



STATE OF WISCONSIN
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CORRESPONDENCE MEMORANDUM

DATE: June 4, 2008
TO: Employee Trust Funds Board
FROM: Jon Kranz, Director
Office of Internal Audit and Budget
SUBJECT: Allocation of Administrative Costs

This memo is for information purposes only and no action is required of the Board.

This memo describes the process used to allocate the administrative expenses of the Department to the various benefit programs it administers.

Chapter 40 of the Wisconsin State Statutes contains two provisions related to the allocation of administrative costs to the various benefit programs administered by the Department. Specifically, s. 40.01(2) specifies that revenues and balances of the accounts for specific benefit programs may only be used for the purposes of that benefit plan. In addition, s. 40.04 (2) requires that every fiscal year the Secretary allocate the administrative expenses equitably to the various benefit plans. The intent is that each benefit plan is only charged its fair share of administrative expenses.

To implement these provisions, two general approaches are utilized: one for discreet expense items that are associated with a specific benefit program, and one for expense items that are related to more than one benefit program. The Department charges discreet or program-specific costs such as third-party administrator contract expenses directly to the related benefit program. For example, the fees paid to the Wisconsin Deferred Compensation (WDC) Program administrator (currently Great West Retirement Systems) are allocated to the WDC program.

A large portion of the Department's administrative costs are associated with shared services that support several benefit programs. Cost centers such as the Call Center, Division of Information Technology, Division of Trust Finance and Employer Services, and Records Management provide services that benefit several benefit programs administered by the Department. Allocation of these costs is implemented by estimating the percentage of effort within each of these shared services units associated with each benefit program.

Each year, the Office of Trust Finance surveys each operating unit to determine the percentage of effort dedicated to each of the benefit programs. This information is used to allocate the actual fiscal year administrative costs to each benefit program.

Reviewed and approved by Robert J. Conlin, Deputy Secretary.

Signature _____

Date _____

Board	Mtg Date	Item #
ETF	6/27/08	5

Administrative Costs

June 4, 2008

Page 2

These administrative costs are recovered either by directly charging the reserve/account or by including the cost as part of the premium. For example, costs associated with the Wisconsin Retirement System (WRS) are charged against the investment earnings allocated to each reserve prior to crediting interest to the participant accounts and employer reserve.

Administrative expenses associated with the health insurance programs are recovered by including these costs in the premium. Employee Reimbursement Account administrative expenses are recovered via the amounts forfeited by participants and a charge to state agencies.

The chart on the following page shows the general allocation of administrative costs for fiscal year 2007 (ending June 30, 2007).

Please contact me should you desire any additional information. I can be reached at (608) 267-0908.

attachments