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Correspondence Memorandum

Date: November 6, 2023

To: Deferred Compensation Board

From: Amelia Slaney, Director
 Financial Compliance Bureau

Subject: Participant Administrative Fee Analysis

The Department of Employee Trust Funds (ETF) recommends the Deferred Compensation Board (Board) approve a decrease to the administrative fees paid by Wisconsin Deferred Compensation Program (WDC) participants, effective January 1, 2024.

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 plan expenses primarily come from participant administrative fees and a small amount of investment income on the Board's account balance. WDC 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. To encourage participation, participants pay no administrative fees until their account balance exceeds \$5,000. 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 WDC.

Participant Administrative Fee Analysis Overview

ETF staff perform an analysis annually to estimate future expenses and revenues for the Board's administrative expense account. We anticipate expenses paid from the administrative account to remain stable, primarily due to the five-year flat fee administrative services contract with Empower Retirement. To estimate revenues for the Board's administrative account, we use assumptions for future periods, such as the forecasted rate of return on fund investments, deposits, withdrawals, and participant count growth. These assumptions are used to calculate the expected account balance change, which is then used to estimate the participant administrative fees. After

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estimating expenses and revenues, we consider the Board's policy to maintain an administrative account balance between 50%-75% of future annual expenses. Various fee options are tested to assess the effect on the projected administrative account balance. Recommended fee options are compiled and presented to the Board for evaluation to determine the administrative fees for the following calendar year.

Administrative Account Target Balance History

The Board first adopted a policy for the administrative account balance in 1996. At that time, the policy included a target for the administrative account balance of 45%-50% of estimated annual plan expenses. The target balance policy has been reassessed and changed over time, including in 2014, when the policy was adjusted to 100% of expenses, and in 2015, when the policy was adjusted to 50%-75% of expenses.

The analysis presented to the Board in 2015 noted that in order to maintain the 100% of annual expenses target, participant administrative fees would need to increase by 81%. The Board was presented options of adjusting the administrative account target to 50% or 75% of annual expenses, along with a 56% or 65% increase in participant administrative fees. The Board adopted a target range of 50%-75% of estimated annual expenses and approved an increase to participant administrative fees of 56%, effective for 2016. This range was adopted based on an analysis showing this level would help stabilize participant administrative fees while maintaining a sufficient balance to pay for annual plan expenses. The current policy continues to include the guideline of maintaining an administrative account balance between 50%-75% of estimated annual plan expenses.

Participant Administrative Fee Analysis

Attachment A shows the administrative account balance as of December 31, 2022; the projected balance as of December 31, 2023 (based on actual activity through September 30, 2023); and the projected balance as of December 31, 2024, assuming four different fee scenarios effective January 1, 2024. A 5.91% investment return assumption, provided by Empower Retirement, was used.

Participant administrative fees are closely correlated to WDC plan assets. With equity returns as the primary driver of changes in WDC plan assets, the Board's administrative account is very sensitive to equity returns. After experiencing unfavorable market conditions in 2022, participant fees were raised to help bring the administrative account balance within the 50%-75% target range.

Revenues from participant fees have increased in 2023, resulting from more favorable market conditions, increased participant administrative fee rates, and increased participants with higher-tiered account balances. The Board's administrative account balance as of September 30, 2023, was 66% of estimated annual expenses. This is now within the policy range and is expected to be 81% by the end of 2023.

