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CORRESPONDENCE MEMORANDUM

DATE: May 26, 2011
TO: Employee Trust Funds Board
Teachers Retirement Board
Wisconsin Retirement Board
FROM: Shelly Schueller, Deferred Compensation Director
Division of Retirement Services
SUBJECT: Wisconsin Deferred Compensation Program Overview

This memo is for informational purposes only. No Board action is required.

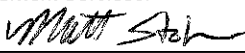
The attached presentation is intended to provide Board members with a general overview of the Wisconsin Deferred Compensation Program (WDC). The WDC is an Internal Revenue Code Section 457 deferred compensation plan. It is a supplemental retirement savings program available to all employees who work for a participating public employer in Wisconsin. The WDC was created by Wisconsin Laws of 1981, Chapter 187, and established in 1982 for state employees – and the program has been available to local employers since 1985. As of December 31, 2010, 50,974 participants had WDC accounts.

WDC participants may invest in a variety of investment options selected and monitored by the Deferred Compensation Board, pre-tax or via a new Roth deferral option. Pre-tax deferrals reduce current taxable income, which in turn, may lower participants' state and federal income taxes. Any gains on the account balance are tax-free until the funds are withdrawn, at which point they are taxed as ordinary income. Participants may begin receiving account distributions at termination from service, retirement, death or unforeseen financial hardship situations, as defined by the Internal Revenue Code. Distribution options include full or partial lump sum payments and periodic payments.

I will be available at the June 23, 2011, Joint Informational session with Sue Oelke of the WDC staff to answer any questions you may have regarding the WDC.

Attachments: A - WDC 2011 PowerPoint Presentation
B - ET-8904 (WDC Fact Sheet)

Reviewed and approved by Matt Stohr, Administrator, Division of Retirement Services.


Signature _____ Date 6/2/11

Board	Mtg Date	Item #
Jl	6.23.11	4C



Wisconsin Deferred Compensation Program

The Wisconsin Deferred Compensation Program

**Joint Informational Session:
Teachers Retirement, Wisconsin Retirement
and Employee Trust Funds Boards**

June 2011
Shelly Schueller





Section 457

Deferred Compensation Plans

- Tax-deferred savings to selected mutual funds
- Convenient payroll deduction
- Maximum contribution of \$16,500 or 100% of compensation in 2011, whichever is less
- Age 50 catch-up provisions
- Flexible distribution options
- Portable among qualified plans - roll \$ in or roll \$ out of another 457, 401(k), 403(b) or traditional IRA
- Can use funds to purchase WRS forfeited and qualifying service
- Roth 457 option opening in mid-2011



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 started in the initial year.
- 1989: WDC Board created (State legislation) with 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 will begin offering in mid-2011.



Deferred Compensation Board

- 5 members appointed by the Governor and confirmed by the State Senate serve 4 year staggered terms.
- Board meets 2 - 3 times per year.
- Statutory responsibility to provide policy direction and program oversight including setting participant fees, approving contracts for administrative services and audits, and hearing participant appeals.
- Selects and monitors investment fund options.
- *Plan and Trust* document describes policies.
- Written Investment Policy Statement.



