

Ensuring Reasonable Fees Through Fee Benchmarking

CHALLENGE

The Employee Retirement Income Security Act (ERISA) of 1974 requires that plan fiduciaries guarantee all fees paid from retirement plans are reasonable while considering the services being offered.



It is a balancing act requiring a diligent vendor monitoring program.



Plan sponsors seek to document the fees charged, assess the value of the services provided, and determine the competitiveness of the fees in the current marketplace.

SOLUTION

The annual fee benchmarking analysis we provide contains summaries of the fees charged for investment management, plan service fees, recordkeeping, administration, employee education, communication, compliance services, and a plan-specific fee benchmarking analysis.

The overall goal for this annual analysis is to help clients better determine the fairness of fees and then assure the best possible outcome for participants. More specifically, this is accomplished through helping clients to better understand plan service fees and how they are structured. Sponsors are not required to choose services from the lowest offer; however, they must be able to validate that the fees are reasonable through a deliberative process.

Another aspect of this analysis allows for a discussion of topics ranging from the duty to prudently monitor the plan's vendors to the difference between benchmarking and competitive search. Finally, we may recommend potential next steps and review when a competitive vendor search may be appropriate.



**FEE
BENCHMARKING
ANALYSIS**

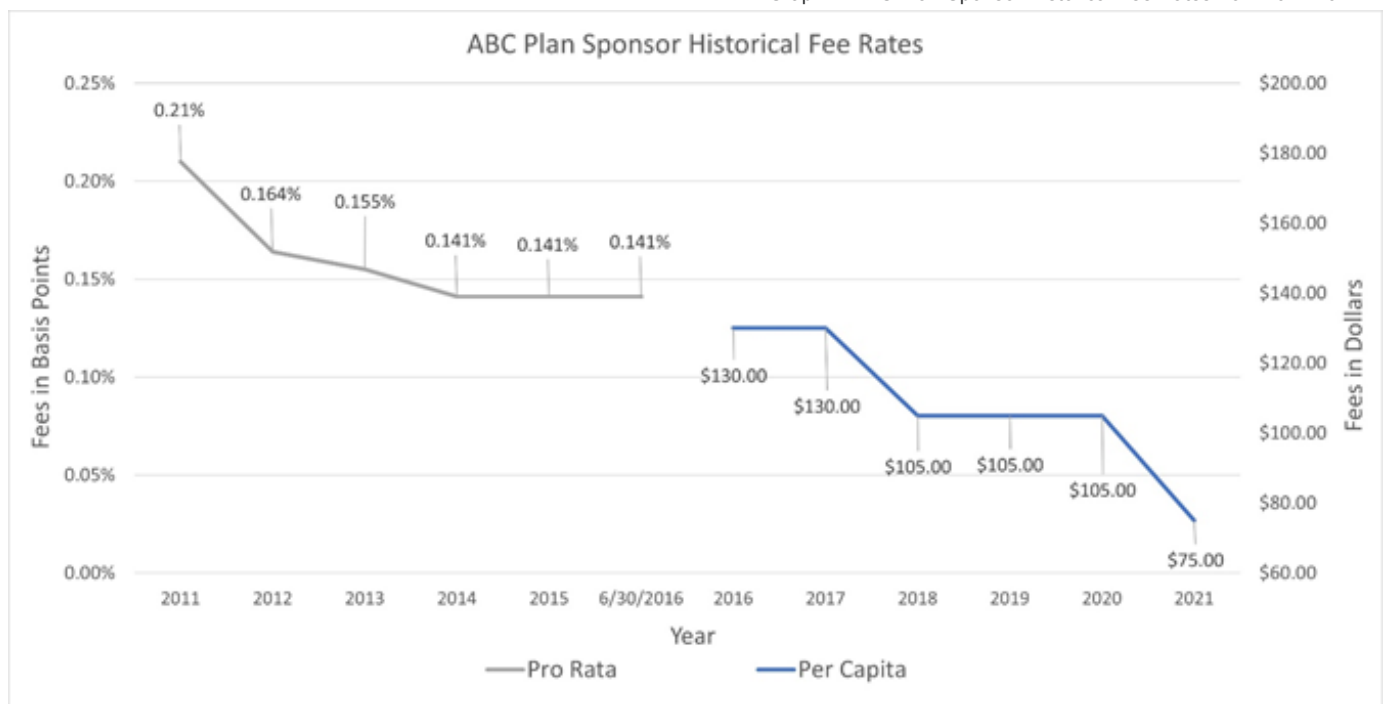
RESULT



Our client, "ABC Plan Sponsor" (for the purpose of this case study), is a long-term client and has fee benchmarking data starting in 2011. ABC Plan Sponsor was a suitable example for this analysis because they are a long-term client representing many of our other 401(k) and 403(b) clients of similar size and complexity.

From the start of their time at Multnomah Group, negotiated fees stayed steady or declined year over year. As part of the evolving view of fee calculation methods, we negotiated a fee basis change from an asset-based method to a per-participant calculation process. Since the cost of recordkeeping to the vendor is directly related to the overall number of participants, switching fee calculations ties together what participants pay to the actual costs. This change closely linked the recordkeeper's revenue inflation to the cost of the plan administration and participant servicing.

Graph 1: ABC Plan Sponsor Historical Fee Rates from 2011-2021



As seen in Graph 1, the dedication to regularly monitoring benchmarking reports allows the committee to remain well-informed about the plan's fees and services. If the committee had not taken the initiative to instill proper governance over these fees, the overall fee rate might not have changed from the original rate of 0.21%.

A fee rate of 0.21% in 2020 would have translated to a \$370 fee per participant instead of the actual per capita fee of \$75 in 2021. Continuously monitoring fees and evaluating their competitiveness allows the committee to actively fulfill their fiduciary responsibility to participants. The plan sponsor has also opted to complete a request for proposal (RFP) vendor search project in 2021. These RFPs are another tool for monitoring service providers. While fee benchmarking focuses on the general fees, RFPs go directly to the market to ask what the costs and services for a specific plan will be. A full RFP can provide a more detailed and accurate view of the service requirements for a particular plan.

Completing both fee benchmarking and a periodic RFPs ensures that ABC Plan Sponsor will continue to exercise their full fiduciary responsibility by diligently monitoring service providers and their fees.