

DRAFT

MINUTES

March 8, 2016

Deferred Compensation Board
State of Wisconsin



Location:

Department of Employee Trust Funds
801 West Badger Road (Mendota Room)
Madison, WI

BOARD MEMBERS PRESENT:

Ed Main, Chair
John Nelson, Vice-Chair

Gail Hanson, Secretary
Art Zimmerman (via teleconference)

BOARD MEMBERS ABSENT:

None

PARTICIPATING EMPLOYEE TRUST FUNDS (ETF) STAFF:

John Voelker, Deputy Secretary
Division of Retirement Services:
Matt Stohr, Administrator
Deferred Compensation Program:
Shelly Schueller, Director

Office of Legal Services:
David Nispel
Office of the Secretary:
Sara Brockman, Board Liaison

OTHERS PRESENT:

Advised Assets Group (AAG):
Bill Thornton
Galliard Capital Management, Inc.:
Mike Norman (via teleconference)
Empower Retirement:
Emily Lockwood, Scott Schewe

Office of Legal Services:
Diana Felsmann
Office of the Secretary:
Pam Henning

Board	Mtg Date	Item #
DC	6.14.16	2

Mr. Main, Chair, called the meeting of the Deferred Compensation Board (Board) to order at 1:30 p.m.

ANNOUNCEMENTS

Ms. Schueller made the following announcements:

- Diana Felsmann has accepted the position of Attorney with the Office of Legal Services.
- Scott Schewe, Key Retirement Plan Counselor with the Empower Retirement office in Appleton, will be in attendance.
- Mr. Zimmerman will be joining today's meeting via teleconference.

MINUTES

MOTION: Ms. Hanson moved acceptance of the following minutes, as submitted by the Board Liaison:

- ***June 16, 2015 Closed Session Minutes***
- ***November 3, 2015 A Open Session Minutes***
- ***November 3, 2015 B Open Session Minutes***
- ***November 3, 2015 B Closed Session Minutes***
- ***December 15, 2015 Open Session Minutes***
- ***December 15, 2015 Closed Session Minutes***
- ***January 19, 2016 Open Session Minutes***
- ***January 19, 2016 Closed Session Minutes***

Mr. Nelson seconded the motion, which passed unanimously on a voice vote.

ELECTION OF OFFICERS

Mr. Main asked for nominations for Board officers.

MOTION: Ms. Hanson moved to elect Board officers for 2016 as follows: Ed Main as Chair, John Nelson as Vice-Chair and Gail Hanson as Secretary. Mr. Zimmerman seconded the motion, which passed unanimously on a voice vote.

STABLE VALUE FUND – SUBADVISOR CHANGE

Mr. Norman referred the Board to the memo Stable Value Fund – Subadvisor Changes (Ref. DC | 3.8.16 | 11), which provided information about two subadvisor changes in relation to the Stable Value Fund (SVF).

Replacing PIMCO

Galliard outsources a portion of the SVF to external managers, one of which is PIMCO. ETF's utilization of PIMCO involves collective fund management on behalf of Galliard. Galliard's external management group recently downgraded PIMCO to an acceptable level and as a result, Galliard seeks to transition clients away from PIMCO. This transition will affect approximately half of Galliard's SVF clientele.

The Board was notified on February 23, 2016 that Galliard intends to replace PIMCO with TCW effective May 1, 2016.

Adding Jennison Associates

In addition to the management change within the SVF, Galliard intends to add Jennison Associates as a new subadvisor in order to diversify investment management. Jennison has been managing collective funds for other Galliard clients since August 2010.

The Board's approval of an amendment to Schedule A of the Investment Advisory Agreement is required in order to implement this subadvisor change.

According to Galliard, based on the SVF reallocations (8% allocation TCW, 10% allocation to Jennison and 12% allocation to Dodge and Cox), the average fee savings from the current PIMCO allocation will be 0.014% to the overall portfolio. Increased Wisconsin Deferred Compensation (WDC) collective fund performance is also anticipated.

The Board requested additional information about Jennison for the consideration of the Deferred Compensation Investment Committee (Investment Committee), and Galliard agreed to provide the external manager report of Jennison for Investment Committee review. The Investment Committee will make a final determination in regards to the addition of Jennison at the next committee meeting.

MOTION: Ms. Hanson moved to approve the amendment to Schedule A of the Galliard Investment Advisory Agreement to add Jennison Associates as a subadvisor as presented, subject to the approval of the Deferred Compensation Investment Committee. Mr. Nelson seconded the motion, which passed unanimously on a voice vote.

