

DRAFT

MINUTES

April 20, 2023

Deferred Compensation Board

State of Wisconsin

Location:

Hill Farms State Office Building – CR N134
4822 Madison Yards Way, Madison, WI 53705
1:01 p.m. – 3:07 p.m.



BOARD MEMBERS PRESENT

Jason Rothenberg, Chair
Terry Craney, Vice-Chair
Connie Haberkorn, Secretary

Kate Fleming
Bill Stebbins

PARTICIPATING EMPLOYEE TRUST FUNDS (ETF) STAFF

Wisconsin Deferred Compensation Program:

Shelly Schueller, Director
Office of the Secretary:
John Voelker, Secretary
Kimberly Schnurr, Board Liaison
Tarna Hunter, Government Relations Director

Division of Retirement Services:

Matt Stohr, Administrator
Office of Policy, Privacy and Compliance:
Laura Patterson

OTHERS PRESENT

Office of the Secretary:

Pam Henning

ETF Staff:

Shellee Bauknecht*, Laura Brauer,
Victor Dupuy, Diana Felsmann, Dan
Hayes, Michelle Hoehne*, Patrick
Hughes*, Nancy Ketterhagen*, Joanne
Klaas, Peter Rank*, Amelia Slaney*,
Barry Tucker, Kathryn Young

Department of Revenue:

Ellen Corso*

Department of Natural Resources:

Terence Kafka*

Empower:

Emily Lockwood

Empower Investments:

Bill Thornton

Financial Investment News:

Lindsay Saienni*

Galliard:

Mike Norman, Tami Pearse

UW Health:

Sara Broge*

Public:

David Dies*, T. Jackson*

* Attended via teleconference.

Board	Mtg Date	Item #
DC	06.08.23	2

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

ANNOUNCEMENTS

Ms. Schueller made the following announcement:

- A pilot survey was distributed to Board members. Three responses were collected. This was a test case in preparation for an annual Board survey. More information will be coming later in the year.

CONSIDERATION OF OPEN AND CLOSED MINUTES OF DECEMBER 1, 2022, BOARD MEETING

MOTION: Mr. Craney moved to approve the open and closed session minutes of the December 1, 2022, meeting as submitted by the Board Liaison. Mr. Stebbins seconded the motion, which passed unanimously on a voice vote.

ELECTION OF OFFICERS

MOTION: Mr. Craney moved to nominate the following slate of officers: Jason Rothenberg as Chair, Terry Craney as Vice Chair, and Connie Haberkorn as Secretary of the Deferred Compensation Board. Mr. Stebbins seconded the motion, which passed unanimously on a voice vote.

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

The Board reviewed the performance of the WDC's investment options as of December 31, 2022, as presented in the "Investment Performance and Expense Ratio Review" report by Bill Thornton of Empower Investments (Ref. DC | 04.20.23 | 4). Ms. Schueller pointed out that Mr. Thornton provided a summary memo with the Quarter 4 2022 investment report that noted the negative performance in the vast majority of equity and fixed income sectors in 2022. In both the summary memo and his presentation to the Board, Mr. Thornton stated that there was not a current need to place any of the WDC's investment options on a watch status.

Mr. Thornton reviewed the overall performance of the WDC's investment options compared to the respective benchmarks, discussed expense ratios and the asset-weighted average expense ratio for the plan, provided insights regarding the economy and the markets, and discussed the performance of certain investment options during the fourth quarter of 2022.

Mr. Thornton noted that economically, the fourth quarter of 2022 continued to be shadowed by rising inflation. However, jobs continued to grow steadily with unemployment rates averaging 3.5% at the end of 2022.

Mr. Thornton acknowledged that 2022 was a rough year overall for investing, especially for fixed income and specialty return funds. He said that although the S&P 500 had three straight quarters of negative returns, during the fourth quarter of 2022, the S&P 500 Index ended in positive territory.

