

**CITY OF MILWAUKEE**  
**MINUTES OF THE DEFERRED COMPENSATION BOARD**  
**MEETING OF THURSDAY, AUGUST 6, 2014**  
**1:30 P.M. - ROOM 405, CITY HALL**

**MEMBERS/DESIGNEES PRESENT:**

Mr. W. Martin Morics, Plan Member, Chairman  
Mr. Jerry Allen, ERS Director  
Ms. Margaret Daun, Assistant City Attorney –  
Ms. Beth Conradson Cleary, Plan Member – left at 3:30/returned at 3:55 p.m.  
Ms. Renee Joos, Fiscal & Risk Manager  
Mr. Nicholas Kovac, Alderman  
Mr. Steven L. Mahan, Community Development Grants Administration  
Mr. Mark Nicolini, Budget Director  
Mr. Mark Buetow, Milwaukee Police Association

**EXCUSED/ABSENT:**

Mr. James Klajbor, Deputy City Treasurer, Vice Chair – excused  
Mr. Joe Davis, Sr., Alderman – unexcused

**OTHERS PRESENT:**

Ms. Wendy Stojadinovic, Cleary Gull Advisors  
Ms. Charmaine Martin, Nationwide Retirement Solutions  
Mr. Levi Lathen, Nationwide Retirement Solutions  
Mr. Jason Ellement, Callan Associates Inc.  
Mr. Michael Joecken, Callan Associates Inc.  
Mr. Ben Taylor, Callan Associates Inc.  
Mr. Jeff Deetsch, Invesco  
Ms. Dyice Ellis-Beckham, Invesco  
Mr. Brian Osbourne, Invesco  
Ms. Terry Halfman, CliftonLarsonAllen  
Ms. Debbie Sweeney, Hays Companies  
Ms. Ellen Tangen, Assistant City Attorney  
Ms. Elaine Bieszk, Program Assistant, Deferred Compensation  
Mr. Witold Dziadowicz, Executive Director, Deferred Compensation

Mr. Paul Langanki, Mercer Investment Consulting, Inc. –via conference phone

A quorum being present, Mr. Morics, Chairman of the Deferred Compensation Board, called the meeting to order at 1:35 p.m.

**1. Approval of the May 8, 2014 Board Meeting Minutes and Special Meeting of June 11, 2014**

Mr. Morics stated copies of the above minutes had been distributed to the Board members. Ms. Daun stated as a point of information Ms. Bieszk was asked to prepare substitute minutes for the June 11<sup>th</sup> meeting, the reason was to add the roll call vote that the Board had taken on Alternative 1 and 2 although no action was taken per the Chair's request she thought it was important for our own recollection that we have that preserved. As we proceed through these potentially significant plan architecture changes she asked Ms. Bieszk to be certain that votes whether by voice vote or roll call vote be recorded in the minutes.

Motion was made to approve the minutes of May 8, 2014 as distributed and the minutes of June 11, 2014 as noted revised. Hearing no objections so ordered.

**2. Plan Participant Benefit Approvals and Denials for the period of April, May and June 2014**

Mr. Dziadowicz reported the rollouts for the quarter were \$5.7 million which is the same as in the first quarter, there have been a decreased number of hardships - 16 in the second quarter as opposed to 27 in the first quarter; we anticipate further decreases in the number of hardships as participants opt for loans.

Motion was made to approve the approvals and denials as submitted for payout benefits for participants who have left City employment and are commencing benefits since the last Deferred Compensation Board Meeting. It was moved to approve the hardship withdrawal requests. Report accepted as submitted. Hearing no objections so ordered.

**3. Executive Finance Committee Report**

a. Fiduciary Liability Insurance Policy Renewal

Ms. Daun informed the Board that the City Attorney's opinion distributed basically summarizes what the Wisconsin Statutes say about indemnity and coverages, in short concludes the level of coverage in addition to what is provided under the statutory structure the business decision is left to the solid discretion of the Board. Hays Companies provided a summary of each of the proposals, there is a 7% increase in the overall premium it essentially maintains our prior level of coverages which is largely attributable to additional funds that are now in our Plan.

b. Investment Guidelines – Attachment A – Universe of Funds

Changes to the Universe of Funds are recommended by Cleary Gull simply to bring our

Board rules and overall guidelines in line with what is actually occurring within our funds, there was no substantive change.

