State of Wisconsin

Public Employees Deferred Compensation Plan and Trust

Audit Summary

For the June 9, 2022 Board Meeting

WIPFLI

Presenters

Zach Mayer, CPA

Partner, Audit

- 25+ Years experience, including 18 years with ETF engagements
- Member of Wipfli's National Accounting Standards Advisory Group.

Bryan Johnson, CPA

Senior Manager, Audit

- 10 Years experience, including 9 years with ETF engagements
- Member of Wipfli's Technical Issues Committee on Audits of Employee Benefit Plans

Financial Statement Audit

Audit Opinion (page 1)

- New opinion format due to SAS 134, expands on management's responsibilities and auditor's responsibilities.
- Unqualified opinion: "In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position Wisconsin Public Employees Deferred Compensation Plan and Trust as of December 31, 2021, and the changes in financial net position for the year then ended in accordance with accounting principles generally accepted in the United States of America."
- The Management Discussion and Analysis is unaudited
- Still in draft format until the Board approves

WIPFLI

Independent Auditor's Report

Deferred Compensation Board
Department of Employee Trust Funds
State of Wisconsin
Madison, Wisconsin

Opinion
We have audited the accompanying financial statements of State of Wisconsin Public Employees Deferred Compensation Plan and Trust, which comprise the statement of fiduciary net position available for plan benefits as of December 31, 2021, and the related statement of changes in fiduciary net position available for plan benefits for the year then ended and the related notes to the financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position Wisconsin Public Employees Deferred Compensation Plan and Trust as of December 31, 2021, and the changes in financial net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion
We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Wisconsin Public Employees Deferred Compensation Plan and Trust, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Wisconsin Public Employees Deferred Compensation Plan and Trust's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.
In performing an audit in accordance with GAAS, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Wisconsin Public Employees Deferred Compensation Plan and Trust's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Wisconsin Public Employees Deferred Compensation Plan and Trust's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Wipfli LLP

June XX, 2022
Madison, Wisconsin

Statement of Net Position (page 8)

- Total assets now well over $7 billion
- Minimal accrual for administrative expenses
- Assets by investment type (investment mix) similar to previous years

Summary of Fiduciary Net Position Available for Plan Benefits

	Other Employee Benefit Trust Fund			
	December 31, 2021	December 31, 2020	$ Change	% Change
Cash and Cash Equivalents	$ 129,704,028	$ 148,419,310	$ (18,715,282)	(12.6)%
Investments	7,165,915,200	6,331,201,537	834,713,663	13.2
Contributions Receivable	238,872	446,685	(207,813)	(46.5)
Total Assets	7,295,858,100	6,480,067,532	815,790,568	12.6
Administrative Expenses Payable	211,870	0	211,870	0.0
Total Liabilities	211,870	0	211,870	0.0
Net Position Available for Plan Benefits	$ 7,295,646,230	$ 6,480,067,532	$ 815,578,698	12.6 %

Statement of Changes in Net Position (page 9)

- Significant growth in net assets over the last several years: 12.6% in 2021, 13.9% in 2020, and 19.8% in 2019
- Increases driven by very strong market performance in 2021, on top of high returns in 2020 and 2019

Summary of Changes in Fiduciary Net Position Available for Plan Benefits

	Other Employee Benefit Trust Fund			
	2021	2020	$ Change	% Change
Additions				
Employee Contributions	$ 204,783,029	$ 186,701,813	$ 18,081,216	9.7 %
Transfers-in From Other Plans	38,908,508	30,795,833	8,112,675	26.3
Net Investment Income	937,912,740	838,059,455	99,853,285	11.9
Total Additions	1,181,604,277	1,055,557,101	126,047,176	11.9
Deductions				
Distributions to Participants	358,098,067	259,470,171	98,627,896	38.0
Administrative Expenses	7,927,512	6,707,993	1,219,519	18.2
Total Deductions	366,025,579	266,178,164	99,847,415	37.5
Net Increase	$ 815,578,698	$ 789,378,937	$ 26,199,761	3.3 %

Statement of Changes in Net Position (page 9)

- Fee increase driven by the 3.5% increase (approved by the board) in Empower base fee as well as increased participant balances.
- Withdrawals increased 38%, some increase would expected with the asset increases during 2021 and the previous years. Participants receiving benefits increased to 10,761 from 9,721 in 2020.

Summary of Changes in Fiduciary Net Position Available for Plan Benefits

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Notes to the Financial Statements

- No significant plan changes, accounting rule changes, or amendments.
- Audit went smoothly, with ETF and Empower providing information/documentation timely

Contract Compliance Engagement

Overview

- Used by management (ETF and the Board) to help evaluate and corroborate Empower's third party administration of the plan
- Organized in an Agreed Upon Procedures (AUP) engagement format
- Professional standards heavily dictate the language used and format of the report. AUP's are required to be factual and non-subjective, presentations of re-performable procedures (pass/fail or just presenting findings/results).

