



STATE OF WISCONSIN
Department of Employee Trust Funds
Eric O. Stanchfield
SECRETARY

801 W Badger Road
PO Box 7931
Madison WI 53707-7931
1-877-533-5020 (toll free)
Fax (608) 267-4549
TTY (608) 267-0676
<http://etf.wi.gov>

CORRESPONDENCE MEMORANDUM

DATE: October 25, 2006
TO: Wisconsin Deferred Compensation Board
FROM: Shelly Schueller, Director
Wisconsin Deferred Compensation Program
SUBJECT: Great West Retirement Services Contract Amendment Proposal

This memo explains why Department staff is recommending that the Board consider an amendment to the administrative services contract with Great-West Retirement Services (GWRS) for the Wisconsin Deferred Compensation Program (WDC). Staff is suggesting that the Board approve contract amendments that would do the following:

- Adjust the starting participation number in the contract to reflect the actual number of WDC participants at transition to GWRS (42,831).
- Provide a net increased participation goal of 3.5 percent annually (1,400 new participants) in each of the next five years. This increase is based on the WDC's historical growth over the past five years.

The proposed amendments would ensure that the GWRS local staff assigned to the WDC do not reduce and sacrifice their education and customer service efforts in an attempt to meet the current contract's increased participation quota. Failure to meet the participation quota would result in a monetary penalty payable to the Board by GWRS.

RATIONALE FOR CHANGE

The administrative services contract negotiated last year between the Board and GWRS ties the annual administrative fee due to GWRS to overall increases in WDC participation. The contract requires that there be 48,334 WDC participants by the end of 2006. GWRS is obligated to pay the Board a penalty for each participant below the quota. However, after the Request for Proposals (RFP) award was announced, the previous WDC administrative services provider abandoned most efforts to enroll new participants. Instead of the anticipated 45,754 WDC participants at the end of 2005, there were only 42,831 participants when the WDC transitioned to GWRS. This is a difference (shortfall) of 2,923 participants.

Reviewed and approved by Dave Stella, Deputy Secretary	
_____	_____
Signature	Date

Board	Mtg Date	Item #
DC	11/14/2006	13

Because the actual WDC participant number at transition was below the anticipated number, it is highly unlikely that GWRS will be able to meet the participation quota. For example, in order to avoid paying a penalty in 2006, GWRS would need to add over 5,500 new participants. In our opinion, this is an unrealistically high number of participants to add to the WDC in one year.

GWRS is on track to add approximately 2,500 new participants to the WDC this year, meaning that if the shortfall penalty described in the current contract at Article 7.3 is invoked, GWRS could be required to pay the Board \$134,264 in 2006 alone ($\$44.71 \times 3,003 = \$134,264$). Unless participant numbers experience an extraordinary increase, the shortfall penalty will increase each year of the contract.

Staff does not believe it is in the best interests of the WDC to reach the point of enforcing the participation quota penalty, as enforcing the penalty could have a detrimental effect on the WDC. To meet the participation quota, the local GWRS staff may be obliged to sacrifice WDC customer service and education efforts. After discussion, staff believes a goal of increasing WDC participation by a net 1,400 participants is a reasonable objective.

If the Board does not amend the contract and chooses to invoke the penalty, the risk is high that the administrative services provider would shift focus away from service to enrollment and may not be interested in extending or rebidding the contract. Therefore, staff recommends that the Board consider a contract amendment.

PROPOSED CONTRACT LANGUAGE

Staff has prepared draft contract language that revises Section A of Article 7.3, entitled "Recordkeeping and Communication Fees." The proposed language is shown below, using ~~strikeout~~ to show deletions and underlining to illustrate additions to the existing contract.

7.3 Payments to GREAT-WEST

A. Recordkeeping and Communication Fees

GREAT-WEST shall provide the basic recordkeeping and communication services described in this CONTRACT for an Annual Administrative Fee as set forth in the Annual Administration Fee Table below based upon the total number of participants RECORDKEPT during the annual period. The Annual Administration Fees are based upon the ~~approximate 41,000 initial participant estimate set forth in the 2005 Request for Proposal~~actual number of participants in force at the time of the PLAN'S transition to GREAT-WEST, 42,831. Annually, beginning in 2006 and for each of the next four years, the number of participants in the PLAN is expected to increase by a net of 3.5 percent over the number of participants in the PLAN at the end of the previous year.

