Administrative Expense Account
Investment and Target Balance Policy

Adopted May 1996
Revised June 2015

The Deferred Compensation Board's Administrative Expense Account will be invested in the Stable Value Fund. The Board's Target Balance Policy is that the administrative account from which Wisconsin Deferred Compensation Program (WDC) expenses are paid will attempt to maintain a prudent level of financial resources, which is an account reserve balance that equals 50-75% of estimated annual plan expenses. This amount may be adjusted as needed.

Excess Administrative Account Reserve Balance *(adopted November 2014):* The balance in this account will be monitored and a report presented to the Board no less than annually, in conjunction with a participant administrative fee review. In the event that the Board's administrative expense reserve exceeds the target balance, participants investing in options generating reimbursements may be partially rebated according to the Board's Investment Option Selection and Reimbursement Policy.

Investment of Board's Administrative Expense Account *(adopted May 1999)*: The Board's administrative expense account shall be invested in the WDC's Stable Value Fund. 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 account was invested in the WDC's FDIC option.

Target Balance Policy Background: The Board's goal is to continue to minimize individual participants' annual fee levels while taking into consideration the potential for market downturns that negatively impact asset-based participant fee revenues. Fifty to seventy-five percent (50-75%) of estimated annual plan expenses was selected as the appropriate expense account target balance because analysis showed that this would help maintain stable participant administrative fees while maintaining enough in the Board's administrative expense account to pay for WDC-associated expenses.

The target balance is intended to provide financial stability and flexibility to:

- Maintain services and achieve goals during unanticipated or extended economic downturns resulting in revenue shortfalls
- Avoid unplanned increases in participant administrative fees
- Fund new initiatives and services
- Respond to unexpected opportunities

The WDC is a self-funded program; no state tax revenues may be used to support it. All revenues used to pay plan expenses are generated from participant administrative fees, some investment option reimbursements (for recordkeeping and marketing) and any gains on the Board's administrative expense account.

Historical Background: From 1992 through 1995, the Board used a combination of an annual $10 administrative service fee plus an asset-based participant fee to pay for 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 to staff that using an asset-based participant fee posed potential problems. With many WDC participants investing in equity mutual funds, a potential market down-turn (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.