

DRAFT

MINUTES

December 7, 2023

Deferred Compensation Board

State of Wisconsin

Location:

Hill Farms State Office Building – CR N134
4822 Madison Yards Way, Madison, WI 53705
1:02 p.m. – 3:52 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

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:

Kevin Acker*, Shellee Bauknecht, Laura Brauer, Taylor DeBroux, Omar Dumdum*, Victor Dupuy*, Paulina Erdman, Diana Felsmann, Michelle Hoehne*, Cindy Klimke, Kyle Kundert*, David Maradiaga*, Mallory Nordin, Laura Patterson, Peter Rank, Erin Seliger, Amelia Slaney, Yikchau Sze*, Barry Tucker*, Kathryn Young

Empower:

Emily Lockwood, Trish McGinity*

Empower Investments:

Bill Thornton

Public:

Ronan O'Brien*

Wisconsin Department of Children and Families:

Stephen Kalmar II*

Wisconsin Department of Health Services:

William Balke*

* Attended via teleconference.

Board	Mtg Date	Item #
DC	03.07.24	2A

Mr. Rothenberg, Chair, called the meeting of the Deferred Compensation Board (Board) to order at 1:02 p.m.

ANNOUNCEMENTS

Ms. Schueller shared two announcements:

1. The senate confirmation for board members Ms. Fleming and Mr. Craney are still pending.
2. Recent ETF promotion: Tarna Hunter is now the Director of the Office of Budget and Management.

CONSIDERATION OF OPEN MINUTES OF SEPTEMBER 7, 2023, MEETING

MOTION: Mr. Stebbins moved to approve the open session minutes of the September 7, 2023, meeting as submitted by the Board Liaison. Mr. Craney seconded the motion, which passed unanimously on a voice vote.

2024 BOARD MEETING DATES

Ms. Schueller referred the Board to the “2024 Board Meeting Date” memo ([Ref. DC | 12.07.23 | 3](#)). She noted that there had already been a date adjusted at the request of Mr. Rothenberg due to an overlap with the State of Wisconsin Investment Board (SWIB) meeting. The new date of the first meeting of 2024 is March 7, 2024, and Board members could find revised copies of the memo at their seats. Ms. Schueller said any other conflicts or dates that needed to be rescheduled should be brought to ETF’s attention by December 14, 2023.

PARTICIPANT ADMINISTRATIVE FEE ANALYSIS

Ms. Slaney referred the Board to the “Participant Administrative Fee Analysis” memo ([Ref. DC | 12.07.23 | 4](#)). She highlighted:

- Administrative expenses are expected to be relatively stable.
- Participant administrative fees are tiered by account balance and, therefore, sensitive to any changes to participant balances (market conditions causing increases or decreases, contributions and withdrawals).
- Key inputs in forecasting participant account balances:
 - Forecasted investment rate of return and average asset allocation.
 - Moving averages of deposits, investment fees, and withdrawals.
 - Moving average of account balance change, with that same percentage applied to participant administrative fees.

She then shared the Administrative Account Target Balance History:

- Administrative Expense Account Investment and Target Balance Policy was established in 1996, with 45-50% of expenses as the target balance.
- In 2014, the target changed to 100% of expenses; in 2015, the target changed to 50-75%.
- Since 2000, the Administrative Account Balance as a Percentage of Projected Annual Expenses posted its highest figure in 2008 (106.9%) and lowest in 2022 (33.6%).
- After experiencing unfavorable market conditions in 2022, participant fees were raised to help bring the administrative account balance within the 50%-75% target range.
- Revenues from participant fees increased in 2023, due to the 2022 fee increase and more favorable market conditions in 2023, which further increased account balances and resulted in more participants in higher fee tiers.
- The Board's administrative account balance as of September 30, 2023, was 66% of estimated annual expenses. This is now within the policy range and is expected to be 81% by the end of 2023.

Mr. Rothenberg asked if WDC could invest in managed or money accounts. Ms. Schueller stated that staff could look at providing more information on managed accounts to the Board for future consideration.

Mr. Craney asked if the three fee decrease options provided by Ms. Slaney — 34.1%, 40.1%, and 46.2% — were the only choices available, or if the Board had more flexibility to decide on the percentages. Ms. Slaney said the Board could approve any percentage and the analysis is meant to be a guide. Mr. Stebbins asked how staff calculated the three percentage options. Ms. Slaney said that the options were based on an analysis using factors detailed in the "Participant Administrative Fee Analysis" memo ([Ref. DC | 12.07.23 | 4](#)). She explained that one challenge to using a percentage between two of ETF's recommended options is that investment return calculations would not result to round numbers for the actual fees. The WDC has traditionally assessed participant fees in \$0.25 increments.

MOTION: Mr. Craney moved to approve a decrease to the administrative fees paid by the WDC plan participants, effective January 1, 2024, by 40.1%. Ms. Haberkorn seconded the motion, which passed unanimously following a roll call vote:

Ayes: Rothenberg, Craney, Haberkorn, Fleming, Stebbins.

Nays: None.