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Staff recommend the Board consider a participant fee decrease for 2024 and have provided three options for the Board's consideration. Attachment B illustrates projected administrative account balances based on no change to participant fees, an average 34.1%, 40.1%, and 46.2% fee decrease. Attachment C shows the current administrative fees, along with participant fee changes based on the three proposed administrative fee 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 (in thousands)

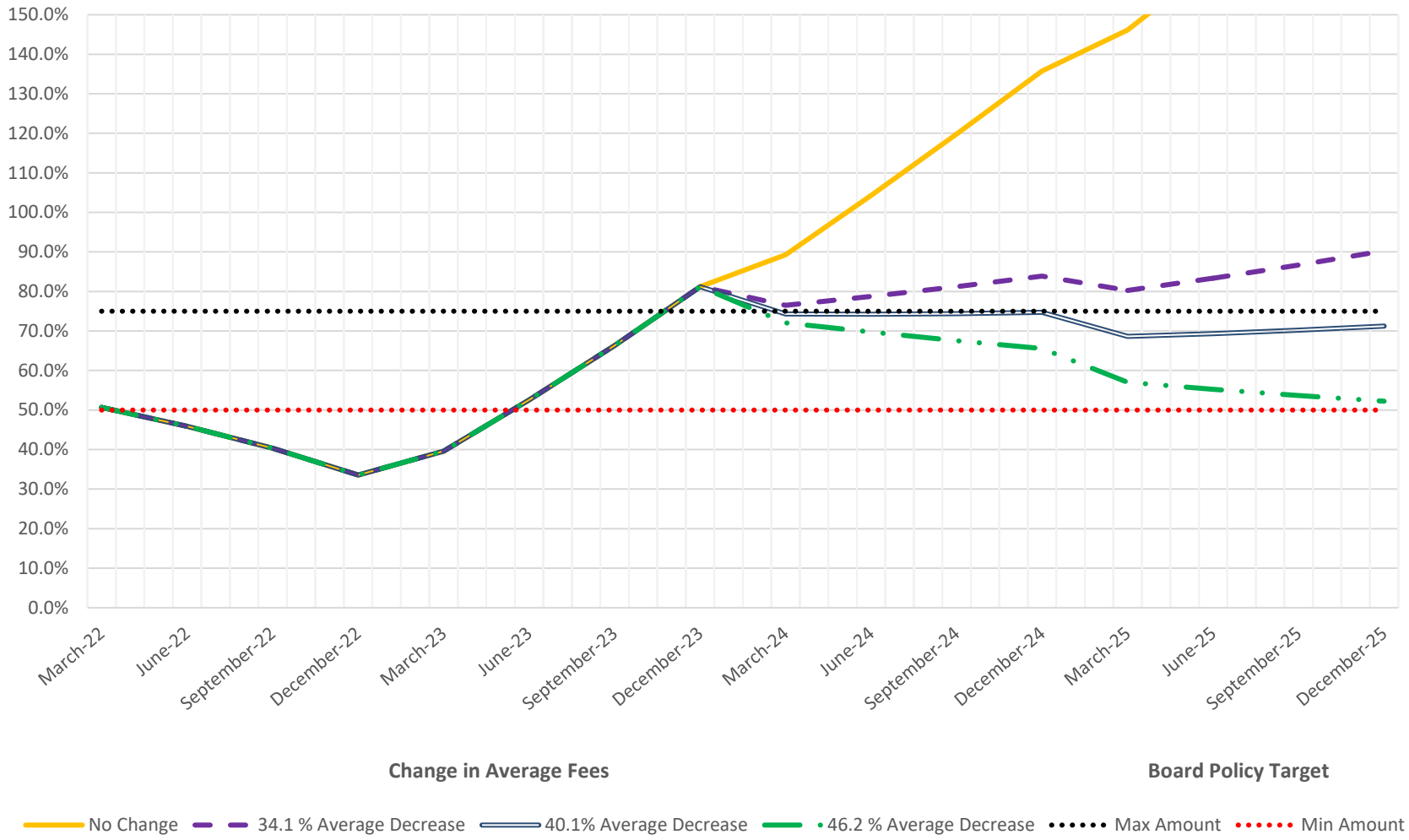
	2022	2023	2024 No change	2024 Avg 34.1% Decrease	2024 Avg 40.1% Decrease	2024 Avg 46.2% Decrease
January 1 Account Balance	\$2,370	\$955	\$2,281	\$2,281	\$2,281	\$2,281
Revenues						
Participant Fees	2,634	4,115	4,289	2,831	2,574	2,316
Investment Earnings & Other	47	57	98	82	79	76
Total Revenues	2,681	4,172	4,387	2,913	2,653	2,392
Expenses						
Administrative Service Contract	3,874	2,624	2,624	2,624	2,624	2,624
Domestic Relation Order Fees ⁽¹⁾	10	14	0	0	0	0
ETF Administration & Miscellaneous	212	208	185	185	185	185
Total Expenses	4,096	2,846	2,809	2,809	2,809	2,809
December 31 Account Balance	\$955	\$2,281	\$3,859	\$2,385	\$2,125	\$1,864
Account Balance as % of Projected Annual Expenses for following year	34%	81%	136%	84%	75%	66%

