

MINUTES OF MARCH 2, 2010, MEETING

DRAFT

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

BOARD PRESENT:

Ed Main, Chair
Michael Drury
Gail Hanson

BOARD NOT PRESENT:

Martin Beil, Secretary
John Nelson, Vice-Chair

PARTICIPATING EMPLOYEE TRUST FUNDS (ETF) STAFF:

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

ETF Office of the Secretary: Rhonda Dunn ETF Office of Budget and Trust Finance: Jon Kranz ETF Office of Internal Audit: John Vincent ETF Division of Retirement Services: Anne Boudreau Advised Assets Group: Steve Conkin and Al Cunningham	Great-West Retirement Services: Theresa Cruz Myers, Emily Lockwood, Sue Oelke and Eric Zeegers Office of Senator Herb Kohl: Darcy Luoma Vanguard: Bob Lawler and Lee Norton
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Edward Main, Chair, called the meeting of the Deferred Compensation Board (Board) to order at 1:03 p.m.

Board	Mtg Date	Item #
DC	05.18.10	2

CONSIDERATION OF MINUTES OF THE NOVEMBER 17, 2009, MEETING

MOTION: Mr. Drury moved acceptance of the minutes of the November 17, 2009, meeting as submitted by the Board Liaison. Ms. Hanson seconded the motion, which passed without objection on a voice vote.

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, provided background on an issue related to the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA). EGTRRA contained a number of provisions including increasing deferral limits from \$8,500 to the current limit of \$16,500. As of the end of 2009, there were approximately 50,000 participants in the WDC program and about 1,800 were deferring the maximum of \$16,500 per year into the WDC.

The federal Pension Protection Act of 2006 (PPA) made the EGTRRA provisions permanent. However, the State of Wisconsin never acted on the PPA changes and did not incorporate them into Wisconsin State statutes. If the State of Wisconsin does not make the PPA provisions permanent, the provisions in federal law will sunset in Wisconsin at the end of 2010.

The Department of Employee Trust Funds (ETF) worked with the authors of Senate Bill (SB) 439 and Assembly Bill (AB) 648 to have the bills amended to bring Wisconsin into conformity with section 811 of the Internal Revenue Code (IRC)-which, among other things, would keep the state maximum deferral amount consistent with the federal maximum deferral amount. Both the Senate and Assembly passed SB 439 and this bill has been sent to the Governor for signature. It is expected that the Governor will sign this bill into law.

TARGET DATE FUNDS

Robert Lawler, Relationship Manager, and Lee Norton, Senior Investment Analyst, from Vanguard discussed target date funds with the Board. Mr. Lawler reviewed the investment strategies used by Vanguard and legislative regulatory provisions that may be introduced, which would affect target date funds. Mr. Norton provided the Board with details about the performance of the funds currently held by Vanguard.

Darcy Luoma, Director for Senator Herb Kohl's Madison Office, updated the Board on federal legislative activity that may affect target date funds. Senator Kohl is the Chairman of the Senate Committee on Aging and has introduced Senate Bill 401, the Defined Contributions Fee Disclosure Act. This bill would require 401K fee disclosure to participants. Under ERISA, there are no requirements to show the different fees charged.

Senator Kohl will also be introducing the Savings Enhancement by Alleviating Leaking (SEAL) in 401K Pensions Act. This bill has multiple provisions designed to encourage participants to keep their retirement savings for retirement.

The third bill being introduced by Senator Kohl is the Lifetime Income Disclosure Act, which will encourage participants to save by requiring their pension assets to not just be displayed as a total amount on participants' statements but as a source of lifetime income that could be secured by purchasing an annuity.

Ms. Luoma also discussed target date funds and legislation that is being crafted that would require target date fund managers to assume fiduciary responsibility and have asset preservation as an explicit goal.

Ms. Luoma answered questions from the Board members and thanked them for the opportunity to discuss the above-mentioned legislation with them.

