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Correspondence Memorandum

Date: May 17, 2022
To: Deferred Compensation Board
From: Shelly Schueller
 Deferred Compensation Director
Subject: 2021 Agreed-Upon Procedures Review Results

The Department of Employee Trust Funds (ETF) requests the Deferred Compensation Board (Board) accept the results of the attached 2021 Agreed-Upon Procedures review.

Agreed-Upon Procedures (AUP) reviews are intended to assist in determining if a third-party administrator is meeting their contract obligations, including compliance with contract terms and conditions as well as applicable state and federal statutes, rules, and regulations. The attached AUP report, completed by Wipfli, was done to assure the Board, the Department, employers, and participants that the Wisconsin Deferred Compensation Program (WDC) is properly administered.

The certified public accounting firm of Wipfli, LLC has been under contract with the Board to perform AUP reviews for the WDC since 2010. As a result of RFP ETH0048, which was issued in 2018 and completed in 2019, Wipfli was retained under a new contract to complete the WDC AUP review for 2021.

The attached AUP review outlines the procedures Wipfli used to test specific elements of the administrative services agreement and summarizes Wipfli's results regarding Empower Retirement's compliance with the agreement during calendar year 2021.

2021 AUP Results

Of the 15 processes reviewed in the 2021 AUP, Wipfli reported no exceptions for ten processes. Wipfli's AUP examination yielded five results, which are outlined below, along with ETF's assessment of each. Empower Retirement will provide a verbal response to Wipfli's results at the Board meeting. The formal Empower Retirement response is in development and will be shared with the Board at a future meeting.

Reviewed and approved by Matt Stohr, Administrator, Division of Retirement Services
 Electronically Signed 05/25/2022

Board	Mtg Date	Item #
DC	06.09.22	3

Reporting

Wipfli was unable to precisely duplicate the average contributions reported in the 2021 Annual Plan Report. The average contributions per the Annual Plan Report were \$6,850 (State), \$5,775 (Local), and \$6,370 (combined); Wipfli recalculated average contributions of \$6,825 (State), \$5,817 (Local), and \$6,378 (combined).

Total reported contributions for 2021 per the Annual Plan Report were \$243,790,000; Wipfli observed contributions of \$243,900,000 on deferral reports obtained, a variance of 0.05%.

Total reported contributions for 2020 per the Annual Plan Report were \$217,320,000; Wipfli observed contributions of \$217,460,000 on deferral reports obtained, a variance of 0.06%.

The reported withdrawals amount per the withdrawal report were \$358,114,652.42, a variance of \$223,096.61 (0.1%) from the withdrawals reported in the Annual plan report.

ETF assessment: These are very small variances. Empower generates static reports for certain points in time. When an account correction occurs (ex., trailing distributions applied), that will frequently cause totals to change, meaning that calculations and reports created later may have slightly different results.

Required Minimum Distributions (RMDs)

Wipfli's sample of 25 random eligible participants selected for the RMD test produced these results:

- Empower Retirement could not provide documentation that a notice was provided to six participants. Empower Retirement represented to Wipfli that these six participants had already taken qualifying withdrawals or elected RMDs and thus RMD notices did not need to be sent;
- 19 had no withdrawals but were still employed and thus were not required to take RMDs;
- Five had qualifying withdrawals and thus were not required to take RMDs; and
- One was no longer employed and had no RMD.

ETF assessment: ETF will work with Wipfli and Empower in future reviews to refine and improve the samples so, among other things, participants who aren't eligible for a RMD are not included in the results. ETF recognizes that RMDs are ultimately the responsibility of participants, and that the WDC does not force out RMDs. The notification process is intended to help remind WDC participants of their RMDs.

ETF has requested that Empower Retirement provide ETF with a description of the process and controls in place to ensure participants who are eligible for an RMD and have not yet taken action are notified.

