



STATE OF WISCONSIN
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CORRESPONDENCE MEMORANDUM

DATE: October 9, 2013
TO: Deferred Compensation Board
FROM: Shelly Schueller, Director
Wisconsin Deferred Compensation Program
SUBJECT: Self-Directed Brokerage Account Options

The Board is asked to consider expanding investment choices available in the Self-Directed Brokerage Account (SDBA).

Wisconsin Deferred Compensation Program (WDC) participants have the ability to invest in additional mutual funds not currently found in the WDC's core investment lineup by using the Self Directed Brokerage Account (SDBA) option provided by Charles Schwab and Co.

The Board periodically reviews the investment options and services offered through the WDC, including the SDBA. The Investment Committee met on August 20, 2013, reviewed the information in the attached July 16, 2013 memo titled "Self-Directed Brokerage Account Option Review," and discussed the SDBA with Ken Nichols of Schwab. Mr. Nichols shared a list of potential options that could be added to the SDBA, including tax-exempt mutual funds, stocks and taxable fixed income. The Investment Committee wanted to gauge participants' interest in having additional investment options, so a brief online survey was created and released in October. The preliminary results will be shared at the November Board meeting.

If the Board chooses to expand the choices in the SDBA:

- Schwab would need an updated trading menu from the Board indicating which additional options the Board will make available through the SDBA option; and
- Department of Employee Trust Funds (ETF) staff would work with Great-West Retirement Services to publicize the expansion to participants.

Staff from Schwab and ETF will be available at the November 5, 2013 Board meeting to answer any questions.

Attachments: A. Schwab Presentation
B. Schwab Personal Choice Retirement Account Pricing Summary
C. July 16, 2013, memo to Investment Committee
D. Schwab trading menu analysis
E. Updated Trading Menu Change Form

Reviewed and approved by Matt Stohr, Administrator
Division of Retirement Services

Electronically Signed 10/14/13

Board	Mtg Date	Item #
DC	11.5.13	10

charles
SCHWAB



Wisconsin Deferred Compensation Program

Schwab Personal
Choice Retirement
Account[®] (PCRA)

November 5, 2013

Agenda

How We Lead In Innovation

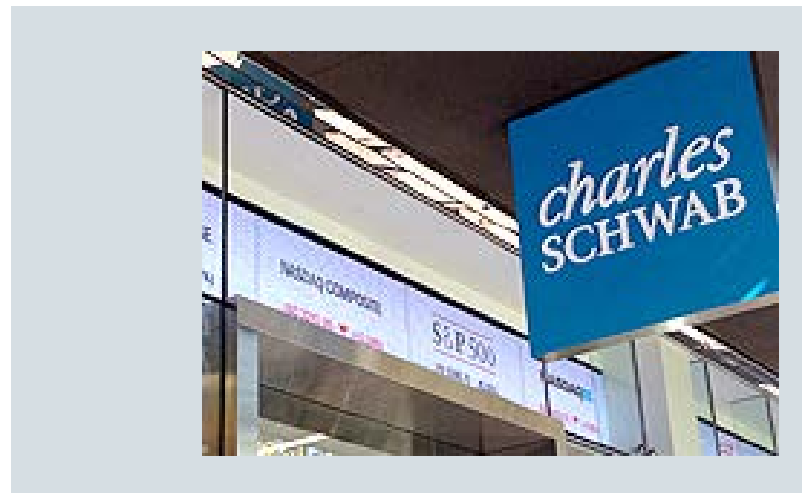
Why Working With Schwab Matters

PCRA Features And Benefits

Overview Of Participant Experience

Managing Costs

Ongoing Support



About Charles Schwab & Co., Inc.

At Schwab, we believe the best long-term growth strategy is one that puts clients first. **Seeing our business “through clients’ eyes”** helps us earn our clients’ trust as we strive daily to fulfill our purpose and act according to our values.

Schwab is united by a common purpose

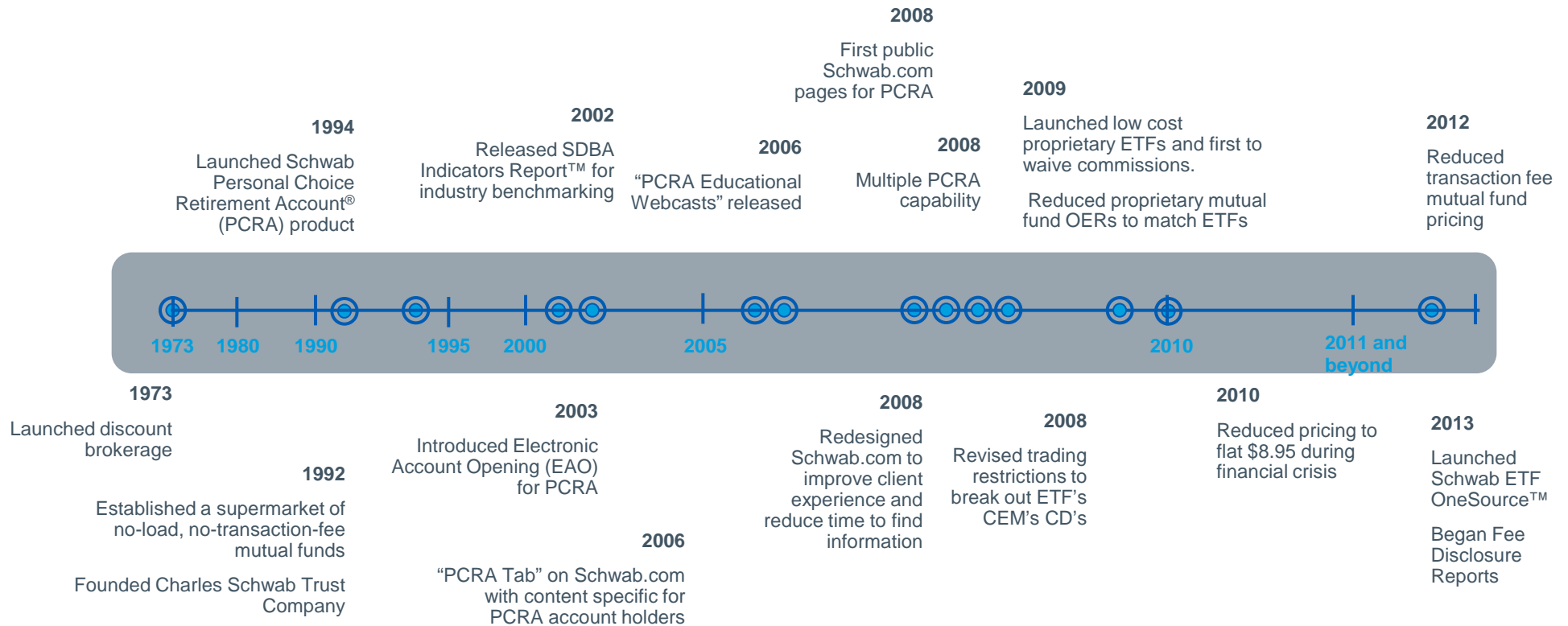


Schwab

Brokerage is our
core competency

- **40 years** in the industry
- Founded in 1973
- Over **9 million** client brokerage accounts
- Over 7,000 advisors
- **\$2.08 trillion** in client assets
- 300 branches

