

DRAFT

# MINUTES

October 31, 2019

## Deferred Compensation Board

State of Wisconsin



### Location:

State Hill Farms Building – CR N110  
4822 Madison Yards Way, Madison, WI 53705  
1:00 p.m. – 4:00 p.m.

### BOARD MEMBERS PRESENT:

Ed Main, Chair	Jason Rothenberg
Gail Hanson, Vice-Chair	John Scherer
Art Zimmerman, Secretary	

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

Bob Conlin, Secretary	Division of Trust Finance:
John Voelker, Deputy Secretary	Ramona Yee
Deferred Compensation Program:	Office of Communications:
Shelly Schueller, Director	Mark Lamkins
Division of Retirement Services:	Office of Legal Services:
Matt Stohr, Administrator	Dan Hayes
Bureau of Information Security Management:	Office of the Secretary:
Greg Beach	Lisa Gurley, Board Liaison

### OTHERS PRESENT:

Empower Retirement:	Great-West Financial:
Brian Cosmano, Emily Lockwood,	Bill Thornton (Teleconference)
Doug Peterson (Teleconference)	
ETF Staff:	
Pam Henning, Tarna Hunter,	
Cindy Klimke, Michelle Thode	

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

### ANNOUNCEMENTS

Ms. Schueller announced that the Dodge & Cox Income fund opened on September 20, 2019. She also stated that starting November 1, 2019, the Federated US Gov't Securities 2-5 Year Fund will be closed to any new paycheck deferrals. The Federated

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Fund will be closed to WDC participants next spring. Participants with a balance in the Federated Fund have until May 2020 to move their balances to another fund.

## **CONSIDERATION OF OPEN MEETING MINUTES**

***MOTION: Mr. Scherer motioned to accept the June 13, 2019, Open Session minutes as submitted by the Board Liaison. Ms. Hanson seconded the motion, which passed unanimously on a voice vote.***

## **2020 MEETING DATES**

Ms. Gurley referred the Board to the 2020 Meeting Dates memo dated September 16, 2019 (Ref. DC | 10.31.19 | 3) and stated that 2020 Board meetings will be held on Thursdays. She reminded the Board that the dates were selected to avoid Board member conflicts, other meetings and professional organization conferences.

## **PARTICIPANT ADMINISTRATIVE FEE ANALYSIS**

Ms. Yee referred the Board to the Participant Administrative Fee Analysis memo dated October 9, 2019 (Ref. DC | 10.31.19 | 4). The WDC is self-supporting (no state tax dollars used) and participant administrative fees pay for all aspects of the plan, including account recordkeeping, auditing services, the website and call center, and the WDC planning and education resources to which all participants have access.

Ms. Yee reminded board members of the Board's policy for the administrative account reserve, which is to maintain a balance in the account equal to 50-75% of projected annual plan expenses. She referred the Board to the "Ending Balance of Administrative Account as a Percent of Annual Expenses" table (Attachment A), which illustrated the projected administrative account balance based on no increase in participant administrative fees as well as average increases of 6.5% and 8.0%.

Ms. Yee stated that proposed participant administrative fee increases for calendar year 2020 are a result of the returns earned by the plan's investments and the Wisconsin Deferred Compensation (WDC) contract administrator meeting the goals and objectives set by the Board in the annual Strategic Partnership Plan. The increase in participant fees is needed to maintain the administrative account reserve balance within the target range set by the Board.

***MOTION: Ms. Hanson moved to approve an increase to WDC participant administrative fees that averages 6.5%, as described in the table provided to the Board, effective January 1, 2020. Mr. Scherer seconded the motion, which passed unanimously on a voice vote.***

## **ADMINISTRATIVE RULE CHANGE: CONTRACT COMPLIANCE AUDIT TIMING**

Mr. Hayes referred the Board to the Proposed Administrative Rule Change: CR 19-126 memo dated September 30, 2019 (Ref. DC | 10.31.19 | 5). He provided a brief overview of the proposed changes and stated that every two to three years, ETF promulgates a technical rule to keep the Wisconsin Administrative Rules up to date. The two changes proposed in CR 19-126 will amend Wis. Admin. Code § ETF 70. The first change, to Wis. Admin. Code § ETF 70.03 (4), revises the time periods for contract compliance auditing. The code currently states that WDC administrator performance will be evaluated annually via a contract compliance audit. The amendment will change the language from an annual to a bi-annual contract compliance audit requirement.

The second proposed amendment, to Wis. Admin. Code § ETF 70.08 (3), will modify the timeline for participants to move their investments when the Board decides to remove an investment option from the plan. The proposed modification is to move to a 90-day timeline, which will operate in the same manner as the current 12-month timeline, except that instead of two six-month phases, it will consist of two 45-day phases.

