

Chairperson: Steve Cady, 278-4347

Clerk: Carol Mueller, 278-4228

SELECT COMMITTEE ON DEFERRED COMPENSATION

Monday, February 6, 2012 – 9:00 a.m.
Milwaukee County Courthouse - Room 203-P

MINUTES

Present: Grady, Walker, Ceschin, Russell and Cady (Chair)

SCHEDULED ITEMS:

The Committee may adjourn into closed session under the provisions of Wisconsin Statutes, Section 19.85(1)(f), for the purpose of discussing the following matter(s). The Committee may reconvene into open session to take whatever action(s) it may deem necessary on the said matter(s).

1. 12-DC1 Appeal(s) from deferred compensation participant(s) of decisions regarding request(s) for hardship withdrawal(s) of funds from Milwaukee County's Deferred Compensation Plan.

There were no appeals to the Select Committee.

The Committee took no action on this informational report.

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2. 12-DC2 Financial Update on Administration of Milwaukee's County's Deferred Compensation Plan. **(INFORMATIONAL ONLY, UNLESS OTHERWISE DIRECTED BY THE COMMITTEE)**

Appearance:

Steve Cady, Fiscal and Budget Analyst, County Board

The administrative fee holiday resulted in a plan deficit last year of approximately \$186,000. The administrative fee holiday was previously authorized through the fourth quarter of 2012. Any possible extension of the administrative fee holiday will be considered at an upcoming meeting later this year. A proposed budget for 2012 has been put together that reflects anticipated expenditures and revenues. The Plan had 4,865 participants at the end of the 4th quarter based on the "high water" mark of participants with an account balance. It is expected that this number will decrease as some County positions shifted to State positions, the execution of the deminimus payout initiative and the overall decline in the number of employees.

SCHEDULED ITEMS (CONTINUED):

The Committee took no action on this informational report.

3. 12-DC3 From Hewitt Ennis Knupp, Fourth Quarter Performance Report.
(INFORMATIONAL ONLY, UNLESS OTHERWISE DIRECTED BY THE COMMITTEE)

Appearances:

Laurel Nicholson, Hewitt Ennis Knupp and Associates (HEK)
Nichole Cain, Hewitt Ennis Knupp and Associates

Ms. Nicholson gave an update of the market trends for the fourth quarter. In 2011 the domestic market closed strong but was not good enough to offset the losses over the previous three quarters. Non US markets were down 13%. 2011 was a very volatile year. Investors are still concerned with the debt crises in Europe.

Unemployment decreased to 8.5%, the lowest in three years. Consumer spending is up and manufacturing is better. The 2012 forecast is moderate.

The Plan and its features are strong and in good shape. The Target Retirement Funds ended the year with about \$12 million invested, the Index Funds \$55 million. This was a tough fourth quarter and year. PIMCO's returns were lower than usual.

The Plan as a whole is strong but HEK suggests the Plan may want to consider adding some kind of global equity fund to reflect a broader global economy. Typically, these funds invest around 45 percent U.S. and about 55 percent non-U.S., although differing funds will vary.

The Committee took no action on this informational report.

4. 12-DC4 From Hewitt Ennis Knupp, a memo on JP Morgan Diversified Mid Cap Growth Fund.

Appearances:

Laurel Nicholson, Hewitt Ennis Knupp and Associates (HEK)
Nichole Cain, Hewitt Ennis Knupp and Associates

Ms. Nicholson noted that the last quarter HEK had a hold status on the JP Morgan Diversified Mid Cap Growth. It is their recommendation that a search be conducted for a replacement fund. Ms. Cain provided background on the process used to reach that conclusion, and went through each of the criteria to justify their recommendation.

SCHEDULED ITEMS (CONTINUED):

The fund has never outperformed the market or met its benchmark. There is very little turnover with their analyst and the mid cap team was not allowed access to large cap funds. Furthermore, most research is done in the office without visiting off site businesses. In response to a question by the Chairman whether the Committee is following its adopted Investment Policy Statement (IPS) in regards to the process used to evaluate this investment option and seek a replacement, Ms. Nicholson replied affirmatively.

ACTION BY: (Grady) Approve the recommendation from Hewitt Ennis Knupp to do a search for a replacement fund for the JP Morgan Diversified Mid Cap Growth Fund. 5-0

AYES: Grady, Walker, Ceschin, Russell and Cady (Chair) – 5

NOES: 0

5. 12-DC5 From Hewitt Ennis Knupp, a memo on the Fund Monitoring System.

Appearance:

Laurel Nicholson, Hewitt Ennis Knupp and Associates (HEK)

The current monitoring system monitors all the funds in the Plan and is presented to the Select Committee each quarter as part of the quarterly investment report. The fund monitoring system is also outlined in the adopted Investment Policy Statement (IPS), which outlines the factors by which funds are reviewed. Currently there are five factors. HEK is recommending adding a sixth factor “Reduced Confidence in the Invest Option” that would provide a more qualitative assessment of the investment options. This would allow that even if there have not been major changes but the overall confidence has deteriorated, the fund status would reflect a negative assessment. Discussion ensued as to whether this is too subjective a factor and the issue of timing, when HEK may be aware that a fund status change (i.e. hold to sell) may be pending but not yet finalized.