Independent Accountant's Report on Applying Agreed-Upon Procedures for Third-Party Administration of State of Wisconsin Deferred Compensation Program

Wisconsin Deferred Compensation Board
Department of Employee Trust Funds
State of Wisconsin
Madison, Wisconsin

We have performed the procedures enumerated in the following report on the Third-Party Administrator's (Empower Retirement) compliance with the Administrative Agreement for the State of Wisconsin Public Employees Deferred Compensation Plan and Trust (WDC) for the year ended December 31, 2021. Empower Retirement's management is responsible for the Third-Party Administrator's compliance with the WDC Administrative Agreement.

Wisconsin Department of Employee Trust Funds (ETF) has agreed to and acknowledged that the procedures performed are appropriate to meet the intended purpose of assisting users in determining whether Empower Retirement complied with the Administrative Agreement for WDC. This report may not be suitable for any other purpose. The procedures performed may not address all the items of interest to a user of this report and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes.

Our procedures and findings are described in the following report.

We were engaged by ETF to perform this agreed-upon procedures engagement and conducted our engagement in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review engagement, the objective of which would be the expression of an opinion or conclusion, respectively, on Empower Retirement's compliance with the Administrative Agreement for the WDC for the year ended December 31, 2021. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

We are required to be independent of Empower Retirement and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our agreed-upon procedures engagement.

This report is intended solely for the information and use of the Deferred Compensation Board and ETF and is not intended to be and should not be used by anyone other than those specified parties.

Wipfli LLP

Overview

- Procedures performed were approved by ETF staff with input and guidance from Wipfli as well as commentary from Empower.
- Procedures are limited to evaluating items that are Empower's responsibility (as opposed to ETF's, participating employers', or the participants' themselves)

Background

Wipfli and the Department of Employee Trust Funds (ETF) entered into contract ETH0048 dated September 21, 2021 to perform an agreed upon procedures engagement on Empower's third party administration of the Wisconsin Deferred Compensation Program (WDC).

The WDC is a supplemental retirement savings program authorized under Section 457 of the Internal Revenue Code that receives and invests employee payroll deferrals and reinvests investment earnings. The WDC was created by Wisconsin Laws of 1981 Chapter 187 and established in 1982 for state employees; it has been available to local employers since 1985. The WDC is available to all active state and university employees. Active local government and school district employees may also be eligible if their employer has elected to offer this optional benefit program. The WDC is authorized under ss. 40.80, 40.81, and 40.82, Wis. Stats., and WI Administrative Code ETF Chapter 70.

The ETF and the Deferred Compensation Board ("Board") have statutory authority for program administration and oversight. The Board contracts for administrative services through a competitive bid process. Empower Retirement's initial contract to provide these services expired November 30, 2017, and a similar new contract commenced December 1, 2017 with a term extending through November 30, 2022. As of December 31, 2021 two amendments have been added to the initial contract. The Board selects the investment options offered by the WDC and contracts directly with investment providers. The Board annually reviews the performance of the investment options offered to determine if they continue to meet established performance benchmarks. Options that are determined to be no longer acceptable may be removed from the WDC and new options may be added at any time.

The third-party administrator, Empower Retirement, is responsible for the following:

- Technical assistance
- Plan administration
- Record keeping and participant account valuation
- Account activity
- Customer services
- Processing of domestic relations orders to divide accounts
- Provision of marketing and promotional materials
- Quarterly reports to ETF and quarterly participant statements
- Annual Plan Review
- Approval and processing of financial emergency hardship applications
- Meeting goals specified in the annual Strategic Partnership Plan

ETF is primarily responsible for the following:

- Assisting Empower Retirement regarding communications to participating state and local government employers and employees
- Approval of marketing and promotional materials
- Operating decisions
- Securing and monitoring the contract with the third-party administrator

Reporting Procedures

- Procedures performed to evaluate reports provided to ETF (Annual Plan Review, Quarterly Reporting, Scorecard results)
- No issues noted, Empower fee increase calculated correctly

2021 Scorecard Results

Goal/Action Item	Tools adopted	Results desired	12/31/21 Results
Enrollment	• Employee and Employer • Group meetings	• 3% in-force* growth (66,790 in-force accounts as of 12/31/20) • 10 new employers • 1-2 Conventions • 45+ benefits fairs	• 1.7% in-force* growth (67,927) • 15 new employers adopted • WMCA Conference (virtual) • 69 virtual benefits fairs conducted
Asset Allocation	• Retirement Readiness Reviews (RRR) with at-risk groups • Emails, mailers and tweets • Fiduciary advice/CFP service • Partnership on financial wellness grant	• RRRs with 10% of at-risk population** (661 At Risk RRRs) • Increase average number of investment options to 5.46	• 1,384 RRRs with at-risk population • Average number of investments 5.33

Education	• Participant Education
	  • RRRs for at risk groups
	  • DB Addition Campaign
	• Employer Education
	• Partnership on financial wellness grant
	• Restart campaign
		• 3,000 total RRRs
		• 300 group meetings
		• Bring positive actions*** to 33%+ of the RRRs conducted
		• Restart campaign: Restart 2% of participants who stopped contributing
			• 1,859 total RRRs
			• 350 group meetings
			• 66% positive action rate
			• 4% of targeted participants restarted their contributions