A public hearing was held on the technical rule on Thursday, October 24, 2019. There were no attendees from the public at the meeting.

***MOTION: Mr. Zimmerman moved to approve the final version of proposed Administrative Rule Change: CR 19-126 as presented to the Board as it relates to the Wisconsin Deferred Compensation Program. Mr. Scherer seconded the motion, which passed unanimously on a voice vote.***

## **WDC PLAN AND TRUST REVISIONS**

Ms. Schueller referred the Board to the Plan and Trust Revisions memo dated September 30, 2019 (Ref. DC | 10.31.19 | 6). She stated proposed revisions to the WDC Plan and Trust recommended by ETF would make two changes. First, the revisions would allow the WDC to accept Simple IRA roll-ins. Second, the revisions would provide more flexibility for participants by enabling them to name their normal retirement age. Selecting a normal retirement age enables these participants to choose the three years in which they can make special catch-up contributions.

Ms. Hanson questioned whether the WDC Plan and Trust would have to be updated if federal regulations changed the required minimum distribution (RMD) to age 72 instead of the current 70 1/2 years as is being proposed. Ms. Schueller stated if the federal RMD age becomes 72, ETF would request that the Board update the Plan and Trust document accordingly.

***MOTION: Mr. Zimmerman moved to accept the revisions to the Wisconsin Deferred Compensation Program Plan and Trust document as submitted to the Board. Mr. Rothenberg seconded the motion, which passed unanimously on a voice vote.***

## **INVESTMENT POLICY STATEMENT REVISIONS**

Ms. Schueller referred the Board to the Proposed Investment Policy Statement Revisions memo dated September 3, 2019 (Ref. DC | 10.31.19 | 7). She discussed the proposed revisions, which included:

- Deleting the word “mutual” from the list of categories;
- Revising the description of options in the selection process to include investment trusts;
- Correcting reference typos to citations;
- Updating the evaluation statement to say, “at least annually”, as the Board currently reviews investment option performance quarterly;
- Updating the section on underperforming investment options;
- Updating effective dates of Attachment 2: Benchmark Options; and
- Adding the Dodge and Cox Income option and appropriate benchmarks to attachment 2.

***MOTION: Mr. Sherer moved to accept the revisions to the Investment Policy Statement as submitted to the Board. Mr. Zimmerman seconded the motion, which passed unanimously on a voice vote.***

## **INFORMATION TECHNOLOGY ANNUAL UPDATE**

Mr. Peterson, Chief Information Security Officer at Empower Retirement, discussed initiatives that Empower has taken to prevent both physical and cyber breaches. He discussed various scenarios in which fraud can be committed against participants in retirement plans and how Empower works to protect clients’ data and accounts from fraud. Mr. Peterson also highlighted several major changes Empower has taken over the last year to help reduce risk.

Mr. Beach, ETF Chief Information Security Officer, provided an update regarding security initiatives, controls and information risk management that ETF has in place. He also discussed some improvements the department has made to ensure the security of information within the organization. This included an overview of the ETF20 Program, which assesses the current state of ETF’s security controls against CSC Top 20 controls.

## **BENCHMARKING MANAGED ACCOUNT SERVICES**

Mr. Cosmano referred the Board to the Benchmarking Managed Accounts report (Ref. DC | 10.31.19 | 9) and discussed the difference between buy, hold, and sell ratings on managed account providers. He stated for each provider, a score is given in each of the following categories: business, staff, process, risk, performance, and terms and conditions and then the providers are rated based on the total scoring.

Mr. Cosmano provided a comparison of the Wisconsin Deferred Compensation Program's managed account advisory fees versus peers. He stated that peers are typically paying anywhere from 25 to more than 100 basis points (bps), and that Wisconsin's My Total Retirement's advisory fees are 40 basis points, which is lower than the median or average for the industry.

Mr. Cosmano analyzed and compared the investment performance results of WDC participants. He discussed the Savings and Lifetime Income Score by investment strategy with the Board, noting that WDC participants who utilize advisory services are more likely to have higher investment returns when compared to colleagues that utilize target date funds or do-it-yourself investment strategies.

## **STABLE VALUE FUND**

### **Proposed Contract Revisions**

Ms. Schueller referred the Board to the Stable Value Fund: Proposed Contract Revisions memo dated October 1, 2019 (Ref. DC | 10.31.19 | 10A). She provided an overview of proposed revisions to Exhibit 5 of the Stable Value Fund contract proposed by Galliard Capital Management, the firm currently providing the plan's Stable Value Fund. Ms. Schueller stated the proposed lowered fees would result in a flat 7.5 basis point (bps) fee on all WDC assets in the Stable Value Fund, retroactive to October 1, 2019. She mentioned this should result in a nearly 13% reduction in cost and could save participants in this option an aggregate of approximately \$83,000 per year.