Annual Administrative Fee Table

Year	2006	2007	2008	2009	2010
GREAT-WEST Administrative Fee	\$2,186,068 (\$182,172.34 monthly)	\$2,304,748 (\$192,062.34 monthly)	\$2,420,848 (\$201,737.34 monthly)	\$2,534,368 (\$211,197.34 monthly)	\$2,645,308 (\$220,442.34 monthly)
Expected # of participants RECORDKEPT during the annual period	48,334 <u>44,330 (3.5% net increase over the 42,831 participants at the end of 2005)</u>	50,914 <u>3.5% net increase – above participation total at end of 2006</u>	53,494 <u>3.5% net increase – above participation total at end of 2007</u>	56,074 <u>3.5% net increase – above participation total at end of 2008</u>	58,654 <u>3.5% net increase – above participation total at end of 2009</u>

In any year where the total number of participants RECORDKEPT during the annual period is less than the figures in the above table, GREAT-WEST will return a portion of its fee, which is in direct proportion to the shortfall in participant accounts. For example, for 2006 the total fee is \$2,161,068 and expected participants RECORDKEPT during the annual period are 48,334. This is an average fee of \$44.71 per PLAN participant for 2006. In the event that the actual number of participants RECORDKEPT during the annual period is only 47,334 (i.e. a shortage of 1,000 participants), GREAT-WEST would return \$44,710 to the PLAN (1,000 x \$44.71) within forty-five (45) days following the end of calendar year 2006. The same process is repeated at the end of each calendar year using the figures in the above table.

1. 3.5% Participation Growth Rate

Annually, within forty-five days of the end of the previous calendar year, GREAT-WEST and the DEPARTMENT (on behalf of the BOARD) agree to recalculate the expected number of participants RECORDKEPT during the next calendar year. This number will be based on the actual number of participants RECORDKEPT as of December 31 of the preceding year multiplied by an annual growth rate of 3.5%. For example, if the total number of participants RECORDKEPT as of December 31, 2006 was 43,330 (a 1,000 participant shortage of the expected 44,330 participants), the 2007 expected number of participants RECORDKEPT would be 44,846 (43,330 x 3.5%). The same process will be repeated forty-five days after the end of each calendar year, using 44,330 participants RECORDKEPT in calendar year 2006 as the starting point.

2. Failure to Grow Penalty Calculation

In any year where the total number of participants RECORDKEPT during the annual period is less than the expected number of participants to be RECORDKEPT that year as determined under subparagraph 1, GREAT-WEST will return a portion of its fee in direct proportion to the shortfall in participant accounts. For example, for 2006 the total fee is \$2,161,068 and expected participants RECORDKEPT during the annual period

are 44,330. This is an average fee of \$49.31 per PLAN participant for 2006. In the event that the actual number of participants RECORDKEPT during 2006 is only 43,330 (i.e. a shortage of 1,000 participants), GREAT-WEST would return \$49,310 to the PLAN (1,000 x \$49.31) within forty-five (45) days following the end of calendar year 2006. The same calculation will be repeated at the end of each calendar year, using 44,330 participants RECORDKEPT in calendar year 2006 as the starting point.

If actual number of participants RECORDKEPT during the annual period exceeds the figures in the above table, no additional revenue is due to GREAT-WEST.

GREAT-WEST agrees not to increase its fees if enrollments increase nor will GREAT-WEST increase its fees if PLAN participation decreases.”

RECOMMENDATION

Staff suggests that the Board consider amending the administrative services contract to:

- 1) Adjust the starting participation number in the contract to reflect the actual number of WDC participants at transition to GWRS (42,831).
- 2) Provide a net increased participation goal of 3.5 percent, or 1,400 new participants, for each of the next five years.

A draft contract amendment with the suggested changes is attached to this memo for your consideration. Staff will be available to discuss this recommendation with you at the Board meeting. If this recommendation is adopted, staff will finalize the contract amendment language and GWRS will be asked to sign it prior to the Board Chair signing the contract amendment.

Attachment

**FIRST AMENDMENT TO THE
STATE OF WISCONSIN DEFERRED COMPENSATION PROGRAM
ADMINISTRATIVE SERVICE CONTRACT
BETWEEN THE STATE OF WISCONSIN DEFERRED COMPENSATION BOARD
AND GREAT-WEST LIFE & ANNUITY INSURANCE COMPANY**

This First Amendment to the State of Wisconsin Deferred Compensation Program Administrative Service Contract (hereinafter "First Amendment") made and entered into this _____ day of _____, 2006, between the State of Wisconsin Deferred Compensation Board ("BOARD") and the Department of Employee Trust Funds ("DEPARTMENT") on behalf of the State of Wisconsin Deferred Compensation Program ("PLAN") and Great-West Life and Annuity Insurance Company ("GREAT-WEST") pursuant to Article 2.8 of the Administrative Service Agreement to amend the Agreement between the parties with an effective date of December 1, 2005).

