How Does Your Plan Measure Up?
The Importance of Retirement Plan Benchmarking

Presented by:
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Vice President
Benchmarking Your Plan

• Plan sponsors must ensure fees be “reasonable in light of services offered”
• Comprehensive benchmarking can help your organization to make informed plan decisions.
• Benchmarking should balance fees with service quality and retirement outcomes.
• ERISA does not require a plan sponsor (or a non-ERISA plan sponsor who chooses to voluntarily comply) to select the lowest-fee provider.
• The law emphasizes the quantity and quality of service in several places, clearly recognizing that not all service providers deliver equal value.
What are the Fees and Expenses Associated with Your Plan?

Three basic categories of services for the typical employer-sponsored retirement plan can help simplify your analysis:

1. **Recordkeeping and Compliance**;
2. **Broker / Advisor**; and
3. **Investment Management**
Determining if Fees are Fair and Reasonable in Light of Services Rendered

Plan sponsors should focus on three key value metrics to determine the reasonableness of plan fees:

1. Your overall plan objectives
2. Results you expect from the provider
3. Priorities that your organization weighs most heavily

Example, your organization may value a provider that can provide “high touch” service for your employees. This may be closely followed by cost considerations or investment menu design, such as the ability to offer nonproprietary mutual funds.
The Lowest Fee is NOT required to meet your fiduciary responsibility

• Plan fiduciaries are required to determine whether fees are “reasonable” for the services provided and that the services support their plan goals.

• Plan sponsors should consider an “all-in” or total fee, which combines all administrative and investment fees into one figure, regardless of whether they are paid at the employer, plan or participant level.
Important Considerations for Fiduciary Evaluation Of Fees

- Recordkeeping offsets vary widely in practice, depending on individual plan economics and individual investment manager practices.
- The agreement between the plan sponsor and service provider should disclose whether any funds are used to offset administrative expenses charged by your record keeper — and whether the record keeper is entitled to these credits.
- Any amounts that the plan receives from providers as revenue offsets can serve to lower plan costs for participants.
- Any amounts returned as recordkeeping offsets to the plan or its participants should be considered when determining the all-in fee.
Revenue Sharing

• Investment Managers may agree to rebate a portion of their investment fee to a service provider or back to a Plan.
• These rebates help to offset the cost of services provided to the Plan.
• 28% of plans report revenue sharing arrangements
How was the Benchmark Group Determined?

- Participant size or assets?
- Apples to apples is critical
- Total fee picture
- Plan complexity is important

<table>
<thead>
<tr>
<th>Benchmark Group Sort Factors</th>
<th>This Plan</th>
<th>Benchmark Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>Plan Assets</td>
<td>$6,494,656</td>
<td>$5mn - $9mn</td>
</tr>
<tr>
<td>Number of Participants</td>
<td>187</td>
<td>105 to 395</td>
</tr>
<tr>
<td>Last Year You Bid orReviewed Your Plan</td>
<td>2010</td>
<td>Last 3 years</td>
</tr>
<tr>
<td>Company Industry</td>
<td>Primary Metal Manufacturing</td>
<td>All</td>
</tr>
<tr>
<td>Plan Type</td>
<td>401(k)</td>
<td>Defined Cont. Contribution</td>
</tr>
<tr>
<td>Uses Auto-Enrollment</td>
<td>For New Hires</td>
<td>16%</td>
</tr>
<tr>
<td>Has Employer Match</td>
<td>Yes</td>
<td>91%</td>
</tr>
<tr>
<td>% of Plan Assets in Index Funds</td>
<td>15%</td>
<td>0% to 50%</td>
</tr>
<tr>
<td>% of Plan Assets in Managed Accounts</td>
<td>3%</td>
<td>0% to 5%</td>
</tr>
</tbody>
</table>

