

CITY OF MILWAUKEE
MINUTES OF THE DEFERRED COMPENSATION BOARD
MEETING OF THURSDAY, FEBRUARY 16, 2017
2:00 P.M. - ROOM 405, CITY HALL

MEMBERS/DESIGNEES PRESENT:

Mr. Jerry Allen, Board Chair
Mr. Mark Buetow
Alderman Milele Coggs – arrived at 2:25 p.m.
Ms. Renee Joos
Ms. Paula Kiely – arrived at 2:45 p.m. via conference call
Mr. James Klajbor, Vice Chair
Mr. Stuart Mukamal
Mr. Mark Nicolini – arrived 2:02 p.m.
Ms. Sandra Rotar

EXCUSED/ABSENT:

Mr. Steven L. Mahan – excused

OTHER PLAN PROVIDERS and STAFF PRESENT:

Mr. Andy Apostol, Invesco
Mr. Jeff Deetsch, Invesco
Ms. Elaine Bieszk, Plan Coordinator, Deferred Compensation
Ms. Emily Cao, JPMC
Ms. Beth Conradson Cleary, Interim Executive Director
Ms. Lea Faliciano, Voya Financial-via conference call
Mr. Gary Guibert, Northern Trust-via conference call
Mr. Jaime Hernandez, Northern Trust-via conference call
Mr. Joe Lauer, Northern Trust-via conference call
Mr. Joshua Lieberman, JPMC
Mr. Russell Look, Voya Financial
Ms. Charmaine Martin, Voya Financial
Mr. Brian Merrick, Voya Financial
Ms. Ellen Tangen, Assistant City Attorney
Mr. Ben Taylor, Callan Associates Inc.
Mr. Barry Wegryn, Northern Trust-via conference call

OTHERS PRESENT:

02:04 p.m. A quorum being present, Mr. Allen, Chair of the Deferred Compensation Board, called the meeting to order.

1. Roll call and Introductions [00:07]

2. Election of Board Officers – Chairperson and Vice Chairperson [00:52]

Election of Chair. Ms. Cleary asked for nominations for Board Chairperson. It was moved by Mr. Klajbor to nominate Mr. Allen for Chair. There being no further nominations, nominations were closed and a unanimous vote was cast for Mr. Allen as Chair of the Milwaukee Deferred Compensation Board.

Election of Vice-Chair. Mr. Allen asked for nominations for Board Vice Chairperson. It was moved by Mr. Allen to nominate Mr. Klajbor for Vice-Chair. There being no further nominations, nominations were closed and a unanimous vote was cast for Mr. Klajbor as Vice-Chair of the Milwaukee Deferred Compensation Board.

3. Election of Hardship Appeal Committee [02:48]

Mr. Allen explained that there was a pool of five people for this Committee. The Committee is composed of three members but the preference is to have five members available, to allow for a rotation.

[03:33] Motion by Mr. Buetow to leave the roster the same. Seconded by Ms. Rotar. No objections. Mr. Allen stated for the record that the Committee will be Mr. Buetow, Ms. Joos, Mr. Klajbor, Mr. Mahan and Ms. Rotar.

4. Appointment of Executive Finance Committee Members [04:05]

This Committee consists of three ex officio members – the City Attorney, Treasurer and Comptroller or their designees who are Mr. Mukamal, Mr. Klajbor and Mr. Buetow. Ms. Rotar and Mr. Allen volunteered to serve on the EFC again. No objections.

5. Appointment of Personnel Committee Members [05:02]

This Committee consists of all ex officio members – the Board Chair, City Attorney, Department of Employee Relations, EFC Chair and the Finance & Personnel Chair. This panel will be reappointed the same as it was due to its ex officio membership.

Mr. Allen wanted to discuss the Communication & Education Committee, which is an ad hoc committee and hear the pleasure of the Board. The Board suspended meetings last year while the Plan was undergoing conversion, and the transition to Voya. He is comfortable keeping this Committee ad hoc as a need arises. No objections.

