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Correspondence Memorandum

Date: March 10, 2023

To: Deferred Compensation Board

From: Shelly Schueller, Director
Wisconsin Deferred Compensation Program

Subject: Value of the WDC

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

Many public employees and former employees in Wisconsin rely on the Wisconsin Deferred Compensation Program (WDC) for their supplemental retirement savings. According to a recent *Pensions and Investments* survey[1], the WDC is the seventh largest section 457 (s. 457) plan in the United States in terms of assets. As of December 31, 2022, there were 68,867 public employees holding $6.0 billion in their WDC accounts. The average participant account balance was nearly $90,000. At the Board meeting on September 1, 2022, a question was raised regarding the value of the WDC. This memo provides examples of the methods by which the value of the WDC is measured.

The WDC, like most s. 457 plans, is a voluntary retirement savings plan for public sector employees. The WDC is an opt-in plan that employees must choose to enroll in. It is intended to supplement a Wisconsin Retirement System (WRS) pension. The desired outcome for employees participating in the WDC is retirement income adequacy – meaning these individuals' WRS pension, social security, and WDC savings enable financially secure living during retirement years.

The WDC is important because, for many public sector employees, their WRS pension may not be enough to support them throughout their retirement years. ETF estimates that Wisconsin career public sector employees with 30 or more years of creditable service can expect their WRS pension to replace 60-95% of their pre-retirement income. As is the case for most retirement plans, the estimated WRS income replacement is proportionately lower for shorter-term public sector employees.

To help public sector employees reach their retirement savings goals, the State of Wisconsin established the WDC in 1982 for state employees. The WDC is the only

[1] *Pensions and Investments*, "The Largest Retirement Funds" February 13, 2023

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supplementary savings option for State of Wisconsin employees. Over 90% of eligible state employees are enrolled in the WDC.

In 1985, legislation was enacted to permit local units of governments to join the WDC and offer it to their employees. As a state-sponsored benefit, the WDC is not-for-profit and is usually a lower-cost provider when compared to other plans while offering similar services and features. In addition, there are no separate employer fees for the WDC, and the Board assumes fiduciary responsibility for the plan.

The WDC is currently offered by 981 local units of government. This is approximately 65% of all local governments in Wisconsin. More than 56% of eligible public employees working for counties, cities, villages, and other types of local governments are enrolled in the WDC. Use of the WDC by employees of school districts, technical colleges and the UW System and UW Hospital and Clinics is not as robust as state employee usage, primarily because these entities may also offer 403(b) plans or additional 457(b) plans.

Under the Deferred Compensation Board's oversight, the WDC seeks to provide a supplemental retirement savings plan that is valued by the many participants and employers utilizing the plan. In general, this means a plan that is cost effective, offers quality investment options and financial education opportunities, provides plan services desired by participants, and has secure record keeping.

Value

Value is defined as the benefits and services received for the price paid. The equation below illustrates the calculation ETF uses to explain how value is formulated.

$$\textbf{VALUE} = \frac{\textbf{BENEFITS + SERVICES}}{\textbf{COST}}$$

Examples of WDC benefits are features of the plan, such as distribution option flexibility, contribution options, and the quality of the investment options offered. WDC services include financial education and positive customer experiences based on interactions with the plan via the third-party administrator, which could be in person, on the telephone, or online. Benefits and services are offset by cost, which for WDC participants predominantly equates to the administrative fees charged.

The following sections provide insights regarding the WDC's value equation.

Benefits

The WDC offers many benefits to participants, including traditional pre-tax and post-tax (Roth) deferral options, flexible distributions, and quality investment options. The Internal Revenue Code determines deferral limits and distribution options while providing some flexibility for plan sponsors, who may opt to offer certain benefits such as unforeseen financial emergency withdrawals and in-service withdrawals at age 59 ½.

