

**State of Wisconsin**  
**Deferred Compensation Program**  
*Madison, Wisconsin*

Independent Accountants' Report on Applying Agreed-Upon  
Procedures for Third-Party Administration of State of  
Wisconsin Deferred Compensation Program  
Year Ended December 31, 2021

# Table of Contents

Independent Accountants' Report on Applying  
Agreed-Upon Procedures for Third-Party Administration  
of State of Wisconsin Deferred Compensation Program ..... 3

Section I Background..... 4

Section II Procedures and Results ..... 7



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*

Wipfli LLP

June 9, 2022  
Madison, Wisconsin

# Section 1 – Background

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# 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

# Background

## Previous Engagements

An agreed upon procedures engagement for assisting ETF in determining contract compliance was last completed for the period January 1, 2019 through December 31, 2019.

## Objectives

Our engagement was designed to assist the ETF in determining whether Empower Retirement is complying with terms of the Administrative Agreement including established performance standards, and is processing account activity transactions timely and accurately, in compliance with federal and state regulations and contractual requirements.

## Scope

Our engagement extends to the application of the procedures enumerated in Section II of this report. We applied these procedures to the records and systems maintained by Empower Retirement and ETF. Our procedures were applied to the period January 1, 2021, through December 31, 2021. Sample sizes and acceptable error rates were discussed, provided, and agreed upon by ETF.

## Section II – Procedures and Results

# Procedures and Results

## Strategic Partnership Plan Scorecard Goals

To assist ETF in determining the scorecard results reported by Empower to ETF and the Board were achieved by obtaining supporting documentation to corroborate the selected figures reported:

- In-force growth
- 15 new employers adopted
- 69 virtual benefit fairs conducted
- 1,859 total RRRs
- 350 group meetings

Based on the degree to which the Scorecard goals and participant growth targets are achieved, Empower is entitled to an additional administrative fee ranging from 0% to 5%. Based on the results reported to ETF, a 3.50% increase was awarded. The following procedures are intended to assist ETF in validating that outcome.

### Procedures

1. Obtained the Scorecard goals and results for 2021 from the correspondence memorandum from Shelly Schueller, Director to the Deferred Compensation board dated February 3, 2022.
2. Obtained corroborating documentation to demonstrate each of the goals were met.
3. Based on the results, calculate the proper fee increase.

The goals and results were as follows:

## 2021 Scorecard Results

Goal/Action Item	Tools adopted	Results desired	12/31/21 Results
Enrollment	<ul style="list-style-type: none"> <li>• Employee and Employer</li> <li>• Group meetings</li> </ul>	<ul style="list-style-type: none"> <li>• 3% in-force* growth (66,790 in-force accounts as of 12/31/20)</li> <li>• 10 new employers</li> <li>• 1-2 Conventions</li> <li>• 45+ benefits fairs</li> </ul>	<ul style="list-style-type: none"> <li>• 1.7% in-force* growth (67,927)</li> <li>• 15 new employers adopted</li> <li>• WMCA Conference (virtual)</li> <li>• 69 virtual benefits fairs conducted</li> </ul>
Asset Allocation	<ul style="list-style-type: none"> <li>• Retirement Readiness Reviews (RRR) with at-risk groups</li> <li>• Emails, mailers and tweets</li> <li>• Fiduciary advice/CFP service</li> <li>• Partnership on financial wellness grant</li> </ul>	<ul style="list-style-type: none"> <li>• RRRs with 10% of at-risk population** (661 At Risk RRRs)</li> <li>• Increase average number of investment options to 5.46</li> </ul>	<ul style="list-style-type: none"> <li>• 1,384 RRRs with at-risk population</li> <li>• Average number of investments 5.33</li> </ul>
Education	<ul style="list-style-type: none"> <li>• Participant Education                             <ul style="list-style-type: none"> <li>• RRRs for at risk groups</li> <li>• DB Addition Campaign</li> </ul> </li> <li>• Employer Education</li> <li>• Partnership on financial wellness grant</li> <li>• Restart campaign</li> </ul>	<ul style="list-style-type: none"> <li>• 3,000 total RRRs</li> <li>• 300 group meetings</li> <li>• Bring positive actions*** to 33%+ of the RRRs conducted</li> <li>• Restart campaign: Restart 2% of participants who stopped contributing</li> </ul>	<ul style="list-style-type: none"> <li>• 1,859 total RRRs</li> <li>• 350 group meetings</li> <li>• 66% positive action rate</li> <li>• 4% of targeted participants restarted their contributions</li> </ul>
Retention	<ul style="list-style-type: none"> <li>• Retirement Readiness Reviews</li> <li>• Retiree webinar</li> <li>• RSG support and CFP service</li> </ul>	<ul style="list-style-type: none"> <li>• Increase asset retention by 5%+ (roll out 5% fewer assets than \$137.8M rolled out in 2020)</li> <li>• Conduct 150 financial plans</li> </ul>	<ul style="list-style-type: none"> <li>• \$102.9M assets rolled out</li> <li>• Retiree webinar 12/15/21 with 66 attendees</li> <li>• 19 financial plans have been delivered (out of 74 who initiated the process); 12 subscriptions and 7 individual</li> </ul>



