Governor and their reappointments are awaiting Senate confirmation.

2010 MEETING DATES

Ms. Schueller referred the Board members to the memo containing the 2010 proposed meetings dates. Ms. Hanson indicated she is not available February 23, 2010. This meeting will be rescheduled.

(Note: After the meeting, the board liaison contacted the Board members with regard to a new meeting date. The first meeting of 2010 will be held on March 2, 2010.)

LEGISLATIVE UPDATE

Matt Stohr, Director of Legislative Affairs, Communications, and Quality Assurance, updated the Board on recent legislative activity.

Required Minimum Distribution (RMD) Moratorium

On April 22, 2009, House Resolution (H.R.) 2021 was introduced. H.R. 2021, also known as the Savings Recovery Act of 2009, would extend the RMD Moratorium through 2012 if it is enacted. HR 2021 has been referred to the House Ways and Means Committee and other committees in the House of Representatives; however, it has not yet been scheduled for a public hearing. ETF staff will continue to monitor H.R. 2021 and provide the Board with updates.

Domestic Partners

The state biennial budget bill, 2009 Wisconsin Act 28 (Act 28), included a provision relating to domestic partners. Act 28 establishes the right of a domestic partner to be treated like a spouse for purposes of benefits provided under Ch. 40, Wis. Stats. Specifically, domestic partners will be included at the same level as spouses for standard sequence. This provision will be effective January 1, 2010. The WDC *Plan and Trust Document* will have to be modified to reflect the changes brought about by Act 28 to the extent possible under current federal law.

ADMINISTRATIVE CODE CHANGES

David Nispel, ETF General Counsel, discussed the following administrative rules.

Wisconsin Administrative Code, s. ETF 11.11 Revisions

The purpose of this rule is to provide additional flexibility to the boards when using legal counsel services. Board staff would have additional discretion in determining when legal counsel services are needed. This rule is in compliance with s. 40.03, Stats., which identifies when the Department of Justice provides legal services to the boards. The proposed rule would simply provide that legal counsel shall provide legal representation to the boards, rather than specifying specific duties. The Employee Trust Funds (ETF) Board, Wisconsin Retirement (WR) Board,

Teachers Retirement (TR) Board and Group Insurance Board (GIB) have approved this rule. If all of the boards approve the rule, the Department will take the rule to the legislature for review.

Wisconsin Administrative Code, s. ETF 11.15 (4) Revisions

This rule will improve the procedure for service of process on the boards. This rule will enhance the process by allowing two additional positions to be available to accept service. This will enhance customer service by allowing staff to more easily locate someone to accept service.

Technical and Minor Substantive Changes to Existing Administrative Rules

This rule will make technical and minor substantive changes to provisions in the existing administrative codes. The purpose of the rule is to bring up to date, in three different ways, the various administrative code chapters. In 2007, Wisconsin Act 131 made technical changes in the statutes and it is necessary for those statutory changes to be reflected in the applicable administrative rules. Next, over the years there have been other statutory changes made to Chapter 40 and this technical rule will respond to those changes. Finally, the Department responds to changes from members and legislative needs. Our practices have changed over the years and this rule reflects those policy and practice changes. Mr. Nispel referred the Board to his memo dated November 2, 2009, which identified the four sections that directly affect the WDC program.

The GIB has approved this rule. The ETF, WR and TR Boards will consider this rule at an upcoming meeting.

Emergency Rule Order for the Implementation of Domestic Partner Benefits and the Extension of Health Insurance Coverage to Adult Dependents to Age 27

Steve Hurley, Office of Policy, Privacy and Compliance, referred the Board to his memo dated November 2, 2009. Mr. Hurley indicated that he was seeking the Board's approval to promulgate a rule for the implementation of domestic partner benefits and the extension of health insurance coverage to adult dependents to age 27 utilizing the emergency rule process. Staff recommends using the emergency rule process because using the normal rule process will not allow the Department to meet the January 1, 2010, effective date provided for Act 28.

MOTION: Mr. Nelson moved to approve all of the changes to Chapter 11, the technical rule and the domestic partner rule. Mr. Drury seconded the motion, which passed without objection on a voice vote.

PLAN AND TRUST DOCUMENT CHANGES

Ms. Schueller introduced Joan McDonagh, an attorney with Great-West Retirement Services (GWRS). Ms. Schueller noted that she and Ms. McDonagh had worked on the *Plan and Trust Document* to determine what changes needed to be made as a result of the state's domestic partner law. Changes to the *Plan and Trust Document* must comply with the federal Defense of Marriage Act (DOMA). The proposed changes were included in a memo to the Board dated November 2, 2009.

