

DRAFT

# MINUTES

September 7, 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. – 3:53 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

#### Division of Retirement Services:

Matt Stohr, Administrator,  
Kyle Kundert, Policy Analyst

#### Office of Internal Audit:

Yikchau Sze, Director

#### Office of Legal Services:

Dan Hayes, Attorney

#### Office of the Secretary:

John Voelker, Secretary  
Shirley Eckes, Deputy Secretary  
Kimberly Schnurr, Board Liaison

#### Wisconsin Deferred Compensation

#### Program:

Shelly Schueller, Director

### OTHERS PRESENT

#### Office of the Secretary:

Pam Henning

#### ETF Staff:

Shellee Bauknecht, Laura Brauer,  
Taylor DeBroux, Victor Dupuy\*, Paulina  
Erdman, Diana Felsmann, Michelle  
Hoehne\*, Joanne Klaas\*, Cindy Klimke\*,  
Laura Patterson, Peter Rank\*, Erin  
Seliger, Amelia Slaney\*, Kathryn Young

#### Dimensional Fund Advisors (DFA):

Gavin Crabb, Gary Gustovich

#### Empower:

Rob Dwyer\*, Ashleigh Kester\*, Emily  
Lockwood, John Mohan

#### Empower Investments:

Bill Thornton

#### Morningstar:

Michael Sawula\*

#### Public:

David Dies\*

#### Others (Unidentified):

1 individual connected via telephone

\* Attended via teleconference.

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

## **ANNOUNCEMENTS**

Ms. Schueller announced that a brief satisfaction survey would be distributed to Board members after the meeting and asked that Board members complete the survey by September 22, 2023. The survey is designed to collect Board members' opinions on various aspects of Board meetings. Results will be issued to improve their experiences as part of the Board.

Ms. Schueller introduced Mr. Dwyer from Empower, who joined the meeting virtually. Mr. Dwyer shared that as of September 6, 2023, the Birchfield litigation against Empower has been dismissed. A formal update will be shared with the Board. Ms. Schueller confirmed that at the December meeting, members of ETF's Office of Legal Services would be available to field questions from the Board along with Empower staff.

Ms. Haberkorn joined the meeting virtually at 1:05 p.m.

## **CONSIDERATION OF OPEN MINUTES OF JUNE 8, 2023, MEETING**

***MOTION: Mr. Craney moved to approve the open session minutes of the June 8, 2023, meeting as submitted by the Board Liaison. Mr. Stebbins seconded the motion, which passed unanimously on a voice vote.***

## **INSOURCING 2023 CONTRACT COMPLIANCE AUDIT**

Ms. Sze referred the Board to the "Insourcing 2023 Contract Compliance Audit" memo ([Ref. DC | 09.07.23 | 3](#)). She stated that ETF's Office of Internal Audit (OIA) intends to conduct the 2023 WDC administrative services contract compliance audit. Ms. Sze explained that insourcing certain third-party administrator (TPA) contract compliance audits, including the WDC's, provides more beneficial information necessary for thorough TPA oversight. These benefits include the following:

- More control over the quality of audit work performed through flexibility with the scope of work based on risk assessment, a more comprehensive or applicable audit approach, and targeted testing producing more accurate audit results.
- Potential cost savings, even with expanded audit scope and testing efforts.
- The ability to provide recommendations or conclusions based on the work performed versus Agreed-Upon Procedures (AUP) results. (AICPA Statement on Standards for Attestation 19 – Agreed-Upon Procedures Engagements indicates that a practitioner should not express an opinion or conclusion in any form, as well as any recommendations).

The Board asked for a cost comparison between compliance audits performed internally and AUPs and audits completed by external vendors, such as Wipfli. Ms. Schueller confirmed this data could be provided to the Board at a later meeting.

## **FIDUCIARY RESPONSIBILITIES REVIEW**

Ms. Schueller and Mr. Hayes referred the Board to the “Fiduciary Responsibilities Review” memo ([Ref. DC | 09.07.23 | 4](#)). Ms. Schueller and Mr. Hayes provided a brief overview of selected updated responsibilities and stated the Board is meeting its fiduciary responsibilities.

## **INVESTMENT POLICY STATEMENT REVISIONS**

Ms. Schueller referred the Board to the “Investment Policy Statement Revisions” memo ([Ref. DC | 09.07.23 | 5](#)). She noted that an annual review of the Investment Policy Statement was part of the Board’s fiduciary responsibilities and highlighted changes proposed in the memo during her presentation, which included:

1. Adding “FDIC” in front of “Insurance Option.”
2. Correcting the name of an investment option, as the proper name for BlackRock Small Cap Equity Index Fund is the BlackRock Russell 2000 Equity Index Fund.
3. Correcting the name of a benchmark, as the Calvert U.S. Large Cap Core Responsible Index Fund tracks the Morningstar Large Cap Growth Blend, not the Morningstar Large Cap Growth Average.
4. Adding “of funds with the same specialty objective” to the last footnote to help differentiate from the Morningstar peer groups used for all other categories.

