

Fiduciary Corner

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Today, only 1 in 10 retirement plan sponsors utilize an independent source for benchmarking plan fees.

Retirement Research – An update on fee disclosure and service related topics from around the retirement industry.

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401(k) and 403(b) Plan Sponsors have a fiduciary obligation to periodically review all plan related fees and determine if those fees are reasonable. Prior to 2012, this process could be difficult, if not impossible, due to the lack of transparency. When asked, many sponsors had no idea of the total amount of revenue being generated by the plan or what the average expense ratios and administrative fees were being paid by participants.

2012 was the first year that fee disclosure was required by the Department of Labor. We are beginning to see some research emerge into the changes occurring now that plan sponsor are beginning to understand plan fees.

This initial research has uncovered some surprising initial impressions into the effects the fee disclosure requirement has had on Plan Sponsor behavior. For example, Plan Sponsor magazine recently released their 2014 Benchmarking Report. This 2014 Report contained several statistics that would question the effectiveness of the DOL's fee disclosure requirements including:

- **26.6% of survey respondents DO NOT know the approximate average investment expense ratio available to participants.**

While fee disclosure requirements have improved fee transparency, there is still a great deal of confusion around reporting the fee differences among mutual fund share classes, the costs associated with collective trusts and the continued ambiguity of fees associated with

insurance company General Account guaranteed type options.

- **45% of survey participants DID NOT calculate administration or recordkeeping fees paid to providers.**

Many plan sponsors continue to believe in the concept of "free recordkeeping" because they pay no out of pocket fees for administration. Quantifying the amount of revenue being generated by the investments and determining whether that revenue is reasonable for the services being provided is a primary responsibility of plan fiduciaries.

- **11% (approximately 1 in 10) of respondents used an independent source to benchmark fees in the plan.**

Many providers and advisors provide clients with benchmarking data comparing the plan to other clients on the same service platform. This information is very narrow and should be used as a starting point to compare fees and services to a representative sample available in the entire marketplace.

Initial research suggests that while there has been some increase in fee transparency and ability to evaluate services in order to make a determination of reasonableness, there is still a long way to go.

If you are interested in discussing any of this information in greater detail, please call either Jim or Scott.

