

# The Wisconsin Deferred Compensation Program (WDC)

History, Statistics and Features  
as of March 3, 2020

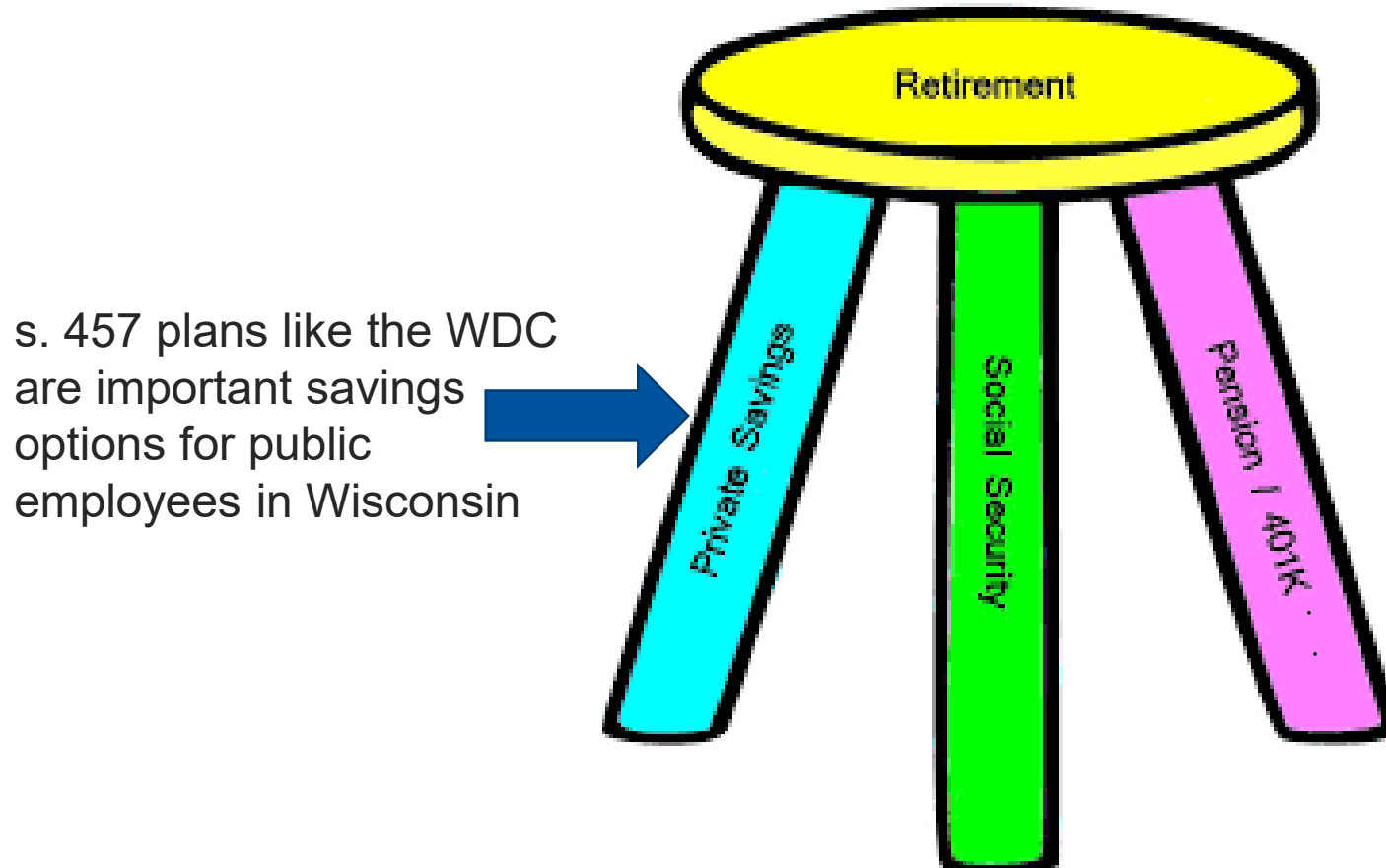
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# Retirement is a three legged stool



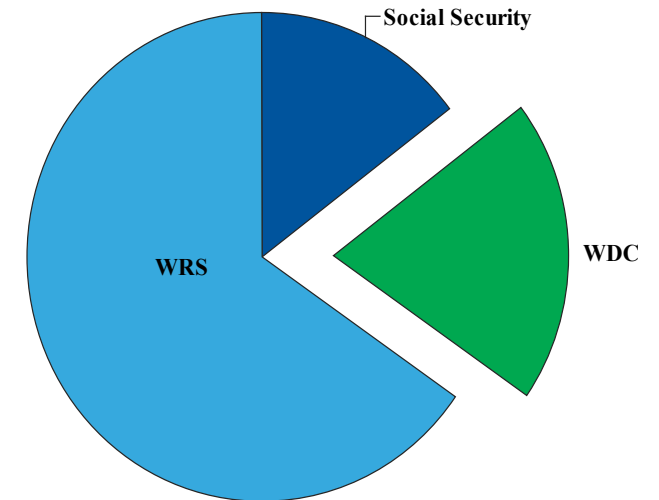
# The WDC enables public employees to save more toward a financially secure retirement

