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Correspondence Memorandum

Date: August 16, 2024

To: Deferred Compensation Board

From: Amelia Slaney, Director
 Financial Compliance Bureau

Subject: Participant Administrative Fee Structure

Department of Employee Trust Funds (ETF) requests the Deferred Compensation Board (Board) approve the recommended alternative participant fee structure Option 2 or Option 3 to use in setting fees for 2025 and beyond.

Overview

At the Board’s request, ETF staff have researched and considered changes to the WDC plan participant administrative fee structure. Participant administrative fees are used to pay plan expenses, consisting of third-party administrator (Empower Retirement) and ETF staff costs, audits, and other administrative costs. The Board maintains an account where the participant fees are deposited and from which expenses are paid. Board policy is the administrative account balance should equal 50-75% of estimated annual plan expenses ([Ref. DC | 06.08.23 | 5B](#)).

Currently, participant fees are based on participant account balances using the tiered fee schedule shown in Attachment A. Thus, market volatility causes participant fees to fluctuate from year to year, sometimes significantly, for the administrative reserve account balance to be within the Board policy range. Market volatility also makes it challenging to meet one of the Board’s stated policy objectives, which is to reduce volatility in individual participants’ annual administrative fees.

The current participant fee structure includes disparity in fees paid based on account balance. For example, approximately 18% of accounts have balances less than \$5,000 and are not charged participant fees. In contrast, approximately 12% of accounts have balances higher than \$250,000 and pay about 38% of the total participant fees. Attachment A provides detail on the number of account balances in each tier and annual participant fees paid by tier.

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Board	Mtg Date	Item #
DC	09.12.24	8

Analysis

ETF staff considered fee structures of peer plans. We found a variety of ways plans structure participant fees, including a flat fee structure, a structure based on a percentage of assets, and a combination of the two.

When evaluating which participant administrative fee structure may best align with the WDC, we considered the plan expenses and what causes them to change. WDC expenses consist primarily of the administrative services contract with Empower Retirement and costs for ETF staff. The current contract with Empower Retirement includes an annual, flat fee, which will not change during the initial term of the contract, which runs through November 30, 2027. According to Empower Retirement, the administrative effort to manage participant accounts does not vary based on the amount of assets under management in each account. ETF expenses can fluctuate from year to year but generally do not change significantly and ETF expenses also do not vary based on the amount of assets under management by account. Therefore, we do not anticipate plan expenses to fluctuate significantly in the future.

We also analyzed what participant fees would have been in the past years if a flat fee structure was in place. Attachment B includes several tables from our analysis. Overall, we found that the flat fee structure provided less volatility in both participant fees and in the reserve balance as a percentage of expenses.

Alternative Fee Structure

We have developed three flat fee structures for consideration, including the following:

1. Flat fee for all accounts;
2. Flat fee for account balances above \$5,000; and
3. Flat fee for account balances above \$5,000, with smaller flat fee for account balances less than or equal to \$5,000.

We explored a flat fee structure for the following reasons:

- Align with the cost drivers of administering the plan, resulting in sharing the cost burden equitably among participating members.
- Disconnect fee structure from investment performance since it is not a driver of administrative costs.
- Reduce volatility in participant administrative fees from year to year, providing less uncertainty for participants.
- Reduce complexity and time spent monitoring and analyzing the administrative account balance and participant fees.

While all the above options are reasonable, the second and third options best achieve the Board's objective of "encouraging plan participation by assessing minimal

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administrative fees for individual participants with low account balances.” Attachment C includes an illustration of three flat fee structure scenarios, along with a comparison to the current fee structure and impact to participants.

Based on the Board action, staff will apply the approved participant fee rate structure and present recommended fees for 2025 at the December meeting.