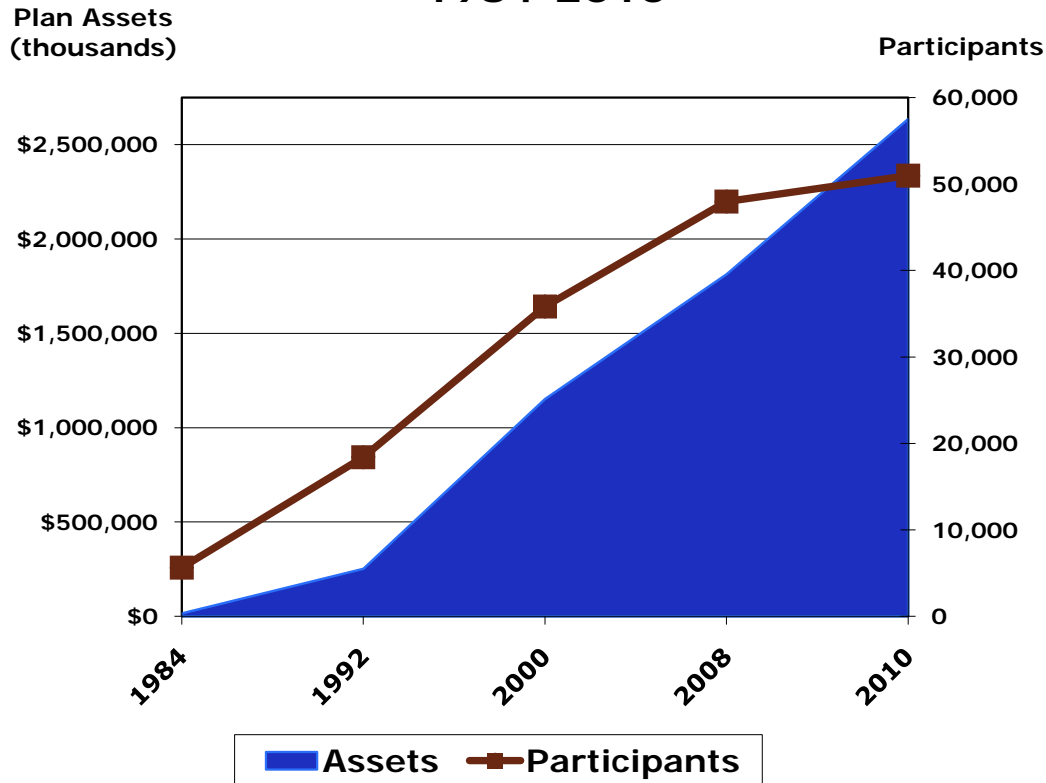
WDC Investments

- Written Investment Policy Statement outlines the Board's goals and philosophy regarding investment options:
 - minimum criteria for inclusion
 - mutual fund and fixed fund selection process.
 - monitoring, annual evaluation and removal processes
- The Board maintains a core investment spectrum, along with a self-directed brokerage option and lifecycle (target retirement date) fund options.
- Investment Committee provides advice to full Board.
- Additional investment review and analysis by ETF and an investment advisory firm.



Growth of the WDC

1984-2010



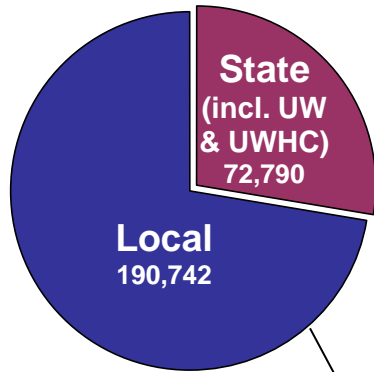
- January 1991
 - 270 employers
 - 15,795 participants deferred \$30.3 million
 - \$220.4 million in assets
- January 1999
 - 535 employers
 - 33,395 participants deferred \$74.2 million
 - \$1.188 billion in assets
- December 2010
 - 850 employers
 - 50,974 participants deferred \$157.98 million
 - \$2.637 billion in assets



2010 WDC Participant Population

Eligible Public Employees vs. Enrolled

Total Eligible

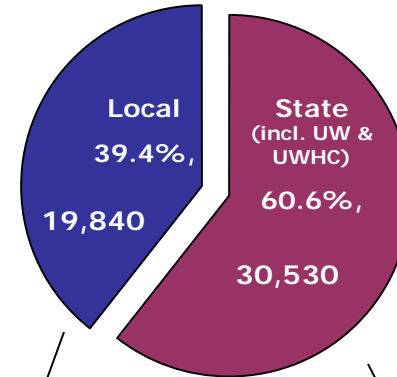


% of Enrolled Local

% of Enrolled State

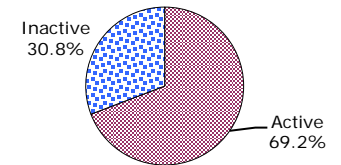
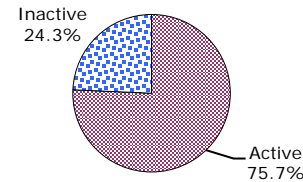
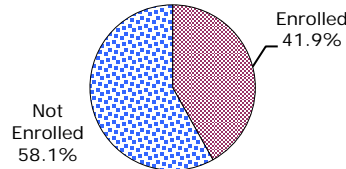
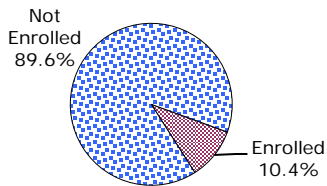
Enrolled vs. Active

Total Enrolled*



% Active Local

% Active State



ETF generated a report of # of eligible employees as of 12/31/10.