Mr. Thornton added this reduction would be equivalent to 1.3 bps reduction in overall Stable Value Fund cost for participants. With the investment management fees of external managers and any fees and expenses embedded in the collective fund, cost for the Galliard Stable Value Fund is currently at 31.7 bps. The proposed fee reduction for Galliard's portion would place the overall cost of the Stable Value Fund at 30.4 bps.

***MOTION: Mr. Zimmerman moved to approve the proposed revisions to Exhibit 5 of the Stable Value Fund contract with Galliard Capital Management as presented to the Board. Ms. Hanson seconded the motion, which passed unanimously on a voice vote.***

### **Independent Consultant Contract Recommendation**

Ms. Schueller referred the Board to the Stable Value Fund: Independent Consultant Contract Recommendation memo dated September 23, 2019 (Ref. DC | 10.31.19 | 10B). The Board approved a motion at its March meeting authorizing ETF to identify and recommend an independent consulting firm capable of providing a review of the stable value fund (SVF) marketplace, including a custom SVF proposal made by the WDC's administrative services provider, Empower Retirement.

Ms. Schueller provided background information on a request for information (RFI) to consulting firms that was released on May 1, 2019, and the firms that responded to the RFI. Five consulting firms with experience and expertise evaluating the SVF

marketplace responded to the RFI. Each indicated they could complete a thorough due diligence review and would analyze such SVF components as market-to-book ratios, crediting rate, overall wrap expense, asset allocation, diversification by issuer, yield curve measurement, liquidity, quality and duration, and exit provisions.

ETF's procurement staff indicated that if certain conditions were met, the Board might have an option to purchase consulting services from a vendor that is already a party to an existing State contract for similar services. This procurement method is informally referred to as a "piggyback". Ms. Schueller explained by using this approach, there could be a significant savings in both time and effort. Wilshire Associates is currently under contract to provide consulting services to another state agency program and responded to the RFI. ETF has discussed the SVF project with Wilshire and recommends the Board utilize the "piggyback" option to contract with Wilshire.

***MOTION: Mr. Scherer moved to approve delegation of authority to the ETF Secretary to contract with an independent consulting firm, Wilshire Associates, to review the stable value fund marketplace and present a written report to the Board. Mr. Zimmerman seconded the motion, which passed unanimously on a voice vote.***

#### **INVESTMENT PERFORMANCE AND EXPENSE RATIO REVIEW AS OF JUNE 30, 2019 AND SEPTEMBER 30, 2019**

The Board reviewed the performance of the WDC's investment options as of June 30, 2019 and September 30, 2019, as presented in the "Investment Performance and Expense Ratio Review" reports by Mr. Thornton of Great-West Investments (Ref. DC | 10.31.19 | 11). Mr. Thornton reviewed the overall performance of the WDC's investment options as compared to their respective benchmarks and provided insights regarding the performance of certain funds:

- The DFA US Micro-Cap Index fund performance lagged its peers in the second quarter of 2019 but is back in line with its peers for the third quarter 2019. This fund's performance is impacted by its out of benchmark holding of 23-25% in microcap stocks; and
- The American Beacon Bridgeway Large Cap Value I CIT fund's second quarter 2019 performance bounced back from its performance during the previous two quarters. This fund's performance is trailing its peers in the third quarter 2019. Historically, this has been a well performing fund, as it had not trailed its peers in 10 years prior to the WDC adding it to the lineup. However, it has had poor performance for the past 15-16 months due to poor stock selection; and
- The Vanguard Long-Term Investment Grade fund performance lagged its peers in second quarter 2019 but rebounded in the third quarter of 2019. Mr. Thornton noted that it is unusual to see a 20% plus return on a bond fund.

Mr. Thornton suggested the Board monitor the American Beacon Bridgeway Large Cap Value I CIT fund for the remainder of 2019 and invite the fund managers to present on the fund's performance at the next Board meeting. He stated the account holds almost

\$25 million, which is less than 0.5% of WDC assets, but more than 17,000 WDC participants hold assets in this fund.

The Board agreed with Mr. Thornton's suggestion to monitor the American Beacon Bridgeway Large Cap Value I CIT fund for the remainder of 2019 and invite the fund managers to present on the fund's performance at the next Board meeting.

Mr. Thornton also pointed out that as of September 30, 2019, the WDC's asset-weighted average expense ratio has remained consistent for the last three quarters at 0.21%.