# Procedures and Results

## Results

1. Inspected a census generated from the Empower Plan Service Center online portal ('Empower Portal') and agreed to the in-force growth figure.
2. Employer adoption forms from 2021 were inspected and agreed to support all 15 new employers added during the year.
3. Obtained from Empower listings of the 69 benefit fairs attended.
4. Obtained from Empower listings of the 350 group meetings conducted.
5. A list of meetings and related details for 2021 were provided and agreed to the retirement readiness reviews results (1,859 conducted during the year).
6. Based on participant growth being greater than 1%, but less than 3%, Wipfli recalculated the 2021 fee increase for Empower and compared it to the fee increase awarded of 3.50%.

## Findings

No exceptions were found as a result of applying the procedures.

# Procedures and Results

## **Reporting**

Exhibit 1 of the Administrative Agreement effective December 1, 2017 requires a range of reporting to be provided by Empower Retirement to WDC on a quarterly or annual basis. The following reports are some of the reports required to be provided:

- Performance Standards Update (due within 45 days after the end of the quarter)
- Plan Investment Performance and Expense Ratio Review (due within 45 days of the end of the quarter).
- Annual Plan Review (due within 120 days after year end).

Our procedures regarding reporting were to assist ETF in determining whether various items reported in these reports were accurate. Procedures were performed on the following:

1. Investment Performance Review:
  - a) Performance benchmarking for 4-5 investment options to be compared to Morningstar or other published sources
  - b) Reported expense ratios for 4-5 investment options to be compared to Morningstar or other published sources
  - c) Recalculate overall plan expense ratio (asset weighted average expense ratio)
2. Annual Plan Report:
  - a) Average participant paycheck contribution for state, local, and total employees
  - b) Plan contribution history (for last two years)
  - c) Contribution and withdrawal summary
  - d) Distributions – full and partial payouts for death, de minimus and service credit
  - e) Call center response time, busy signal and abandoned call rates agreed to Empower provided supporting documentation

## Procedures

1. Obtained copies of all reports listed above provided to ETF.
2. For five selected investments, 2021 returns and expense ratios stated in the benchmarking reports were compared to data in Wipfli Financial's Morningstar Direct system access.
3. Recalculated the overall plan expense ratio.
4. For items 2(a) through 2(d), compared the data reported in the Annual Plan Report to other reports obtained during the engagement to agree to the figures reported:
  - a. Average participant paycheck contribution for state, local, and total employees: Agreed to contribution reports obtained from PSC, census listings of employees, and recalculated average contribution rates.
  - b. Plan contribution history (for last two years): agreed to contribution reports from PSC and trust report
  - c. Contribution and withdrawal summary: agreed to contribution reports from PSC, withdrawal reports from PSC, and trust report
  - d. Distributions – full and partial payouts for death, de minimis and service credit: agreed to listing of withdrawals obtained from PSC
5. For the call center response times, ran a call summary report from the Empower Portal noting it corroborates the information presented in the Performance Standards.

# Procedures and Results

## Results

The average contributions per the Annual Plan Report were \$6,850 (State), \$5,775 (Local), and \$6,370 (combined); we recalculated average contributions of \$6,825 (State), \$5,817 (Local), and \$6,378 (combined).

Total reported contributions for 2021 per the Annual Plan Report were \$243,790,000; we observed contributions of \$243,900,000 on deferral reports obtained, a variance of 0.05%.