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

Mr. Thornton of Empower Investments referred the Board to the performance of the WDC's investment options as of September 30, 2023, as presented in the "Investment Performance and Expense Ratio Review" report ([Ref. DC | 12.07.23 | 5](#)). He 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 third quarter of 2023.

Mr. Thornton reviewed the following as part of his investment performance analysis:

- The state of the U.S. economy and labor market trends.
- Equity market returns, both domestic and international.
- Historical, current, and forward rates.
- Fixed income and specialty returns.
- Total WDC assets and participants as of September 29, 2023.

The overall WDC investment options' asset-weighted average expense ratio for the third quarter of 2023 was 0.20%.

INVESTMENT OPTION BENCHMARKING ANALYSIS

Mr. Thornton presented his "Investment Option Benchmarking Analysis" ([Ref. DC | 12.07.23 | 6](#)). He explained that the data was collected from Empower Retirement's largest government recordkeeping clients encompassing a variety of government entities, including state, city, and county retirement plans as of September 30, 2023.

Ms. Schueller reminded the Board that data gathering would be easier for future benchmarking analyses due to its approval on December 1, 2022, to allow the WDC to participate in the Public Retirement Research Lab (PRRL), which was a partnership between the National Association of Governmental Defined Contribution Administrations (NAGDCA) and the Employee Benefits Researching Institute ([Ref. DC | 12.01.22 | 10](#)). She added that participation in the PRRL will provide the WDC with peer-level comparisons and benchmarking data. The PRRL database consists of plan-level and participant-level data populated directly by plans' recordkeepers.

Mr. Thornton's analysis included broad asset class, equity style, fixed income style, and capital preservation. He presented participant asset class utilization and distribution of investment options, noting that at the broader asset classes the WDC is exposed to all the major categories and is the only plan to offer a long-term bond option.

Mr. Thornton observed that the passive managed funds worked well for the WDC. He also identified some investment options that the WDC did not include, such as small growth options and small/mid-cap value funds, which he said the Board could assess such options in the future. He added that "blend" fund options offered by the WDC are actively managed. Mr. Rothenberg asked if other supplemental retirement plans were

moving away from actively managed funds. Mr. Thornton responded that moving away from actively managed funds was becoming more common.

Mr. Thornton also shared other surprising findings, apart from the WDC being the only plan with a long-term investment option. He said that of the 36 plans in the survey, only seven use an investment lineup comprised solely of mutual funds (excluding a pooled stable value fund or the self-directed brokerage options). All other plans employ a commingled investment trust (CIT) for at least one option in the lineup. Further, six plans use at least one institutional separate account (ISA) as an option in their lineup.

Ms. Fleming asked what WDC participants thought regarding the number and variety of investment options the WDC offered. Ms. Schueller responded that WDC participants would be surveyed on their interest in additional investment options such as midcap value and/or small cap growth. The next participant survey is scheduled for release in the summer of 2024.

Mr. Rothenberg expressed interest in adding more review or comparison classifications to the current investment options in the WDC and identified Morningstar as an example. Mr. Thornton responded that he would do some research and report back to the Board.

After some discussion from the Board, it was determined that revisiting the investment option benchmarking analysis every three to five years was reasonable.

SECURE 2.0 UPDATE ON REMAINING MANDATORY AND OPTIONAL SECTIONS

Ms. Schueller and Mr. Hayes referred the Board to the “SECURE 2.0 Update on Remaining Mandatory and Optional Sections” memo ([Ref. DC | 12.07.23 | 7](#)). They identified provisions that were “mandatory” and those that were “optional.” Mr. Hayes stated that the optional provisions were not required for the Board to act on or implement into the Plan and Trust document immediately, and that ETF recommended delaying any potential Plan and Trust revisions related to optional provisions until more information is available.

RECOMMENDED PLAN AND TRUST DOCUMENT REVISIONS: IMPLEMENTATION OF SECTION 325 OF SECURE 2.0, UPDATES TO ARTICLES 2.04 AND 2.06, AND THE DEFINITION OF “PARTICIPANT”

Mr. Hayes and Ms. Schueller referred the Board to the “Recommended Plan and Trust Document Revisions: Implementation of Section 325 of SECURE 2.0, Updates to Articles 2.04 and 2.06, and the Definition of ‘Participant’” memo ([Ref. DC | 12.07.23 | 8](#)). Mr. Hayes stated that if the recommended Plan and Trust changes are approved by the Board, these will take effect on January 1, 2024.

Mr. Hayes noted that the Plan and Trust needed to be updated to formally implement section 325 of SECURE 2.0, which extends the pre-death Required Minimum Distribution (RMD) exemption to Roth amounts in plans.

Ms. Schueller explained that while reviewing the Plan and Trust for SECURE 2.0 revisions, staff discovered that Articles 2.04 and 2.06 needed updating. The reference in Article 2.04 to the Internal Revenue Code (IRC) could be simplified to reference IRC section 457(b)(2), making this article evergreen and in compliance with SECURE 2.0 section 109. Changes to Article 2.06 would eliminate old language related to federal law changes in 2002 and likewise make the article evergreen by referencing IRC section 457(b)(3) and (e)(18).

