

May 27, 2021



**The North Carolina  
Supplemental Retirement Plans**

Annual Administrative Fee Review

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# Annual Fee Review

## Summary of Process

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### Administrative Fees

- 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 benchmarked the NCSRP administrative fees in May 2020 by comparing NCSRP fees to blind bids for plans of similar size and complexity.
  - This interim fee review serves a straightforward check of the administrative fees.
- This 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 fee.

## Current State

**Table 1: 401(k) Plan Characteristics**

	As of 12/31/2020	As of 12/31/2019	Variance
Count of participant account balances	264,093	261,419	+2,674
Average participant balance	\$48,487	\$43,598	+\$4,889
Median participant balance	\$14,173	\$13,252	+\$921
Average deferral rate*	5.3%	5.4%	-0.1%

\* Reflects those participants deferring as a percentage.

**Table 2: 457(b) Plan Characteristics**

	As of 12/31/2020	As of 12/31/2019	Variance
Count of participant account balances	56,699	56,872	-173
Average participant balance	\$31,272	\$27,488	+\$3,784
Median participant balance	\$4,871	\$3,980	+\$891
Average deferral rate*	5.0%	5.7%	-0.7%

\* Reflects those participants deferring as a percentage.

- Prudential Retirement provides administration and recordkeeping services for the DC plans within the NCSRP:
  - NC 401(k) Plan
  - NC 457(b) Plan
  - NC 403(b) Plan, which is not included in the scope of this review
- The general characteristics above are based on information provided by Prudential.

## Current State – 401(k) Plan Administration Service Fees

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

	Fees beginning 1/1/2021 based on 2020 values	Fees prior to 1/1/2021 based on 2020 values	Fees based on 2019 values
<b>Administration Service Revenue</b>			
Count of Balances	264,116	264,116	261,419
Unit Cost	\$28	\$31	\$31
Annualized Revenue	\$7,395,248	\$8,187,596	\$8,103,989
<i>Variation from 2019 Revenue</i>	<i>-\$708,741</i>	<i>\$83,607</i>	<i>--</i>
<b>Participant Transaction Revenue</b>			
Loan Origination - Volume	11,811	11,811	15,719
Unit Cost	\$60	\$60	\$60
Annualized Revenue	\$708,660	\$708,660	\$943,140
<i>Variation from 2019 Revenue</i>	<i>-\$234,480</i>	<i>-\$234,480</i>	<i>--</i>
<b>Total Revenue</b>			
Total Annualized Revenue	\$8,103,908	\$8,896,256	\$9,047,129
Revenue Expressed on a Per Participant Basis	\$30.68	\$33.68	\$34.61
<i>Variation from 2019 Revenue</i>	<i>-\$943,221</i>	<i>-\$150,873</i>	<i>--</i>

- Prior to 1/1/2021, Prudential collected approximately \$33.68 per account in annualized administration revenue for the 401(k) Plan.
  - The \$31 per balance fee covers recordkeeping services such as administration, plan sponsor and participant websites, call center services, participant communications, meetings, reporting, etc.
  - In addition to the annual service fee, Prudential charges a loan origination fee which was applied to the annual number of loans above. However, due to the COVID-19 pandemic, all loan fees were waived by Prudential for 90 days (04/10/20–07/10/20). In addition, COVID loan fees were waived for an additional 90 days –180 days altogether (04/10/20–10/10/20).
  - During the period that coronavirus-related distributions were available in 2020, the number of new loans decreased, while the number of participants increased, which lowered the total amount of revenue expressed on a participant basis resulting in a \$0.92 decrease from 2019.
- Beginning 1/1/2021, the per participant fee was reduced by \$3, reducing the annualized amount of revenue by \$943,221.

