

**CITY OF MILWAUKEE
MINUTES OF THE DEFERRED COMPENSATION BOARD
MEETING OF THURSDAY, FEBRUARY 12, 2013
2:00 P.M. - ROOM 405, CITY HALL**

MEMBERS/DESIGNEES PRESENT:

Mr. Jerry Allen, Chairman
Ms. Margaret Daun, Vice Chair – arrived at 2:10 p.m.
Mr. James Klajbor, Deputy City Treasurer
Ms. Beth Conradson Cleary, Assistant City Attorney
Mr. Steven L. Mahan, Community Development Grants Administration
Mr. Mark Nicolini, Budget Director
Ms. Renee Joos, Fiscal & Risk Manager
Mr. W. Martin Morics, Plan Member

EXCUSED/ABSENT:

Mr. Martin Matson, Comptroller – excused
Mr. Michael J. Murphy, Alderman – excused
Mr. Joe Davis, Sr., Alderman – excused

OTHERS PRESENT:

Ms. Brian Andrew, Cleary Gull Advisors
Ms. Wendy Stojadinovic, Cleary Gull Advisors
Mr. Levi Lathen, Nationwide Retirement Solutions
Ms. Sharon Hoppel, Morley Financial Services, Inc.
Ms. Ellen Tangen, Assistant City Attorney
Ms. Elaine Bieszk, Program Assistant II, Deferred Compensation
Mr. Dziadowicz, Executive Director, Deferred Compensation

A quorum being present, Mr. Allen, Chairman of the Deferred Compensation Board, called the meeting to order at 2:02 p.m.

1. Approval of the December 5, 2012 Board Meeting Minutes

Mr. Allen stated that copies of the above minutes had been distributed to the Board members.

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

2. Formal Adoption of Board Meeting Dates for 2013

A list of suggested Board meeting dates for the remainder of the year had been distributed to the Board members. Mr. Allen asked if anyone had any comments or questions about the proposed meeting dates. Mr. Morics moved for the dates to be adopted with the proviso that

they may be changed at the call of the Chair otherwise if something comes up it will take a formal Board action to change one of these dates. Mr. Allen asked if there was further discussion. The motion was accepted unanimously. Hearing no objections so ordered.

3. Plan Participant Benefit Approvals and Denials for the period of October, November and December, 2012

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

4. Executive Finance Committee Report

a. Administrative Rules Amendments

Ms. Daun reported that the Executive Finance Committee (EFC) at their last meeting essentially took a combined approach and accepted a combination of the submitted revisions to the Administrative Rules. She stated that the edits to the Administrative Rules are self-explanatory. Discussion ensued.

Mr. Allen recommends for the continuing education that each of the Trustees takes this to heart and try to schedule either a conference or attend an education session that the Board will present at one of their meetings. He stated this is a changing field and it is a Plan where the City is going to have more and more emphasis over time. Mr. Allen mentioned that he would like to ask the Executive Director to circulate a list of appropriate conferences to all the Members. Mr. Morics suggested that ERS does a wonderful job of providing that information to its Trustees if he would share that with the Executive Director. Mr. Allen stated that he would do so.

Motion was made to approve the revisions to the Administrative Rules. Hearing no objections so ordered.

b. Plan Loans

Ms. Daun stated that this item should have been submitted as an informational item for the Board. This is an informational update and to provide the Board with some key pieces of information. Mr. Morics asked if the EFC could prepare some additional information on best practices from NAGDCA.

