



STATE OF WISCONSIN
Department of Employee Trust Funds

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CORRESPONDENCE MEMORANDUM

DATE: February 20, 2008
TO: Deferred Compensation Board
FROM: Shelly Schueller, Director
Deferred Compensation Program
SUBJECT: Financial Emergency Hardship Application Trends

The Deferred Compensation Board (Board) regularly receives information on individual financial hardship applications as well as quarterly reports. This memo provides cumulative information on hardship applications over the past several years. While there has been a significant increase in the number of hardship applications nationwide, in Wisconsin it is only over the past twelve months that an increase has been noticed.

Background

The guidelines for approval of financial hardship withdrawals (unforeseeable emergencies) from deferred compensation accounts are defined in Section 457 of the Internal Revenue Code. Examples include loss of income, foreclosure, eviction, legal expenses, medical bills beyond what insurance covers and funeral expenses. Examples of situations that are not considered unforeseeable emergencies include college tuition and purchase of a home.

Participants who experience financial hardships may file a financial emergency hardship application with the Wisconsin Deferred Compensation (WDC) Program by contacting the Great-West Retirement Services (GWRS) call center or the local Madison staff. GWRS staff assist the participant in completing the *Emergency Withdrawal Application*. GWRS also provides information on the types of additional documentation (paycheck statements, foreclosure or eviction notices, etc.) that may help justify the request.

On average, GWRS staff spend 30-45 minutes processing each hardship application. This time includes reviewing the application, speaking with the participant, making recommendations regarding additional documentation that may support the participant's application and forwarding the completed hardship application package to the Department of Employee Trust Funds (ETF) for a determination. ETF staff spend approximately 30 minutes per application reviewing documentation in order to determine whether to approve or deny an application. If a denial is appealed to the Board, several more hours of work by ETF staff is usually required.

The number of hardship applications reviewed by ETF differs from the number submitted to GWRS. When an application is received, GWRS staff review it and frequently contact the participant to obtain additional information. In approximately 45% of the cases, the participant does not respond and the application is not processed. The charts in this memo pertain only to completed applications reviewed by ETF over the past four years.

Reviewed and approved by Jean Gilding, Deputy Administrator,
Division of Retirement Services

Signature

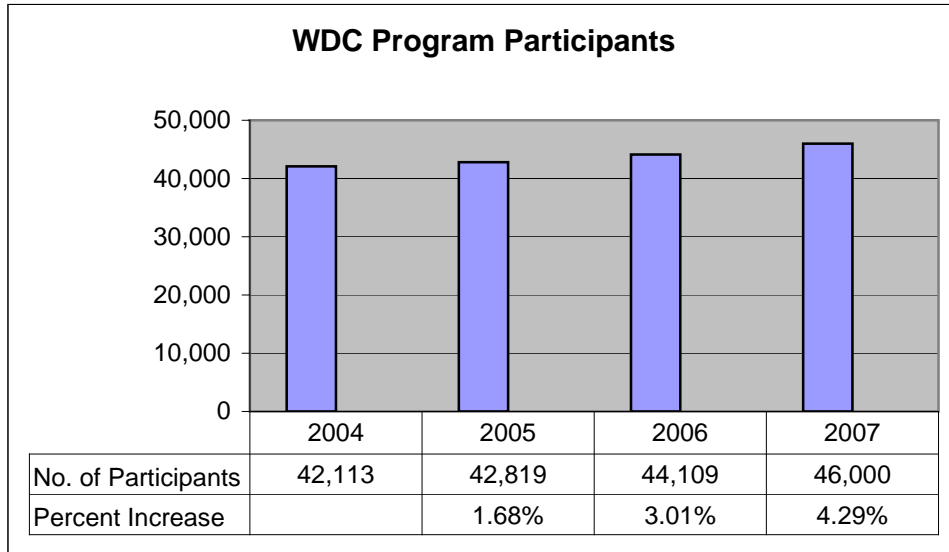
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Board	Mtg Date	Item #
DC	03/04/2008	5

