

DRAFT

MINUTES

March 11, 2021

Deferred Compensation Board

State of Wisconsin



Location:

This meeting was held via teleconference

BOARD MEMBERS PRESENT:

Gail Hanson, Chair	Connie Haberkorn
Jason Rothenberg, Vice-Chair	Art Zimmerman
Terry Craney, Secretary	

PARTICIPATING EMPLOYEE TRUST FUNDS (ETF) STAFF:

Bob Conlin, Secretary	Office of Legal Services:
John Voelker, Deputy Secretary	Dan Hayes, David Nispel
Wisconsin Deferred Compensation Program:	Office of the Secretary:
Shelly Schueller, Director	Lisa Gurley
Division of Retirement Services:	
Matt Stohr, Administrator	

OTHERS PRESENT:

Empower Retirement:	Johnson Bank:
Emily Lockwood	Dave Adam
ETF Staff:	Others (Unidentified):
Monica Anderson, Pam Henning,	5 individuals connected via telephone; 1
Patrick Hughes, Tarna Hunter,	individual connected via Microsoft Teams
Joanne Klaas, Kadi Mbanefo,	Public:
Michelle Thode, Ramona Yee,	Roi D
Kathryn Young, Cheryllynn Wilkins	
Great-West Financial:	
Bill Thornton	

Ms. Hanson, Vice-Chair, called the meeting of the Deferred Compensation Board (Board) to order at 1:01 p.m.

Board	Mtg Date	Item #
DC	6.10.21	2A

ANNOUNCEMENTS

Ms. Schueller informed the Board:

- Connie Haberkorn has been appointed to the board, in the seat formerly held by Ed Main.
- This is Secretary Bob Conlin's last Board meeting; he is retiring.
- John Voelker has been appointed ETF's new Secretary, effective April 5, 2021.

Mr. Zimmerman announced he intends to step down from the Board after his current term expires on July 1, 2021 or when he is replaced by the Governor.

Ms. Hanson recognized Mr. Zimmerman and Mr. Main's service and tenure on the Board and thanked them both for their service.

ELECTION OF DEFERRED COMPENSATION BOARD OFFICERS

MOTION: Mr. Craney moved to nominate Gail Hanson as Chair of the Deferred Compensation Board. Mr. Zimmerman seconded the motion.

Mr. Zimmerman moved to nominate Jason Rothenberg as Vice Chair of the Deferred Compensation Board. Mr. Craney seconded the motion.

Ms. Haberkorn moved to nominate Terry Craney as Secretary of the Deferred Compensation Board. Mr. Zimmerman seconded the motion.

All of the motions passed unanimously on the following roll call vote:

Aye: Craney, Haberkorn, Hanson, Rothenberg, Zimmerman

Nay: None

DEFERRED COMPENSATION INVESTMENT COMMITTEE DISSOLUTION DISCUSSION

Ms. Schueller referred the Board to the Deferred Compensation Investment Committee (DCIC) Dissolution Discussion memo dated February 8, 2021 (Ref. DC | 3.11.21 | 3) and provided background information on the DCIC. She stated the DCIC is advisory to the Board, meaning the results of DCIC discussions are forwarded as recommendations to the full Board for formal discussion and actions. Eliminating the DCIC would reduce duplication of recurring agenda items. However, in some situations, eliminating the DCIC may require additional or longer Board meetings as well as more involvement of the Board on investment decisions.

If the Board approves dissolving the DCIC, Ms. Schueller suggests the Board move to meeting quarterly (beginning in 2022) so that the previous quarter's investment performance may be reviewed timely.

