



MEMORANDUM

TO: Supplemental Retirement Board of Trustees

FROM: Jeff Hancock, Director, Supplemental Retirement Plans

DATE: December 2, 2021

SUBJECT: NC 401(k) and NC 457 Plans: Recommendation of fee for 2022

Background

Currently, the operational expenses of the Board and the Department are funded through an administrative expense fee charged to participants who opt to enroll in the Supplemental Retirement Plans. For participants in the NC 401(k) and NC 457 Plans, the annual administrative expense fee is 0.025% (2.5 basis points) of a participant's account balance. For participants in the NC 403(b) Program, the annual administrative expense fee is 0.050% (5.0 basis points) of a participant's account balance. The Board and the Department use the administrative expense fee receipts to fund the administration of the plans, including Departmental personnel costs, investment consulting fees and auditing fees.

The administrative expense fee is accrued daily and collected monthly. Once collected, the money is deposited into the NC Stable Value Fund (for the NC 401(k) and NC 457 Plans) or the Vanguard Short-term Bond Index Fund (NC 403(b)), where it earns the current prevailing yield. Withdrawals are made, as needed, to cover expenses.

The administrative expense fee is asset-based; therefore, annual receipts fluctuate with performance of the financial markets.

Administrative Fee

At the December 3, 2020, Supplemental Retirement Board of Trustees meeting, the Board approved reinstating the administrative fee of 0.025% (2.5 basis points) in the NC 401(k) and NC 457 Plans for the calendar year of 2021.

The North Carolina General Assembly passed into legislation House Bill 168 / SL 2021-75 ("Retirement Administrative Changes Act of 2021") on July 2, 2021. This allows for DST - SRP to adopt an administrative fee outside of the formal rulemaking process within certain limits.



2021 Administrative Expense Fee status update

Administrative Fee Analysis 2021					
	Actual	Projected			
	Administrative expense account balance as of 09.01.2021	Additions to expense account 09.01.21 - 12.31.21	Expenditures 09.01.21 - 12.31.21	Administrative expense account balance as of 12.31.21	# of years of expenses in reserve
401k	\$4,480,659	\$1,180,000	\$720,000	\$4,940,659	2.29
457	\$615,782	\$158,000	\$98,000	\$675,782	2.30
Total	\$5,096,441.00	\$1,900,000.00	\$818,000.00	\$5,616,441.00	
1. Projected expenses are per 2021-22 budgeted expenses					

The combined administrative expense account balances for the NC 401(k) and NC 457 Plans are projected to be \$5.61 million as of December 31, 2021.

There is not an “official” target reserve amount which the Board may want to consider formalizing.

SRP Staff would recommend setting the target reserve amount at 1 year of expenses. If the target amount is set at 1 year of expenses, target reserves would be approximately \$2,452,271.

The new administrative fee flexibility policy provides the Board the ability to set the fee anywhere from 0 (fee holiday) up to 2.5 BPS for the NC 401(k)/NC 457 and 5 bps for the NC 403(b).



Recommendation – 1.25bps for 2022 and forward and with an annual review

Fee Analysis 1.25						
401(k)	2022	2023	2024	2025	2026	Target reserves
Flat AUM 2022	1.25	1.25	1.25	1.25	1.25	12-months expenses
\$ 14,200,000,000.00						
Administrative Acct Bal. Proj at 1.1	\$ 4,940,659.00	\$ 4,557,661.00	\$ 4,174,663.00	\$ 3,791,665.00	\$ 3,408,667.00	
Annual Administrative Account additions	\$ 1,775,000.00	\$ 1,775,000.00	\$ 1,775,000.00	\$ 1,775,000.00	\$ 1,775,000.00	
Projected Expenditures	\$ 2,157,998.00	\$ 2,157,998.00	\$ 2,157,998.00	\$ 2,157,998.00	\$ 2,157,998.00	
Administrative Acct Bal Proj at 12.31	\$ 4,557,661.00	\$ 4,174,663.00	\$ 3,791,665.00	\$ 3,408,667.00	\$ 3,025,669.00	\$ 2,157,998.00
457	2022	2023	2024	2025	2026	Target reserves
Flat AUM 2022	1.25	1.25	1.25	1.25	1.25	12-months expenses
\$ 1,900,000,000.00						
Administrative Acct Bal. Proj at 1.1	\$ 675,782.00	\$ 619,010.00	\$ 562,238.00	\$ 505,466.00	\$ 448,694.00	
Annual Administrative Account additions	\$ 237,500.00	\$ 237,500.00	\$ 237,500.00	\$ 237,500.00	\$ 237,500.00	
Projected Expenditures	\$ 294,272.00	\$ 294,272.00	\$ 294,272.00	\$ 294,272.00	\$ 294,272.00	
Administrative Acct Bal Proj. at 12.31	\$ 619,010.00	\$ 562,238.00	\$ 505,466.00	\$ 448,694.00	\$ 391,922.00	\$ 294,272.00



North Carolina
Total Retirement Plans



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Recommendation

Staff recommends setting the Administrative Fee at 1.25 Bps (**cutting fee in half**) for 2022 and moving forward with an annual review to ensure target reserves are still being met.

The NC 403(b) Program is excluded from this recommendation due to the relatively small size of the reserve account.