



STATE OF WISCONSIN
Department of Employee Trust Funds
 A. John Voelker
 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 11, 2021

To: Deferred Compensation Board

From: Ramona Yee, Deputy Administrator
 Division of Trust Finance

Subject: Participant Administrative Fee Analysis

ETF recommends the Deferred Compensation Board (Board) approve an average 34.3% decrease to the administrative fees paid by Wisconsin Deferred Compensation Program (WDC) plan participants, effective January 1, 2022.

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 and 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 and rounded to the nearest 0.25 cents. The fees are 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 5.80%¹ investment return and an average 34.3% fee decrease effective January 1, 2022.

¹ 5.80% assumed investment return provided by plan administrator on participants investment balances

Reviewed and approved by Cindy Klimke, Administrator, Division of Trust Finance
 Electronically Signed 10/21/21

C. Klimke

Board	Mtg Date	Item #
DC	11.04.21	4

Administrative Account Activity (In Thousands) Based on an average 34.3% decrease				
	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
January 1 Account Balance	\$2,003	\$2,018	\$2,442	\$1,467
Revenues				
Participant Fees	3,758	4,329	3,042	3,158
Investment Earnings & Other	<u>67</u>	<u>54</u>	<u>51</u>	<u>44</u>
Total Revenues	3,825	4,384	3,093	3,202
Expenses				
Administrative Services Contract	3,617	3,743	3,878	2,400
Qualified Domestic Relation Order Fees	10	16	16	16
ETF Administration & Miscellaneous	<u>184</u>	<u>200</u>	<u>175</u>	<u>207</u>
Total Expenses	3,811	3,959	4,068	2,623
December 31 Account Balance	<u>\$2,018</u>	<u>\$2,442</u>	<u>\$1,467</u>	<u>\$2,046</u>
Account Balance as % of Projected Annual Expenses for following year	51%	60%	56%	79%
<i>Values may not foot due to rounding.</i>				
<i>2020 figures are actual.</i>				
<i>2021 Q1 and Q2 figures are actual.</i>				
<i>2021 Q3 through 2023 figures are projected.</i>				

The administrative services contract has a fixed and variable fee component. Expense increases in 2021 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 2021, the contract fee increase earned by the administrator was 3.5%. ETF administration expenses will fluctuate year-to-year based on staff time and on the addition of contract compliance audits occurring every two years for odd-numbered calendar 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. As a result of favorable market conditions, the number of participants with higher tiered account balances increased in 2021 directly resulting in increased 2021 participant fee revenue.

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%.

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 an average 29.8%, 34.3%, and 40.3% decrease. Staff recommend a 34.3% decrease in fees, which will result in the projected balance staying within the target reserve range for the majority of the next two years.

The table below shows the current administrative fees, along with proposed participant fee changes, which result in an overall average decrease of 34.3%:

Participant Account Balance	Number of Participants	Current 2021 Monthly Fees	Average 34.3% Fee Decrease		
			Goal: 50-75% Reserve Balance		
			Monthly Fee	% Decrease	Annual Fee Basis Points
\$1 – 5,000	13,080	\$0.00	\$0.00	0.0%	0.0
\$5,001 – 25,000	17,134	\$1.00	\$0.75	(25.0)%	6.0
\$25,001 – 50,000	9,098	\$3.25	\$2.00	(38.5)%	6.4
\$50,001 – 100,000	9,337	\$6.50	\$4.25	(34.6)%	6.8
\$100,001 – 150,000	5,144	\$8.50	\$5.50	(35.3)%	5.3
\$150,001 – 250,000	5,699	\$11.75	\$7.75	(34.0)%	4.7
Over \$250,000	7,889	\$17.50	\$11.50	(34.3)%	4.6
<i>Average Increase</i>	67,381	\$5.29	\$3.47	(34.3)%	4.0