6. Approval of Meeting Minutes of November 17, 2016 [06:58]

[07:01] Motion by Mr. Klajbor to approve the minutes. Seconded by Mr. Buetow. No objections.

7. Discussion regarding Investment Manager Presentations [08:00]

Mr. Allen explained that because this Board only meets four times a year and we have numerous investment managers, we need to make sure that we hear, as a body, from all of them at least once a year. The suggestion has been made that we either lengthen the Board meetings or, alternatively, schedule the investment manager presentations at the EFC since it meets more frequently and all of the Trustees who are not part of the EFC are always welcome to attend. Mr. Klajbor explained that we would have to have three or four managers at each of our quarterly Board meetings to get through everyone. Mr. Taylor stated that we have ten managers including Northern Trust. Mr. Allen stated that we would like to devote 40-45 minutes for each presentation. We need to do this for diligence purposes. He asked for the Board's thoughts or preferences. Discussion ensued.

[16:02] Motion by Mr. Buetow to have the presentations held at the EFC meetings. Seconded by Mr. Klajbor. No objections. Mr. Klajbor stated that the presentations would be the first item up after roll call. Mr. Klajbor suggests distributing the presentation materials a week ahead of the scheduled meeting.

[19:38] Motion by Mr. Klajbor to convene in closed session for Items 8 and 9, pursuant to Section 19.85(1)(e) and (g). Seconded by Mr. Buetow. Roll call vote taken. No objections.

02:20 p.m. Board enters closed session. Discussion ensued whether to record closed session or not.

[25:16] Motion by Mr. Buetow to not record the session. Seconded by Mr. Klajbor. No objections.

8. Transition update

9. Final contract provisions relating to Voya systems recovery practices and guarantees

3:10 p.m. Motion by Mr. Klajbor to return to open session. Seconded by Mr. Buetow. No objections.

10. EFC Report [26:07]

a. Duane Morris 5th Contract Amendment [26:10]

Mr. Klajbor informed the Board that we had engaged Duane Morris to respond to the issues raised with Annex and the expense was more than we had originally planned. The EFC recommends approval of the fifth amendment to the contract for legal services with Duane Morris.

Ms. Cleary stated that the amendment increases the not to exceed amount for an additional \$5,000 to allow authorization to approve the most recent invoice of \$14,916.95.

[26:53] Motion by Mr. Buetow to approve the fifth contract amendment. Seconded by Mr. Nicolini. No objections.

b. Personnel

i. Executive Director position [28:29]

Mr. Klajbor reported that we are actively recruiting for the Executive Director and that the position was successfully reexempted by the Civil Service Commission (CSC). It was reexempted with one caveat, which will be addressed under agenda item 10.b. The CSC wanted our Rules amended to make it clear that the CSC holds the authority to make the position exempt, not this Board. We are advertising with a number of entities as listed in the Board materials. Mr. Klajbor reported that, in addition to the normal application form, there will be some supplemental questions, which he passed out to the Board. The plan is for DER to vet the applicants and get an eligible list of five candidates to the Personnel Committee and the committee would then conduct interviews with those five candidates and make a recommendation to the full Board. Mr. Allen commented that the window for application closes March 8th.

ii. Administrative Assistant II position [30:47]

Ms. Cleary reported that this is a work in progress.

[30:40] Ms. Joos commented on the Administrative Rule. The Rule should read City Service Commission and not City Civil Service Commission. Mr. Klajbor stated that we will amend that when we get to the next item.

iii. Administrative Rule amendment [31:45]

Mr. Klajbor reported that the City Service Commission (CSC) wanted the Board to make it clear in our Administrative Rules that the CSC holds the authority to make positions exempt. The Board may request it, but the CSC has the authority. He moved approval that we amend our Rules based on the edit made by Ms. Joos.

[32:14] Motion by Mr. Buetow. Seconded by Mr. Mukamal. No objections.

