

Public Employees' Retirement Board

June 11, 2015

Topic: Annual 457(b) & DCRP Annual Fee Review

Board Admin Policies 13 and 14 provide guidance for the annual review of fees assessed to participants in the 457(b) and DCRP retirement plans. Each year as part of our fiduciary duty we review all fees charged to participants relative to the cost of the plans' administrative expenses in order to determine if the fees are reasonable to cover plan expenses.

History: In 2012 the Board reduced fees charged to participants in both plans:

457(b)

- Reduced the per participant annual fee from \$5.00 to \$0
- Effective October 1, 2012, for any investments made after October 1, 2012 refund all revenue sharing fees back to investing participants
- Reduced asset based fees by 2 basis points in each account balance category.

DCRP

- Reduced the per participant fee from \$57.00 to \$0
- Effective October 1, 2012, for any investments made after October 1, 2012 refund all revenue sharing fees back to investing participants.

At the June 2014 Board the agreed to continue the fee reductions for both plans continue through Fiscal Year 2015.

On May 14, 2015 staff reviewed plan fee information with EIAC, who recommends the Board leave fees unchanged in the 457(b) plan and reduce fees in the DCRP plan by three (3) basis points.

Staff Recommendation:

For the 457(b): No recommended changes to the current fee structure.

For the PERS-DCRP: Reduce basis point fee from 20 bps to 17 bps.

Board Motion:

457(b):	PERS-DCRP
I move: <input type="checkbox"/> accept staff recommendation to make no changes to current fee structure for FY 2015;	I move: <input type="checkbox"/> accept staff recommendation to decrease participant fees
Or <input type="checkbox"/> Board pleasure	Or <input type="checkbox"/> Board pleasure
Moved by	Moved by
Seconded by Vote:	Seconded by Vote:

		PROJECTIONS				
	FY2015	FY2016	FY2017	FY2018		
457 Total Investments	\$ 440,457,814	\$ 466,885,283	\$ 494,898,400	\$ 524,592,304	6%	Investments increase projection per year
# of Participants in the 457 Plan	8,690	8950	9219	9495	3%	Participants increase projection per year
Great West Contract Charge per Participant ¹	\$ 534,521	\$ 563,862	\$ 580,778	\$ 598,201	\$63.00	Participants projection per year
Discount for participants in two plans	\$ (31,122)	\$ (34,447)	\$ (36,201)	\$ (38,046)		
Account Executive Fee	\$ 21,250	\$ -	\$ -	\$ -		
457 Total Due to Great West (Expense)	\$ 524,649	\$ 529,415	\$ 544,576	\$ 560,155		
457 Asset Based (BPS) ²	\$ 719,233	\$ 793,705	\$ 841,327	\$ 891,807	17	20 bps points
	719,233	793,705	841,327	891,807		
Excess Recoveries Due to MPERA	\$ 194,585	\$ 264,290	\$ 296,751	\$ 331,652		
457 Mutual Fund Allowances ³	\$ -	\$ -	\$ -	\$ -	0%	Revenue Sharing Fees increase projection per year
457 Plan Amount Paid to MPERA	\$ 194,585	\$ 264,290	\$ 296,751	\$ 331,652		
Fidelity 12(b)(1) Fees	\$ 17,372	\$ -	\$ -	\$ -	0%	Fidelity Fees increase projection per year
STIP Earnings ⁴	\$ 931	\$ 931	\$ 931	\$ 931	0%	STIP increase projection per year
Participant Charges	\$ -	\$ -	\$ -	\$ -		
Excess Recoveries Due to MPERA	\$ 194,585	\$ 264,290	\$ 296,751	\$ 331,652		
Misc Revenue (security lending, miscellaneous receipts, investment expense)	\$ 196	\$ 196	\$ 196	\$ 196		
Total Net Revenue	\$ 213,084	\$ 265,417	\$ 297,878	\$ 332,779		
Administrative Expenses	\$ 290,986	\$ 314,265	\$ 339,406	\$ 366,559	8%	Administrative expenses increase projection per year
Capitalization Amortized Expense ⁵	\$ -	\$ 7,252	\$ 43,510	\$ 43,510		MPERAtiv Development cost amortized over 10 years
MPERAtiv Administrative Expenses ⁶	\$ 115,172	\$ 77,056	\$ 91,430	\$ -		Set amount based on MPERAtiv Budget
Total MPERA Expenses	\$ 406,159	\$ 398,573	\$ 474,347	\$ 410,069		
Total Great West Expenses	\$ 524,649	\$ 529,415	\$ 544,576	\$ 560,155		