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

Attachment A: WDC Accounts and Fees by Tier

Attachment B: What If Analysis

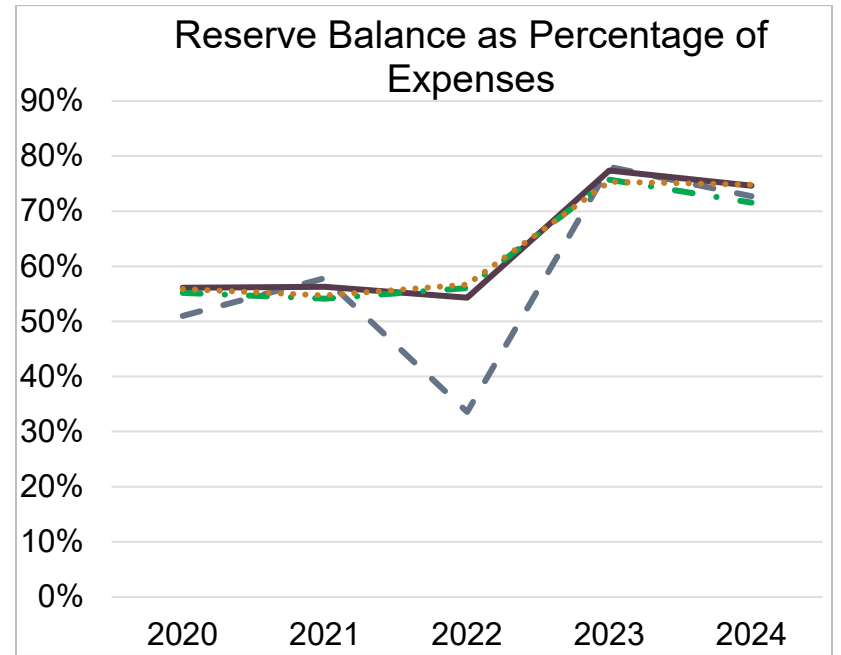
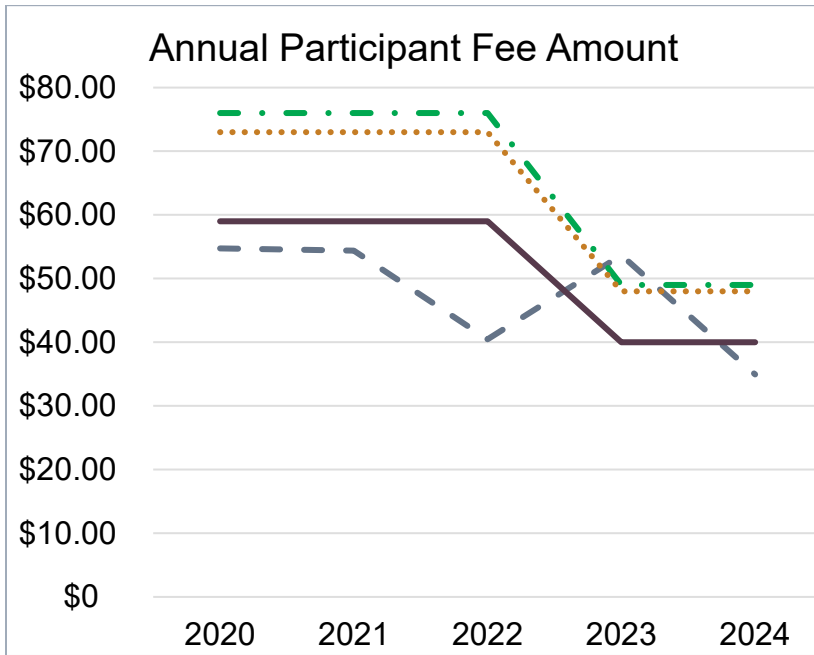
Attachment C: Projection of Flat Fee Structures Charts 1-3

Attachment A**WDC Accounts and Fees by Tier**

Participant Account Balance	Participant Counts (as of 6/30/2024)	2024 Annual Fee	Percentage of Total Membership	Percentage of Total Fees Collected
\$0.01 - \$5,000.00	12,943	\$0.00	18%	0%
\$5,001.00 - \$25,000.00	17,813	\$9.00	25%	6%
\$25,001.00 - \$50,000.00	10,104	\$21.00	14%	8%
\$50,001.00 - \$100,000.00	9,939	\$48.00	14%	18%
\$100,001.00 - \$150,000.00	5,405	\$60.00	8%	12%
\$150,001.00 - \$250,000.00	5,784	\$84.00	8%	18%
Over \$250,000.00	8,131	\$123.00	12%	38%
Total	70,119	--	100%	100%

Attachment B

What-If Analysis



- Average Actual Fee (including accounts <\$5,000)
- Flat Fee All Accounts
- · - Flat fee >\$5,000
- · · Flat fee > \$5,000; smaller flat fee ≤ \$5,000 Fee

Attachment C

**Projection of Flat Fee Structures Chart 1:
Option 1: Flat Fee for All Accounts**

Current Annual Fee Option	Participant Count (as of 6/30/24)	2024 Annual Fee	Fee Targeting High-end \$43.50	High-end Annual Increase (Decrease)	Fee Targeting Low-end \$38.50	Low-end Annual Increase (Decrease)
\$0.01 – \$5,000.00	12,943	\$0.00	\$43.50	\$43.50	\$38.50	\$38.50
\$5,001.00 – \$25,000.00	17,813	\$9.00	\$43.50	\$34.50	\$38.50	\$29.50
\$25,001.00 – \$50,000.00	10,104	\$21.00	\$43.50	\$22.50	\$38.50	\$17.50
\$50,001.00 – \$100,000.00	9,939	\$48.00	\$43.50	(\$4.50)	\$38.50	(\$9.50)
\$100,001.00 – \$150,000.00	5,405	\$60.00	\$43.50	(\$16.50)	\$38.50	(\$21.50)
\$150,001.00 – \$250,000.00	5,784	\$84.00	\$43.50	(\$40.50)	\$38.50	(\$45.50)
Over \$250,000.00	8,131	\$123.00	\$43.50	(\$79.50)	\$38.50	(\$84.50)