⁽¹⁾ Costs related to domestic relations orders will be equally borne by the participant and the alternative payee, effective January 1, 2024.

2022 and 2023 Q1 through Q3 figures are actual.

2023 Q4 through 2024 figures are projected based on assumed investment earnings of 5.91% annually.

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



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Attachment C: Current and Projected Administrative Fees

Participant Account Balance	Number of Participants	Current 2023 Monthly Fees	Average 34.1% Fee Decrease		
			Goal: 50-75% Account Balance		
			Monthly Fee	% Increase (Decrease)	Annual Fee Basis Points
\$0.01 – 5,000	13,538	\$0.00	\$0.00	0.0%	0.0
\$5,001 – 25,000	18,245	\$1.25	\$0.75	(40.0%)	6.0
\$25,001 – 50,000	9,945	\$3.00	\$2.00	(33.3%)	6.4
\$50,001 – 100,000	9,665	\$6.50	\$4.25	(34.6%)	6.8
\$100,001 – 150,000	5,227	\$8.25	\$5.50	(33.3%)	5.3
\$150,001 – 250,000	5,461	\$11.75	\$7.75	(34.0%)	4.7
Over \$250,000	7,187	\$17.25	\$11.50	(33.3%)	4.6
<i>Average Increase (Decrease)</i>			(\$3.30)	(34.1%)	4.3
Participant Account Balance	Number of Participants	Current 2023 Monthly Fees	Average 40.1% Fee Decrease		
			Goal: 50-75% Account Balance		
			Monthly Fee	% Increase (Decrease)	Annual Fee Basis Points
\$0.01 – 5,000	13,538	\$0.00	\$0.00	0.0%	0.0
\$5,001 – 25,000	18,245	\$1.25	\$0.75	(40.0%)	6.0
\$25,001 – 50,000	9,945	\$3.00	\$1.75	(41.7%)	5.6
\$50,001 – 100,000	9,665	\$6.50	\$4.00	(38.5%)	6.4
\$100,001 – 150,000	5,227	\$8.25	\$5.00	(39.4%)	4.8
\$150,001 – 250,000	5,461	\$11.75	\$7.00	(40.4%)	4.2
Over \$250,000	7,187	\$17.25	\$10.25	(40.6%)	4.1
<i>Average Increase (Decrease)</i>			(\$3.00)	(40.1%)	3.9
Participant Account Balance	Number of Participants	Current 2023 Monthly Fees	Average 46.2% Fee Decrease		
			Goal: 50-75% Account Balance		
			Monthly Fee	% Increase (Decrease)	Annual Fee Basis Points
\$0.01 – 5,000	13,538	\$0.00	\$0.00	0.0%	0.0
\$5,001 – 25,000	18,245	\$1.25	\$0.75	(40.0%)	6.0
\$25,001 – 50,000	9,945	\$3.00	\$1.50	(50.0%)	4.8
\$50,001 – 100,000	9,665	\$6.50	\$3.50	(46.2%)	5.6
\$100,001 – 150,000	5,227	\$8.25	\$4.50	(45.5%)	4.3
\$150,001 – 250,000	5,461	\$11.75	\$6.25	(46.8%)	3.8
Over \$250,000	7,187	\$17.25	\$9.25	(46.4%)	3.7
<i>Average Increase (Decrease)</i>			(\$2.69)	(46.2%)	3.5