Ms. Daun stated that the EFC will continue to explore the loan program with

Nationwide's assistance and the Executive Director's assistance informed by the onboarding consultant as soon as that consultant comes on. She stated that this is a policy change in the Plan and it is going to require an amendment of the Master Agreement and go to the Common Council

c. Alternate Payee Hardship Distributions

Ms. Daun reported that this is step one related to Qualified Domestic Relations Order (DRO) provisions, this will require an amendment of the Master Agreement, and those amendments are listed and attached to the City Attorney's opinion letter. Hardship distributions are as the opinion letter lays out clearly allowable under the IRS guideline and the EFC approved these without much comment. Ms. Tangen gave a brief summary and talk about phase two related to Qualified Domestic Relations Orders which should be coming down the pike for the next Board meeting. Ms. Daun stated that what they will probably do is assuming approval by the Board of these amendments to the Administrative Rules and the Master Agreement; we will hold these changes until the next phase of changes are either approved or rejected by the Board and then move for Council approval at once.

Ms. Tangen stated that the policy determination is that hardship distributions should be available for alternate payees as well as members. That conversation in Committee lead to consideration of further changing the Domestic Relation Order provisions to permit immediate distributions to alternate payees and her understanding from the last meeting was that her office was to proceed to draft that amendment as well for consideration.

Motion was made to approve those changes to the Administrative Rules and Master Agreement. Hearing no objections so ordered.

d. Extension of 50% Cash Limit for Stable Value Account

Ms. Daun reported that this is a temporary cash limit waiver; it is necessary during this interim period while our Mercer consultant is evaluating our stable value product. This is an ongoing item that the Board should review quarterly.

Motion was made to approve the extension of the 50% cash limit for the Stable Value Account. Hearing no objections so ordered.

e. Informational Items

- EFC Election

Ms. Daun reported that she was elected as the Committee's Chair and Mr. Matson was elected as the Vice Chair.

- New EFC Agenda Order

Ms. Daun reported that the EFC agenda will be rearranged so that the most complicated

items are discussed first, other more formality and routine items will be dealt with later in the EFC agenda.

- EFC Priorities

Ms. Daun reported that one of the priorities that she is attempting to accomplish is process efficiencies, for example, they have done and looked at a few of these Administrative Rule changes to encourage process efficiency. Most likely there will also need to be an Administrative Rule revision related to the separation from service payouts. She stated that right now the way the Rule reads doesn't actually match practice, we are essentially post facto ratifying payouts that have already occurred and do we really want to do that every quarter and at the EFC every month. We will possibly consider an Administrative Rule revision to have it match reality or make that more of a streamline process. Also she will be looking at vendor reports to make them more uniform among vendors to the extent possible to include a glossary of terms and to discuss their more complicated items first when they are doing their vendor reports.

- Advisory RFP

Ms. Daun reported that she has been working with Mr. Dziadowicz to amend and edit the Advisory RFP the intent is to have the RFP issued by the end of the month. She made two primary edits to the RFP 1) broke the engagement into two phases, sort of a soup to nuts review in phase one primarily focused on Plan architecture and the investment option line up and then phase two will be your more continuing typical ongoing advisory and consultancy relationship and 2) streamlined the RFP to make it transparent and easily understandable and more importantly more easily navigable for both EFC and Board members. Mr. Allen stated that phase one is intended to get the Board up to speed on best practices within two years that is the reason for emphasizing that.

- New Board Roster for Website

Ms. Daun stated she is always looking for transparency and clarity in things. She stated that the roster has all of the Board members and then if they have a designee, the designee or appointee member is listed on the right, the list is specific.

5. Nationwide Retirement Solutions

a. 4th Quarter Plan Update

Copies of the Fourth Quarter Board Report for 2012 were distributed and are on file in the Office of the Executive Director. Mr. Lathen gave an overview of the Plan as of December 31, 2012.

Mr. Lathen pointed out on Page 7 of the booklet that Ms. Cleary had asked for the number of participants in the various models (he distributed a handout with those numbers). He stated that there has been growth in participants selecting the individual

models, at this time there is \$8 million in the models. He also reported that fourth quarter deferrals are slightly down which is typical.