Motion was made to approve and allow execution of the continuing liability coverage as recommended by Hays Companies and secondly to approve the changes to the Investment Guidelines-Attachment A per the recommendation of Cleary Gull. Hearing no objections so ordered.

#### **4. CliftonLarsonAllen – 2013 Audit Results**

Ms. Terry Halfman presented the 2013 Audit Results to the Board. A handout was distributed which covers the key components of the draft Financial Statements, Governance Communication Letter and an Agreed Upon Procedures Report (AUP). She reported in the key components of the footnote disclosures description of the Plan they didn't note any changes, no new accounting policies, tax status of the Plan no changes or concerns there, basically standard disclosures.

The draft letter of representations from management will be obtained after this meeting which covers management's responsibility for the financial statements and what is in them.

Ms. Daun asked as to the representations of management how often is that reviewed substantively to be sure we've actually checked through all the things that we are representing to the auditors that were done, as to due diligence in certain practices and procedures, how often is that list updated and checked or is it simply a duplication from last year, how do we ensure that we're effectively making good and accurate representations to our auditors. Ms. Halfman stated they are providing the Board with a form letter and it is pretty consistent from year to year as far as going through their audit procedures if they come across something that is unusual to the Plan something they are concerned about, if there'd be a significant issue or a significant judgment area then there would be customization to that letter that would have more specific representation as to that matter.

Mr. Morics stated in terms of the auditor's review and control tests that they perform, etc. then they are really saying that nothing came to their attention that would warrant customizing the letter as well. Ms. Halfman answered exactly and as she mentioned they didn't have any audit adjustments, Mr. Dziadowicz had drafted the Financial Statements which were well put together. No new disclosures required. They didn't come across anything where they felt it needed to be adjusted in the numbers and no significant changes to what was drafted with the disclosures as well. There were no internal control deficiencies that they came across, no other significant matters.

The Agreed Upon Procedures Report in the investment accounting there were a few things they noted, one had to do with looking at the contributions for the payroll records and then looking at what Nationwide is showing for the participant records and there were some timing differences so they did disclose that there were some differences in the deferral contributions of about \$12,000 and then in the rollover contributions coming into the Plan of about \$138,000, they took a look at what is causing these differences as far as the timing and reconciliation matters and they didn't note any errors, again they were comfortable that they

were timing matters in the reporting between the two sets of records. Discussion ensued. Follow-up – two things for the record 1) the change in the Agreed Upon Procedures for next year be made so we can trace by source where those payroll contributions are coming from and then if Nationwide can track back and see what may have happened here specifically just for the Board’s edification for the record note that it wasn’t deemed any sort of systemic error it seemed to be a one-off and was tracked back and reconciled.

Ms. Halfman reported when they were performing investment confirmations dealing with the fund houses and then comparing with what is on those confirmations to what is in the Nationwide records they did come across three funds where they had differences. They did take a look at the activity for Nationwide as well as activity for the fund house before and after year-end and they were comfortable that they were timing differences with the trade and settlement dates which is consistent with what they have seen the last couple of years with some of these differences. Ms. Daun pointed out the differences in 2012 and 2011 occurred in many of the same funds that are now listed here. She stated the NAV adjustments and bringing on the new custodian is in part directed at eliminating these differences on an ongoing basis.

Motion was made to approve the reports as submitted. Hearing no objections so ordered.

## **5. Financial Literacy Sub-Committee**

- a. New Employee orientation Easy Enroll
- b. Auto Enroll/Auto Escalate
- c. Employee Savings Expo
- d. Dallas Federal Reserve Bank:  
Building Wealth-A Beginner’s Guide to Securing Your Financial Future
- e. Nationwide Financial Services, Inc. – Nationwide Institute  
Healthcare costs in retirement

Ms. Cleary reported that Nationwide brought in Mr. Harris who works for Nationwide Institute covering healthcare costs in retirement, it is a free service and it is something that we as Deferred Compensation can move on right away in terms of helping to educate employees about the cost of retiree health insurance and the service that he provides, he can work with our stakeholders here to customize the information that is before retirees, prospective retirees or even active employees that are getting close to retirement. The City has changes in their retiree health insurance; she knows that is a big consideration that is on employee’s minds they hear that a lot during their counseling sessions, we hear it on the street people are thinking about how am I going to pay for healthcare in retirement.