WHEREAS, the BOARD and GREAT-WEST desire to further amend their respective rights and responsibilities under the AGREEMENT to provide for accurate starting participation numbers and increased participation;

NOW, THEREFORE, the parties hereby agree to further amend the terms and conditions of the AGREEMENT in consideration of the mutual covenants stated herein, as follows:

- I. Effective upon the execution by the parties of this AMENDMENT, Section A of Article 7.3, entitled "Recordkeeping and Communication Fees," of the AGREEMENT is deleted in its entirety and restated as follows:

"7.3 Payments to GREAT-WEST

A. Recordkeeping and Communication Fees

GREAT-WEST shall provide the basic recordkeeping and communication services described in this CONTRACT for an Annual Administrative Fee as set forth in the Annual Administration Fee Table below based upon the total number of participants RECORDKEPT during the annual period. The Annual Administration Fees are based upon the actual number of participants in force at the time of the PLAN'S transition to GREAT-WEST, 42,831. Annually, beginning in 2006 and for each of the next four years, the number of participants in the PLAN is expected to increase by a net of 3.5 percent over the number of participants in the PLAN at the end of the previous year.

Annual Administrative Fee Table

Year	2006	2007	2008	2009	2010
GREAT-WEST Administrative Fee	\$2,186,068 (\$182,172.34 monthly)	\$2,304,748 (\$192,062.34 monthly)	\$2,420,848 (\$201,737.34 monthly)	\$2,534,368 (\$211,197.34 monthly)	\$2,645,308 (\$220,442.34 monthly)
Expected # of participants RECORDKEPT during the annual period	44,330 (3.5% net increase over the 42,831 participants at end of 2005)	3.5% net increase – above participation total at end of 2006	3.5% net increase – above participation total at end of 2007	3.5% net increase – above participation total at end of 2008	3.5% net increase – above participation total at end of 2009

1. 3.5% Participation Growth Rate

Annually, within forty-five days of the end of the previous calendar year, GREAT-WEST and the DEPARTMENT (on behalf of the BOARD) agree to recalculate the expected number of participants RECORDKEPT during the next calendar year. This number will be based on the actual number of participants RECORDKEPT as of December 31 of the preceding year multiplied by an annual growth rate of 3.5%. For example, if the total number of participants RECORDKEPT as of December 31, 2006 was 43,330 (a 1,000 participant shortage of the expected 44,330 participants), the 2007 expected number of participants RECORDKEPT would be 44,846 (43,330 x 3.5%). The same process will be repeated forty-five days after the end of each calendar year, using 44,330 participants RECORDKEPT in calendar year 2006 as the starting point.

2. Failure to Grow Penalty Calculation

In any year where the total number of participants to be RECORDKEPT that year as determined under subparagraph 1, GREAT-WEST will return a portion of its fee in direct proportion to the shortfall in participant accounts. For example, for 2006 the total fee is \$2,161,068 and expected participants RECORDKEPT during the annual period are 44,330. This is an average fee of \$49.31 per PLAN participant for 2006. In the event that the actual number of participants RECORDKEPT during 2006 is only 43,330 (i.e. a shortage of 1,000 participants), GREAT-WEST would return \$49,310 to the PLAN (1,000 x \$49.31) within forty-five (45) days following the end of calendar year 2006. The same calculation will be repeated at the end of each calendar year, using 44,330 participants RECORDKEPT in calendar year 2006 as the starting point.

FIRST AMENDMENT TO THE STATE OF WISCONSIN
DEFERRED COMPENSATION PROGRAM ADMINISTRATIVE SERVICE CONTRACT
BETWEEN THE STATE OF WISCONSIN DEFERRED COMPENSATION BOARD AND
GREAT-WEST LIFE & ANNUITY INSURANCE COMPANY
NOVEMBER 2006

Page 3

If the actual number of participants RECORDKEPT during the annual period exceeds the expected participation in the above table, no additional revenue is due to GREAT-WEST.

GREAT-WEST agrees not to increase its fees if enrollments increase nor will GREAT-WEST increase its fees if PLAN participation decreases.”

In all other respects, the AGREEMENT shall remain the same.

IN WITNESS THEREOF, THE BOARD, ON BEHALF OF THE STATE OF WISCONSIN, AND GREAT-WEST HAVE EXECUTED TWO (2) ORIGINALS OF THIS CONTRACT AMENDMENT EFFECTIVE THE ____ DAY OF NOVEMBER, 2006.

State of Wisconsin Deferred Compensation Board

Name: Edward D. Main

Title: Board Chair

Signature: _____ Date: _____

Witnessed by

Name: _____ Date: _____

Title: _____

Great-West Life & Annuity Insurance Company

Name: Gregory E. Seller

Title: Senior Vice President, Government Markets

Signature: _____ Date: _____

Witnessed by

Name: _____ Date: _____

Title: _____