Schwab PCRA has a long legacy of being the SDBA industry leader



Schwab PCRA Stats

Our core
competency

7,400
plan sponsors

19 years
of product
focus

Client assets
\$23.7B

173,000
individual
PCRAs

Aligns with
company
purpose to put
Participants
first

Industry
pioneer

Dedicated Service Teams

WDC and Great West

Relationship Manager

- Lead integrated service teams
- Help develop, execute and monitor your goals

Client Service Manager

- Daily operations and client service primary contact
- Monitor quality and accuracy of files

Conversions

Operations

Technical
Client
Support

Participant
Call Center

Product
Development

Marketing /
Communications

Industry-Leading Customizable Trading Menu

▪ Sponsor May Allow or Restrict:

- Taxable funds
 - Mutual Fund OneSource Funds (No Load, NTF)
 - Specific Funds
- Tax-exempt Mutual Funds
- Equities
 - OTC or Nasdaq stocks
 - Exchange-traded funds (ETFs) only
 - Schwab ETF OneSource™ funds only
 - Closed-end mutual funds only
- Publicly Traded Limited Partnerships
- Taxable Fixed Income
 - Certificates of deposit (CDs)
- Tax-Exempt Fixed Income
 - Treasuries
- Foreign Securities (not ADR's)
- Option contracts (covered calls/protective puts)

▪ ERISA/Schwab Restrictions:

- Collectibles
- Futures
- Commodities
- Precious metals
- Currencies
- Physical assets, such as real estate
- Margin accounts
- Short sales
- Private placements
- Limited partnerships
- Physical assets (ex. real estate)
- Options (excluding covered calls and protective puts), if plan allows
- Alternative Investments

Schwab ETF OneSource™

Schwab ETF OneSource

over 100 ETFs with \$0 commissions when traded online in PCRA

Leading ETF providers include:

charles SCHWAB
INVESTMENT
MANAGEMENT



GUGGENHEIM
INVESTMENTS

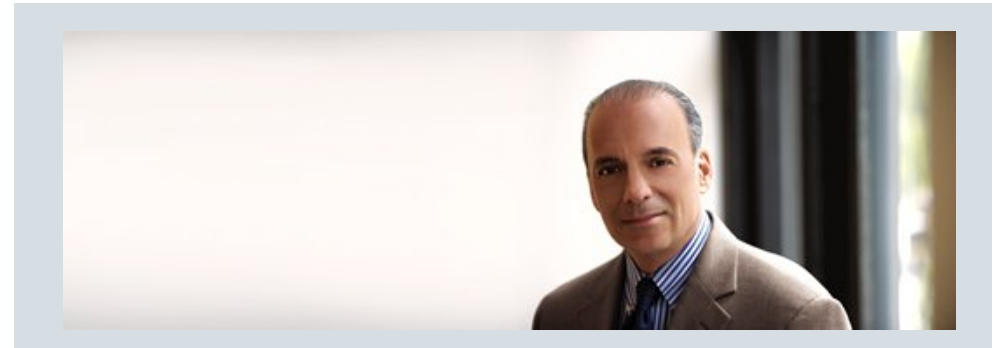
powerSHARES®



View all the ETFs available at www.schwab.com/ETFOneSource, or call the PCRA Call Center at 1-888-393-PCRA (7272) for assistance.

Comprehensive Plan Reporting

- Plan-level quarterly reporting
 - High-level PCRA trading and investing statistics and trends
- PCRA trust reporting
 - Comprehensive online monthly and annual trust statements
- Assistance with audit requests
- Self-Directed Brokerage Account Indicators Report™
 - Asset allocation trends, asset flow categories and trading activity
 - Available at www.schwab.com/sdbaindicators



Delivering on Fee Disclosures - Even for Non-ERISA Plans

5500 Schedule C Fee Disclosure

408(b)(2) Sponsor Fee Disclosure

- Initial report was sent to plan sponsors in 2012
- On a monthly basis, an automated process checks for changes necessitating an updated report be sent



404(a)(5) Participant Fee Disclosure Assistance

- Pricing Guide details all potential fees and commissions in a PCRA
- Online and live trade order verification process notifies Participant of any commissions or fees prior to placing a trade
- Trade confirmations sent to Participants, upon execution of a trade, detail any commissions or fees associated with the trade
- A Schwab PCRA fee information report is sent to Participants quarterly, providing an update of fees assessed in their PCRA during the previous quarter

