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CORRESPONDENCE MEMORANDUM

DATE: October 14, 2004

TO: Deferred Compensation Board

FROM: Robert C. Willett, CPA
Chief Trust Financial Officer

SUBJECT: Participant Fee Recommendations

Recommendation
Staff recommend that the Board take no action regarding participant fees at this time. Under a worst case scenario, it may be necessary to consider raising fees a year from now, though more probable assumptions suggest that no change in fees will be required in the foreseeable future.

Background
The Wisconsin Deferred Compensation (WDC) Program maintains an administrative account that is used to pay the administrative expenses for the WDC. These expenses consist primarily of the administrative services contract with Nationwide Retirement Services (NRS) but also include expenses for Employee Trust Funds staff, audits and other WDC expenses.

Revenues to fund administrative expenses are derived from participant fees, investment provider reimbursements, and interest income on the account balance. During the last fiscal year, the following revenues and expenses were recorded in the administrative account.

Wisconsin Deferred Compensation
Administrative Account Balance (in thousands)

		Account Balance as % of Annual Expenses
Account Balance as of July 1, 2003	$ 1,685	73%
Revenues		
Investment Earnings	70	
Participant Fees	1,275	
Investment Provider Reimbursements	949	
Total Revenues	2,294	
Expenses		
NRS Contract	2,252	
ETF & Miscellaneous	241	
Total Expenses	2,493	
Account Balance as of June 30, 2004	$ 1,486	60%

Reviewed and approved by Pam Henning, Office of Strategic Services

Signature Date

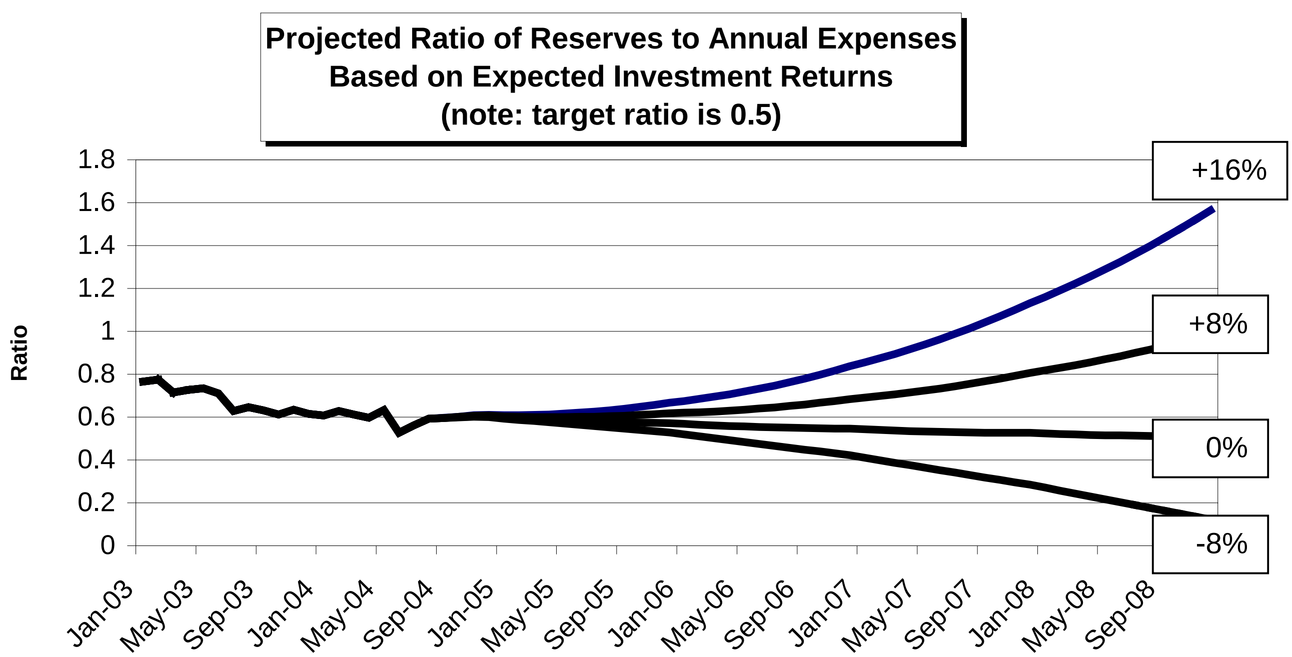
The WDC's goal for the administrative account is to maintain an account balance equal to approximately 50% of the annual operating expenses. This balance assures that funds will be available to pay expenses when due and provides a cushion against reduced participant fees and investment provider reimbursements that could occur during a market downturn. From July 2003 through June 30, 2004, the administrative account balance dropped from approximately 73% of annual expenses to 60%.

The participant fees shown above are based on a tiered fee schedule which has been in effect since February 1, 2000. At that time the Board replaced a basis point fee with a tiered fee schedule and reduced total fees by almost 30%. The current fee schedule is shown below:

Account Balance	Monthly Fee
$0 to $5,000	$ 0.50
$5,001 to $25,000	$ 1.50
$25,001 to $50,000	$ 3.00
$50,001 to $100,000	$ 6.00
$100,001 to $150,000	$ 8.33
$150,001 and up	$ 10.00

Although the tiered fee structure reduces the volatility of participant fees, overall fees are still very dependent on market performance and resulting account balance growth.

With another year of experience under the new fee schedule, we have updated the account balance projections with four new investment return scenarios. The administrative account balance as a percent of annual expenses has been projected using –8%, 0%, +8% and +16% average annual future investment returns. The results are shown in the chart below.



Assuming 16% average annual future investment returns, the account as a percent of annual expenses in the next year would increase slightly during the next year and rise steadily after that time. Under this assumption, no action would be needed until your review of participant fees in November 2006, at which time further reductions in participant fees could be considered.

Assuming 8% annual future investment returns, the account as a percent of annual expenses in the next year would remain relatively steady for the next year but begin to rise slowly after that time. Under this assumption, no action would be needed in the foreseeable future, although a further reduction in fees would be possible at some future date.

Assuming 0% annual future investment returns, the account as a percent of annual expenses in the next year would remain relatively steady for the next year but begin to drop slowly after that time. Under this assumption, no action would be needed in the foreseeable future, although an increase in fees may be necessary at some future date.

Assuming -8% annual future investment returns, the account as a percent of annual expenses in the next year would decrease slightly during the next year and drop steadily after that time. Under this assumption, no action would be needed until your review of participant fees in November 2006, at which time a fee increase would need to be considered.

Under any reasonable assumptions the administrative account balance will remain above the 50% target level for the next year. At that time the Board will have another opportunity to review and may adjust participant fees if needed.

These projections do not incorporate any changes in investment behavior by participants. Movement of assets between mutual funds or between mutual funds and fixed income options can significantly affect the mutual fund reimbursements which help fund administrative costs. In particular, the phase out of the Janus Fund could result in the loss of as much as $300,000 in mutual fund reimbursements to the plan. Depending on the investment options which participants use to replace Janus, this loss could necessitate an increase in participant fees at your next review in 2005.