ACTION BY: (Grady) Amend the recommendation from Hewitt Ennis Knupp on the proposed sixth factor “Reduced Confidence in the Investment Option” that an affirmative response to this factor would only result in a red level status if there are two consecutive quarters when there are four or more affirmative responses in the six factors. Additionally, update this information in the Plan Investment Policy Statement (IPS). 5-0

AYES: Grady, Walker, Ceschin, Russell and Cady (Chair) – 5

NOES: 0

6. 12-DC6 From Advised Assets Group, Fourth Quarter Stable Value Fund Report. **(INFORMATIONAL ONLY, UNLESS OTHERWISE DIRECTED BY THE COMMITTEE)**

SCHEDULED ITEMS (CONTINUED):

Appearances:

Steve Cady, Fiscal and Budget Analyst, County Board
Darryl Collier, Assistant Vice President National Accounts Government Markets
Al Cunningham, Director, Advised Asset Group, LLC
(Note: Messrs. Collier and Cunningham appeared by speakerphone from their Denver, CO headquarters.)

Mr. Cunningham noted the fourth quarter rate in the Stable Value Fund was 3.65%. The 2012 first quarter credited rate is 3.4%. The Advised Asset Group doesn't want to lock into a rate for too long as securities are regularly being bought and sold and participant redemptions are fulfilled. The interest rates are down on holdings backed by mortgage securities. This is not the bottom of the rates. The rates could go lower due to new money being invested at a 2.5% to 2.75% rate which will drive down the interest rates again. Overall, the Stable Value Fund has outperformed its benchmark and has been the most popular investment option in the Plan.

The Committee took no action on this informational report.

7. 12-DC7 From Advised Assets Group, a presentation on the Stable Value Fund.
(INFORMATIONAL ONLY, UNLESS OTHERWISE DIRECTED BY THE COMMITTEE) (Please note: AAG representatives will be joining the meeting via teleconference at approximately 10:15 a.m.)

Appearance:

Al Cunningham, Director, Advised Asset Group, LLC
Darryl Collier, Assistant Vice President National Accounts Government Markets
(Note: Messrs. Collier and Cunningham appeared by speakerphone from their Denver, CO headquarters.)

Mr. Cunningham provided the following review of the Stable Value Fund (SVF). Great-West has a separate exclusive account held for Milwaukee County participants. The fund receives all investment performance less fees of .33% with .15% of that amount returned to the Plan to cover administrative expenses. The Plan is audited annually and participant accounts are valued at book value.

The overall objective is to preserve principal and interest, liquidity for participants and interest rates that move toward prevailing rates. The fund is operated in partnership with the Milwaukee County Select Committee on Deferred Compensation.

Great-West Stable Value Fund Management manages approximately \$9 billion in custom SVF over 20 years including seven state plans and many city and

SCHEDULED ITEMS (CONTINUED):

county plans. There are a total of 23 professionals on the management team.

The investment policy provides guidelines for securities issued by the U.S. government, guaranteed mortgage back securities, investment grade corporate bonds at time of purchase and an A+ or better quality. As of December 31, 2011, the fund portfolio contained 316 long term securities, with 60% mortgage backed and 29% corporate bonds backed. The average quality of the securities in the plan are rated AA which includes almost 68% rated AAA. The current market to book value is 104%. New money is being invested at 2.67% on average that is 1.15% less than the current yield. The prediction is that the current portfolio yield a year from now could be approximately .43% lower than the current yield if several assumptions were to hold true, based on the modeling by Advised Assets Group.

Chairman Cady asked about the "Wrap" and Mr. Cunningham explained that the wrapper helps ensure that participants get the book value of their investment back. Great-West Retirement Services provides the wrap for the Milwaukee County Stable Value Fund.

Mr. Grady said this report on the Stable Value Fund was very informative and suggested the SVF should be reviewed annually.

The Committee took no action on this informational report.

8. 12-DC8 From Great-West Retirement Services, Fourth Quarter Report.
(INFORMATIONAL ONLY, UNLESS OTHERWISE DIRECTED BY THE COMMITTEE)

Appearance:

Sue Oelke, Great-West Retirement Services

Ms. Oelke reviewed the last quarter of 2011. In November of 2011 the Roth 457 option became available with 114 employees electing to contribute to that fund. There were approximately 38 seminars on the Roth plan at various County facilities.

Multiple open enrollment meetings for both active employees and retirees were held, resulting in 15 new enrollments. 115 individual retirement meetings were held last quarter with 50 individuals investing approximately \$7 million into the Plan. This is mostly backdrop monies that employees (now retirees) are rolling over into the Plan (mostly into the Stable Value Fund) because of the attractive interest rates and the very low fees due to the administrative fee holiday that is in effect.