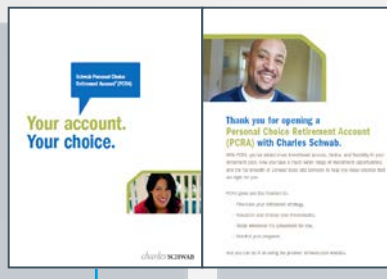
Participant Experience

Participant learns about Schwab PCRA

Electronically opens account

Click link on www.WDC457.org to enroll

Receives PCRA Welcome Kit

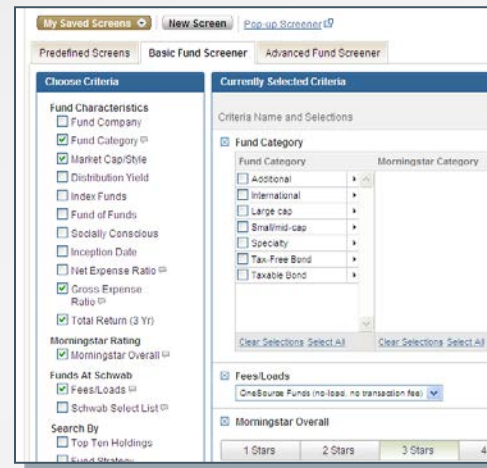


Logs into Schwab.com to view account

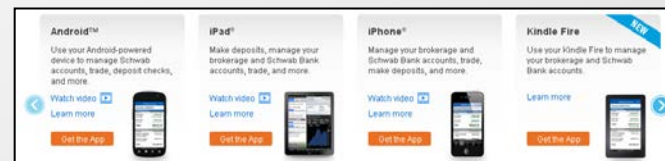
Transfers money to PCRA from core

Participant uses tools to research investments and place trades

Access to market experts, screeners and select lists aid in investment research

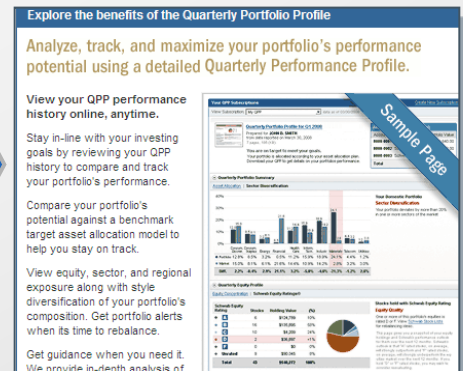


Leading website, apps, and PCRA call center make it convenient to place trades



Participant monitors investments, reviews performance, rebalances as necessary

Performance reporting tools, portfolio checkups, and alerts keep Participant on track with goals



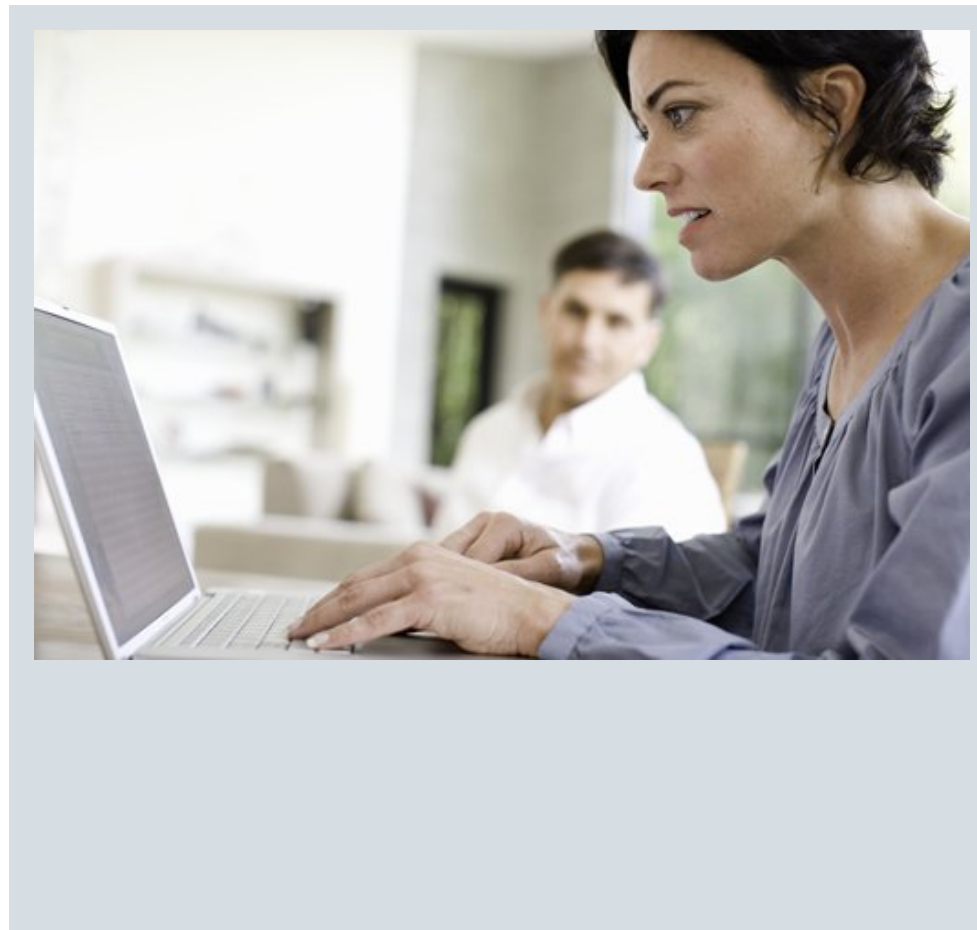
Participant Educational Tools and Resources

Tools available for Participants to learn how to manage their account

- Schwab.com workshops at www.schwab.com/workshops
- PCRA Resources section on Schwab.com
- Participant educational materials
- PCRA Educational Webcast
- PCRA Call Center

Schwab will provide Participants with electronic or paper

- Monthly statements
- Trade confirmations
- Regulatory materials



Participant Research and Monitoring Tools and Resources

- Powerful proprietary research tools on Schwab.com, including the Schwab Mutual Fund OneSource Select List^{®1}, the Schwab ETF Select List^{™2}, and Schwab Equity Ratings^{™3}.
- In addition, Schwab provides independent, third-party research from leading providers such as Credit Suisse, Argus Research, Standard & Poor's, Morningstar[®], Reuters, MarketEdge[®] and JP Morgan Fixed Income Research.
- Equity, mutual fund, exchange-traded fund, and fixed income screener tools to help you narrow down your investment choices.
- Robust monitoring tools including Portfolio Health, Quarterly Portfolio Profile, and Portfolio Checkup.

Multi-channel access

Trade on the go

Research and place trade orders via:

- www.schwab.com
- TeleBroker® touch tone
- Schwab by Phone™ voice recognition
- Dedicated PCRA Call Center at 1-888-393-7272
- Mobile Applications
- Automatic Investment Plan (AIP)

Brokerage Products: Not FDIC-Insured • No Bank Guarantee • May Lose Value



Providing Value To Participants

PCRA Fees and Commissions

- Over 3,800 of the 7,000+ mutual funds offered through PCRA are available with no load or transaction fees
 - Participants can Visit the PCRA Investments section of PCRA Resources on www.schwab.com for a comprehensive list of funds available in PCRA
- Some purchases and sales in PCRA may be subject to fees and commissions
 - For details, visit the PCRA Overview section of PCRA Resources on www.schwab.com to review the *Charles Schwab Pricing Guide for Retirement Plan Accounts*
- Use Schwab's automated and electronic services to help reduce costs

Dedicated PCRA Call Center

Our dedicated call center representatives focus entirely on supporting PCRA Participants:

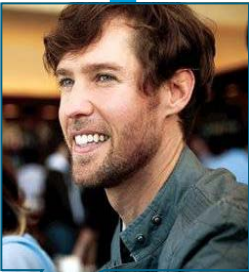
- They are experienced in both the retirement industry as well as brokerage
- They know your plan's specifics
- On average, our PCRA Reps have 10 years with Schwab and 16 in the industry
- Monday-Friday from 8:00 a.m. – 6:30 p.m. Central
- 1-888-393-PCRA (7272)



We listen and respond to all of our clients

Client Promoter Score (CPS) is one of the ways we listen to our clients. By listening and responding to client feedback, our goal is to improve the client experience and increase client loyalty.

