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## **The North Carolina Supplemental Retirement Plans**

DC Fee Benchmarking Study

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## Executive Summary

Callan evaluated the administration and investment fees of the North Carolina Supplemental Retirement Plans (“NCSRP” or the “Plans”).

Total service fees (e.g., administration, transaction fees) were benchmarked using a bidding process with two recordkeepers whose services are reasonably on par with those currently provided to the Plans by Empower.

**Callan found the NCSRP Plans’ recordkeeping service fees are competitive and below those proposed by other providers**

### Administrative Fees

Empower is receiving an estimated \$11 million in annual direct administrative revenue (base fee + transaction fees).

When comparing the estimated revenue received to the open architecture bids provided by competing recordkeepers, we find that Empower’s fees are below those proposed by the surveyed recordkeepers.

### Transaction Fees


Empower’s transaction fees are generally competitive relative to the surveyed recordkeepers. Although Empower’s loan initiation fee is above the loan initiation fees proposed by the surveyed recordkeepers, Empower does not charge fees for loan maintenance or domestic relations orders. Additionally, Empower’s total estimated annual revenue from transactions falls below the estimated amounts for the surveyed recordkeepers.

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## Background and Current State

## Introduction to DC Plan Fees

- ▶ The starting point for any discussion around DC plan fees is to understand the total revenue needed to provide the requested services.
  - ▶ Revenue is collected for administration fees, transaction fees, through investment fees, and many other potential sources.
  - ▶ Fees should be reasonable and services clearly outlined.
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# Types of Plan Fees

## Plan-Level Administration Fees



Administration fees reflect the services required to administer the plan on an ongoing basis.

Typically there is a flat per participant fee or an asset-based fee that is set by the vendor.

These fees can be collected directly from the plan sponsor, the participant, forfeiture accounts, or revenue sharing, or some combination of the above.

Additionally, separate fees may apply for government forms support, communications and education, etc.

## Participant-Level Transaction Fees



Participant transaction fees are assessed based on an individual's action: taking a loan, requesting a distribution, submitting a domestic relations order (DRO), investing in self-directed brokerage.

These transaction fees may generate considerable revenue for the recordkeeper and should be considered in any review of plan fees.

These fees can generally be negotiated in the context of the overall recordkeeping relationship.

## Investment Management Fees



Investment management fees are set at the fund level and assessed pro-rata based on the assets invested in the fund.

In a mutual fund environment, the operating expense ratio and revenue shared are set between the Investment Manager and the RK; opportunities to move to a lower fee may be available when plan assets in the fund reach certain levels.

Additional share classes or vehicles are continually being made available and must be carefully monitored for eligibility.

## Other Revenue



In addition to the sources of revenue outlined, the vendor may also receive additional compensation from other sources: advice providers, rollover partners, self-directed brokerage relationships or trading fees, general account-backed fixed annuities or "spread" products, etc.

It is important to inventory and assess all fees as a component of ongoing due diligence.

## Current State: Plan Characteristics Used for the Analysis

Table 1: General Characteristics as of Dec. 31, 2023

	NCSRP
Total Plan Assets*	\$16,042,078,201
Total Participants with a Balance	346,671
Recordkeeper / Custodian	Empower / BNYM
Average Participant Balance	\$51,012
Median Participant Balance	\$11,543
Participation Rate	35%
Average Deferral Rate	5%

Table 2: Plan Lineup as of Dec. 31, 2023

	Assets \$	Assets %
<b>Tier II: Passive Core Options</b>		
NC Fixed Income Index	\$91,706,992	1%
NC TIPS	\$380,969,269	2%
NC Large Cap Index	\$3,913,642,891	24%
NC International Index	\$111,524,465	1%
NC Small/Mid Cap Index	\$402,546,357	3%
NC Inflation Responsive	\$561,157,779	4%
<b>Tier II: Active Core Options</b>		
NC Stable Value	\$2,417,047,977	15%
NC Fixed Income	\$2,331,303,195	15%
NC Large Cap Core	\$2,258,910,202	14%
NC International	\$2,447,509,697	15%
NC Small/Mid Cap Core	\$1,125,759,378	7%
<b>Totals*</b>	<b>\$16,042,078,201</b>	<b>100%</b>

\*Exclude expense account assets.

## Current State

Empower collects an annual recordkeeping fee of \$25 per participant. This fee covers services such as administration, plan sponsor and participant websites, call center services, most participant communications, meetings, reporting, check cutting, etc. This fee also includes 18 full-time education representatives.