## **STRATEGIC PARTNERSHIP PLAN**

### **2019 Year-to-Date Review**

Ms. Lockwood provided an overview on 2019 WDC initiatives noted in the 2019 Strategic Partnership Plan Year-to-Date Review memo dated October 1, 2019 (Ref. DC | 10.31.19 | 12A) and the 2019 Scorecard and Communications calendar. She stated that 41 employers participated in the September 19, 2019, WDC webinar. Topics included the new employer website, online enrollment, contribution rates and employee advice.

Ms. Lockwood also discussed several investment option changes that took place over the year, which included:

- Moving the FDIC Bank option from Nationwide Bank to Johnson Bank;
- Removing the Federated US Gov't Securities 2-5 year Institutional Fund;
- Adding the Dodge & Cox Income Fund; and
- Changing the investment vehicles for the WDC BlackRock Funds.

Ms. Lockwood also shared a few success stories from participants who completed Retirement Readiness Reviews with field advisors.

### **Proposed 2020 Strategic Partnership Plan**

Ms. Lockwood referred the Board to the 2020 Strategic Partnership Plan (SPP) Proposal memo dated October 1, 2019 (Ref. DC | 10.31.19 | 12B). She discussed the proposed 2020 WDC Scorecard and Communications Calendar.

Ms. Lockwood discussed the reasoning behind the recommendation to discontinue the WDC newsletter. The newsletter has very low readership, despite additional promotional efforts by both ETF and the WDC during 2019. Instead of investing time and resources in the newsletter, the WDC will use additional communication channels to convey information. These channels could include direct mail, e-mail, narrative on quarterly statements, and information on the WDC website as well as the ETF website.

The Board discussed its desire to see more measurable results in the SPP and requested that ETF and Empower refine the 2019 asset allocation goals. Suggestions

from the Board included goals related to participants with majority of their assets in the same types of funds; for example, either too much in equity options or too much in fixed options. These participants could be encouraged to move their assets into investment options that are more appropriate for their age and/or situation. Ms. Hanson suggested combining asset allocation and education goals for more targeted goals for 2020. Ms. Lockwood stated she would work with ETF to refine the asset allocation goals. Ms. Schueller stated ETF would schedule a teleconference meeting prior to the end of the year to finalize the asset allocation goals with the Board.

***MOTION: Mr. Scherer motioned to approve the proposed 2020 Strategic Partnership Plan, including discontinuing the quarterly newsletter, subject to a further refinement of the asset allocation goals. Ms. Hanson seconded the motion, which passed unanimously on a voice vote.***

## **FIDUCIARY RESPONSIBILITIES OF THE BOARD**

Ms. Schueller referred the Board to the Fiduciary Responsibilities memo dated September 5, 2019 (Ref. DC | 10.31.19 | 13) and highlighted work completed in 2019 that falls within the Fiduciary Responsibilities list. Examples included:

- Board review of the total cost of the WDC (administration and investment expenses) as part of the October 2019 Board meeting;
- Participant satisfaction survey released in September 2019;
- Investment Policy Statement review by the Investment Committee at its summer 2019 meeting for subsequent discussion at the October 2019 Board meeting;
- The Federated US Gov't Securities 2-5 Year Fund will be removed from the investment option lineup with a final effective date of May 1, 2020;
- ETF procurement staff completed requests for proposals (RFPs) in 2018-2019 for both the annual financial statements report audits and administrative services contract compliance audits; and
- WDC participants received notice of a change in how the interest is calculated for the FDIC option (July 2019), the expense ratio reductions for the BlackRock options (September 2019) and the addition of a Dodge and Cox Income Fund (September 2019).

## **ETF WEBSITE REDESIGN OVERVIEW**

Mr. Lamkins provided an overview of ETF's new website, which was created with the customer in mind. ETF's new website now includes additional features specifically designed to increase functionality and create an effortless customer experience for anyone using the website. He highlighted the following:

- Mobile-friendly pages;
- Robust search and filters for finding information;
- Improved Section 508 accessibility; and

- The ability to share content via email and social media.

Mr. Scherer departed at 4:07 p.m.

### **OPERATIONAL UPDATES**

Ms. Schueller referred to the Operational Updates in the Board materials (Ref. DC | 10.31.19 | 15A – 15H) and stated ETF staff were available if there were any questions.

### **FUTURE ITEMS FOR DISCUSSION**

Ms. Schueller referred the Board to the March 2020 Agenda Topics memo (Ref. DC | 10.31.19 | 16) and asked the Board if there were any additional items they would like included on the agenda.

### **ADJOURNMENT**

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

The Board adjourned at 4:09 p.m.

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

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

Arthur M. Zimmerman, Secretary  
Deferred Compensation Board