DRAFT

MINUTES

November 6, 2012

Deferred Compensation Board
State of Wisconsin

Location:
State Revenue Building – Room 244
2135 Rimrock Road, Madison, WI

BOARD MEMBERS PRESENT:
Ed Main, Chair
John Nelson, Vice-Chair
Gail Hanson, Secretary

BOARD MEMBERS ABSENT:
Martin Beil

PARTICIPATING EMPLOYEE TRUST FUNDS (ETF) STAFF:
Bob Conlin, Secretary
Rob Marchant, Deputy Secretary
Cheryllynn Mullins, Board Liaison
Sharon Walk, Executive Staff Assistant
Division of Retirement Services:
Matt Stohr, Administrator
Deferred Compensation Program:
Shelly Schueller, Director
Office of Communications and Legislation:
Mark Lamkins, Director
Tarna Gahan-Hunter, Legislative Liaison

OTHERS PRESENT:
Division of Management Services:
Jack Loman
Advised Assets Group:
Bill Thornton
Great-West Retirement Services:
Emily Lockwood
Theresa Cruz Myers
Sue Oelke
BMO Harris Bank N.A.
Doug Nelson
Roxanne Brazeau
State Engineering Association:
Bob Schaefer
University of Wisconsin:
Rose Stephenson
Michael Gracz
David Stella

Edward Main, Chair, called the meeting of the Deferred Compensation Board (Board) to order at 1:01 p.m.

Board	Mtg Date	Item #
DC	2.19.13	2

ANNOUNCEMENTS

Ms. Schueller introduced Michael (Mike) Gracz. Mr. Gracz was appointed to the Board by the Governor. His appointment requires State Senate confirmation before he may vote on Board matters. Mr. Gracz introduced himself and stated that he is the administrator for the Village of Oregon. Ms. Schueller also introduced the following new Employee Trust Funds (ETF) staff: Cheryllynn Mullins, Board Liaison; Mark Lamkins, Communications Director; and Tarna Gahan-Hunter, Legislative Liaison.

MINUTES

> ***MOTION: Ms. Hanson moved acceptance of the minutes of the June 7, 2012, meeting as submitted by the Board Liaison. Mr. Nelson seconded the motion, which passed unanimously on a voice vote.***

2013 MEETING DATES

Ms. Schueller referred the Board members to the memo in their binders that listed the meeting dates for 2013 (Ref. DC | 11.6.12 | 3). She asked that Board members contact ETF as soon as possible if they have a conflict with any of the dates.

DEFERRED COMPENSATION INVESTMENT COMMITTEE UPDATE

Ms. Schueller provided an update on the September 25, 2012, Deferred Compensation Investment Committee (DCIC) meeting:

a) The DCIC received an update on the performance of the Wisconsin Deferred Compensation (WDC) Program’s investment options as of June 30, 2012. Overall, relative to their respective benchmarks, the investments in the WDC are performing well. The DCIC discussed the recent poor returns of the Calvert Social Investment Equities Fund. If performance continues to slip, the Committee may recommend that this fund appear before the Board in 2013 to discuss the fund’s performance.

b) The DCIC reviewed available information regarding the London Interbank Offered Rate (LIBOR) rate-setting situation that began unfolding earlier this year. In the summer of 2012, a scandal regarding setting the LIBOR rates erupted when it was discovered that banks were falsely reporting their rates. Manipulating the LIBOR interest rates is illegal, and in late June 2012, Barclays Bank was heavily fined in both the United States (U.S.) and the United Kingdom (U.K.) for documented LIBOR manipulation. Other banks are under investigation and lawsuits have been filed by those who feel they have lost out based on artificial LIBOR rate setting. Changes to the LIBOR or even a replacement may be forthcoming, as both the U.S. and the U.K. governments are also reviewing how LIBOR is calculated and regulated. The Board uses LIBOR to help set the interest rates earned on funds invested in the

WDC's Federal Deposit Insurance Corporation (FDIC) bank option offered under contract by BMO Harris Bank. WDC participants holding assets in the FDIC account receive a blended rate of interest based on the fixed/floating LIBOR interest rate allocation selected by the Board. BMO Harris Bank reports that they, and their parent company (BMO Financial Group), do not participate in the setting of LIBOR U.S. dollar rates, and are also monitoring the issue. The DCIC asked staff to contact WDC investment fund providers and request information on what the fund providers are doing regarding the LIBOR situation and any potential compensation due to WDC participants. As of October 30, 2012, only Schwab had not responded to ETF's inquiry. Dimensional reported that the MicroCap Fund has no exposure to LIBOR and they are taking no action at this time. The remaining respondents (Calvert, T. Rowe Price, Galliard, Federated, Vanguard, BlackRock and Fidelity) all reported that they are monitoring the situation and will consider joining a class action if warranted.

c) The DCIC also discussed the recent announcement from BMO-Harris that they intend to exit as the FDIC option provider at the end of November 2013. The DCIC recommends that the Board issue a Request for Proposal (RFP) for a replacement FDIC provider. Staff will draft a memo to this end for the November 2012 Board meeting and if approved, will begin work on an RFP for release as soon as practicable after the November Board meeting.

