

DRAFT

MINUTES

June 7, 2012

Deferred Compensation Board
State of Wisconsin



Location:
State Revenue Building – Events Room
2135 Rimrock Road, Madison, WI

BOARD MEMBERS PRESENT:

Ed Main, Chair
John Nelson, Vice-Chair
Gail Hanson (via telephone), Secretary

BOARD MEMBERS ABSENT:

Martin Beil

PARTICIPATING EMPLOYEE TRUST FUNDS (ETF) STAFF:

Bob Conlin, Secretary
Chris Fried, Board Liaison
Division of Retirement Services:
Matt Stohr, Administrator
Deferred Compensation Program:
Shelly Schueller, Director
Office of Budget and Trust Finance:
Bob Willett, Director

OTHERS PRESENT:

Division of Management Services:
Jack Loman
Advised Assets Group:
Bill Thornton
CliftonLarsonAllen LLP:
Jennifer Davis (via telephone)
Great-West Retirement Services:
Sue Oelke
Wipfli LLC:
Zach Mayer, Jason Stansell
State Engineering Association:
Bob Schaefer

Edward Main, Chair, called the meeting of the Deferred Compensation Board (Board) to order at 1:00 p.m.

ANNOUNCEMENTS

Shelly Schueller announced the Department of Employee Trust Funds (ETF) is still awaiting appointment of a new Board member to fill the vacancy on the Board created by Michael Drury's resignation in 2011.

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Chris Fried was introduced as the new liaison to the Board.

MINUTES

MOTION: Ms. Hanson noted there was a typographical error on page 6 of the draft minutes (calendar year “201” should read “2011”). Ms. Hanson moved acceptance of the minutes of the November 15, 2011, meeting as submitted by the Board Liaison with the change as noted. Mr. Nelson seconded the motion, which passed without objection on a voice vote.

DEFERRED COMPENSATION INVESTMENT COMMITTEE UPDATE

Ms. Schueller provided an update from the February 28, 2012, Deferred Compensation Investment Committee (DCIC) meeting. The investment performance results as of December 31, 2011, were discussed. Ms. Schueller noted Mr. Thornton will review those results during the Board meeting.

The DCIC discussed the addition of another benchmark to the Vanguard Target Date Funds and, after review, concluded that this was not necessary at the present time. However, the DCIC requested ETF staff monitor the situation for future discussion or action.

A presentation by BlackRock regarding its “Target Term” alternative fixed income strategy was made to the DCIC. The DCIC requested staff monitor the uptake and performance results of this newer fixed income option. Following a request from the DCIC, Ms. Schueller contacted Galliard Capital Management (Galliard) for its impression of this option, including an update on the existing wrap provider capacity. Ms. Schueller referred Board members to the operational update in their binders (Ref. DC | 6.7.12 | 13B(d)). She confirmed one of Galliard’s underlying wraps fund, Natixis Financial Products, Inc., is now closed; however, others are still accepting funds from other places. At this point, Galliard is not concerned about the WDC’s flows.

ELECTION OF OFFICERS

MOTION: Ms. Hanson moved to nominate and elect 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.

PARTICIPANT FEE ANALYSIS

Mr. Willett confirmed the Board maintains an administrative account to pay the administrative expenses associated with the WDC. The goal is to maintain a balance

equal to 50% of projected annual operating expenses in the account. This balance assures funds will be available to pay expenses when due and provides a cushion against reduced participant fees and investment provider reimbursements that would occur during a market downturn. At the end of 2011, the account balance was 70%, which exceeds the target of the account. Projections show that an average annual equity investment return of only 3.2% will be needed to grow plan assets to the level required to maintain the reserve balance above the 50% target over the next five years.

Based on current reserves in the Board's administrative account, ETF staff recommends no adjustment to the administrative fees paid by plan participants. ETF staff will continue to review the account annually to ensure the target balance is maintained.

MOTION: Ms. Hanson moved to accept the report as presented and make no changes to the administrative fees paid by plan participants at this time. Mr. Nelson seconded the motion, which passed without objection on a voice vote.