- Plan fees identified in the table are point-in-time calculations based on participant counts and plan assets as of Dec. 31, 2023. For transaction fees, volume was estimated based on the average number of annual transactions over 2021, 2022, and 2023.
- Empower charges fees for certain event-based transactions, which are covered in the “Transactions” section of this report.
- NCSRP utilizes Bank of New York Mellon (BNYM) as an external custodian. Invoiced fees for BNYM’s custody services in 2023 were ~\$1.2 million (\$3 per participant).

Separate fees may be incurred for items such as one-off projects or custom communications (e.g., plan provision changes, additional processing). These fees may vary each year, depending on the number and scope of projects.

**Table 3: Breakdown of Current Estimated Annual Administrative Fees**

	Current Revenue
a. Plan Administration Fees	\$8,666,775 (\$25 / ppt)
b. Event-based Transaction Fees	\$2,504,860 (\$7 / ppt)
<b>Total Est. Revenue Received by Recordkeeper</b>	<b>\$11,171,635 (\$32 / ppt)</b>
c. Trust & Custody (T&C) Fees	\$1,170,599 (\$3 / ppt)
<b>Total Estimated Fee incl. T&amp;C Fees</b>	<b>\$12,342,234 (\$36 / ppt)</b>

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## **Service Fee Review and Benchmarking**



# Project Scope

As part of its governance responsibilities, NCSRP Board and Staff seek to evaluate the Plans' service fees and investment fees on a regular basis.

To do this, NCSRP Board and Staff engaged Callan to provide the following:



## Develop a complete inventory of all plan fees

Collect and summarize all plan fees, including:

- All explicit charges
- Transaction fees
- Indirect revenue

## Conduct a competitive recordkeeper fee assessment

- Benchmark the fees currently paid for the administration of the NCSRP Plans
- Vendors to provide an open architecture fee bid based on the detailed scope of services

## Review the investment management fees

- In the analysis presented to the Board and Staff May 23, 2024, Callan confirmed investment fees are competitive and reasonable, and the Plans are accessing the lowest cost vehicles.

## Service Fee Evaluation

In evaluating service fees, Callan asked two recordkeepers to complete a mini-survey. The recordkeepers were asked to provide pricing for the Plans, using participant counts and plan assets as of Dec. 31, 2023. For transaction fees, volume was estimated based on the average number of annual transactions over 2021, 2022, and 2023.



- The recordkeepers that responded to the mini-survey have the ability to handle the complexities of the Plans and have significant experience with similar DC plan types and sizes.
- The surveyed recordkeepers were asked to provide the revenue they would require to recordkeep the Plans on a per participant fee basis assuming an open architecture investment structure (i.e., no proprietary fund requirements).
  - To provide pricing, they were given information on the Plans' assets, investment structure, participant levels and statistics, features, and complexities.
- Table 4 on the following slide provides the results of the mini-survey, including the recordkeepers' quoted administrative fees. It also includes any adjustments based on certain services the Plans would be expected to use that were not included in the quoted/base fee.

## Total Estimated Administrative Service Fees

Table 4: Fee Benchmarking

	Nationwide	Voya	Empower Current
<b>Quoted Administrative Fee</b>	\$52	\$29	\$25
Total Administrative Fee in Dollars (est.)	\$18,123,190	\$10,053,459	\$8,666,775
Event-Based Transaction Fees	\$4,175,067	\$3,197,608	\$2,504,860
Education Fees <sup>1</sup>	\$2,426,697	\$2,426,697	\$0
<b>Total Estimated Fee to RK in Dollars</b>	<b>\$24,724,953</b>	<b>\$15,677,764</b>	<b>\$11,171,635</b>
<b>Total Estimated Fee to RK (per participant)</b>	<b>\$71</b>	<b>\$45</b>	<b>\$32</b>
Trust & Custody Fees	Included	Included	\$1,170,599 <sup>2</sup>
<b>Total Estimated Fee incl. T&amp;C Fees in Dollars</b>	<b>\$24,724,953</b>	<b>\$15,677,764</b>	<b>\$12,342,234</b>
<b>Total Estimated Fee incl. T&amp;C Fees (per participant)</b>	<b>\$71</b>	<b>\$45</b>	<b>\$36</b>

<sup>1</sup> Nationwide and Voya priced 18 full-time education representatives outside the quoted administrative fee. Amounts for Nationwide and Voya represent estimated costs for 18 representatives at a rate of ~\$0.40 per representative per NCSRP participant. Education fees for Empower are bundled within the quoted administrative fee and therefore not broken out separately.

<sup>2</sup> Represents invoiced fees for BNYM's custody services in 2023

The surveyed recordkeepers were asked to provide the base amount of revenue they would require to administer the Plans assuming an open architecture investment structure (i.e., no proprietary fund requirements).

