

MINUTES

June 9, 2022

DRAFT

Deferred Compensation Board

State of Wisconsin

Location:

Hill Farms State Office Building – CR N134
4822 Madison Yards Way, Madison, WI 53705
1:00 p.m. – 3:53 p.m.



BOARD MEMBERS PRESENT:

Jason Rothenberg, Chair
Terry Craney, Vice-Chair
Gail Hanson (teleconference)
Bill Stebbins (teleconference)

BOARD MEMBERS ABSENT:

Connie Haberkorn

PARTICIPATING EMPLOYEE TRUST FUNDS (ETF) STAFF:

Wisconsin Deferred Compensation Program:

Shelly Schueller, Director

Office of the Secretary:

John Voelker, Secretary
Kimberly Schnurr, Board Liaison
Budget, Contract Administration and Procurement:
Joanne Klaas (teleconference)

Division of Retirement Services:

Matt Stohr

Office of Policy, Privacy and Compliance:

Laura Patterson

OTHERS PRESENT

Office of the Secretary:

Shirley Eckes

ETF Staff:

Paulina Erdman, Diana Felsmann, Dan Hayes, Michelle Hoehne (teleconference), Tarna Hunter, Nancy Ketterhagen, Kadimma Mbanefo, Peter Rank, Yikchau Sze (teleconference), Kathryn Young

Empower:

Rob Dwyer, Emily Lockwood

Great-West Investments:

Bill Thornton

Vanguard:

Mike Manfre, Michael Palazzi

Wipfli:

Bryan Johnson, Zach Mayer

Public:

Rose Stephenson

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

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ANNOUNCEMENTS

Ms. Schueller shared the following announcements:

- Peter Rank joined the Office of Legal Services team as ETF's newest attorney.

CONSIDERATION OF OPEN MINUTES OF MARCH 31, 2022, BOARD MEETING.

MOTION: Mr. Craney moved to approve the open session minutes of the March 31, 2022, meeting as submitted by the Board Liaison. Mr. Stebbins seconded the motion, which passed unanimously on a voice vote.

2021 AGREED-UPON PROCEDURES (AUP) REVIEW RESULTS

Ms. Schueller referred the Board to the 2021 AUP Review Results memo (Ref. DC | 06.09.22 | 3). AUP reviews are used to evaluate and report on the third-party administrator's management of the WDC, including compliance with contract terms and conditions as well as applicable state and federal statutes, rules, and regulations. The 2021 AUP report was done to assure the Board, ETF, employers, and participants that the WDC is properly administered. The 2021 AUP was completed by Wipfli LLP. Bryan Johnson, a Senior Manager at Wipfli, presented highlights of the AUP.

Mr. Johnson stated that the 2021 WDC AUP focused on the following areas:

- Reporting
- Required Minimum Distributions (RMDs)
- Rollovers
- Domestic Relations Order (DRO) Distributions
- Transfers

Mr. Johnson noted there were no significant exceptions. Wipfli's testing identified minimal exceptions with unsupported data reported in the Annual Plan Report and some minor discrepancies in their review of rollovers and transfers. Wipfli made recommendations in these areas, and ETF agreed. Additionally, Wipfli reviewed a sample of Domestic Relations Order Distributions (DROs) and provided additional recommendations. ETF also agreed with these recommendations and will discuss if reporting and document improvements are necessary with the WDC's administrator.

Ms. Schueller stated that the AUP report was shared with the WDC's administrator (Empower Retirement) and Empower is preparing a formal response on the areas highlighted in the 2021 AUP report. Empower's response will be shared with the Board as an Operational Update item at a future meeting.

A Board member asked how to increase the percentage of confirmation responses returned to the auditors by participants. ETF will explore options to announce future reviews via ETF and WDC communication channels, which would provide participants with advanced notice to expect Wipfli correspondences.