*Enrolled = participants with a balance as of 12/31/10.



WDC Participant Fees

If your total account balance is between:

Your monthly fee is:

And equals an annual cost of:

\$1 to \$5,000	\$0	\$0
\$5,001 to \$25,000	\$1	\$12
\$25,001 to \$50,000	\$2	\$24
\$50,001 to \$100,000	\$4	\$48
\$100,001 and up	\$5.50	\$66

- Various investment fund operating expenses*
- No state funds are used for the WDC
- Optional managed account service is 0.60% of participant's account balance; advice tool available for \$25/year; guidance tool is offered at no additional cost

* The investment options have annual operating expenses, which differ depending on the options a participant uses.



WDC Features



- No minimum deferral amount.
- Change deferral amount at any time.
- Redirect deferrals to other investment options offered by the WDC without restriction (subject to the stable value fund equity wash).
- Exchange existing account balances from one option to another (subject to the excessive trading policy).
- Target retirement date funds (lifecycle).
- Self-directed brokerage option (through Schwab).



Additional WDC Features



- Rebalancer (automatic account rebalancing)
- Dollar cost averager (automatic transfers of existing balances)
- Managed account service (“Reality Investing”, including advice and guidance tools)



WDC Investment Options

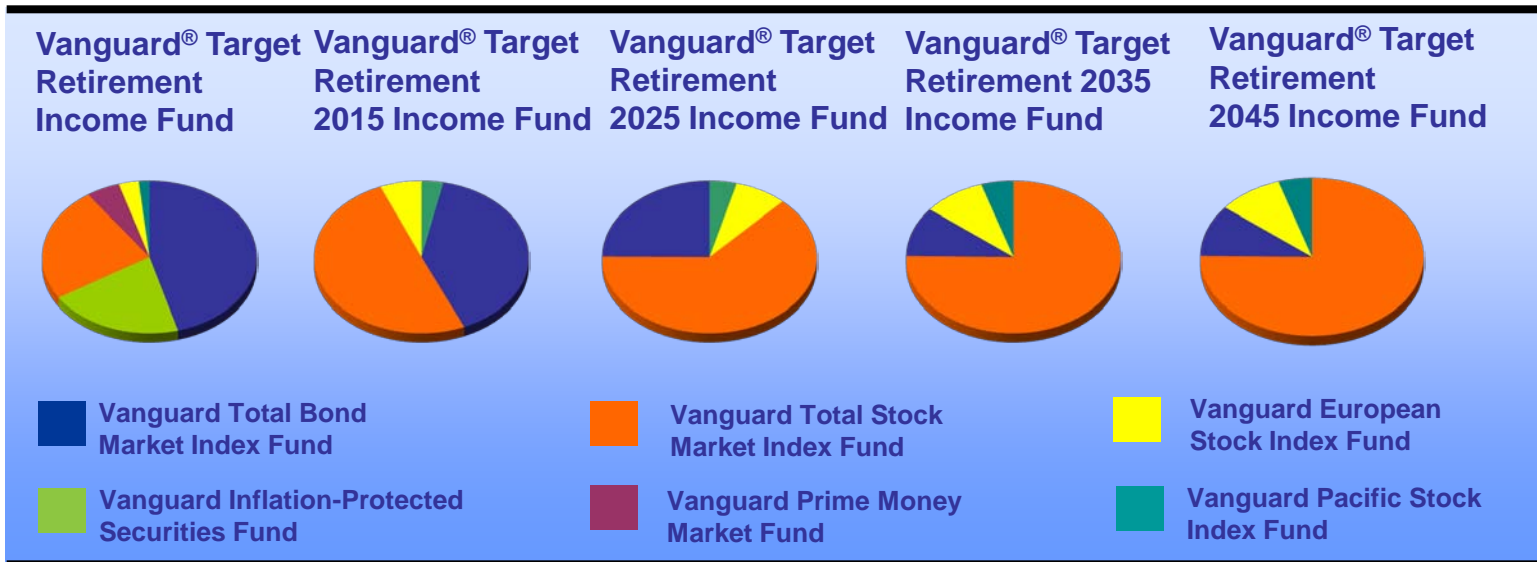
As of December 31, 2010

WDC Assets By Fund as of Dec. 31, 2010		
FUND ID	FUND NAME	BALANCE
WISSVF	Stable Value Fund	504,229,586.23
CONTRA	Fidelity Contrafund	385,780,826.89
VWENX	Vanguard Wellington Fund - Admiral	276,900,261.02
TR-MCG	T. Rowe Price Mid Cap Growth Fund	252,078,973.57
VIIIIX	Vanguard Institutional Index Fund Plus	212,273,323.68
DFSCX	DFA US Micro Cap Fund	151,691,485.49
RERFX	American Funds EuroPacific R5	129,295,422.95
VWETX	Vanguard Long-Term Investment Grade Adm	93,040,128.14
BY-MID	BlackRock Mid Cap Equity Index - Collective F	91,443,864.42
WIFDIC	FDIC BankOption	75,648,944.05
BY-EAF	BlackRock EAFE Equity Index - Collective T	61,230,281.36
VTXVX	Vanguard Target Retirement 2015 Fund	52,181,357.78
SCHSEC	Schwab SDB Securities	50,727,505.45
VUSXX	Vanguard Admiral Treasury Money Market	47,957,051.68
VTTVX	Vanguard Target Retirement 2025 Fund	46,514,012.76
BY-USD	BlackRock US Debt Index Fund - Collective W	41,067,977.51
FE-GOV	Federated US Government Securities 2-5yr	35,667,124.64
BY-RUS	BlackRock Russell 2000 Index - Collective T	34,951,227.41
VTTHX	Vanguard Target Retirement 2035 Fund	30,344,001.30
CEYIX	Calvert Social Investment Equity I	25,228,664.05
VTINX	Vanguard Target Retirement Income Fund	17,510,859.22
VTIVX	Vanguard Target Retirement 2045 Fund	15,808,126.12
SCHMMF	Schwab SDB Money Market Fund	5,229,905.15
TOTAL		2,636,800,910.87



WDC Program Investment Options

The Target Retirement Date (Lifecycle) Fund Path*



FOR ILLUSTRATIVE PURPOSES ONLY.