Retention	• Retirement Readiness Reviews • Retiree webinar • RSG support and CFP service	• Increase asset retention by 5%+ (roll out 5% fewer assets than $137.8M rolled out in 2020) • Conduct 150 financial plans	• $102.9M assets rolled out • Retiree webinar 12/15/21 with 66 attendees • 19 financial plans have been delivered (out of 74 who initiated the process); 12 subscriptions and 7 individual

Transactional Procedures

- Procedures designed to ensure various transactions are being processed correctly.
- Results for timeliness procedures are presented. Significance of results will be determined by ETF.
- Findings noted: some QDRO documentation missing (3 of 20 tested)

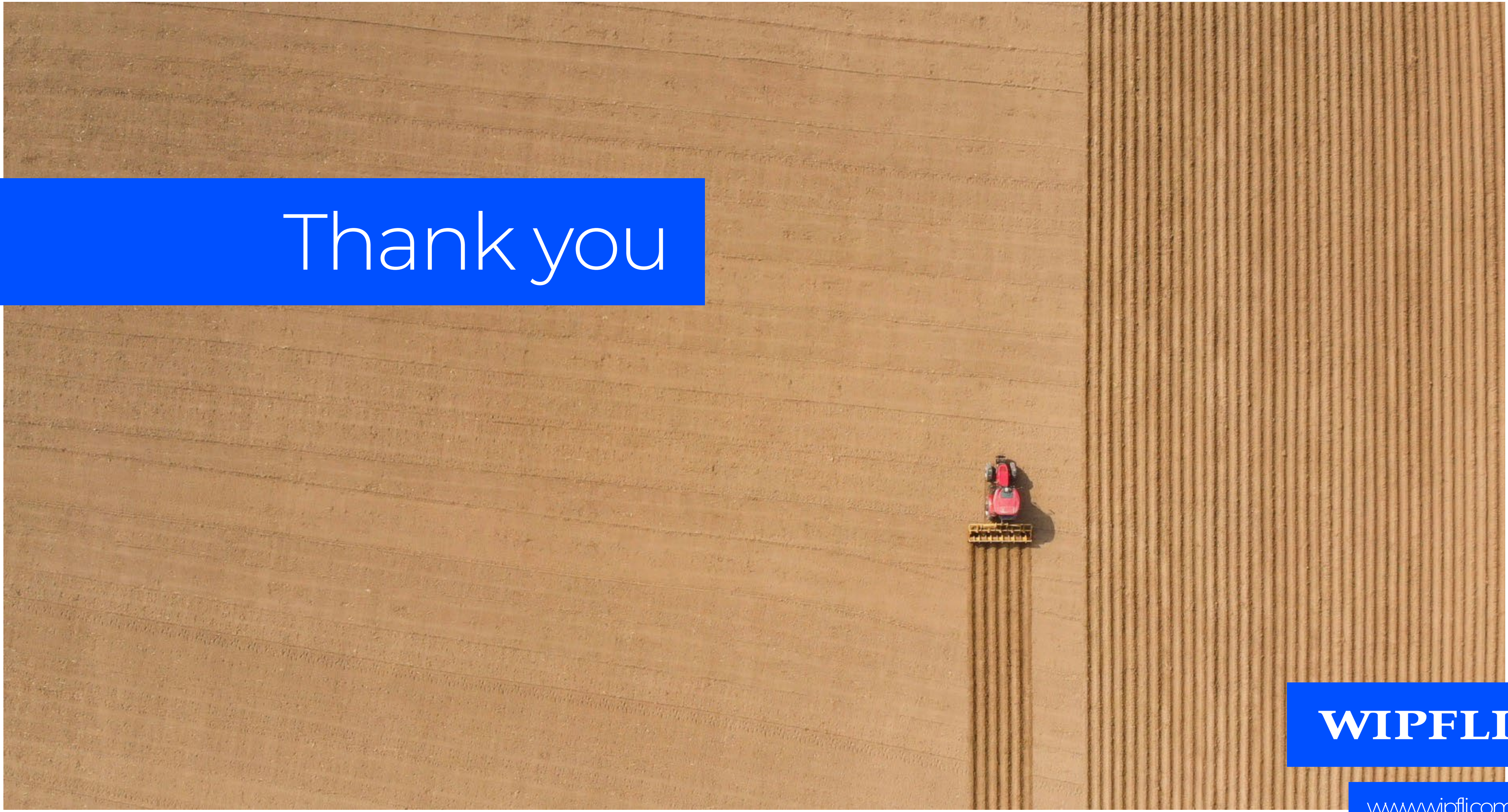
- Procedure areas:
  - Participant expenses
  - Enrollment processing
  - Participant deferrals
  - Catchup deferrals
  - Hardship withdrawals
  - Required Minimum Distributions
  - 59 ½ distributions
  - Transfer timeliness
  - QDROs
  - Equity wash testing

Confirmation-based Procedures

- Procedures designed to allow participants to review their activity and agree/disagree with various transactions.
- No substantive exceptions reported.
- Response rates for tests combined around 50%, which is similar to past engagements.

- Procedure areas:
  - General account confirmations
  - Distributions/Withdrawals
  - Transfers
  - Rollovers

Thank you



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