Total reported contributions for 2020 per the Annual Plan Report were \$217,320,000; we observed contributions of \$217,460,000 on deferral reports obtained, a variance of 0.06%.

The reported withdrawals amount per the withdrawal report were \$358,114,652.42, a variance of \$223,096.61 (0.1%) from the withdrawals reported in the Annual plan report.

No other exceptions were noted as a result of applying the procedures.

# Procedures and Results

## ***Participant Expenses***

For a sample of 25 participant expenses perform procedures to agree the charges to participant accounts agree to the stated expense schedule in the plan Fact Sheet. The plan expense schedule is as follows:

### **Plan Services Fees**

SERVICE CODE	FEE TYPE	PAID BY	ANNUAL FEE	BASIS FOR ESTIMATE	GROSS PAYMENTS
2.1	Plan Maintenance	Deducted from Plan	\$3,743,130	Flat Fee	\$3,743,130
	Participant Account Maintenance	Deducted from Participant	Under \$5K = \$0.00 \$5K to \$25K = \$12.00 \$25K to \$50K = \$39.00 \$50K to \$100K = \$78.00 \$100K to \$150K = \$102.00 \$150K to \$250K = \$141.00 Over \$250K = \$210.00	Actual Expenses	\$4,254,315

### **Participant Services Fees**

SERVICE CODE	FEE TYPE	PAID BY	FEE	GROSS PAYMENTS
2.2	Empower Retirement Advisory Services My Total Retirement	Deducted from Participant	Up to \$100K = 0.450000% Next \$150K = 0.350000% Next \$150K = 0.250000% Over \$400K = 0.150000%	\$3,892,672

## Procedures

1. Obtained the 2021 Plan Census.
2. Selected a random sample of 25 participants from the plan census.
3. Obtained account statements for each participant for 2021 from the Empower portal.
4. Recalculated, based on participant assets, the expenses expected for the year for each sampled participant and compared that to actual charges.

## Results

No exceptions were noted as a result of applying the procedures.

# Procedures and Results

## ***General Account Activity Confirmations***

For a sample of 25 participants confirm account activity with the participant and give participants selected the opportunity to remark on any unusual, unauthorized, or suspicious activity.

### Procedures

1. Obtained the 2021 Plan Census.
2. Randomly selected 25 participants from the plan census (this is the sample that was used for participant expense procedures).
3. Obtained account statements for each individual for 2021 from the Empower portal.
4. Mailed participants confirmations requesting they confirm the following information:
  - a. The investment elections match elections made by the participant
  - b. The contributions (if any) match the participant's contribution elections
  - c. The rollovers (if any) match the participant's rollover elections
  - d. The withdrawals (if any) were requested/authorized by the participant
  - e. The transfers (if any) were requested/authorized by the participant

### Results

Of the 25 confirmations sent, 10 (40%) participants responded positively confirming their account activity as of the effective date. There were no negative confirmation responses and 15 (60%) non-replies.

No exceptions were noted as a result of applying the procedures.

# Procedures and Results

## ***Enrollment Processing***

For a sample of 25 participants from the contribution detail, agree participant is included in the Wisconsin Retirement System (WRS) records as an employee. Eligibility requirements for the plan are limited, only requiring the participant be an employee of a participating Employer.

## Procedures

1. Obtained the 2021 Plan.
2. Randomly selected 25 participants from the plan census.
3. Received data from ETF showing that each employee was part of the Wisconsin Retirement System ('WRS'). These records are held by ETF, independently from Empower. All employees in WRS are qualifying participants. Thus, if a participant is in the WRS system, they are eligible for the Plan.
4. Agreed the Empower record of birth date for each sampled participant to the WRS system record.

## Results

No exceptions were noted as a result of applying the procedures.

# Procedures and Results

## ***Participant Deferrals***

For a sample of 28 contributing participants from the contribution detail, perform procedures to assist ETF in ensuring contributions match payroll center documentation, are within deferral limits, and are posted timely.