In late 2022 ETF conducted a review of selected peer plans that included voluntary s. 457 retirement savings plans in California (CalPERS), Colorado (PERAPlus), Indiana

(Hoosier START), Mississippi, Missouri (MOSERS), North Carolina and Oregon (OSGP). Each of these supplementary plans reported either participation or asset levels similar to those of the WDC as of December 31, 2021. Like the WDC, these plans offer diverse investment options, traditional and Roth deferral options, and a host of retirement planning tools, education, and services.

The WDC offers a variety of investment options ranging from potentially high growth to conservative. To help meet specific investing needs, the WDC offers a socially responsible (ESG) fund, target date retirement options, and a self-directed brokerage account option. The Board carefully selects these offerings so there are a variety of options to meet different participants' savings goals. As a large 457 plan, the WDC can take advantage of economies of scale to offer investment options at lower cost. The Board reviews the performance of the WDC core investment options quarterly to ensure the options continue to meet or beat established performance benchmarks.

Services

Most public plans like the WDC contract out for administration by a third party such as Empower, MissionSquare, Nationwide or Voya. Currently, administration of the WDC is contracted out to Empower Retirement LLC (Empower). Via Empower, participants have access to numerous services, including telephone contacts Monday through Saturday, expanded in-person and online resources, financial education, point-in-time advice, and complimentary individual retirement readiness reviews. Additional services participants may opt to use include point-in-time advice, a managed accounts service and certified financial planner services. Similar to its peers, the WDC offers participants the choice of viewing the plan website and telephone contacts in English or Spanish.

Services provided by Empower are a key part of the WDC's value equation. Annually, *PlanSponsor* magazine completes research[2] to gauge plan sponsors' satisfaction with their retirement plan record keeping providers and award "Best in Class" recognition. The recent responses of thirty plan sponsors with greater than $1 billion in assets indicate plan sponsors are generally satisfied with the services provided by Empower. *PlanSponsor* awarded Empower five "Best in Class" designations for plan administration, plan design/flexibility, online/mobile financial wellness offerings and account/client service teams and four "service commendations" in the areas of online/mobile retirement planning tools, in-person/virtual participant support, print/design communications and education, and sponsor services related to account and client service teams.

The WDC regularly surveys WDC participants and employers to gauge their overall satisfaction and knowledge of the plan. In 2022, 73% of participants responding to the WDC survey indicated they were satisfied with the WDC. The survey questions include *"How likely is it that you would recommend the WDC to a friend or colleague*?" Table 1,

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[2] PlanSponsor.com December 2022 – February 2023. "Best in Class" awards are based on overall satisfaction ratings within a service area such as recordkeeping platform, participant services, sponsor services and support, and investments and fees.

below, provides responses to this survey question for the past three years. WDC participants and employers consistently indicate they would recommend the WDC.

Table 1: How likely is it that you would recommend the WDC to a friend or colleague?

	2020	2021	2022
Participants	78%	84%	78%
Employers	did not ask	95%	94%

Retirement Readiness Reviews: In 2022, the WDC local staff completed 2,952 Retirement Readiness Reviews (RRRs) with participants. Overall, in 2022, the Net Promoter Score, which measures the willingness of customers to recommend a company's services or products, was 77 for RRRs.

Point-in-Time Advice: Every participant is offered a survey at the conclusion of a point-in-time advice contact. 2022 results, from 346 surveys:

- 82.8% said they feel more confident about their retirement or financial plan,
- 83.0% said they feel more knowledgeable about their available options,
- 87.8% said they were highly satisfied with Empower retirement, and
- 87.2% said that their overall experience with Empower was very positive.

Managed Accounts: The last two electronic WDC participant surveys included questions related to the managed account service. In 2021, 69.8% of responses from those aware of the managed account service were satisfied or very satisfied and in 2022, that result was 65.9%.

Certified Financial Planning (CFP) Services: A survey is offered at the conclusion of all CFP service contacts. Currently Empower is unable to sort survey results by plan, so we cannot know results for the WDC alone. However, in 2022, the overall Net Promoter Score for Empower's CFP services was 84.

