Helping You Turn Over a New Retirement Leaf

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Administrative Expense Account: Investment and Target Balance Policies

The Wisconsin Deferred Compensation Program (WDC) is a self-funded optional supplemental retirement savings plan. No state tax revenues are used to support the WDC. All revenues used to pay plan expenses are generated from participant administrative fees and any gains on the Deferred Compensation Board's Administrative Expense Account.

Investment Policy
The Board's Administrative Expense Account will be invested in the Stable Value Fund.

Target Balance Policy
The Board's Administrative Expense Account balance should equal to 50-75% of estimated annual plan expenses. This amount is a guideline and may be adjusted as needed by the Board. For example, reexamination of the reserve target balance may be necessary during periods of sustained market downturns that negatively impact WDC account balances and therefore lower participant administrative fee revenues.

The balance in the Administrative Expense Account will be monitored by ETF and reported to the Board no less than annually, in conjunction with the annual participant administrative fee review.

Objectives
The target balance policy seeks to balance the following objectives:

1) Providing flexibility to:
   a) maintain WDC services and achieve goals during unanticipated or extended economic downturns resulting in revenue shortfalls;
   b) fund new initiatives and services; and
   c) respond to unexpected opportunities.
2) Reducing volatility in individual participants' annual administrative fees.
3) Encouraging plan participation by assessing minimal administrative fees for individual participants with low account balances. For example: from 2008-present (2023), no administrative fees were assessed on account balances under $5,001.

Review Period
The Board will review this policy at least every three years.

Background

From 1992 through 1995, the Board used a combination of an annual $10 administrative service fee plus an asset-based participant fee to fund all WDC-related expenses. From 1995 through 1999, the WDC imposed a straight asset-based administrative fee on participants. This asset-based fee fluctuated, depending on what was required to pay WDC expenses. It also required a very conservative approach by ETF staff when making revenue and expense projections in order to protect against raising participant administrative fees should there be a long- or short-term market downturn. As a result, for several years the revenues generated by the participant administrative fee exceeded annual estimated expenses and the balance in the Board's administrative expense account grew significantly beyond the Board's established rate stabilization reserve level.

In 1998, the Board began examining the idea of moving the participant administrative fee from an asset-based fee to a flat fee. This proposal was made because it was becoming obvious that using an asset-based participant administrative fee posed potential problems. With many WDC participants investing in equity mutual funds, a potential market downturn (short- or long-term) could greatly decrease total WDC assets and thus monthly revenues. The volatility associated with the asset-based fee also made it difficult to project revenues: as the markets and WDC assets fluctuate, so would the amount of revenue generated. At its meeting in November of 1999, the Board approved moving to a flat participant administrative fee beginning in February 2000, which significantly reduced this volatility.

The Board also moved the Administrative Expense Account to the WDC's Stable Value Fund in 1999. This move was authorized after the Board recognized that higher returns could be achieved through the Stable Value Fund while still safeguarding the principal. Prior to 1999, the Administrative Expense Account was invested in the FDIC option.

Prior to 2015, the target balance for the Administrative Expense Account was one hundred percent (100%) of estimated annual plan expenses. In 2015, the Board determined fifty to seventy-five percent (50-75%) of estimated annual plan expenses was the appropriate Administrative Expense Account target balance because analysis showed that this would help maintain stable participant administrative fees while maintaining enough in the account to pay for the WDC's expenses.

In 2015, the Board adopted its "Investment Option Selection and Reimbursement Policy" after learning that the WDC's third party administrator could allocate reimbursements directly to plan participants. Since then, the Board's Administrative Expense Account has not received any direct reimbursements from investment options and there has been more volatility in annual participant administrative fees.