We are talking about our retiree health insurance supplemental funds here so this conversation is directed towards helping people think in those terms. We are also talking about having a third floor presentation that is videotaped and then we project on the website so people can go back and look at it as a resource. Mr. Allen stated the problem is for most couples 65 years old, they are talking about \$250,000 is what they are going to need even with Medicare and the City's insurance. It is a big obligation. Ms. Cleary stated right and we can work with Mr. Brady and the various stakeholders with the MRA and protective service retirement associations too that might be interested but just wanted to give the Board a heads up that is an immediate thing that we can do. Mr. Morics agrees it is a standalone and a very significant cost. Ms. Cleary stated we also discussed this is a broader than beyond Deferred Compensation this should be more collaborative with our efforts and get with the Administration, DER, MRA and the protective service retirement associations, we should probably look at more of a coalition-base rather than just a committee of Deferred Compensation. Mr. Morics stated when he charged the sub-Committee it was assumed they would do that, do it in the best way they can with whomever they need to reach out to and coordinate. Ms. Cleary stated they will report back to the Board. Mr. Lathen commented that the service that Mr. Harris offers is not just to Deferred Compensation participants it is to all employees.

Items 5(a-d) held.

## **6. Nationwide Retirement Solutions**

### **a. Introduction of Ms. Charmaine Martin**

Mr. Lathen introduced Ms. Martin to the Board she was hired May 14, 2014. Ms. Martin worked for Great West who services the Milwaukee County plan, she has a little over 9 years' experience in financial services specifically with retirement planning of which 6½ years has been in the 457 market.

### **b. 2<sup>nd</sup> Quarter Plan Update**

Copies of the Second Quarter 2014 Plan update were distributed and are on file in the Deferred Compensation Office. Mr. Lathen gave a brief overview of the Plan as of June 30, 2014. He reported the loan program started on April 14, 2014 and since then 664 people have applied for a general purpose loan and seven people applied for a primary residence loan which equates to a little over \$10 million dollars out of the Plan in loans. He reported hardship applications have decreased because of the accessibility of loans.

Motion was made to accept and place on file. Hearing no objections so ordered.

c. Northern Trust Company Implementation Update

A letter from Nationwide had been distributed to the Board. Mr. Lathen explained the delay of transitioning from Nationwide creating the NAV for the Plan versus having Northern Trust do it. He reported they were working on a date of August 1<sup>st</sup> to get the transition completed but because this Plan is so complex in the way in which the NAV is created for various funds, the fund of funds and the model portfolios, there are a lot of things that go on behind the scenes to provide that number. Nationwide is working closely with Northern Trust; they have weekly meetings to work through the complexities of the situation. He reported that January 2, 2015 is the go live date.

**7. Callan Associates Inc.**

a. Investment Structure Evaluation Follow-up

- Discussion and Action on proposed investment structures

Discussion of Callan's proposed investment structure ensued.

Motion was made to adopt Alternative Structure II presented on Page 28 of the booklet. The motion prevailed by the following roll call vote: AYES: Messrs. Allen, Nicolini, Mahan, Morics, Ms. Joos and Ms. Cleary. NOES: Messrs. Kovac, Buetow and Ms. Daun

- Discussion of the target date fund analysis

Mr. Taylor gave a brief introduction, went over the summary on Page 6 active versus passive, and gave a brief commentary on custom target-date funds versus off the shelf. He commented the assets in our Plan are not sufficient to support the infrastructural cost for custom funds at this time. In the long run it does merit some consideration because the demographics are such that there are some challenges with off the shelf glide paths because of the retiree population patterns that we have.

Discussion ensued.

Mr. Taylor asked the Board if they had direction for Callan for subsequent meetings. Ms. Daun asked what Callan needed from the Board. Mr. Taylor stated if the Board wants them to perform a formal search and bring the Board candidates. If the Board would give Callan direction as to which types of glide paths they would like Callan to seek or any other investment characteristics that are consonant with this presentation or the Board's preference, they can do so at the Board's discretion and the Board's preferred timing. Tell them what they want and when they want the candidates - they are willing to proceed forward and they will bring the Board an actionable set.

Mr. Ellement asked if the Board agreed with Callan's initial impression that a conservative

to moderate path is suitable, after this discussion he believes more up to moderate because there are a few factors that came to light, slightly later retirement ages, the Tier II which is less generous so you need more in the DC plan, when do you draw down your assets so you might retire at 50 especially for the public safety folks but are they actually drawing down at 50 they can keep it invested for a longer time and then the safety folks might have this third or fourth income source which is a second career. All those factors are actually leading to a little more aggressive. Mr. Morics agrees with their assessment and he thinks this is froth with unknowns; you know nothing happens unless you take the first step. Callan has so many variables and so many assumptions and plus the one big thing we don't know and won't know is it will come a point in time we will have gone through all this work and what if we throw a party and nobody comes. Mr. Taylor this is one of the greatest if you build it they will come things that they have been able to verify from asset flows.