Services for Employers: As stated earlier, the WDC is an attractive optional employee benefit for local units of government in Wisconsin for multiple reasons. The Board has fiduciary responsibility to manage the plan. There is no additional cost to employers, and there are dedicated WDC representatives located across the state to meet with employers and their employees on location. Lastly, through the third-party administrator's employer portal, payroll contribution processing is simple, and employers can access WDC-related reports, graphs, and participant data.

The WDC's 2022 employer survey received 76 responses. All 76 employers indicated they were satisfied with the services provided by their local WDC staff, and those who had interactions with the Madison staff or Empower's plan technical support staff were also satisfied with the service they received. As shown in Table 1 above, in 2022, 94% of employers would recommend the WDC.

Cost

The WDC has administrative costs and investment option expenses, both of which are borne by participants via administrative fees. The WDC does not receive funding from the state or from participating employers.

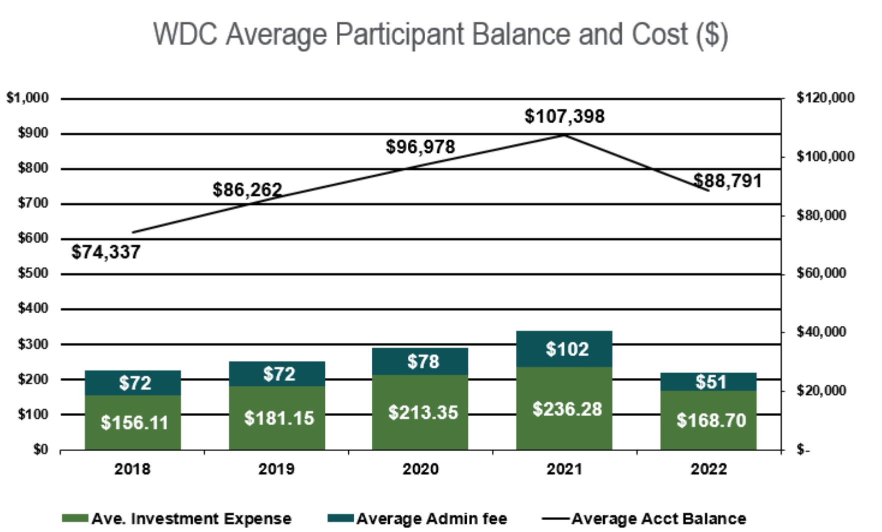
Participant fees provide the primary sources of funding for the WDC via administrative fees assessed quarterly. There are no fees for employers offering the WDC to their employees. Table 2 provides participant administrative fees as of January 1, 2023.

Table 2: WDC Program Fees

If participant balance is between:	Cost Per Month	Cost Per Year
$0 to $5,000	$0.00	$0.00
$5,001 to $25,000	$1.25	$15.00
$25,001 to $50,000	$3.00	$36.00
$50,001 to $100,000	$6.50	$78.00
$100,001 to $150,000	$8.25	$99.00
$150,001 to $250,000	$11.75	$141.00
Over $250,000	$17.25	$207.00

Participant administrative fees are determined annually by the Board using an analysis completed by ETF. Participant fees are very closely correlated to overall WDC assets. In general, the WDC's cost to participants has been low. Figure 1, below, shows average participant balance and the corresponding average investment expense and administrative fee paid. Average account balances rose from 2018-2021, reflecting favorable market returns; subsequently, more participants' balances were in a higher fee account balance tier. Higher account balances in 2021 also meant more was paid to investment option providers via expense ratios.

Figure 1: WDC Average Participant Balance and Cost



Source: Wisconsin Deferred Compensation Program #98971-01 Annual Plan Reviews 2018-2021 and 12/31/22 Average Balance – Plan Service Center; WDC Investment Performance and Expense Ratio Reviews as of 2018-2022

Table 3 compares the cost to participants to utilize the WDC with participant costs for the same selected peer plans found in Table 1. Again, these are voluntary s. 457 retirement savings plans operated by state pension plans in California (CalPERS), Colorado (PERAPlus), Indiana (Hoosier START), Mississippi, Missouri (MOSERS), North Carolina and Oregon (OSGP).

