



# 401(k) Today

## Why Pay More? 401(k) Plan Pricing Considerations

### Jeremy Bok

Plan assets and average account balance are generally the two most significant demographic factors impacting total 401(k) plan costs, but plan services are also a primary driver of cost, especially when a plan sponsor takes the plan to market during an RFP Vendor Search. Based on Planned Financial Services' experience of having conducted hundreds of fee and service benchmarking reports, the following plan services consistently have the biggest impact on 401(k) fees:

- **Non-standard (unusual) investments** – Any fund or vehicle that creates additional friction on the service providers' recordkeeping system. Examples include the recordkeeping of outside GICs (guaranteed investment contracts) that are not manufactured by the existing service provider; Illiquid limited partnerships and; Employer stock (private or publicly-traded). Plan sponsors need to weigh the benefits and costs of offering these investments, including a determination of their appropriateness from a fiduciary standpoint.
- **Multiple, complicated, or antiquated payroll transmittal frequency or systems** – Data that is submitted through non-electronic methods, or by plans with multiple payroll systems, locations, and payroll frequency, typically generate additional recordkeeping fees.
- **On-site employee meetings with multiple locations** – Labor and travel to deliver ongoing periodic on-site group or individual enrollment and investment education meetings is expensive. Plan fiduciaries need to evaluate the results of on-site meetings versus other more potentially beneficial communications and plan design strategies.
- **Investment management objectives** – *Passively* managed investments that track an index generally have significantly lower management fees than *actively* managed investments whose objective is to outperform a certain benchmark, index, or asset class. The analysis of investments should include an "apples to apples" comparison of investment management styles, objectives, and asset classes.
- **Investment Advice** – Many providers offer on-line investment advice, usually delivered through a third party firm. Fees typically range from 0.50% - 1.25% of employee account balances. Often these fees are as much as all other total 401(k) cost components added together. This is another important topic for plan fiduciaries to discuss and document in the consideration of services and plan design.

Remember, plan fiduciaries are not obligated to pay the lowest fees, but rather to make sure that plan participants are paying reasonable fees for the services being delivered.

#### Allowable Plan Expenses: Can the Plan Pay?

The payment of expenses by an ERISA plan (401(k), defined benefit plan, money purchase plan, etc.) out of plan assets is subject to ERISA's fiduciary rules. The "exclusive benefit rule" requires a plan's assets be used exclusively for providing benefits. ERISA also imposes upon fiduciaries the duty to defray reasonable expenses of plan administration. General principles of allowable expenses include the following:

- The expenses must be necessary for the administration of the plan.
- The plan's document and trust agreement must permit use of plan assets for payment of expenses.
- The expenses must be reasonable and incurred primarily for the benefit of participants/beneficiaries.
- The expense cannot be the result of a transaction that is a prohibited transaction under ERISA, or it must qualify under an exemption from the prohibited transaction rules.

Ultimately the ability to pay expenses from a plan trust is a facts and circumstances determination that needs to be made by plan fiduciaries. Because it is possible that the DOL may challenge such determinations it is important that fiduciaries consult ERISA counsel prior to paying questionable expenses from a plan trust and document the decision and reasoning.

#### Survey Reveals Plan Sponsor Attitudes About Advisors

The 2010 Fidelity Investments *Plan Sponsor Attitudes Survey*, which included responses from 503 employers ranging in size from 25 to 2,500 participants, produced the following observations:

- The top three reasons for hiring an advisor include: 1) plan investment assistance, 2) improvement of plan performance, and 3) assistance with fiduciary concerns.
- More plans are utilizing the services of an independent investment advisor. Two years ago 69% (of plans coming to Fidelity) used an advisor and in 2010 that percentage increased to 82%.
- Advisor satisfaction is linked to sponsors' understanding of fiduciary responsibilities. Of the sponsors who indicated they were "certain" or "very certain" of their fiduciary obligations, 71% also indicated they were "very satisfied" with their advisor.
- 63% of plan sponsors said it was "important" or "very important" for advisors to take on a formal fiduciary role.

As your dedicated plan consultant, our primary value proposition is to help our clients navigate their fiduciary responsibilities in a documented, process-driven manner while enhancing investment opportunities for participants. We attribute this aspect of our service model to be a significant differentiator for us in the marketplace and key ingredient in the continued growth of our firm. To learn more about our how Planned Financial Services' Fiduciary Fitness Program™ educates and informs fiduciaries within a best-practices environment, please contact or email [jeremy@plannedfinancial.com](mailto:jeremy@plannedfinancial.com) for additional information.

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