MOTION: Mr. Rothenberg moved to dissolve the Deferred Compensation Investment Committee, effective immediately and move to a quarterly meeting structure starting in 2022. Ms. Haberkorn seconded the motion, which passed unanimously on the following roll call vote:

Aye: Craney, Haberkorn, Hanson, Rothenberg, Zimmerman

Nay: None

CONSIDERATION OF OPEN AND CLOSED MEETING MINUTES OF NOVEMBER 19, 2020

MOTION: Mr. Craney moved to approve the November 19, 2020, Open and Closed Session minutes as submitted by the Board Liaison with amendments to include (as amended):

- Page 2 under the administrative fee analysis to correct a grammatical error in the last bullet point to read determine instead of determined.***
- Page 4 under Fund Removal to reflect that the full timeframe to remove a fund from the WDC lineup is 18 months not 12 months, when including required time after the Board's decision.***
- Page 6 to correct a typo regarding RMD's lowered age limit from 70 ½ to 59 1/2 ,***
- Page 7 correcting the reference to RMD age to read "Further raising the required minimum distribution age to 75."***

Mr. Zimmerman seconded the motion, which passed unanimously on the following roll call vote:

Aye: Craney, Haberkorn, Hanson, Rothenberg, Zimmerman

Nay: None

INVESTMENT PERFORMANCE AND EXPENSE RATIO REVIEW AS OF DECEMBER 31, 2020

The Board reviewed the performance of the WDC's investment options as of December 31, 2020, as presented in the "Investment Performance and Expense Ratio Review" report by Mr. Thornton of Great-West Investments (Ref. DC | 3.11.21 | 5). Mr. Thornton stated the S&P 500 Index posted a healthy 18.4% full year return.

Mr. Thornton provided his perspective regarding the COVID-19 pandemic and the economic markets, noting that unemployment claims were decreasing during the last quarter of 2020.

Mr. Thornton reviewed the overall performance of the WDC's investment options as compared to its respective benchmarks and provided insights regarding the performance of certain funds during fourth quarter 2020:

- The American Funds EuroPacific Growth fund was five hundred basis points above the quarter average.
- The DFA US Micro-Cap Index fund had a good quarter. It was ahead of its benchmarked peers in the last quarter.
- The T. Rowe Price Mid-Cap Growth fund underperformed by 15% the entire year.
- The Fidelity Contrafund Commingled Pool had a tough quarter. This option lagged behind its peers.
- Calvert Index Fund had a good quarter.
- American Beacon Bridgeway bounced back with a good fourth quarter. The returns for this option are ahead of the Russell Index benchmark and aligned with its peers for the quarter.

Mr. Thornton pointed out WDC's asset-weighted average expense ratio remained at 0.22% for the 4th quarter of 2020.

Ms. Schueller mentioned the DFA US Micro-Cap Index fund reduced their fee from 48 to 41 basis points, which is equivalent to a 15% reduction in fees. She also stated Galliard has two wrap cost options lowering 1 basis point per option which should lower the asset-weighted average expense ratio in the future.

WDC INVESTMENT OPTION RECOMMENDATIONS

American Beacon Bridgeway Large Cap Value Removal

Ms. Schueller referred the Board to the American Beacon Bridgeway Large Cap Value Removal memo dated February 8, 2021 (Ref. DC | 3.11.21 | 6A) and provided background information on this fund. She stated the American Beacon Bridgeway Large Cap Value fund (American Beacon) was added to the WDC core investment lineup in late 2017 to provide participants with a large cap value option.

As noted in the memo, American Beacon's fund performance was in the top quartile for three-year percentile ranks when compared to peers for six months during calendar year 2017; however, since then, the American Beacon's investment returns have declined. The Board has been carefully monitoring the fund's performance. She added that since March of 2020, American Beacon has been "on watch" due to poor investment performance and as the close of 2020, American Beacon's performance had not improved.

Ms. Schueller also pointed out that Administrative Rule CR 19-126 (Ref. DC | 3.11.21 | 11D), which includes technical changes regarding the phasing out of WDC investment options, is set to go in front of the State legislature later this spring. If that rule is approved, the timeline to remove a fund could be a 90 day phase out process.

Mr. Thornton stated he could research large cap value options for the Board and provide a list of potential firms to the Board for consideration at its June meeting. Ms. Schueller stated that if it is the Board's preference, large cap value finalist firms could present to the Board at an additional meeting later this summer.