Plan Sponsors and Recordkeepers
Let us know how to improve our service



Participants
tell us about
their
experience

Schwab's Vision
To help investors become
financially fit – by
creating an outstanding
client experience

We listen and
make
improvements

Disclosures

¹Charles Schwab & Co., Inc. (Member SIPC) receives remuneration from fund companies for recordkeeping and shareholder services and for other administrative services for shares purchased through Schwab's Mutual Fund OneSource® program. Schwab also may receive remuneration from transaction-fee fund companies for certain administrative services.

Trades in no-load mutual funds available through OneSource (including Schwab Funds®), as well as certain other funds, are available without transaction fees when placed through Schwab's electronic channels such as, Schwab.com, mobile applications, or automated phone services. Schwab reserves the right to change the funds we make available without transaction fees and to reinstate fees on any funds. Funds are also subject to management fees and expenses.

Schwab's short-term redemption fee will be charged on redemption of funds purchased through Schwab's Mutual Fund OneSource® service (and certain other funds with no transaction fee) and held for 90 days or less. Schwab reserves the right to exempt some funds from this fee, including certain Schwab Funds®, which may charge a separate redemption fee, and funds that accommodate short-term trading.

²Conditions apply: Trades in ETFs available through Schwab ETF OneSource (including Schwab ETFs™) are available without commissions when placed online through a Schwab account. Service charges apply for trade orders placed through a broker (\$25). An exchange processing fee applies to sell transactions. Certain types of Schwab ETF OneSource transactions are not eligible for the commission waiver, such as short sells and buys to cover (not including Schwab ETFs). Schwab reserves the right to change the ETFs we make available without commissions. All ETFs are subject to management fees and expenses. Please see the *Charles Schwab Pricing Guide for Retirement Plan Accounts* (the "Pricing Guide") for additional information. As of 2/7/2013, Schwab ETF OneSource had 105 ETFs.

Investment returns will fluctuate and are subject to market volatility, so that an investor's shares, when redeemed or sold, may be worth more or less than their original cost. Shares are bought and sold at market price, which may be higher or lower than the net asset value (NAV).

Charles Schwab & Co., Inc. receives remuneration from third-party ETF companies participating in Schwab ETF OneSource™ for recordkeeping, shareholder services, and other administrative services, including program development and maintenance.

Schwab ETFs™ are distributed by SEI Investments Distribution Co. (SIDCO). SIDCO is not affiliated with Charles Schwab & Co., Inc. Learn more at schwab.com/SchwabETFs.

Third-party Schwab ETF OneSource shares purchased may not be immediately marginable at Schwab.

Charles Schwab Investment Management, Inc. is the investment advisor for Schwab ETFs and an affiliate of the Charles Schwab Corporation. "SPDR" is a registered trademark of Standard & Poor's Financial Services, LLC ("S&P") and has been licensed for use by State Street Corporation. No financial product offered by State Street or its affiliates is sponsored, endorsed, sold or promoted by S&P. PowerShares® is a registered trademark of Invesco PowerShares Capital Management LLC (Invesco PowerShares). Invesco PowerShares and Invesco Distributors, Inc. are indirect, wholly owned subsidiaries of Invesco Ltd. USCF® and the United States Commodity Funds® are registered trademarks of United States Commodity Funds LLC Limited Liability Company Delaware. All rights reserved.

³ Schwab Equity Ratings® and the general buy/hold/sell guidance are not personal recommendations for any particular investor or client and do not take into account the financial, investment or other objectives or needs of, and may not be suitable for, any particular investor or client. Investors and clients should consider Schwab Equity Ratings as only a single factor in making their investment decision while taking into account the current market environment.

Schwab Equity Ratings are assigned to approximately 3,000 of the largest (by market capitalization) U.S.-headquartered stocks using a scale of A, B, C, D and F. Schwab's outlook is that A-rated stocks, on average, will strongly outperform and F-rated stocks, on average, will strongly underperform the equities market over the next 12 months. Each of the approximately 3,000 stocks rated in the Schwab Equity Ratings universe is given a score that is derived from several research factors. The assignment of a final Schwab Equity Rating depends on how well a given stock scores on each of the factors and then how that stock stacks up against all other rated stocks.

Schwab Personal Choice Retirement Account® (PCRA) is offered through Charles Schwab & Co., Inc. (Member SIPC), a registered broker-dealer which also provides other brokerage and custody services to its customers.

Schwab Personal Choice Retirement Account® (PCRA)

Pricing Summary—Effective March 2013

Schwab provides a broad range of value-added services, some of which have associated fees. This document provides you with a summary of your plan-specific commissions and transaction fees for trade orders placed in your Schwab PCRA. This pricing summary supersedes any prior pricing summaries, pricing guides, and notices that you may have received. Schwab reserves the right to change or waive fees at our discretion.

Applicable Accounts: This pricing summary applies only to the PCRA accounts held at Charles Schwab & Co., Inc., and established on behalf of retirement plan participants.

You can obtain more information about PCRA commissions and transaction fees by calling Schwab's dedicated PCRA Call Center at 1-888-393-PCRA (7272), Monday through Friday, 9:00 am through 7:30 pm (ET). Or, view the current *Charles Schwab Pricing Guide for Retirement Plan Accounts* on Schwab.com for a more complete description of all other commissions and transaction fees.

Definition of Electronic Trades: Trades placed through Schwab's electronic channels, such as Schwab.com, mobile applications, and automated phone services. Certain securities may not be available through all electronic trading channels.

Note: Your PCRA is a cash-up-front account. For all purchases, we require cleared funds in the account. When you're selling, we require securities on deposit. It is your responsibility to avoid overspending your account. If your account becomes overspent, Schwab reserves the right to liquidate a portion of your account to cover the debit balance. If liquidation is necessary, a broker-assisted fee of \$25 will apply.