The Lifecycle Fund allocations are professionally determined based on an investment strategy based on risk and return. Allocation percentages to investment options can change based upon periodic investment reviews. The Portfolio allocation models are not intended as financial planning or investment advice. Holdings and composition of holdings are subject to change.

* Diversification of an investment portfolio does not insure a profit and does not protect against loss in declining markets.

An investment in a Money Market Fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although the fund seeks to preserve the value of your investment at \$1.00 per share, it is possible to lose money by investing in the Fund.



WDC Participant Services

- 11 local field staff - on site service to employers and participants in Wisconsin
- Quarterly statements
- *MoneyTalks* newsletter
- WDC website: www.wdc457.org with online account access via PIN login
- Glendale, WI based toll-free call center open Mon. – Fri. from 7 a.m. - 7 p.m. (877) 457-WDCP (9327)





Wisconsin Deferred Compensation Program

Questions?

Shelly Schueller
Deferred Compensation Director
(608) 266-6611 or
Shelly.Schueller@etf.state.wi.us





State of Wisconsin
**Wisconsin Deferred
Compensation Program**
FACT SHEET
As of December 31, 2010

The Wisconsin Deferred Compensation Program (WDC) is a supplemental retirement savings program authorized under Section 457 of the Internal Revenue Code (IRC). 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.

PROGRAM ADMINISTRATION

The Department of Employee Trust Funds (ETF) and the Deferred Compensation Board (Board) have statutory authority for program administration and oversight. The Board contracts for administrative services (marketing, record keeping, daily program administration) through a competitive bid process. Great-West Retirement Services is under contract to provide these services through November 30, 2015.

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.

FEATURES

MAXIMUM DEFERRAL - The maximum contribution to Section 457 plans is 100% of taxable income up to \$16,500 per year in 2011. Participants over age 50 may also contribute an additional \$5,000 annually. If you are within three years of your normal retirement age and under contributed in prior years, you may also be eligible to contribute up to an additional \$16,500 annually. The maximum limit for federal income tax purposes may be periodically increased (in \$500 increments) for cost of living adjustments that are tied to the consumer price index (CPI).

ACCOUNT FLEXIBILITY - The WDC allows participants to:

- Change the amount of their deferrals at any time.
- Redirect deferrals to other investment options offered by the WDC without restriction.
- Exchange existing account balances from one option to another (subject to the excessive trading policy).
- Elect the Asset Allocation Service to provide automatic rebalancing of a participant's account balance based on an established asset allocation model.
- Elect to use the WDC's managed accounts service (additional separate fee applies).