Despite these challenging circumstances, during the fourth quarter of 2022 the performance of most WDC investment options fared relatively well when compared to their benchmarks. Mr. Thornton highlighted the following:

- Both the Fidelity Contra Fund and the T. Rowe Price Mid-Cap Growth Fund rebounded nicely from poor performance during 2021.
- The JP Morgan US Value R6 option had “really good” performance in 2022.
- Vanguard Wellington trailed the category average for one-year total return but continued to beat its benchmarks in total returns over the three-month, three-year, five year and ten-year time periods.
- Performance of the Vanguard Long-Term Investment Grade Bond Funds trailed its Morningstar categories for the year ending December 31, 2022, by 25% and trailed the category over the five-year time period. However, the 3-year percentile ranking for this fund demonstrated improvement to the second quartile of peers.
- American Funds EuroPacific Growth trailed the Morningstar Foreign Large Growth average over the five-year time period, but only marginally trailed the three-month total return.
- The only fund falling in the fourth quartile for the 3-year percentile ranking during the last quarter of 2022 was the Blackrock Russell 2000 Index Fund. Mr. Thornton reminded the Board that this option is slightly more growth oriented and also has a smaller market cap than the benchmark.
- Vanguard target date options underperformed during 2022. Mr. Thornton attributed the underperformance to the fact that the Vanguard options typically hold more cash than the benchmark.

The overall WDC investment options’ asset-weighted average expense ratio for the fourth quarter of 2022 was 0.19%.

The Board was invited to ask questions on the information Mr. Thornton provided. Mr. Rothenberg expressed appreciation for the memo provided with the report and requested that a summary memo be included with quarterly investment performance reports going forward.

Mr. Rothenberg and Ms. Fleming both expressed interest in including international emerging markets in the quarterly investment performance report. Mr. Thornton and Ms. Schueller stated they would look at including this information in future quarterly investment updates.

Mr. Craney asked Mr. Thornton how much exposure the WDC investment options have to private equity investments. Mr. Thornton responded that while public plans were not precluded from offering private equity investments, private equity does not fit the public

plan model very well. He also stated there was currently very little exposure in the WDC lineup to private equity.

STABLE VALUE FUND PRESENTATION: GALLIARD

Mr. Norman and Ms. Pearse from Galliard Capital Management (Galliard) presented information to the Board regarding the WDC's Stable Value Fund, which is managed by Galliard. Mr. Norman discussed the basics of stable value funds, which are designed to provide day-to-day principal protection and returns comparable to short/intermediate bonds with less volatility. He also explained how stable value fund mechanics use a crediting rate formula that amortizes gains/losses over the duration of the portfolio in order to smooth the rate of return earned by the fund. Mr. Norman tied in the crediting rate formula with a discussion on how market rates impact stable value yields.

Mr. Norman and Ms. Pearse discussed how stable value funds differ from money market funds, and shared investment performance charts to illustrate that stable value funds have historically delivered an attractive return pattern versus money market funds. Mr. Norman noted that from 2000 through the end of 2022, stable value portfolios did not experience the monthly return volatility typical of like duration competing fixed income products.

Mr. Norman and Ms. Pearse provided an in-depth review of the WDC Stable Value Fund, and shared information regarding the annualized investment performance, portfolio characteristics, historical statistics, contract issuers, manager distribution, and calendar year performance.

BOARD POLICIES AND FORMAT UPDATE

Ms. Patterson referred the Board to the Board Policies and Format Update memo (Ref. DC | 04.20.23 | 6) during her presentation. She provided an overview of the individual policies and procedures that were shared across each of ETF's governing boards. These policies and procedures are listed separately within the "Table of Contents" for each board's *Governance Manuals*. Because the current format of linking the procedures and policies separately is inefficient, as it sometimes involved accessing multiple documents to find information, ETF is recommending a change.

Ms. Patterson proposed combining the policies and procedures each of ETF's governing boards adhere to into a single document: *Board Policies and Procedures*. The *Board Policies and Procedures* creates a single general reference document that includes policies on conflicts of interest, communications by board members, privacy of personal information, board operations, and vendor procurement appeals.

MOTION: Ms. Haberkorn moved to approve replacing the current Board policies with a unified Board Policies and Procedures Document. Mr. Stebbins seconded the motion, which passed unanimously on a voice vote.