INVESTMENT PERFORMANCE REVIEWS

Mr. Thornton referred to the Fund Performance Review report for the period ending December 31, 2011, (Ref. DC | 6.7.12 | 6A).

- Performance of the funds has been solid, especially over the longer term.
- Funds continue to outperform benchmarks with all accounts in line with or above expectations for the quarter with the exception of the Calvert Equity I fund. However, when compared to the one year benchmark, the Calvert Equity I fund is ahead of its benchmark.
- The Fidelity Contrafund officially slipped into third quartile (below 50) in the rolling three year quartile rankings. However, the longer term performance of this fund continues to be excellent.
- The Vanguard Target Retirement Date funds continue to outperform their composite indexes with no significant changes in allocations.

Mr. Thornton referred to the Fund Performance Review report for the period ending March 31, 2012 (Ref. DC | 6.7.12 | 6B).

- Performance of the funds has been very good, including the Calvert Equity I account bouncing back.
- Performance of the T. Rowe Price Mid-Cap Growth fund has been very solid over the longer term timeframe, and it is now in the second quartile of the three year rolling quartile rankings. This fund has been closed for a number of years except to existing retirement plan participants and has now grown to the point where further

restrictions have been implemented. As a result of some of the restrictions, some investors have left the fund which has affected redemptions.

- The American Funds EuroPacific Growth fund fell to the second quartile for the first time in the rolling three year quartile rankings due in part to emerging market exposure and Europe-based international holdings. Nothing changed at the fund level, and it still continues to be a very large fund.

Total WDC assets as of March 31, 2012, were over \$2.9 billion compared to nearly \$2.7 billion at December 31, 2011.

2011 FINANCIAL STATEMENTS AUDIT RESULTS

Ms. Davis referred to the 2011 financial statements audit results report (Ref. DC | 6.7.12 | 7).

- Net assets available for plan benefits decreased by approximately \$51 million during the year ended December 31, 2011.
- Investment income earned on mutual funds for year ended December 31, 2011, was \$1.4 million, which is a decrease due to less favorable market conditions in 2011.
- Interest income earned on fixed earnings investments was \$16.5 million, \$18.9 million, and \$19.9 million for the years ended December 31, 2011, 2010, and 2009, respectively.
- Employee contributions increased from \$145.9 million for the year ended December 31, 2010, to \$147.5 million for the year ended December 31, 2011.
- There were 44,766, 44,901, and 43,759 active plan participants as of December 31, 2011, 2010, and 2009, respectively.
- Distributions to participants increased to \$120.8 million for the year ended December 31, 2011, compared to \$92 million for the same period in 2010.
- There were 6,813, 6,073, and 5,759 individuals who received a distribution during the years ended December 31, 2011, 2010, and 2009, respectively.

MOTION: Ms. Hanson moved to approve the State of Wisconsin Public Employees Deferred Compensation Plan and Trust Financial Statements Audit as of December 31, 2011, with minor modifications related to layout. Mr. Nelson seconded the motion, which passed without objection on a voice vote.

HARDSHIP WITHDRAWAL SCENARIOS

Ms. Schueller referred to the memo regarding financial emergency hardship withdrawal scenarios (Ref. DC | 6.7.12 | 9). The WDC is required to follow the Internal Revenue Code (IRC) and Wisconsin Administrative Code Chapter ETF 70.10 when granting a financial emergency hardship withdrawal. Revenue Ruling 2010-27 from the Internal

Revenue Service (IRS) lists only three examples of participant requests for unforeseen financial distribution and the IRS' decision on each.

Ms. Schueller requested Board member input and guidance regarding various scenarios for inclusion in the Board Governance Manual. The Board requested Ms. Schueller further develop specific parameters around various scenarios to present at the November Board meeting.

2011 CONTRACT COMPLIANCE AUDIT RESULTS

Mr. Mayer referred to the results of the WDC 2011 contract compliance audit conducted by Wipfli. The audit summarizes Wipfli's findings regarding Great-West Retirement Services' (GWRS) compliance with the administrative services agreement (Ref. DC | 6.7.12 | 8). The executive summary indicates that overall GWRS is in compliance with all significant elements of the administrative services agreement.