### Procedures

1. Sampled 7 employers from the 2021 Trust report.
2. Used confirmation detail obtained from the PSC website for employees of the sampled employers and randomly selected a total of 28 employees from the 7 employers.
3. Confirmed with the Employers that the deferral amounts match their records.
4. Compare the contributions to IRS deferral limits based on published limits and, as applicable, ages of participants with catch up contributions.
5. Inspected deferral detail to assist ETF in ensuring deferrals were posted timely

### Results

Wipfli performed procedures on 707 specific payroll events for the 28 selected participants. The timing from payroll dates to effective dates are summarized as follows:

Business days between payroll date and effective date	Number of records in the sample
-3	3
-2	83
1	498
2	53
3	19
4	22
5	20
6	8
9	1
Total	707

No exceptions were noted as a result of applying the procedures.

# Procedures and Results

## ***Participant Deferrals (50+ Catch-Up and Special Catch-Up)***

Assist ETF in determining whether participants electing to make Age 50+ Catch-Up and/or Special Catch-Up deferrals are eligible to make the deferrals.

### Procedures

1. Obtained a report from the PSC website that listed all participants and their contributions to the plan for 2021.
2. Randomly selected a sample of 40 participants (30 participants who had Age 50+ Catch-Up deferrals during 2021, and 10 participants who had Special Catch-Up deferrals during 2021).
3. Compared age and protective employee status, if applicable, to the rules on eligibility for catch-up and special catch-up contributions.

### Results

For one of the 40 sampled, the amount contributed exceeded the amount allowed under rules on eligibility for catch up contributions by \$1,000. Empower has a mechanism to identify such participants and issue corrective distributions. This participant received the correct corrective distribution on November 3, 2021 (an in-year correction). This is not considered an exception.

No exceptions were noted as a result of applying the procedures.



# Procedures and Results

## *Hardship Withdrawals*

Participants who experience financial emergencies may submit a hardship application to Empower Retirement. Under the Administrative Agreement, Empower Retirement is to either approve or deny and process, without ETF's signature, all unforeseeable emergency requests received in good order and in a manner satisfactory to Empower Retirement.

Wipfli assisted ETF in:

- Determining hardship applications contained proper signatures and documentation required by the Plan.
- Determining hardship applications were approved in accordance with the Administrative Agreement.

## Procedures

1. Obtained a data file containing all hardship withdrawals.
2. Randomly selected a sample of 25 hardship withdrawals.
3. Obtained documentation supporting the request and payment of hardship withdrawal. All documentation included the requisite documentation of the hardship precipitating the request.
4. Compared results of sampled transactions with requirements in the Administrative Agreement.

## Results

No exceptions were noted as a result of applying the procedures.

# Procedures and Results

## ***Distributions***

Distributions should be requested and approved by the participant. Accordingly, ETF directed Wipfli to send confirmations to 42 participants to confirm the withdrawals were authorized and allow participants the opportunity to indicate if there were any issues with the distribution.

## Procedures

1. Obtained a data file containing all distributions.
2. Selected a sample of 42 distributions.
3. Confirmed in writing with each participant that the withdrawal selected was in accordance with their request. Confirmation letters were mailed to participants and an attachment was enclosed showing the details of the withdrawal transaction.

## Results

Of the 42 confirmations sent, 26 (62%) participants responded positively confirming their distribution. There were no negative confirmation responses and 16 (38%) non-replies. Participants did not indicate any other issues on their returned confirmations.

No exceptions were noted as a result of applying the procedures.

# Procedures and Results

## ***Required Minimum Distributions***

Under Internal Revenue Service (IRS) regulations, all participants must take required minimum distributions ('RMD') if they were 72 years of age or older during 2021, unless they are still employed by an employer that participates in the Plan. Empower notes that it does not force RMDs, but sends notices to participants informing them of the RMD requirement each year. For a sample of 25 participants who were at least 72 years old, inspect participant correspondence for an RMD notice.

## Procedures

1. Obtained the 2021 Plan Census.
2. Selected a sample of 25 participants from the plan census who were at least 72 years of age.
3. Obtained copies of the RMD notices sent from Empower.
4. Further, obtained account statements for each selected participant for 2021 from the Empower portal and inspected that RMDs were taking place as required.

## Results

For 19 of the 25 sampled participants, a notice was obtained by Wipfli informing the employee of their RMD requirement. For 6 of 25 sampled, no notice was provided, however all 6 of these participants had taken qualifying distributions and Empower represented that they do not send notices to individuals who have already made/elected to make qualifying withdrawals.

