



## MEMORANDUM

Date: January 25, 2018  
To: State of Delaware Office of the State Treasurer ("OST")  
From: Cammack Retirement Group  
Re: Reallocation of Plan Expense Reimbursement Account (PERA) Unused Account Balances

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### I. Background

Per direction of OST, a quarterly Plan Oversight Fee ("fee" or "fees") (5 bps annual/\$200 maximum) is charged to participant accounts (through Voya). The fees are then deposited into the applicable Plan's PERA. The Plan Oversight Fee is not charged against balances in the self-directed brokerage option (SDBO). Assets within the PERA may be used to pay eligible (non-settlor) plan expenses or reallocated back to participants. Each of the three Plans has its own PERA, and can only be used for expenses directly applicable to the Plan (i.e., funds in 457(b) PERA can only be used to pay expenses for 457(b)-related plan expenses).

The Department of Labor's Field Assistance Bulletin (FAB 2006-01) states "the plan fiduciary may properly weigh the competing interests of various participants or classes of plan participants, and the effects of the allocation method on those participants provided a rational basis exists for the selected method and such method is reasonable, fair and objective." If a plan sponsor chooses to reallocate these amounts back to participant accounts they must have a reasonable rationale to support the allocation.

Unused account balances represent the remaining balances within the PERA, after plan expenses were paid. Cammack Retirement Group was asked by OST to provide a recommendation for reallocating unused account balances back to participants.

### II. Considerations

As cited in the executed Master Trust with Voya, there are two methods for reallocation for unused account balances in the PERA: *pro-rata* or *per capita*.

- *Pro-rata*: Prorated allocation based on participant account size
- *Per capita*: Fixed dollar amount to each account

It is best to allocate the balance to participants using a consistent allocation formula instead of changing formulas from year to year between pro-rata and another method.

Prior to finalizing the method of reallocation, it is prudent to request an estimated amount or range of reallocation amounts to participants under each method. As such estimates can likely take one-two weeks to compile, this timing should be considered in advance. Voya's process for reallocation excludes the balances invested in the SDBO.

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Based on initial research, when using the pro-rata reallocation method, Voya cannot cap the reallocation to a particular maximum amount by participant. Because there is a \$200 maximum on the Plan Oversight Fee charged to participants, OST may look to review whether, while unlikely, more than \$200 is estimated to be reallocated to a participant.

### **III. Recommendation**

Reallocation of funds using the pro-rata method is a widely used practice. As an asset-based fee is applied proportionately to the account balance, the pro-rata method (a proportioned reallocation) would be a likely fit. Pending review of the estimated reallocation, we recommend using the pro-rata method of reallocation. This method should be approved by the Committee, or as other internal governance requires.

### **IV. Other PERA-related Considerations**

The following summarizes additional considerations OST may make in review of the PERA and processes relating to the PERA:

- Review the budget annually to account for potential adjustment to the administrative fee that is charged. If the Plan Oversight Fee were to be modified, OST should plan to provide at least 30 days advance notice to the recordkeeper.
- Review the method of reallocation annually (to ensure it continues to be an appropriate method for the plans and participants).
- Review of the investment option selected for the PERA (for example, utilizing a liquid investment offering that may offer a stable return (avoiding market volatility)).
- Communication to participants:
  - Participants will see the reallocation noted on their online account and statements. When it is completed using Voya's annual process, the reallocated funds are labeled as "Earnings." When the reallocation is completed per plan sponsor direction, the reallocated funds are labeled as "Restitution/Settlement." OST may inquire whether there is opportunity to include language within the statement to provide background.
  - OST may consider sending a separate communication regarding the reallocation. This may allow for the OST to proactively share the information, explain the reason for the reallocation and remind participants of the benefits achieved during the RFP process and the updated pricing model. Alternatively, if future reallocations are unlikely, it may be sufficient for participants to view the information on their online accounts or on their statement.
  - Potential printing/ mailing costs for any custom mailing should be vetted in advance with the recordkeeper.