**Retirement income needed = 80-90%**

WRS may pay: 40-60%

Social Security may pay: 20% or less

**Retirement “Gap” = 10-40%**



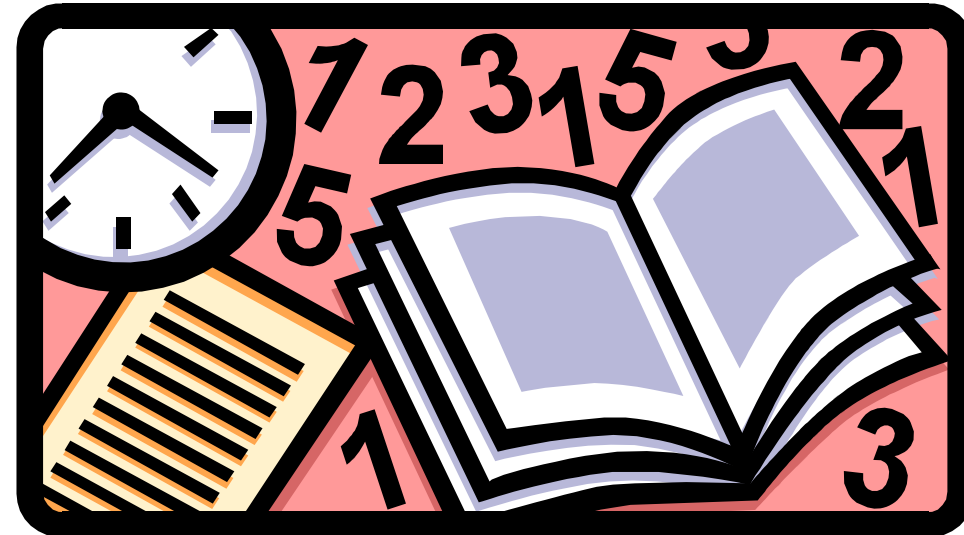
# s. 457 Plan Basics

- The WDC is a s. 457(b) plan
  - Voluntarily for public employees earning W2 wages
    - Before-tax and/or Roth contributions
    - Payroll deduction by dollar amount or percent
    - No minimum contribution required
  - Contribution limits in 2020:
    - \$19,500 for everyone; \$25,500 for employees age 50 and older; and
    - \$39,000 for those who qualify to take advantage of a special catchup provision
  - Portable among qualified retirement plans (roll \$ or roll \$ out)
  - Can use to purchase WRS forfeited and qualifying service



# Creation of the WDC

- 1978: Federal legislation established Internal Revenue Code Section 457 deferred compensation plans
- 1982: WDC was established
  - Oversight by ETF Board
  - No State funds for administration
  - 5 initial participant enrollments



# WDC History



- 1984: State Statutes amended to allow local employers to participate in the WDC. A total of 42 local employers adopted the WDC for their employees in the first year. As of 2020, over 925 local employers offer the WDC to their employees.
- 1989: State legislation authorizes optional second deferred compensation plan. This also resulted in the creation of the Deferred Compensation Board for WDC oversight responsibilities
- 2001: EGTRRA (federal legislation) passed creating greater flexibility for WDC distributions, contribution limits and rollovers
- 2010: Federal legislation passed permitting Roth 457 deferrals. WDC began offering Roth deferrals in 2012.
- 2019: The federal SECURE Act legislates additional changes, including increasing age for required minimum distributions (RMDs) to age to 72 starting in 2020.

# Deferred Compensation Board

- 5 members appointed by the Governor and confirmed by the State Senate serve 4 year staggered terms. Has one advisory-only committee: Investment Committee that meets 2-3 times per year, as needed.
- 2 - 3 Board meetings per year, held in Madison, WI
- Statutory responsibility to provide policy direction and program oversight including:
  - setting participant fees
  - approving contracts for administrative services and audits
  - hearing participant appeals
  - selecting and monitoring investment fund options
  - maintaining *Plan and Trust* document
  - developing and following formal *Investment Policy Statement*

