



Administrative Fee Review

Ohio Deferred Compensation Program (“Ohio DC”)

May 16, 2023



Executive Summary

Introduction:

- Ohio DC Staff regularly monitors Ohio DC's fees and expenses, which are generally reviewed with the Board annually.
- The purpose of this presentation is to review current and anticipated program expenses, review the method by which fees are assessed to participants, and benchmark current expenses.

Summary:

- The Plan collected \$15.1 million in participant fees and paid \$12.3 million in Plan costs.
- The Admin Reserve Fund holds 16.7 months of 2022 operating expenses, which is within the policy guideline of 6-18 months.
- Recordkeeping and administration fees and expenses were compared by RVK to a peer group of Public Plans and were viewed as reasonable.
- The Ohio DC Program plan costs remained largely stable from 2021 to 2022 both on a per participant and asset weight basis, while the total fees collected from participants increased slightly following the fee holiday in 2021.
- While Ohio DC participants are more invested in active funds than the peer group, investment management fees remained reasonable with total investment management fees were viewed as reasonable when compared to peers.
- **Ohio Board Action: None**
 - The information provided is for educational purposes.

Best Practice Plan Fee Management

- We recommend that plan fiduciaries follow a few standard practices to demonstrate appropriate management and monitoring of fees.

Best Practices in Plan Fee Management	Ohio Public Employees DC Program
<ul style="list-style-type: none"> • Perform periodic investment management fee comparisons 	<ul style="list-style-type: none"> ● RVK Quarterly Report – Fee Peer Group Comparisons
<ul style="list-style-type: none"> • Regularly investigate opportunities for lower fees 	<ul style="list-style-type: none"> ● Periodic reviews as assets increase and new share classes become available
<ul style="list-style-type: none"> • Perform periodic reviews of the fee model 	<ul style="list-style-type: none"> ● 2022 Fee Structure Review
<ul style="list-style-type: none"> • Periodically re-negotiate service agreements 	<ul style="list-style-type: none"> ● Nationwide Customer Service Agreement renegotiated in 2021. Last formal RFP was in 2013.
<ul style="list-style-type: none"> • Perform periodic recordkeeping and administration fee benchmarking studies 	<ul style="list-style-type: none"> ● RVK Annual Fee Review NAGDCA Perspectives in Practice Survey
<ul style="list-style-type: none"> • Establish a process for periodic formal bid solicitations (i.e., RFI / RFP) 	<ul style="list-style-type: none"> ● 2013 Internal vs. External recordkeeping system evaluation. Formal bid solicitation process is established via Ohio DC's purchasing policy.
<ul style="list-style-type: none"> • Create an annual plan fee budget 	<ul style="list-style-type: none"> ● Regularly reviewed with the Board by Staff

- No action necessary
- RVK recommends further review
- RVK recommends a change to the current plan

Current Administrative Fee Policy

Purpose

The Administrative Fee Policy Statement (“AFPS”) is intended to serve as a guideline for the Board to fund Program administrative services in an equitable manner and to provide enhanced fee transparency.

Previous Discussions

In 2014 and 2015, the Board studied various options to develop a more equitable methodology for allocating administrative fees to participants. At the time, an asset-based approach was the most optimal solution for the Program. The Board also reviewed the existing fee structure in 2019 and 2022 and determined that no action was necessary at the time.

Current Policy

1. Rebating all revenue sharing to participants that were invested in investment options providing revenue sharing. Rebates will be disclosed in participant quarterly account statements.
2. Charging an explicit asset-based administrative fee that will be disclosed in quarterly account statements
3. Waiving fees for participants with small account balances
4. Capping the maximum annual amount of administrative fees to be charged to each participant
5. Moving assets to non-revenue sharing share classes, when available
6. Excluding investment options with revenue sharing from future manager searches

RVK notes that with the transition of the Dodge & Cox Stock Fund to the new share class in 2022, Ohio DC no longer offers any mutual funds with revenue sharing embedded.



Current Administrative Fee Policy

Current Policy

As part of the review and approval of each annual administrative expense budget, the Board will review the administrative fee structure and determine if any changes are needed to the fees or to the AFPS.

The Board may also approve fee changes as needed in accordance with the AFPS.

Whenever the Board changes the structure of administrative fees, this policy should be amended to reflect the new administrative fee structure.

All changes to the administrative fees shall be communicated to participants in a timely and appropriate manner.