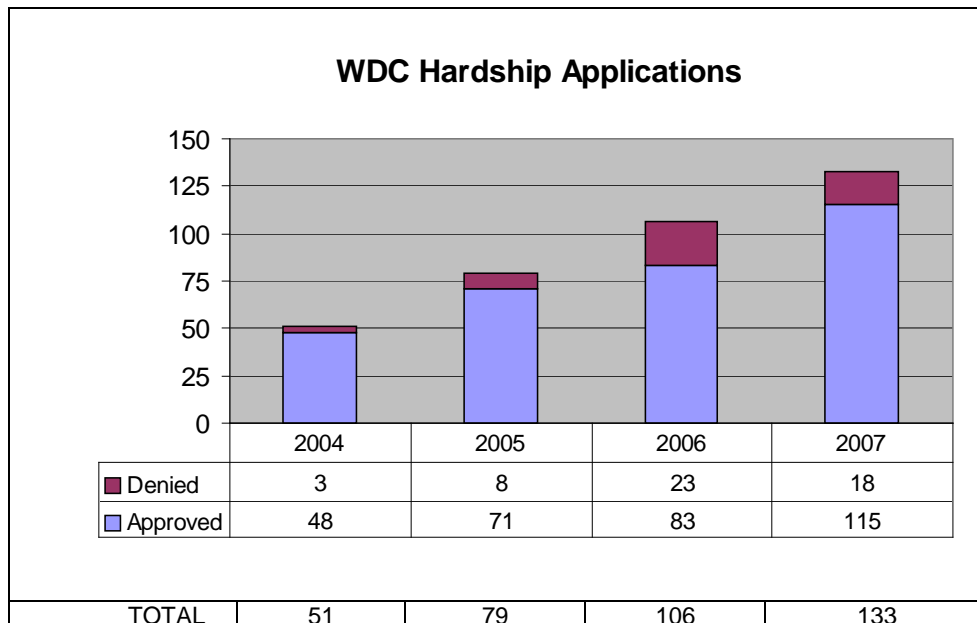
After completing its review, GWRS forwards the application and supporting documentation to ETF for review and a decision. By law, ETF must process these requests within five days of receipt. Once a determination on a hardship application has been completed, GWRS has ten days to issue a payment to the participant or provide rationale for the denial.

Trends

Participation in the WDC Program increased from 42,113 members in 2004 to approximately 46,000 members in 2007, an increase of nearly 9%.