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)
\$0.01 – 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%
Average Increase (Decrease)		0%		56%		13%		0%		0%

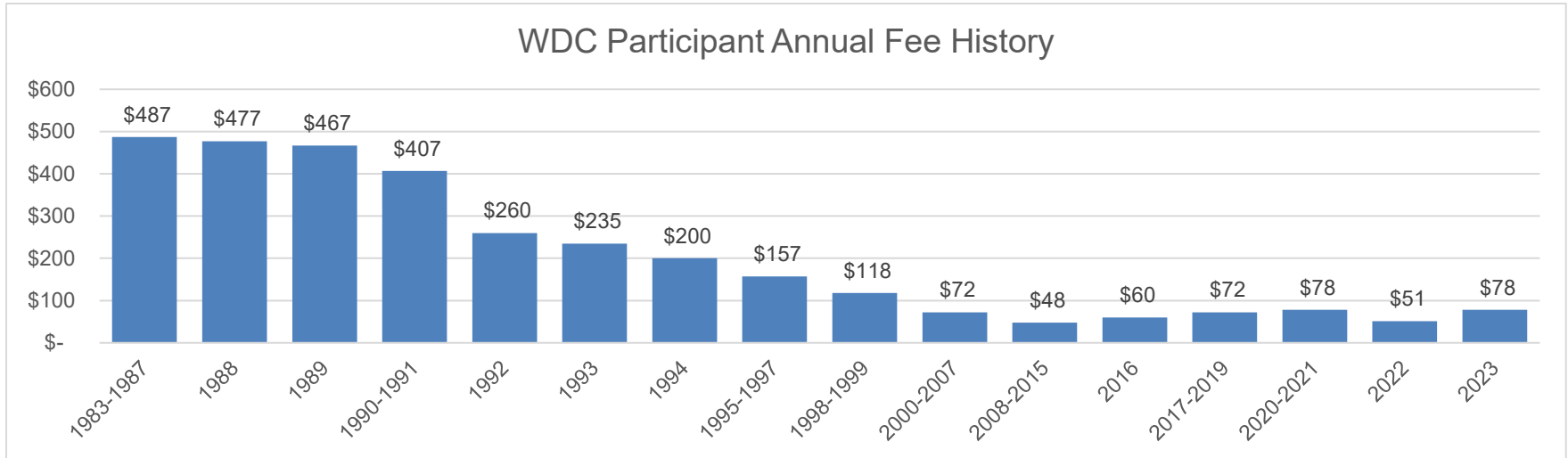
(1) Fee schedule from 2008-2015.

Participant Account Balance	2020 Monthly Fee	% Increase (Decrease)	2021 Monthly Fee	% Increase (Decrease)	2022 Monthly Fee	% Increase (Decrease)	2023 Monthly Fee	% Increase (Decrease)
\$0.01 – 5,000	\$0.00	0%	\$0.00	0%	\$0.00	0%	\$0.00	0%
\$5,001 – 25,000	\$1.00	0%	\$1.00	0%	\$0.75	(25%)	\$1.25	67%
\$25,001 – 50,000	\$3.25	8%	\$3.25	0%	\$2.00	(38%)	\$3.00	50%
\$50,001 – 100,000	\$6.50	8%	\$6.50	0%	\$4.25	(35%)	\$6.50	53%
\$100,001 – 150,000	\$8.50	6%	\$8.50	0%	\$5.50	(35%)	\$8.25	50%
\$150,001 – 250,000	\$11.75	7%	\$11.75	0%	\$7.75	(34%)	\$11.75	52%
Over \$250,000	\$17.50	6%	\$17.50	0%	\$11.50	(34%)	\$17.25	50%
Average Increase (Decrease)		6.5%		0.0%		(34%)		52%

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