

DRAFT

# MINUTES

November 15, 2011

Deferred Compensation Board  
State of Wisconsin



Location:  
Conference Room GB  
801 West Badger Road, Madison, WI 53718

**BOARD MEMBERS PRESENT:**

Ed Main, Chair  
John Nelson, Vice-Chair  
Gail Hanson, Secretary

**BOARD MEMBERS ABSENT:**

Martin Beil

**PARTICIPATING EMPLOYEE TRUST FUNDS (ETF) STAFF:**

Dave Stella, Secretary  
Bob Conlin, Deputy Secretary  
David Nispel, General Counsel  
Matt Stohr, Administrator, Division of Retirement Services  
Shelly Schueller, Director, Deferred Compensation Program  
ETF Office of Legislation and Communications: Shawn Smith  
Sharon Walk, Board Liaison

**OTHERS PRESENT:**

ETF Office of the Secretary: Chris Fried  
ETF Division of Retirement Services: Anne Boudreau  
State Engineering Association: Bob Schaefer  
Great-West Retirement Services: Theresa Cruz-Myers, Emily Lockwood, Sue Oelke  
Advised Assets Group: Dan Maddock, Bill Thornton,  
Galliard Capital Management, Inc.: John Caswell

Edward Main, Chair, called the meeting of the Deferred Compensation Board (Board) to order at 1:06 p.m.

**ANNOUNCEMENTS**

Shelly Schueller announced that today is Secretary Stella's last meeting with the Board as he is retiring at the end of the year.

Board	Mtg Date	Item #
DC	6/7/12	2

## MINUTES

***MOTION: Ms. Hanson moved acceptance of the minutes of the May 17, 2011, meeting as submitted by the Board Liaison. Mr. Nelson seconded the motion, which passed without objection on a voice vote.***

## 2012 MEETING DATES

Ms. Schueller referred the Board to the memo in their binders containing the 2012 meeting dates (ref. DC | 11.15.11 | 3). She reviewed the dates and confirmed that meetings would be held at the Department of Employee Trust Funds (ETF) in Conference Room GB.

## LEGISLATIVE UPDATE

Shawn Smith, Director of the Office of Legislation and Communications, advised the Board that there have been no new legislative activities that directly impact the Board.

Sue Oelke, Regional Director, Great-West Retirement Services (GWRS), reported on statistics regarding participant activity since Acts 10 and 32. In September 2010, the average deferral was \$171 compared to \$207 in September 2011. This average has been affected in part by sabbatical “catch up” which may be masking the 2011 average. Ms. Oelke indicated that in 2010, the monthly contributions were \$39 million. Although there was a drop off early in 2011, the monthly contribution cumulative is also \$39 million. Enrollment has not dropped off and participants seem to be maintaining.

## CLEARING HOUSE RULE #11-040

Mr. Main referred the Board members to the memo about Clearinghouse Rule #11-040 (ref. DC | 11.15.11 | 5).

***MOTION: Ms. Hanson moved to approve the final version of CR #11-040 as presented. Mr. Nelson seconded the motion, which passed without objection on a voice vote.***

## CLEARING HOUSE RULE #11-044

Mr. Main referred the Board to the memo about Clearinghouse Rule #11-044 (ref. DC | 11.15.11 | 6). He stated that this rule was presented to the Group Insurance Board and was approved with modifications.

***MOTION: Mr. Nelson moved to approve the final version of CR #11-044 as presented. Ms. Hanson seconded the motion, which passed without objection on a voice vote.***

## **ADMINISTRATIVE SERVICES AGREEMENT AMENDMENT**

Ms. Schueller referred the Board to the memo regarding the administrative services agreement amendment (ref. DC | 11.15.11 | 7) with GWRS. The International Auditing and Assurance Standards Board and the United States Auditing Standards Board have developed a new standard for reporting on controls at a service organization. This new standard is known as a Statement on Standards for Attestation Engagements (SSAE) No. 16. The amendment would replace current language in the administrative services agreement with language indicating that GWRS is in compliance with the new auditing standards.

***MOTION: Ms. Hanson moved to approve the amendment as presented. Mr. Nelson seconded the motion, which passed without objection on a voice vote.***

## **2011 MID-YEAR INVESTMENT PERFORMANCE REVIEW AND 2011 THIRD QUARTER INVESTMENT UPDATE**

Mr. Main introduced Bill Thornton and Dan Maddock of Advised Assets Group. Mr. Maddock provided a summary of the Fund Performance Review dated June 30, 2011 (ref. DC | 11.15.11 | 8). Mr. Thornton highlighted the Fund Performance Review dated September 30, 2011 (ref. DC | 11.15.11 | 8). There are no concerns at this time about the performance of any of the funds.

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

Ms. Schueller reminded the Board that every November the allocation of the fixed and floating interest rates is reviewed. She confirmed for the past four years the rate mix has been 75% fixed and 25% floating. Mr. Thornton stated he feels it is prudent to continue the same mix due to the current economy.

***MOTION: Mr. Nelson moved to approve the 75% fixed/25% floating interest rate mix as presented. Ms. Hanson seconded the motion, which passed without objection on a voice vote.***

## **EUROPACIFIC GROWTH FUND SHARE CLASS CHANGE FROM R5 TO R6**

Ms. Schueller referred the Board to the memo about changing the EuroPacific Growth Fund Share Class (ref. DC | 11.15.11 | 10). She indicated the change from R5 to R6 would represent five basis points. This change would result in the Board not receiving the five basis points reimbursement which is approximately \$53,500 per year. However, the participants in that fund would receive a slightly higher return. Ms. Schueller stated

she feels this is the more prudent direction because it provides the best value for participants.

