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MEMORANDUM

To: Audit & Governance Committee (Committee)
From: John Meyer, Director of Contributions and Plan Management
Sent: May 14, 2019
Subject: 457 Legacy Fee Carve Out

Background

In June 2018, the Plans Management Board (Board) suspended the state administration fee for the 457 plan through June 2019 and approved using a portion of the 457 legacy fee balance to offset future plan expenses, subject to a to-be determined carve-out amount for former participants (who will not benefit from the fee waiver). The Board advised that the carve-out amount should revert back to the plan expense account if it proves either impossible or infeasible to identify former participants.

In September 2018, the Board discussed the preliminary research that indicated that 1,116 unique participants withdrew from the 457 plan between September 2016 and June of 2018. Those participants, had they remained in the plan, would have received \$47,168 (the carve-out amount) of benefit from the fee waiver over a two year period. The Board questioned the feasibility of remitting fees back to participants who left the plan. The Chair requested that the Committee address the feasibility issue.

We have determined that it would cost at least \$6,500 for Voya, using a third-party vendor, to locate mailing addresses for former participants. Voya has informed us that the “match rate” for this service is just 50%. Printing and postage for the initial mailing would cost \$2,500. Labor to manage the process are conservatively estimated at \$7,500. Thus, we think it would cost at least \$16,500 to administer the carve-out, which would leave only \$ 30,668 for distribution to former participants. Under this conservative approach, each former participant for whom we have a valid address would receive, at most, \$27.

Recommendation

Under the circumstances, we think the Committee should recommend to the Board that the carve-out amount be reverted back to the plan expense account.