LEGISLATIVE UPDATE: SECURE 2.0 AND 2023–2025 STATE BIENNIAL BUDGET REQUEST

Ms. Schueller and Ms. Hunter referred to the Legislative Update: SECURE 2.0 and 2023–2025 State Biennial Budget Request memo (Ref. DC | 04.20.23 | 7) in their verbal update to the Board. They explained that ETF staff were analyzing the provisions and effective dates of SECURE 2.0. They stated that overall, the technical changes included in SECURE 2.0 were intended to improve retirement savings and simplify administration. Ms. Schueller referred the Board to the attachment included with the memo, which provided a greater overview of SECURE 2.0 provisions affecting the WDC. Ms. Schueller discussed a provision that changed required minimum distribution requirements, and provisions that eased distribution rules to allow for greater flexibility and penalty-free withdrawals. ETF will continue to analyze SECURE 2.0 and update the Board at future meetings on potential revisions to the WDC Plan and Trust document, implementation considerations in conjunction with Empower, and timelines.

Ms. Hunter then reviewed the 2023–2025 State Biennial Budget Request and noted that Governor Evers included most of ETF's budget request in the budget bill submitted to the Legislature. However, the \$11 million budget request ETF had made for funding for the Pension Administration System was not part of the bill submitted to the Legislature. Ms. Hunter will continue provide updates on the status of ETF's budget requests that affect the WDC and the WRS at future Board meetings.

VALUE OF THE WDC

Ms. Schueller explained that this topic (Ref. DC | 04.20.23 | 8) came from a question asked during the September 1, 2022, Board meeting. The question regarding the value of the WDC provided ETF with an opportunity to examine various ways value can be measured and how the benefits and services of the WDC provide value to participants and employers.

Ms. Schueller began her presentation by providing a breakdown of the WDC, which is a s. 457 plan. As of December 31, 2022, the WDC was the seventh largest government supplemental retirement savings plan in the United States with over \$6 billion in assets. Nine hundred eight one local government employers, along with the State of Wisconsin, currently offer the WDC to their employees. As of December 31, 2022, there were 68,867 participants with an average WDC account balance of approximately \$90,000.

Ms. Schueller discussed the value equation ETF used, which defines value as benefits and services received divided by price paid (cost). Benefits and services are offset by cost, which for WDC participants predominantly equals the administrative fees they are charged. Ms. Schueller provided examples of WDC benefits and services for both participants and employers. One of the WDC benefits to employers is that the Board assumes fiduciary responsibility for investment option selection. It is why the WDC offers socially responsible (ESG) funds, target date retirement options, and a self-brokerage account option in addition to fixed income and equity options. Using Mr.

Thornton's earlier presentation as an example, Ms. Schueller noted that a significant part of the Board's fiduciary responsibilities is to review the performance of WDC investment options quarterly to ensure the options continue to meet or beat established performance benchmarks.

Employers are not charged fees for offering the WDC to their employees. Administrative costs and investment option expenses of the WDC are borne by participants via administrative fees. Participant administrative fees are determined annually by the Board. Ms. Schueller shared a breakdown of participant administrative fees as of January 1, 2023, along with the average participant account balance and the corresponding average investment expense and participant administrative fee paid from 2018–2022. Ms. Schueller pointed out that average account balances rose from 2018–2021, reflecting favorable market returns and, subsequently, more participants' balances were in a higher fee tier. The higher account balances in 2021 meant more participants paid higher participant administrative fees and also meant more was paid to investment option providers via expense ratios.

A comparison of how selected investment-related costs for the WDC and peer s. 457 plans was provided. Ms. Schueller discussed how the WDC compared with s. 457 plans and noted that in the future, this sort of comparison should become more readily available as a result of the Board's affirmative vote in December 2022 to participate in the NAGDCA Public Retirement Research Lab (Ref. DC | 12.01.22 | 10).

Overall, employer and participant satisfaction with WDC services is high. In the WDC's 2022 employer survey, 94% of the 76 employers that responded would recommend the WDC and 78% of participants indicated they would recommend the WDC to a friend or colleague.

At the end of the presentation, Mr. Stebbins asked how WDC services and investment options available compare to the options available via private sector employers. Ms. Schueller stated that we do not have aggregate data on private sector options but the Board's oversight and fiduciary responsibility to provide quality investment options was very important to public employers in Wisconsin. She noted that the size of the plan itself provides benefits, which would not be available to smaller private and public sector plans: investment option share classes are competitive (usually lower priced than retail versions), and the plan's administrative fees are spread among more participants. The WDC provides plan information for employers considering the plan under the "Employer" tab of the website. This section includes information on how to adopt the WDC, links to the employer newsletter and a guide to payroll processing.