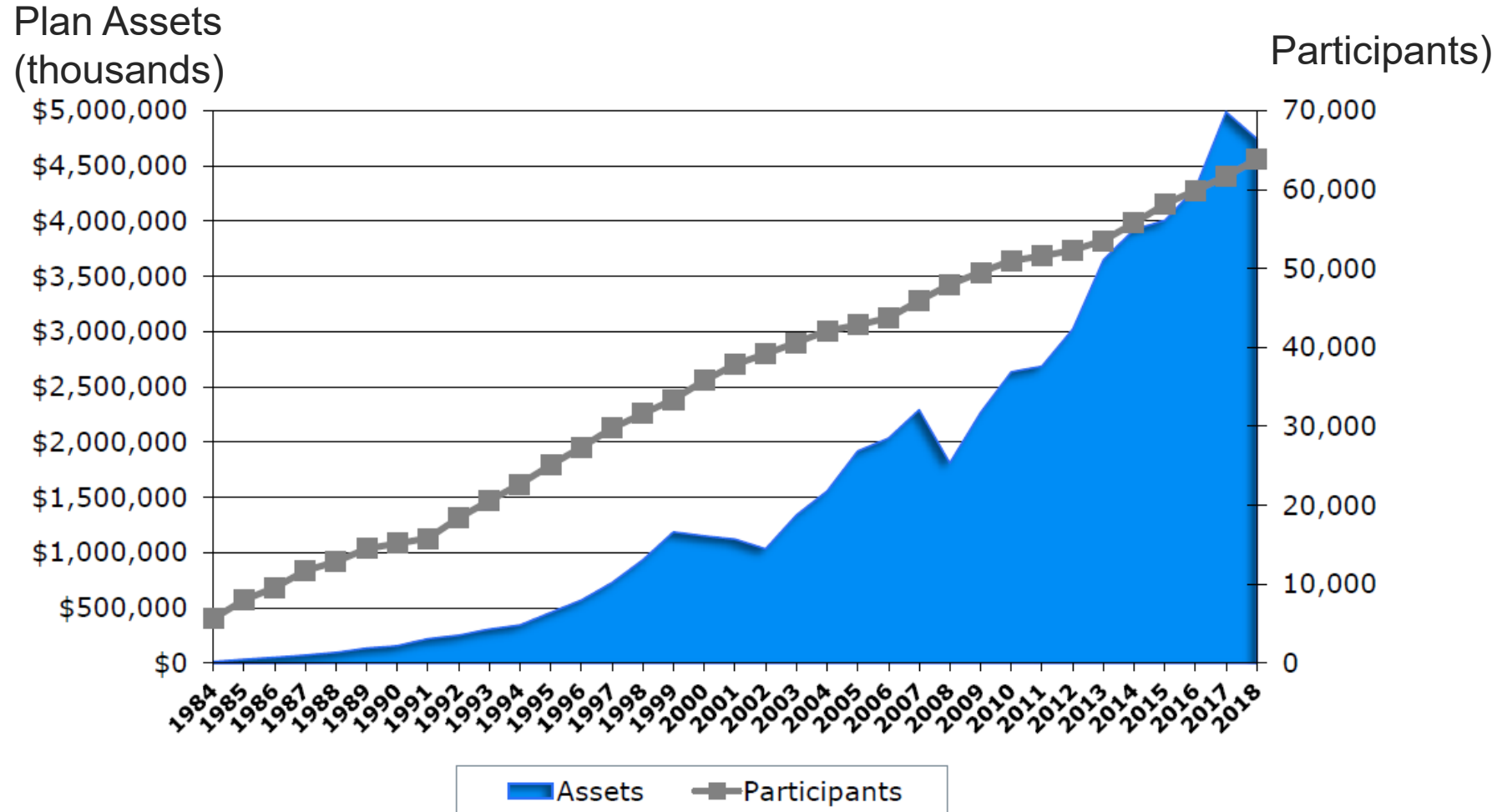
# WDC Features

- Participants may
  - change their deferrals at any time
  - redirect deferrals to other options offered by the WDC without restriction (except those funds subject to Stable Value Fund equity wash)
  - exchange existing account balances from one option to another on a daily basis (as long as not in violation of Excessive Trading Policy)
- Catch up options (may only use one at a time)
  - Age 50 and older: additional \$6,500 in 2020 for total of \$26,000
  - “Special” = within 3 years of normal retirement age: additional \$19,500 in 2020 for a total of \$39,000



# WDC Assets and Participation

as of 12/31/18





# WDC: Asset Class Coverage

Core "Doers"							
Stable Value/ Money Market	Fixed Income	Large Cap Value	Large Cap Core	Large Cap Growth	Mid Cap	Small Cap	Global/ International
FDIC Bank Option, Vanguard Treasury Money Market, Stable Value Fund	BlackRock US Debt Index, Federated US Gov Securities, Vanguard Long-Term Investment Grade, Dodge & Cox Income	American Beacon Bridgeway Large Cap Value	Vanguard Institutional 500 Trust Index	Fidelity Contrafund Commingled Pool, Calvert U.S. Core Large Cap Resp Idx	BlackRock Mid Cap Equity Index, T.Rowe Price Instl Mid-Cap Equity	BlackRock Russell 2000 Index, DFA US Micro Cap	American Funds Europacific Growth, Blackrock EAFE Equity Index
Asset Allocation "Delegators"							
Balanced/Lifestyle/Lifecycle				Managed Accounts			
Vanguard Target Retirement Trusts, Vanguard Wellington				Professional Management Program - Ibbotson			
Specialty "Sophisticates"							
Brokerage		Other			Company Stock		

Schwab



# WDC Investments

- *Written Investment Policy Statement* outlines the Board's goals and philosophy regarding investment options
  - minimum criteria for inclusion
  - investment selection process
  - monitoring, annual evaluation and removal processes
- The Board maintains a core investment spectrum, along with a self-directed brokerage option and target retirement date options.
- Managed accounts option available (participant pays individual cost)
- Investment Committee provides recommendations to full Board

# WDC Investments



## Asset Summary

12/31/2019

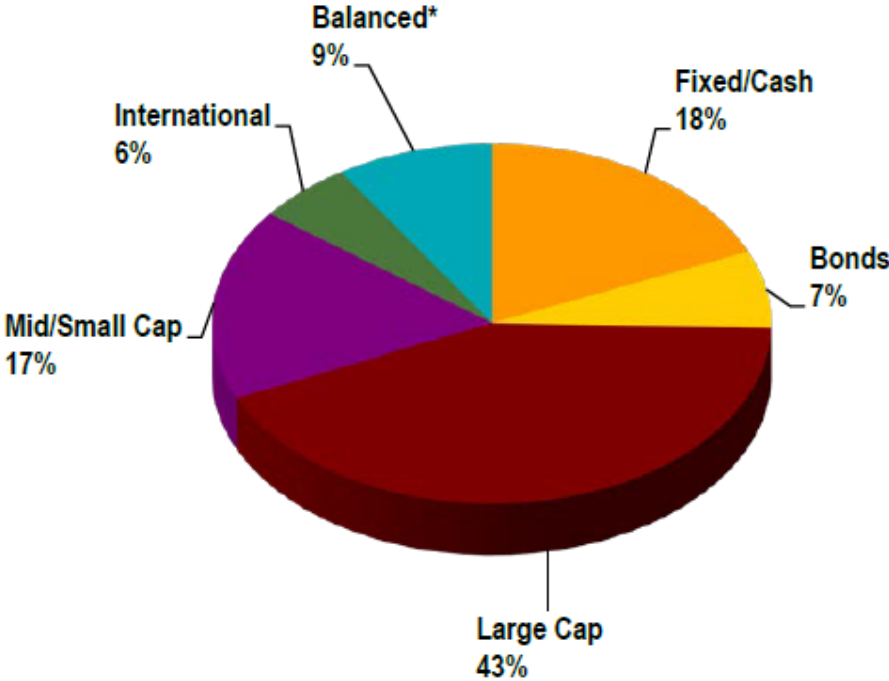
	Plan Inception Date	Fund Net Assets	WDC Assets in Fund	WDC as a Percentage of Fund Assets	Fund as a Percentage of WDC Assets	Number of Participants	Percentage of WDC Participants Utilizing Fund
American Funds EuroPacific Gr R6	1/28/2005	\$173,499,914,047	\$179,426,156	0.10%	3.15%	23,830	36.13%
BlackRock EAFE Equity Index Fund W	2/1/2001	\$42,673,980,000	\$205,879,259	0.48%	3.62%	22,182	33.64%
DFA U.S. Micro Cap	2/1/1997	\$6,840,756,124	\$219,974,510	3.22%	3.87%	11,638	17.65%
BlackRock Russell 2000 Index Fd	2/20/2004	\$760,530,000	\$83,267,978	10.95%	1.46%	15,736	23.86%
T. Rowe Price Mid-Cap Growth	2/1/1998	\$35,456,025,904	\$602,587,658	1.70%	10.59%	32,560	49.37%
BlackRock Mid Cap Equity Index Fund W	2/1/2001	\$5,960,140,000	\$243,005,119	4.08%	4.27%	23,838	36.15%
Calvert US Large Cap Core Rspnb Idx R6	4/18/2003	\$3,766,036,787	\$67,229,546	1.79%	1.18%	3,320	5.03%
Fidelity Contrafund Commingled Pool CI 2	1/31/1994	\$120,128,910,678	\$750,605,165	0.62%	13.19%	32,459	49.22%
Vanguard Institutional 500 Index Trust	9/9/1990	\$79,800,000,000	\$616,679,669	0.77%	10.84%	29,702	45.04%
American Beacon Bridgeway Lg Cap Val	11/1/2017	\$181,838,149	\$30,893,743	16.99%	0.54%	17,312	26.25%
Vanguard Wellington Adm	10/26/2001	\$112,554,914,426	\$500,157,077	0.44%	8.79%	25,073	38.02%
Vanguard Long-Term Invnt-Grade Adm	10/26/2001	\$19,301,859,357	\$153,827,110	0.80%	2.70%	15,629	23.70%
BlackRock US Debt Index	2/1/2001	\$2,015,370,000	\$223,073,979	11.07%	3.92%	20,427	30.97%
Dodge & Cox Income	1/2/1989	\$63,545,561,555	\$40,505,796	0.06%	0.71%	12,314	18.67%
Federated U.S. Govt: 2-5 Yr Instl	2/3/1992	\$209,046,568	\$27,102,149	12.96%	0.48%	5,624	8.53%
Vanguard Target Ret Income Trust I	7/29/2005	\$10,700,000,000	\$58,562,872	0.55%	1.03%	1,875	2.84%
Vanguard Target Retire 2015 Trust I	7/29/2005	\$11,700,000,000	\$119,761,607	1.02%	2.10%	2,849	4.32%
Vanguard Target Retire 2025 Trust I	7/29/2005	\$51,400,000,000	\$281,343,480	0.55%	4.95%	6,464	9.80%
Vanguard Target Retire 2035 Trust I	7/29/2005	\$45,900,000,000	\$199,886,282	0.44%	3.51%	6,820	10.34%
Vanguard Target Retire 2045 Trust I	7/29/2005	\$34,000,000,000	\$119,048,516	0.35%	2.09%	6,426	9.74%
Vanguard Target Retire 2055 Trust I	8/18/2010	\$14,300,000,000	\$38,031,139	0.27%	0.67%	4,018	6.09%
Vanguard Adm Money Market	10/1/1993	\$31,191,200,000	\$37,483,141	0.12%	0.66%	6,388	9.69%
Stable Value Fund	9/1/1996	N/A	\$689,462,756	N/A	12.12%	27,811	42.17%
Schwab PCRA	2/17/2000	N/A	\$70,085,445	N/A	1.23%	1,182	1.79%
FDIC Option	12/31/1996	N/A	\$131,520,990	N/A	2.31%	9,333	14.15%