Peer plans' participant fee arrangements vary widely. Some use a flat fixed rate (Indiana and Mississippi) that smooths costs across all participants regardless of account balance. Others assess percentage fees based solely on a participant's account balance (CalPERS and Oregon). Some plans (Colorado, Missouri, North Carolina) charge a combination fee which includes both a fixed rate and a flexible percent of asset-based fee.

Table 3: WDC and Peer s. 457 Plan Administrative Fee Data

	WDC	**CA PERS**	**CO**	**IN**	**MS**	**MO**	**NC**	**OR**
PPTs as of 12/31/22	68,867	74,511	35,784	63,000	38,929	58,031	195,976	35,819
PPT Fees	$15–$207 per year depending on account balance	0.25–0.38% of assets	$18 per year plus 0.03% for state admin.	$51/year ($48 for TPA plus $3.00 for state admin.)	$47.50/ year	$12/ year plus 0.09% of assets	$26 per year for TPA plus 0.025% for state admin.	0.12% of assets (0.07% to Oregon plus 0.05 to TPA)

WDC annual plan review data indicates that when participants roll assets out of the WDC, the top seven destinations are Edward Jones, TD Ameritrade, Pershing, Vanguard, Fidelity, Charles Schwab, and Ameriprise. These private companies usually sell retail mutual funds, which generally charge higher expense ratios than those in the WDC and may provide access to other investment options not available via the WDC such as stocks, ETFs, etc. These firms also charge additional fees including annual asset fees, commissions, back- and front-end sales charges, contract maintenance fees, transaction fees and withdrawal fees. In addition, these firms may charge for distributions and setting up alternate payee accounts if a participant divorces. Lastly, private firms may also receive payments from revenue sharing agreements between them and various mutual fund providers.

In contrast to the additional fees individuals pay when working with private brokerage firms or other investment providers, there are no additional plan administrative fees unless a WDC participant decides to use an optional plan service such as the managed account service or certified financial planning services.

Investment options, which are selected and monitored by the Board, are a key component of the WDC's value equation. All investment options have expenses. Where possible, the WDC offers institutional class mutual funds and collective investment trusts, both of which typically have lower expense ratios than retail mutual funds. As of December 31, 2022, the overall asset-weighted average expense ratio for the options offered in the WDC was 0.19%. As shown in Table 4, expense ratios and other costs for investment options offered by the WDC compare very favorably with peer plans.

Table 4: Selected Investment-Related Costs for the WDC and Peer s. 457 Plans

	WDC	**CA PERS**	**CO**	**IN**	**MS**	**MO**	**NC**	**OR**
Inv. Option Expense Ratios	0.01–0.61%	0.25–0.38%	0.05–0.26%	0.01–1.02%	0.02–0.90%	0.10–1.54%	0.055–0.417%	0.02–0.52%
Target Date Fund Expense Ratios	0.06%	0.26% (custom lineup)	0.07%	0.07%	0.08%	0.18–0.19%	Custom lineup	0.07%
Self-Directed Brokerage Fees	None*	$50/year + 0.29% annual admin. fee	$50/year	N/A	None*	N/A	N/A	None*

* There are certain costs (transaction trading, for example) imposed by self-directed brokerage firms.

WDC Recognition

The value the WDC provides has been recognized externally. It has earned National Association of Government Defined Contribution Administrators (NAGDCA) leadership awards in seven of the past sixteen years. These awards recognize the WDC's work in the areas of technology, plan design and administration, and effective communication. *Pensions and Investments* has also honored the WDC with two "Eddy" awards. The first was in 2019 for communications and the other in 2021 recognized an achievement in the special projects category.

Conclusion

As the largest s. 457 plan in Wisconsin, providing value to the WDC's participants and employers is a responsibility ETF takes very seriously. The metrics reviewed in this memo indicate the WDC provides value and is in line with other state supplemental deferred compensation plans.

With the Board's continued oversight, the WDC will continue to offer excellent investment options and related retirement planning services for participants while managing cost, minimizing risk, improving participant engagement, and modifying plan features as necessary to remain in compliance with evolving federal and state regulations.

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