SCHEDULED ITEMS (CONTINUED):

For the first time, deminimis distributions were authorized by the Plan. This is for inactive (no deferrals or distributions within the past 24 months) accounts with a balance below \$1,000. Thirteen participants elected the full distribution and three participants' restarted contributions prior to the automatic deminimus payout. Another review of deminimus accounts will most likely be done in 12-18 months. This helps ensure that the Plan is not paying for accounts that are offering little benefit to the participant, but costing other active participants to maintain.

The last quarter saw enrollments increase by 54 equaling \$2.3 million in contributions while 99 distributions for \$2.5 million were made. There are approximately 4,760 in force accounts. The website activity for the quarter increased 3%.

In February 2012, the Vanguard Target Retirement 2005 will be merged with the Vanguard Target Retirement Income. This evolution was expected as part of the addition of the Target Date Funds and the timing is determined by Vanguard and not the Plan.

The Committee took no action on this informational report.

9. 12-DC9

From Great-West Retirement Services, 2011 Annual Plan Review.
(INFORMATIONAL ONLY, UNLESS OTHERWISE DIRECTED BY THE COMMITTEE)

Appearance:

Sue Oelke, Great-West Retirement Services

The Plan has about 4,760 participants with an average age of 50.19 which is 5.01 years older than the national average. The average participant has approximately \$56,000 invested in the Plan. The average deferral percentage is 4.46%, and the average deferral amount is just over \$113. Participants hold an average of 4.35 different investment options.

Mr. Grady observed that there were 600 retirements in 2011 that should have some effect on the median age and suggested Great-West start to focus on younger participants.

Mr. Cady stated that even with participants contributing more towards their overall benefits, including their pensions, there was no big reduction in contributions to the Plan. Also, any flyers posted in County facilities that encourage rollovers to other retirement plans are not authorized by Milwaukee County, and certainly have not been reviewed by the Select Committee.

SCHEDULED ITEMS (CONTINUED):

Clarity was made regarding contributions to the Roth 457 and a pretax regular contribution. Both are done on a flat dollar amount basis.

The Committee took no action on this informational report.

10. 12-DC10 From Great-West Retirement Services, 2012 Strategic Marketing Plan.

Appearance:

Sue Oelke, Great-West Retirement Services

The proposed strategic plan will focus on employee and participant education and Plan design and governance. It will be broken down using a program calendar focusing on different areas each quarter. Great-West will evaluate their services on four key areas that include:

- 1) Participation
- 2) Asset Allocation
- 3) Education/Department Outreach
- 4) Retention/Retiree Outreach

The focus in the first quarter will be on direct mail, Do You Know Campaign, informational kits distributed on different shifts, target date funds with another investment that could be all encompassing, only one fund (diversification) and the Stable Value Fund. The second quarter will focus on retiree specific issues and Great-West will partner with the State 457 Plan to have a meeting in the evening hours. The third quarter will target enrollment, retiree/retention outreach along with a participant fee breakdown handout. The fourth quarter will focus on changes to the website, which are being designed to resemble a smart-phone interface look along with additional online web tools.

ACTION BY: (Ceschin) Approve the 2012 Strategic Market Plan as presented.
5-0

AYES: Grady, Walker, Ceschin, Russell and Cady (Chair) – 5

NOES: 0

11. 12-DC11 Performance of a periodic Due Diligence review of Great-West recordkeeping and retentions systems.

Mr. Cady suggested as fiduciary overseers of the Plan, an onsite visit to Great-West Retirement Services (GWRS) corporate headquarters should be done sometime in 2012. This will allow the Plan trustees to periodically review data security, Plan features and possibly receive on-site fiduciary training by GWRS legal staff. This conforms to published best practices for fiduciary oversight.

SCHEDULED ITEMS (CONTINUED):

ACTION BY: (Ceschin) Authorize a due diligence trip to Great West headquarters. Approve trip expenses for committee members to be paid from the plan. 5-0

AYES: Grady, Walker, Ceschin, Russell and Cady (Chair) – 5

NOES: 0

12. 12-DC12 Next regularly scheduled meetings of the Select Committee on Deferred Compensation: **(INFORMATIONAL ONLY, UNLESS OTHERWISE DIRECTED BY THE COMMITTEE)**

The next meeting will be May 7, 2012 at 9:00 a.m.

- May 7, 2012
- August 6, 2012

The previous items were not necessarily heard in the order listed.

This meeting was recorded. Committee files contain copies of the subject reports, communications, resolutions, and ordinances, which may be reviewed upon request to the Committee Clerk. The official copy of these minutes, along with the audio recording of this meeting, is available in the County Board Committee Services Division.

Length of meeting: 9:05 a.m. to 11:12 a.m.

Adjourned,

Carol Mueller

Chief Committee Clerk

Select Committee on Deferred Compensation

ADA accommodation requests should be filed with the Milwaukee County Executive Office for Persons with Disabilities, 278-3932 (voice) or 278-3937 (TTY), upon receipt of this notice.