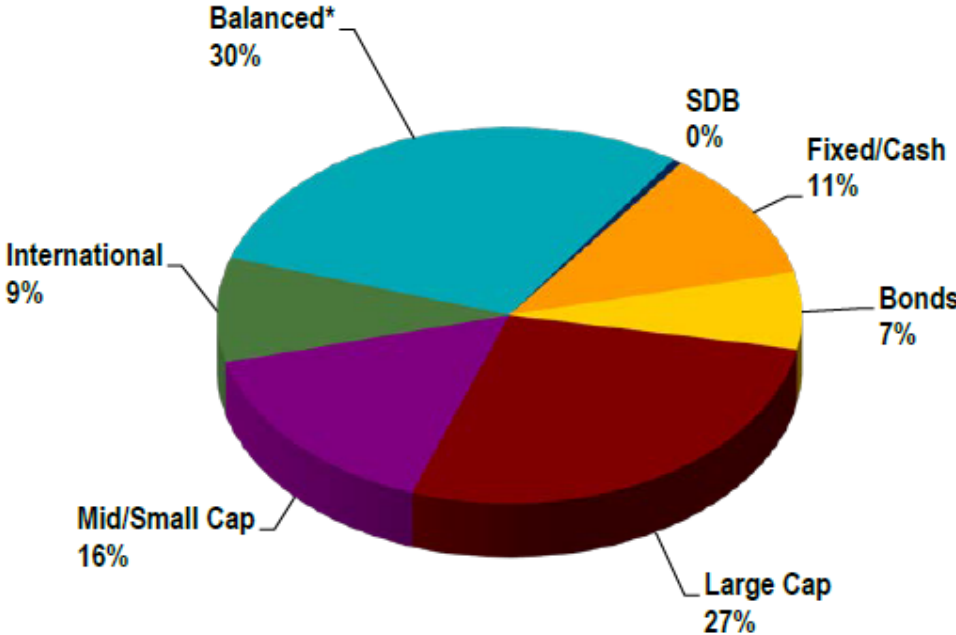
# WDC Deferrals by Asset Class



2002



2018



\* Balanced represents only the target date funds in 2018. In 2002, these funds were not offered and balanced represents the Vanguard Wellington Fund.



# WDC Expense Ratios



## Expense Summary

12/31/2019

Name	Expense Ratio	Annual Expense per \$1000
American Funds EuroPacific Gr R6	0.49	\$4.90
Cat: Foreign Large Growth	1.13	
Blackrock EAFE Equity Index Fund W	0.04	\$0.40
Cat: Foreign Large Blend Index	0.42	
DFA U.S. Micro Cap	0.52	\$5.20
Cat: Small Blend	1.13	
Blackrock Russell 2000 Index Fd	0.03	\$0.30
Cat: Small Cap Blend Index	0.42	
T. Rowe Price Mid-Cap Growth	0.61	\$7.50
Cat: Mid Growth	1.17	
Blackrock Mid Cap Equity Index Fund W	0.02	\$0.20
Cat: Mid Cap Blend Index	0.49	
Calvert US Large Cap Core Rspnb Idx R6	0.19	\$1.90
Cat: Socially Resp Large Cap	0.98	
Fidelity Contrafund Commingled Pool CI 2	0.38	\$3.80
Cat: Large Growth	1.07	
Vanguard Institutional 500 Index Trust	0.01	\$0.10
Cat: Large Cap Blend Index	0.45	
American Beacon Bridgeway Lg Cap Val	0.55	\$5.50
Cat: Large Value	0.99	
Stable Value Fund	0.32	\$3.20
Cat: Stable Value	0.70	
Dodge & Cox Income	0.42	\$4.20
Cat: Intern. Core-Plus Bond	0.80	

