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Correspondence Memorandum

Date: October 23, 2020
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) maintain the current administrative fees paid by plan participants for calendar year 2021.

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 tiered, based on individual participant account balances, and deducted from participant accounts monthly. Participants also pay an internal expense charge to each option 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 5.79%¹ investment return and no fee increase for 2021.

¹ 5.79% assumed investment return provided by plan administrator.

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

Electronically Signed 11/6/20

Board	Mtg Date	Item #
DC	11.19.20	4

Administrative Account Activity (In Thousands) Based on 0% increase				
	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
January 1 Account Balance	\$2,274	\$1,986	\$2,003	\$2,157
Revenues				
Participant Fees	4,279	4,154	3,730	3,393
Investment Earnings & Other	<u>73</u>	<u>67</u>	<u>65</u>	<u>70</u>
Total Revenues	<u>4,352</u>	<u>4,221</u>	<u>3,795</u>	<u>3,464</u>
Expenses				
Administrative Services Contract	3,912	3,761	3,617	3,444
Qualified Domestic Relation Order Fees	10	10	11	17
ETF Administration & Miscellaneous	<u>196</u>	<u>161</u>	<u>184</u>	<u>156</u>
Total Expenses	<u>4,118</u>	<u>3,933</u>	<u>3,812</u>	<u>3,617</u>
December 31 Account Balance	<u>\$2,508</u>	<u>\$2,274</u>	<u>\$1,986</u>	<u>\$2,003</u>
Account Balance as % of Projected Annual Expenses for following year	59%	55%	51%	53%
<i>Values may not foot due to rounding</i>				
<i>2019 figures are actual</i>				
<i>2020 Q1 through Q3 figures are actual</i>				
<i>2020 Q4, 2021 and 2022 figures are projected</i>				

Administrative services contract expense increases are a result of the WDC contract administrator meeting the goals and objectives set by the Board in the annual Strategic Partnership Plan (SPP), which is part of the administrative services contract agreement Section 5.3A². In 2020, the contract fee increase earned by the administrator was 5%. ETF administration expenses will fluctuate year-to-year based on staff time and based on compliance audits which occur every two years.

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: Ending Balance of Administrative Account as a Percent of Annual Expenses illustrates projected administrative account balances based on no increase in fees as well as an average 4.5% increase. Staff recommend no change in fees as the projections show the balance of the reserve account staying within the policy range. However, given the uncertainty

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%.

and volatility of the market, the Board could alternatively approve a small increase in fees.

The table below shows the current administrative fees, along with the fees for an average 4.5% increase:

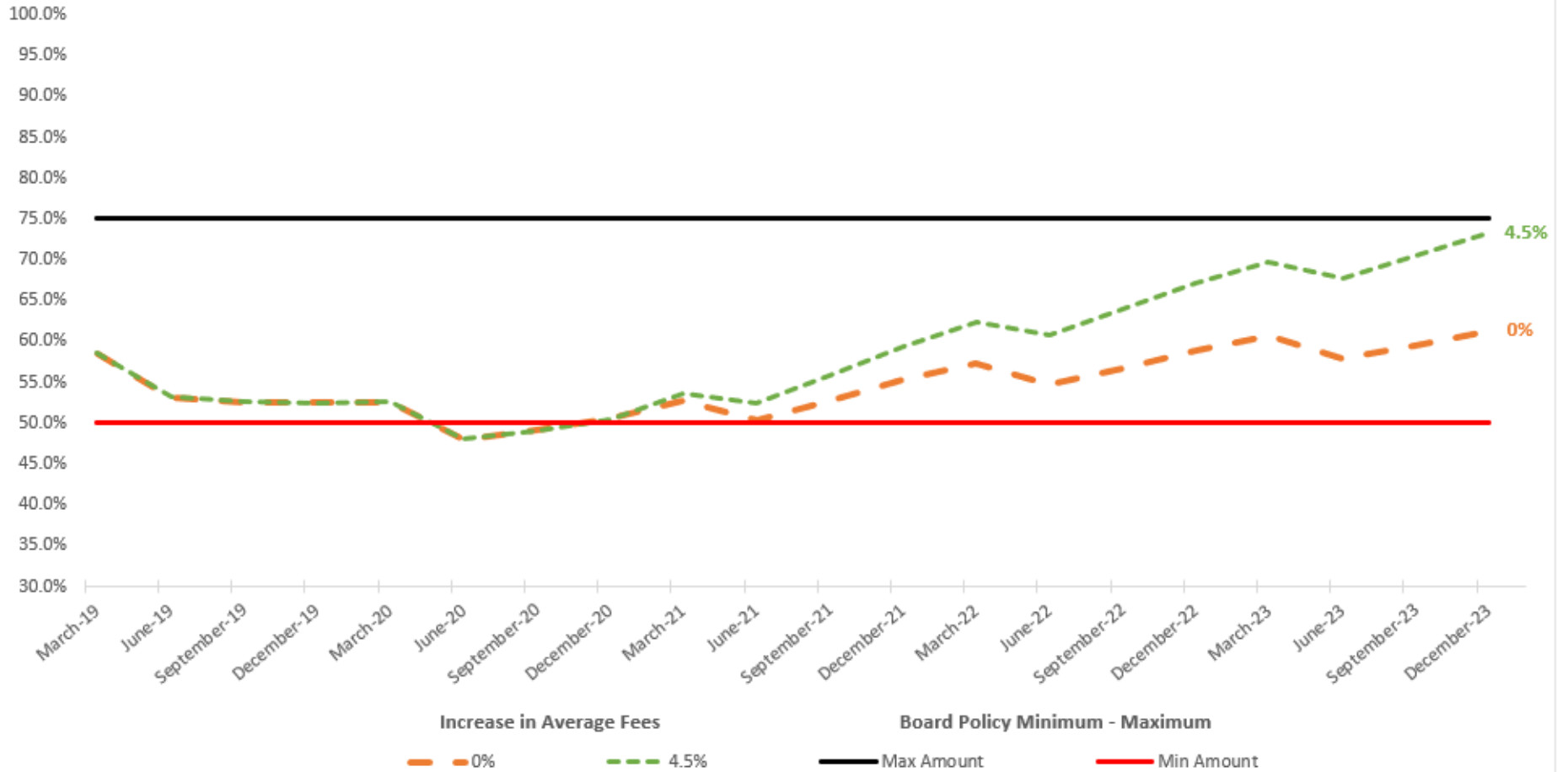
Participant Account Balance	Number of Participants	Current 2020 Monthly Fee	Average 4.5% Fee Increase		
			Goal: 50-75% Reserve Balance		
			Monthly Fee	% Increase	Basis Points
\$1 – 5,000	15,501	\$0.00	\$0.00	0%	0.0
\$5,001 – 25,000	17,017	\$1.00	\$1.00	0%	8.0
\$25,001 – 50,000	9,077	\$3.25	\$3.50	8%	11.2
\$50,001 – 100,000	9,136	\$6.50	\$6.75	4%	10.8
\$100,001 – 150,000	4,835	\$8.50	\$9.00	6%	8.6
\$150,001 – 250,000	4,958	\$11.75	\$12.25	4%	7.4
Over \$250,000	6,016	\$17.50	\$18.25	4%	7.3
Average	66,540	4.67	\$4.88	4.5%	7.0

Attachment B shows the 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



Actual data through September 2020

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	2020 Monthly Fees	% Increase
\$1 – 5,000	\$0.00	0%	\$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%	\$1.00	0%
\$25,001 – 50,000	\$2.00	0%	\$2.50	25%	\$3.00	20%	\$3.00	0%	\$3.00	0%	\$3.25	8%
\$50,001 – 100,000	\$4.00	0%	\$5.00	25%	\$6.00	20%	\$6.00	0%	\$6.00	0%	\$6.50	8%
\$100,001 – 150,000	\$5.50	0%	\$7.00	27%	\$8.00	14%	\$8.00	0%	\$8.00	0%	\$8.50	6%
\$150,001 – 250,000	\$5.50	0%	\$10.00	82%	\$11.00	10%	\$11.00	0%	\$11.00	0%	\$11.75	7%
Over \$250,000	\$5.50	0%	\$15.00	173%	\$16.50	10%	\$16.50	0%	\$16.50	0%	\$17.50	6%
<i>Average Increase</i>		0%		56%		13%		0%		0%		6.5%

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