Note: *The Administrative Fee Policy is included in the Appendix for reference.*

Summary of Fees and Expenses

Plan Fees / Revenues

Ohio DC generates revenues to pay for administrative plan expenses by charging participants an asset-based fee with a fee waiver and large balance fee cap*:

Ohio DC Administrative Fees

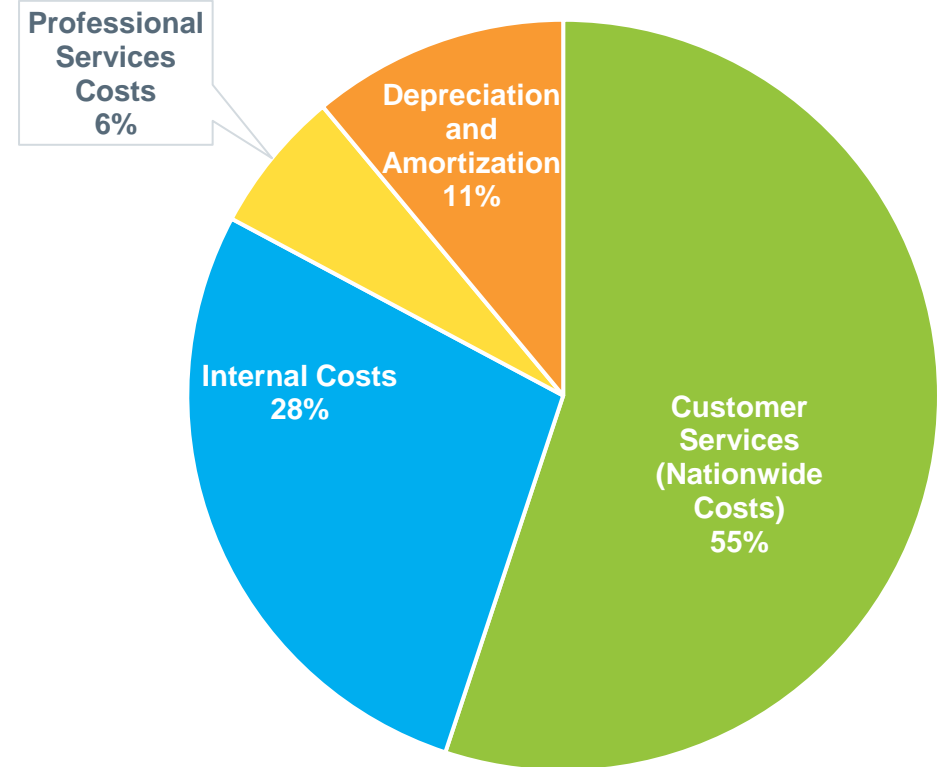
- **0.14%** on account assets
- **Fee waiver** for participants with **<\$5,000** balance
- **Fees capped at \$55 per quarter** (\$220 per year)
- **No individual participant transaction fees**

Approximate \$15.1 million in fees were deducted from participants' accounts in 2022 to pay for Recordkeeping & Administrative Expenses and capital expenses relating to the recordkeeping modernization project.

*Ohio DC generates additional revenue through interest income and other miscellaneous sources. These sources represented approximately 1.3% of revenue in 2022.

Plan Expense / Costs

In 2022, Ohio DC had approximately \$12.1 million in actual administrative expenses.



Ohio DC Program Administrative Reserve Balance

- As the Program does not receive external funding from participating employers or from the State of Ohio to offset its administrative service expenses, participants are charged fees to cover all Ohio DC administrative expenses.
- In order to ensure sufficient operating cash reserves to pay for unanticipated expenses, fund new initiatives or capital projects, and cover expenses should assets or participants drop, Ohio DC maintains a Fund Reserve Policy within the Board Governance Policy Manual:
 - *Ohio DC will seek to retain a fund reserve equal to six to eighteen months of operating expenses.*
- As of December 31, 2022, Ohio DC held approximately **\$16.7 million in Administrative Fund Reserves**, which equals approximately **16.7 months of 2022 operating expenses**.
 - Given potential asset and participant growth, it is possible that the 18-month threshold will be exceeded later in 2023 or 2024.
 - Due to current elevated levels of market volatility, Ohio DC Staff and RVK do not recommend any action at this time and will continue to monitor the Administrative Fund Reserves and anticipated operating expenses.
- Should it be necessary to reduce the Administrative Fund Reserve, it can generally be accomplished through one of the following three methods:
 - One-time participant fee reimbursement
 - A “Fee Holiday” – Temporarily eliminating participant fees
 - A temporary or permanent adjustment to the participant fee formula

Peer Group Characteristics

The 2022 annual RVK DC Plan Fee Benchmarking survey, conducted by RVK's Defined Contribution Solutions Group ("DCSG"), includes **71** DC plans.

- 19 public plans and 52 private plans
- A variety of plan types (401(a), 401(k), 403(b), 457(b), and non-qualified plans)
- Over \$50 billion in plan assets
- Over 640,000 total participant accounts
- A wide variety of plan participant administrative fee structures, including asset based, per participant, revenue sharing, and hybrid structures
- Plans served by 19 different DC recordkeepers

All data shown is as of December 31, 2022, unless otherwise noted.

Ohio DC is the largest plan in terms of total assets and total participant accounts. Ohio DC's average participant account balance of \$65,400 is slightly below the average reported by the peer group.

Ohio DC is benchmarked to the Public Plans peer group.