DEFERRED COMPENSATION INVESTMENT COMMITTEE MEETING UPDATE

Ms. Schueller provided an update on the February 9, 2016 Deferred Compensation Investment Committee meeting (Ref. DC | 3.8.16 | 5).

Bob Lawler and Michael White of Vanguard attended the February 9 meeting via teleconference to discuss the recent ["whistleblower" lawsuit](#) against Vanguard. Vanguard believes that the suit is without merit and has undertaken a vigorous legal defense. The original case was dismissed due to an ethical violation, as the whistleblower is a former Vanguard employee and is therefore prohibited from discussing the firm's privileged information.

At the request of the Board at its January 2016 meeting, Mr. Lawler provided additional information on Vanguard's corporate structure. The lawsuit alleges that Vanguard is not paying sufficient taxes due to the firm's corporate structure and the fact that individual funds are owned by shareholders, not companies.

The Investment Committee also discussed the investment performance results as of December 31, 2015 with Bill Thornton of Advised Assets Group.

INVESTMENT PERFORMANCE REVIEW AS OF DECEMBER 31, 2016

Mr. Thornton provided an overview of the Investment Fund Performance Review report for the period ending December 31, 2015 (Ref. DC | 3.8.16 | 6). Mr. Thornton stated that overall, the funds performed very well and that none of the funds performed below benchmarks. Mr. Thornton noted that the T. Rowe Price MidCap Growth fund in particular had excellent results in 2015.

Mr. Nelson noted that the Federated 2-5 Year fund did not perform well. Mr. Thornton stated that fund may look bad due to the small size of the benchmark group and because the Federated fund has a longer duration than most of its benchmarks. The Board expressed interest in learning about Federated's internal benchmarks, as well as exploring possible alternatives to the Federated 2-5 Year fund.

UNFORSEEN FINANCIAL EMERGENCY HARDSHIP WITHDRAWAL POLICY

Ms. Schueller and Mr. Nispel referred the Board to the memo Unforeseen Financial Emergency Hardship Withdrawals from the Wisconsin Deferred Compensation Program (Ref. DC | 3.8.16 | 7). Guidance from the Board was requested on three points:

1. Does the Board want to continue offering hardship withdrawals?
2. What look-back time frame does the Board want applied to hardship withdrawals?
3. Where should the Board's agreed-upon look-back time frame be documented?

Ms. Schueller noted that the Internal Revenue Code (IRC) permits hardship withdrawals from s. 457(b) retirement savings plans, such as the WDC, so long as the plan administrator allows them. The Board is the plan administrator for the WDC and has permitted hardship withdrawals since the plan's inception. A plan is not required to offer hardship withdrawals. Per Ms. Schueller, federal guidance regarding specific hardship withdrawal criteria is somewhat limited beyond stating that circumstances should be unplanned, unforeseen and beyond a participant's control.

Under s. 40.80 of the Wisconsin Statutes, the Board is charged with administering the WDC on behalf of plan participants. Wisconsin Administrative Code s. ETF 70.10 establishes procedures for administering the WDC, including hardship withdrawal requirements and review procedures. Per Mr. Nispel, under these provisions, the Board has the authority to determine whether or not to continue permitting emergency hardship withdrawals.

Mr. Nispel advised that should the Board decide to continue permitting hardship withdrawals, ETF plan administrators and Empower Retirement staff should clearly communicate hardship withdrawal requirements and application process information to plan participants. This communication should also be posted in easily accessible locations for participants and others.

Furthermore, Mr. Nispel stated that the Plan and Trust document and the Hardship Policy should be updated to include any revisions desired by the Board regarding hardship withdrawal guidelines, including the look-back time frame. Ms. Schueller and Mr. Nispel advised that these revised documents should both be made available in hard copy and online to plan participants.

Mr. Nispel stated that upon reviewing documentation and research provided by Ms. Schueller and Empower Retirement, it is a best practice to establish a look-back time frame for unforeseen hardship withdrawals. Empower oversees 300 retirement plans, the majority of which have adopted the standard 12 month look-back time frame. Mr. Nispel also noted that the WDC's hardship withdrawal application was updated recently so that the 12 month look-back is noted multiple times.

Ms. Schueller stated that since 2004, the WDC has received 1,900 hardship withdrawal applications. Approximately 1,700 applications, or 90 percent, were approved by ETF or Empower Retirement, which assumed responsibility for administering this provision in 2013. Out of 172 denied applications, 31 were resubmitted to ETF for review and ultimately received a determination letter. Three previously-denied hardship withdrawal applications were appealed to the Board, two of which have been reviewed in the past year.

