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## *Correspondence Memorandum*

**Date:** May 10, 2023

**To:** Deferred Compensation Board

**From:** Amelia Slaney, Director of Financial Compliance Bureau  
 Division of Trust Finance

**Subject:** Interim Participant Administrative Fee Analysis

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

### **Background**

The Board maintains an account to pay the administrative expenses for the Wisconsin Deferred Compensation Program (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 WDC administrative expenses come from participant plan administrative fees and investment income on the Board's account balance. Participant 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.

### **Interim Analysis**

As requested at the December 1, 2022, Board meeting, we are sharing results of an interim participant administrative fee analysis so the Board can review the impact of the participant fee increase on the administrative account balance after the fee increase went into effect on January 1, 2023.

Attachment A shows the WDC administrative account balance as of December 31, 2022; the projected balance as of December 31, 2023 (based on actual activity through March 31, 2023); and the projected balance as of December 31, 2024, assuming no fee changes. A 4.82% investment return assumption, provided by the plan administrator, was used. The administrative account balance as of December 31, 2022, was 34% of projected annual plan expenses and is projected to increase during 2023 and 2024 without changing participant fees.

*C. Klimke*

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The Board's policy for the administrative account is to maintain an account balance equal to 50%–75% of projected annual plan expenses. Attachment B illustrates projected administrative account balances based on current participant administrative fees. Although the administrative account balance as a percentage of projected annual expenses decreased slightly in the fourth quarter of 2022, it rebounded in the first quarter of 2023 back up 6% to approximately 40% of projected annual plan expenses and is projected to increase further during 2023.

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. Due to improved market conditions during the fourth quarter of 2022 and the first quarter of 2023, the number of participants with higher-tiered account balances increased, directly resulting in increased participant fee revenue in these quarters as well.

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 A: Administrative Account Activity (In Thousands)

	2022	2023	2024
<b>January 1 Account Balance</b>	\$2,370	\$955	\$2,299
<b>Revenues</b>			
Participant Fees	2,634	4,134	4,338
Investment Earnings & Other	47	53	86
<b>Total Revenues</b>	2,681	4,187	4,424
<b>Expenses</b>			
Administrative Services Contract	3,874	2,624	2,624
Qualified Domestic Relation Order Fees	10	11	11
ETF Administration & Miscellaneous	212	208	184
<b>Total Expenses</b>	4,096	2,843	2,819
<b>December 31 Account Balance</b>	\$955	\$2,299	\$3,904
<b>Account Balance as % of Projected Annual Expenses for following year</b>	34%	82%	137%
Values may not foot due to rounding.			
2022 through 2023 Q1 figures are actual.			
2023 Q2 through 2024 figures are projected.			

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