**THIS PLAN’S SERVICE PROVIDERS**

<table>
<thead>
<tr>
<th>Service Provider Type</th>
<th>% of Benchmark Group Using Service Provider Type</th>
<th>This Plan’s Specific Service Providers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recordkeeper</td>
<td>100%</td>
<td>Yamane Plan Services</td>
</tr>
<tr>
<td>Advisor / Consultant</td>
<td>91%</td>
<td>Acme Consulting, Inc.</td>
</tr>
<tr>
<td>Third-Party Administrator</td>
<td>16%</td>
<td>None</td>
</tr>
<tr>
<td>Other Service Providers</td>
<td>4%</td>
<td>None</td>
</tr>
</tbody>
</table>
Total Plan Fee Summary

Recordkeeper: 0.57%
Advisor/Consultant: 0.25%
Investment Managers: 0.44%
Other: 0.05%
Total “all in” Fee: 1.32%
Recordkeeper’s Fee Summary

- Mutual Funds / Insurance vs. Open Architecture?
- Multiple Fund Families?
- Share Class
- Transparency
- Customer Service
- Technology/Interface
- 51% of Plans reports paying 100% of RK fees through investment revenue
Financial Professional’s Fee Summary

- Investment Advisor (Fiduciary)
- Broker (could be a fiduciary)
- Employee Meetings?
- Flat Fee vs. asset based
- Quality of work/Service
- Performance

### ADVISOR/CONSULTANT

<table>
<thead>
<tr>
<th>Disclosure of Advisor/Consultant Fees</th>
<th>Plan Fee in Dollars</th>
<th>% of Total Fee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment Fees</td>
<td>$16,227</td>
<td>100%</td>
</tr>
<tr>
<td>Commissions</td>
<td>-</td>
<td>0%</td>
</tr>
<tr>
<td>Finders’ Fees</td>
<td>-</td>
<td>0%</td>
</tr>
<tr>
<td>Other Fees</td>
<td>-</td>
<td>0%</td>
</tr>
<tr>
<td>Total Fees</td>
<td>$16,227</td>
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</tr>
</tbody>
</table>

**Advisor/Consultant’s Fees vs. Benchmark Group in percent**

- Low: 0.13%
- Your Plan: 0.25%
- Below Average: 0.25%
- Average: 0.25%
- Above Average: 0.30%
- High: 0.50%

**HOW DO THE PLAN FEES COMPARE to the average in the Benchmark Group?**

- this plan's advisor/consultant fees are approximately **0.25% per year**
- this is equal to **$0** more per year
- this is **$0** more per participant per year
Investment Manager’s Fee Disclosure

- All active?
- All passive?
- Striking a balance
- Investment Philosophy

**INVESTMENT MANAGERS**

<table>
<thead>
<tr>
<th>Disclosure of Investment Manager Fees</th>
<th>Plan Fee in Dollars</th>
<th>% of Total Fee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment Fees</td>
<td>$29,108</td>
<td>100%</td>
</tr>
<tr>
<td>Total Fees</td>
<td>$29,108</td>
<td>100%</td>
</tr>
</tbody>
</table>

**Investment Manager’s Fees vs. Benchmark Group in percent**

- Low: 0.24%
- Below Average: 0.37%
- Average: 0.44%
- Your Plan: 0.45%
- Above Average: 0.51%
- High: 0.64%

**HOW DO THE PLAN FEES COMPARE to the average in the Benchmark Group?**

- This plan's investment manager fees are approximately **0.45%** per year
- This is **0.01%** more per year
- This is equal to **$649** more per year
- This is $3 more per participant per year
Summary

- While the emphasis on fees is understandable, the purpose of a retirement plan is to provide the means for participants to save enough money for a secure retirement.

- The ultimate test remains the ability of your employees to retire with a high probability of achieving this goal.

- With that it is logical that a significant portion of a plan sponsor’s total fee should pay for services supporting that primary objective.

- Plan sponsors should understand that high-value services don’t necessarily require high fees paid by participants.
Thank You!

Interested in a complimentary benchmark?

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