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

b. Roth 457 versus Roth IRA

A handout was distributed to the Members that gives a broad overview of the Roth 457 which was introduced January 3, 2013. The difference is that the participants now have a choice they can use after-tax dollars which is the Roth 457 and put it into a tax-free distribution at separation of service or they can defer into the pre-tax traditional 457; with the pre-tax you get the immediate tax benefit, with the Roth 457 the benefit would be that you are not paying taxes on the earnings upon distribution. He stated that most people who would choose that option are people who believe their tax consequences are going to be higher in the future versus now. There are some different limits with the Roth 457 versus the traditional Roth IRA they are allowed \$17,500 total to contribute to either one of 457 buckets where with the traditional Roth it is \$5,500 for the year. Another difference between a Roth IRA is there is no earning requirements, if you are in the \$150,000 category you could contribute to a Roth 457 and there are no limitations on that. New this year for the Roth 457 is that up until January of this year a participant would have to separate from service to do an in-plan conversion; in-plan conversion means if they have traditional money already in the plan and they want to convert to a Roth they would have to first have an event such as distribution to allow that to happen. He stated that what the legislators did was basically allow in-plan conversions immediately while a person is still employed. He reported currently there are eleven participants enrolled in the Roth 457 option, totaling about \$14,000.

6. Cleary Gull Advisors Inc.

a. Market Outlook and 4th Quarter Investment Performance Review

Copies of the Cleary Gull Advisors Inc. Plan Investment Accounts Review and the Actively Managed Accounts dated December 31, 2012, were distributed and are on file in the Office of the Executive Director.

Mr. Andrew gave an overview of the report.

Mr. Andrew stated that there are two issues that face the Federal government in terms of the debt ceiling which come up in March and as we close in on that date without a plan to get past the debt ceiling we may see some volatility in the markets that result from that.

Ms. Stojadinovic reported on the fixed income portfolio. She stated that there was still a

strong demand for bonds all of last year particularly in lower quality credit that outperformed. They saw that same demand for bonds has continued at least through January 25th. They are starting to see a little bit of money move out of bonds which means it is coming out of the higher risk high yield asset classes; there is some speculation about that moving into equity markets but it is hard to say, it is a bit early.

b. Compliance Review

Mr. Andrew reported the Accounts are generally in compliance with the Investment Guidelines with a few exceptions that he went on to explain.

c. SVA Portfolio Update

In the fourth quarter, cash levels increased as \$10.5 million cash flowed into the SVA. The SVA continues to be actively traded by selling short maturity bonds and buying longer maturities to increase yield and capture gains.

d. Analysis of Investment Management Cost

Mr. Andrew explained that this is information that they provide in every meeting book but realize that it is usually buried in a report so they thought they would highlight the expense structure of the individual investments that are in each of the actively managed portfolios.

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

7. Morley Financial Services, Inc. - Stable Value Account (SVA)

a. 4th Quarter Report – Account Review

Copies of the report dated December 31, 2012, received from Morley Financial Services, Inc. regarding the Stable Value Account (SVA) are on file in the Office of the Executive Director.

Ms. Hoppel gave a fourth quarter overview of the SVA. She reported that the cash flows in the fund were positive through the fourth quarter and since then has been negative by roughly \$6 million in January and in February it has been about a million. She stated that as of January the gross crediting rate is 1.16%, not a whole lot has changed from December, the average duration is 1.22 years and the market-to-book in December was 101.41% and in January it is 101.29%; outperforming the benchmark.

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

b. Stable Value Market Update

Ms. Hoppel stated that the Members could look at all the detail in the booklet at their leisure.