INVESTMENT PERFORMANCE REVIEWS

Mr. Thornton referred to the Investment Fund Performance Review reports for the periods ending June 30, 2012, (Ref. DC | 11.6.12 | 5A) and September 30, 2012, (Ref. DC | 11.6.12 | 5B). He noted that all of the funds are meeting their benchmarks. As of the end of the third quarter, the WDC had just under $3 billion in assets. The average expense rates of the funds offered by the WDC remain well below their category average. The asset-weighted average is 0.30% which is typical. Lifecycle options (Vanguard Target Retirement Date funds) continue to perform very well. The only fund lagging on a short-term basis is the Calvert Social Investments Equity. However, long term, this fund has done very well. Mr. Thornton will continue to monitor this fund and keep the DCIC and the Board updated regarding its performance.

Mr. Thornton advised the Board that there have been a number of staff changes at Advised Assets Group (AAG). Dan Mattock, who had previously been assigned to the WDC, has accepted a new position with Great West Retirement Services (GWRS). In addition, Mr. Thornton has been promoted within AAG to managing director. However, he will continue his relationship with the WDC and looks forward to working with the Board. AAG has appointed Mike Burrows of Milwaukee to fill the position previously held by Mr. Mattock. Mr. Thornton expects little change in the relationship between AAG and the Board.

GREAT-WEST RETIREMENT SERVICES UPDATE

Ms. Myers advised the Board that she had been asked to discuss two items:

1) Plan Fee Disclosure Document. The first item is the new plan fee disclosure document (Ref. DC | 11.6.12). The Department of Labor (DOL) published requirement 408(b)(2), which requires detailed plan fee disclosures to private sector retirement plan sponsors governed under the Employee Retirement Income Security Act of 1974 (ERISA). The DOL has laid out a format as a best practice, upon which GWRS has developed its document. The WDC program is not required to issue program fee disclosure. However, GWRS has decided to make it available to all of its public and private sector plan sponsors. Ms. Schueller has reviewed the plan fee disclosure GWRS will provide for the WDC and believes this document is useful for putting multiple pieces of information in one place regarding costs and expenses related to the WDC. In the future, the most current plan fee document will be included with Board materials in the operational updates section.

2) U.S. Conference of Mayors Plan. Ms. Myers also discussed the new GWRS partnership with the U.S. Conference of Mayors (USCM). The USCM is a non-partisan organization located in Washington D.C. that recently selected GWRS to be the record-keeper for its 457 plan. GWRS is replacing Nationwide Retirement Solutions (NRS) and expects to provide more services and investment options at a lower cost for USCM participants. The USCM plan is nation-wide and includes many public entities in Wisconsin. There are 31 cities in Wisconsin with over $500,000 in the USCM plan that the USCM would like to "repaper" (or retain) in the USCM plan.

   The Board noted that the current contract between GWRS and the WDC reads as follows:

   > Great-West will not establish any other public employee deferred compensation plan for any employing bodies that could also be included in the WDC unless there is prior approval from the department and an impartial comparison of the WDC to any other plan has first been presented. Great-West shall provide detail of how many other plans are established. For existing other plans, Great-West will furnish a report detailing the number enrolled and the amount deferred on an annual basis, if agreed to in writing by the other plan.

   Ms. Myers said that GWRS was aware of the contract provision and remains committed to its strong partnership with the WDC. GWRS is seeking the Board's permission to actively work in Wisconsin on behalf of the USCM to reach out to just the 31 largest cities, as identified by the USCM. She said that any discussion with the 31 Wisconsin cities the USCM is seeking to repaper would not occur with the GWRS staff dedicated to the WDC. A separate team will explain the new USCM plan. She noted that GWRS would work to ensure that the information provided to the cities in Wisconsin currently using the USCM plan contains side by side comparisons with the WDC, their current program (NRS), and the new USCM program offered through GWRS.

A contract amendment may be needed in order for GWRS to work with the USCM plan in Wisconsin. The Board asked GWRS for additional information including the list of all cities in Wisconsin offering the USCM plan as well as any other information that might help the Board make an informed decision. This matter will be considered further at the February 2013 meeting. Ms. Myers stated that GWRS will not promote the new USCM program in Wisconsin on behalf of the USCM until the Board has made a decision.

FEDERAL DEPOSIT INSURANCE CORPORATION

Mr. Thornton recommended the Board keep the allocation the same as 2012: 75% of the interest rate to the fixed LIBOR and 25% to the floating LIBOR (Ref. DC | 11.6.12 | 6a). A concern was raised that the fees associated with the product were in excess of floating rate LIBOR thereby resulting in a negative investment return to participants. After discussion and careful consideration regarding possible interest rate movement in 2013, the Board made the following motion:

MOTION: Ms. Hanson moved to change the fixed/floating interest allocation in the FDIC option to 100% fixed. Mr. Main seconded the motion, which passed on a voice vote. Mr. Nelson was the sole "No" vote.