***MOTION: Ms. Hanson moved to approve changing the EuroPacific Fund Share Class from R5 to R6. Mr. Nelson seconded the motion, which passed without objection on a voice vote.***

## **STABLE VALUE FUND**

Mr. Main introduced John Caswell of Galliard Capital Management, Inc. Mr. Caswell referred the Board to the portfolio reviews for the second and third quarters of 2011 (ref. DC | 11.15.11 | 14(B)8) and provided verbal summaries of the reports.

Mr. Caswell also discussed the requirement for an equity wash. When participants move money to the brokerage window, the money must first be moved to a non-competing fund for 90 days. Some participants are not aware of this requirement until they attempt to move money from the non-competing fund and this has caused several problems. Ms. Schueller noted that Call Center staff are trained about this issue and language has been added online indicating a direct transfer is not allowed. Theresa Cruz-Myers of GWRS reviewed the programming changes made to assist participants through the equity wash process.

The Board asked that information on the Stable Value Fund liquidity restrictions be 'front and center' on Wisconsin Deferred Compensation (WDC) participant publications and the website. Ms. Schueller and Ms. Oelke will review existing language and determine what can be improved.

## **2011 PLAN ENHANCEMENT PROGRAM PROGRESS**

Ms. Oelke provided an update on the status of the 2011 Plan Enhancement Program (PEP). She referred the Board to the scorecard included in the Board binder (ref. DC | 11.15.11 | 12). Ms. Oelke stated that in 2011 their focus moved from a one dimensional focus regarding enrollment to a four dimensional approach which included participation, asset allocation, education and learning, and retirement outreach. However, as a result of Act 10, some items were placed on hold.

Ms. Oelke confirmed that although there were people leaving public employment, this did not result in many withdrawals from the WDC. She confirmed that a Roth 457 was established in 2011 and educational meetings were held with members. As a result, 651 people enrolled in the Roth and slight growth is expected over time. Ms. Oelke advised that contact with participants in the Vanguard Admiral Money Market Account has continued with account reviews conducted. This has resulted in a reduction of participants in that fund from 391 at December 31, 2010, to 379 today.

The initiatives for education and learning were shifted as a result of Act 10. A presentation called *Fact or Fiction Related to Act 10* was developed, and 647 group seminars were reported. Ms. Oelke also noted an increase in individual appointments and reported the first ever investment symposium was held this month.

Ms. Oelke stated Emily Lockwood of GWRS has been instrumental in launching the WDC with Milwaukee Public Schools, and the employers have become quite engaged. GWRS will continue to focus on this segment of the WDC.

### **SSA RESEARCH GRANT RESULTS**

Ms. Schueller introduced Professor Karen Holden from the University of Wisconsin-Madison. She reminded the Board that Professor Holden along with two graduate students conducted research on how women in the WDC save versus men. This research was carried out as a result of the WDC being awarded a grant from the Social Security Administration.

Professor Holden reviewed the results of the research which is based on WDC and WRS administrative data analysis, focus groups, and completed surveys. It is clear that there is more money in WDC accounts held by men than women although the number of participants in WDC is about the same for each gender. In 2010, account balances of all WDC participants indicate that the average account balance held by males totaled \$62,503 versus an account average of \$42,842 for females. The data showed the average fund growth for females was 76.4% in 2006 and 2007 compared to the 66.6% growth for males in the same time period. During the years of 2007 and 2008, female members lost 9.8% compared to a 13.1% loss for men in the same time period. However, in 2008 and 2009, there was no obvious gender difference in growth.

Professor Holden noted that initial participation by both male and females in the WDC is lower in the first three years with the ratio increasing with age. Data showed that women would likely invest in only one fund with men being more diversified in their fund selections. Women are 20% less likely to make maximum contributions than men, are more likely to cease contributions in one year when still receiving WRS-covered earnings, and have lower salaries when compared to men. Feedback from focus groups revealed that co-workers play an important role in influencing one another to participate in the WDC and that investing in the WDC is important and provides a level of financial independence.

### **OPERATIONAL UPDATES**

Ms. Schueller referred the Board to the Governance Manual provided to each member and advised that the manual is also available online. The development and work done on the manual was recently recognized by the National Association of Government

Defined Contribution Administrators with a plaque at their annual conference in September.

Ms. Schueller also referred the Board to the final financial statements provided by Clifton Gunderson LLP (ref. DC | 11.15.11 | 14(B)6). The Board had approved the draft statements in May 2011.

### **RECOMMENDATIONS TO RETAIN AUDIT SERVICES**

Ms. Schueller recommended the Board approve a contract with Wipfli, LLP, for the WDC administrative services contract compliance audits for calendar years 2011, 2013, and 2015, with the option to extend the contract for one three-year period.

***MOTION: Ms. Hanson moved to approve the three-year agreement with Wipfli for contract compliance audits for calendar years 2011, 2013, and 2015, with the option to extend the contract for one three-year period. Mr. Nelson seconded the motion, which passed without objection on a voice vote.***

Ms. Schueller recommended the Board approve extending the current contract with Clifton Gunderson for the WDC financial statements audits for calendar years 2011 and 2012.

***MOTION: Ms. Hanson moved to approve the current contract with Clifton Gunderson for calendar years 201, as is, and 2012, with modifications as approved by the Board Chair. Mr. Nelson seconded the motion, which passed without objection on a voice vote.***

### **ADJOURNMENT**

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

The meeting was adjourned at 3:10 p.m.

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

Signed: \_\_\_\_\_

Gail Hanson, Secretary  
Deferred Compensation Board