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Correspondence Memorandum

Date: November 2, 2022

To: Deferred Compensation Board

From: Cindy Klimke-Armatoski, Chief Trust Finance Officer
 Division of Trust Finance

Subject: Participant Administrative Fee Analysis

ETF recommends the Deferred Compensation Board (Board) approve an increase to the administrative fees paid by Wisconsin Deferred Compensation Program (WDC) plan participants, effective January 1, 2023.

The Board maintains an 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 Board’s account balance. Plan administrative fees are tiered and rounded to the nearest \$0.25. 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.

Attachment A shows the administrative account balance as of December 31, 2021; the projected balance as of December 31, 2022 (based on actual activity through September 30, 2022); and the projected balance as of December 31, 2023, assuming three different fee increase scenarios effective January 1, 2023. A 4.82% investment return assumption, provided by the plan administrator, was used.

The projections include the reduced cost of the administrative services contract effective January 1, 2023. The new contract with Empower Retirement is a fixed fee amount through November 2027. The fee will not increase year-to-year based on the administrator’s performance.

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Reviewed and approved by Shirley Eckes, Deputy Secretary
 Electronically Signed 11/08/2022

Participant Administrative Fee Analysis

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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 unfavorable market conditions, the number of participants with higher-tiered account balances decreased in 2022, directly resulting in decreased 2022 participant fee revenue.

The Board's policy for the administrative account is to maintain an account balance equal to 50%–75% of projected annual plan expenses. Staff recommend a fee increase and have provided three options for the Board's consideration. Attachment B illustrates projected administrative account balances based on an average 35.4%, 52%, and 100% increase. Attachment C shows the current administrative fees, along with participant fee changes based on the three fee increase scenarios.

Attachment D shows the history of administrative fees by participant account balance tiers, as well as a chart showing the cost for a participant with an account balance of \$50,001.

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

Attachment A: Administrative Account Activity

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

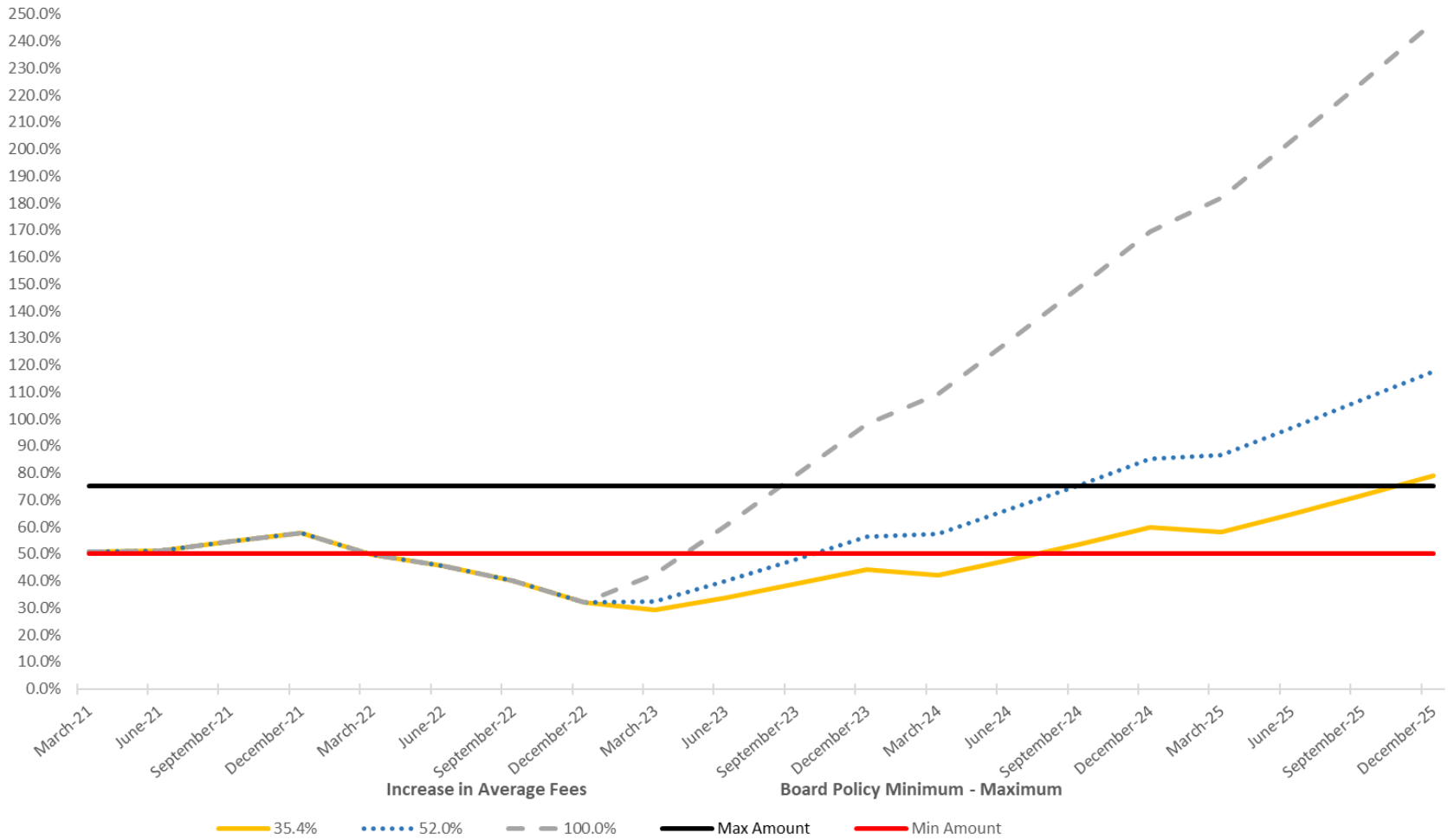
Attachment C: Current and Projected Administrative Fees

