

May 2023



**The North Carolina
Supplemental Retirement Plans**

Annual Administrative Fee Review

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Annual Fee Review

Summary of Process

Administrative Fee Review

- The North Carolina Department of State Treasurer engaged Callan to review the administrative fees for the North Carolina Supplemental Retirement Plans (NCSRP, or 401(k) and 457(b) Plans).
 - Callan conducted a comprehensive administrative fees benchmarking study of the NCSRP in May 2020, by comparing NCSRP fees to blind bids for plans of similar size and complexity.
 - The comprehensive fee study is supplemented by an annual interim fee review that serves as a straightforward check of the administrative fees.
- This annual interim fee review report provides a comparison of administration fees based on information from Callan's recordkeeping fee database. Callan's fee database contains hundreds of data points and is updated regularly with information from:
 - Recent recordkeeper and custodian searches
 - Recent fee studies
 - Ongoing client monitoring
- In light of the unique complexities among governmental plans, Callan also reviewed publicly available fee information for similarly situated state deferred compensation plans.
- The NCSRP administration service fees are currently lower than the median comparable fees from both the database and the government plan data set.

Current State

Table 1: 401(k) Plan Characteristics

	As of 12/31/2022	As of 12/31/2021	As of 12/31/2020	As of 12/31/2019	2022 Variance from 2019
Count of participant account balances	281,321	274,389	264,116	261,419	19,902 / 7.1%
Average participant balance	\$43,335	\$52,464	\$48,487	\$43,598	-\$263 / -.6%
Median participant balance	\$11,907	\$14,530	\$14,173	\$13,252	-\$1,345 / -11.3%

Table 2: 457(b) Plan Characteristics

	As of 12/31/2022	As of 12/31/2021	As of 12/31/2020	As of 12/31/2019	2022 Variance from 2019
Count of participant account balances	56,742	56,725	56,699	56,872	-130 / -.2%
Average participant balance	\$29,418	\$34,633	\$31,272	\$27,488	\$1,930 / 6.6%
Median participant balance	\$5,146	\$5,682	\$4,871	\$3,980	\$1,166 / 22.7%

- Empower provides administration and recordkeeping services for the defined contribution (DC) plans within the NCSRP:
 - NC 401(k) Plan
 - NC 457(b) Plan
- The general characteristics above are based on information provided by Empower.

Current State – 401(k) Plan Administration Service Fees

Table 3: 401(k) Plan Administration Services Annualized* Revenue

	Fees as of 12/31/2022	Fees as of 12/31/2021	Fees Beginning 1/1/2021	Fees Prior to 12/31/2020	Fees as of 12/31/2019
<i>Administration Service Revenue</i>					
Count of Balances	281,321	274,389	264,116	264,116	261,419
Unit Cost	\$26	\$26	\$28	\$31	\$31
Annualized Revenue	\$7,314,346	\$7,134,114	\$7,395,248	\$8,187,596	\$8,103,989
Variation from 2019 Revenue	-\$789,643	-\$969,875	-\$708,741	\$83,607	--
<i>Participant Transaction Revenue</i>					
Loan Origination - Volume	12,381	11,686	11,811	11,811	15,719
Unit Cost	\$60	\$60	\$60	\$60	\$60
Annualized Revenue	\$742,860	\$701,160	\$708,660	\$708,660	\$943,140
Variation from 2019 Revenue	-\$200,280	-\$241,980	-\$234,480	-\$234,480	--
<i>Total Revenue</i>					
Total Annualized Revenue	\$8,057,206	\$7,835,274	\$8,103,908	\$8,896,256	\$9,047,129
Revenue Expressed on a Per Participant Basis	\$28.64	\$28.56	\$30.68	\$33.68	\$34.61
Variation from 2019 Revenue	-\$989,923	-\$1,211,855	-\$943,221	-\$150,873	--

- Empower has proactively reduced the administration fee schedule, resulting in a decrease in annualized revenue as of 12/31/2022 by \$5 per participant, or \$789,643 in administration services fees compared to annualized administration revenue as of 12/31/2019.
 - This fee covers recordkeeping services such as administration, plan sponsor and participant websites, call center services, compliance functions, participant communications, reporting, etc.
 - Notably, the participant count for this Plan increased by 7% over the same time period.
- Effective 1/1/2024, the per account fee will decrease to \$25.
- Empower charges a \$60 fee for each new loan, as will Empower on a go-forward basis. Generally, the participants making the transaction pay the related fee; however, for purposes of the fee study, this revenue is spread across the participant population.
- The total annualized revenue as of 12/31/2022 decreased by \$5.97 per participant, or \$989,923 from 12/31/2019.

