Navigating Retirement Plan Fees

A guide to fiduciary responsibilities and best practices

The Standard®

The Fees in Your Plan

As a plan sponsor, you have a fiduciary obligation to know the total costs of operating your plan. The Department of Labor does not require you to choose the least expensive services, but you need to know who is getting paid — how much and for what services — and whether these costs represent reasonable pricing and provide good value. Here is an overview of some typical plan-related fees.

One-time fees

Plan setup, conversion and miscellaneous fees: Paid by plan sponsor

- Plan setup: Fees charged by provider for setting up a new plan, including installation fee, education program and enrollment expenses
- Plan conversion: Fees charged for converting a plan from one provider to another; in addition to setup fees, includes contract and service termination charges
- Changes in plan services: Fees associated with the addition or termination of services such as adding or removing an investment option, or adding online advice or a brokerage window

Ongoing fees

Plan administration: Paid by plan sponsor or may be passed on to participants

- Administration/recordkeeping: Costs associated with keeping a record of participant accounts
- Custodial/trustee services: Costs associated with safekeeping plan assets
- Enhanced service platform: Expenses related to enhanced participant services, such as brokerage or mutual fund windows, communication and education programs, online advice, etc.
- Investment consulting: Expenses associated with independent advice regarding investments and/or plan structure
- Intermittent/cyclical services: Costs periodically incurred for legal counsel, audits, participant education, compliance services, company stock administration, etc.

Investment options: Paid by participant as a percentage of total assets

- 12b-1 fees: Fees included as part of a mutual fund's expense ratio that may be used to pay for sales commissions, account servicing or to offset the cost of other plan services
- Sub-transfer agency (sub-t/a) fees: Investment fund companies use revenue sharing sub-t/a fees to compensate fund transfer agents — companies, banks and mutual fund companies — when they subcontract with other entities to track buy and sell orders and credit them to the appropriate participant accounts
- Front/back-end loads: Fees assessed when a fund is purchased (front-end load) or at the time of sale (back-end load); back-end loads are typically reduced or eliminated after a given period of time
- Privately managed/collective fund fees: Similar to mutual fund fees; may be referred to as investment management fee
- Wrap fee: Fee associated with managing an annuity product, including investment management, operations, administration and marketing; may include an insurance benefit feature, front- and/or back-end loads and redemption fees

Retirement plan fees are a concern for plan sponsors and participants alike. Fee-related lawsuits, even in smaller plans, are on the rise. And, despite fee disclosure regulations, information about fees can be hard to find and inconsistent.

Participant fees: Often paid by participant, sometimes paid by plan sponsor

- Redemption fees: Fees charged when a fund is sold before a stated minimum holding period has elapsed
- Brokerage/mutual fund window fees: Annual and/or individual transaction fees charged for the use of a brokerage or mutual fund window
- Advice-related fees: Annual and/or usage fees associated with online, one-on-one or other advice platforms
- Company stock fund fees: Fees charged for buying and selling shares of company stock
- Other fees: Distributions, a fee charged to withdraw participant assets from the plan; loans, service fees on participant loans; service fees associated with a Qualified Domestic Relations Order

Returns Net of Fees

The investment return reported to participants is usually net of fees, which means its rate of return is reduced by its investment management fees.

Example fund

Return on assets = 8%

Management fees = (1%)

Return net of fees = **7%**

Evaluating Your Plan's Costs

Plan sponsors should review fees every year or so to make sure costs are reasonable, justifiable and in line with the industry.

Questions to Help With Your Evaluation

Ask these questions of any potential retirement plan consultant, advisor, third-party administrator, mutual fund company and/or investment advisor:

- Do you or any other entity receive sub-transfer agent, or sub-t/a, revenue? If yes, will the revenue be used to reduce our costs?
- Will you receive any 12b-1 fees or other compensation from any mutual funds that will be contained in our plan? If yes, will the revenue be used to reduce our costs?
- Are you receiving revenue sharing from fund companies?
- What is the total expense deducted from participant accounts in our plan?
- What is the total expense of each fund offered in our plan?
- What services do you provide to help alleviate the investment fiduciary burdens faced by retirement plan sponsors?
- What is your proprietary fund requirement?

Recommended Best Practices for Comparing Provider Fees

As you compare provider fees, it's also important to make an apples-to-apples comparison. Consider the following best practices.

Look at the big picture — Consider the "all-in" administrative and investment costs, and be sure to reflect any revenue sharing offsets or other credits.

Peel back the onion — Ask which services are included in the administrative fee. Will you save on materials, postage and labor by choosing a more full-service administrator? Does one provider offer more value than another? What level of support is offered? What is the service experience of existing clients with providers?

Consider how fees are calculated — A flat fee versus a percentage of assets can make a big difference depending on account sizes.

Watch for transparency and neutrality — Are the providers taking extra steps to provide fee information? Are they showing all fees with the full investment lineup? Are you required to use their funds in the investment lineup? Are investment revenues fully passed back to the plan or its participants? Do the providers require "mapping" or "default" to a specific (proprietary) Target Date Fund to obtain their quoted pricing model? Are the all-in fees shown using a fund lineup that you would use with your plan?

Looking for more information?
Talk to your representative at The Standard.

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