In Ms. Schueller's opinion, the Board's decision to permit hardship withdrawals is beneficial to members. Approximately 200 hardship withdrawal applications are received per year, with primary application reasons including foreclosure and eviction.

The Board stated that the hardship withdrawal program should continue, with revisions made to the WDC Plan and Trust document made to clarify the 12 month look-back time frame.

Mr. Zimmerman questioned if the Board should discuss amending the Administrative Rule in addition to the Plan and Trust document. Mr. Nispel stated that amending the Administrative Rule is not necessary, so long as the Plan and Trust document is directly reflective of the Board's policy in regards to the hardship withdrawals and the look-back period. After additional discussion, the Board requested that Mr. Nispel and the Board's attorney, Charlotte Gibson, Department of Justice Assistant Attorney General, discuss a potential amendment to the Administrative Rule and bring a recommendation before the Board at the June meeting.

Ms. Schueller will work with Mr. Nispel and Empower Retirement to ensure that language is consistent across all plan documents in regards to the hardship withdrawals. Language will be presented to the Board for review at the June meeting, including examples of the 12 month look-back language. Additional justification for the suggested changes to the WDC Plan and Trust document regarding separation from a spouse/partner will also be provided by Ms. Schueller.

Additional changes to the WDC Plan and Trust document will be made by the Board as necessary in the future.

PLAN ENHANCEMENT PROGRAM – 2015 RESULTS AND 2016 RECORD KEEPER FEE

Ms. Schueller referred the Board to the memo 2015 Plan Enhancement Program (PEP) Results and 2016 Administrative Fee Change (Ref. DC | 3.8.16 | 8). The Board was asked to approve a 3.7% increase in the annual fee paid to Empower Retirement, in light of Empower Retirement meeting or exceeding Administrative Service Contract benchmarks.

Ms. Lockwood reviewed the 2015 WDC Scorecard with the Board. Highlights include:

- The target increase for the number of participating employees was 1.5%; the actual increase for 2015 was 4.27%.
- The target increase for the number of local employers was eight; the actual increase for 2015 was 12.
- Twelve local employer level plan reviews were completed as scheduled.
- The asset allocation target for rollovers into the plan was \$17 million; the actual rollover amount for 2015 was \$48 million.
- Empower Retirement also sent a mailing to approximately 14,000 female State employees not currently participating in the program, promoting ETF's statewide educational EMPOWER campaign, which encourages women to save for retirement.

Ms. Lockwood also noted that Empower Retirement has introduced an online scheduling tool for participants, which streamlines the appointment process for groups and individuals.

MOTION: Mr. Zimmerman moved to approve a 3.7% increase in the annual fee paid to Empower Retirement. Ms. Hanson seconded the motion, which passed unanimously on a voice vote.

EMPOWER RETIREMENT UPDATE

Ms. Schueller referred the Board to the Empower Retirement Update in their packets (Ref. DC | 3.8.16 | 9). The purpose of the item was to provide an update to the Board regarding a lawsuit filed against Great-West Life & Annuity Insurance Company, now known as Empower, claiming that several products violated the Employee Retirement Income Security Act of 1974 (ERISA). Great-West has stated that the suit is without merit and has adopted a vigorous legal defense.

The investment products named in the lawsuit are not offered by the WDC. Additional updates will be provided to the Board when available.

LEGISLATIVE AND OPERATIONAL UPDATES

Ms. Schueller referred the Board to the operational updates in their binders (Ref. DC | 3.8.16 | 10). Pertinent updates noted by Ms. Schueller include:

- The EMPOWER campaign received a 2015 Wisconsin Financial Literacy Award from the Governor’s Council on Financial Literacy (Ref. DC | 3.8.16 | 10b). The campaign was coordinated by Ms. Schueller and Tarna Hunter, ETF’s legislative liaison.
- Vanguard reopened the Vanguard Treasury Money Market Fund to all investors in January 2016 (Ref. DC | 3.8.16 | 10e2). The fund had been closed since 2009.
- The *New York Times* article “Vanguard, a Champion of Low Fees, Faces a Peculiar Tax Challenge” regarding the Vanguard lawsuit (Ref. DC | 3.8.16 | 10b).
- Recent participant correspondence (Ref. DC | 3.8.16 | 10m – 10p) received by ETF and Empower Retirement in regards to the administrative fee changes effective January 2016.

ADJOURNMENT

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

The Board adjourned at 2:53 p.m.

Date Approved: _____

Signed: _____

Gail Hanson, Secretary
Deferred Compensation Board