PORTABILITY - Dollars from a traditional IRA, a 401(k) and a 403(b) can be rolled into the WDC and amounts distributed from the WDC can roll into a traditional IRA, a 401(k) and a 403(b) plan. Dollars rolled out of the WDC are subject to the tax rules of the new plan.

PARTICIPANT SERVICES - WDC representatives in Wisconsin are available to assist participants between 7:00 a.m. and 7:00 p.m. every workday of the year. A toll-free telephone number is also available for use by both participants and employers at 1-877-457-9327 (WDCP).

An automated voice response system is available for participants to obtain account information and execute transactions. A website at <http://www.wdc457.org> is available to obtain program information, access personal account data and execute transactions online. Distribution of an itemized participant statement and newsletter occurs within 15 days of the end of each quarter.

DISTRIBUTION OPTIONS - At termination of employment, participants may defer receiving their account up to age 70½. Distribution options that are available include lump sum payments, partial lump sum payments, and periodic payments directly from the accumulation account.

WDC PROGRAM COSTS

Participant fees and reimbursements from investment providers provide funding for program administration. State funds are not used for the administration of the WDC. Contracts with investment providers are negotiated to include certain reimbursements in consideration of the record keeping services being provided by the WDC through its contract administrator. The Board annually reviews administrative revenues and expenses adjusting participant fees as necessary.

Annual participant fees, effective January 1, 2008, are below.

If participant balance is between:	Fee per month / year is:
\$0 to \$5,000	\$0.00 month / \$0.00 year
\$5,001 to \$25,000	\$1.00 / \$12.00
\$25,001 to \$50,000	\$2.00 / \$24.00
\$50,001 to \$100,000	\$4.00 / \$48.00
\$100,001 and up	\$5.50 / \$66.00

STATISTICS AS OF DECEMBER 31, 20100

- 850 local government and school district employers (from approx. 1,400 eligible) have elected to offer the WDC to their employees.
- 50,974 public employees participate in the WDC; 30,543 are state employees and 20,431 are employees of local and school district employers.
- The WDC offered 5 target date (asset allocation) funds and 16 options in the core investment spectrum in 2010. Participants may have an account with one or more of the available options. Participants also have access to thousands of mutual fund choices through the Schwab Personal Choice Retirement Account (PCRA), the WDC's self-directed brokerage option.

Investment Option	# of Participant Accounts	Total Assets
Vanguard Target Retirement 2045 Fund	2,929	\$15,808,426
Vanguard Target Retirement 2035 Fund	3,911	\$30,344,712
Vanguard Target Retirement 2025 Fund	4,336	\$46,514,533
Vanguard Target Retirement 2015 Fund	2,813	\$52,181,872
Vanguard Target Retirement Income Fund	932	\$17,510,859
FDIC Fund	3,910	\$75,650,504
Vanguard Money Market Fund - Admiral	9,450	\$47,957,464
Stable Value Fund	16,205	\$504,222,901
Federated US Gov't: 2-5 Year Institutional Fund	6,372	\$35,720,336
BlackRock US Debt Index "W" Fund	7,549	\$41,068,126
Vanguard Long Term Investment Grade Bond Funds - Admiral	12,382	\$93,497,704
Vanguard Wellington Fund - Admiral	18,535	\$276,902,193
Vanguard Inst. Index Fund - Plus (S & P 500)	19,030	\$212,274,941
Fidelity Contrafund	23,284	\$385,783,862
Calvert Social Investment Equities Fund	3,209	\$25,228,837
BlackRock MidCap Index Fund "F"	11,968	\$91,444,578
T. Rowe Price Midcap Growth Fund	19,907	\$252,082,057
BlackRock Russell 2000 Index Fund "T"	8,028	\$34,951,540
DFA U.S. Micro Cap Fund	17,710	\$151,691,654
BlackRock EAFE Equity Index Fund "T"	10,491	\$61,230,815
American Funds EuroPacific Growth Fund – Class W	16,856	\$131,449,824
Schwab PCRA	775	\$56,070,268
TOTAL	*	\$2,640,675,048

* The total number of participant accounts exceeds the number of participants, as participants may invest in more than one investment option. The average number of investment options per participant is 4.2.