



State of Wisconsin
Department of Employee Trust Funds
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SECRETARY

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Correspondence Memorandum

Date: October 4, 2017
To: Deferred Compensation Board
From: Cindy Klimke-Armatoski, CPA
Chief Trust Financial Officer
Subject: Administrative Fee Recommendation

ETF recommends the Deferred Compensation Board (Board) maintain the current administrative fees paid by plan participants for calendar year 2018.

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 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. Prior to January 1, 2016, revenues also included investment provider reimbursements. With the adoption of the Board's Investment Option Selection and Reimbursements Policy, WDC investment option reimbursements are now allocated to participants.

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 in the program, participants pay no fees until their account balance exceeds \$5,000.

Reviewed and approved by Robert J. Conlin, Secretary

Electronically Signed 10/17/17

Board	Mtg Date	Item #
DC	11.6.17	6

The table below reflects recent year activity as well as projected activity for the next three years (in thousands \$). Administrative services contract expenses 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) (formerly known as the Plan Enhancement Program or PEP), which became part of the administrative services contract agreement Section 7.3A¹ beginning in calendar year 2011.

Administrative Account Activity				
	2019	2018	2017	2016
January 1 Account Balance	\$2,295	\$2,222	\$2,371	\$2,489
Revenues				
Participant Fees	3,748	3,428	3,105	2,532
Investment Provider Reimbursements	0	0	0	388
Investment Earnings & Other	<u>57</u>	<u>55</u>	<u>56</u>	<u>66</u>
Total Revenues	<u>3,806</u>	<u>3,483</u>	<u>3,161</u>	<u>2,986</u>
Expenses				
Administrative Services Contract	3,330	3,233	3,139	3,077
Domestic Relation Order Fees	16	16	16	17
ETF Administration & Miscellaneous	<u>168</u>	<u>161</u>	<u>156</u>	<u>10</u>
Total Expenses	<u>3,514</u>	<u>3,411</u>	<u>3,310</u>	<u>3,105</u>
December 31 Account Balance	<u>\$2,587</u>	<u>\$2,295</u>	<u>\$2,222</u>	<u>\$2,371</u>
Account Balance as % of Projected Annual Expenses	72%	65%	65%	72%
<i>Values may not foot due to rounding.</i>				
<i>2016 figures are actual.</i>				
<i>2017 Q1 and Q2 figures are actual.</i>				
<i>2017 Q3 through 2019 figures are projected.</i>				

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 long-term equity returns.

¹ Section 7.3A 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 2.7%. Additionally, if the administrator meets the Board's objectives as defined in the annual PEP, the administrative fee increases by an additional 0.3% in the following year, for a total increase of 3.0%. If participant growth is greater than 3% and the administrator meets the PEP objectives, the administrative fee increases by an additional 0.7% in the following year, for a total maximum increase of 3.7%.

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 two and a half years.

The plan administrative fee schedule currently in effect is:

2017 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: 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)