**Asset-Weighted Average Expense Ratio: 0.21%**

Name	Expense Ratio	Annual Expense per \$1000
Vanguard Wellington Adm	0.17	\$1.70
Cat: Moderate Allocation	1.10	
Vanguard Target Retirement 2055 Inv	0.07	\$0.70
Cat: Target Date 2050+	0.77	
Vanguard Target Retirement 2045 Inv	0.07	\$0.70
Cat: Target Date 2041-2045	0.76	
Vanguard Target Retirement 2035 Inv	0.07	\$0.70
Cat: Target Date 2031-2035	0.76	
Vanguard Target Retirement 2025 Inv	0.07	\$0.70
Cat: Target Date 2021-2025	0.73	
Vanguard Target Retirement 2015 Inv	0.07	\$0.70
Cat: Target Date 2011-2015	0.67	
Vanguard Target Retirement Income Inv	0.07	\$0.70
Cat: Retirement Income	0.76	
Vanguard Long-Term Invmt-Grade Adm	0.12	\$1.20
Cat: Corporate Bond	0.81	
Blackrock US Debt Index	0.03	\$0.30
Cat: Intermediate Bond Index	0.32	
Federated U.S. Govt: 2-5 Yr Instl*	0.59	\$5.90
Cat: Short Government	0.73	
Vanguard Adm Money Market	0.09	\$0.90
Average US Taxable Money Market Fund	0.46	

\* The Federated U.S. Govt. 2-5 Yr Fund shares revenue back to the plan's participants, which is not reflected in the expense ratios above. The expense ratio of the fund including this reimbursement would be 0.44 for the Federated fund.





# WDC: Self Directed Option

- Schwab Personal Choice Retirement Account (PCRA) added in Feb. 2000 as the WDC's self directed option.
- Intended for knowledgeable participants who desire investment options beyond the core lineup.
- The PCRA offers
  - Over 3,000 additional mutual funds
  - No additional cost
- No ETFs or individual stocks
- Approximately 600 participants actively use the PCRA.

# WDC: Self-Directed Option Use

## Self-directed brokerage account

As of 12/31/2019

	<b>4Q19</b>
Participants with Self-directed Brokerage	627
Total Participants with a balance in the plan	65,946
Percent of users with Self-directed Brokerage	0.95%
Self-directed Brokerage balance	\$70,085,444.87
Total balance for Self-directed Brokerage Participants	\$146,795,497.37
Percent of brokerage balance for Self-directed Brokerage users	47.74%
Self-directed Brokerage balance	\$70,085,444.87
Total balance in plan	\$5,687,971,392.65
Percent of total plan balance in Self-directed Brokerage	1.23%



# WDC Managed Account Services



Opened for participants in August 2008

- Online Advice: Participants receive recommendations and make any account changes themselves
- Managed Account Service: Participants grant control to Great-West Financial to adjust, reallocate, and rebalance the account to the assigned model portfolio, as necessary. Participants receive transaction confirmations on changes made to their accounts

Costs for Great-West Financial Managed Account Services		
Year	Online Investment Advice	Managed Account Service
2008-2014	\$25.00 per year (\$6.25 per quarter)	Less than \$100,000 = 0.15% Next \$150,000 = 0.125% Next \$150,000 = 0.10% Next \$150,000 = 0.075%
2015-present	Available at no additional cost	First \$100,000 of account balances = 0.45% Next \$150,000 up to \$250,000 account balance = 0.35% Next \$150,000 up to \$400,000 account balance = 0.25% Amounts greater than \$400,000 = 0.15%

# Managed Account Service Use

As of 12/31/2019

	<b>4Q19</b>
Participants with Advice	162
Participants with Managed Accounts	16,508
Total Participants With Balance in the Plan	65,946
Percentage using Managed Accounts	25.03%

Average Managed Account Balance	\$45,521.74
Average Age Managed Account Participant	45.38
Managed Account Saving Rate	5.67%
Average Contribution Rate for Deferring	8.52%

Managed Account Users By Gender	8,781 male ; 8,330 Female
Advice users By Gender	98, male ; 83 Female

Managed Accounts Balance	\$751,472,880.81
Total Balance in Plan	\$5,687,971,392.65
Percentage of total balance in Managed Accounts	13.21%

# WDC Recordkeeping History

- 1982: Contracted with Public Employee's Benefits Services Corporation (PEBSCo) as a result of a Request for Proposals for record keeping.
  - PEBSCo selected based on cost and available features
  - PEBSCo opened a local office in Madison in 1983 with:
    - State president
    - 22 field representatives
    - Office manager/administrative assistant

# WDC Recordkeeping History continued

- 1991: New record keeper Request for Proposals released
  - 5 companies responded
  - PEBSCo and National Deferred Compensation, Inc. (NDC) selected as finalists to present to the Board
  - NDC was awarded a 3 year contract in July 1991. The deciding factor was NDC's focus on service and education from enrollment through retirement, as well as its low cost
  - NDC opened a local office in Madison in 1983 with:
    - 1 in state manager
    - 2 in-house service representatives (local WI call center)
    - 4 field staff members