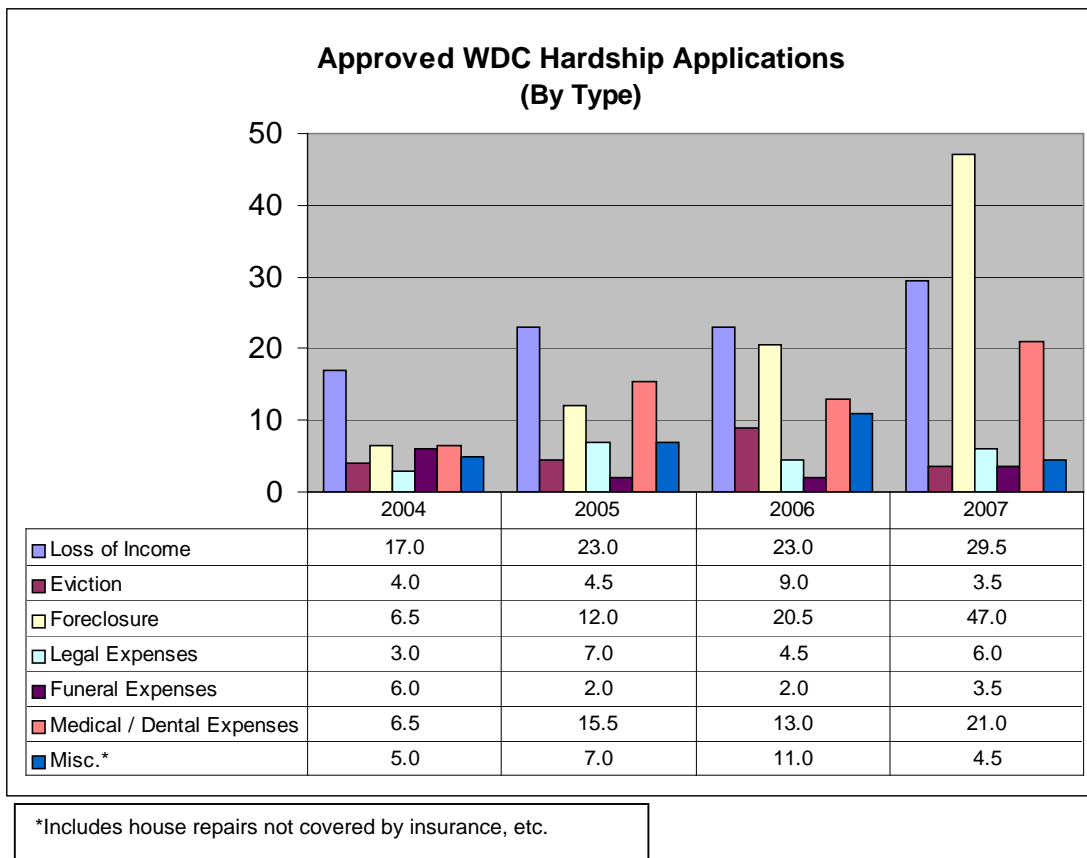


During this same period, the number of hardship withdrawal requests increased from 51 applications in 2004 to 133 in 2007, an increase of 115%.



In addition to an increase in the number of hardship applications, the amount disbursed has steadily increased. In 2004, the average amount paid per application was \$4,679. In 2007, the average amount paid per application was \$5,656.

The chart below shows the applications (by type) that were approved over the past four calendar years. For that time period, “loss of income” and “foreclosure” were the primary reasons for approval of financial emergency applications.



Loans

Many s. 457 plans choose to offer an optional loan program to participants. Making funds available through loans is seen as an easier way for participants to access funds than the hardship process. Some believe that participants may be more likely to contribute to a plan if they know they have access to the money if needed.

GWRS does not receive a significant number of loan requests. The most common reasons for seeking a loan are to purchase a home and fund college education expenses. When members first enroll in the WDC, they are advised that their funds cannot be withdrawn for these purposes.

At its May 15, 2007, meeting, the Board discussed allowing participants to obtain loans from their WDC accounts. At that time, the Board determined that retirement plan loans were not in the best interest of the participants and, therefore, it would not be making

changes to the plan to allow loans. (A copy of the May 4, 2007, memo outlining the pros and cons of participant loans is attached.)

Reporting

Under § ETF 70.10(6), Wis. Admin. Code, ETF is required to prepare and present a report on unforeseeable hardship activity since the last meeting to the Board. For many years, ETF has provided a brief quarterly report from the recordkeeper and a narrative report that includes the date the hardship was submitted to GWRS, the specific situation creating the need for a distribution, and the date and decision made by ETF. (See Item 11(l) for the current reports.)

In the past year, staff has also added the recordkeeper's hardship data to a report entitled "Selected Quarterly Statistics." The data on this report includes total applications received, returned for more information, and submitted to ETF for review. This report provides a running percentage of applications approved and denied.

Conclusion

If the trends of the past several years hold, the number of hardship requests will continue to rise. Staff will continue to track the volume of hardship applications. If the volume becomes unmanageable, we may seek other methods for processing these requests.

Staff will be available at the March 4, 2008, meeting to discuss this memo and to answer questions from the Board.

Attachments: May 4, 2007, Memo
Associated Press Article *More Americans raid their retirement accounts* (2/20/08)