MPERA and Great West Expenses	\$ 930,807	\$ 927,988	\$ 1,018,923	\$ 970,224
Beginning Fund Balance	\$ 1,042,656	\$ 849,582	\$ 716,426	\$ 539,958
Prior Year Adjustment (*)	\$ -	\$ -	\$ -	\$ -
Ending Fund Balance	\$ 849,582	\$ 716,426	\$ 539,958	\$ 462,668

POLICY:

BOARD ADMIN POLICY 14 (With MPERA Expenses Total):

What to hold in Admin Fund = +50%	\$ 698,105	\$ 695,991	\$ 764,192	\$ 727,668
What to hold in Admin Fund = +10%	\$ 418,863	\$ 417,595	\$ 458,515	\$ 436,601
Excess Fund Balance	\$ 151,477	\$ 20,435	\$ (224,234)	\$ (265,000)
	\$ 430,719	\$ 298,832	\$ 81,443	\$ 26,067

Footnote:

¹ As of July 1, 2014, Great West participant fees will increase to \$63.00 per participant from \$57.00 per participant. Also, account exec fees will not be individually assessed and are included in the Great West Participant fees.

² Asset Based Fees are determined on a graduated scale. Seventeen basis points is the average.

³ All revenue sharing fees to be refunded to the participants effective October 1, 2012. These fees are projected at 0 for all following fiscal years.

⁴ STIP revenue has been decreasing, due to falling interest rates, resulting in a 0% increase for future years.

⁵ MPERAtiv reached it's Development stage in January 2013 and is expected to be finished with development in May 2016. During the development stage, the expenses were capitalized to be expensed on a 10 year amortization period.

⁶ Fiscal Years 2015 and 2016 MPERAtiv Expenses includes the 10% holdback of the vendor bills.

Legend of Annual Assumptions

- Investments increase by 6%
- Participants increase by 3%
- Participant annual fee \$63.00
- Basis Point Fee 17 bps
- Revenue Sharing fees increase by 0%
- Forfeitures increase 0%
- STIP revenues 0%
- MPERA expenses 8%

