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CORRESPONDENCE MEMORANDUM

DATE: May 3, 2007
TO: Wisconsin Deferred Compensation Board
FROM: Shelly Schueller, Director
Wisconsin Deferred Compensation Program
SUBJECT: Administrative Services Contract Trade-offs

The administrative services contract negotiated in 2005 between the Board and Great West Retirement Services (GWRS) tied the annual administrative fee due to GWRS to overall increases in WDC participation. The contract required at least 48,334 Wisconsin Deferred Compensation Program (WDC) participant accounts by the end of 2006. GWRS is obligated to pay a penalty based on a per-participant formula if it does not meet the contract quota.

At the November 2006 Board meeting, the Board approved amendments to the administrative services contract. These amendments adjusted the starting participation number in the contract to reflect the actual number of WDC participants at transition to GWRS (42,831) and provided a net increased participation goal of 3.5 percent, or 1,400 new participants, for each of the next five years. The Board also heard that GWRS and the Department would be discussing possible service enhancements that GWRS could provide to the WDC in lieu of the monetary penalty.

As of December 31, 2006, there were 43,743 WDC participant accounts in force. This is a net increase of just over two percent, and 587 accounts less than the 44,300 required in the administrative services contract. If the shortfall penalty clause in the contract is invoked, GWRS would be required to pay the Board \$26,004 ($\$44.30 \times 587 = \$26,004$). Instead of paying this monetary penalty, GWRS would prefer to provide the WDC with additional services.

The chart below contains information on five service improvement initiatives undertaken for the WDC by GWRS since the November Board meeting. These initiatives include new online presentations for participants, an employer newsletter, organization of and participation in joint retirement workshops with the federal Social Security Administration and the Wisconsin Retirement System, and a new retirement distribution options guide. The total value of the service initiatives listed in the chart is approximately \$45,400. In addition to these projects, GWRS has also agreed to update or revise the WDC Web site and increase the GWRS share of audit expenses by \$5,000 to \$6,500.

Reviewed and approved by David Stella, Deputy Secretary

Signature

Date

| Board | Mtg Date | Item # |
|-------|------------|--------|
| DC | 05/15/2007 | 7 |

| GWRS Service Initiatives | | | |
|---|---|---|-------------------|
| Service | Detail | Cost | Total Cost |
| WDC Educational Webinars | 3 existing WDC presentations converted to electronic slide shows with voiceovers for the Web site. | \$5,000 each x 3 plus \$500/year maintenance | \$15,000 |
| Employer Educational Newsletter | January 2007 newsletter with information on 2007 deferral limits, future dated deferrals and other items of interest to employers. | \$1.01 x 765 (0.62 prod. + 0.39 postage) | \$772 |
| Workshops ("Stepping Stones to Retirement") | The WDC organized a series of 4 pre-retirement informational meetings around Wisconsin. The workshops had speakers from the 3 primary public employee retirement benefits: WDC, Wisconsin Retirement System and Social Security benefits. | \$250 room rental \$4,902 posters/letters (600 * [\$2.44 prod. + \$5.73 postage]) \$18,400 employee mailing (20,000 * [0.53 + 0.39 postage]) \$250 signs | \$23,802 |
| WDC Retirement Distribution Planning Guide | Available in paper and online. Provides information on retirement distribution options available through the WDC. | \$1.67 * 3,500 | \$5,845 |
| | | Total Value | \$45,419 |

The items listed above provide additional beneficial services to both WDC participants and employers, and illustrate GWRS' commitment to providing quality services to the WDC. In particular, the efforts by local WDC staff to orchestrate the pre-retirement workshops have generated a great deal of participant interest and positive feedback.

Recommendation

Department staff considers these services to be a satisfactory tradeoff for the \$26,004 monetary penalty that could be assessed via the WDC's original administrative services contract. Department staff recommends that the Board consider waiving the penalty clause found in the contract, as GWRS has provided additional services that are of greater value to the WDC than the monetary penalty would provide.

Both Department and GWRS staff will be available at the meeting to discuss the service initiatives in this memo and answer any questions you may have regarding potential contract penalty service tradeoffs.