Commissions and Transaction Fees¹

Equities

Stocks and Third-Party Exchange-Traded Funds (ETFs) per Executed Trade*		ETFs (including Schwab ETFs™) participating in Schwab ETF OneSource™ per Executed Trade ³	
Trading Channel	Commissions	Trading Channel	Commissions
Electronic ²	\$8.95	Electronic	\$0
Broker-Assisted	Electronic transaction fee, plus \$25	Broker-Assisted	Electronic transaction fee, plus \$25

*These fees also apply to trades of Canadian stocks, American Depositary Receipts, and stocks of foreign-incorporated companies that are listed on U.S. or Canadian exchanges or whose trades clear and settle in the U.S. or Canada.

Foreign Stock Transactions* Trades Placed on the U.S. Over-The-Counter Market		Foreign Stock Transactions Trades Placed Directly on a Foreign Exchange	
Trading Channel	Transaction Fee	Trading Channel	Transaction Fee
Electronic	\$8.95, plus a \$50 foreign transaction fee ⁴	Electronic	Not available
Broker-Assisted	\$83.95; electronic commission of \$8.95, plus \$25 for broker assistance, plus a \$50 foreign transaction fee	Broker-Assisted	The greater of \$100 or 0.75% of principal, with no maximum

*These fees also apply to trades of foreign ordinary shares placed directly on a foreign exchange or on the U.S. over-the-counter market.

Mutual Funds⁵

Some funds may also charge sales and/or redemption fees. Please read the prospectuses for details.

No-Transaction-Fee Funds (includes funds available through the Mutual Fund OneSource [®] service) ⁶		Transaction-Fee Funds ⁶	
Trading Channel	Transaction Fee	Trading Channel	Transaction Fee
Electronic	\$0	Electronic	\$50 per buy, \$0 per sell
Broker-Assisted	\$25 service charge per trade may apply	Broker-Assisted	Electronic fee, plus \$25 service charge per trade

Note: For information about offshore funds (funds registered outside the U.S. for purchase by non-U.S. persons only), please call the Schwab PCRA Call Center.

Investors should consider carefully information contained in the prospectus, including investment objectives, risks, trading policies, charges, and expenses. You can request a prospectus by calling Schwab's dedicated PCRA Call Center at 1-888-393-PCRA (7272). You may also request a prospectus online at www.schwab.com/prospectus. Please read the prospectus carefully before investing.

Options⁷

Options per Executed Trade	
Trading Channel	Commissions
Electronic	\$8.95, plus \$0.75 per contract
Broker-Assisted	Electronic commission, plus \$25

Note: Stock or option trades resulting from an option exercise or assignment will be subject to the corresponding electronic commission pricing schedule.

Fixed Income Investments⁸

Schwab may act as principal on certain fixed income transactions. When Schwab acts as agent, a commission will be charged on the transaction. When Schwab acts as principal, the markup is included in the bond price.

Product Type	Electronic Commission or Mark-up	Broker-Assisted Commission or Mark-up
New issues, including Certificates of Deposit	\$0 (a selling concession is included in the original offering price)	
Treasury Bills, Notes, Bonds ⁹ , and TIPS (Secondary and Auction)	\$0	\$25
Secondary transactions for Corporate Bonds, Municipal Bonds, Government Agencies, Zero-Coupon Treasuries (including STRIPS), Mortgage-Backed Securities, and Certificates of Deposit	\$1 per bond (\$10 minimum/\$250 maximum)	Electronic commission, plus \$25 per trade
Unit Investment Trusts	Not applicable	Sales charge applies. Please see prospectus.
Preferred REITS	Stock commissions and minimums apply for secondary transactions.	
Commercial Paper and Foreign Bonds	These are specialty products – please call us for information.	

Note: Large block transactions (orders of more than 250 bonds) may be eligible for special handling and/or pricing – please call the Schwab PCRA Call Center for information.

Our commissions and markups may be slightly less than our published schedule (shown above) due to rounding.

Exchange Process Fee

This is a fee Schwab charges to offset fees imposed on us by national securities and self-regulatory organizations or by U.S. option exchanges.

The Securities and Exchange Commission (SEC) assesses transaction fees on national securities exchanges and self-regulatory organizations based on the aggregate dollar amount of sales of certain securities. The SEC recalculates the amount of this fee periodically—at least once per year but sometimes more often. National securities exchanges and self-regulatory organizations offset the transaction fees by charging their member broker-dealers such as Schwab, and we, in turn, offset this fee by charging you an Exchange Process Fee for covered sell transactions.

U.S. option exchanges charge Schwab and other broker-dealers per-contract fees for purchase and sales of exchange-listed options. The exchanges may charge these fees even on transactions executed on other exchanges, which can result in multiple fees being imposed on Schwab for a single transaction. Schwab offsets these fees by charging you a single Exchange Process Fee for each covered transaction.

Any Exchange Process Fee that appears on your trade confirmation for a sale of an exchange-listed option will combine the offset for the fees charged both by the U.S. option exchanges and by the national securities and self-regulatory organizations.

Schwab's Exchange Process Fee will rise or fall periodically depending upon the rate set by the SEC or by the U.S. option exchanges, as applicable.

¹ Excluding mutual funds, commissionable trades that execute over more than one day will be charged a separate commission for each additional day; each separate commission will apply to the portion of the trade executed on the corresponding additional day. Electronic trade orders for which price or quantity are changed by the client, and as a result execute over multiple trades on the same day, are each charged a separate commission.

² Up to 999,999 shares can be placed per trade.

³ Conditions apply: Trades in ETFs available through Schwab ETF OneSource (including Schwab ETFs™) are available without commissions when placed online through a Schwab account. Service charges apply for trade orders placed through a broker (\$25). An exchange processing fee applies to sell transactions. Certain types of Schwab ETF OneSource transactions are not eligible for the commission waiver, such as short sells and buys to cover (not including Schwab ETFs). Schwab reserves the right to change the ETFs we make available without commissions. All ETFs are subject to management fees and expenses. Please see the Charles Schwab Pricing Guide for Retirement Plan Accounts (the "Pricing Guide") for additional information. As of 2/7/2013, Schwab ETF OneSource had 105 ETFs.

Investment returns will fluctuate and are subject to market volatility, so that an investor's shares, when redeemed or sold, may be worth more or less than their original cost. Shares are bought and sold at market price, which may be higher or lower than the net asset value (NAV).

Charles Schwab & Co., Inc. receives remuneration from third-party ETF companies participating in Schwab ETF OneSource™ for recordkeeping, shareholder services, and other administrative services, including program development and maintenance.

Schwab ETFs™ are distributed by SEI Investments Distribution Co. (SIDCO). SIDCO is not affiliated with Charles Schwab & Co., Inc. Learn more at schwab.com/SchwabETFs.