***MOTION: Ms. Fleming moved to revise the Investment Policy Statement as recommended by ETF. Mr. Craney seconded the motion, which passed unanimously on a voice vote.***

## **INVESTMENT PERFORMANCE AND EXPENSE RATIO REVIEW AS OF JUNE 30, 2023**

The Board reviewed the performance of the WDC’s investment options as of June 30, 2023, as presented in the “Investment Performance and Expense Ratio Review” report by Mr. Thornton of Empower Investments ([Ref. DC | 09.07.23 | 6](#)). 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 (0.20%), provided insights regarding the economy and the markets, and discussed the performance of certain investment options during the second quarter of 2023.

Mr. Thornton shared a graph that demonstrated the unusual nature of this year’s market and reviewed the difference between the 6-month performance of the broad-based S&P 500 index and the S&P 500 Top 50 Index. He noted that while the broad market has had a strong start to the year, it has been driven by a relatively narrow group of stocks and sectors. Information technology has had a particularly strong start to the year (+42%) and the communications services sector is a close second (+36%).

The Board discussed appropriate benchmarks for the Stable Value Fund and style drift occurring in the American Funds EuroPacific Fund. They also discussed reasons why international fund performance may lag domestic fund performance.

### **INVESTMENT OPTION PROVIDER PRESENTATION: DIMENSIONAL FUND ADVISORS (DFA)**

Mr. Crabb and Mr. Gustovich from DFA presented information to the Board regarding the DFA US Micro Cap Portfolio ([Ref. DC | 09.07.23 | 7](#)). Mr. Crabb and Mr. Gustovich reviewed the US Micro Cap Portfolio design, including the fund's characteristics and sector allocations. They discussed annual fund performance and pointed out certain key characteristics and sector allocations for the US Micro Cap Portfolio. Board members asked questions and a discussion occurred.

### **INTRODUCTION TO MANAGED ACCOUNTS**

Mr. Mohan from Empower and Mr. Sawula from Morningstar referred the Board to the "Introduction to Managed Accounts" materials ([Ref. DC | 09.07.23 | 8](#)) during their presentation. Mr. Mohan provided an overview of how Empower's managed account service works and the relationship with Morningstar Investment Management (Morningstar). Mr. Sawula explained Morningstar's independent financial expert role and Morningstar's investment methodology to the Board. Mr. Sawula further expanded on how Morningstar uses the investment options in the WDC lineup to develop individualized asset allocation options. Mr. Mohan then outlined Empower's philosophy for managed accounts and an overview of what a participant enrolling in this service would see and experience.

### **INTRODUCTION TO EMPOWER'S ADVICE 2.0**

Mr. Mohan referred the Board to the "Introduction to Empower's Advice 2.0" materials ([Ref. DC | 09.07.23 | 9](#)) during his presentation. Mr. Mohan provided an overview of how Empower's Retirement Plan Advisors (RPAs) deliver and execute investment advice for participants. Mr. Mohan discussed "Advice 2.0" and the benefits of integrating Empower's Best Interest Profile (BIP) into the RPA experience, which allows RPAs to offer fiduciary recommendations to participants after a Retirement Readiness Review (RRR). The BIP tool, which includes written personalized plans with documented recommendations, will help participants understand the best course of action to take for their WDC investments. Mr. Mohan noted that for some participants, this could mean a recommendation for using target date funds, or managed accounts, or do-it-yourself investment management.

### **SECURE 2.0 CONTINUED ANALYSIS AND UPDATE ON IMPLEMENTATION**

Ms. Schueller and Mr. Hayes referred the Board to the "SECURE 2.0 Continued Analysis and Update on Implementation" memo during their verbal update ([Ref. DC | 09.07.23 | 10](#)). They provided a status update on provisions that became effective in

2023 and those that could become effective in 2024. As part of implementing SECURE 2.0 for the WDC, the next item on the September 2023 agenda was a discussion on the proposed updates to the Plan and Trust document.