Rollovers

Of the 30 participants selected for the rollover sample, 26 had their rollovers placed in an appropriate subaccount. The remaining four rolled funds from a different s. 457 plan had their transfer balances placed in their WDC employee contribution accounts. These four did not have their rollover funds placed into a separate subaccount.

ETF assessment: Deferred compensation under qualified plans (ss. 401(k), 403(b) and 457) can be consolidated in one qualified plan if that plan permits. The WDC permits this type of rollover and on behalf of the WDC, Empower Retirement creates subaccounts for funds that participants roll from qualified plans with different distribution rules, such as 401(k) and 403(b) plans. Empower Retirement does not create a subaccount when the roll-in is a plan-to-plan transfer from one s. 457 plan to another s. 457 plan with the same employer. These occur most often when a local WDC employer offers more than one s. 457 plan to its employees. In this environment, employees typically move assets from another s. 457 plan to the WDC.

ETF will request that Empower Retirement research the identified accounts and provide a written description of their roll-in process.

Domestic Relations Order (DRO) Distributions

Of the 25 DRO distributions sampled, Empower could not provide Wipfli with supporting court order documentation for three of them.

ETF assessment: Empower processes DROs for WDC participants after receipt of documentation from the participant. The process includes a correctly completed "Order to Divide WDC Program Account" ET-2367 and a signed court order. When the process is complete, ETF receives a copy of the letter to the participant notifying them of the division.

ETF and Empower will review the DRO process to determine if reporting and documentation improvements are necessary.

Transfers

Wipfli tested 26 account balance transfers in the 2021 AUP. 12 participants positively responded confirming their transfer as of the effective date and there were 14 non-replies. Wipfli noted that for 11 transfers sampled, there were two business days between the transfer request and effective date, and for two transfers sampled, three business days elapsed between transfer and effective date.

ETF assessment: Participants have nearly unlimited opportunities to transfer account balances between investment options. If received before 3 P.M. Central Time, these transfers are to be processed on the day received. If the transfer request arrives after 3 P.M. Central Time, the transfers are to be completed on the next business day.

ETF will request that Empower 1) provide ETF with a written description of their transfer process, and 2) determine why 13 of the transfers in Wipfli's sample did not meet standards. Similar to the responses above, ETF feels refinement and improvement of the samples used in future reports would be beneficial to the review.

Based on Wipfli's AUP results, ETF believes Empower Retirement continues to meet the terms of the WDC administrative services agreement contract. ETF recommends the Board accept the results of the 2021 AUP review.

Update on 2019 Agreed Upon Procedures Review Findings

The 2019 AUP completed by Wipfli included recommendations related to ensuring that Empower Retirement is properly enforcing the WDC's equity wash transfer rules and correcting data in the Annual Plan Report. The table below summarizes the issues and resolutions.

Item	2019 Wipfli Finding	2022 Update
Equity Wash Transfer	1 of 25 samples tested was in error	Empower Retirement's process was reviewed and adjustments made to prevent future violating transactions.
Annual Plan Report	Unable to document reported average paycheck contribution and a mismatch discovered between withdrawal amounts listed in annual plan report and the financial statements report	The 2019 Annual Plan Report was corrected and a new final 2019 report issued.

Equity Wash Transfer

As reported to the Board in a follow-up memo in November 2020, after learning of Wipfli's 2019 findings, Empower Retirement conducted a larger test to confirm the potential error rate. Empower Retirement discovered that the WDC equity wash restriction was not set up correctly for the new FDIC option provider. This was corrected on January 3, 2020.

Annual Plan Report

After Wipfli's findings in the 2019 AUP, the data sources and layout for the Annual Plan Report were reviewed and Empower Retirement made material improvements to the 2020 report. Empower Retirement also took additional feedback from the Board and ETF on the 2020 report and made more changes, including documenting sources and additional formatting revisions. Based on the 2021 AUP results, the annual report still needs additional documentation to support certain data elements in the report.

Staff from Wipfli and ETF will be at the meeting to answer any questions.

Attachment: [2021 Agreed Upon Procedures Report \(Wipfli\)](#)