Projected Reserve Balance	High-end	Low-end
As of 12/31/2025	73%	61%
As of 12/31/2026	74%	51%

Participant Impact	High-end	Low-end
Higher Fees	58%	58%
Lower Fees	42%	42%
No Change to Fees	0%	0%

Note: The above projections are based on the following assumptions:

- Actual balances of the administrative account and participant investment accounts as of 6/30/2024.
- Activity and balances for the remainder of 2024 are based on the current rate structure and assumed investment earnings of 5.91% annually.
- Fee amounts were selected based on projected expenses, the fee amounts being the same in both 2025 and 2026 and achieving the high-end or low-end of the 50-75% target reserve balance as a percent of expenses by the end of 2026.

**Projection of Flat Fee Structures Chart 2:
Option 2: Flat Fee for Account Balance > \$5,000**

Current Annual Fee Option	Participant Count (as of 6/30/24)	2024 Annual Fee	Fee Targeting High-end \$53.50	High-end Annual Increase (Decrease)	Fee Targeting Low-end \$47.00	Low-end Annual Increase (Decrease)
\$0.01 – \$5,000.00	12,943	\$0.00	\$0.00	No Change	\$0.00	No Change
\$5,001.00 – \$25,000.00	17,813	\$9.00	\$53.50	\$44.50	\$47.00	\$38.00
\$25,001.00 – \$50,000.00	10,104	\$21.00	\$53.50	\$32.50	\$47.00	\$26.00
\$50,001.00 – \$100,000.00	9,939	\$48.00	\$53.50	\$5.50	\$47.00	(\$1.00)
\$100,001.00 – \$150,000.00	5,405	\$60.00	\$53.50	(\$6.50)	\$47.00	(\$13.00)
\$150,001.00 – \$250,000.00	5,784	\$84.00	\$53.50	(\$30.50)	\$47.00	(\$37.00)
Over \$250,000.00	8,131	\$123.00	\$53.50	(\$69.50)	\$47.00	(\$76.00)

Projected Reserve Balance	High-end	Low-end
As of 12/31/2025	73%	61%
As of 12/31/2026	75%	50%

Participant Impact	High-end	Low-end
Higher Fees	54%	40%
Lower Fees	28%	42%
No Change to Fees	18%	18%

Note: The above projections are based on the following assumptions:

- Actual balances of the administrative account and participant investment accounts as of 6/30/2024.
- Activity and balances for the remainder of 2024 are based on the current rate structure and assumed investment earnings of 5.91% annually.
- Fee amounts were selected based on projected expenses, the fee amounts being the same in both 2025 and 2026 and achieving the high-end or low-end of the 50-75% target reserve balance as a percent of expenses by the end of 2026.

**Projection of Flat Fee Structures Chart 3:
Option 3: Flat Fee for Account Balance > \$5,000, Smaller Flat Fee for Account Balance < \$5,000**

Current Annual Fee Option	Participant Count (as of 6/30/24)	2024 Annual Fee	Fee Targeting High-end \$12.00 / \$50.75	High-end Annual Increase (Decrease)	Fee Targeting Low-end \$6.00 / \$45.50	Low-end Annual Increase (Decrease)
\$0.01 – \$5,000.00	12,943	\$0.00	\$12.00	\$12.00	\$6.00	\$6.00
\$5,001.00 – \$25,000.00	17,813	\$9.00	\$50.75	\$41.75	\$45.50	\$36.50
\$25,001.00 – \$50,000.00	10,104	\$21.00	\$50.75	\$29.75	\$45.50	\$24.50
\$50,001.00 – \$100,000.00	9,939	\$48.00	\$50.75	\$2.75	\$45.50	(\$2.50)
\$100,001.00 – \$150,000.00	5,405	\$60.00	\$50.75	(\$9.25)	\$45.50	(\$14.50)
\$150,001.00 – \$250,000.00	5,784	\$84.00	\$50.75	(\$33.25)	\$45.50	(\$38.50)
Over \$250,000.00	8,131	\$123.00	\$50.75	(\$72.25)	\$45.50	(\$77.50)

Projected Reserve Balance	High-end	Low-end
As of 12/31/2025	73%	60%
As of 12/31/2026	75%	50%

Participant Impact	High-end	Low-end
Higher Fees	72%	58%
Lower Fees	28%	42%
No Change to Fees	0%	0%

Note: The above projections are based on the following assumptions:

- Actual balances of the administrative account and participant investment accounts as of 6/30/2024.
- Activity and balances for the remainder of 2024 are based on the current rate structure and assumed investment earnings of 5.91% annually.
- Fee amounts were selected based on projected expenses, the fee amounts being the same in both 2025 and 2026 and achieving the high-end or low-end of the 50-75% target reserve balance as a percent of expenses by the end of 2026.