MEASURE FEES AND TAKE ACTION TO IMPROVE PLAN COSTS

By Jeffrey S. Roberts, AIF® | Senior Associate, Retirement Plan Services

Plan sponsors are tasked with choosing a multitude of outside service providers for specialized plan services. From recordkeepers to third-party administrators, fiduciary advisors and investments fees—the costs can add up. It is imperative that sponsors remain vigilant when it comes to total plan costs.

But the responsibility doesn't stop once sponsors establish a service relationship. Tibble v. Edison International, a unanimous 2015 U.S. Supreme Court ruling, determined that fiduciaries have a continuing duty to monitor plan costs. The case was originally brought on the grounds of overpriced retirement plan investment options, so this judgment can be considered a sharp warning to sponsors that they must continually watch expenses.

Fortunately, most sponsors got the message. Callan's 2018 Defined Contribution Trends Survey found that 83% of plans calculated and benchmarked fees within the past year. Of those plans, about half were actually able to reduce expenses.

But how do sponsors put numbers into action?

Take a Measurement | Sponsors should benchmark plan fees, ideally annually, against comparable industry averages. Callan's survey determined that more than 80% of fee benchmarking in 2017 was conducted by consultants and advisors, while the proportion measured directly by plan sponsors continued to shrink. About half of fee-benchmarking studies referenced proprietary consultant databases, while recordkeeper data were referenced to a significantly lesser degree.

Plan costs should be benchmarked at the component level. Investment fees and administrative expenses may be paid to the same service provider under a single agreement, but they can be more accurately monitored on a standalone basis. Separating each plan expense and comparing it to its peer group allows sponsors to negotiate fees with providers in the appropriate areas.

Set Your Sights Lower | The low-hanging fruit of fee negotiations can be found around plan investments. For starters, funds that currently serve as investment options may be available in less expensive share classes. Some providers often have asset-level constraints (smaller plans) for accessing these share classes, so the growth of plan assets over time can unlock investment fee reductions.

Advisors may choose to swap some of the actively managed, higher cost funds, for indexed, lower cost options. Sponsors can also consider different types of investment vehicles that aren't as expensive for investment managers to operate, and thus are cheaper plan options. Traditional mutual funds are responsible for costs that collective investment trusts and separately managed accounts can avoid, and their structures are suitable for defined contribution plans.

Find A Better Balance | The use of dedicated per-participant fees increased by 55% in 2017, according to Callan. This method offers transparency and an equitable allocation of plan costs by charging the same fee to each participant. The trend away from the traditional revenue-sharing model to cover administrative expenses can be explained, at least partially, by its uneven distribution of plan costs; participants that avoid revenue-sharing investment options also sidestep their embedded fees, creating an outsized burden on other participants.

On its own, this doesn't lower aggregate plan expenses, but it's a more sensible approach for sharing them. Keep in mind that regardless of how expenses are allocated, sponsors must maintain records that substantiate their fee studies and disclose plan costs to participants.

Diligent fee monitoring is an important responsibility for sponsors, and not just because of their fiduciary obligation. A fraction of a percent in fee reductions can increase participant savings by tens of thousands of dollars over their working lives, so it represents an opportunity to make a profound positive impact on employees' personal financial wellbeing.

It is important to note, however, that cost savings should not take away from the value and service your plan is getting from your current provider relationships. Oftentimes, plans attempt to seek lower cost providers only to sacrifice many tools and resources that their prior provider offered. It is important to find a balance between cost savings and value.

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