STRATEGIC PARTNERSHIP PLAN

A Strategic Partnership Plan (SPP) joint presentation was provided by Ms. Schueller and Ms. Lockwood. The information included 2022 SPP results as well as an update on SPP events to date for 2023.

2022 SPP Results

Ms. Lockwood provided an overview of the 2022 SPP results. All but two of the goals on the 2022 scorecard were accomplished. Empower added 11 local employers, one short of the goal of 12. Additionally, Empower did not meet the goal of 383 new managed account users. There were only 279 new managed account users as of December 31, 2022.

A majority of the 2022 goals were reached or exceeded. These included:

- 1,591 participants increasing their deferral amounts, which was an increase of 13.9% of the targeted audience.
- 2,952 retirement readiness reviews (RRRs) occurred, outpacing the original goal of 2,800.
- Of the RRRs completed in 2022, 1,483 meetings were with targeted at-risk participants (original goal was 970), and 317 meetings were with retirees/terminated participants.
- WDC website usage increased, with an additional 2,864 new users recorded at the end of 2022.
- Empower facilitated positive actions—enrollments, deferral increases, diversification, rollovers, and personalization for those in managed accounts—for 68% of participants interacting with the WDC, versus the goal of 40%.

Ms. Lockwood explained that the first portion of 2022 saw some call center struggles, due to a combination of volatile markets, increased calls, and short staffing. The Empower call center performance significantly improved as 2022 continued. However, Empower did not meet the WDC call center standard performance for 2022. Ms. Schueller stated that as a result, Empower was assessed a contract-mandated monetary penalty of 1% of the 2022 monthly administrative fee, which equated to \$3,228. This penalty was returned to the Board's plan administrative account.

2023 SPP Update

For the second half of the SPP presentation, Ms. Schueller and Ms. Lockwood directed the Board to the 2023 SPP Update memo (Ref. DC | 04.20.23 | 9B). Due to the sustained increase in attendance and engagement in virtual meetings during 2022, Empower committed to hosting additional online meetings and events during 2023.

One of these online events was the *Your Stepping Stones to Retirement* webinar. The event was hosted twice on two different days, February 23 and March 1, and included speakers from the Wisconsin Retirement System, Social Security Administration, and the WDC. The goal of the webinar was to be a "one stop shop" for participants seeking to learn more about their three primary sources of income during retirement. The webinars were announced on the WDC and ETF websites, through ETF's social media posts, and emails sent from ETF and the WDC. A total of 1,430 attendants participated in the webinars. Feedback shared by attending participants was positive and consequently another *Your Stepping Stones to Retirement* webinar will be offered in November 2023.

Ms. Lockwood also shared field activity results for the first quarter of 2023. WDC statistics indicate presentation attendance and engagement with participants and employers are starting to return to pre-pandemic levels. Field staff have completed 58 group meetings, 315 individual meetings, and 616 RRRs as of March 10, 2023. Ms. Lockwood stated that the automated email campaign known as the Empower Communications Engine (ECE) has been operating since January 2023. An update on the ECE will be shared with at the next Board meeting.

OPERATIONAL UPDATES

Ms. Schueller referred to the Operational Updates and stated ETF staff were available if there were any questions. She highlighted:

- The annual Wisconsin Public Records Law Basics Training. All Board members need to complete this training and return their acknowledgements to Ms. Schnurr, the Board Liaison (Ref. DC | 04.20.23 | 10A).
- The Shaffer litigation against Empower has been retitled Birchfield, due to a change in plaintiffs. Updates on this litigation will continue to be included in future Board materials as available (Ref. DC | 04.20.23 | 10C).

TENTATIVE JUNE 2023 AGENDA

Ms. Schueller referred the Board to the tentative agenda of topics likely to be covered at the June 2023 Board Meeting (Ref. DC | 04.20.23 | 11). When asked if the Board members had any other topics that they would like to add to the list, no suggestions were given.

ADJOURNMENT

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

The meeting adjourned at 3:07 p.m.

Date Approved: _____

Signed: _____

Connie Haberkorn, Secretary
Deferred Compensation Board