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**Correspondence Memorandum**

**Date:** February 6, 2019  
**To:** Deferred Compensation Board  
**From:** Shelly Schueller, Director  
 Wisconsin Deferred Compensation Program  
**Subject:** Managed Account Fees 2013-2018

**This memo is for informational purposes only. No Board action is required.**

At the Board's request, Empower completed an analysis of the managed account advisory service usage and fees from 2013-2018. This advisory service is an optional suite of investment services offered to WDC participants. The services currently include online investment guidance, online investment advice and a managed account option. As of December 31, 2018, 141 participants were using the online investment advice option and nearly 14,000 participants were using the managed account option.

There is an additional cost to participants who opt to use these services. The online investment advice fee is \$25 per year and is deducted from participant accounts on a quarterly basis. Fees for the managed account option are calculated as a percentage of each participant's account balance, on a tiered scale (shown below), and are also deducted quarterly.

**WDC Advisory Service Fees**

	<u>Current</u>	<u>Pre-Jan. 1, 2016</u>
Assets < \$100,000	0.45%	0.60%
\$100,000-250,000	0.35%	0.50%
\$250,000-400,000	0.25%	0.40%
Above \$400,000	0.15%	0.30%

Empower reviewed the managed account option and online investment advice usage and fees for 2013-2018. Since the managed account option service is charged as a percentage of each participant's account balance, comparing the percentage across years and average cost per participant are more accurate ways to evaluate the service. The chart below shows assets, fees, and average cost associated with both the managed account option and advice fee services from 2013 through 2018.

Reviewed and approved by Matt Stohr, Administrator, Division of Retirement Services  
 Electronically Signed 2/13/19

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WDC Managed Account and Advice Fee Analysis: 2013-2018						
	2013	2014	2015	2016	2017	2018
<b>Managed Account Assets</b>	\$212,842,168.00	\$246,809,553.00	\$270,641,773.00	\$337,332,446.00	\$445,519,369.00	\$507,420,882.00
<b>Managed Account Fee</b>	\$1,029,392.45	\$1,343,119.86	\$1,528,765.96	\$935,856.72	\$1,488,007.70	\$1,924,880.00
<b>Average Cost per Participant</b>	0.48%	0.54%	0.56%	0.28%	0.33%	0.38%
<b>Advice Fee</b>	\$1,541.48	\$1,825.01	\$2,118.75	\$1,568.75	\$2,812.52	\$3,312.50
<b>Advice # of Users</b>	67	81	87	104	138	141

The total cost of the managed account service increased considerably from 2016 to 2017. Two likely reasons for this are:

- 1) The WDC offered participants a managed accounts “Free Look” period during the spring of 2016. For the 2016 Free Look period, new participants to the managed account service had their first three months of fees waived. During that period, approximately 545 new managed account users chose to take advantage of the service and their balances accounted for more than \$30 million in new assets in the service. After their initial fee waiver, the participants who decided to stay in began incurring charges during the latter part of 2016; and
- 2) The stock market provided excellent returns in 2017, resulting in overall growth of assets in the managed account service. From year end 2016 to 2017, the assets in the managed account service grew by 32%, which resulted in an increased overall cost for the service.

Calendar year 2016 is a difficult year to include in any analysis because the “Free Look” offering and the fee reduction at the beginning of 2016 made it impossible to directly compare costs. The 2016 fee reduction lowered the total cost of the managed account service for participants at the same time the Free Look added new accounts. Thus, the Empower analysis included the average costs for 2017 and 2018 only.

From 2017 to 2018, the average cost for managed accounts increased from 0.33% to 0.38%. This result is most likely from more “low account balance” WDC users adding the service during the year. In 2018, almost 2,000 new managed account users were added, and the numbers would suggest the majority of them had smaller balances. From 2017 to 2018 the total managed account fee increased about 29% while assets increased by approximately 14%. This is likely a result of the higher average cost for

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new managed account users with lower balances, as well as the fact that the markets experienced a big sell-off in late 2018. Since managed account fees are taken throughout the year, most of that was based on higher asset values before the end of the year. Before the late year downturn in 2018, managed account assets were up nearly twenty percent when compared to year end 2017.

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