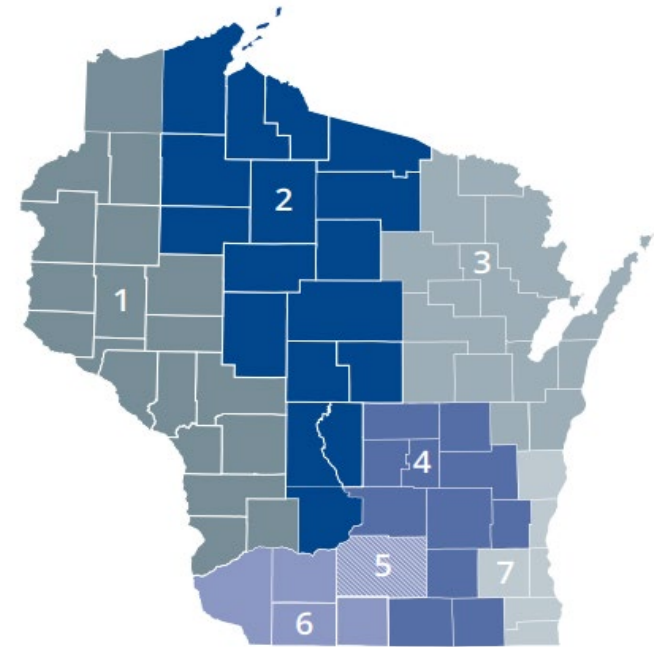
# WDC Recordkeeping History

## continued 2

- 1998: Nationwide Retirement Solutions (NRS) purchased NDC and took over as plan administrator
- NRS contract was extended in 2002 and 2005
- 2005: New record keeper Request for Proposals released to which 3 companies responded:
  - NDC and Great-West Retirement Services (GWRS) selected as finalists to present to the Board
  - GWRS was awarded a 3 year contract and assumed record keeping responsibilities in December 2005. Name changed to Empower Retirement in approx. 2015.
- GWRS contract was extended twice, through November 30, 2022

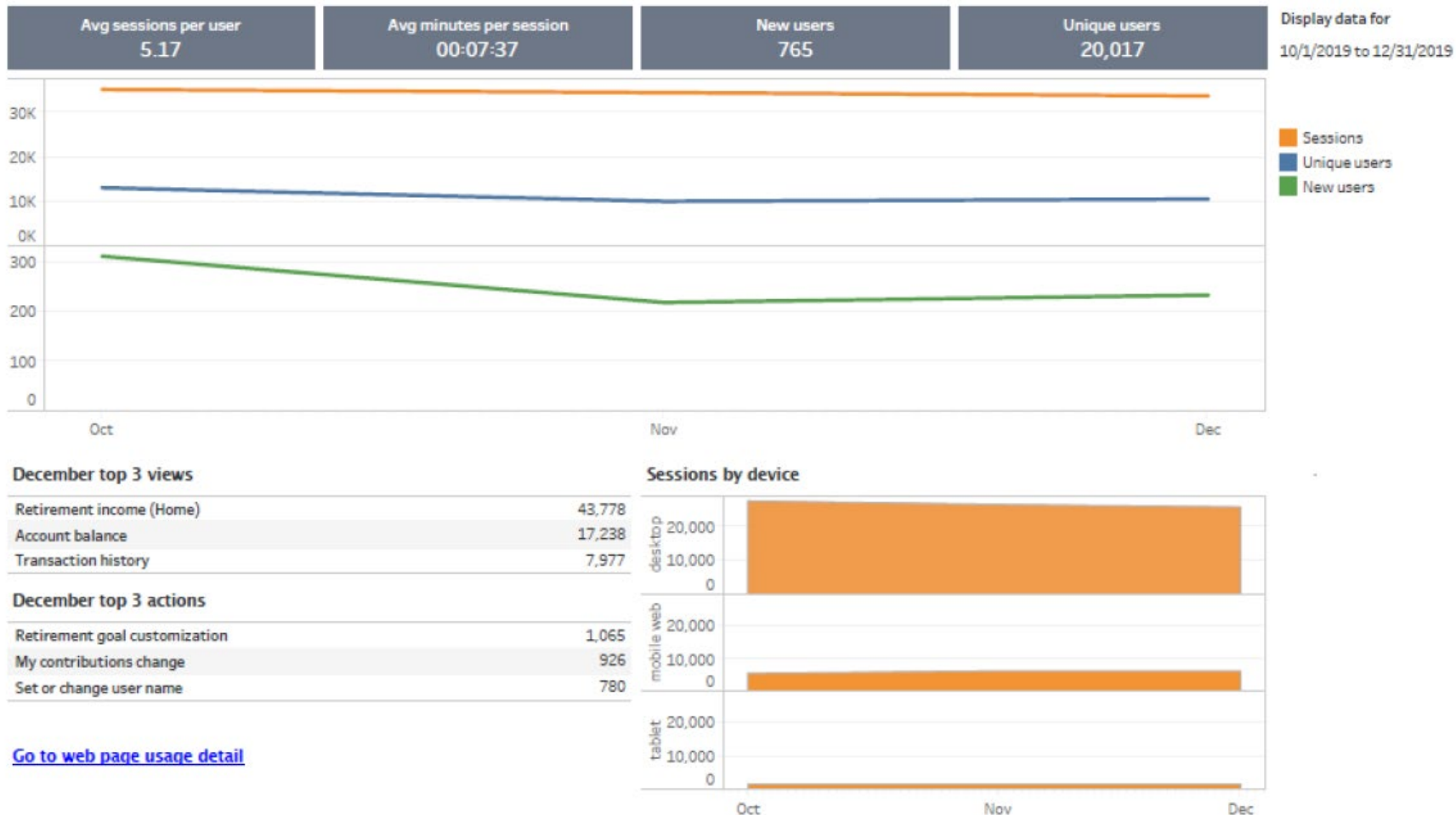
# WDC Contract Requirements

- “Strategic Partnership Plan” = annual goals set by Board, including free 1-on-1 retirement readiness reviews
- Local in-state staff: 11 available statewide
- WDC website: [www.wdc457.org](http://www.wdc457.org) with 24/7 online account access via PIN login
- Quarterly account statements within 15 days of end of quarter
- Record keeper is restricted from offering any other products or services to public employees.