Fee Benchmarking Summary

- The Ohio DC Program's recordkeeping and administration fees and expenses are at or below the median of the Public Plans peer group on an asset-weighted basis and per participant basis with the exception of Total Recordkeeping and Admin Plan Revenue on a per participant basis.
- Weighted-average Investment Management Costs (in % terms) are slightly higher than the median of the Public Plans peer group, due to a higher allocation to actively managed funds versus the peer group.

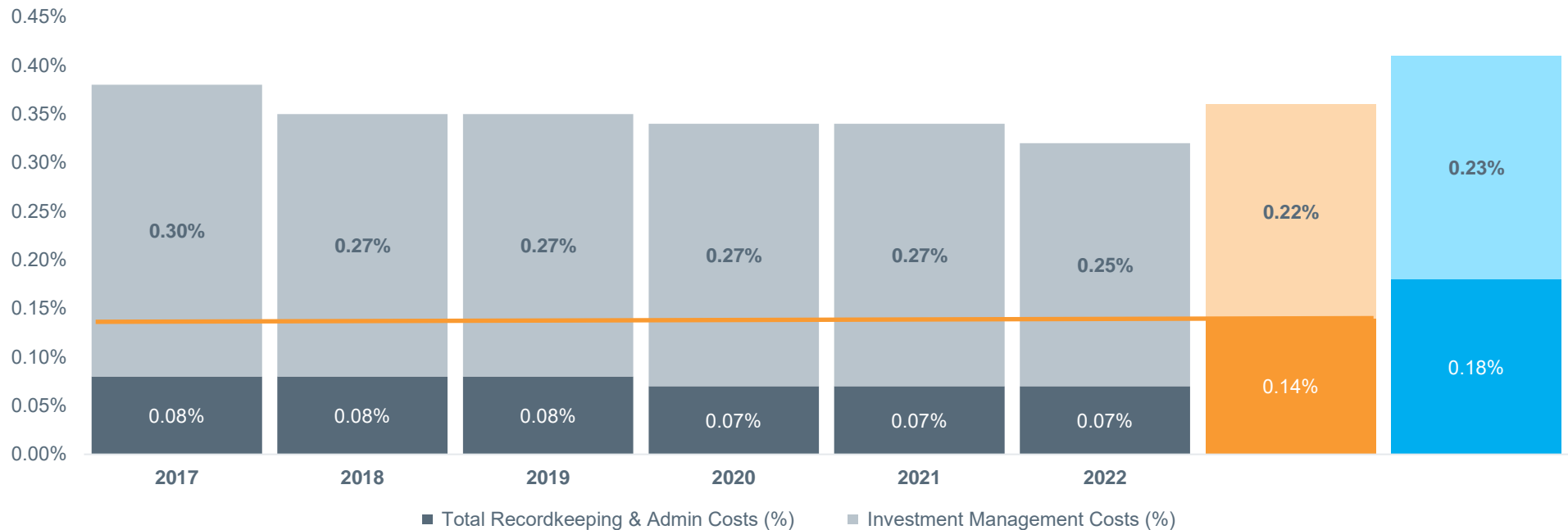
	Public Plans		Ohio Public Employees Deferred Compensation 457(b) Plan	
	Median Fees		Plan Fees	
	\$ Per Participant	% of Plan Assets	\$ Per Participant	% of Plan Assets
Total Plan Costs	\$209	0.34%	\$209	0.32%
Asset-Weighted Investment Management Costs	\$161	0.22%	\$161	0.25%
Total Recordkeeping & Admin Costs	\$50	0.14%	\$48	0.07%
Total Recordkeeping and Administration Plan Revenue	\$51	0.13%	\$60	0.09%

The "\$ Per Participant" comparison is based on the Ohio DC's 251,376 participant accounts as of 12/31/2022.

Total Plan Cost Changes Over Time (%)

The Ohio DC Program's plan costs as a percentage of assets have remained largely stable, decreasing slightly over the last 6 years.

Total Plan Costs (%)