Attachment D: History of Administrative Fees

Attachment A: Administrative Account Activity

Administrative Account Activity (In Thousands)					
	2021	2022	2023 35.4% increase	2023 52% increase	2023 100% increase
January 1 Account Balance	\$2,018	\$2,370	\$919	\$919	\$919
Revenues					
Participant Fees	4,254	2,598	3,177	3,530	4,707
Investment Earnings & Other	55	47	32	34	42
Total Revenues	4,309	2,645	3,209	3,564	4,748
Expenses					
Administrative Services Contract	3,743	3,874	2,624	2,624	2,624
Qualified Domestic Relation Order Fees	13	10	10	10	10
ETF Administration & Miscellaneous	200	212	238	238	238
Total Expenses	3,957	4,096	2,872	2,872	2,872
December 31 Account Balance	\$2,370	\$919	\$1,255	\$1,611	\$2,795
Account Balance as % of Projected Annual Expenses for following year	58%	32%	44%	57%	98%
<i>Values may not foot due to rounding.</i>					
<i>2021 through 2022 Q3 figures are actual.</i>					
<i>2022 Q4 through 2023 figures are projected.</i>					

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



Attachment C: Current and Projected Administrative Fees

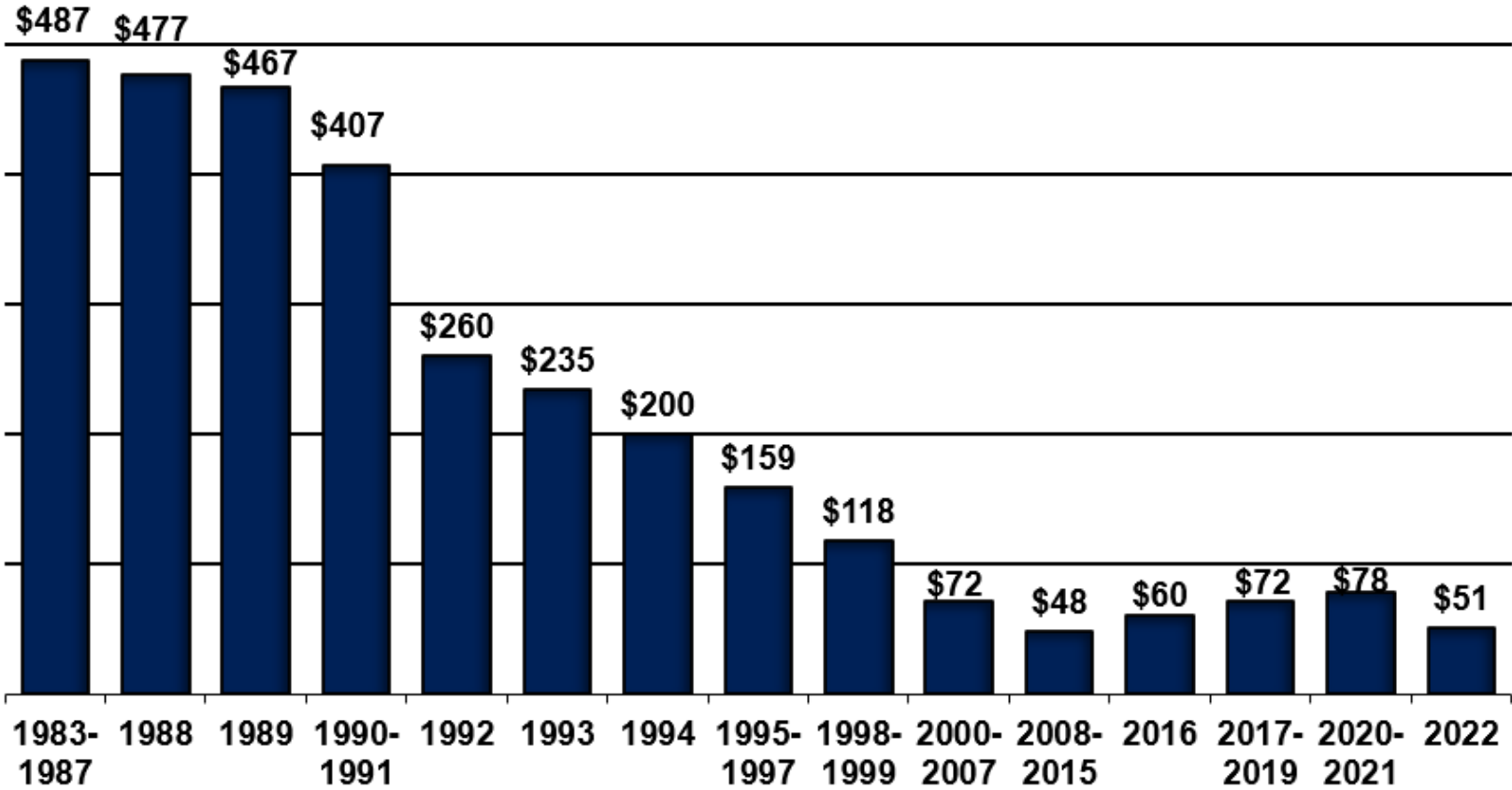
Participant Account Balance	Number of Participants	Current 2022 Monthly Fees	Average 35.4% Fee Increase		
			Goal: 50-75% Reserve Balance		
			Monthly Fee	% Increase	Annual Fee Basis Points
\$0.01 – 5,000	14,935	\$0.00	\$0.00	0.0%	0.0
\$5,001 – 25,000	18,801	\$0.75	\$1.00	33.3%	8.0
\$25,001 – 50,000	9,536	\$2.00	\$2.75	37.5%	8.8
\$50,001 – 100,000	9,354	\$4.25	\$5.75	35.3%	9.2
\$100,001 – 150,000	4,842	\$5.50	\$7.50	36.4%	7.2
\$150,001 – 250,000	4,974	\$7.75	\$10.50	35.5%	6.3
Over \$250,000	6,055	\$11.50	\$15.50	34.8%	6.2
<i>Average Increase</i>			\$4.11	35.4%	5.9
Participant Account Balance	Number of Participants	Current 2022 Monthly Fees	Average 52.0% Fee Increase		
			Goal: 50-75% Reserve Balance		
			Monthly Fee	% Increase	Annual Fee Basis Points
\$0.01 – 5,000	14,935	\$0.00	\$0.00	0.0%	0.0
\$5,001 – 25,000	18,801	\$0.75	\$1.25	66.7%	10.0
