



STATE OF WISCONSIN
Department of Employee Trust Funds
 Robert J. Conlin
 SECRETARY

Wisconsin Department
 of Employee Trust Funds
 PO Box 7931
 Madison WI 53707-7931
 1-877-533-5020 (toll free)
 Fax 608-267-4549
 etf.wi.gov

Correspondence Memorandum

Date: October 9, 2019
To: Deferred Compensation Board
From: Mona Yee, Deputy Administrator
 Division of Trust Finance
Subject: Participant Administrative Fee Analysis

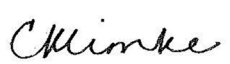
ETF recommends the Deferred Compensation Board (Board) approve an average 6.5% increase to annual administrative fees paid by Wisconsin Deferred Compensation Program (WDC) plan participants, effective January 1, 2020. A fee increase is recommended to maintain a reserve balance within the target range set by the Board.

The Board maintains an administrative account to pay the administrative expenses for the 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, assuming a 5.84%¹ investment return and an average 6.5% fee increase effective January 1, 2020.

¹ 5.84% assumed investment return provided by Plan provider.

Reviewed and approved by Cindy Klimke, Administrator, Division of Trust Finance

 Electronically Signed 10/15/19

Board	Mtg Date	Item #
DC	10.31.19	4

Participant Administrative Fee Analysis

October 9, 2019

Page 2

Administrative Account Activity (In Thousands) Based on an average 6.5% Increase				
	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
January 1 Account Balance	\$2,066	\$1,992	\$2,157	\$2,232
Revenues				
Participant Fees	3,917	3,744	3,389	3,290
Investment Earnings & Other	<u>67</u>	<u>65</u>	<u>67</u>	<u>66</u>
Total Revenues	<u>3,984</u>	<u>3,810</u>	<u>3,456</u>	<u>3,356</u>
Expenses				
Administrative Services Contract	3,725	3,582	3,444	3,280
Qualified Domestic Relation Order Fees	21	21	22	17
ETF Administration & Miscellaneous	<u>167</u>	<u>133</u>	<u>156</u>	<u>134</u>
Total Expenses	<u>3,913</u>	<u>3,736</u>	<u>3,622</u>	<u>3,431</u>
December 31 Account Balance	<u>\$2,136</u>	<u>\$2,066</u>	<u>\$1,992</u>	<u>\$2,157</u>
Account Balance as % of Projected Annual Expenses for following year	53%	53%	53%	- 60%
<i>Values may not foot due to rounding.</i>				
<i>2018 figures are actual.</i>				
<i>2019 Q1 and Q2 figures are actual.</i>				
<i>2019 Q3 through 2021 figures are projected. **2021 Projection does not include an increase in fees.</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 5.3A². In 2019, the contract fee increase was 5%.

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.

The Board's policy for the administrative account is to maintain an account balance equal to 50-75% of projected annual plan expenses. Attachment A illustrates projected administrative account balances based on no increase in fees as well as an average 6.5% and 8% increase. Projections show that maintaining the current fee level would reduce the reserve balance below the target range by June 2020. An average fee

² 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%.

Participant Administrative Fee Analysis

October 9, 2019

Page 3

increase of at least 6.5% results in a projected balance within the target reserve range for the next three years.

The table below shows the current administrative fees, along with the fees for an average 6.5% increase:

Participant Account Balance	Number of Participants	Current 2019 Monthly Fee	Proposed 2020 Fee		
			Goal: 50-75% Reserve Balance		
			Monthly Fee	% Increase	Basis Points
\$1 – 5,000	14,939	\$0.00	\$0.00	0%	0.0
\$5,001 – 25,000	16,320	\$1.00	\$1.00	0%	8.0
\$25,001 – 50,000	8,879	\$3.00	\$3.25	8%	10.4
\$50,001 – 100,000	9,084	\$6.00	\$6.50	8%	10.4
\$100,001 – 150,000	4,810	\$8.00	\$8.50	6%	8.2
\$150,001 – 250,000	4,847	\$11.00	\$11.75	7%	7.1
Over \$250,000	5,827	\$16.50	\$17.50	6%	7.0
Average	64,706	4.41	\$4.70	6.5%	6.8

As illustrated in the table, the largest percentage increase is 8%. This occurs for account balances between \$25,001-\$50,000 and \$50,001-\$100,000. The monthly fee increases by twenty-five and fifty cents, respectively.

Attachment B shows a history of administrative fees since 2015.

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 B: History of Administrative Fees Since 2015

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



Attachment B: History of Administrative Fees Since 2015

Participant Account Balance	2015 Monthly Fee	% Increase⁽¹⁾	2016 Monthly Fee	% Increase	2017 Monthly Fee	% Increase	2018 Monthly Fee	% Increase	2019 Monthly Fees	% Increase
\$1 – 5,000	\$0.00	0%	\$0.00	0%	\$0.00	0%	\$0.00	0%	\$0.00	0%
\$5,001 – 25,000	\$1.00	0%	\$1.00	0%	\$1.00	0%	\$1.00	0%	\$1.00	0%
\$25,001 – 50,000	\$2.00	0%	\$2.50	25%	\$3.00	20%	\$3.00	0%	\$3.00	0%
\$50,001 – 100,000	\$4.00	0%	\$5.00	25%	\$6.00	20%	\$6.00	0%	\$6.00	0%
\$100,001 – 150,000	\$5.50	0%	\$7.00	27%	\$8.00	14%	\$8.00	0%	\$8.00	0%
\$150,001 – 250,000	\$5.50	0%	\$10.00	82%	\$11.00	10%	\$11.00	0%	\$11.00	0%
Over \$250,000	\$5.50	0%	\$15.00	173%	\$16.50	10%	\$16.50	0%	\$16.50	0%

⁽¹⁾ The fee schedule shown for 2015 was in effect since 2008