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## *Correspondence Memorandum*

**Date:** July 26, 2022

**To:** Deferred Compensation Board

**From:** Shelly Schueller, Director  
 Wisconsin Deferred Compensation Program

**Subject:** Policy on Legacy Funds in the Self-Directed Brokerage Option

**The Department of Employee Trust Funds (ETF) recommends the Deferred Compensation Board adopt a policy for the self-directed brokerage option that permits legacy funds to remain in the self-directed brokerage option as “grandfathered” assets.**

The Charles Schwab and Co. Personal Choice Retirement Account (PCRA) has been the Wisconsin Deferred Compensation Program (WDC) self-directed brokerage (SDB) option since 2000. It was added by the Board in response to requests from WDC participants for more mutual fund options beyond the core lineup. The SDB option allows participants to invest in mutual funds beyond core options while staying within the plan. The SDB option also provides an optional investment path for participants who want to remain in a mutual fund that the Board has closed or removed by enabling participants to access it via the SDB option. As of June 30, 2022, 519 WDC participants held approximately \$76,697,620 invested in mutual funds via the Schwab PCRA.

Occasionally, a mutual fund in the SDB option is converted by the fund provider to a different investment vehicle, such as a closed-end mutual fund or an exchange-traded fund. When this occurs, the fund is no longer eligible for inclusion in the WDC as the WDC limits the SDB option to mutual funds only. The converted fund becomes a “legacy” fund. The quarterly Schwab PCRA report indicates that as of June 30, 2022, five WDC participants held approximately \$34,400 in three legacy funds.

ETF recommends the Board create a policy to provide direction to the SDB option provider on how to handle legacy funds. The primary options are to either allow legacy funds to remain in the plan as grandfathered assets or remove the legacy funds.

Reviewed and approved by Matt Stohr, Administrator, Division of Retirement Services Electronically Signed 08/08/2022 
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### **Option A: Allow legacy funds to remain in the SDB Option**

If the Board opts to create a policy to permit legacy funds to remain in the SDB option as “grandfathered assets,” then participants would be allowed to continue holding legacy funds. The Board would need to further define what actions participants could take with legacy funds. ETF recommends that participants be prohibited from purchasing any additional legacy fund shares and only be allowed to hold or sell their existing shares. The attached Option A, Self-Directed Brokerage Option: Grandfathering of “Legacy Funds” contains suggested language for this policy.

### **Option B: Remove legacy funds from the SDB Option**

If the Board opts to create a policy requiring the removal of legacy funds from the SDB option, the attached Option B, Self-Directed Brokerage Option: Liquidation of “Legacy Funds” contains suggested language. If the Board chooses this option, ETF will work with the SDB option provider and the record keeping firm to establish liquidation procedures including notification requirements and deadlines.

### **Recommendation**

ETF recommends that the Board adopt Option A: Allow legacy funds to remain in the SBO Option. This policy would permit legacy funds to remain in the SDB option as “grandfathered” assets and prohibit participants from purchasing additional shares of legacy funds. Participants would only be allowed to hold or sell their existing shares. This recommendation is made because the decision to convert a mutual fund to an exchange-traded fund or closed-end mutual fund is made by the fund company and through no action of the participant. Participants do not have a choice regarding the conversion and may wish to remain invested in a legacy fund.

### **Next Steps**

ETF will inform the SDB option provider (Schwab) of the Board’s decision, update the Board’s Governance Manual<sup>1</sup> with the policy adopted by the Board, and work with Empower to ensure potentially impacted participants are aware of the new policy.

Staff will be at the Board meeting to answer any questions.

Attachment A: Options A and B for Policy on Legacy Funds in Self-Directed Brokerage Option

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<sup>1</sup> The Governance Manual is accessible at <https://etf.wi.gov/boards/deferredcompensation/gm-contentspdf/direct>

# **Self-Directed Brokerage Policy Options RE: “Legacy Funds”**

For Board discussion on September 1, 2022

## **BACKGROUND**

A self-directed brokerage (SDB) option was opened to Wisconsin Deferred Compensation Program (WDC) participants in February 2000, in response to requests from WDC participants for more mutual fund options beyond the core lineup. The SDB option allows participants to invest in over 3,500 additional mutual funds beyond the WDC’s core investment options while staying within the plan. The SDB option also provides an optional investment path for participants who want to remain in a mutual fund that the Deferred Compensation Board has closed or removed by enabling participants to access it via the SDB option.

Occasionally, a mutual fund in the SDB option is converted by the fund provider to a different investment vehicle, such as a closed-end mutual fund or an exchange traded fund. The converted fund becomes known a legacy fund.

## ***OPTION A:***

The Deferred Compensation Board's Policy on legacy funds in the self-directed brokerage (SDB) option is that legacy funds may remain in the WDC’s SDB option as grandfathered assets. No additional shares of legacy funds may be purchased. Participants with assets in legacy funds may only sell their existing shares.

## ***OPTION B:***

The Deferred Compensation Board's policy on legacy funds in the self-directed brokerage (SDB) option is that legacy funds must be liquidated and removed as soon as reasonably practicable.