Mr. Buetow believes once the education comes out people will gravitate to that. Mr. Morics thinks so too because ultimately it is the one thing that has some hope for overcoming this force in this fund which is inertia and he thinks it has great potential but again let's take that step, let's start that search process. Mr. Taylor stated great and in that case though they have a number of things going on it is not a problem for them to give the Board a search ready for the next Board vote as the Board directs Callan for the timing for that they will be able to bring that to the Board with complete candidates. Mr. Morics asked if there was any reluctance on the part of the Board, hearing none Callan will move forward.

Mr. Nicolini asked for next meeting or sometime before we adopt a policy, could the attorneys tell us if we adopt this, what kind of informational responsibilities we have as fiduciaries. Ms. Daun stated there is likely to be some architectural changes to the Plan, there is likely to be the phase out of the Socially Balanced Account, there is likely to be a phase in of target-dates, the phase out of the risk-adjusted portfolios that we've had. What all of that means is that a very sophisticated, very well organized and very well managed communication platform and strategy is going to have to be rolled out and that none of these changes would actually practically occur until after all those communication pieces have been done and then it would be the health stuff, some big enrollment period or whatever it is that we are doing with lots of fanfare so the people are incredibly well educated or as much as possibly can be before any of this stuff would come on line. Mr. Morics stated he is not sure in terms of that communication and that education whose contract is that, who owns that. Ms. Daun stated in terms of full disclosure this has been a concern of hers as we move forward there are so many vendors and so many different entities involved that is where the management of all those pieces is going to have to be seamless we cannot have different messaging coming from different sources, there is a lot of strategic planning that has to happen.

Mr. Morics complimented the Board for taking the time and not bailing on this, he wanted this change before the Board so the Board really gets some kind of understanding of what we are adopting and where we are going and thanks the members for being patient with

this topic but by the same token he thinks that messaging and how we craft that it is going to be something he thinks we are going to want to at least have a pretty good understanding of the portals and how are we going to do that is a discussion we haven't even had amongst ourselves yet. Mr. Taylor added for background just to inform the Board for timing just the necessary communications if you move people into a target-date fund in general are subject to a 60-90 day timeframe from the moment the decision is taken to provide time for printing of basic communications from the recordkeeping standpoint so if Callan wants to make a search for the next Board meeting they will have 1-2 quarters to begin to communicate that so you have time to link all these things together in one comprehensive campaign even if it feels though making a decision today for next meeting. Mr. Morics stated at the end of the day because again we have different people involved in that process, it still is our process and we are going to have to be comfortable with the process and assign that responsibility.

Ms. Cleary stated Callan has worked with different plans, they have seen that happen, what that looks like and what is involved she asked if Callan could give the Board a template of how they have done it in the past. Mr. Taylor answered yes; he just rolled out fund changes that went live on Friday-University of Oklahoma. Ms. Cleary asked if Callan could give the Board an outline like a strategic planning guide of how that works, what the timeframe looks like, all the different players.

b. 2<sup>nd</sup> Quarter Performance Review

Copies of Callan's 2<sup>nd</sup> Quarter Performance Evaluation Report had been distributed and are on file in the Deferred Compensation Office.

**8. Cleary Gull Advisors Inc. – 2<sup>nd</sup> Quarter Investment Performance Review**

Copies of the Cleary Gull Advisors Performance Review dated August 6, 2014, were distributed and are on file in the Deferred Compensation Office. Ms. Stojadinovic referenced a typo in the booklet in the performance review written commentary which references first quarter in the first bullet point, the numbers are correct and it should read second quarter. A revised electronic booklet has been sent to Ms. Bieszk. Ms. Stojadinovic went on to summarize the report to the Board.

Motion was made to accept and place on file. Hearing no objection so ordered.

**9. Invesco Advisers, Inc. – Stable Value Portfolio Strategy and 2<sup>nd</sup> Quarter Performance Update**

Mr. Deetsch gave an overview of Invesco's strategy and summarized the quarterly performance.



Mr. Deetsch asked the Board to inform Invesco ahead of time of any type of changes to the Plan or communications to be sent to participants.