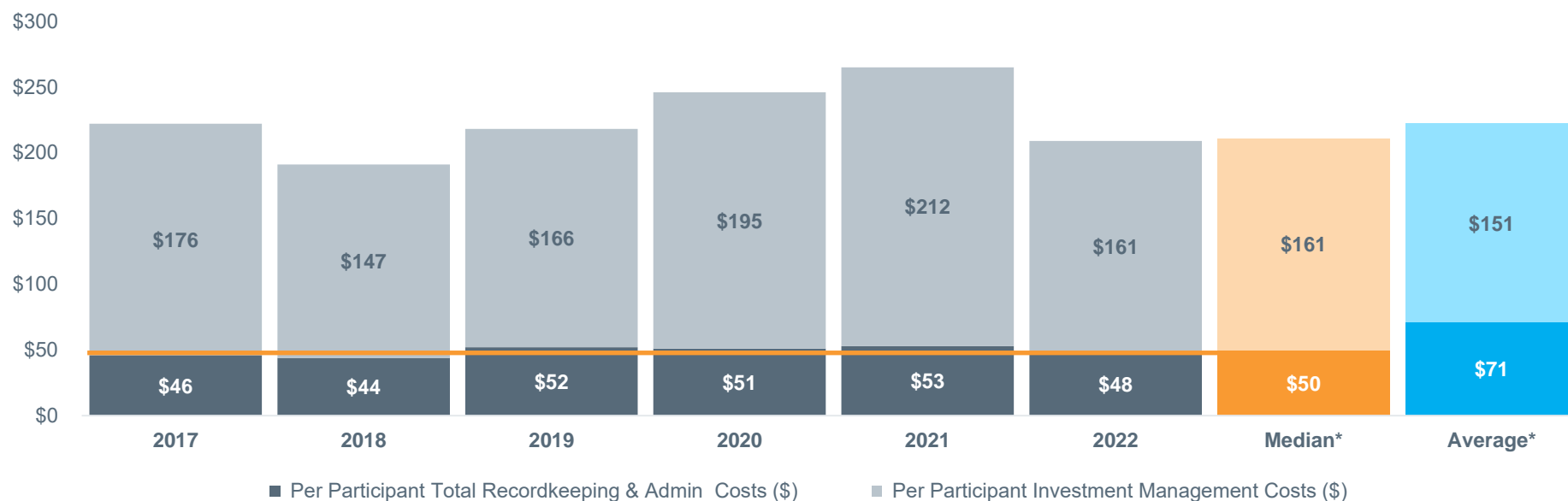
	2017	2018	2019	2020	2021	2022	2022 vs 2021		Median*	Average*
Total Plan Costs (%)	0.37%	0.35%	0.34%	0.34%	0.34%	0.32%	(0.02%)	↓	0.34%	0.41%
Investment Management Costs (%)	0.30%	0.27%	0.27%	0.27%	0.27%	0.25%	(0.02%)	↓	0.22%	0.23%
Total Recordkeeping & Admin Costs (%)	0.08%	0.08%	0.08%	0.07%	0.07%	0.07%	0.00%	-	0.14%	0.18%

* Means and medians are for the Public plans peer group based on data as of 12/31/2022.
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Total Plan Cost Changes Over Time (\$)

- Total recordkeeping & admin costs remained consistent in 2022 (\$12.1 million) compared to 2021.
 - Total recordkeeper & admin costs increased from 2018 (\$10.4 million) to 2020 (\$12.7 million) as the Program began allocating expenses related to the recordkeeping modernization project.
- In the last year, average per participant investment management costs have decreased as market performance has caused account balances to decline faster than the rate of new participants.

Total Plan Costs (\$)



	2017	2018	2019	2020	2021	2022	2022 vs. 2021 Change		Median*	Average*
Per Participant Total Plan Costs (\$)	\$222	\$191	\$219	\$246	\$265	\$209	(\$56)	↓	\$209	\$222
Per Participant Investment Management Costs (\$)	\$176	\$147	\$166	\$195	\$212	\$161	(\$51)	↓	\$161	\$151
Per Participant Total Recordkeeping & Admin Costs (\$)	\$46	\$44	\$52	\$51	\$53	\$48	(\$5)	↓	\$50	\$71
Per Participant Balance (\$)	\$59,458	\$55,119	\$63,919	\$73,352	\$82,800	\$65,364	(\$17,436)	↓	\$71,708	\$69,661

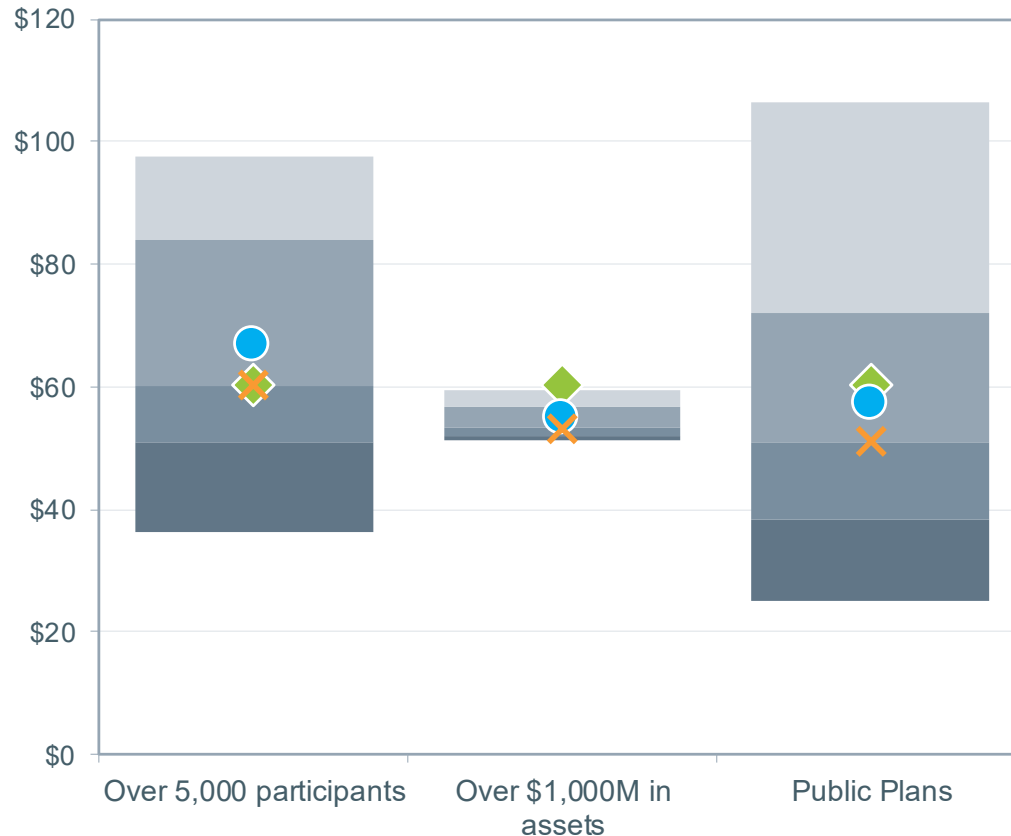
* Average and median are for the Public plans peer group based on data as of 12/31/2022.
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Average Plan Participant Account Fees (\$)

