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CORRESPONDENCE MEMORANDUM

DATE: May 3, 2007
TO: Deferred Compensation Board
FROM: Robert C. Willett, CPA
 Chief Trust Financial Officer
SUBJECT: Participant Fee Recommendations

The Wisconsin Deferred Compensation plan (WDC) maintains an administrative account which is used to pay the administrative expenses for the plan. These expenses consist primarily of the administrative services contract with Great-West Retirement Services (GWRS), but also includes expenses for Employee Trust Funds staff, audits and other plan expenses.

Revenues to fund administrative expenses come from participant fees, investment provider reimbursements, and investment income on the account balance. During the last fiscal year, the following revenues and expenses were recorded in the administrative account.

Wisconsin Deferred Compensation Administrative Account	
In thousands \$	
January 1, 2006 Account Balance	\$ 1,588
Revenues	
Investment Earnings	66
Participant Fees	1,639
Investment Provider Reimbursements	<u>920</u>
Total Revenues	2,625
Expenses	
Administrative Services Contract	2,197
ETF & Miscellaneous	<u>158</u>
Total Expenses	2,355
December 31, 2006 Account Balance	\$ 1,858

Reviewed and approved by David Stella, Deputy Secretary	
_____	_____
Signature	Date

Board	Mtg Date	Item #
DC	05/15/2007	3

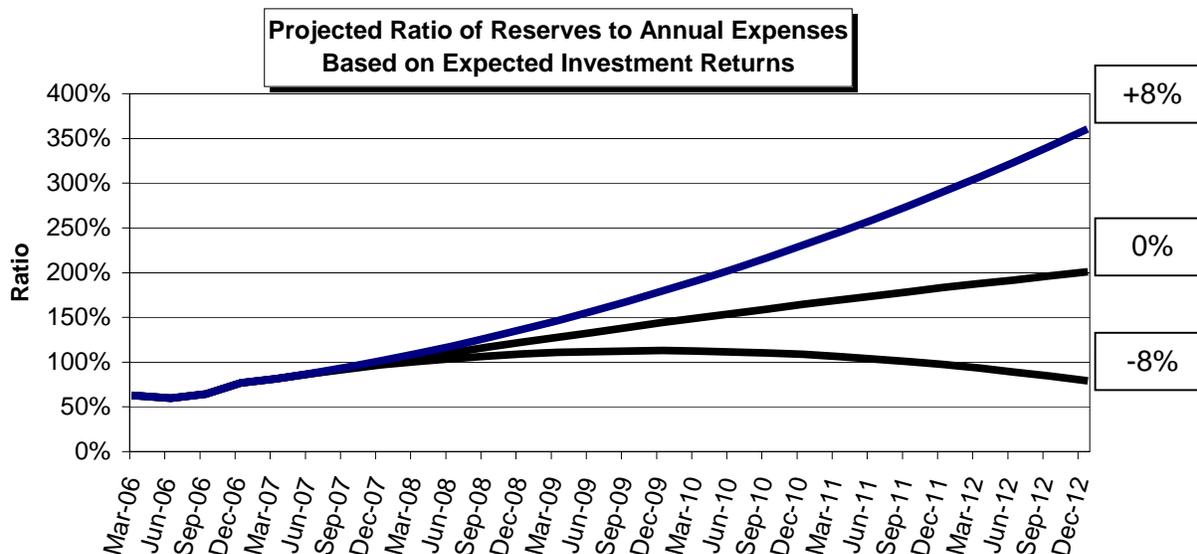
The WDC's goal for the administrative account is to maintain an account balance equal to 50% of annual operating expenses. This balance assures that funds will be available to pay expenses when due, and provides a cushion against reduced participant fees and investment provider reimbursements that could occur during a market downturn. During the last year the account balance increased from 67% to 79% of annual expenses.