MOTION: Mr. Craney moved to close the American Beacon Bridgeway Large Cap Value fund, replace it with a different large cap value option and direct that balances remaining in American Beacon Bridgeway Large Cap Value after it is closed are reallocated to the new large cap value option. Ms. Haberkorn seconded the motion, which passed unanimously on the following roll call vote:

Aye: Craney, Haberkorn, Hanson, Rothenberg, Zimmerman

Nay: None

T. Rowe Price Mid Cap Growth Performance Review Meeting

Ms. Schueller referred the Board to the T. Rowe Price Mid Cap Growth Performance Review Meeting memo dated February 8, 2021 (Ref. DC | 3.11.21 | 6B) and stated the T. Rowe Price Mid Cap Growth option, which has been part of the core investment lineup since 1998, struggled through 2020. She indicated the 1-, 3-, and 5-year returns for this option trails its peers and market benchmarks; therefore, ETF recommends the Board request a meeting with T. Rowe Price to learn how the firm intends to navigate the markets and what the firm is planning regarding manager succession.

MOTION: Mr. Zimmerman moved to invite T. Rowe Price to an upcoming meeting to discuss the performance of the T. Rowe Price Mid Cap Growth Fund. Mr. Rothenberg seconded the motion, which passed unanimously on the following roll call vote:

Aye: Craney, Haberkorn, Hanson, Rothenberg, Zimmerman

Nay: None

PROPOSED AMENDMENT TO FDIC BANK OPTION CONTRACT

Ms. Schueller referred the Board to the FDIC Contract Amendment memo dated February 9, 2021 (Ref. DC | 3.11.21 | 7) and provided an overview of the Board's contract and relationship with Johnson Bank. She stated pandemic-related financial market changes have raised concerns from Johnson Bank regarding the sustainability of certain current contract terms.

Johnson Bank has requested the Board consider a contract amendment to lower the FDIC bank option interest rate floor from 30 basis points to 15 basis points.

Mr. Adam stated Johnson Bank recognized large cash deposits due to the pandemic, which was not anticipated. He emphasized there were large increases in deposits and money markets. Mr. Adam mentioned Johnson Bank has 10% of their assets in cash, earning approximately 3 basis points and paying out 30 basis points. He stated Johnson Bank is carrying the funds at a loss of approximately 20 basis points and noted that short-term rates will likely be low for the next three years or longer.

Mr. Conlin asked if Johnson Bank was open to conversations on revisiting the floor rate once the market stabilizes or goes up in the future. Mr. Adam agreed, stating that Johnson Bank would be open to discussions to revisit the floor rate in the future once the market stabilizes.

MOTION: Mr. Zimmerman moved to approve the amendments to the WDC contract with Johnson Bank to adjust the interest rate floor to 15 basis points. Ms. Haberkorn seconded the motion, which passed unanimously on the following roll call vote:

Aye: Craney, Haberkorn, Hanson, Rothenberg, Zimmerman

Nay: None

ADMINISTRATIVE SERVICES CONTRACT AMENDMENT

Mr. Nispel referred the Board to the Administrative Services Contract Amendment memo dated February 9, 2021 (Ref. DC | 3.11.21 | 8) and stated ETF recommends approving the proposed amendments to the WDC administrative services contract with Great-West Life and Annuity Insurance Company to permit distribution education services, point-in-time participant fiduciary services (recommendations and advice) and Certified Financial Planner services.

Ms. Schueller reminded the Board that the three new services were previously approved by the Board at its November meeting, and noted that a contract amendment is necessary for Empower to begin offering the new services.

MOTION: Mr. Craney moved to approve the proposed amendments to the WDC administrative services contract with Great-West to permit three new services approved as part of the 2021 strategic partnership plan: distribution education services, point in time fiduciary advice and CFP services. Mr. Zimmerman seconded the motion, which passed unanimously on the following roll call vote:

Aye: Craney, Haberkorn, Hanson, Rothenberg, Zimmerman

Nay: None

The Board took a break from 2:19 p.m. to 2:30 p.m.

PLAN AND TRUST REVIEW: IN-SERVICE DISTRIBUTIONS

Mr. Hayes referred the Board to the Plan and Trust Review: In-Service Distributions memo dated February 11, 2021 (Ref. DC | 3.11.21 | 9) and highlighted the pros and cons to allowing distributions at age 59 1/2. He stated ETF recommends changing the in-service distributions age limit to allow these distributions for participants aged 59 1/2 or older.