(What Participants Are Paying)

Public Plans

Per Participant Recordkeeping & Administrative Fees (\$)



- The Ohio DC Program's average recordkeeping and administration fees of \$60 per participant account **are above the median and average** of the Public Plans peer group but **at the median and below average** for those plans with >5,000 participants.

◆	Ohio Public Employees Deferred Compensation 457(b) Plan:		\$60 Per Account	
	75th Percentile	\$84	\$57	\$72
✕	Median	\$60	\$53	\$51
	25th Percentile	\$51	\$52	\$38
●	Average	\$67	\$55	\$57
	Number of Plans	9	3	19

Average Recordkeeping and Administrative Costs (\$)

Public Plans

Per Participant Recordkeeping & Administrative Cost (\$)



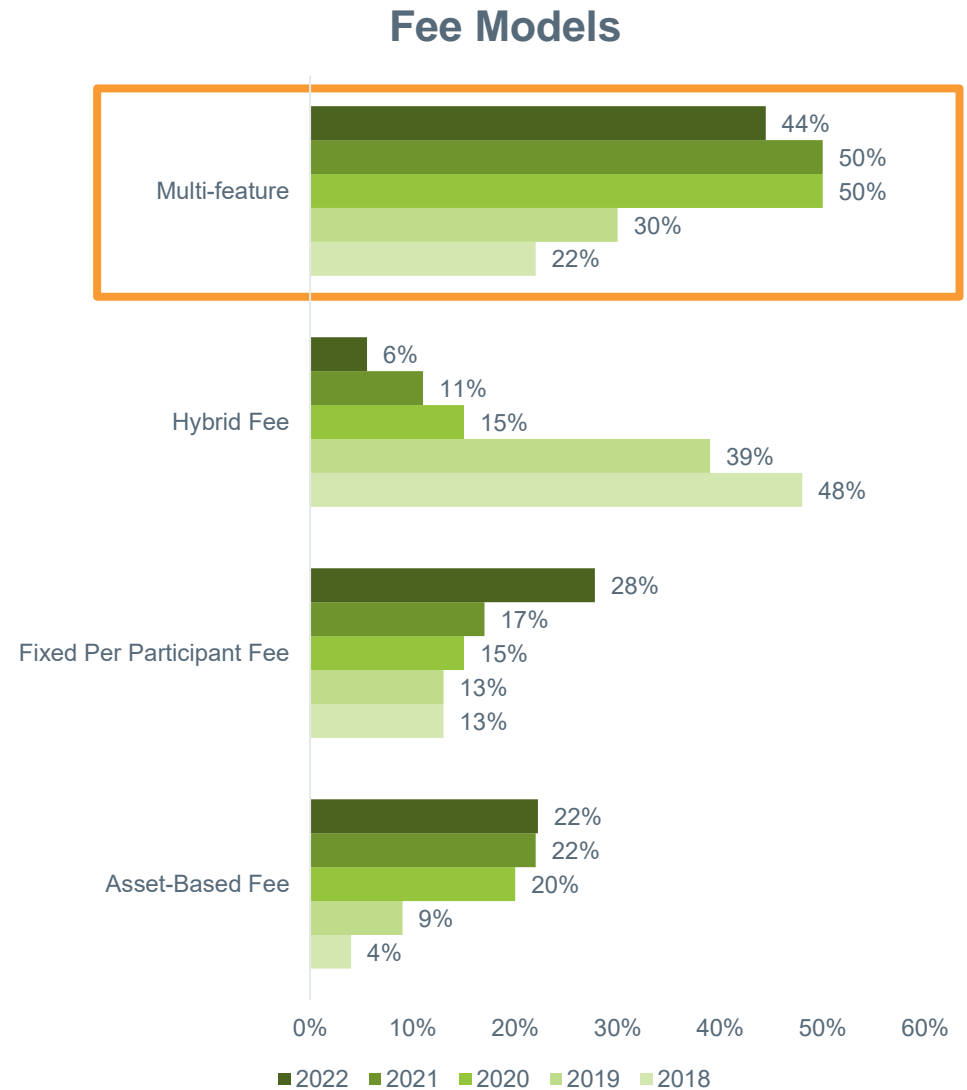
- The Ohio DC Program's average recordkeeping and administration expenses of \$48 per participant account **are below the median and average** of the Public Plans peer group and those plans with >5,000 participant accounts.