c. Investment Strategy

Ms. Hoppel reported that when looking at the cash, they talked about a few options with Mr. Suess from Mercer and initially they talked about investing some cash into Morley's stable value fund that is managed by Morley. Morley went down the path of finding additional capacity in wraps, they have a couple of options, the Prudential option is the least expensive and a great strategy that Morley believes in and it would happen a lot more quickly than some of the other alternatives. There is wrap capacity out there from a number of other managers. They do have capacity that they can utilize elsewhere. Mr. Suess informed Morley that the Board may be open to sub advisors and in the current Investment Guidelines it is Morley managed structure only. He indicated that he was a proponent of the Prudential investment management collective investment trust that is an intermediate index plus strategy and what they try to do is beat that index performance by 20-25 basis points on an annualized basis; the duration is plus or minus 10% of that index and at the end of December it ran about 3.6 years. She stated that if they did a 50/50 split that would give a duration of about three years. Ms. Daun asked if Mr. Suess agrees with that recommendation. Ms. Hoppel stated that she sent the information to Mr. Suess, she has not heard back from him. Mr. Dziadowicz stated that in their letter they are essentially saying that Prudential would not allow a 100% into that core conservative intermediate bond fund to that option even though it is listed, it is truly not an option. Ms. Hoppel stated that is correct and she listed it there just so they could see the difference of 100% versus a 50/50 so that if they were going to go to the extreme either way it shows there is not a whole lot of play in that overall yield or duration. She stated that Prudential is more comfortable with a three year duration on most of their contracts.

Ms. Hoppel stated that as with any investment the wrap fees will go up so anything Morley takes out of cash and they put into a wrap contract will increase those wrap fees. They are currently at about 11 basis points and to invest \$50 million which is roughly 20% of the portfolio in a 20 basis point wrap fee, it will increase about four basis points. If they use 50% of the Prudential investment trust the sub advisors fee would be one basis point of that to the SVA. The Prudential investment trust charges nine basis points to manage that account and the wrap fee is 20 basis points. Morley's trustee adviser fee is 8.5 basis points; the total fund operating expenses would be about 24 basis points which is an increase of five basis points.

Ms. Hoppel informed the Board that in order for Morley to buy the Prudential investment trust they would need to revise the Agreement and Investment Guidelines to allow for the investment. She pointed out the changes in the redline version of the revisions. Mr. Allen stated that the Board has not yet met collectively with Mr. Suess to get their advice,

we have had a few introductory meetings with Trustees but we are still hoping to get a consulting comprehensive report before they start amending the Agreement and Investment Guidelines.

d. Wrap Capacity Update

Ms. Hoppel mentioned that at the last meeting Mr. Stumpf informed the Board that AIG would be coming to them with a new contract approach and a perhaps a trigger for the self-directed brokerage account. Morley went back to AIG and told them to just hang on, don't send us anything new until they get this restriction in place and one of the things that AIG was trying to do was to move their assets for the wraps on their books to American General which is a different life insurance company under the holding company. They were trying to do that by year-end and didn't make it so now they are backlogged on things they have been trying to get done and Morley has gone back and said it just doesn't make sense for this portfolio to move to a new contract and have this trigger in place until we actually have the restriction implemented

8. Executive Director Report

Motion was made to convene in closed session at 3:42 p.m. for Item #8 (a and b), c and d, on proper motion and action pursuant to Section 19.85(1)(e) and (g), Wisconsin Statutes for deliberating or negotiating the purchasing of public properties, the investing of public funds, or conducting the specified public business, whenever competitive or bargaining reasons require a closed session and conferring with legal counsel for the governmental body who is rendering oral or written advice concerning strategy to be adopted by the body with respect to litigation in which it is or is likely to become involved. The Board will adjourn in closed session.

- a. Mercer Investment Consulting, Inc. Update**
- b. Plan Consultant RFP**
- c. Fiscal Cliff Deal – Roth Conversion

Item discussed earlier by Mr. Lathen.

9. Charles Schwab PCRA – 4th Quarter Report

Mr. Dziadowicz reported that the assets have grown by \$1 million and 14 accounts have been opened in the past quarter, the cash position is about 17.6%. Informational only. Motion was made to place report on file.

10. Informational Items

- a. Participant Percentage by Department

Informational only.

- b. News Articles

Informational only.

There being no further business, the meeting was adjourned at 4:00 p.m.