There were two points discussed with the Board.

1. WDC's administrative services contract specifies that participant accounts will be established within five working days after receipt by GWRS. Mr. Mayer noted that, out of more than 2,300 new enrollments processed during 2011, there were two cases in which a participant's account was established six working days after receipt by GWRS.
2. GWRS did not meet the goal for group seminars agreed upon in the 2011 Plan Enhancement Program (PEP). Ms. Schueller indicated that because of the law changes that occurred in early 2011, participant demand for WDC information increased tremendously. GWRS and ETF agreed that regular group seminars should be suspended for four months in favor of "Fact or Fiction" workshops. This custom group workshop helped alleviate some of the benefit-related concerns being expressed by public employees throughout Wisconsin. While the focus of the education and learning goal unexpectedly shifted from group to individual meetings in 2011, ETF staff believes the intent of this goal was met.

MOTION: Ms. Hanson moved to accept the 2011 contract compliance audit results as presented by Wipfli. Mr. Nelson seconded the motion, which passed without objection on a voice vote.

2011 YEAR IN REVIEW – STATISTICS

Ms. Schueller referred to the 2011 annual statistical report for the calendar year ending December 31, 2011 (Ref. DC | 6.7.12 | 10). No questions or concerns were raised.

2011 PLAN ENHANCEMENT PROGRAM (PEP) AND 2012 ADMINISTRATIVE FEE

Ms. Schueller referred to the results of the 2011 PEP and, consequently, the 2012 administrative fee increase (Ref. DC | 6.7.12 | 11). As of 2012 and as agreed upon between the Board and GWRS, any increases in administrative fees paid to GWRS are linked to the amount of participant growth and progress toward annual goals set by the Board via the PEP.

The PEP generally has goals and metrics developed around the following dimensions: participation, asset allocation, education and learning, and retiree outreach. GWRS met or exceeded the WDC's 2011 PEP objectives with the exception of the number of group seminars under the education and learning dimension. While the focus of the education and learning goal unexpectedly shifted from group to individual meetings in 2011, Ms. Schueller stated ETF staff believes the intent of this goal was met.

Because GWRS met the 2011 PEP objectives and increased WDC participant growth by 1.2%, the 2012 administrative fee the WDC will pay GWRS increased by 3% from \$2.62 million to \$2.69 million.

2012 PLAN ENHANCEMENT PROGRAM (PEP) PROPOSALS AND SCORECARD

Ms. Oelke stated GWRS' focus in 2012 continues on the four principal dimensions of participation, asset allocation, education and learning, and retention. She confirmed the goals of the 2012 PEP include:

- Participation: maintain in-force account population and add 15 new employers by the December 31, 2011;
- Asset allocation: decrease by 5% the number of participants using a target date fund and other investment options within the WDC and/or multiple target date funds and decrease by 5% the number of participants who only have one asset class or one investment option;
- Education and learning: maintain high visibility in the number of group and individual meetings offering 800 group seminars and 6,500 individual meetings and increase the usage of Online File Cabinet by 10% or 255 participants; and
- Retention: provide "nearing retirement" education to include retiree advocate meetings and "Steppingstones to Retirement" workshops.

Ms. Oelke also reviewed the goals related to Milwaukee Public Schools (MPS) indicating that some aspects, such as targeted outreach, have been modified to accommodate the requests of MPS. MPS remains a very strong partner with GWRS, which conducts onsite and specialty meetings hosted by MPS.

MOTION: Ms. Hanson moved to approve the 2012 PEP as presented by GWRS. Mr. Nelson seconded the motion, which passed without objection on a voice vote.

OPERATIONAL UPDATES

Ms. Schueller referred to the operational updates provided in the meeting binder (Ref. DC | 6.7.12 | 13). She provided a brief summary about retiree advocate meetings, a legislative update, and correspondence from a participant regarding adding Wellesley Income Fund in the WDC core offering.

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 2:07 p.m.

Date Approved: _____

Signed: _____

Gail Hanson, Secretary
Deferred Compensation Board