Ms. Bieszk and Ms. Cleary are working on the Administrative Rules which will need to reflect the additional third staff person. The changes will also reference Ms. Bieszk's current job and add the Administrative Assistant II. This is a work in progress.

c. Approval of Engagement of Outside Council for Federal Tax Advice

Ms. Tangen reported that there was not a whole lot of authority that her office could find that was definitive on this issue and that it was recommended that the Board confer with Ice Miller. She was given approval to confer with Ice Miller and a not to exceed \$15,000 fee cap. Ice Miller believes that it can resolve the issue within our fee parameters. Ms. Tangen will be preparing that agreement for them with the approval of this Board.

[36:51] Motion by Mr. Klajbor to approve engagement of the outside counsel upon recommendation of our in-house counsel and not to exceed \$15,000. Seconded by Mr. Buetow. No objections.

d. Plan Communications [37:09]

i. Fee disclosure

All of the Plan members received the fee disclosure with their quarterly statement. Discussion ensued.

Mr. Klajbor suggests that we post last year's and this year's fee disclosure statement on the website. Ms. Cleary, Ms. Tangen, Mr. Taylor and Mr. Merrick will compose a paragraph that gives an explanation of the differences. The paragraph that subsequently was posted to the website reads as follows:

The fee that you pay for administrative services provided by Voya Financial ("Voya") is \$58.50 per year, or approximately \$4.88 per month. These fees are deducted directly out of your Milwaukee Deferred Compensation Plan ("MDCP") account, are reflected on your statement, and are visible in Activity History when reviewing your account through the participant website (www.milwaukeeedcp.com). Prior to the transition to Voya, an annual per-participant fee of \$20 was deducted directly out of your account to cover administrative services. Any additional administrative expenses that exceeded the funds raised from this \$20 were paid out of the investment management fees within the individual investments. As a result of the transition to Voya, these administrative fees were not only reduced, but they are now more visible to you as a participant in the MDCP. For more detailed information on fees associated with the MDCP, you may review the Fee Disclosure for 2016 and Fee Disclosure for 2015.

ii. Privacy Notice [37:27]

All of the Plan members will receive the privacy notice as a separate mailing. He thanked Mr. Merrick for revising the notice. We wanted to point out to the participants that if you are a participant in a retirement plan sponsored by your current or former employer, our contract with your plan sponsor may contain additional restrictions on the use or sharing of your personal information. That information will be in bold type.

- e. Interim Executive Director's Request to attend NAPPA 2017 Winter Seminar – February 22-24, 2017, Tempe, AZ [49:00]

Mr. Klajbor stated that the EFC is recommending approval of that expense. Mr. Allen has one request—he would like her to see what she can find in the way of any kind of template for diligence for administrative vendors as opposed to money management vendors. In particular, he would like her to focus on IT if there is any.

[49:32] Motion made by Mr. Klajbor to approve that expense. Seconded by Mr. Buetow. No objections.

11. Interim Executive Director Report [49:48]

- a. Office Space for Voya representatives [49:54]

Ms. Cleary reported that the local Voya representatives will move to the Ziedler Municipal Building on the 9th Floor (DPW offices) starting in March until further notice. There is a dedicated conference room space with a closed door. We have a key to allow us to keep and secure materials in there. We will have a panic button installed for safety purposes. The representatives will be at that location on Mondays, Wednesdays and Fridays.

Ms. Cleary is looking in to possible permanent space options within the City Hall vicinity. As our Department grows from two to three with the addition of an AAI position, she believes it makes sense to have a shared space amongst our office plus room for the local Voya representatives to meet with our participants. She noted that on Tuesdays and Thursdays our participants are currently welcome to meet with a local Voya representative at the Research Drive Voya office, but that this model could change. She has been working with Ms. Joos and the new Wellness Coordinator, Crystal Flores. Ms. Joos has provided a list of the mobile clinics for the Wellness clinics and all their various sites within the City. The goal is to be accessible to participants who are not in the City Hall complex or who work in the field. She plans on doing due diligence visits to those office spaces most likely with Ms. Joos and to see how feasible those spaces would be in terms of space for our participants to meet with local representatives. Ms. Kiely has also offered to work with her staff to find potential locations at some of the Library locations.

