



## Inter Office Memo

DEPARTMENT OF  
PERSONNEL SERVICES

# ITEM 10

DATE: February 25, 2016

TO: Deferred Compensation Management Council

FROM: Hollis Magill, Principal Personnel Analyst

SUBJECT: Fiscal Year 2016-17 Deferred Compensation Plan Budget

### **Background**

Pursuant to Section 9.5 of the County of Fresno 457(B) Deferred Compensation Plan Document, any reasonable expenses related to the operation of the Deferred Compensation Plan (Plan), such as third-party administration, consulting, legal and County staff costs, shall be charged to Plan participants. In order to offset the costs of these Plan-related expenses, the County directs the Plan Record-keeper to charge an administrative fee to each participant. For Fiscal Year 2015-16, that fee was 0.19%.

### **Issue**

Staff has drafted a budget anticipating revenue and expenses for FY 2016-17 (Attachment A) with the following expense line-items:

- Consultant Fees
- Fiduciary Liability Insurance Policy
- Staff Costs
- Off-site Training Costs
- Contingencies
- Plan Document Legal Review
- Record-keeping Fees

Staff would like to highlight the following areas for explanation:

- **Administrative fees and record-keeping fee reporting.** As discussed in Item 9 on today's agenda, staff is proposing to separate record-keeping fees from other expenses. This change is illustrated in Attachment A.

Separating the two types of expenses means that the participant fee revenue available for discretionary items is equal to 0.09% of Plan assets per year, while the record-keeping fees (pursuant to Agreement #14-710) are 0.10% per year. Staff is recommending that the discretionary portion of the annual fee remain at 0.09%.

Regarding participant fee revenue in FY 2016-17, due to losses in the stock market that have decreased Plan assets, staff is anticipating a decrease from \$195,000 (total revenue minus record-keeping fees) in FY 2015-16 to \$175,000 in FY 2016-17. This represents a \$20,000 or 11.4% decrease from FY 2015-16. Staff anticipated average assets of approximately \$219 million in FY 2015-16, while in FY 2016-17 average assets are anticipated to be \$195 million.

Regarding record-keeping fees, staff is anticipating approximately \$200,000 in record-keeping expenses, which represents a \$20,000 or 9.1% decrease from FY 2015-16 due to the aforementioned decline in Plan assets.

- **Excess Funds from FY 2013-14 Budget.** Fiscal year 2013-14 had excess revenue of approximately \$180,000. In anticipation of decreased revenue for FY 2016-17, staff recommends that your Council approve utilizing \$25,000 of the FY 2013-14 excess funds to make up for the projected decrease. Staff further recommends that your Council approve a distribution of the remaining \$155,000 to participants.
- **Consultant Fees.** The proposed budget represents a \$10,000 or 20% decrease from the FY 2015-16 appropriation. Pursuant to Agreement #15-597, Heintzberger-Payne's annual fee decreased from \$50,000 to \$40,000.
- **Plan Document Legal Review.** The last review of the Plan Document occurred in 2012. It is prudent to have legal counsel review the Plan Document on a regular basis. The 2012 review cost approximately \$20,000, although that did include a complete overhaul of the Plan Document. Therefore, staff does not anticipate that this year's review will be as extensive, but the proposed budget of \$20,000 assumes fee inflation from 2012.
- **Off-site Training.** The proposed budget is unchanged from FY 2015-16 and assumes sending two (2) members of your Council or staff to the 2016 National Association of Governmental Defined Contribution Administrators (NAGDCA) conference. However, this is contingent on a separate item on today's agenda (Item 8), regarding the ongoing on-site and off-site training schedule. This budget item may be adjusted upon approval or amended at a later date, should your Council approve attendance at off-site trainings that would exceed what is currently anticipated.
- **Fiduciary Liability Insurance Policy.** Staff has included the anticipated cost of a \$5 million fiduciary liability insurance policy which covers both the Plan and your Council. The current policy expires July 1, 2016.

### **Recommended Actions**

1. **Approve the FY 2016-17 administrative fee of 0.09%.**

The fee does not include the 0.10% record-keeping fee which Nationwide is entitled to and deducts directly from participant accounts. Total participant fees will equal 0.19%, which is unchanged from FY 2015-16.

2. **Approve the use of \$25,000 in excess funds from FY 2013-14 in the FY 2016-17 budget.**
3. **Approve the distribution of \$155,000 to participants pro rata based on each participant's percentage of Plan assets.**
4. **Approve the FY 2016-17 budget (Attachment A), either as submitted or with amendments.**

## Item 10 - Attachment A: Fiscal Year 2016-17 Deferred Compensation Plan Budget

### Discretionary Items

Revenue Source	Description	Dollars	% of Revenue
Administrative Fee	0.09% of Plan Assets, based on average of ~\$195,000,000 in assets.	<b>\$175,000</b>	<b>87.5%</b>
Excess Funds from FY 2013-14	Excess funds from Fiscal Year 2013-14 to be used in FY 2016-17	<b>\$25,000</b>	<b>12.5%</b>
<b>Total Revenue:</b>		<b>\$200,000</b>	<b>100.0%</b>
Discretionary Expense	Description	Dollars	% of Expenses
Consultant Fees	Pursuant to Agreement # 15-597 with Heintzberger-Payne Advisors, \$40,000 annually.	<b>\$40,000</b>	<b>20.0%</b>
Fiduciary Liability Insurance	Fiduciary Liability Insurance Premium on \$5,000,000 in coverage.	<b>\$11,000</b>	<b>5.5%</b>
Staff Costs	Based on approximately 1,100 County staff hours (includes Personnel and County Counsel staff). Also includes participant communication costs, if necessary	<b>\$102,000</b>	<b>51.0%</b>
Off-Site Training Costs	Send two (2) people to the 2016 NAGDCA conference and pay annual membership fee.	<b>\$7,000</b>	<b>3.5%</b>
Plan Document Legal Review	Cost to have an outside legal firm review the Deferred Compensation Plan Document	<b>\$20,000</b>	<b>10.0%</b>
Contingencies	Any appropriate expense not included in the items in the proposed budget.	<b>\$20,000</b>	<b>10.0%</b>
<b>Total Discretionary Expenses:</b>		<b>\$200,000</b>	<b>100.0%</b>

### Mandatory Items

Revenue Source	Description	Dollars	% of Revenue
Nationwide Fees	0.10% of Plan Assets, based on average of ~\$195,000,000 in assets; fees are debited directly from participants' accounts on a monthly basis	<b>\$200,000</b>	
<b>Total Revenue:</b>		<b>\$200,000</b>	
Mandatory Expense	Description	Dollars	%
Record-keeping Fees	Pursuant to Agreement # 14-710 with Nationwide, 0.10% of Total Assets per year.	<b>\$200,000</b>	
<b>Total Mandatory Expenses:</b>		<b>\$200,000</b>	