MOTION: Ms. Hanson moved to accept the results of the 2021 Agreed-Upon Procedures review as presented to the Board. Mr. Craney seconded the motion, which passed unanimously on a voice vote.

2021 FINANCIAL STATEMENTS REPORT AND AUDIT RESULTS

Ms. Schueller referred the Board to the 2021 Financial Statements Report and Audit Results memo written by Cindy Klimke-Armatoski (Ref. DC | 06.09.22 | 4) and stated that ETF prepared the 2021 WDC financial statements report. This report was audited by a team at Wipfli led by Senior Manager Bryan Johnson.

Mr. Johnson stated Wipfli issued an unqualified or “clean” opinion, noting that the 2021 WDC financial statements report present fairly, in all material respects, the financial position of the WDC. He reminded the Board that the 2021 financial statements report is in draft form until approved by the Board, at which time Wipfli will finalize the report and send it to the Board.

Mr. Johnson highlighted several aspects of the 2021 financial statements report, including the statement of net position and statement of changes in net position. Mr. Johnson pointed out that WDC withdrawals increased 38% when compared to 2020, and this increase was expected due to the asset increases during 2021 and the previous years. There were no significant plan changes, accounting rule changes, or amendments; and from Wipfli’s perspective, the audit process went smoothly, with ETF and Empower providing timely information and documentation.

As noted above, ETF will explore options to announce future financial statement report audits via ETF and WDC communication channels, which would provide participants with advanced notice to expect Wipfli correspondences.

MOTION: Mr. Stebbins moved to approve the WDC Plan and Trust Financial Statements Report and Audit as of December 31, 2021. Mr. Craney seconded the motion, which passed unanimously on a voice vote.

ETI0035 FINANCIAL STATEMENTS REPORT AUDIT CONTRACT EXTENSION OPTION

Ms. Schueller and Ms. Klaas referred the Board to the ETI0035 Financial Statements Report Audit Contract Extension Option memo (Ref. DC | 06.09.22 | 5). In their presentation, they provided a brief background of the contract resulting from Request for Proposal (RFP ETI0035), as well as the costs and hours proposed by Wipfli for auditing the calendar years 2022 and 2023 WDC Financial Statements Reports.

MOTION: Mr. Craney moved to approve extending the contract with Wipfli for WDC financial statements report audits of calendar years 2022 and 2023. Mr. Stebbins seconded the motion, which passed unanimously on a voice vote.

ADMINISTRATIVE SERVICES PROVIDER CONTRACT UPDATE

Ms. Schueller and Ms. Klaas provided a presentation to the Board on the Administrative Services Provider Contract Update memo (Ref. DC | 06.09.22 | 6). They began their presentation with a recap of the actions taken by the Board in 2021 and provided an update on contract negotiations with Empower Retirement.

Ms. Schueller provided a list of contract highlights:

- An additional fee reduction of \$60,000 per year, reducing the annual WDC administrative service fee to \$2,623,960 for each of the five years of the initial contract term;
- Strong confidential information and cybersecurity requirements;
- Continued joint creation of an annual strategic partnership plan;
- Alignment of record retention provisions between ETF and Empower Retirement;
- The addition of an annual Board satisfaction survey; and
- 17 performance standard requirements with quarterly penalties covering services for participants, employers, and the Board.

Mr. Craney requested time to speak about his December 2021 vote regarding the motion to award the contract resulting from RFP ETJ0061 to Empower Retirement (Ref. DC | 03.31.22 | 2C), and Board Chair Rothenberg agreed. Mr. Craney shared his thoughts on his experience as a Board member on the RFP Committee. He identified areas of the RFP process that he believed went well and those that could benefit from some improvements. After Mr. Craney indicated his address to the Board was complete, ETF Secretary John Voelker thanked him for his insight and emphasized that having a Board member on the RFP Committee was essential to collecting the sort of feedback Mr. Craney had delivered, as well as driving contract negotiations to provide the very best services to WDC participants at the best price possible.

