

## MINUTES OF MARCH 1, 2011, MEETING

### STATE OF WISCONSIN DEFERRED COMPENSATION BOARD

**DRAFT**

2135 Rimrock Road  
Events Room  
Madison, Wisconsin

#### BOARD PRESENT:

Ed Main, Chair John Nelson, Vice-Chair	Gail Hanson, Secretary (via teleconference) Michael Drury
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#### BOARD ABSENT:

Martin Beil	
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#### PARTICIPATING EMPLOYEE TRUST FUNDS (ETF) STAFF:

Dave Stella, Secretary Bob Conlin, Deputy Secretary Anne Boudreau, Division of Retirement Services Linda Owen, Office of Policy, Privacy and Compliance	Shelly Schueller, Director, Deferred Compensation Program Sharon Walk, Board Liaison
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#### OTHERS PRESENT:

ETF Office of the Secretary: Rhonda Dunn Advised Assets Group: John Gamble Dimensional Fund Advisors: Larry Spieth	Galliard Capital Management: Mike Norman Great-West Retirement Services: Emily Lockwood, 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 1:00 p.m.

#### ANNOUNCEMENTS

Mr. Main announced that Michael Drury had resigned from the Board and today would be his last meeting. He presented Mr. Drury with a *Certificate of Recognition* thanking him for his years of service on the Board.

#### MINUTES

***MOTION: Mr. Drury moved acceptance of the minutes of the November 16, 2010, and December 15, 2010, meetings 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 nominate Ed Main as Chair, John Nelson as Vice-Chair and Gail Hanson as Secretary of the Board. Mr. Nelson seconded the motion, which passed without objection on a voice vote.***

### **ADMINISTRATIVE RULE CHANGE**

Linda Owen, Policy Analyst with the Office of Policy, Privacy and Compliance, referred the Board members to the memo in their binders (ref. DC | 03.01.11 | 5) that described Clearinghouse Rule (CR) 10-138. The proposed rule makes changes to the statutes governing uniform power of attorney for property and finances.

***MOTION: Mr. Nelson moved to approve the final version of the proposed rule. Mr. Drury seconded the motion, which passed without objection on a voice vote.***

### **SECURITIES AND EXCHANGE COMMISSION (SEC) "PAY TO PLAY" REGULATION UPDATE**

Ms. Schueller discussed the informational memo in their packets (ref. DC | 03.01.11 | 6) regarding the SEC's "pay to play" regulations. She noted all of the investment providers are aware of the new rules and have either made changes or are in the process of implementing changes. Three of the Wisconsin Deferred Compensation (WDC) program's investment providers, Fidelity, M&I Bank and BlackRock, have stated they are exempt from the rules. Fidelity says it is a broker-dealer and, therefore, the rules do not apply. M&I and BlackRock claim they are exempt because they are banking associations/holding companies.

Mr. Nelson asked for further clarification from Fidelity regarding its policies on political contributions. Ms. Schueller will make this request and will report back to the Board at the next meeting.

### **2011 PLAN ENHANCEMENT PROGRAM**

Ms. Schueller introduced Sue Oelke, Regional Director, Great-West Retirement Services (Great-West). Ms. Oelke presented the 2011 Plan Enhancement Program (PEP) (ref. DC | 03.01.11 | 7) to the Board. Four areas of focus (goals) have been developed: participation; asset allocation; education and learning; and retention.

The Board discussed the PEP and the potential impact of the recent budget repair bill introduced by Governor Walker. Ms. Oelke noted the goals of the PEP were developed prior to the introduction of this bill and that it may be difficult to attain some of them if the bill passes.

The Board deferred making a decision on approving or modifying the PEP until the May 2011 meeting, pending expected adjustments to employee participation and retention goals. Staff will also look at adjusting the asset allocation portion, eliminating the numerical goals for lifecycle and advisory service use and increasing awareness of diversification in the education portion of the PEP.

Emily Lockwood, Great-West Senior Account Representative, updated the Board on the recent addition of Milwaukee Public Schools (MPS) to the list of employers offering the WDC to its employees. MPS is very active and interested in the WDC. Kickoff meetings were held last year. Ms. Oelke will provide copies of the materials used at MPS to explain the difference between 457 and 403(b) plans.