			PROJECTIONS				
	FY2015		FY2016	FY2017	FY2018		
Great West DCRP Total Investments ¹	\$ 145,358,084		\$ 159,893,893	\$ 175,883,282	\$ 193,471,610	10%	Investments increase projection per year
# of Participants in the 401(a) Plan	2,975		3,064	3,156	3,250	3%	Participants increase projection per year
Great West Contract Charge per Participant ²	\$ 183,065		\$ 193,015	\$ 198,806	\$ 204,770	\$63.00	Participants projection per year
Total Due to Great West (Expense)	\$ 183,065		\$ 193,015	\$ 198,806	\$ 204,770		
401(a) Asset Based (BPS)	\$ 252,780	\$ 247,109	\$ 271,820	\$ 299,002	\$ 328,902	17	20 bps points
	\$ 252,780		\$ 271,820	\$ 299,002	\$ 328,902		
Excess Recoveries Due to MPERA	\$ 69,715		\$ 78,804	\$ 100,196	\$ 124,132		
Mutual Fund Allowances 401(a) ³	\$ -		\$ -	\$ -	\$ -	0%	Revenue Sharing Fees increase projection per year
	\$ -		\$ -	\$ -	\$ -		
401(a) Plan Amount Paid to MPERA	\$ 69,715		\$ 78,804	\$ 100,196	\$ 124,132		
Forfeitures ⁴	\$ 344,300		\$ 344,300	\$ 344,300	\$ 344,300	0%	Forfeitures increase projection per year
STIP Earnings ⁵	\$ 1,042		\$ 1,042	\$ 1,042	\$ 1,042	0%	STIP increase projection per year
Participant Charges	\$ -		\$ -	\$ -	\$ -		
Excess Recoveries Due to MPERA	\$ 69,715		\$ 78,804	\$ 100,196	\$ 124,132		
12(b)(1) fees	\$ -		\$ -	\$ -	\$ -		
Misc Revenue (security lending, accomodation tax, investment expense)	\$ 108		\$ 108	\$ 108	\$ 108		
Total Net Revenue	\$ 415,165		\$ 424,254	\$ 445,646	\$ 469,581		
Administrative Expenses	\$ 412,093		\$ 445,060	\$ 480,665	\$ 519,118	8%	Administrative expenses increase projection per year
Capitalization Amortized Expense ⁶	\$ -		\$ 6,177	\$ 37,062	\$ 37,062		MPERAtiv Development cost amortized over 10 years
MPERAtiv Administrative Expenses ⁷	\$ 96,902		\$ 64,987	\$ 74,881	\$ -		Set amount based on MPERAtiv Budget
Total MPERA Expenses	\$ 508,995		\$ 516,224	\$ 592,608	\$ 556,180		
Total Great West Expenses	\$ 183,065		\$ 193,015	\$ 198,806	\$ 204,770		

MPERA and Great West Expenses	\$ 692,059	\$ 709,240	\$ 791,413	\$ 760,950
Beginning Fund Balance	\$ 1,089,462	\$ 995,632	\$ 903,662	\$ 756,699
Prior Year Adjustment (*)	\$ -	\$ -	\$ -	\$ -
Ending Fund Balance	\$ 995,632	\$ 903,662	\$ 756,699	\$ 670,101

POLICY:

BOARD ADMIN POLICY 13 (With MPERA Expenses Total):

What to hold in Admin Fund = +50%	\$ 519,045	\$ 531,930	\$ 593,560	\$ 570,713
What to hold in Admin Fund = +10%	\$ 380,633	\$ 390,082	\$ 435,277	\$ 418,523
Excess Fund Balance	\$ 476,587	\$ 371,732	\$ 163,139	\$ 99,388
	\$ 614,999	\$ 513,580	\$ 321,422	\$ 251,578

Footnote:

¹ Participants have a mandatory contribution rate of 7.9% and Employers have a mandatory contribution rate of 4.19%. Investments should grow annually by a minimum of 10%.

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³ All revenue sharing fees to be refunded to the participants effective October 1, 2012. These fees are projected at 0 for all following fiscal years.

⁴ Forfeiture revenue has been decreasing, since MPERA Education staff have been educating members and employers more about their options, resulting in a 0% increase projected for future years.

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POLICY:

D ADMIN POLICY 14 (With MPERA Expenses Total):

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What to hold in Admin Fund = 6 months	\$ 465,404	\$ 463,994	\$ 509,461	\$ 485,112
Excess Fund Balance	\$ (81,225)	\$ (211,562)	\$ (478,965)	\$ (507,556)
	\$ 384,179	\$ 252,432	\$ 30,496	\$ (22,444)

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What to hold in Admin Fund = 6 months	\$ 346,030	\$ 354,620	\$ 395,707	\$ 380,475
Excess Fund Balance	\$ 303,573	\$ 194,422	\$ (34,714)	\$ (90,850)
	\$ 649,602	\$ 549,042	\$ 360,993	\$ 289,625

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