The Board took a break from 2:01 p.m. until 2:11 p.m.

INVESTMENT PERFORMANCE AND EXPENSE RATIO REVIEW AS OF MARCH 31, 2022

The Board reviewed the performance of the WDC's investment options as of March 31, 2022, as presented in the "Investment Performance and Expense Ratio Review" report by Bill Thornton of Great-West Investments (Ref. DC | 06.09.22 | 7). In his presentation to the Board, Mr. Thornton reviewed the overall performance of the WDC's investment options as compared to their respective benchmarks, discussed the expense ratio, provided insights regarding the economy and the markets, and discussed the performance of certain funds during the first quarter of 2022.

Mr. Thornton indicated fixed income rates and stable value fund performance both resulted from global and national inflation rates creating more market volatility. Inflation will take time to correct, according to Mr. Thornton, as the world adjusts to labor

shortage issues, the continued invasion of the Ukraine by Russia, Chinese factories continuing to face shutdowns, and oil refining capacity driving gas prices higher.

Mr. Thornton pointed out that the WDC's asset-weighted average expense ratio was at 0.20% for the first quarter of 2022. He also noted that in general, the options in the WDC lineup have outperformed that of their peers during the first quarter of 2022.

VANGUARD – FIRM UPDATE AND REVIEW OF INVESTMENT OPTIONS

Mr. Manfre and Mr. Palazzi from Vanguard presented information to the Board regarding Vanguard investment products available to WDC participants, including Target Date Funds (TDFs), domestic equity funds, stable net asset value funds, and bond funds. Mr. Manfre and Mr. Palazzi discussed Vanguard's philosophy of building their funds to benefit participants through aligning Vanguard's interests with shareholders, designing and innovating new ideas to provide lasting retirement income, and applying risk-assessments to sustain funds through up-and-down markets.

VANGUARD TARGET DATE FUND (TDF) UPDATES

Vanguard Target Retirement 2015 Fund Merger

Ms. Schueller referred the Board to the Vanguard Target Retirement 2015 Fund Merger memo (Ref. DC | 06.09.22 | 9A), which provided the Board with an update on Vanguard's planned merger of the 2015 Target Retirement Trust Plus into Vanguard Target Retirement Income Trust Plus. Ms. Schueller reported that as of, March 31, 2022, 2,533 WDC participants held approximately \$122,634,105 in the 2015 Target Retirement Trust Plus.

The anticipated date for the 2015 Target Date Fund (TDF) merger into the Retirement Income fund is July 8, 2022. In preparation for the transition process, no purchases or exchanges into the Vanguard 2015 TDF will be permitted after the close of business on July 6, 2022. Ms. Schueller explained that ETF, Empower and Vanguard were coordinating timing and communications related to this merger for WDC participants.

Vanguard Target Retirement Date Additions

Ms. Schueller referred the Board to the Vanguard Target Retirement Date Additions (Ref. DC | 06.09.22 | 9B) memo. She gave a brief explanation of how TDFs are designed to help participants reach financial retirement goals based on retiring at age 65, which is normal retirement age. She also provided a brief recap on the move of the WDC's TDF options in January 2022 from Trust I to Trust Plus as a result of reaching an asset threshold at Vanguard. This move reduced the expense ratio participants are paying for TDFs from 7.0 basis points (bps) to 5.5 bps.

Ms. Schueller shared that adding the Vanguard Target Retirement Trust Plus 2065 to the WDC investment lineup could be beneficial to the WDC's youngest participants. Adding the 2065 TDF would give the 1,325 WDC participants currently age 25 or younger (470 of whom currently use TDFs) the advantage of a professionally managed

option appropriate for their age with a low expense ratio, 5.5 bps, similar to the other TDFs in the WDC investment lineup.

Ms. Schueller also discussed the potential addition of the Vanguard Target Retirement Trust Plus “ten” series to the WDC: 2020, 2030, 2040, 2050 and 2060. Adding these TDFs would provide WDC participants the ability to consolidate their investments across multiple TDFs to just a single, potentially more age-appropriate TDF that is much closer to their retirement date.