Of the 25 sampled participants, 5 participants had qualifying withdrawals (either as recurring RMDs or as lump sum amounts), 19 had no withdrawals, but were still employed and thus were not required to have an RMD, and 1 was no longer employed and had no RMD.

No other exceptions were noted as a result of applying the procedures.

# Procedures and Results

## ***59 ½ In-Service Distributions***

Under the Plan's terms, participants may not take in-service distributions unless they are age 59 ½. Wipfli assisted ETF in determining if in-service distributions were being properly made by sampling a group of individuals requesting age 59 ½ in-service distributions.

### Procedures

1. Obtained a list of withdrawals by withdrawal type.
2. Selected a sample of 104 in-service withdrawals/participants from the list of withdrawals.
3. Compared the participants' dates of birth to census information to verify participants were at least 59 ½ years of age.

### Results

No exceptions were noted as a result of applying the procedures.

# Procedures and Results

## ***Domestic Relations Order Distributions***

Perform procedures on a sample of Qualified Domestic Relations Order Distributions (QDROs) taken during the 2021.

### Procedures

1. Obtained a data file containing all distributions and filtered to obtain a list QDROs during 2021.
2. Randomly selected a sample of 20 QDROs from the data file.
3. Compared the QDROs distribution to the complete request form, as required by the Plan, as well as the applicable court order.

### Results

For 3 of the 20 QDROs sampled, no supporting court order was provided. No other exceptions were noted as a result of applying the procedures.

# Procedures and Results

## ***Transfers***

Participants are allowed unlimited opportunities to transfer existing account balances. Participant requests received before 3:00 p.m. Central Time are processed on the day received. If received after 3:00 p.m., the transfer is processed on the next business day. For a sample of 26 participants confirm the actual transfer with the participant.

## Procedures

1. Obtained a data file containing transfers.
2. Selected a sample of 26 transfers.
3. Obtained documentation supporting the date and time the participant transfer request was received by Empower.
4. Confirmed in writing with each participant that the funds selected are in accordance with the participant's request.

## Results

Of the 26 confirmations sent, 13 (50%) participants responded positively confirming their transfer as of the effective date. There were no negative confirmation responses and 13 (50%) non-replies.

Transfer information received included the date received, but not time of day. Business days between the request received date and effective dates were as follows for the transfers sampled:

Business days between request date and effective date	Number of records in the sample
0	6
1	7
2	11
3	2
Total	26

No other exceptions were noted as a result of applying the procedures.

# Procedures and Results

## ***Rollovers***

Participants are allowed unlimited opportunities to roll funds from outside qualifying sources, such as other 401(k), 403(b), and IRA accounts. Rollovers must be held in a separate subaccount for each participant.

## Procedures

1. Using the certified trust report, randomly selected a sample of 30 rollovers/transfers-in.
2. Inspected participant account activity on PSC and observed that funds received for each of the sampled rollovers were placed in a separate subaccount to differentiate them from ordinary salary deferrals under the Plan.

## Results

Of the 30 sampled participants, 26 had their rollovers placed into a separate subaccount for rollovers. The remaining 4 had their transfer placed directly into the employee before tax or Roth contribution sub accounts, which are the same subaccounts that house payroll deferrals. Each of these transfers-in were from a different 457 plan.

No other exceptions were noted as a result of applying the procedures.

# Procedures and Results

## ***Equity Wash***

As noted in the administrative contract, Empower is to prohibit direct transfers between the Stable Value Fund and competing investment options. After a participant makes a transfer from the Stable Value Fund to a non-competing investment option, Empower is to prohibit all transfers from that non-competing investment option into a competing investment option for 90 days. Wipfli assisted ETF in determining transfers did not violate the equity wash requirements by sampling 25 such transfers out of the Stable Value Fund to ensure compliance with these rules. The competing funds are:

- a. FDIC Bank Option (held by Johnson Bank)
- b. Vanguard Treasury Money Market
- c. Schwab Self Directed Brokerage Accounts (removed from competing funds list effective March 1, 2022)

## Procedures

1. Obtained a data file containing transfers.
2. Sorted the list to find only transfers out of the Stable Value Fund.
3. Agreed the individual transfer on the Empower PSC website did not go directly into a competing fund.
4. Inspected account activity for that participant in Empower PSC for transfers to a competing fund for 90 days after the initial transfer-out of the Stable Value Fund.

## Results

No exceptions were noted as a result of applying the procedures.