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CORRESPONDENCE MEMORANDUM

DATE: May 13, 2014

TO: Wisconsin Deferred Compensation Board

FROM: Robert C. Willett, CPA
Chief Trust Financial Officer

SUBJECT: Participant Fee Recommendations

Staff recommends the Deferred Compensation Board (Board) make no changes to the administrative fees paid by plan participants at this time.

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 Great-West Financial, but also include the costs for Department of Employee Trust Funds (ETF) staff, audits, and other plan expenses.

Revenues to fund administrative expenses come from participant plan administration fees, investment provider reimbursements and investment income on the account balance. During recent years, the following revenues and expenses were recorded in the administrative account (in thousands $).

	2013	2012	2011	2010
January 1 Account Balance	$1,970	$2,051	$1,987	$2,212
Revenues				
Participant Fees	1,454	1,347	1,306	1,206
Investment Provider Reimbursements	1,583	1,451	1,468	1,280
Investment Earnings & Other	58	68	64	105
Total Revenues	3,095	2,866	2,838	2,591
Expenses				
Administrative Services Contract	2,775	2,700	2,619	2,645
DRO Fees	15	14	20	14
ETF Administration & Miscellaneous	170	233	135	157
Total Expenses	2,960	2,947	2,774	2,816
December 31 Account Balance	$2,105	$1,970	$2,051	$1,987
Account Balance as % of Projected Annual Expenses	69%	67%	70%	71%

Reviewed and approved by Robert J. Conlin, Secretary

Electronically Signed 5/15/14

Board	Mtg Date	Item #
DC	6.3.14	8

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 and not to the plan. The plan administrative fee schedule in effect since 2008 is:

Participant Account Balance	Monthly/Annual Fee
$1 - $5,000	$0 / $0
$5,001 - $25,000	$1 / $12
$25,001 - $50,000	$2 / $24
$50,001 - $100,000	$4 / $48
$100,001+	$5.50 / $66

To encourage participation, participants pay no fees until their account balance exceeds $5,000. Fees are capped at $66 per year for accounts with balances greater than $100,000.

The plan offers a variety of mutual funds as investment choices for plan participants, including some “retail” funds. These are funds that are available for purchase by the general public. The internal expense charge in these funds includes the cost of maintaining individual participant accounts. Because Great-West provides all record-keeping for WDC participants, investment providers may reimburse the plan for the portion of their internal expense charge related to record keeping. These reimbursements are used to offset plan administrative expenses. “Institutional” funds have a lower internal expense charge -- in recognition of not providing participant record keeping -- and do not offer plan reimbursements.

In 2013 the plan received the following reimbursements from investment providers:

Investment Provider	2013 Reimbursement
Fidelity	$1,085,610
T. Rowe Price	$424,108
Federated	$70,085
Stable Value Fund	$2,832
FDIC	$479

The Board’s goal for the administrative account has been to maintain an account balance equal to 50% (six months) of projected 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 would occur during a market downturn. At 69%, the account balance as of December 31, 2013, exceeds that target.

The plan’s two primary sources of administrative funding, participant fees and investment provider reimbursements, are both closely correlated to plan assets. With equity returns as the primary driver of changes in plan assets, the administrative account is very sensitive to long-term equity returns.

Our projections show that an average annual equity investment return of -5.2% will be sufficient to maintain plan assets at the level required to maintain the reserve balance above the 50% target over the next five years. If there are no other changes that affect the plan's administrative funding, the Board may be able to consider a participant fee reduction next year.

If the Board were to replace the T Rowe Price Mid Cap Growth Fund retail share class with the equivalent institutional share class, which has a lower expense ratio but no fund reimbursement, the plan would lose up to $540,000 of revenues in the first year. See the discussion in memo Ref. DC **|** 6.3.14 **|** 9A. Assuming no change in the structure of participant fees, an average annual equity investment return of 1.1% would be needed to maintain plan assets at the level required to maintain the reserve balance above the 50% target over the next five years.

If the Board were to eliminate all investment provider reimbursements through conversion to institutional share classes or by crediting the reimbursements more directly to participants invested in the affected funds, the plan would effectively lose up to $1.9 million in revenue in the first year. Without a fee increase, the administrative account would be totally exhausted within three years. Assuming a 5% annual equity investment return, a 51% increase in participant fees would be required to maintain the reserve balance above the 50% target over the next five years.

Based on the current reserves in the Board's administrative account, no action to change administrative fees paid by plan participants is needed at this time. Fees should be reviewed again next year, or if the Board takes actions that materially change investment provider reimbursements available for plan expenses.

Staff will be available at the Board meeting to discuss this memo and answer any questions.