- **Estimated annual administrative fees received by Empower are below the fees proposed by the surveyed recordkeepers.**
- The NCSRP utilize BNYM as an external custodian. The surveyed recordkeepers included trust & custody fees within their base pricing. Inclusive of fees paid to BNYM for T&C services, the NCSRP's total estimated fee for administrative services also falls below those of the surveyed recordkeepers.
- See slides 12–13 for additional information on participant event-based transaction fees.

Additionally, separate fees may be incurred for one-off/non-routine projects.

Like Empower, the bidding providers may receive indirect revenue from sources such as rollovers.

## Transaction Fees

Table 5. Comparison of Quoted Transaction Fees

	Nationwide	Voya	Empower Current
Loan Initiation	\$50	\$50	\$60
Loan Maintenance	\$50	\$25	\$0
DROs	\$0	\$350	\$0

Table 6: Comparison of Applied Transaction Fees

	Nationwide	Voya	Empower Current
Loan Initiation	\$2,087,383	\$2,087,383	\$2,504,860
Loan Maintenance	\$2,087,683	\$1,043,842	\$0
DROs	\$0	\$66,383	\$0
<b>TOTALS</b>	<b>\$4,175,067</b>	<b>\$3,197,608</b>	<b>\$2,504,860</b>

**Empower's event-based transaction fees are generally competitive relative to the surveyed recordkeepers.**

- Although Empower's loan initiation fee is above the loan initiation fees proposed by Nationwide and Voya, Empower does not charge fees for loan maintenance or domestic relations orders.
- Additionally, Empower's total estimated annual revenue from transactions falls below the estimated amounts for Nationwide and Voya.

**Certain transactions, such as withdrawals and distributions, can create float income.**

- Float income in DC plans is generated when money that flows in and out of the plan is temporarily held in an interest-bearing account while awaiting investment or payout. It is important for plan sponsors to understand how float income is handled in their DC Plans, particularly as interest rates rise.
- NCSRP retains the amount generated via float, which was \$1.8 million over the three-year period ended Dec. 31, 2023.

## Transaction Fees Considerations

**Plan sponsors can consider the following questions in assessing transaction fees in DC Plans:**

- ▶ How often are participants engaging in each type of transaction?
- ▶ How common is it to assess a fee for the transaction?
- ▶ What does the recordkeeper normally charge for such transactions?
- ▶ What are typical fees for such transactions across the industry?
- ▶ If the fee is on the high end of the range, are there any special circumstances (such as customization or manual processing) that can be documented?
- ▶ What is better for participants: a slightly higher administration fee that covers all transactions, or a lower fee that excludes transactions?



## Indirect Fees



**In addition to the direct fees charged by the recordkeeper, there may also be indirect fees (i.e., fees that are not explicitly charged to participants).**



**Managed account services can create indirect revenue, a portion of which may be retained by the recordkeeper. The NCSRP do not currently offer managed accounts.**



**In addition to these amounts, the recordkeepers may receive indirect revenue from sources such as rollovers and/or float. The NCSRP retain the amount generated via float.**

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## **Considerations and Recommendations**

## Observations and Recommendations

### Service Fees



Based on this analysis, the total fees Empower currently charges for administering the Plans, which include the administration fees and any individual transaction fees, are below the fees proposed by two other recordkeepers who could administer the Plans in a reasonably similar fashion.

Additionally, inclusive of fees paid to BNYM for T&C services, the NCSRP's total estimated fee for administrative services falls below those of the surveyed recordkeepers.

North Carolina should continue to monitor the services and fees on a periodic basis.



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## Appendix

# Framework and Methodology

## Evaluated in Report

- The administrative and transactional fees assessed by Empower.
- The competitiveness of investment management fees within the Plans.



## Factors to Consider in Evaluating the Reasonableness of Plan Administrative Fees

- Complexity / number of plans
- Services provided by the recordkeeper
- Number of participants
- Number/type of investment options
- Assets
- Number of payroll feeds
- Unique plan features



- Benchmarking a defined contribution plan's recordkeeping costs is an imperfect process, since every plan has unique features that must be taken into consideration. It is important to recognize that many factors feed into pricing of administration services, including those listed above.
- The recordkeepers that participated in the mini-surveys were given information on the Plans' assets, participant levels and statistics, features, complexities, etc.
- The surveyed recordkeepers were asked to provide the revenue they would require to recordkeep the Plans given an open architecture investment structure (i.e., no proprietary fund requirements). They were asked to provide a flat per participant fee for recordkeeping services.
- Investment management fees were benchmarked against Callan's proprietary fee database.

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