### **PROPOSED PLAN AND TRUST REVISIONS: IMPLEMENTATION OF CERTAIN SECURE 2.0 PROVISIONS, UPDATES, AND TECHNICAL CORRECTIONS**

Ms. Schueller, Mr. Hayes, and Mr. Kundert referred the Board to the “Proposed Plan and Trust Revisions: Implementation of Certain SECURE 2.0 Provisions, Updates and Technical Corrections” memo ([Ref. DC | 09.07.23 | 11](#)). If approved, these changes to the Plan and Trust would take effect on November 1, 2023. The following changes were proposed:

Implementing required provisions of SECURE 2.0:

- Revising Article II to conform to SECURE 2.0 Section 306 to eliminate the “first of the month” requirement.
- Revising Article 10.02 to reflect SECURE 2.0 changes to Required Minimum Distributions and surviving spouse options.
- Revising the definition of “public safety officer” to “eligible retired public safety officer”. This definition would then match the Plan and Trust definition with the meaning found in WIS. Stat. § 40.02(25g), which matches federal language.
- Replacing Article 10.06 with language to reflect SECURE 2.0 Section 328 changes enacted for distributions to eligible retired public safety officers.

Updating certain Plan and Trust provisions:

- Retitling Article X from “Benefits” to “Distributions to more accurately describe the plan details found in this article.
- Deleting obsolete language in Article 10.01.
- Revising Article X of the Plan and Trust to enable forced Required Minimum Distribution (RMDs) for participants who do not take action to receive their RMDs.
- Adding Article 11.10, which would ensure that the cost of a domestic relations orders is borne equally by the participant and alternate payee(s).
- Adding a sentence to Article 2.01 clarifying that any employee receiving compensation from a WDC participating employer is eligible to use the WDC for supplemental retirement savings.
- Updating Article 6 to reflect the Board’s current administrative services contract with Empower, which specifies that participant statements will be available no later than 15 days after the end of a quarter. Currently, the Plan and Trust document specifies 20 days.
- Deleting references in Article 13.01 to a quarterly newsletter. After documenting lack of readership, the WDC newsletter was discontinued in 2020. Information on changes made to the Plan and Trust is included on quarterly participant statements and in news articles on the WDC website.

The following technical corrections were proposed:

- Moving and renumbering the definition of “DEPARTMENT” to “1.01 gg” which places the definition in the correct alphabetization location and renumbers the definition of “DESIGNATED ROTH CONTRIBUTION” as 1.01 gm.
- Updating the definition of participation agreement to reflect the current terminology and that a completed agreement must be submitted to the administrator (Empower) in order for a participant to use the WDC.
- Adding the word “financial” to the definition of unforeseeable emergency on page 6. This addition makes the WDC definition consistent with the federal definition.
- Adding “financial” to Article 10.03, which describes how unforeseen financial emergency withdrawals may occur.
- Correcting a reference to s. 40.05, WI Stats. in Article 2.02 with the addition of (4)
- Adding a title to Article 2.05 so that it is clear this article addresses age 50 plus catch-up contributions.
- Correcting a number formatting issue with Article 13 such that this article is correctly numbered.
- Correcting a reference in Article 14.01 from Article 12 to Article 13.

***MOTION: Ms. Haberkorn moved to revise the Plan and Trust to implement certain SECURE 2.0 provisions, update the plan document, and make technical corrections as recommended by ETF. Mr. Craney seconded the motion, which passed unanimously on a voice vote.***

## **2023 STRATEGIC PARTNERSHIP PLAN UPDATE**

Empower's State Director, Ms. Lockwood, highlighted some recent accomplishments during the “2023 Strategic Partnership Plan (SPP) Update” report to the Board ([Ref. DC | 09.07.23 | 12](#)). Ms. Lockwood discussed certain areas of the SPP Progress Report and shared updates on 2023 SPP goals achieved as of June 30, 2023. The Board asked for insights and comparisons of attendance at WDC and WRS webinars. Ms. Schueller, Mr. Stohr, and Ms. Lockwood agreed to provide the Board with a comparison of attendance at WDC and WRS webinars at a future meeting.

## **OPERATIONAL UPDATES**

Ms. Schueller referred to the September Operational Updates items and stated ETF staff were available if there were any questions.

She highlighted:

- WDC Administrative Account Update ([Ref. DC | 09.07.23 | 13A](#)).
- Final 2022 Financial Statements Report and Audit ([Ref. DC | 09.07.23 | 13B](#)).
- 2023–2025 State Biennial Budget ([Ref. DC | 09.07.23 | 13C](#)).
- 2Q23 Service Level Agreement ([Ref. DC | 09.07.23 | 13D3](#)).
- Board Authority Contracts Update ([Ref. DC | 09.07.23 | 13E](#)).
- Investment Provider Reports (Ref. DC | 09.07.23 | 13F1–13F4).

- Birchfield Litigation Update ([Ref. DC | 09.07.23 | 13G](#)).

### TENTATIVE DECEMBER 2023 AGENDA

Ms. Schueller referred the Board to the tentative agenda of topics to be covered at the December 2023 Board Meeting ([Ref. DC | 09.07.23 | 14](#)). 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. 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