



STATE OF WISCONSIN
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Correspondence Memorandum

Date: October 5, 2018
To: Deferred Compensation Board
From: Cindy Klimke-Armatoski, CPA and Chief Trust Financial Officer
Division of Trust Finance
Subject: Participant Administrative Fee Analysis

ETF recommends the Deferred Compensation Board (Board) maintain the current administrative fees paid by plan participants for calendar year 2019.

The Board maintains an administrative account to pay the administrative expenses for the Wisconsin Deferred Compensation Program (WDC). These expenses consist primarily of the administrative services contract with Empower Retirement, but also include the costs for the Department of Employee Trust Funds (ETF) staff, audits and other plan expenses.

Revenues to fund administrative expenses come from participant plan administration fees and investment income on the account balance. Plan administrative fees are deducted from participant accounts monthly, based on the account balance. Participants also pay an internal expense charge to each fund in which they invest, but those amounts go to the investment provider, not to the plan. To encourage participation, participants pay no fees until their account balance exceeds \$5,000.

The following table reflects recent year activity as well as projected activity for the next three years.

Reviewed and approved by Robert J. Conlin, Secretary

Electronically Signed 10/22/18

Board	Mtg Date	Item #
DC	11.15.18	5

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Administrative Account Activity				
(in Thousands)				
	2020	2019	2018	2017
January 1 Account Balance	\$2,223	\$2,166	\$2,232	\$2,371
Revenues				
Participant Fees	3,824	3,541	3,282	3,102
Investment Earnings & Other	<u>93</u>	<u>92</u>	<u>92</u>	<u>58</u>
Total Revenues	<u>3,917</u>	<u>3,633</u>	<u>3,374</u>	<u>3,160</u>
Expenses				
Administrative Services Contract	3,497	3,363	3,233	3,139
DRO Fees	17	17	17	15
ETF Administration & Miscellaneous	<u>204</u>	<u>197</u>	<u>190</u>	<u>145</u>
Total Expenses	<u>3,718</u>	<u>3,576</u>	<u>3,440</u>	<u>3,299</u>
December 31 Account Balance	<u>\$2,422</u>	<u>\$2,223</u>	<u>\$2,166</u>	<u>\$2,232</u>
Account Balance as % of Projected Annual Expenses	63%	60%	61%	65%
<i>Values may not foot due to rounding.</i>				
<i>2017 figures are actual.</i>				
<i>2018 Q1 and Q2 figures are actual.</i>				
<i>2018 Q3 through 2020 figures are projected.</i>				

Administrative services contract expense increases are a direct result of the WDC contract administrator meeting the goals and objectives set by the Board in annual Strategic Partnership Plans (SPP), which are part of the administrative services contract agreement Section 5.3A¹.

Participant administrative fees are closely correlated to plan assets. With equity returns as the primary driver of changes in plan assets, the Board's administrative account is very sensitive to equity returns.

¹ Section 5.3A of the Board's Administrative Service Contract states that if total WDC participant growth is greater than 1% but less than 3%, the annual administrative fee increases by 3.5%. Additionally, if the administrator meets the Board's objectives as defined in the annual SPP, the administrative fee increases by an additional 0.5% in the following year, for a total increase of 4%. If participant growth is greater than 3% and the administrator meets the SPP objectives, the administrative fee increases by an additional 1% in the following year, for a total maximum increase of 5%.

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The Board's policy for the administrative account is to maintain an account balance equal to 50-75% of projected annual plan expenses. The accompanying chart illustrates projected administrative account balances based on an assumed investment return of 7.2% and no change in participant administrative fees. Projections show the reserve balance staying within the policy range through the next three years.

The plan administrative fee schedule currently in effect is:

2018 Fees		
Participant Account Balance	Monthly Fee	Annual Fee
\$1-\$5,000	\$0	\$0
\$5,001-\$25,000	\$1	\$12
\$25,001-\$50,000	\$3	\$36
\$50,001-\$100,000	\$6	\$72
\$100,001-\$150,000	\$8	\$96
\$150,001-\$250,000	\$11	\$132
Over \$250,000	\$16.50	\$198

Staff will be at the Board meeting to answer any questions.

Attachment A: Ending Balance of Administrative Account as a Percent of Annual Expenses

Attachment A: Ending Balance of Administrative Account as Percent of Annual Expenses
(Shading is Board's recommended policy of 50%-75% of projected annual expenses)