# WDC Web Analytics

## Web Analytics



# WDC Costs

- No costs to employers
- State funds may not be used for administration of the plan
- Participant fees provide funding, along with any interest earned on board's administrative account (“checkbook”)
- The WDC Board annually reviews administrative expenses and revenues and adjusts participant administrative fees as necessary



# WDC Participant Costs: 1980s & 1990s

Years & Notes	Fee Type(s)	\$5,000	\$25,000	\$50,000	\$100,000	\$150,000
1980s + 5% surrender charge	\$12 Admin. Fee and Asset Fee	\$12.00 <u>+ \$47.50</u> \$59.50	\$12.00 <u>+ \$237.50</u> \$249.50	\$12.00 <u>+ \$475.00</u> \$487.00	\$12.00 <u>+ \$950.00</u> \$962.00	\$12.00 <u>+ \$1,425.00</u> \$1,437.00
1990-1992 + 5% surrender charge	\$12 Admin. Fee and Asset Fee	\$12.00 <u>+ \$39.50</u> \$51.50	\$12.00 <u>+ \$197.50</u> \$209.50	\$12.00 <u>+ \$395.00</u> \$407.00	\$12.00 <u>+ \$790.00</u> \$802.00	\$12.00 <u>+ \$1,185.00</u> \$1,197.00
1993 <i>eliminated surrender charge</i>	\$10 Admin. Fee and Asset Fee	\$10.00 <u>+ \$22.50</u> \$32.50	\$10.00 <u>+ \$112.50</u> \$122.50	\$10.00 <u>+ \$225.00</u> \$235.00	\$10.00 <u>+ \$450.00</u> \$460.00	\$10.00 <u>+ \$675.00</u> \$685.00
1994	\$10 Admin. Fee and Asset Fee	\$10.00 <u>+ \$19.00</u> \$29.00	\$10.00 <u>+ \$95.00</u> \$105.00	\$10.00 <u>+ \$190.00</u> \$200.00	\$10.00 <u>+ \$380.00</u> \$390.00	\$10.00 <u>+ \$570.00</u> \$580.00
1995-1999	Flat asset based fee	\$21	\$89	\$159	\$279	\$379

# WDC Participant Costs: 2000 to 2020

Years & Notes	Fee Type(s)	\$5,000	\$25,000	\$50,000	\$100,000	\$150,000	\$250,000	Over \$250,00
2000-2007	Flat asset based fee	\$6	\$18	\$36	\$72	\$100	\$120	\$120
2008-2015	Flat asset based fee	\$0	\$12	\$24	\$48	\$66	\$66	\$66
2016	Flat asset based fee	\$0	\$12	\$30	\$60	\$84	\$120	\$180
2017-2019	Flat asset based fee	\$0	\$12	\$36	\$72	\$96	\$132	\$198
2020	Flat asset based fee	\$0	\$12	\$39	\$78	\$102	\$141	\$210

Note: Participants opting to use the managed account services pay an additional fee based on account size.

# Current WDC Participant Costs

- WDC participant administrative fees as of January 1, 2020:

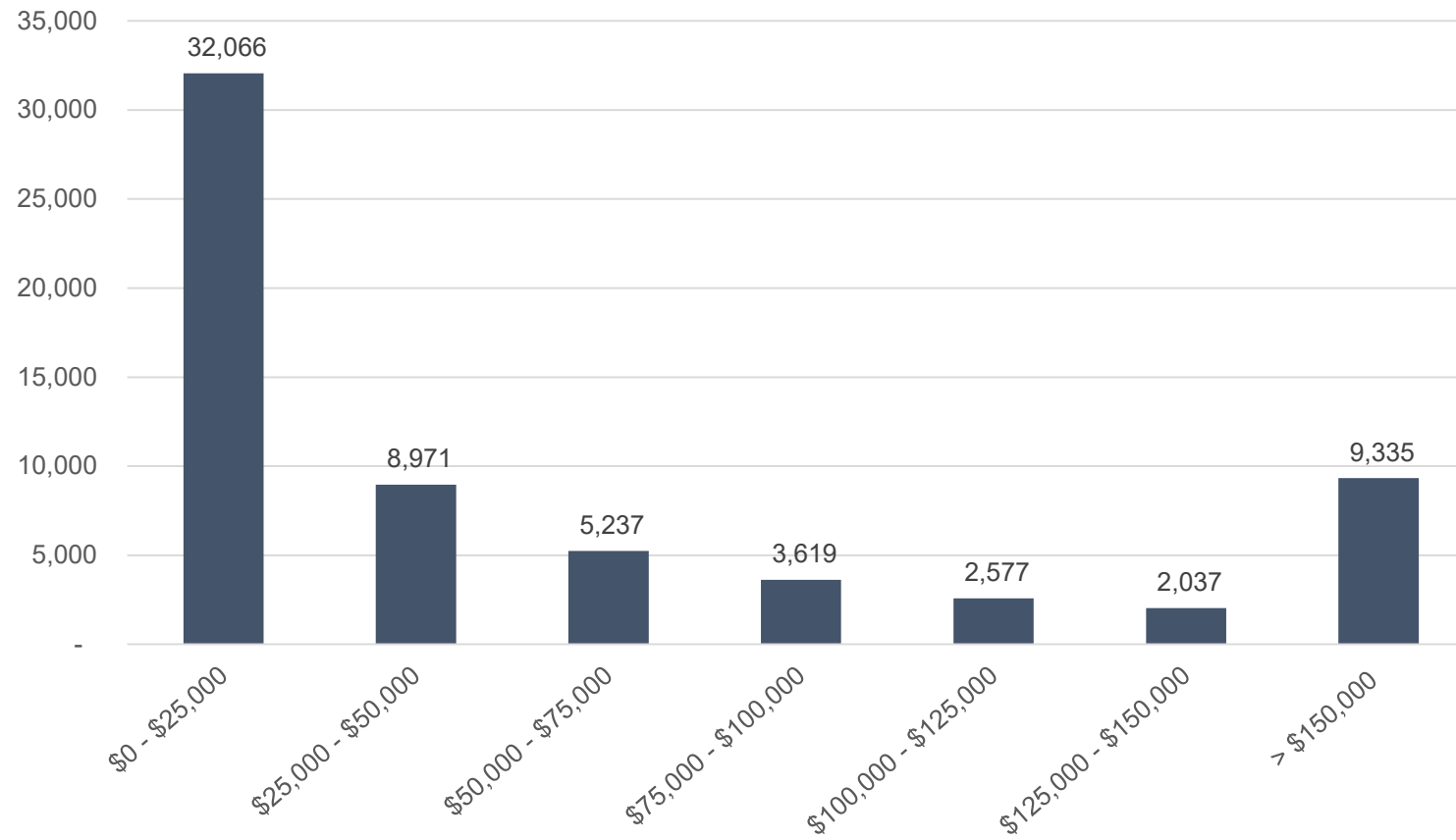
Account Balance	Monthly Fee	Annual Fees
\$1-\$5,000	\$0	\$0
\$5,001 – \$25,000	\$1.00	\$12
\$25,001 – \$50,000	\$3.25	\$39
\$50,001 – \$100,000	\$6.50	\$78
\$100,001 – \$150,000	\$8.50	\$102
\$150,001 - \$250,000	\$11.75	\$141
Over \$250,000	\$17.50	\$210