◆ Ohio Public Employees Deferred Compensation 457(b) Plan:		\$48 Per Account	
75th Percentile	\$70	\$52	\$68
✗ Median	\$53	\$50	\$50
25th Percentile	\$50	\$49	\$42
● Average	\$72	\$50	\$71
Number of Plans	9	3	19

Ohio DC's recordkeeping and administrative costs includes depreciation and amortization.

Recordkeeping and Administrative Fee Models

- “Multi-feature” fee structures including models with a fee cap or fee waiver remain the most popular model.
- Ohio’s fee model is consistent with 44% of the peer group.

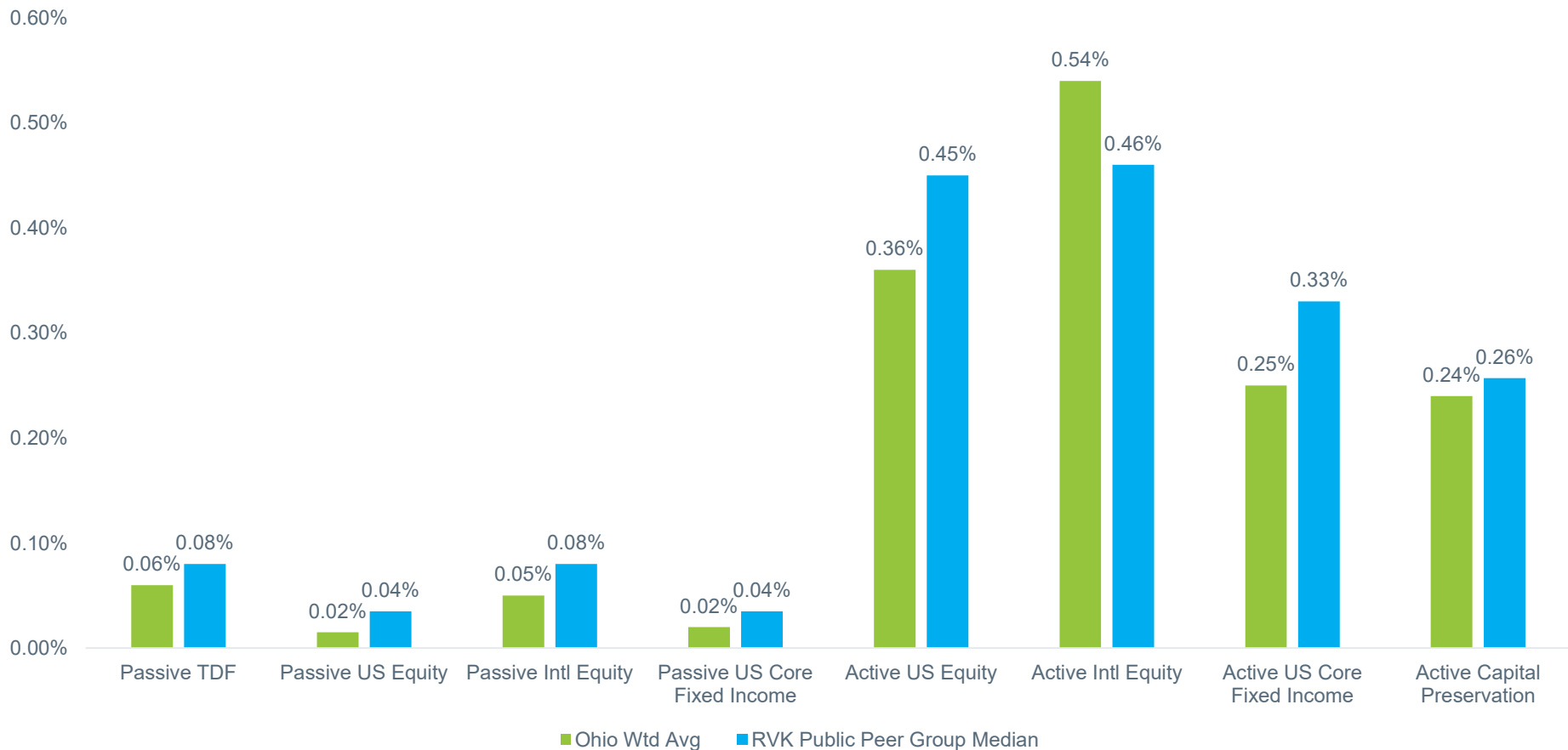


Multi-feature consists of fees models which cap fees for the highest impacted and waive fees for participants with the lowest balances.

