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## Correspondence Memorandum

**Date:** November 2, 2020

**To:** Deferred Compensation Board

**From:** Tarna Hunter, Director of Government Relations and Strategic  
Engagement  
Office of the Secretary

Shelly Schueller, Director  
Wisconsin Deferred Compensation Program

**Subject:** Legislative Update

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

On Oct. 27, 2020, the “Securing a Strong Retirement Act of 2020” was introduced by Ways and Means Committee Chairman Rep. Richard Neal (D-MA) and Rep. Kevin Brady (R-TX). The legislation builds on the Setting Every Community Up for Retirement Enhancement (SECURE) Act, which was enacted in December 2019. The new legislation includes provisions intended to expand retirement savings, help preserve retirement income and simplify and clarify retirement plan rules. The following provisions impact 457(b) plans such as the WDC Program.

- **Eliminate the “first day of the month” rule for 457(b) plans.** Participants in a governmental 457(b) plan must request changes in their deferral rate prior to the beginning of the month in which the deferral will be made. This rule does not exist for other defined contribution plans. The legislation would allow such elections to be made at any time prior to the date that the compensation being deferred is available.
- **Increase age for beginning Required Minimum Distributions.** Under current law, participants are generally required to begin taking distributions from their retirement plans at age 72. The SECURE Act generally increased the required minimum distribution age to 72. The legislation would increase the required minimum distribution age further to 75.
- **Increase catch-up contribution at age 60.** Under current law, employees who have attained age 50 are permitted to make catch-up contributions to their retirement plan

Reviewed and approved by Pamela Henning, Assistant Deputy  
Secretary

*Pamela L Henning*

Electronically Signed 11/2/20

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above the otherwise applicable limits. This bill would increase the limit to \$10,000, indexed, for those who have reached age 60.

- **Permit 457(b), 401(a), 401(k), and 403(b) plan participants to make qualifying charitable distributions (QCDs) up to \$130,000 beginning at age 70 ½.** The legislation expands the IRA charitable distribution provision to allow for one-time distributions to charities through charitable gift annuities, charitable remainder unitrusts, and charitable remainder annuity trusts. The bill also increases the annual IRA charitable distribution limit from \$100,000 to \$130,000. The legislation would expand the IRA charitable distribution provision to include distributions from qualified plans.
- **Simplify and increase the Saver's Credit.** The bill would amend the Saver's Credit to create a single credit rate of 50 percent, increase the maximum credit from \$1,000 to \$1,500 per person and increase the maximum income eligibility amount. The bill also requires the Treasury Secretary to increase public awareness of the credit.
- **Permit plans sponsors to treat student loan payments as elective deferrals for purposes of matching contributions.** The bill permits an employer to make matching contributions under a 401(k) plan, 403(b) plan, or SIMPLE IRA with respect to "qualified student loan payments," the definition of which is broadly defined as any indebtedness incurred by the employee solely to pay qualified higher education expenses of the employee. Governmental employers would also be permitted to make matching contributions in a section 457(b) plan or another plan with respect to such repayments.
- **Provide a safe harbor for corrections of employee elective deferral failures.** This legislation would allow a grace period for plans, including 401(a), 403(b) and 457(b) plans, to correct, without penalty, reasonable errors in administering automatic enrollment and automatic escalation features. The errors must be corrected prior to 9 ½ months after the end of the plan year in which the mistakes were made.
- **Allow governmental pension plans to include certain firefighters, emergency medical technicians, and paramedics.** Many cities, towns and counties contract with tax-exempt public safety agencies to provide firefighting and out-of-hospital emergency medical services. This bill clarifies that governmental plans also include a plan which is maintained by such agencies, so that the agencies' employees can be treated in the same manner as other emergency personnel employed directly by the government.