Ms. Ellis-Beckham informed the Board that there were no changes on the personnel or organizational level that would impact the management of the portfolio.

Mr. Deetsch wanted to point out the SEC has recently initiated some money market reform where there can be floating NAVs in money markets, that won't directly impact stable value while we still have special book value accounting for stable value which is good but there is a part of the portfolio "STIF" and that is where all the participant activity goes in and out he believes right now the Plan has a US Bank deposit guaranteed sort of vehicle which he doesn't think it is actually a money market. What he recommends to the Board is they ask whoever is providing that if this new SEC information is going to change the accounting of that because what that would sort of defacto do is make your stable value fund then not trade at a dollar potentially. The SEC ruling says that it will go out to five decimal points on the dollar NAV roundings so it may be something that is immaterial but it is something that Invesco recommends to all of their clients because this is a part of the portfolio that Invesco is not in control, the Board selects who is managing that participant directed cash account.

Motion was made to accept and place on file. Hearing no objections so ordered.

#### **10. Mercer Investment Consulting, Inc. – 2<sup>nd</sup> Qtr. Stable Value Account Performance Review**

Mr. Langanki gave an overview of the Executive summary. He reported there is only one quarter of returns with Invesco, you're at 29 basis points which is net of all fees and Mercer likes to look at a proxy for stable value comparative to a money market fund so they have used the 3-month T-bills plus 1%, they noted over the years looking at stable value that stable value has been able to provide a premium over money markets about 1% annually so that is kind of the proxy they use and given that proxy that is where they are at there so they think they are definitely in line for the first three months performance given that stable value was incepted on March 12, 2014. Since the Plan has been incepted with Invesco the crediting rate has gone up from 1.25% at the end of the first quarter March 31 to 1.34%. The market value pretty much started at 100% at inception is now at 101.17% which we like to see and remains fully invested as Invesco had noted that there is only about 3.5% in cash. As indicative of the decline in yields from the market from the first to second quarter we see that the underlying yield of the underlying funds have also decreased from 1.46% to 1.36% as of June 30<sup>th</sup> duration; on the other hand increased very minimally from about 3.14 years to 3.18 years although these yields appear low – one thing that he mentioned that they like to compare stable value to the alternative which is money market funds and the 3-month T-bill at the end of the second quarter is yielding 4 basis points so there is quite a bit of premium there. Invesco has been very successful in getting core aggregates mandates wrapped where other stable value managers have not because of the wrapper conditions, how wrappers want lower

duration investments, higher quality investments so this is important to note for stable value as core investments are able to go out further from the yield curve in terms of maturity in order to attain some higher yields.

Ms. Daun commented that we are getting reports from two vendors on the same product. Ms. Daun asked Mr. Dziadowicz to take a look at the contracts and talk to Ms. Tangen and figure out the most cost efficient way to do this is with Ms. Tangen's assistance. Ms. Daun suggests that we proceed with all due haste on that.

Motion to accept report and place on file. Hearing no objections so ordered.

#### **11. Charles Schwab PCRA – 2<sup>nd</sup> Quarter Report**

Copies of the 2<sup>nd</sup> Quarter 2014 Charles Schwab PCRA report was distributed and are on file in the Deferred Compensation Office. Mr. Dziadowicz reported there were seven new accounts opened this quarter.

Motion was made to accept and place on file. Hearing no objections so ordered.

#### **12. Executive Director Report**

##### **a. Longevity Insurance**

Mr. Dziadowicz reported on July 2, 2014 the final regulations were issued by the US Treasury and they permit the use of longevity insurance in qualified defined contribution plans. Basically the participants would be allowed to purchase a longevity annuity contract using 25% of their plan account balance or limited to \$125,000 whichever one is less; it would be excluded for the Required Minimum Distribution (RMD). He stated distributions must commence no later than age 85. If the participant passes away, the premiums will go back to the heirs. He thought it could be an attractive option for the Plan. He would like to look into having this option in our Plan and coordinate with the City Attorney and Nationwide to do an amendment to our Plan document to allow the insurance and find out what the cost of implementation operationally would be through Nationwide. Mr. Morics stated it raises a number of questions is it something that someone can just go out and find something and purchase on their own, is it something that one would purchase through the Plan and where will it be custodied. Mr. Morics ask him to work out those things and report back to the Board.

There being no further business, the meeting was adjourned at 4:47 p.m.