Ms. McDonagh explained that their goal was to implement the Wisconsin domestic partner law as fully as possible without jeopardizing the tax-qualified status of the Plan. She reviewed the situations outlined in the memo in which a domestic partner cannot be given the same rights as a spouse as intended by Act 28 due to a conflict with DOMA.

MOTION: Ms. Hanson moved to approve the Plan and Trust Document changes pertaining to implementing the state's Domestic Partner provisions and to authorize the Board Chair to sign the revised document. Mr. Nelson seconded the motion, which passed without objection on a voice vote.

PARTICIPANT FEE RECOMMENDATION UPDATE

Bob Willett, Chief Trust Financial Officer, updated the Board on the revenues needed to fund administrative expenses of the Plan. Participant fees and investment provider reimbursements are directly related to the plan assets. Last May, Mr. Willett advised the Board that, due to the decline in the investment markets, the asset value was no longer sufficient to provide enough income to fully fund the administrative costs of the program. At that time, Mr. Willett indicated that it was not necessary to do anything but if there was no market recovery, a participant fee increase would be inevitable. In the six months since that time, the market has recovered significantly. The current asset level is sufficient to provide enough to fund the administrative costs of the program. At this time, it is not necessary to adjust the fees.

MOTION: Mr. Nelson moved to concur with the staff recommendation that no changes to the current participant fee structure need be implemented at this time. Ms. Hanson seconded the motion, which passed without objection on a voice vote.

INVESTMENT PERFORMANCE REVIEW

Alex Roitz, Senior Analyst, Advised Assets Group (AAG), presented the *Fund Performance Review as of June 30, 2009*, to the Board. He also briefed the Board on results for the third quarter of 2009. Mr. Roitz noted that, as of September 30, 2009, all of the funds are meeting or exceeding the criteria in the *Investment Policy Statement*.

The Board directed Mr. Roitz to contact Vanguard and ask to be notified when the asset mix for any of the lifecycle options is changed.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC) FIXED/FLOATING INTEREST RATE DECISION

Mr. Roitz discussed the FDIC fixed and floating interest rate. The contract between the Board and M&I Bank permits the Board to change the percentage allocated to the fixed and floating interest rate for the following year, provided the Board gives M&I Bank a 30-day notice. The recommendation of AAG for 2010 is to allocate 75% of the allocation to the fixed portion and 25% to the floating portion.

The Board discussed the recommendation of AAG and made the following motion.

MOTION: Ms. Hanson moved to accept the recommendation to allocate 75% of the allocation to the fixed portion and 25% to the floating portion. Mr. Drury seconded the motion, which passed without objection on a voice vote.

FDIC OPTION UPDATE

Ms. Schueller provided an update on the status of the FDIC option. At the May 2009 meeting, the Board requested additional background on the number of people using the fund and what would happen if M&I Bank should fail. She referred the Board to the memo in their binders.

As of September 30, 2009, there are 3,867 participants with assets in the FDIC option. Eleven of these participants have account balances over the federal insurance limit of \$250,000. Despite the best efforts of WDC staff, including direct contact, none of the participants have made any changes to their balances.

MISCELLANEOUS

Ms. Schueller referred the Board members to the miscellaneous items in their binders. She noted that financial emergency hardship applications continue to be submitted. Most of the requests are due to loss of income.

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. Staff from the Department of Employee Trust Funds was 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 2:00 p.m. and reconvened in open session at 2:40 p.m.

ANNOUNCEMENT OF ACTION TAKEN ON BUSINESS DELIBERATED DURING CLOSED SESSION

Mr. Main made the following announcement regarding action taken by the Board during closed session. Based upon the recommendation of Department staff, the Board authorized staff to begin negotiations with GWRS for a five-year extension of the current contract at Service Level 2. The Board directed that a final draft of the contract be brought back to the Board for approval at its next meeting.

STABLE VALUE FUND INVESTMENT ADVISORY SERVICES AGREEMENT CHANGES

Mike Norman from Galliard appeared via teleconference. Mr. Norman discussed the stable value market and the Board's existing advisory agreement. Galliard is asking the Board to consider updating the advisory agreement to better reflect the current economic environment so that they are able to work for better returns for the Stable Value Fund.

Galliard is proposing the following changes:

1. Reduce the minimum weighting for cash equivalents from 15% to 5%.
2. Require a minimum quality at initial contract placement to be A-/A3 for any new wrap providers and minimum quality ratings to be maintained at A/A2.
3. Shorten the overall target duration of the fund.
4. Increase the maximum exposure to any one wrap provider to 35%.

Mr. Norman answered questions from Board members.

MOTION: Ms. Hanson moved to approve the proposed changes and authorize the Board Chair to sign the revised documents. Mr. Nelson seconded the motion, which passed without objection on a voice vote.

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 3:15 p.m.

Date Approved: _____

Signed: _____

Martin Beil, Secretary
Deferred Compensation Board