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CORRESPONDENCE MEMORANDUM

DATE: April 21, 2010

TO: Deferred Compensation Board

FROM: Robert C. Willett, CPA
Chief Trust Financial Officer

SUBJECT: Participant Fee Recommendations

Recommendation: Staff recommends no changes to the administrative fee paid by plan participants at this time. Fees should be reviewed again next year to assure adequate reserves are being maintained to administer the program.

Background: The Wisconsin Deferred Compensation Program (WDC) maintains an administrative account that is used to pay the administrative expenses for the plan. These expenses consist primarily of the administrative services contract with Great West Retirement Services, but also include the costs for Department of Employee Trust Funds (ETF) staff, audits and other plan expenses.

Revenues to fund administrative expenses come from participant fees, investment provider reimbursements, and investment income on the account balance. During recent years, the following revenues and expenses were recorded in the administrative account.

Wisconsin Deferred Compensation Administrative Account
In thousands $

	2009	**2008**	**2007**	**2006**	**2005**
January 1 Account Balance	$ 2,718	$ 2,730	$ 1,858	$ 1,645	$ 1,541
Revenues					
Participant Fees	1,065	1,085	1,340	1,647	1,528
Investment Provider Reimbursements	988	1,325	1,811	920	1,070
Investment Earnings & Other	124	162	119	66	65
Total Revenues	2,177	2,572	3,270	2,633	2,663
Expenses					
Administrative Services Contract	2,534	2,421	2,305	2,198	2,374
DRO Fees	15	19	12	0	0
ETF Administration & Miscellaneous	134	144	81	222	185
Total Expenses	2,683	2,584	2,398	2,420	2,559
December 31 Account Balance	$ 2,212	$ 2,718	$ 2,730	$ 1,858	$ 1,645
Account Balance as % of Projected Annual Expenses	79%	101%	106%	77%	68%

Reviewed and approved by Jon Kranz, Director, Office of Budget and Trust Finance.

Signature ______________ Date ______________

Board	Mtg Date	Item #
DC	05/18/2010	8

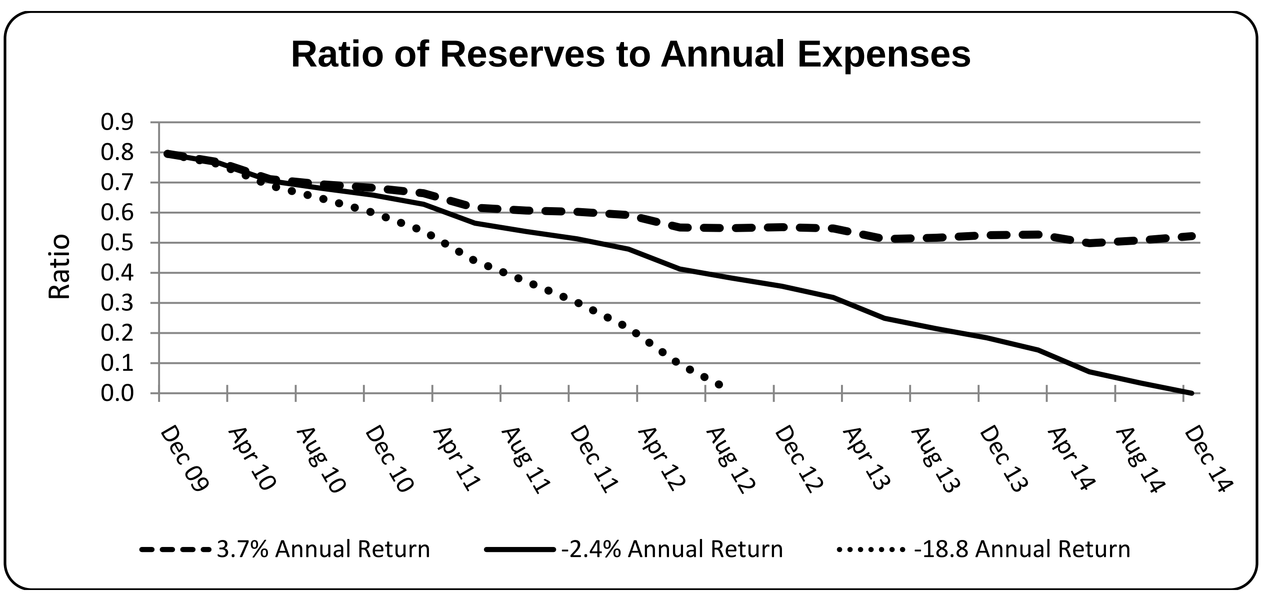
The Board's goal for the administrative account is to maintain an account balance equal to 50% of annual operating expenses. This balance assures that funds will be available to pay expenses when due, and provides a cushion against reduced participant fees and investment provider reimbursements that would occur during a market downturn. At 79%, the account balance exceeds that target.

The plan's two primary sources of revenue -- participant fees and investment provider reimbursements -- are both closely correlated to plan assets. During 2008, the decline in investment values reduced net plan assets by over 21%. However, much of that decline occurred in the 4th quarter, so participant fees and fund reimbursements were not significantly affected until 2009. Despite a significant recovery in 2009, plan assets remain below 2007 balances and 2009 revenues were 15% below 2008 levels.

Our projections show that an average annual investment return of 3.7% will be needed to grow plan assets to the level required to maintain the reserve balance above the 50% target over the next five years. If investment returns average less than 3.7% over the long term, the reserve balance will drop below our target and a participant fee increase may be required. An average annual return greater than 3.7% will result in growth in the reserve account which could allow further cuts in participant fees.

An average annual investment return of -2.4% would lower the reserve balance near the 50% target by the end of 2011 and totally exhaust the reserve by the end of 2014. No action would be required by the board in the next year, but by 2012 the board would need to consider a fee increase to stabilize the reserve fund.

An average annual investment return of -18.8% would lower the reserve balance below 60% by the end of 2010, and totally exhaust the reserve by the end of 2012. Under these conditions the board would need to consider a fee increase next year to stabilize the reserve fund.



Based on the current reserves in our administrative account, no action is necessary at this time. The next scheduled review of participant fees will be at your May 2011 meeting unless market conditions make an earlier review appropriate.

ETF staff will be available at the May 18, 2010, meeting to answer any questions you may have.