STATE OF WISCONSIN
DEPARTMENT OF EMPLOYEE TRUST FUNDS
801 West Badger Road
Madison, WI 53702

CORRESPONDENCE MEMORANDUM

DATE: April 10, 2002

TO: Deferred Compensation Board Members

FROM: Mary Willett, Director, Supplemental Retirement Plans

SUBJECT: Participant Fees - Update on Administrative Expenses and Revenues

Wisconsin Deferred Compensation Program (WDC) participant fees have remained constant since February 2000 and staff is recommending that no changes be made at this time. If the Board agrees, staff will prepare a comprehensive review of plan expenses and revenues to be presented to the Board at the November meeting for possible fee reductions in 2003. The following discusses the rationale for maintaining the current fees through the end of this year.

Background

The current participant fee structure was approved in 1999 and replaced the basis point asset fee with a flat fee that is determined by the balance in the participant's account. The fees that went into effect on February 2000 are detailed in the box on the right.

Account balances between:	Annual fee
$0 and $5,000	$6
$5,001 and $25,000	$18
$25,001 and $50,000	$36
$50,001 and $100,000	$72
$100,001 and $150,000	$100
$150,001 and up	$120

This new fee structure was established to accomplish two objectives. The first was to provide a revenue source to fund plan expenses that is more stable and less susceptible to market fluctuations affecting total plan assets. The second was to gradually reduce the reserve in the administrative expense account to be no greater than 50% of annual plan expenses.

In addition to participant fees, plan revenues are also generated from investment provider reimbursements. Reimbursements are made to the WDC by certain mutual fund companies on an asset fee basis to compensate for record keeping costs that are included in the fund's internal expense charge. Companies providing asset based reimbursements to the WDC are Fidelity, T Rowe Price, Janus, Federated and Dreyfus. Approximately 50% of the total revenues accumulated during the year are generated from provider reimbursements.

The table below illustrates plan revenues and expenses for 2001 and 2000.

	REVENUES				TOTAL EXPENSES	Gain(Loss)
	Participant fees	Reimbursements	Earnings*	Total		
2001	$ 1,085,693	$ 1,017,989	$ 115,124	$ 2,218,807	$ 2,174,848	$ 43,959
2000	$ 1,167,183	$ 1,229,151	$ 99,236	$ 2,495,571	$ 2,220,511	$ 275,061

** Earnings represent the interest received on the balance in the administrative expense account.*

In 2001, the revenues generated from participant fees were 7% lower than those accumulated in 2000. There was a 17% reduction in provider reimbursements for this same period. The reasons for this are:

- The current participant fees became effective in February 2000 and, as a result, one-month of the 2000 revenues is based on a higher fee assessment. Also, the continued investment volatility and the decline in the equity markets resulted in participant account balances greatly fluctuating throughout 2001, with many accounts being at or below pre-2000 levels even considering new deferrals. Since fees are based on account balances, this has resulted in less monthly revenue from participant fees.

- Nearly all provider reimbursements are based on participant assets in equity investments, which have seen a substantial decrease in value over the past year. Also, the WDC now offers more choices that do not provide a reimbursement (including the Barclays Global Investor funds and the self-directed brokerage option through Charles Schwab). Thus, the companies that provide a reimbursement are holding a smaller portion of the plan's total assets.

Conclusion

At the current participant fee levels, revenues were almost equal to annual expenses for 2001. Although we are not yet seeing a decrease in the administrative expense account balance, a significant participant fee reduction at this time could result in the need for future increases if the market has another down year or a significant portion of assets shift out of the funds providing reimbursements. The Board could consider a slight decrease with minimal effect on the administrative expense account balance. However, a small reduction (such as 5% or 30 cents on the lowest tier of $6 per year) would mean very little to individual participants and not justify the administrative expense of implementation.

Therefore, staff recommends that the current participant fees be maintained through 2002. If the Board concurs, staff will prepare a comprehensive analysis for presentation at the November meeting to explore participant fee reductions to be effective next year.