



# COUNTY OF WINNEBAGO

WINNEBAGO COUNTY AUDITOR

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## Winnebago County Deferred Compensation 457(b) Plan Best Practices Internal Audit

September 5th, 2017

The mission of the Winnebago County Auditor's Office is to safeguard Winnebago County assets and provide objective, accurate and meaningful information about County operations so that the County Board can make informed decisions to better serve County citizens.

### **AUDIT TEAM MEMBER(S):**

Bryan M. Cutler, Chief Deputy Auditor

Winnebago County Auditor's reports are available at:  
<http://wincoil.us/departments/auditor/published-internal-audits/>

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September 5th, 2017

Members of the County Board  
Frank Haney, County Board Chairman  
Amanda Hamaker, County Administrator

The Winnebago County Auditor's Office is required to perform several duties under Illinois Compiled Statute 55 ILCS 5/Div. 3.1. Sec. 3-1005. The Compiled Statute states that the County Auditor is required to "Maintain a continuous internal audit of the operations and financial records of the officers, agents or divisions of the County. The County Auditor shall have access to all records, documents, and resources necessary for the discharge of this responsibility".

Accordingly, the County Auditor's Office has recently completed an internal audit titled "Winnebago County Deferred Compensation 457(b) Plan Best Practices Internal Audit". As part of the benefit package provided to employees, Winnebago County offers staff the option to enroll in a 457(b) plan which is currently administered by Great West Life and Annuity Insurance Company. A 457(b) plan is a type of nonqualified, tax advantaged deferred-compensation retirement plan that is available for governmental and certain non-governmental employers in the United States. The employer provides the plan and the employee defers compensation into it on a pre-tax basis. Balances in the plan have averaged approximately 9.5 million in the prior three calendar years.

The primary goal of our audit is to determine if Winnebago County is fulfilling its fiduciary responsibility to employees as it relates to the 457(b) deferred compensation plan and if improvements could be made to the plan. To accomplish this objective we have compared the current administrative practices of managing the Winnebago County 457(b) plan to the guidance provided in the Government Finance Officers Association's Monitoring and Disclosure of Fees for Defined Contribution Plans best practices guide (GFOA Best Practice guide). We have also examined the fees of the Winnebago County 457(b) plan and compared them to other municipalities.

The GFOA Best Practice guide states that "in carrying out their responsibilities as fiduciaries, sponsors of state and local government defined contribution plans make decisions in the best interests of plan participants and beneficiaries. In making these fiduciary decisions, plan sponsors need to understand all the fees and expenses that are charged to the plan and to participants, and ensure that these costs are reasonable. Plan sponsors also need to give participants adequate and accurate information about the fees and expenses that affect their account balances."

The GFOA provides three general policies and practices to ensure that plan sponsors (Winnebago County) carry out their responsibilities as fiduciaries. Our findings and recommendations as they relate to these suggested policies and practices are below:

## **GFOA Best Practice guide criteria #1**

Thoroughly review and document the process used in selecting deferred compensation plan service providers and the types of fee charged.

### **Auditor's Office Observations (criteria #1):**

The Winnebago County has offered a deferred compensation plan to employees since 1988. Great West Life and Annuity Insurance Company has been the plan administrator for the entire existence of the plan. In 1988, the original relationship with Great West was approved by the County Board. In 2009, the County Board approved changes to the plan but only due to a change in Federal Law which resulted in required amendments to the plan. There appears to be no other County Board involvement in approving the plan since 2009.

Currently, Winnebago County has no policies or procedures in place to evaluate the plan or the expenses charged. Additionally, no departmental or individual responsibilities been established to develop policies and procedures or to monitor the plan. Consequently, very little evaluation of the plan appears to have been completed in recent years.

An argument could be made that Winnebago County is in violation of the County Purchasing Ordinance as no competitive bidding has occurred in relation to selecting the current plan and annual expenditures are far in excess of the current (\$12,000) and former (\$30,000) required bid thresholds. However, the expenditures are incurred by plan participants and not Winnebago County.

## **GFOA Best Practice guide criteria #2**

Review and verify actual fees at least once a year to make sure the provider is not overcharging.

### **Auditor's Office Observations (criteria #2):**

Similar to our observations to criteria 1, we noted that Winnebago County has no policy or procedures to verify fees or to ensure that participants are not being overcharged. The Auditor's Office has acquired the previous three years of fee disclosures from the plan administrator (Great West). As seen in the following table, deferred compensation plan participants were estimated to have paid between 1.45% and 1.78% of their account balances in fees per year. These fees have eroded an estimated total of \$441,120 of participant balances over the course of the prior three calendar years. While 2017 information is not yet available, no changes have recently been made to the plan so we can assume fees will continue to be similar to prior years.

<b>Calendar Year</b>	<b>Annual Cost Estimate</b>	<b>Total Plan Assets</b>	<b>Estimated Percentage of Total Assets</b>
2016	\$139,788	\$9,645,038	1.45%
2015	\$134,059	\$9,017,623	1.48%
2014	\$167,273	\$9,408,506	1.78%
<b>Total</b>	<b>\$441,120</b>	<b>n/a</b>	<b>n/a</b>

The Auditor’s Office has reviewed plan documents and fee disclosures from other local governments and noted numerous examples of plans with significantly lower fees being charged to participants.

**GFOA Best Practice guide criteria #3**

Provide plan participants with meaningful and accessible information about fees and expenses at least once a year, along with other information participants need to make sound investment decisions.

**Auditor’s Office Observations (criteria #3):**

Plan participants are provided little to no meaningful information about fees and expenses from the plan sponsor (Winnebago County). Additionally, the investment options offered are confusing and expensive as the plan offers 46 investment options with annual fees averaging .92% in addition to a .65% recordkeeping fee. These investment options are selected by the plan administrator and not Winnebago County.

We have also reviewed an example of a participant statement received directly from the plan administrator to assess the fee information provided to participants. We noted that fund expenses and recordkeeping fees are plugged through a category title “change in investment value” which obscures the actual fees charged.

**Auditor’s Office Overall Recommendation:**

Using the Government Finance Officers Association’s Monitoring and Disclosure of Fees for Defined Contribution Plans best practices guide as an evaluation tool, we have concluded that the current deferred compensation plan is in need of considerable attention, particularly in the areas of cost and simplicity.

In terms of cost, we are certain that opportunities exist for savings for plan participants. As an example, the Illinois Municipal Retirement Fund, which has a similar total participant balance as Winnebago County, recently competitively bid its deferred compensation plan administration which resulted in lowered plan recordkeeping fees from .90% to .19% which is a savings of .71%. Therefore, we recommend that the County seek proposals and quotes from various plan providers.

We do not believe this process should be completed solely by the County Purchasing Director. Similar to IMRF and other municipalities we noted in our research, we believe the County should form an informal committee with the primary goal of selecting a plan provider without excluding the current provider. This committee could also address the issue of simplicity by significantly decreasing the quantity of fund offerings while focusing on cost and diversification. We would suggest that each countywide elected official be given the opportunity to designate a representative to serve on the proposed committee.

Additionally, we recommend that the proposed committee be tasked with ensuring that Winnebago County is meeting its ongoing fiduciary responsibility by implementing and monitoring the policies and procedures contained in the GFOA Best Practice guide.