### ETF's 2021-23 Biennial Budget Request

ETF submitted its 2021-23 biennial budget request to the Department of Administration on October 2, after being endorsed by the ETF Board at its September 17 meeting. The period

covered by the budget request is July 1, 2021 – June 30, 2023. The Department included the following initiatives in its 2021-23 biennial budget request:

**Cybersecurity (Position Request)** – Requests 2.0 FTE SEG Computer and Internet Security Analyst positions to provide additional permanent support to maintain a robust cybersecurity program. ETF established its cybersecurity program in 2015 when it reallocated an existing position to create a Chief Information Security Officer (CISO). The CISO is responsible for establishing and maintaining the enterprise vision, strategy, and program to ensure information assets and technologies are adequately protected. In 2016, ETF received authority for 3.0 FTE and currently employs 4.0 permanent FTE dedicated to performing all operational and project cybersecurity responsibilities.

ETF has evaluated its cybersecurity strategy, governance, and practices as part of its ongoing risk assessment framework. Information gained from these analyses were used to develop a comprehensive cyber risk management strategy to mitigate risks of cybersecurity threats. Additional permanent positions are critical to the ongoing management of the cybersecurity program, especially as ETF moves to modernize its information technology systems and manage all health and retirement benefits for members online.

The cybersecurity positions will assist in the implementation of IT security activities; collaborate with DET on security management; maintain and optimize ETF's security alert software; improve vulnerability management processes; manage and improve ETF's network security by working with DET to ensure that the firewalls are properly maintained; manage anti-malware software to protect all user workstations and legacy application servers; and routinely test ETF's vulnerability (e.g., ethical hacking). The positions will also be responsible for conducting risk assessments, recommending new controls, and delivering an effective security awareness program.

**Data Management (Position Request)** – Requests 1.0 FTE SEG IS Data Services Specialist to provide data management. Recognizing the importance of data management to ETF's business operations, ETF created a new Data Management Bureau in July 2020 to oversee and implement the full range of data management functions: data strategy, data architecture, data integration, master data management, data quality, and data governance. ETF reallocated three permanent positions and seven contractors to staff the bureau. Additionally, ETF has contracted with ICON Data Integrity & Design, Inc. (ICON) since 2012. The ICON contract is set to expire at the end of 2021 which would result in a loss of institutional and business knowledge related to ETF's data. A permanent position will help mitigate the risks from the ICON contract ending. The position will primarily be responsible for ETF's master data management program.

Given the increased criticality of data, the scope and magnitude of the responsibilities of the Data Management Bureau, and the significant role that data management has in ETF's modernization efforts, ETF is requesting this permanent position to lead IT development efforts related to data management and ensure continuity after the ICON contract expires. This position is essential for ETF to build an effective data management program that

supports a successful transition to modern benefit administration systems and on-going digital business operations into the future.

**Converting Project Positions to Permanent Positions (Position Conversion Request)**

– Requests that 2.0 FTE SEG Trust Funds Specialist and 1.0 FTE SEG Accountant positions and associated funding be converted from project to permanent positions. All three positions are current 4-year project positions that were provided to support the Department’s major initiative of modernizing its business processes and IT systems.

The conversion of 2.0 FTE Trust Funds Specialists from project to permanent positions in the Employer Contact Services – Insurance Section recognizes the ongoing need for suitable levels of employer support staff to ensure timely and accurate responses to employer inquiries. Both the complicated nature of the inquiries processed by these staff and the size of their caseload warrant the continued support of these positions.

The conversion of 1.0 FTE Accountant from a project to permanent position in the Retirement Accounting Bureau will help provide DTF with the necessary staffing support to continue to capitalize on improvements the Bureau has made to its internal controls and procedure documentation efforts.

All 3.0 positions will provide their respective areas with the additional support needed to allow staff to continue to fully participate in business process improvement and IT modernization activities.

**Support for Modernization-Related Ongoing IT Expenses (Resource Request) –**

Requests a permanent increase to base funding of \$317,300 in FY 2022 and \$424,200 in FY 2023 to support increases for ongoing operational IT expenses related to recent ETF modernization efforts.

The transition to new IT systems enhances the services ETF provides its customers and results in other efficiencies; however, the movement to more secure and feature-rich solutions often comes at additional expense. IT solutions that saw increased costs after implementation include the re-designed ETF website, data management tools, project management software, appointment scheduling software, and automatic call distribution software (ACD).