\*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 beginning 1/1/2021 based on 2020 values	Fees prior to 1/1/2021 based on 2020 values	Fees based on 2019 values
<b>Administration Service Revenue</b>			
Count of Balances	56,699	56,699	56,872
Unit Cost	\$28	\$31	\$31
Annualized Revenue	\$1,587,572	\$1,757,669	\$1,763,032
<i>Variation from 2019 Revenue</i>	-\$175,460	-\$5,363	--
<b>Participant Transaction Revenue</b>			
Loan Origination - Volume	1,844	1,844	2,380
Unit Cost	\$60	\$60	\$60
Annualized Revenue	\$110,640	\$110,640	\$142,800
<i>Variation from 2019 Revenue</i>	-\$32,160	-\$32,160	--
<b>Total Revenue</b>			
Total Annualized Revenue	\$1,698,212	\$1,868,309	\$1,905,832
Revenue Expressed on a Per Participant Basis	\$29.95	\$32.95	\$33.51
<i>Variation from 2019 Revenue</i>	-\$207,620	-\$37,523	--

- Consistent with the 401(k) plan experience, prior to 1/1/2021, Prudential collected a \$31 per participant administration service fee, equaling approximately \$32.95 per account in annualized administration revenue based on 2020 year end counts.
  - In addition, Prudential charges a loan origination fee. The 457(b) plan experienced a smaller proportion of new loans compared to the 401(k) plan. As a result, the 2020 annualized revenue decreased by \$0.56 from 2019.
- Beginning 1/1/2021, the per participant fee was reduced by \$3, reducing the annualized amount of revenue by \$207,620.

\*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 beginning 1/1/2021 based on 2020 values	Fees prior to 1/1/2021 based on 2020 values	Fees based on 2019 values
Count of Unique Participants Across both Plans	288,856	288,856	286,073
Total Annualized Revenue	\$9,802,120	\$10,764,565	\$10,952,961
Revenue Expressed on a Per Unique Participant Basis	\$33.93	\$37.27	\$38.29
<i>Variation from 2019 Revenue</i>	<i>-\$1,150,841</i>	<i>-\$188,396</i>	<i>--</i>

\* Volume is based on total unique participant SSN

- Prior to 1/1/2021, Prudential collected a \$31 per participant administration service fee per account balance per plan. Participants with a balance in both plans would pay \$62 annually towards administrative services.
  - Based on the number of unique SSNs between both plans, the total annualized services revenue equals \$37.27 per participant prior to 1/1/2021 and \$33.93 after that date.

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

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## Administration Fee Review

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## Fee Review

- Fee comparisons are challenging given that there are many factors which can influence fees, and fees are not the only criteria used by prudent fiduciaries to make decisions:
  - 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 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

	Per Participant Administration Fee (\$)	
	401(k)	457(b)
<b>Average Number of Accounts in Database</b>	<b>77,550 (4)</b>	<b>47,716 (12)</b>
<b>NCSRP</b>	<b>264,116</b>	<b>56,699</b>
90 <sup>th</sup> Percentile	\$57	\$51
75 <sup>th</sup> Percentile	\$49	\$45
50 <sup>th</sup> Percentile	\$40	\$42
25 <sup>th</sup> Percentile	\$40	\$38
10 <sup>th</sup> Percentile	\$23	\$28
<b>NCSRP</b>	<b>Prior to 1/1/2021 – \$31 Beginning 1/1/2021 – \$28</b>	<b>Prior to 1/1/2021 – \$31 Beginning 1/1/2021 – \$28</b>

- Beginning 1/1/2021, Prudential will charge \$28 per account for administration services against 320,815 accounts, for a total of \$9,802,120 in estimated annual revenue. When that amount is applied to the number of unique participants across both plans (288,856), the administration revenue increases to \$33.93 per unique participant.
  - The NCSRP administration fees are below the median fee of the database sample.
- We also looked at the plans priced separately to understand how the volume of accounts in each plan could impact pricing .
  - The NCSRP 457(b) Plan is approximately one-fifth the size of the 401(k) Plan by participant count.
  - If the DC plans were priced separately, it is likely that participants in the 457(b) Plan would be assessed a higher fee.

## State Deferred Compensation Plan Fee Comparison

<b>NCSRP – 457(b) / 401(k)</b>	<b>56,699 / 264,116</b>
Range of Participant Count (10)	57,000-360,000
Median Participant Count	174,120
Average Participant Count	171,393
<b>NCSRP Fee</b>	<b>Prior to 1/1/2021 – \$31 Beginning 1/1/2021 – \$28</b>
Range of Administration Fees	\$18-\$67
Median Administration Fee Per Participant	\$41
Average Administration Fee Per Participant	\$42

- 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 retirement program similar to NCSRP could expect.

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