



## MEMORANDUM

TO: Supplemental Retirement Board of Trustees

FROM: Mary Buonfiglio, Director, Supplemental Retirement Plans

DATE: November 25, 2019

SUBJECT: NC 401(k) and NC 457 Plans: Recommendation of extension of fee waiver.

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At the September 20, 2018, Supplemental Retirement Board of Trustees meeting, the Board approved waiving the administrative fee of 0.025% (2.5 basis points) in the NC 401(k) and NC 457 Plans for the calendar year of 2019.

### Background

The North Carolina General Assembly does not appropriate funds for the operation of the NC 401(k) Plan, the NC 457 Plan, or the NC 403(b) Program. Instead, 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 and investment consulting and auditing fees.

The administrative expense fee is accrued daily and collected quarterly. 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, 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.



**2019 Administrative Expense Fee Waiver status update**

The administrative expense fee waiver was implemented for calendar year 2019, and below is the status update as of October 31, 2019:

Administrative Fee Analysis 2019						
	Actual			Projected		# of years of expenses in reserve
	Administrative expense account balance as of 01.01.2019	Net expenses year to date (01.01.2019 to 10.31.2019)	Administrative expense account balance as of 10.31.2019	Budgeted expenses from 11.01.2019 to 12.31.2019 <sup>1</sup>	Administrative expense account balance as of 12.31.2019 <sup>2,3</sup>	
401k	\$6,549,450	\$1,134,935	\$5,418,816	\$271,061	\$5,201,071	3.0
457	\$1,014,480	\$201,829	\$813,151	\$47,884	\$774,286	2.6
Total	\$7,563,930	\$1,336,764	\$6,231,967	\$318,945	\$5,975,357	
1. Projected expenses are per 2019-20 budgeted expenses						
2. Administrative expense account balance includes estimated interest earned at 1.5% Stable Value crediting rate						
3. \$95,554 payment from NC ABLE for fiscal year 2019-20, \$47,777 to be received in December 2019 is included in the projected administrative expense account balance as of 12.31.2019.						

With the implementation of the fee waiver in calendar year 2019, the combined administrative expense account balances for the NC 401(k) and NC 457 Plans are projected to be reduced by \$1.58 million from \$7.56 million as of December 31, 2018 to \$5.98 million as of December 31, 2019. The projected expense account balance of \$5.98 million at the end of 2019 represents approximately 3 year worth of expenses.

**Recommendation**

Staff recommends the extension of the administrative fee waiver for the NC 401(k) and NC 457 for calendar year 2020.

The NC 403(b) Program is excluded from this recommendation because the program is relatively new and has yet to generate a significant reserve account.