Our new local representative, Julie Rodriguez, has recently started. Julie will be working with participants and will be involved with the financial literacy training.

Mr. Klajbor asked Mr. Nicolini if we should be doing a capital improvements request for new office space. Mr. Nicolini stated that we might want to wait and see what happens over the next month or so with some other developments. Mr. Klajbor doesn't want to miss the boat on a deadline for the request. Mr. Nicolini stated they will be issuing the

budget request instructions for capital about the end of the month.

b. 2017 Budget [57:08]

Ms. Cleary explained the reason for the 2017 budget item is to acknowledge the fact that, historically, the budget was brought to the Board in May for approval, which typically occurred after the Budget Office submittal process, resulting in a time gap. She was seeking the pleasure of the Board and whether or not it wanted the budget to be deferred to the EFC and then brought back to the Board in May for approval. Mr. Allen stated that he, Mr. Klajbor and Ms. Cleary discussed this and it seems to him that we need to start the process a little earlier that everyone is welcome to participate in the EFC and that, of course, the Board will see it at the end. Ms. Cleary will work with the EFC and bring it back to the Board for ratification.

c. other [59:00]

Ms. Cleary has been invited to speak at the end of March to the Retiree Association. She is working with Voya to establish reach-out efforts to the retirees to allow for educational training regarding recent plan changes, including how to utilize the new website.

Ms. Cleary is working with Voya to establish some educational sessions, now that we are properly staffed with our local representatives. She emphasized the importance of focusing on helping our participants understand how to establish online access to utilize their accounts, especially because this is a new service model for our participants. She has been working closely with Voya and providing feedback on the online tools, which she believes has room for improvement. She encourages all Board members, if they haven't already, to establish access to their account online. Ms. Cleary is also attending weekly Call Center monitoring sessions via conference calls with Voya (i.e., with Mr. Merrick and his team, and management of the Call Center). These sessions involve reviewing randomly pulled calls, as well as calls and situations that have been escalated so that everyone can have a better understanding of why issues may have arisen and how Call Center staff can be better trained.

12. Withdrawal Hierarchy [01:03:36]

Mr. Allen explained that there is a hierarchy regarding how a participant's money is withdrawn. In other words, a participant's money cannot just be taken out of one investment account; rather, it will be withdrawn pro rata out of each of the invested funds. A Trustee requested that the Board discuss this topic to learn more and, to what extent it would be possible to change the current withdrawal hierarchy process to allow for the selection of a withdrawal from a particular investment account, as well as what the cost to make this change would be.

Mr. Merrick explained how this Plan was set up, which was to allow for withdrawals to occur pro rata, and that this is the most common practice in the industry. He further explained the rationale behind this best practice and noted that allowing a withdrawal to come from one specific investment distorts the intention of the originally anticipated asset allocation a participant has. Discussion ensued. Mr. Allen stated that the EFC should examine this further with Voya.

13. Annuity Products – Referral to EFC for analysis and proposed considerations [01:07:58]

Mr. Mukamal stated that he believed the Board and EFC has to consider options to make the Plan more flexible, more user friendly and more amenable to retirees regarding withdrawal options. His concern is that retirees may wish to roll their monies outside of the Plan if they can't withdraw money as they wish and provide retirement income as they desire.

[01:08:39] Motion by Mr. Buetow to refer Items 12 and 13 to the EFC for further discussion. Seconded by Ms. Rotar. No objections.

14. Approval of City Attorney 4Q Invoice

Ms. Cleary explained that the City Attorney expenses were not factored into the Board-approved 2016 budget, so she needs its approval before she signs off on them. The Budget Office has identified that this should be an expense that the Plan is responsible for since we are not on the levy. She asked Ms. Horwitz to give us an estimated projection of these costs in the future, so that we can reflect these anticipated expenses in the budget. This year's expenses are not anticipated to be as high as the 2016 expenses.