Ms. Schueller noted that if the Board approved any TDF additions, updates related to the timing and communications for the additions would be shared with the Board at a later meeting.

MOTION: Mr. Craney moved to add the Vanguard Target Retirement Trust Plus 2065 to the investment lineup; and add the Vanguard Target Retirement Trust Plus “ten” series to the lineup: 2020, 2030, 2040, 2050, and 2060. Ms. Hanson seconded the motion, which passed unanimously on a voice vote.

DODGE AND COX INCOME FUND SHARE CLASS CHANGE

Ms. Patterson referred the Board to the Dodge and Cox Income Fund Share Class Change (Ref. DC | 06.09.22 | 10) memo. She discussed features of the existing Dodge and Cox Income Fund share class “I” and compared this class to the newly debuted share class. Share class “I” has a price of 42 basis points, but also returns 10 basis points to participants via reimbursements tracked and processed by the WDC’s administrator. This new share class option, “X,” had a proposed share class price of 33 bps and does not offer any reimbursements.

Ms. Patterson stated that moving to Dodge and Cox Income share class X would result in a slight cost increase for participants, and it would ensure adherence with the Board’s Investment Option Selection and Reimbursement Policy by eliminating reimbursements. Moving to share class X would also provide efficiencies by eliminating processing needed for quarterly small reimbursements to participants. She also noted that if the Board approved moving to Dodge and Cox Income share class X, ETF would work alongside Dodge and Cox and Empower to develop a timeline for transition and to create a communications plan to inform WDC participants of the change.

MOTION: Mr. Stebbins moved to move from Dodge and Cox Income share class I to Dodge and Cox Income share class X. Ms. Hanson seconded the motion, which passed unanimously on a voice vote.

2022 STRATEGIC PARTNERSHIP PLAN (SPP) AND EMPOWER UPDATE

Rob Dwyer and Emily Lockwood of Empower Retirement provided an update on progress towards the 2022 SPP goals. They highlighted scorecard goals and activity as

of April 30, 2022. Examples included WDC website additions related to equity wash language, and model WDC language for employers to include on employer intranet pages and in benefits brochures. They also noted that Empower made numerous updates to WDC materials to ensure participants have access current information, such as federal contribution limit changes and WDC participant fee changes. Mr. Dwyer acknowledged Empower's recent call center challenges and how the firm planned to improve call center performance with many newly trained staff. Ms. Lockwood stated that to provide consistent updates regarding Empower's call center performance, Empower expects to include current performance statistics in September as part of the next SPP update.

YEAR IN REVIEW: 2021 STATISTICS

Ms. Lockwood and Ms. Schueller provided a brief overview of selected WDC statistics, which included:

- Overall assets and by fund
- Participation by age and gender
- Average participant balance for contributing participants
- New enrollments by participant age
- Participant annual fee history
- Participant asset growth from 2006 to 2021
- Distributions by reason in 2021.

ETF and Empower will discuss how to best segment out TDF data in future Annual Plan Reports, per the Board's request.

OPERATIONAL UPDATES

Ms. Schueller referred to the Operational Updates (Ref. DC | 06.09.22 | 13A – 13E) and stated ETF staff were available if there were any questions. She highlighted:

- Legislative Update
- Board Authority Contracts Update
- Board Correspondence.

TENTATIVE SEPTEMBER 2022 AGENDA

Ms. Schueller referred the Board to the tentative agenda topic lists for the September 2022 Board Meeting (Ref. DC | 06.09.22 | 14).

When asked if the Board members had any other topics that they would like to add to either list, no suggestions were given.

ADJOURNMENT

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

The meeting adjourned at 3:53 p.m.

Date Approved: _____

Signed: _____

Connie Haberkorn, Secretary
Deferred Compensation Board