



**North Carolina**  
Total Retirement Plans



*Dale R. Folwell, CPA*  
STATE TREASURER OF NORTH CAROLINA  
DALE R. FOLWELL, CPA

## MEMORANDUM

TO: Supplemental Retirement Board of Trustees

FROM: Mary Buonfiglio, Director, Supplemental Retirement Plans

DATE: December 3, 2020

RE: NC 401(k) & NC 457 Plans: Administrative Fee Waiver Update

Participants in the Supplemental Retirement Plans are charged an administrative fee to cover the costs of operating the Plans. The administrative fee is established jointly by the Department of State Treasurer and the Supplemental Retirement Board of Trustees through the administrative rulemaking process. Due to the accumulation of excess reserves in the Supplemental Retirement Plans' expense account, the Department and the Board elected to waive the administrative fees for the NC 401(k) and NC 457 Plans for 2019 and 2020.

### **Background:**

The North Carolina General Assembly does not appropriate funds for the operation of the NC 401(k) and NC 457 Plans or the NC 403(b) Program. Annually, an administrative fee equal to 2.5 basis points is charged to participants in the NC 401(k) and NC 457 Plans, while an administrative fee of 5.0 basis points is charged to participants in the NC 403(b) Program.

This administrative fee is collected to cover the Plans' administrative expenses and is the sole source of revenue received. The administrative fee covers expenses that include Supplemental Retirement Plan (SRP) staff salaries and benefits, DST overhead, service providers, including the Plans' investment consultant and auditor, board expenses and other expenses deemed appropriate under the Internal Revenue Code's exclusive benefit rule.

Once collected, the money is deposited into the NC Stable Value where it earns the prevailing yield. Withdrawals are made, as needed, to cover budgeted expenses. As the fee is asset-based, annual receipts fluctuate with the Plans' balances.

The NC 403(b) Program is excluded from this review, because as a relatively new and small Program, no significant balance is yet held in its reserve account.



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**Next Steps:**

At the end of 2020, the projected excess reserves in the Plans' expense account will be approximately \$2.0 million, after deducting the Plans' projected expenses of \$2.4 million for 2021. Therefore, following a discussion with Treasurer Folwell, the administrative fee waiver for the NC 401(k) and NC 457 Plans will not be renewed for 2021, and participants in these plans will resume payment of the 2.5 basis point administrative fee on January 1.

However, staff will pursue an amendment to the Department's and the Board's statutory authority to determine the administrative fees charged to participants. If successful, the change will provide greater flexibility to adjust the administrative fees as necessary to match the Plans' projected receipts and expenses more closely. This statutory change will enable the Department and the Board to reduce the accumulation of excess reserves.

Staff will update the board no later than the August 2021 board meeting regarding the adoption of the proposed statutory change.