Mr. Hayes stated if the Board is not interested in changing the distributions age to 59 1/2, ETF recommends the Board restore the minimum age of 70 1/2 for in-service distributions in the Plan and Trust to correct an administrative error.

Ms. Schueller stated if the Board moved to allow in-service distributions at age 59 1/2, actively working participants at this age or older would be able to access their funds without going through the process of filing for a hardship withdrawal.

Ms. Lockwood stated that 13 of 700 s. 457(b) plans that are kept by Empower have adopted the distribution age of 59 1/2.

MOTION: Ms. Haberkorn moved to revise the Plan and Trust to permit in-service distributions for participants aged 59 1/2 or older. Mr. Rothenberg seconded the motion, which passed unanimously on the following roll call vote:

Aye: Craney, Haberkorn, Hanson, Rothenberg, Zimmerman

Nay: None

STRATEGIC PARTNERSHIP PLAN (SPP)

2020 Results

Ms. Lockwood provided an overview of the 2020 Strategic Partnership Plan results. She highlighted:

- Annual Participant Survey results.
- Employer Outreach results.
- “Stay in the Plan” mini-campaign results.
- Email address capture postcards results.
- New virtual service model engagement – participants receiving a Retirement Readiness Review; and
- Provided a few sample Retirement Readiness Review success stories.

2021 Recordkeeping Fee Recommendation

Ms. Schueller referred the Board to the 2021 Recordkeeping Fee Recommendation memo dated February 10, 2021 (Ref. DC | 3.11.21 | 10B) and highlighted the 2020 WDC Scorecard. She provided information regarding goal results as of December 31, 2020.

Ms. Schueller stated that based on the results of the 2020 Strategic Partnership Plan results, ETF recommends a 3.5% increase in the annual fee paid to Empower Retirement.

Ms. Hanson noted a typo in the results memo, which should state 46% of the goal for Retirement Readiness Reviews instead of 46% of the target group.

Mr. Craney also commented on the formula currently in use to determine what level of increase Empower earns for the following year. Mr. Craney suggested that 3.5% seemed high, given that many public employees have not had similar increases in their wages.

MOTION: Mr. Rothenberg moved to approve a 3.5% increase in the annual fee paid to Empower Retirement. Mr. Zimmerman seconded the motion, which passed unanimously on the following roll call vote:

Aye: Craney, Haberkorn, Hanson, Rothenberg, Zimmerman

Nay: None

2021 Strategic Partnership Plan Update

Ms. Lockwood provided an overview of the 2021 Strategic Partnership Plan year-to-date results, which included activity for group, individual and Retirement Readiness Review sessions and first quarter communications that were sent to participants.

OPERATIONAL UPDATES

Ms. Schueller referred to the Operational Updates in the Board materials (Ref. DC | 3.11.21 | 11A – 11G) and stated ETF staff were available if there were any questions. She highlighted:

- Governance Manual updates.
- Annual Wisconsin Public Records Law Basics Training. All Board members will need to complete this training and return their acknowledgements to Board Liaison by March 31, 2021.
- Legislative update.
- Administrative Rule Status Update: CR 19-126 has moved to the Joint Committee for administrative rules; and
- Board Authority Contracts Update.

FUTURE ITEMS FOR DISCUSSION

Ms. Schueller referred the Board to the June 2021 Agenda Topics memo dated February 15, 2021 (Ref. DC | 3.11.21 | 12) and asked the Board if there were any additional items they would like included on the agenda.

Ms. Hanson volunteered to work with Ms. Schueller on a resolution for the former Board Chair and offered to bring it back to the full Board at its next meeting.

Ms. Hanson thanked Mr. Conlin for all that he has done for the Deferred Compensation Board as well as the WDC to help it move forward and stated the Board and WDC are in good hands with Mr. Voelker as he becomes the ETF Secretary.

ADJOURNMENT

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

The meeting adjourned at 3:19 p.m.

Date Approved: _____

Signed: _____

Terry Craney, Secretary
Deferred Compensation Board