Ms. Schueller will request a written opinion from Great-West legal staff regarding the safety of WDC participant accounts for posting on the WDC and ETF websites. There is concern among participants that their accounts could possibly be taken by the State or federal government in the event of bankruptcy or other proceeding. The Department believes WDC participant accounts belong to the account holders and cannot be taken by a court or by the State or federal government in any bankruptcy or other proceeding. IRC §457(g), and §40.80(g), WI Stats., both require that assets and income of §457 plans such as the WDC be held for the exclusive benefit of participants and their beneficiaries. Section 9.06 of the WDC Plan and Trust document also outlines the WDC's intent to comply with this requirement. The WDC must comply or risk losing eligibility under Treasury Regulations §1.457-8.

Finally, Ms. Oelke noted that Great-West continues to provide education to employers and employees on the Roth option.

### **M&I UPDATE**

Doug Nelson, M&I Regional Vice President, discussed the acquisition of M&I by the Bank of Montreal. The merger is expected to be complete by July of 2011. Mr. Nelson reviewed the merger process and its effect on its shareholders and customers, and agreed to report back on the completion of the merger process at the Board's November 2011 meeting. He also noted that M&I management expects that after the merger is complete, they will continue offering a mix of services and products, such as the FDIC option they currently provide for the WDC.

### **DIMENSIONAL FUNDS ADVISORS (DFA) U.S. MICRO CAP FUND**

Ms. Schueller noted the Deferred Compensation Investment Committee (DCIC) met in December 2010 and, after discussion, agreed to recommend discontinuing use of the Morningstar U.S. Small Blend benchmark for the DFA U.S. Micro Cap Fund. This is because the market capitalization of the Morningstar U.S. Small Blend benchmark is significantly higher than that of the DFA U.S. Micro Cap Fund, making it difficult to say the Morningstar U.S. Small Blend is an appropriate benchmark for the DFA U.S. Micro

Cap Fund. In addition, on February 10, 2011, the DCIC met to discuss the custom benchmark for the DFA U.S. Micro Cap Fund. John Gamble, Senior Portfolio Manager with Advised Assets Group (AAG), reviewed the purpose behind the custom benchmark and provided an analysis. He stated there is not a sufficient sample size of similar funds to provide a suitable custom benchmark. The DCIC concurred with Mr. Gamble's recommendation to drop the custom benchmark as well.

***MOTION: Mr. Nelson moved to approve eliminating the custom benchmark and the Morningstar U.S. Small Blend benchmark for the DFA U.S. Micro Cap Fund. Ms. Hanson seconded the motion, which passed without objection on a voice vote.***

Gail Hanson left the conference call at 2:00 p.m.

### **STABLE VALUE FUND (SVF)**

Mike Norman, a Principal with Galliard Capital Management, discussed the SVF equity wash restrictions that prevent participants from being able to transfer funds out of the stable value fund into what is considered a "like" or competing investment. If a participant wants to transfer assets from the SVF to a competing fund, they must first transfer it to a non-competing fund for 90 days. This helps to protect SVF holders who remain in the fund from arbitrage. Ms. Oelke discussed the efforts by Great-West to educate participants on SVF restrictions. The equity wash restriction will be expanded to include the Schwab money market fund as of March 31, 2011.

### **HARDSHIP WITHDRAWALS REPORT**

Ms. Schueller discussed the growing number of hardship applications received by Great-West and submitted to the Department for approval. Starting in 2009, furloughs appeared on applications as a reason for requesting a distribution. In 2010, 218 hardship withdrawals were submitted for Departmental approval or denial.

Furloughs as an unforeseen financial emergency have not been addressed by the Internal Revenue Service. Ms. Schueller invited the Board to provide her with guidance on dealing with this issue, as well as the potential impact of any new budget legislation that may be introduced. Great-West has a correspondence office in Colorado that may be able to assist with processing hardship requests. Ms. Oelke and Ms. Schueller will continue discussing this issue and provide an update to the Board at the May meeting.

### **OPERATIONAL UPDATES**

Ms. Schueller referred the Board members to the Legislative Update from Matt Stohr (ref. DC|03.01.11|12A). She also noted that the Administrative Services Contract Compliance Audit Request for Bid will be released this spring.

**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 2:24 p.m.

Date Approved: \_\_\_\_\_

Signed: \_\_\_\_\_  
Gail Hanson, Secretary  
Deferred Compensation Board