



STATE OF WISCONSIN
Department of Employee Trust Funds
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CORRESPONDENCE MEMORANDUM

DATE: November 8, 2011
TO: Employee Trust Funds Board
FROM: Mary Alice McGreevy, Compliance Officer
Office of Policy, Privacy and Compliance
SUBJECT: Tax Compliance Update

This memo is for informational purposes only. No Board action is required.

State law requires both the Board and the Secretary of the Department to ensure the Wisconsin Retirement System (WRS) complies with the Internal Revenue Code (IRC). Federal tax law, and a pension system's compliance with it, is a highly complex and specialized field of law.

Based on the authority delegated by the Board in September 2008, the Department engaged the services of Ice Miller, LLP, of Indianapolis as federal tax counsel. Ice Miller's attorneys are nationally respected in the field of public pension law and have worked with many large public pension plans in Voluntary Correction Program (VCP) and Determination Letter filings.

As reported to the Board previously, using the VCP and Determination Letter filing process greatly benefits the WRS, as it allows the Department to take preemptive corrective action to ensure compliance with the IRC.

On November 29, 2010, the Department submitted a request for a Compliance Statement and favorable Determination Letter to the Internal Revenue Service (IRS). On September 14, 2011, the Department received an IRS Compliance Statement for the WRS for the VCP under the Employee Plans Compliance Resolution System. The Compliance Statement provides that the Department's proposed methods of correction and revision are appropriate. The IRS finding is contingent on:

- the issuance of a favorable Determination Letter;
- certain amendments to Chapter 40 of the Wisconsin Statutes; and,

Reviewed and approved by Steve Hurley, Director, Office of Policy,
Privacy and Compliance

Signature _____ Date 11-15-2011

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- completion of ETF administrative rules within 91 days following the close of the next legislative session after the date of the compliance statement. This would take place after the 2013-2014 session.

The required administrative rule amendments have been reviewed by the Wisconsin Joint Legislative Council and are undergoing final revisions before a public hearing is conducted. After the public hearing, the Department will present the rules for Board approval. As for the statutory changes required under the filing, the Department has prepared a proposed bill draft and the Department's Legislative Liaison is working to find a sponsor for the bill.

The entire scope of WRS law and regulation, including operational policies and procedures, were reviewed in depth. Suggestions were made to ensure clarity and consistency in Wisconsin Statutes to current IRS regulations. These suggestions are included in the tax compliance bill. Many of the changes in Chapter 40 are required to conform with IRS regulations that have changed since the last independent tax counsel review of the WRS conducted in the late 1990s. Other provisions clarify and codify department practice where, previously, the statutory language did not address the practice at a sufficient level of detail.

The Department's Tax Compliance project is progressing as expected and we anticipate its completion when the statutory and rule changes are completed.

Department staff will be available at the meeting to answer any questions the Board may have.