Third-party Schwab ETF OneSource shares purchased may not be immediately marginable at Schwab.

⁴ Transactions in foreign ordinary shares incur additional custody, clearing, and settlement expenses. A foreign transaction fee is added to trades placed on the U.S. over-the-counter market through the online or automated phone channels. The commission and foreign transaction fee will be combined and appear as one line item, labeled "Commission," on your trade confirmation.

⁵ Charles Schwab & Co., Inc. (Member SIPC) receives remuneration from fund companies for recordkeeping and shareholder services and for other administrative services for shares purchased through Schwab's Mutual Fund OneSource® program. Schwab also may receive remuneration from transaction-fee fund companies for certain administrative services.

Trades in no-load mutual funds available through OneSource (including Schwab Funds®), as well as certain other funds, are available without transaction fees when placed through Schwab's electronic channels such as, Schwab.com, mobile applications, or automated phone services. Schwab reserves the right to change the funds we make available without transaction fees and to reinstate fees on any funds. Funds are also subject to management fees and expenses.

Schwab's short-term redemption fee will be charged on redemption of funds purchased through Schwab's Mutual Fund OneSource® service (and certain other funds with no transaction fee) and held for 90 days or less. Schwab reserves the right to exempt some funds from this fee, including certain Schwab Funds®, which may charge a separate redemption fee, and funds that accommodate short-term trading.

⁶ Standard fees apply on both transactions when placing simultaneous orders to sell one or more transaction-fee fund(s) and purchase additional transaction-fee fund(s) with the proceeds.

⁷ Options carry a high level of risk and are not suitable for all investors. Certain requirements must be met to trade options through Schwab. Please read the Options Disclosure Document titled "Characteristics and Risks of Standardized Options" before considering any option transaction. Call Schwab at 1-888-383-PCRA (7272) to request a current copy. Supporting documentation for any claims or statistical information is available upon request.

⁸ For fixed income trades placed through one of Schwab's electronic channels, discounts may apply.

⁹ Schwab reserves the right to act as principal on any Bond transaction. In secondary market principal transactions the price will be subject to our standard mark up in the case of purchases, and a mark down in the case of sales, and also may include a profit or loss to Schwab in the form of a bid-ask spread. When trading as principal, Schwab may also be holding the security in its own account prior to selling it to you and, therefore, may make (or lose) money depending on whether the price of the security has risen or fallen while Schwab has held it.

Schwab Personal Choice Retirement Account® (PCRA) is offered through Charles Schwab & Co., Inc. (Schwab), a registered broker-dealer that also provides other brokerage and custody services to its customers.



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CORRESPONDENCE MEMORANDUM

DATE: July 16, 2013
TO: Wisconsin Deferred Compensation Board Investment Committee
FROM: Shelly Schueller, Director
Wisconsin Deferred Compensation Program
SUBJECT: Self-Directed Brokerage Account Option Review


This memo reviews the Self-Directed Brokerage Account (SDBA) and discusses possible options for expanding SDBA investment choices.

A SDBA is an option many defined contribution plans offer to provide participants with additional investment choices. Through an SDBA, participants may select investment options beyond the plan's core investment options.

After review and careful consideration of SDBAs in the late 1990s, the Wisconsin Deferred Compensation Board (Board) voted to include an SDBA option in the Wisconsin Deferred Compensation Program (WDC) and in 1999 released a Request for Proposals for an SDBA provider. Charles Schwab and Co., Inc. was selected and the Schwab Personal Choice Retirement Account (PCRA) was added to the WDC as the SDBA and opened to participants in early 2000.

The Board periodically reviews the investment options and services offered through the WDC, including the PCRA, which was last reviewed in 2007. Through the PCRA, Schwab offers plan sponsors the option to provide participants with access to thousands of mutual funds, individual domestic and foreign equities, fixed income investments, publicly traded limited partnerships, exchange-traded funds, money market funds and options (covered calls and protective puts). When the Board opened the SDBA to WDC participants in 2000, it chose to limit SDBA investment choices to mutual funds only. In 2007 the Board reviewed this decision and decided not to make any changes; the WDC's SDBA continues to offer access to only additional mutual funds not currently found in the WDC's core investment option lineup.

As the table below illustrates, while assets in the PCRA have grown steadily, the actual number of WDC participants using the PCRA has remained fairly constant at less than 800.

Reviewed and approved by Matt Stohr, Administrator, Division of Retirement Services

Electronically Signed 7/23/13

Board	Mtg Date	Item #
DCIC	8.20.13	6

Schwab Personal Choice Retirement Account Usage			
As of	WDC Participants	Active PCRA Users	WDC Assets in PCRA
December 31, 2003	40,600	732	\$24,491,614
December 31, 2008	49,000	756	\$35,861,066
December 31, 2012	52,000	732	\$57,206,990

Expansion of SDBA Investment Options

A few WDC participants periodically contact the Department requesting the ability to use the SDBA option to purchase different investments, including exchange traded funds and stocks. Including additional options to the SDBA would certainly please the participants who have requested this in the past and may draw new participants. If the Board were interested in expanding the SDBA investment options, the following investment options are available in the Schwab PCRA and could be added to the list of SDBA investment options permitted by the Board:

Schwab PCRA Investment Options	
Type	Schwab's comments
Taxable mutual funds	Most common option permitted and what WDC offers presently.
Tax-Exempt mutual funds	Not recommended unless the plan offers a Roth option. (Without a Roth option, it generally does not make sense to purchase a tax free investment in a tax deferred plan.)
Equities (stocks)	Plan sponsor decision. "Listed and NASDAQ" is common, which includes exchange traded funds and closed-end mutual funds. Could also specifically exclude potentially higher risk over-the-counter securities.
Publically Traded Limited Partnerships	Schwab data suggests that at present, more plans are excluding this option from their PCRA lineup than including it.
Taxable Fixed Income	O.k. Schwab notes that most "open brokerage" PCRAs include this option. Could limit to certificates of deposit only if desired.
Tax-Exempt Fixed Income	Not recommended unless the plan offers a Roth option. (Without a Roth option, it generally does not make sense to purchase a tax free investment in a tax deferred plan.) Could also limit to "Treasuries Only" to include U.S. Treasury Securities (bills, notes and bonds)
Foreign Securities	No overriding consensus on this type, but many plan sponsors using the Schwab PCRA have permitted them in the past. Schwab notes that in recent years, more plan sponsors are choosing "none."
Options (covered calls and protective puts)	Not permitted by many plans.

