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Checking under the hood of your retirement plan with an objective mechanic

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In the rush of everyday business, it’s easy to neglect some of the fiduciary duties involved with sponsoring a retirement plan — particularly for relatively small employers. And when the plan adviser isn’t a retirement plan specialist, sometimes required tasks are left undone. James Sotell, managing director of Comperio Retirement Consulting, a registered investment advisory firm in Cary, North Carolina, is very familiar with this phenomenon. *EBN* recently spoke to Sotell for his perspective on advising small plans and their fiduciaries.

***Employee Benefit News*: Is there any typical reason why plan sponsors are knocking on your door for advice these days?**

James Sotell: Sure. For one thing, they’re looking for unbiased advice from a consulting firm that specializes in retirement plans. But more specifically, one reason is all the publicity around litigation involving plan sponsors and accusations that they have been negligent in fulfilling their fiduciary duties. Another is that they have grown large enough, from a few million dollars to the $15-$50 million range with what the markets have done since 2009. I think some of the executives are saying, “Hey, this is a sizable asset. Are we protecting ourselves as an organization? Are we doing what’s best for our participants to make sure that they’re in the best position for retirement?”

EBN: **What do you do to size up a plan and look for potential trouble spots?**

Sotell: We have a checklist. Many of them, if they hadn't been working with an advisory firm that specializes in retirement plans, often lack adequate administrative processes and systems for documenting their actions and meetings. Or they don't have an updated or revised investment policy statement, or ongoing due diligence and review of their funds tied to their policy statement, or benchmarking investment performance or analysis of their fees to ensure that they're reasonable for services rendered.

***EBN*: When you find that a sponsor is deficient in those areas, are they surprised, or do they already know it?**

Sotell: There's a combination of both. Some sponsors say, "We have a sense of what we should be doing, but we're not focused on this. This isn't our core business, so we'd like to have someone to help us guide through that process." And there are other plan sponsors that have been so reliant on the advice from either the recordkeeper or maybe a generalist adviser who they think is a fiduciary, but in a lot of cases is not, and they really don't know.

***EBN*: So in that latter case, the sponsor must suspect the adviser isn't acting in a fiduciary capacity?**

Sotell: Well, it's sort of like a plan sponsor and two people in line and the sponsor says, "Okay, if you're a fiduciary, step forward." And the sponsor just stays there, but the recordkeeper and the adviser take a step back, and the sponsor looks to the right and the left and he's the only one in line, and by default is the fiduciary.

***EBN*: What other issues typically arise when you do a plan check-up?**

Sotell: The other most typical issue is the fees they're paying. Clients don't fully appreciate or know what all their fees are or how they're being charged — what is being paid from the funds or the revenue-sharing from the funds. Is that offsetting recordkeeping fees, is it paying recordkeeping fees? Is it paying adviser fees, or both?

***EBN*: Shouldn't they have that information from the fee disclosure documents they're getting?**

Sotell: It may get disclosed to them in some form or fashion once a year, but they don't see a bill, so they don't understand the rhyme or reason behind why certain share classes are offered in their plan. They don't understand that next to the fund name, that if it says "A" versus "R6," that that denotes right away a difference in fees and revenue-sharing.

EBN: When you decipher it for them, does anything surprise them?

Sotell: Something that becomes an "aha moment" is when they understand they may have different revenue-sharing for different funds, and the revenue-sharing on their default fund or a fund with a lot of assets in it could be higher than something with a small amount. Also, with regard to the default or QDIA fund, let's say it's a target date fund, sponsors often lack documentation as to why that target date fund was chosen, or just don't know why, because it was chosen before they got on the retirement committee. The issue is whether it fulfills the requirements of QDIA status.

EBN: **What does that involve?**

Sotell: It has to either be a managed account, a balanced fund, or a target date fund, and you have to document that you've looked at various choices, and decided what was best to do that, plus demonstrate that you have exercised due diligence in picking the specific fund.

EBN: **Once you get past the basic ERISA compliance issues, do you take a step back and look at the big picture?**

Sotell: We can walk them through a process of first, assessing their participant demographics and the plan features, and understand their strategic objectives. And if they're using a target date fund, we discuss the glide path to make sure it's consistent with their philosophy. Now that most recordkeepers have an open-architecture platform, you can choose from lots of different target date fund providers.

EBN: **Vanguard, T. Rowe Price and Fidelity really dominate the market. Is that a problem?**

Sotell: All three have good target date funds. But if you use one of them, that doesn't get you off the hook for documenting that you have looked at alternatives, and made a conscious choice. Also, when you've got three entities with dominant market share and there are other players trying to capture market share, it leads to the need for innovation and the offering of unique or different target date products to try to capture market share. Sponsors need to keep an eye on that.

***EBN:* What are the typical reasons sponsors choose not to use one of the three top target date fund players?**

Sotell: One is the glide path. A sponsor might be looking for target date funds with a lower equity exposure at the target date. But the large players are taking notice. For example, T. Rowe Price has two target date funds — one with an aggressive glide path, and another with a more conservative one. Also, Fidelity used to only use actively managed portfolios in its Freedom funds, and now they also have index fund options.

***EBN:* What are some other areas of potential neglect do you see on the part of plan sponsors in their role as fiduciaries?**

Sotell: One is when the plan offers a managed account option, they're not fully aware that there's a fiduciary duty to monitor and oversee the investment manager that's providing advice to manage that, to provide advice to the participant for that managed account. So there's a lack of documentation that they've done due diligence as to the methodology behind that. A lot of cases they think of the managed account like a product, but in reality it's an investment fiduciary decision.

***EBN:* Do you have any other concerns?**

Sotell: I wish service providers had a standardized formula for their retirement income and income needs projection calculators. Today they're all across the board because of the varying assumptions about market returns, inflation, and the percent of income they're replacing. Even when they let you plug in some of your own assumptions, others are hard-coded. That can lead to very inconsistent and confusing results.