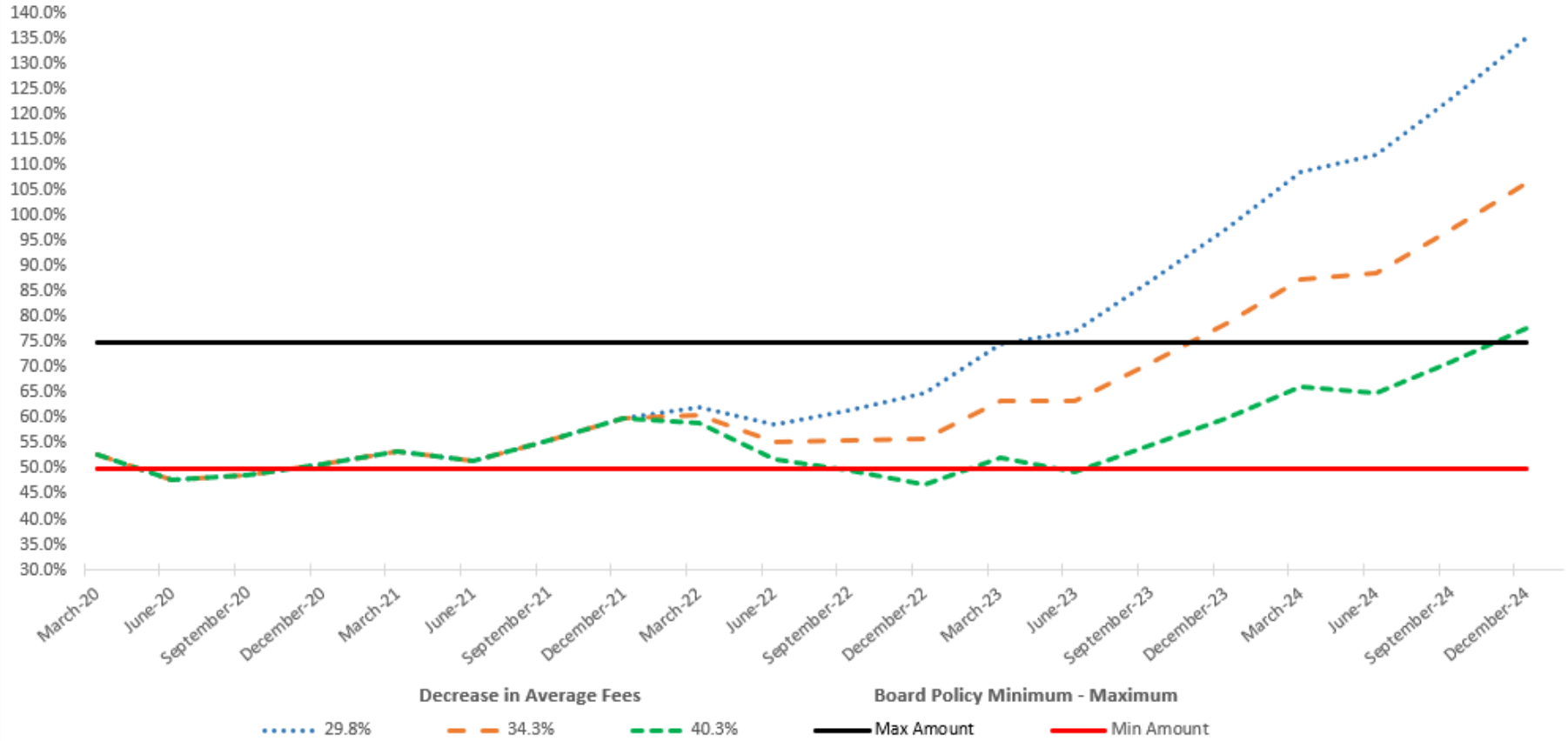
Attachment B shows the history of administrative fees since 2015.

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



Attachment B: History of Administrative Fees Since 2015

Participant Account Balance	2015 Monthly Fee ⁽¹⁾	% Increase	2016 Monthly Fee	% Increase	2017 Monthly Fee	% Increase	2018 Monthly Fee	% Increase	2019 Monthly Fee	% Increase	2020 Monthly Fee	% Increase	2021 Monthly Fee	% Increase
\$1 – 5,000	\$0.00	0%	\$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%	\$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%	\$3.25	0%
\$50,001 – 100,000	\$4.00	0%	\$5.00	25%	\$6.00	20%	\$6.00	0%	\$6.00	0%	\$6.50	8%	\$6.50	0%
\$100,001 – 150,000	\$5.50	0%	\$7.00	27%	\$8.00	14%	\$8.00	0%	\$8.00	0%	\$8.50	6%	\$8.50	0%
\$150,001 – 250,000	\$5.50	0%	\$10.00	82%	\$11.00	10%	\$11.00	0%	\$11.00	0%	\$11.75	7%	\$11.75	0%
Over \$250,000	\$5.50	0%	\$15.00	173%	\$16.50	10%	\$16.50	0%	\$16.50	0%	\$17.50	6%	\$17.50	0%
<i>Average Increase</i>		0%		56%		13%		0%		0%		6.5%		0%

⁽¹⁾ Fee schedule from 2008-2015.