*Note, the Plan fees identified above are point-in-time calculations based on participant counts and transaction volumes for the calendar year.

Current State – 457(b) Plan Administration Service Fees

Table 4: 457(b) Plan Administration Services Annualized Revenue

	Fees as of 12/31/2022	Fees as of 12/31/2021	Fees Beginning 1/1/2021	Fees Prior to 12/31/2020	Fees as of 12/31/2019
<i>Administration Service Revenue</i>					
Count of Balances	56,742	56,725	56,699	56,699	56,872
Unit Cost	\$26	\$26	\$28	\$31	\$31
Annualized Revenue	\$1,475,292	\$1,474,850	\$1,587,572	\$1,757,669	\$1,763,032
Variation from 2019 Revenue	-\$287,740	-\$288,182	-\$175,460	-\$5,363	--
<i>Participant Transaction Revenue</i>					
Loan Origination - Volume	1,827	1,881	1,844	1,844	2,380
Unit Cost	\$60	\$60	\$60	\$60	\$60
Annualized Revenue	\$109,620	\$112,860	\$110,640	\$110,640	\$142,800
Variation from 2019 Revenue	-\$33,180	-\$29,940	-\$32,160	-\$32,160	--
<i>Total Revenue</i>					
Total Annualized Revenue	\$1,584,912	\$1,587,710	\$1,698,212	\$1,868,309	\$1,905,832
Revenue Expressed on a Per Participant Basis	\$27.93	\$27.99	\$29.95	\$32.95	\$33.51
Variation from 2019 Revenue	-\$320,920	-\$318,122	-\$207,620	-\$37,523	--

- Consistent with the 401(k) Plan experience, Empower has reduced the administration fee for 457(b) Plan participants annually, which has reduced the 2022 annualized plan-level administration services revenue by \$287,740 since 2019.
 - Compared to 2019, the 457(b) Plan experienced a small reduction in the number of total participants (-0.2%).
- With the shift in demographics and lower per participant administration services fee, the 2022 total annualized revenue decreased by \$5.58 per participant or \$320,920.
- Similar to the 401(k) Plan, the per account fee for the 457(b) Plan will decrease to \$25, effective 1/1/2024.

*Note, the Plan fees identified above are point-in-time calculations based on participant counts and transaction volumes for the calendar year.

Current State – Administration Service Fees based on the Consolidated Plans

Table 5: Consolidated Administration Services Annualized* Revenue

	Fees as of 12/31/2022	Fees as of 12/31/2021	Fees Beginning 1/1/2021	Fees Prior to 12/31/2020	Fees as of 12/31/2019
Count of Unique Participants Across both Plans**	306,147	299,113	288,856	288,856	286,073
Total Annualized Revenue	\$9,642,118	\$9,422,984	\$9,802,120	\$10,764,565	\$10,952,961
Revenue Expressed on a Per Unique Participant Basis	\$31.50	\$31.50	\$33.93	\$37.27	\$38.29
Variation from 2019 Revenue	-\$1,310,843	-\$1,529,977	-\$1,150,841	-\$188,396	--

- The number of unique participants across both Plans has grown by 6.6% over the past three years, while the overall number of loans decreased.
 - Participants with a balance in both plans would pay \$52 annually toward administrative services as of 12/31/2022, a \$10 per participant fee reduction from 12/31/2019 rates.
 - With demographic changes and the previous fee reduction, the total annualized revenue dropped by \$1,310,843 or \$6.79 per unique participant, on a blended basis.
- Effective 1/1/2024, the per account fee will decrease to \$25. Given plan characteristics as of 12/31/2022, the lower fee would result in \$338,063 in estimated annual fee savings relative to current estimated levels.
 - Participants with a balance in both plans will pay \$50 annually towards administrative services, a \$12 per participant fee reduction from 12/31/2019 rates.

* Note, the Plan fees identified above are point-in-time calculations based on participant counts and transaction volumes for the calendar year.