Active/Passive Investment Manager Fees

Against RVK's Public Plans peer group, Ohio DC fees rank **at or below median** in all asset classes both active and passive, with the exception of Active International Equity, where Ohio DC fees declined this year compared to last year.

Investment Manager Fees



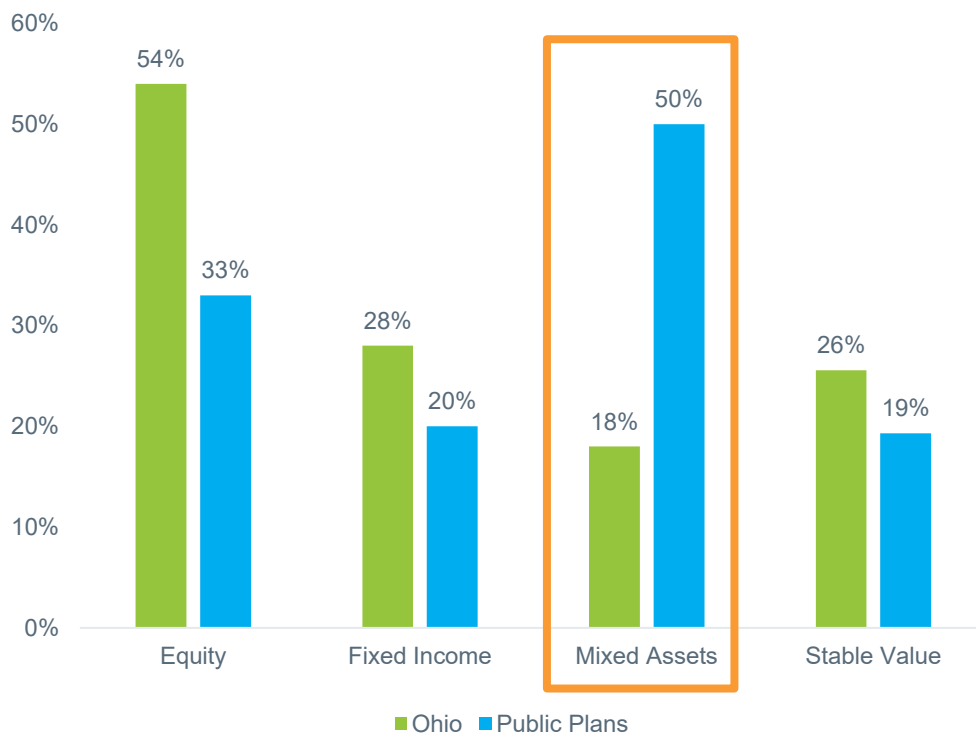
RVK's Public Plans peer group capital preservation asset class includes both money market and stable value funds. Ohio DC investment manager fees are the weighted average fee for each asset class (based on market values of 12/31/2022).



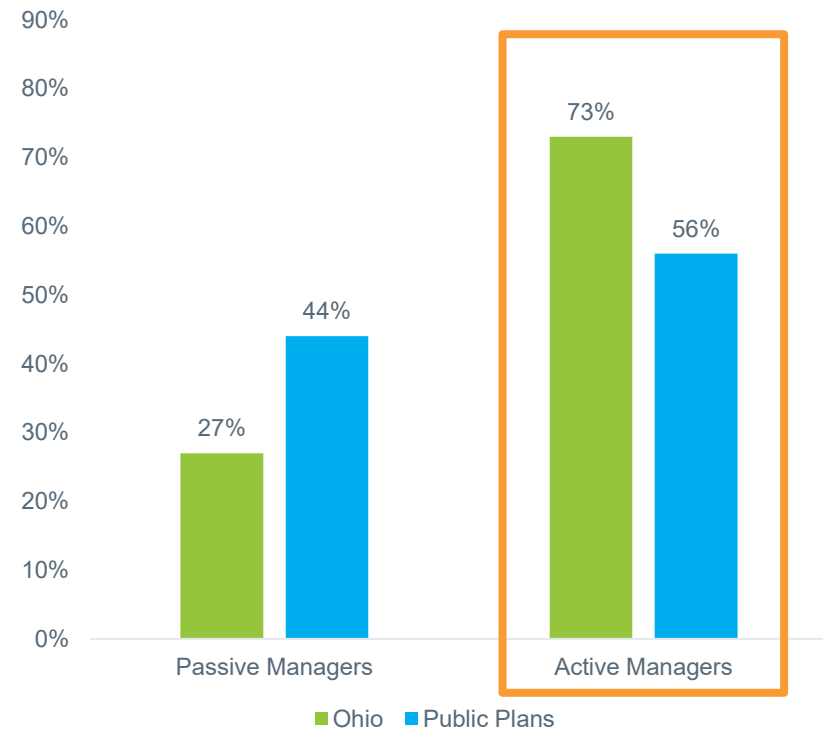
Investment Allocations

Similar to the previous year, the Ohio DC Program has a lower allocation to target date funds and a higher allocation to actively managed funds when compared to the Public Plans peer group.