INVESTMENT PERFORMANCE REVIEW

Al Cunningham, Senior Director, Advised Assets Group (AAG), introduced Steve Conkin. Mr. Conkin, Senior Analyst with AAG, is replacing Alex Roitz. Mr. Conkin presented the *Fund Performance Review as of December 31, 2009*, to the Board. He noted that none of the WDC funds are failing to meet their benchmarks. With respect to the Vanguard target date funds, he stated that a year ago, 4% of the WDC's assets were in the Vanguard funds. That number has increased to 5%. The number of participants that have at least one of the target date funds has risen from 18% in 2008 to 27% at the end of 2009.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC) OPTION EXTRA EARNINGS

Ms. Schueller advised the Board of a situation that arose in December 2009 with the FDIC option available through M&I Bank. During an internal audit being conducted in December, Great-West Retirement Services (GWRS) discovered \$12,581.19 in extra earnings in the WDC account that had not been applied to participant accounts. ETF authorized GWRS to allocate these earnings to participants with account balances in the FDIC option. This was completed prior to the end of 2009. The extra earnings were prorated among 3,816 participants.

The GWRS audit team found that the extra earnings stemmed from the correction GWRS completed in 2007 related to the incorrect posting of the quarterly annualized rate into the GWRS system. In 2007, GWRS did an accounting correction on its system to match the FDIC balances to the M&I Bank balances. However, GWRS also inadvertently passed that trade through to M&I Bank. As a result, at the end of the trading day, the WDC participants' accounts had not changed and were actually at the same balances they were before the correction. Since this 2007 error, GWRS has implemented quarterly fund reconciliations, which is how the 2009 extra earnings were discovered.

SCHWAB WINDOW EXPANSION

Ms. Schueller requested the Board's approval of an expansion of the Schwab Personal Choice Retirement Account (PCRA) window. This would permit participants using the PCRA to defer contributions directly to their Schwab PCRA money market accounts. Currently, this is a three-step process.

GWRS has developed programming that will permit WDC participants using the Schwab PCRA to contribute directly to their Schwab PCRA money market accounts from their paycheck deferrals. Approximately 800 participants actively use the PCRA. With this enhancement, participants would have the option of depositing their contributions directly into the Schwab PCRA money market fund.

MOTION: Ms. Hanson moved to permit participants' deferrals to go directly to the Schwab PCRA money market account if the participant so elects. Mr. Drury seconded the motion, which passed without objection on a voice vote.

CONTRACT FEE REBATE

Ms. Schueller updated the Board on a contract fee rebate from GWRS. The current contract with GWRS ties the annual administrative fee to the overall increase in WDC participants. There is a requirement in the contract for 3.5% growth each year. If the growth is not met, there is a formula in the contract that calculates a penalty fee or rebate, which is paid back to the Board by GWRS. It was very difficult last year for GWRS to enroll new participants. They were 117 participants short of the 3.5% growth rate required, which resulted in a fee rebate to the Board of \$5,974.02. This was deposited in the Board's account on February 10, 2010.

MISCELLANEOUS

Ms. Schueller referred the Board members to the miscellaneous items in their binders. She specifically mentioned the *Financial Emergency Withdrawal Report* and the fact that increasing numbers of hardship withdrawals continue to be requested. Many of

these requests are due to the current challenging economic climate, which has apparently increased the number of foreclosures and loss of job-related income for participants and their households.

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. Drury seconded the motion, which passed on the following roll call vote:

Members Voting Aye: Drury, Hanson and Main

Members Voting Nay: None

The Board convened in closed session at 2:41 p.m. and reconvened in open session at 2:58 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. The Board approved a five-year extension of the current administrative services contract with GWRS from 2011-2015 as presented at the March 2, 2010, Board meeting, subject to final review and approval by the Board Chair.

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 3:03 p.m.

Date Approved: _____

Signed: _____

Martin Beil, Secretary
Deferred Compensation Board