Ms. Schueller advised the Board that the current FDIC investment provider, BMO Harris, intends to terminate its contract with the Board. Ms. Schueller asked the Board to consider authorizing a request for proposal for a new provider. The Board has until November 2013 to find and transition the WDC to a new provider.

MOTION: Ms. Hanson moved to approve development and release of an RFP for an FDIC option provider, including delegation of authority to the Board Chair to review and approve the RFP. Mr. Nelson seconded the motion, which passed unanimously on a voice vote.

FINANCIAL EMERGENCY WITHDRAWAL SCENARIOS AND BOARD POLICY

Ms. Schueller reviewed the proposed Financial Emergency Hardship Withdrawal Policy with the Board (REF | 11.6.12 | 8). She noted that, if adopted, this policy would be added to the Board's Governance Manual as confirmation of how the Board would like requests with certain situations (furloughs and specific different reasons cited by the applicant for loss of income) to be handled. The Board discussed the proposed policy and requested that language be included stating that applications for emergency withdrawal distributions citing furlough as the only reason for a request, where the furlough has occurred for more than twenty four months, will not be considered appropriate for a hardship withdrawal.

> ***MOTION: Mr. Nelson moved to approve the financial emergency hardship withdrawal policy with modification to include an indication that furloughs that have been in place for two or more successive years are not appropriate for a withdrawal. Ms. Hanson seconded the motion, which passed unanimously on a voice vote.***

ADMINISTRATIVE SERVICES AGREEMENT AMENDMENT: FINANCIAL EMERGENCY WITHDRAWAL APPLICATION PROCESSING

Ms. Schueller asked the Board to consider delegating initial decision-making authority for financial emergency withdrawal applications to GWRS. According to legal counsel, this is permissible within the existing language of the State's laws and the Board's contract with GWRS. With the Board's approval, the contract will go to GWRS for signature and then to the Board Chair for final signature.

> ***MOTION: Ms. Hanson moved to approve an amendment to the administrative services agreement to delegate the initial decision to approve or deny a financial emergency hardship withdrawal application to GWRS, contingent upon no additional fee being charged to the WDC by GWRS for this service. Mr. Nelson seconded the motion, which passed unanimously on a voice vote.***

Ms. Schueller requested the Board's approval of an amendment to the administrative services agreement regarding miscellaneous participant fees. The amendment would permit GWRS to charge participants a fee for the following distributions requests: overnight delivery and one-time electronic Automated Clearing House (ACH) delivery of partial and full withdrawals. This addition clarifies that participants requesting a one-time ACH withdrawal from both traditional and Roth WDC accounts are assessed a fee on each type of account.

> ***MOTION: Ms. Hanson moved to add to the list of miscellaneous participant fees GWRS is permitted to assess. Mr. Nelson seconded the motion, which passed unanimously on a voice vote.***

2012 PLAN ENHANCEMENT PROGRAM

Ms. Oelke highlighted the results of the 2012 Performance Enhancement Program (PEP) to date (Ref. DC | 11.6.12 | 10). The WDC is exceeding the new participant goal. As of June 30, 2012, there were 335 more WDC participants with account balances than at the end of 2011. In addition, six new employers have been added, nearly half of the target goal of fifteen for 2012. Finally, GWRS continues to work with Milwaukee Public Schools on enrollment and education. For the remainder of 2012, GWRS' local staff will be focusing on group seminars, meetings with individual participants and the pre-retirement workshops.

2013 PLAN ENHANCEMENT PROGRAM PROPOSAL

Ms. Schueller referred the Board members to the 2013 Plan Enhancement Program and 2013 WDC Scorecard (Ref. DC | 11.6.12 | 10). The following goals and objectives were identified for 2013:

- Increase the number of in-force accounts by one and one-half percent (1.5%)
- Add ten new public employers
- Decrease the number of participants using a target date fund and other investment options and/or multiple target date funds by three percent
- Maintain high visibility statewide with 800 group and 6,500 individual meetings
- Increase online file cabinet usage by five percent
- Plan, redesign and launch an improved WDC website
- Reduce the number of participants without a beneficiary designation on file by two percent
- Test additional educational outreach efforts by offering an evening workshop for participants and their spouse/domestic partner
- Continue to offer the "Steppingstones to Retirement" workshops

MOTION: Mr. Nelson moved to approve goals and objectives of the 2013 PEP as presented by GWRS. Ms. Hanson seconded the motion, which passed unanimously on a voice vote.

OPERATIONAL UPDATES

Ms. Schueller referred the Board members to the operational updates in their binders (Ref. DC | 11.6.12 | 12). She noted that financial emergency hardship withdrawal applications received so far this year were at approximately 175, with the expectation that there would be over 200 by the end of 2012. This is similar to the levels seen in the past two years, in which over 200 applications were received each year.

ADJOURNMENT

> ***MOTION: Mr. Nelson moved to adjourn. Ms. Hanson seconded the motion, which passed unanimously on a voice vote.***

The meeting was adjourned at 2:37 p.m.

Date Approved: ___________________________

Signed: ___________________________________
Gail Hanson, Secretary
Deferred Compensation Board