Plan Costs and Administrative Fees Discussion

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457 & 401a Plans

Contents

PLAN FEES AND BUDGETING

Plan Fees & Administrative Budgeting History

- Historically the plans have received a credit from the record-keeper that was used to pay for administrative costs.
  - Investment Consulting (AndCo)
  - Continuing Education (NAGDCA)
  - Other
- These credits were held by the comptroller and were used to pay for the legitimate plan expenses listed above.
- All recordkeeping fees were paid from revenue sharing that was received from the mutual funds.
  - RK fees were 0.18% of mutual fund assets, plus any spread they made on the general account.
  - Average expense ratio was 0.63%
  - Annual fee reimbursement was $45k per year
- As the plan shifted away from share classes of funds that provided revenue sharing we began to experience a shortfall in required revenue for recordkeeping services, which in turn reduced the annual fee reimbursement.
- Plan expense reserves were approximately $90k in 2011, and the committee implemented excess revenue policy in combination with actively moving to fund share classes that did not provide revenue sharing.
  - At this time there were 12 mutual funds that provided revenue sharing of over $100k annually

Plan Fees & Administrative Budgeting Today

- Today the plan has effectively spent down the reserve and is now faced with designing an administrative fee that will cover our annual expenses while maintain an appropriate reserve.
- Current recordkeeping and administrative fees.
  - RK fees were 0.08% of total plan assets or $132k annually based on current plan assets
  - Annual fee reimbursement from revenue sharing on 7 funds is $155 based on current plan assets.
  - Average Expense Ratio is 0.27%
  - Other administrative fees (AndCo, NAGDCA, etc.) $62k annually
  - As revenue sharing is now only primarily covering recordkeeping costs we have created a shortfall
- We have effectively moved away from the revenue sharing model and are in a position to create a fee leveling policy where all participants pay the same percentage of fees for administrative services.
  - Revenue sharing is not an equitable solution for paying plan expenses as only six of our investment options pay revenue sharing.
- There are effectively three solutions that the committee can consider moving forward:
  - Zero Revenue Sharing Fund Line up
  - Unitization
  - Debits and Credits

FEE OPTIONS TO BE CONSIDERED

Zero Revenue Sharing Fund Line Up

- The committee would need to replace five mutual funds that are currently providing revenue sharing.
  - The current funds include:
    - Lazard Emerging Market Equity, RS = 0.40%
    - AMG Managers Skyline Special Equities, RS = 0.25%
    - Hartford Mid Cap, RS = 0.25%
    - Hotchkis & Wiley Mid Cap Value, RS = 0.40%
    - Wells Fargo Disciplined US Core, RS = 0.15%
    - MassMutual Guaranteed Interest Account, RS = 0.10% (not a mutual fund)
- Currently we are in the lowest priced share classes that these funds offer, so it would mean conducting searches to find alternatives.
- Once the line-up has been adjusted then the committee would charge an asset based fee, hard dollar fee or a combination of both to obtain the required revenue to pay plan costs.
- We believe this method would cause significant disruption to the fund line-up

Unitization

- This method would require the committee to select funds with unique revenue support and then utilize a unitization method to create the necessary expense to the make the revenue support from each fund equal.
- The plan cost is part of the unit value of the unitized fund and is deducted daily and is visible to the plan participants through an adjusted expense ratio and net performance.
- The actual cost does not appear on participant statements.
- There is an additional fee to utilize this approach.
- We believe this method would be more complex than is needed to accomplish our goals and would not be a good option for the county.

Debits and Credits

- Using this approach MassMutual would create a zero revenue sharing line-up by simply crediting back any revenue sharing to the participants that are invested in funds that revenue share.
- The County determines the amount of asset based fees that would be required to cover the annual plan expenses.
  - MassMutual requires 0.08% annually for recordkeeping and administrative fees
  - AndCo consulting fees are currently 0.034% annually
  - Other administrative fees $10-$15k per year or less than 0.01%
  - Total asset based fee to cover annual expenses applied to all accounts 0.13%
- Another option would be to apply an asset based fee for just the recordkeeping expenses of 0.08% and then use a per participant hard dollar fee to cover the other administrative expenses.
  - $40 per head per year or $10 per quarter would generate approximately $96k per year
  - $30 per head per year or $7.50 per quarter would generate approximately $72k per year
  - 0.05% would generate approximately $82k per year based on current plan assets
- We believe this method would make the most sense as it give the committee the ultimate flexibility in controlling revenue going forward.

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