[01:10:15] Motion by Mr. Klajbor to authorize Ms. Cleary to pay the 4th quarter invoice from the Reserve Account. Seconded by Ms. Rotar. No objections.

15. Approval to enter into a Contract with Baker Tilly for the 2016 Financial Audit

Item not needed.

16. J.P. Morgan SmartRetirement Solutions Presentation

[01:11:10] Emily Cao, Client Portfolio Manager, gave an overview of the JPMorgan SmartRetirement Funds and recapped their strengths and strategies.

Josh Lieberman, Relationship Manager, pointed out the other booklet, Target Date Funds designed with you in mind, which contained updated pages reflecting more tailored

communication about TDFs specific to our Plan, per feedback JP Morgan received from Ms. Cleary.

[01:36:49] Mr. Taylor briefly added a few comments, including that our reenrollment occurred at just the right time. The biggest event that occurred was suddenly shifting about \$20 million from risk-based funds to Target Date Funds. He complimented Invesco for being great partners in helping us in this reenrollment process. Stable Value actually reduced itself by about \$55 million and that meant that it moved into Target Date Funds in an upward moving market, which was expected. This transition proved to be very beneficial for the Plan.

[01:38:48] Mr. Taylor noted that we only had one manager that had significant issues with the transition. WCM experienced an initial loss of 36 basis points; however, picked up a 23 basis points gain in January. Discussion ensued.

17. Vendor Reports [01:46:58]

- a. Callan Associates Inc. Performance Report
- b. Charles Schwab PCRA Report
- c. Voya Financial

[01:46:58] Mr. Merrick reported on an update regarding the DOL guideline ruling. Bottom line is that, based on the services Voya provides the Plan, there is no change, no additional disclosure and no change to its relationship with its customers, in general. Mr. Taylor stated that, legally speaking, we are still expecting a deadline of April 10th for the ruling to be in effect and required; however, it is anticipated that the implementation deadline will likely be pushed out past that date.

Mr. Merrick pointed out that Voya provided slides that give an update on the savings and participation rates by the different demographic categories that they had reviewed back in November. Voya will provide an update of these rates each quarter and also include a broader demographic Plan update and information of Plan statistics, which will be part of its ongoing reporting. He wanted to see if this information meets the Board's needs or if there is additional information the Board would like to see.

Mr. Merrick informed the Board of an award opportunity that Voya will submit an application for on the Plan's behalf to the Plan Sponsor Council of America. Mr. Taylor stated the Plan has also been submitted for similar review for the NAGDCA Conference this year as well for the reenrollment process.

- d. INVESCO Advisers, Inc. (SVA) Performance Report

[01:41:43] Mr. Deetsch gave an overview of some performance drivers. He reported

that the yields went up over the quarter for the post-election rise in rates, along with the Fed raising some rates as well. The crediting rate is anticipated to go up a little bit and the market-to-book ratio should go down. Mr. Klajbor asked if we are still above 100. Mr. Deetsch stated that this is correct. Invesco did terminate one wrap provider, which leaves us with four providers, currently. Pacific Life is underwriting the Plan, which he expects to be approved sometime this quarter. This will result in a fifth wrap provider back in the Plan.

Discussion ensued.

e. Northern Trust Performance Report

[01:51:20] Motion by Mr. Klajbor to receive and place on file all of the vendor reports under Item #17. Seconded by Mr. Buetow. No objections.

18. Informational [01:51:35]

- a. City Attorney opinions
 - i. Use of Social Security Numbers in Deferred Compensation Plan Administration
- b. 2015 Financial Audit Statements
- c. Henderson Geneva Capital Management

[01:52:05] Mr. Klajbor reminded the Members that they have to file their Ethics Statement before the end of the month

[01:52:15] Mr. Allen shared that, as a side note, Ms. Daun, who has gone to work for the County, has a confirmation hearing coming up on March 9th. She asked him for a letter of reference, which he was happy to provide.

4:37 p.m. Meeting adjourned. [01:52:41]