

Public Employees' Retirement Board

August 11, 2016

Topic: Annual 457(b) 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.
- Current Fees: Capped at \$200 annually

\$0-\$20,000	.33%
\$20,001 - \$50,000	.23%
\$50,001 - 100,000	.13%
Over \$100,000	0%

June 2016 Board meeting recommendation: On April 28, 2016 staff reviewed plan fee information with EIAC, who recommends the Board leave fees unchanged in the DCRP plan and increase fees in the 457(b) to a flat 40 basis points and increase the fee cap from 200 to \$350 per year. Based on additional information related to the project expenses the Board asked staff to revisit fee proposals with EIAC at their July meeting.

Staff Recommendation:

Staff revisited the 457 fee increase at the July 28, 2016 EIAC meeting. **We propose adding an 11 basis point increase to each tier of the fee schedule and increasing the cap on fees from \$200 to \$300 with the fee increase effective July 1, 2016:**

\$0-\$20,000	.43%
\$20,001 - \$50,000	.33%
\$50,001 - 100,000	.23%
Over \$100,000	0%

Cap annual fee at \$300

Board Motion:

457(b):		
I move:		
<input type="checkbox"/> accept staff recommendation		
Or <input type="checkbox"/> Board pleasure		
Moved by		
Seconded by	Vote:	

			PROJECTIONS				
	FY2015	FY2016	FY2017	FY2018	FY2019		
457 Total Investments	\$ 435,764,436	\$ 440,521,076	\$ 458,141,919	\$ 476,467,596	\$ 495,526,300	4%	Investments increase projection per year
# of Participants in the 457 Plan	8,738	8,998	9267	9545	9832	3%	Participants increase projection per year
Great West Contract Charge per Participant¹	\$ 550,494	\$ 566,843	\$ 583,848	\$ 601,363	\$ 619,404	\$63.00	Participants projection per year
Discount for participants in two plans	\$ (32,839)	\$ (37,973)	\$ (41,336)	\$ (43,442)	\$ (45,655)	\$ 116.70	costs per member
457 Total Due to Great West (Expense)	\$ 517,655	\$ 528,869	\$ 542,512	\$ 557,921	\$ 573,749		
457 Participant Flat Rate	\$ -	\$ -	\$ -	\$ -	\$ -	0	Flat Rate Fee
457 Asset Based (BPS)	\$ 721,867	\$ 723,561	\$ 1,089,326	\$ 1,132,899	\$ 1,178,215	17	additional sliding scale 11% basis points, \$300 Cap
	721,867	723,561	1,089,326	1,132,899	1,178,215		
Excess Recoveries Due to MPERA	\$ 204,211	\$ 194,691	\$ 546,815	\$ 574,978	\$ 604,466		
457 Mutual Fund Allowances³	\$ -	\$ -	\$ -	\$ -	\$ -	0%	Revenue Sharing Fees increase projection per year
457 Plan Amount Paid to MPERA	\$ 204,211	\$ 194,691	\$ 546,815	\$ 574,978	\$ 604,466		
Fidelity 12(b)(1) Fees	\$ 17,372	\$ -	\$ -	\$ -	\$ -	0%	Fidelity Fees increase projection per year
STIP Earnings⁴	\$ 1,081	\$ 1,731	\$ 1,731	\$ 1,731	\$ 1,731	0%	STIP increase projection per year
Excess Recoveries Due to MPERA	\$ 204,211	\$ 194,691	\$ 546,815	\$ 574,978	\$ 604,466		
Misc Revenue (security lending, miscellaneous receipts, investment expense)	\$ 3	\$ 306	\$ 196	\$ 196	\$ 196		
Total Net Revenue	\$ 222,668	\$ 196,728	\$ 548,742	\$ 576,905	\$ 606,393		
Administrative Expenses	\$ 330,210	\$ 343,920	\$ 361,116	\$ 379,172	\$ 398,130	5%	Administrative expenses increase projection per year
MPERAtiv Administrative Expenses⁶	\$ 121,253	\$ 177,260	\$ 191,729	\$ 24,900	\$ -		Set amount based on MPERAtiv Budget
Total MPERA Expenses	\$ 451,463	\$ 521,180	\$ 552,845	\$ 404,072	\$ 398,130		
Total Great West Expenses	\$ 517,655	\$ 528,869	\$ 542,512	\$ 557,921	\$ 573,749		
MPERA and Great West Expenses	\$ 969,118	\$ 1,050,049	\$ 1,095,357	\$ 961,993	\$ 971,880		
Beginning Fund Balance	\$ 1,013,764	\$ 839,691	\$ 515,239	\$ 511,136	\$ 683,969		

Prior Year Adjustment (*)	\$ 54,721	\$ -	\$ -	\$ -	\$ -
Net Change In Revenue over Expenses	\$ (228,795)	\$ (324,452)	\$ (4,103)	\$ 172,833	\$ 208,263
Cash Equivlant Balance	\$ 562,189	\$ 173,476	\$ 210,811	\$ 425,083	\$ 674,784
Property & Equipment	\$ 277,501	\$ 341,762	\$ 300,324	\$ 258,886	\$ 217,448
Ending Fund Balance	\$ 839,691	\$ 515,239	\$ 511,136	\$ 683,969	\$ 892,232

POLICY:

BOARD ADMIN POLICY 14 (With MPERA Expenses Total):

What to hold in Admin Fund = 12 months	\$ 969,118	\$ 1,050,049	\$ 1,095,357	\$ 961,993	\$ 971,880
What to hold in Admin Fund = 6 months	\$ 484,559	\$ 525,025	\$ 547,678	\$ 480,997	\$ 485,940
Excess Fund Balance	\$ (129,428)	\$ (534,810)	\$ (584,221)	\$ (278,024)	\$ (79,648)
	\$ 355,131	\$ (9,786)	\$ (36,543)	\$ 202,972	\$ 406,292

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 for the first phase. During the development stage, the expenses were capitalized to be expensed on a 10 year amortization period.

Legend of Annual Assumptions

- Investments increase by 4%
- Participants increase by 3%
- Participant annual fee \$63.00
- Basis Point Fee Sliding Scale bps
- Revenue Sharing fees increase by 0%
- Participant Flat Rate Fee \$0
- STIP revenues 0%
- MPERA expenses 5%