Ms. Schueller explained that the proposed modification to the definition of PARTICIPANT on page 5 of the Plan and Trust would clarify that the plan is available to those participants who seek to open an account with the intent to rollover funds from other qualified plans to the WDC.

Mr. Hayes and Ms. Schueller proposed that they continue to track updates and clarifications to SECURE 2.0, then bring proposed changes to the Plan and Trust to the Board once a year. Mr. Hayes cautioned that updating the Plan and Trust too frequently could create historical complications. The Board had no objections to updating the Plan and Trust to implement SECURE 2.0 updates once a year.

MOTION: Mr. Stebbins moved to approve the revisions to the Plan and Trust to implement Section 325 of SECURE 2.0, update Articles 2.04 and 2.06, and the definition of “participant” as recommended by ETF. Ms. Haberkorn seconded the motion, which passed unanimously following a roll call vote:

Ayes: Rothenberg, Craney, Haberkorn, Fleming, Stebbins.

Nays: None.

STRATEGIC PARTNERSHIP PLAN (SPP)

Ms. Schueller and Ms. Lockwood presented the joint Strategic Partnership Plan presentation, which included a “2023 SPP Update” ([Ref. DC | 12.07.23 | 9A](#)) as well as a “2024 SPP Proposal” ([Ref. DC | 12.07.23 | 9B](#)) for the Board's consideration.

Ms. Lockwood shared that during the first three quarters of 2023, there were 28,149 attendees in live or recorded Wisconsin Retirement System (WRS) webinars, with an average attendance rate of 57% for live events. In comparison, the WDC live events had a 56% attendance rate and 1,698 attendees in a live or recorded WDC webinar. In terms of on-the-field activities, out of the 400 group meetings set as a goal for 2023, only 258 have been conducted thus far, and only 2,431 of the 2,700 Retirement Readiness Reviews (RRRs) had been completed. On a positive note, while there were

fewer webinars offered in 2023 than 2022, attendance continued to grow, with more individuals attending open enrollment/benefit fair webinars in person.

The Board discussed some strategies and additional initiatives that could be used to get more employers to join the WDC. Ms. Lockwood said that Empower had crafted employer materials to highlight employers' fiduciary responsibilities, and that participating employers throughout Wisconsin have local WDC office support.

Ms. Schueller and Ms. Lockwood then directed the Board to the "2024 SPP Proposal" memo. They explained that, as with previous SSPs, the proposed goals in the 2024 SPP were developed around four concepts: enrollment, asset allocation, education, and retention. Furthermore, the 2024 SPP does not include financial incentives for Empower, as the administrative services contract is a flat fee contract as of December 1, 2022.

Specific communications planned for the WDC during 2024 include implementation of certain provisions of SECURE 2.0, an annual participant survey, articles for ETF's newsletters and social media accounts, and the WDC employer newsletter. Other proposed 2024 SPP goals were as follows:

- Increasing employee participation by 1.5%.
- Adding 12 new local public employers.
- Reach out to all eligible but non-participating employees.
- Completing 2,700 RRRs.
- Conducting 400 group meetings.
- Enhancing the online RMD experience for participants.
- Providing participant communications related to RMD Full-Service, including laying the groundwork to enable the WDC to force out RMDs in 2025.

Motion: Mr. Craney made a motion to approve the 2024 Strategic Partnership Plan (SPP) proposal as outlined in the materials provided to the Board. Mr. Stebbins seconded the motion, which passed unanimously following a roll call vote:

Ayes: Rothenberg, Craney, Haberkorn, Fleming, Stebbins.

Nays: None.

OPERATIONAL UPDATES

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

- "Birchfield Litigation" memo ([Ref. DC | 12.07.23 | 10E](#)), stating the case was dismissed. The plaintiff is not filing an appeal, so this is now closed.

TENTATIVE MARCH 2024 AGENDA ITEMS

Ms. Schueller referred the Board to the “Tentative March 2024 Agenda Items” memo ([Ref. DC | 12.07.23 | 11](#)). She encouraged Board members to let her know if there were any additional items that they would like covered at the March 7, 2024, meeting.

MOVE TO CLOSE SESSION

MOTION: Mr. Stebbins made a motion to move to closed session pursuant to the exemption contained in Wis. Stats. §19.85 (1) (d) to consider strategy for crime detection or prevention. If a closed session is held, the Board may vote to reconvene in open session following the closed session. Ms. Haberkorn seconded the motion, which passed unanimously following a roll call vote:

Ayes: Rothenberg, Craney, Haberkorn, Fleming, Stebbins.

Nays: None.

The Board convened in closed session at 3:11 p.m.

The Board returned to open session at 3:51 p.m.

ANNOUNCEMENT OF BUSINESS DELIBERATED DURING CLOSED SESSION DISCUSSION

Mr. Rothenberg announced that during closed session, members of the Board heard a presentation regarding ETF’s Information Security Management program and received an update on security measures in place to protect WDC data at Empower. No action was taken.

ADJOURNMENT

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

The meeting adjourned at 3:52 p.m.

Date Approved: _____

Signed: _____

Connie Haberkorn, Secretary
Deferred Compensation Board