** Volume is based on total unique participant counts, based on SSN

Administration Fee Review

Fee Review

- Fee comparisons are challenging given there are many factors that can influence fees, and fees are not the only criteria used by prudent fiduciaries to make decisions. Other criteria considered often include:
 - Complexity of plan
 - Services provided by the recordkeeper
 - Number of participants
 - Plan assets
 - Number/type of investment options
 - Number of payroll feeds
 - Unique plan features
 - Note, it is difficult to accurately scope administration fees related to the NCSRP without a full review of participating employers and data sharing practices, which we would expect in a full Request for Proposal bid.
- Callan's belief is that it is a best practice to conduct a thorough and exhaustive fee analysis of the DC plan every three to five years, and to augment this comprehensive analysis with an annual fee benchmarking review. As a comprehensive fee analysis was completed in 2020, this fee review seeks to confirm and update the findings of the 2020 study.
 - Typically, we do not expect administration service fees to vary substantially year-over-year, outside of a significant variation in plan demographics (+/-10% change in participant count) or the inclusion of additional services.
 - Recordkeeper consolidation also has meaningful impact on fee compression over time.
- Callan compared the administration fees charged to administer the NCSRP against DC plans in our fee benchmarking database.
 - In evaluating the competitiveness of fees, it is important to note that the NCSRP may differ in key ways from those included in the database. For instance, whereas many database fees are inclusive of trust & custody services, NCSRP administration fees do not include trust and custody services.
- In light of the unique complexities among governmental plans, Callan also reviewed publicly available fee information for similarly situated state deferred compensation plans.
 - The fee ranges for comparable state deferred compensation plans are informational and identify the range of fees a retirement program similar to NCSRP could expect.

Database Fee Review

Table 6. 401(k) Plan Database Fee Comparison

	P/Ppt Administration Fee	Total Revenue P/Ppt Fee
90th Percentile	\$27	\$36
75th Percentile	\$23	\$32
Median	\$20	\$29
25th Percentile	\$19	\$26
10th Percentile	\$16	\$25
Current 401(k) Fees	\$26	\$29
401(k) Fees Effective 1/1/2024	\$25	\$28

Table 7. 457(b) Plan Database Fee Comparison

	P/Ppt Administration Fee	Total Revenue P/Ppt Fee
90th Percentile	\$43	\$53
75th Percentile	\$40	\$45
Median	\$35	\$41
25th Percentile	\$29	\$37
10th Percentile	\$26	\$34
Current 457(b) Fees	\$26	\$28
457(b) Fees Effective 1/1/2024	\$25	\$27

Comparator Group (12)	Median	Average
Assets	\$16,788,464,468	\$22,757,354,457
Participants	158,411	165,842

Comparator Group (16)	Median	Average
Assets	\$7,949,839,433	\$9,548,935,465
Ppts	37,805	46,790

- According to the Callan Fee Database, the total revenue collected for the 401(k) Plan, expressed on a per participant basis, is in line with the median. The NCSRP 457(b) Plan fees are below the total revenue reported for comparable plans in the Database.
 - The NCSRP 457(b) Plan is approximately one-fifth the size of the 401(k) Plan by participant count, while participants are charged the same fees as those in the 401(k) Plan. If the Plans were priced separately, it is likely that participants in the 457(b) Plan would be assessed a higher fee.
 - The median fee in the 401(k) Plan reported here is lower in comparison to the 2020 and 2021 database fee reviews, due to the increased data available for jumbo plans – the average participant count in the comparator group for the 401(k) Plan in 2020 and 2021 was ~75,000 compared to ~165,000 in 2023.
- In evaluating the competitiveness of fees, it is important to note that the NCSRP may differ in key ways from those included in the database. For instance, whereas some of the database fees are inclusive of trust & custody services, NCSRP administration fees do not include trust & custody services.
 - Additionally, the NCSRP 401(k) plan will vary from the competitors in the Database with the volume of payroll files sent to the recordkeeper and additional services such as onsite educational representatives.
 - *The following page reviews government plans with similar data needs due to the volume of payroll files and onsite educational support.*

State Deferred Compensation Plan Fee Comparison

Table 8. State Government Deferred Compensation Plan Administration Services Fee Comparison

NCSRP – 401(k) / 457(b)	
Participant Count	281,321 / 56,742
Number of Participating Employers	~1,100
NCSRP Administrative Services Fee – Current	\$26
NCSRP Administrative Services Fee – Effective Jan. 1, 2024	\$25
Comparator Group Characteristics (17)	
Range of Participant Count	39,000-296,000
Median Participant Count	81,500
Average Participant Count	124,100
Median Number of Participating Employers	794
Average Number of Participating Employers	807
Median Plan Assets	\$4,604,925,066
Average Plan Assets	\$8,027,785,045
Comparator Group Fees	
Range of Administration Fees	\$18-\$67
Median Administration Fee Per Participant	\$34
Average Administration Fee Per Participant	\$38

- The fee ranges above represent the publicly available administration services fee information for comparable state deferred compensation plans.
 - While the fee has not been normalized for the plan complexity and volumes, it represents the range of fees a State Government Deferred Compensation Plan similar to NCSRP could expect.
 - In contrast to the database comparator group, the plans in the government data set have a similar plan design and a high number of payrolls based on the number of participating employers.

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