Participant fees are based on a tiered fee schedule which has been in effect since February 1, 2000. At that time the Board replaced basis point fees with a tiered fee schedule, and reduced total fees by almost 30%. The current fee schedule is shown below:

Account Balance	Monthly Fee
\$0 to \$5,000	\$ 0.50
\$5,001 to \$25,000	\$ 1.50
\$25,001 to \$50,000	\$ 3.00
\$50,001 to \$100,000	\$ 6.00
\$100,001 to \$150,000	\$ 8.33
\$150,001 and up	\$ 10.00

Although the tiered fee structure reduces the volatility of participant fees, overall fees are still very dependent on market performance and the resulting account balance growth. At the time the above fee structure was adopted, total plan assets were approximately \$1.1 billion, and monthly participant fees were only \$92,000. As of December 31, 2006, the plan assets had grown to \$2 billion, generating monthly participant fees of over \$180,000.

With another year of experience under this fee schedule, we have updated the account balance projections. The administrative account balance as a percent of annual expenses has been projected using -8%, 0% and 8% average annual future investment returns. The results are shown in the chart below.



Our projections show that in the short-term, the administrative account is going to grow regardless of investment performance. Over the longer term, the account will continue to grow unless there is a prolonged market decline.

At this time I am recommending that the Board consider reducing participant fees. The reserves in the administrative account are larger than needed, and will continue to grow under any foreseeable market conditions. The goal of a fee reduction would be to slowly reduce the reserves back down to the 50% of expenses target, while minimizing the possibility of future participant fee increases.

Using conservative assumptions, including no participation growth, and no investment gains, I have projected that a 37% reduction in fees would reduce the reserve balance to the target level over five years.

There are many ways to structure a fee reduction. Staff looked at several alternatives including a uniform percentage reduction in each tier and a uniform dollar reduction in each tier. Our conclusion was that while the majority of the reduction should be allocated uniformly to all participants, a small amount of targeted reductions within the tiers would improve the plan design.

Following are the recommended changes to participant fees:

Participant Account Balance			Current Monthly Fee	Proposed Monthly Fee	% Reduction
At Least	But Not More Than	# of Accounts			
\$ 1	\$ 5,000	8,354	\$ 0.50	\$ 0.00	100.0%
\$ 5,000	\$ 25,000	15,067	\$ 1.50	\$ 1.00	33.3%
\$ 25,000	\$ 50,000	7,834	\$ 3.00	\$ 2.00	33.3%
\$ 50,000	\$ 100,000	6,543	\$ 6.00	\$ 4.00	33.3%
\$ 100,000	\$ 150,000	2,817	\$ 8.33	\$ 5.50	34.0%
\$ 150,000		2,916	\$ 10.00	\$ 5.50	45.0%
Total / Average			\$ 3.27	\$ 2.03	37.8%

This recommendation incorporates three modifications to the existing fee structure. First, the fees in each tier were reduced by one-third. This results in a savings of over \$47,000 per month to WDC participants.

Second, the fees for accounts with balances under \$5,000 were reduced to zero. Accounts will be allowed to grow without reduction for expense charges until they reach \$5,000. A new participant who is only able to make a small deferral to the plan may be dissuaded by the effect of even a small monthly administrative fee. We believe that eliminating fees for this group will be a useful marketing tool in attracting new participants.

Lastly, the highest fee tier, accounts in excess of \$150,000, was reduced to the over \$100,000 tier. High account balance participants pay substantially higher administrative fees than other participants. Higher fees aren't the result of higher costs associated with these accounts, or a higher level of service available to these members. It is a financial necessity to keep the plan

affordable for participants with small accounts. Even with the proposed reduction, the fees for the highest account balances will be 2.7 times the plan average. In addition to improved equity among plan members, we also believe this change will encourage more participants to roll other retirement funds into their WDC account.

The proposed fee reduction will save participants approximately \$51,000 per month. It will also result in a fee structure that is more attractive to new participants and more equitable to high account balance members.

With your approval, staff will work with GWRS on a plan to communicate these changes to members, and to implement the new fees by the end of the year.