Default Fund Policy

Adopted: unknown – perhaps at beginning of plan?
Last Revised: May 2008

The Deferred Compensation Board's Default Fund Policy is that the designated default fund will be the Vanguard Target Retirement Date Fund appropriate for the participant's retirement age, using age 65 as the standard retirement age.

Default Fund History
1983 - May 2008: Vanguard Money Market Fund
May 2008 – present: Vanguard Target Date Retirement Funds

Default Fund Procedure: When an investment option is removed from the Wisconsin Deferred Compensation Program (WDC), any remaining account balances will be swept to the Vanguard Target Date Fund closest to the participant's retirement date at age 65.

Background: Selecting a default fund option when removing or replacing an investment option is a fiduciary duty, since the Board is making an investment decision for participants instead of the decision being directed by the participant.

Section ETF 70.08 (3), Wisconsin Administrative Code, states that after the Deferred Compensation Board (Board) has determined that an investment option is no longer acceptable for inclusion in the Wisconsin Deferred Compensation Program (WDC), the Board is required to tell the WDC's third party administrator to which other WDC investment option any remaining participant account balances from the closed fund should be automatically moved or "swept." The administrative rule does not specify to which investment option the money is to be swept; that decision is left to the Board.

Selected References:

1) ERISA. The preamble to section 404(c) of the Employee Retirement Income Security Act (ERISA) states that "plan fiduciaries will not be relieved of responsibility for investment decisions under an ERISA section 404(c) plan unless those [investment] decisions have affirmatively been made by participants…" Like other public retirement plan sponsors, the WDC is not directly subject to ERISA. However, in practice most public plan sponsors, including the WDC, seek to abide by ERISA regulations as the ERISA regulations provide guidance on federal interpretations of situations that are also experienced by public plan sponsors.

2) PPA. The Pension Protection Act of 2006 (PPA) included language creating ERISA s. 404 (c)(5), which alleviates fiduciary liability for plan sponsors who meet specific conditions regarding assets invested in a plan's default fund. The PPA also directed the federal Department of Labor (DOL) to issue guidance that plan sponsors could follow when selecting a default fund. In October of 2007, the DOL issued Qualified Default Investment Alternative (QDIA) regulations. Employers following QDIA regulations have no legal liability for market fluctuations when providing a QDIA for employees who fail to select their own investment options. Target date retirement funds are considered appropriate QDIAs.