ETF Observations

The majority of SDBA-related requests received from WDC participants focus on the mutual fund only limitation. If the WDC's SDBA option was expanded to include listed and NASDAQ equities (including exchange traded funds but not over-the-counter stocks), it would address many of the requests received from participants to date. Staff does not have any concerns with including taxable fixed income in the SDBA. Lastly, because WDC participants may already contribute to their accounts via the Roth (pre-tax) option, expanding the SDBA to include tax-exempt mutual funds and tax-exempt fixed income would be acceptable.

However, staff does not recommend expanding the SDBA to include over-the-counter equities, publically-traded limited partnerships or foreign securities or options. While these may be appealing and intriguing investment options for some investors, they are not properly suited for a retirement savings plan such as the WDC. Participants seeking to invest in these options may pursue them via non-plan sponsored avenues including brokerage firms and financial planners.

Government Plan Sponsor Use of SDBAs

According to the results compiled by the National Association of Government Defined Contribution Administrators (NAGDCA) in its *2013 Defined Contribution Plan Survey Report*, published March 2013, SDBAs are fairly common offerings by plan sponsors but not used very often by plan participants. Nearly half (49%) of the 136 government defined contribution plan sponsors¹ who responded to the survey offer a SDBA to their participants. Of those offering the SDBA, nearly all reported that less than five percent of their participant use the SDBA. The 2013 survey did not ask about options included in SDBAs, but in 2010, the NAGDCA survey results indicated that just over half (51%) of the forty-six respondents offer select mutual funds only and 49% offer equities, bonds and mutual funds.

Schwab reports that it is currently the SDBA provider for approximately 260 s. 457 plans, of which approximately 29% are mutual fund only options. Most plans using the Schwab platform offer participants the ability to invest in equities, exchange traded funds and fixed income securities.

Staff also queried the WDC's record keeper, Great-West Retirement Services (GWRS), regarding the use of SDBAs by other government plan customers. GWRS reports that 171 government plans administered by GWRS offer SDBAs. Of these, nearly half (85) offer only mutual funds and just over half (91) permit other investments including equities and exchange traded funds.

¹ NAGDCA membership is open to all government defined contribution plan sponsors and includes s. 457 plans such as the WDC as well as ss. 401(k) and 401(a) plans and s. 403(b) plans. In 2013, 89 s. 457 plans responded to the survey request; the remaining 47 offered one of the other defined contribution plans.

Administration and Fees

If the Board chooses to expand the PCRA option, Schwab would need an updated trading menu from the Board indicating which additional options the Board will make available through the SDBA option. There would be no additional costs to the WDC from Schwab for this expansion and staff would work with GWRS to publicize the expansion to participants.

Although Section 8.01 of the WDC Plan and Trust document permits the Board to charge an additional fee for participants using the SDBA, currently there are no extra administrative fees for those using the SDBA. This places the WDC in the minority of NAGDCA s. 457 plan sponsors; approximately 63% of the fifty-seven plans responding to the 2010 NAGDCA survey charge an additional SDBA fee.

Staff from the Department and Schwab will be available at the August 20, 2013 Investment Committee meeting to discuss the contents of this memo. If the Investment Committee is interested in expanding investment options offered through the SDBA, staff would request that a representative from Schwab attend the next Board meeting to discuss this with the Board.

- Attachments: A. "Self Directed Brokerage Windows: Should Your Plan's Window Be Open or Shut?" 2009. Scott McLerran, Ennis Knupp Research.
B. "Is Fiduciary Liability of Self-Directed Brokerage Options Too Great for 401k Plan Sponsors?" Christopher Carosa, *Fiduciary News*. June 11, 2013.

Schwab PCRA Trading Menu Analysis

The following analysis of the Schwab PCRA Trading Menu is for informational purposes only and is meant to be used to assist you in establishing or updating your PCRA option. **The final parameters of the Trading Menu should be determined by the plan sponsor or another plan fiduciary.**

In our experience, PCRA Trading Menus vary based upon the plan sponsor's reason for adding a self-directed brokerage option (SDBA) to their plan. Some sponsors view the SDBA as just an extension of the core funds and limit the option to just mutual funds (and possibly ETFs). Other plan sponsors, whose core investments contain more passive options (e.g. index funds, balanced funds, target date funds), open up the SDBA to all, or the majority of eligible investments. Other sponsors will include investments other than mutual funds (or ETFs), but will conservatively exclude potentially higher risk investments such as exchange-traded limited partnerships, over-the-counter securities, foreign securities or options.

Following, I will list each item on the PCRA Trading Menu by its letter and provide some comments based on our experience:

- A. **Taxable Mutual Funds** – Almost all plans will include “All”.
- B. **Tax-Exempt Mutual Funds** - The general rationale is to choose “None” because it generally does not make sense to purchase a tax free investment in a tax deferred plan.
- C. **Equities** – This is a plan sponsor decision. We have seen an increased number of plans in recent years choose “Listed and NASDAQ”; excluding potentially higher risk over-the-counter securities which include pink sheet and bulletin board securities. **Please note:** Choosing “Listed and NASDAQ” will include exchange-traded funds and closed end mutual funds. These two types of securities can also be separately carved out for plans that otherwise just want to include mutual funds. **Please also note:** American Depositary Receipts (ADRs) and foreign securities that trade on a listed exchange are included under the “Listed” choice.
- D. **Publicly Traded Limited Partnerships** – An increasing number of plans have excluded this type of investment which includes all securities that issue a K-1 to reflect their income. This type of investment can potentially generate Unrelated Business Taxable Income (UBTI) which could create a taxable event to the trust.
- E. **Taxable fixed Income** – Most “open brokerage” PCRA options will include “All”.
- F. **Tax-Exempt Fixed Income** – Most “open brokerage” PCRA options will exclude this type of security for the same reason as “B” above, but will choose “Treasuries Only” to include U.S. Treasury Securities (bills, notes and bonds).

- G. **Foreign Securities** – This section includes foreign securities that trade on a foreign exchange or over-the-counter. There is not an over-riding consensus or trend among plan sponsors, although our data indicates a majority of our plans choose “All”. In recent years, we have seen an increase in choosing “None” in this section. **Please note:** In order to include the securities under this section, you must choose “All” in “C” above.
- H. **Options** – The majority of plans choose “No” The only permitted trading under this section is covered calls and protective puts which are relatively conservative option strategies.
- I. **Please list all exceptions** – Typically, this section will be used to specifically exclude employer stock of a publically traded company and core mutual funds that are eligible for purchase in the core investments.