- Additional services and fees – optional advisory services
- Individual investment option operating expenses<sup>1</sup>

<sup>1</sup> Each investment option has its own operating expenses. Funds may impose redemption fees and/or transfer restrictions if assets are held for less than the published holding period. For more information, see the fund's prospectus and/or disclosure documents.

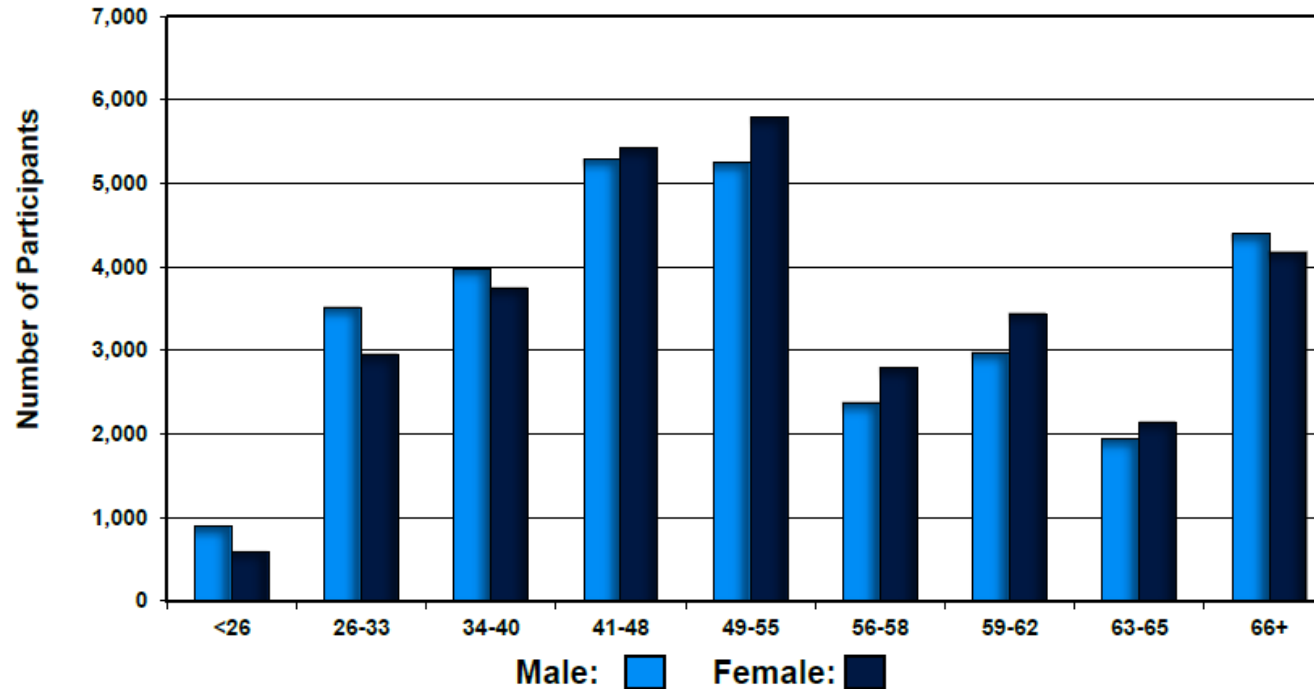
# WDC Accounts by Balance

as of 12/31/18



# WDC: Age and Gender

as of 12/31/18



Participant Data	
Total number of participants with an account balance:	63,847
Total number of male participants:	31,603
Total number of female participants:	32,244
Overall average participant age:	50.68
Overall average age of male participants:	50.13
Overall average age of female participants:	51.23

# WDC: Contribution History



Helping You Turn  
Over a New  
Retirement Leaf

as of 12/31/18

Date	Plan Contributions	% Change from Prior Year	Monthly Average	Contributing Participants	Average Annual Participant Contributions
2006	\$140,964,362.95	0.00%	\$11,747,030.25	32,713	\$4,309
2007	\$152,996,602.43	8.54%	\$12,749,716.87	35,260	\$4,339
2008	\$160,837,493.10	5.12%	\$13,403,124.43	35,347	\$4,550
2009	\$150,652,856.37	-6.33%	\$12,554,404.70	35,506	\$4,243
2010	\$157,982,508.97	4.87%	\$13,165,209.08	36,154	\$4,370
2011	\$158,785,305.42	0.51%	\$13,232,108.79	36,192	\$4,387
2012	\$150,139,078.45	-5.45%	\$12,511,589.87	34,154	\$4,396
2013	\$158,265,173.02	5.41%	\$13,188,764.42	34,468	\$4,592
2014	\$173,479,907.18	9.61%	\$14,456,658.93	35,866	\$4,837
2015	\$198,712,299.69	14.54%	\$16,559,358.31	37,253	\$5,334
2016	\$188,112,297.16	-5.33%	\$15,676,024.76	37,636	\$4,998
2017	\$191,978,727.34	2.06%	\$15,998,227.28	37,736	\$5,087
2018	\$234,434,742.83	22.11%	\$19,536,228.57	38,364	\$6,111

**NOTE: A contributing participant is anyone who made a contribution between January 1<sup>st</sup> and December 31<sup>st</sup> of the given year. Contributions include rollovers.**



Please direct any questions to ETF's Deferred  
Compensation Director: Shelly Schueller  
608-266-6611 or [Shelly.Schueller@etf.wi.gov](mailto:Shelly.Schueller@etf.wi.gov)