\$25,001 – 50,000	9,536	\$2.00	\$3.00	50.0%	9.6
\$50,001 – 100,000	9,354	\$4.25	\$6.50	52.9%	10.4
\$100,001 – 150,000	4,842	\$5.50	\$8.25	50.0%	7.9
\$150,001 – 250,000	4,974	\$7.75	\$11.75	51.6%	7.1
Over \$250,000	6,055	\$11.50	\$17.25	50.0%	6.9
<i>Average Increase</i>			\$4.61	52.0%	6.7
Participant Account Balance	Number of Participants	Current 2022 Monthly Fees	Average 100.0% Fee Increase		
			Goal: 50-75% Reserve Balance		
			Monthly Fee	% Increase	Annual Fee Basis Points
\$0.01 – 5,000	14,935	\$0.00	\$0.00	0.0%	0.0
\$5,001 – 25,000	18,801	\$0.75	\$1.50	100.0%	12.0
\$25,001 – 50,000	9,536	\$2.00	\$4.00	100.0%	12.8
\$50,001 – 100,000	9,354	\$4.25	\$8.50	100.0%	13.6
\$100,001 – 150,000	4,842	\$5.50	\$11.00	100.0%	10.6
\$150,001 – 250,000	4,974	\$7.75	\$15.50	100.0%	9.3
Over \$250,000	6,055	\$11.50	\$23.00	100.0%	9.2
<i>Average Increase</i>			\$6.07	100.0%	8.8

Attachment D: History of Administrative Fees

Participant Account Balance	2015 Monthly Fee ⁽¹⁾	% Increase (Decrease)	2016 Monthly Fee	% Increase (Decrease)	2017 Monthly Fee	% Increase (Decrease)	2018 Monthly Fee	% Increase (Decrease)	2019 Monthly Fee	% Increase (Decrease)	2020 Monthly Fee	% Increase (Decrease)	2021 Monthly Fee	% Increase (Decrease)	2022 Monthly Fee	% Increase (Decrease)
\$0.01 – 5,000	\$0.00	0%	\$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%	▲ \$0.75	(25%)
\$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%	▲ \$2.00	(38%)
\$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%	▲ \$4.25	(35%)
\$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%	▲ \$5.50	(35%)
\$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%	▲ \$7.75	(34%)
Over \$250,000	\$5.50	0%	\$15.00	173%	\$16.50	10%	\$16.50	0%	\$16.50	0%	\$17.50	6%	\$17.50	0%	▲ \$11.50	(34%)
Average Increase (Decrease)		0%		56%		13%		0%		0%		6.5%		0.0%		(34%)

⁽¹⁾ Fee schedule from 2008-2015

WDC Participant Annual Fee History



Example participant fees based on \$50,001 account balance.