Schwab Personal Choice Retirement Account® (PCRA) Plan Trading Menu Change Form

charles SCHWAB

www.schwab.com
1-800-231-2855
Page 1 of 2

Plan Name	
Plan-Level Account Number	Plan Tax ID Number

Complete each section below to indicate the securities that PCRA Participants have the ability to trade. These changes to the Plan Trading Menu apply to any PCRA associated with the Plan referenced above.

The Trustee(s)/Custodian(s) and/or Plan Sponsor authorize Schwab to allow any Participant who completes a Schwab PCRA Limited Power of Attorney (LPOA) for Participant form to make trades in the Participant's PCRA. A Participant will never be restricted from selling a position unless Schwab is instructed to restrict the sale by the Trustee(s)/Custodian(s) and/or Plan Sponsor. The Trustee(s)/Custodian(s) and/or Plan Sponsor acknowledge that they are responsible for determining whether any of the investments selected below (including any employer securities) are permissible under the terms of the Plan, the Internal Revenue Code (the "Code"), or the Employee Retirement Income Security Act of 1974 ("ERISA") and that Schwab shall have no responsibility or liability with respect to such determination. Please note that, generally, 403(b) contributions can only be invested in SEC-registered fund shares.

Trading restrictions. PCRAs may not include trading on collectibles, currencies, precious metals, real estate, futures, commodities, private placements, margin accounts, or short sales. If specifically allowed by a Participant's retirement plan, a Participant may be able to write covered calls and buy protective puts. A Participant should complete a Schwab Personal Choice Retirement Account (PCRA) Options Application—Participant form to be approved to trade options.

A. Taxable Mutual Funds:

- All except those listed in Section I
- Schwab Mutual Fund OneSource®/Schwab Funds® only¹
- None except those listed in Section I

B. Tax-Exempt Mutual Funds:

- All except those listed in Section I
- Schwab Mutual Fund OneSource/Schwab Funds only¹
- None except those listed in Section I

C. Equities: (To include foreign securities that trade over-the-counter, you must select "All" below.)

- All except those listed in Section I
- Listed only²
- Listed and NASDAQ market securities only³ (Selecting this will exclude all foreign securities on other exchanges, including over-the-counter securities.)
- Exchange-traded funds (ETFs) only⁴
- Schwab ETF OneSource™ funds only
- Closed-end mutual funds only
- ETFs and closed-end mutual funds only
- None except those listed in Section I

D. Publicly Traded Limited Partnerships:⁵ (Please read important footnote on the next page.)

- All except those listed in Section I
- None except those listed in Section I

E. Taxable Fixed Income:⁶

- All except those listed in Section I
- None except those listed in Section I
- Certificates of deposit (CDs) only

F. Tax-Exempt Fixed Income:

- All except those listed in Section I
- None except those listed in Section I
- Treasuries only

G. Foreign Securities:⁷

- All except those listed in Section I
- None except those listed in Section I

H. Options: (Options trading is limited to writing covered calls and buying protective puts.)

- Yes. Options trading is permitted on the plan-level account by the Plan document and on all associated PCRAs. **Note:** All parties with trading authority must complete a separate Schwab Options Application.
- No. Options trading is not permitted.

I. Please list all exceptions below. If you have more than four exceptions, please attach an additional sheet.

Please check whichever applies.

Fund/Security Description	CUSIP Number	Symbol	Permitted	Not Permitted
_____	_____	_____	<input type="checkbox"/>	<input type="checkbox"/>
_____	_____	_____	<input type="checkbox"/>	<input type="checkbox"/>
_____	_____	_____	<input type="checkbox"/>	<input type="checkbox"/>
_____	_____	_____	<input type="checkbox"/>	<input type="checkbox"/>

FOR CHARLES SCHWAB USE ONLY:				
Approved by	Print Name of Approver	Date Approved		
Index as Document Number	Plan ID Number	Account Number		
68			—	



Trustee/Custodian Signature**Signature(s) and Date(s) Required****X**

Trustee/Custodian Signature

Print Name

Date

X

Trustee/Custodian Signature

Print Name

Date

Plan Sponsor Signature**Signature and Date Required****X**

Plan Sponsor Signature

Date

Print Name

Title

¹ Charles Schwab & Co., Inc. (Member SIPC) receives remuneration from fund companies for recordkeeping and shareholder services and other administrative services for shares purchased through Schwab's Mutual Fund OneSource[®] program. Schwab also may receive remuneration from transaction fee fund companies for certain administrative services.

Trades in no-load mutual funds available through OneSource (including Schwab Funds[®]), as well as certain other funds, are available without transaction fees when placed through Schwab.com or our automated phone channels. Schwab reserves the right to change the funds we make available without transaction fees and to reinstate fees on any funds. Funds are also subject to management fees and expenses.

Schwab's short-term redemption fee will be charged on redemption of funds (except certain Schwab Funds) bought through Schwab's Mutual Fund OneSource program (and certain other funds) with no transaction fee and held for 90 days or less. Schwab reserves the right to exempt certain funds from this fee, including Schwab Funds, which may charge a separate redemption fee, and funds that accommodate short-term trading.

² Equity trading is limited to securities listed on the New York Stock Exchange (NYSE), NYSE Amex Equities, and other exchanges (excludes the NASDAQ Stock Market, Inc. [NASDAQ] and over-the-counter [OTC] securities).

³ Securities that are not available to trade include pink sheets, OTC securities, and Bulletin Board stocks.

⁴ Investment returns will fluctuate and are subject to market volatility, so that an investor's shares, when redeemed or sold, may be worth more or less than their original cost. Unlike mutual funds, shares of ETFs are not individually redeemable directly with the ETF. All ETFs are subject to management fees and expenses. Schwab ETFs[™] are distributed by SEI Investments Distribution Co. (SIDCO). SIDCO is not affiliated with Charles Schwab & Co., Inc. Learn more at schwab.com/SchwabETFs.

⁵ Restricting publicly traded limited partnerships will exclude the purchase of any publicly traded security (which may include certain ETFs, royalty trusts, and other possible securities) that reports income via a Schedule K-1 Form and, as a result, could generate Unrelated Business Taxable Income (UBTI).

⁶ Excludes debt securities issued by Charles Schwab & Co., Inc. and its affiliates. These securities are not allowed to be purchased in a PCRA.

⁷ Restricting foreign securities does not include American Depositary Receipt (ADR) securities traded on a domestic equity market, but does restrict the purchase of non-ADR foreign securities available on the U.S. OTC market.