**Retirement Boards Consolidation (Statutory Changes) –** Consolidates the Wisconsin Retirement (WR) Board and the Teachers Retirement (TR) Board into the Employee Trust Funds (ETF) Board. The proposed merger reduces the number of boards from three to one and the number of retirement board member positions from 35 to 13. The practical result of this merger will create greater efficiencies, reduce costs, and mirror best practices for retirement board governance while retaining representation of WRS participants and stakeholders.

The ETF Board, TR Board, and WR Board spent considerable time over the course of several meetings studying the history of the structure of the retirement boards and the

oversight role of the ETF Board compared to the advisory role of the WR Board and TR Board. Additionally, the Boards gained perspective about board structures in peer public retirement systems, discussed best practices of public pension governing boards and what a model ETF Board would look like. The Boards decided that consolidation will improve governance by devoting more time to policy discussions, enable a more efficient use of trust fund resources, conform to best practices for governing boards and ensure a Board comprised of a variety of backgrounds on behalf of WRS participants and stakeholders. In addition, the WRS has evolved to more uniform benefits, thus reducing the need for separate advisory boards.

Recognizing these benefits, at the September 16th and 17th, 2020 retirement board meetings, each board recommended merging the three boards into one board. The new ETF Board would include two ex officio members, five gubernatorial appointees, and six members elected by WRS constituents.

**Disability Program Redesign (Statutory Changes)** – ETF’s biennial budget proposal includes statutory changes necessary to complete ETF’s disability redesign project. The changes will streamline, simplify, and reduce duplication of the state’s disability programs currently offered to State of Wisconsin and local government employees. The changes, approved by the ETF Board and the Group Insurance Board, also support the long-term sustainability of the disability programs administered by ETF.

ETF’s biennial budget request includes the following statutory changes necessary to complete the disability redesign project:

- Decouple Sick Leave from the State ICI Plan Premium and Benefit Determinations. Premiums would be based on an elimination period and income instead of the employee’s sick leave balance. Additionally, the provision eliminates the requirement to use sick leave before receiving benefits.
- Transfer oversight of the ICI program to the Employee Trust Funds Board.

Completion of the redesign effort will reduce complexity and confusion for employers and members, improve sustainability of the State Income Continuation Insurance plan (ICI) program and streamline the administration of disability benefits.

**Internal Auditor Reporting (Statutory Changes)** – Creates an independent Office of Internal Auditing (OIA) at ETF. These changes are consistent with auditing best practices of public retirement systems and are essential to ensure that ETF’s internal auditing is an independent, objective assurance and consulting activity designed to add value and improve ETF’s operations.

This recommendation provides that ETF’s Internal Auditor (IA) report functionally to the ETF Board and administratively to the ETF Secretary. The ETF Board appoints and sets the salary of the unclassified Internal Auditor position.

An independent Internal Auditor would support the Board's oversight responsibilities of ETF. The ETF Board has established an Audit Committee Charter to assist them in fulfilling their oversight responsibilities for the financial reporting process, the system of internal control, the audit process, and ETF's process for monitoring compliance with laws and regulations. The Board needs full and unrestricted access to the Internal Auditor regarding all evaluations, assessments, and analyses pertaining to ETF.

Finally, these changes conform with the Institute of Internal Auditors (IIA) Standards. Recent, the IIA Quality Services, LLC completed an external quality assessment of ETF's internal audit function. The report recommended that ETF revise its policy and the OIA Charter to ensure OIA functional and administrative reporting relationships are properly defined, and clearly provide the appropriate appearance of organizational independence and objectivity. The standards provide that organizational independence is effectively achieved when the chief audit executive reports functionally to the Board.

**Trust Fund Earnings Allocation (Statutory Changes)** – Provides that ETF may distribute investment gains and losses of the core and variable trust funds accounts by calculating a simple average balance using the beginning and end of year balances. Current statutory language provides that investment gains and losses shall be distributed in a ratio of each participating account's average daily balance to the total average daily balance of all participating accounts.

The change is needed to align statutory language with current administrative practices. Because activity is not recorded in the various separate participating accounts on a daily basis, it would not be accurate to use an average daily balance as the basis for distributing investment earnings.

Staff will be available at the meeting to answer questions.