Asset Classes*



Active vs. Passive



The peer group allocations may not sum to 100% due to the use of median allocations within each category. The median plan may differ across each category. "Hybrid Managers" consist of funds that include significant allocations to both active and passive management.

"Mixed Assets" may include balanced funds, white label funds, risk-based funds, and target date funds.

*The Fixed Income allocations include Stable Value.

Conclusion

- Recordkeeping and administration fees and expenses as well as investment management fees are reasonable.
- Administrative Reserve Fund balance remains within Policy guidelines.
- No action is recommended at this time.

Ohio Public Employees Deferred Compensation Program
Administrative Fee Policy Statement
Adopted 5/19/2015
Amended 11/17/2015

Purpose

The Administrative Fee Policy Statement (AFPS) is intended to serve as a guideline for the Board to fund Program administrative services in an equitable manner and to provide enhanced fee transparency.

Background

Program expenses and related fees can be split into two general categories; investment services and administrative services. Investment services are expenses incurred by the investment manager and are associated with investing participants' assets. Administrative services include all other services to run the Program such as recordkeeping, accounting, legal, trustee services, website, customer service and participant communications.

Participants are charged asset-based fees to cover the investment services expenses as determined by the investment manager. The investment expenses are collected by the investment manager through the expense ratio, which reduces fund performance accordingly. A portion of these fees are sometimes shared with recordkeepers in the form of revenue sharing to offset the cost of administrative expenses.

The Program does not receive any external funding from participating employers or from the State of Ohio to offset its administrative services expenses. Participants are charged fees to cover all Program administrative expenses and to provide the Program with sufficient operating cash reserves. Historically, the Program received revenue sharing from most mutual fund managers and applied an asset-based fee for collective investment trusts (CITs) and separate accounts. For a period of time, it also applied a small fixed dollar fee. The practice of using revenue sharing to fund administrative expenses is a long-standing industry practice. However, the amount of revenue sharing can vary significantly by each investment option meaning that participants with similar asset sizes might pay different amounts of administrative fees based on their investment choices.

Policy Rationale

The Board studied various options over several months to develop a more equitable methodology for allocating administrative fees to participants.

Per capita or fixed dollar fees were considered, but were not chosen because of the greater impact on participants with small balances while benefiting participants with large balances compared to the current fee practice. Hybrid fees also were considered, but they add complexity to the administration of fees and are more difficult for participants to understand.

Participants are familiar with an asset-based approach as it is currently used for both investment services fees and administrative services fees.

The new AFPS is predicated on:

1. Eliminating mutual fund share classes that offer revenue sharing if non-revenue sharing share classes are available,
2. Rebating revenue sharing to participants
3. Excluding investment options with revenue sharing from all new searches.

4. Charging a separate asset-based administrative fee to participants with a cap on the total amount of fees charged annually, with the exception of certain participants with small account balances for which fees will be waived. Rebating revenue sharing fees to participants will eliminate fee differentials resulting from investment choices while enhancing fee transparency.

Waiving administrative fees for participants with small balances is intended to encourage new enrollment and increased contributions to the Program that will allow the account to initially grow without offsetting fees and to allow the Program to recover more fees from the participants as their account(s) grow over time.

Once a participant's combined account balance reaches a certain asset size, asset-based administrative fees will be applied to the total amount of assets. However, asset-based fees for a participant will be capped at a certain amount annually, so that participants with large balances are not charged excessive fees.

The administrative fee structure provides simplicity so that the fees can be easily communicated, transparency so that participants can determine the amount of fees paid, and the equitable sharing of costs over time by participants.

Fee Policy

The fee policy requires:

1. Rebating all revenue sharing to participants that were invested in investment options providing revenue sharing. Rebates will be disclosed in participant quarterly account statements
2. Charging an explicit asset-based administrative fee that will be disclosed in quarterly account statements
3. Waiving fees for participants with small account balances
4. Capping the maximum annual amount of administrative fees to be charged to each participant.
5. Moving assets to non-revenue sharing share classes, when available
6. Excluding investment options with revenue sharing from future manager searches

Establishing Fees

The new fee structure will become effective following the completion of modifications to the recordkeeping system and communication of the new administrative fee structure to participants.

As part of the review and approval of each annual administrative expense budget, the Board will review the administrative fee structure and determine if any changes are needed to the fees or to the AFPS. The Board may also approve fee changes as needed in accordance with the AFPS.

Whenever the Board changes the structure of administrative fees, this policy should be amended to reflect the new administrative fee structure.

All changes to the administrative fees shall be communicated to participants in a timely and appropriate manner.

PORTLAND

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CHICAGO

NEW YORK

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