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A Retirement Plan Price Review is More Than a Review of the Price

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The famous mathematician Sir Isaac Newton taught us that for every action there is an equal and opposite reaction. Over the past decade there has been a dramatic transition in the way defined contribution plan sponsors review and negotiate plan fees, and the recordkeeping industry is reacting. Recordkeeping fees have become less all-inclusive, with more services being priced a la carte, and with fee incentives for the use of proprietary investments in the menu design. In such an environment, plan sponsors may want to expand how they consider plan fees.

Background

Fee disclosure requirements and a new wave of fee litigation have triggered changes in the way many plan sponsors negotiate fees associated with their plans. A deeper level of fee scrutiny and fee negotiations backed by more accurate benchmarking data has resulted in sponsors being able to reduce recordkeeping charges more regularly. In turn, recordkeepers are being forced into becoming more efficient, better at internal cost accounting and, most recently, focused on addressing services that both add to and detract from their bottom lines.

Features of a Fee Review

Helped by regulatory requirements, improved fee reporting, and more specific education around plan fees, it is common for today's retirement plan committee to focus on the following as part of their fee review process:

- Evaluating the different types of recordkeeping fee models (transparent and non-transparent)
- Understanding the relationship between recordkeeping fees and proprietary investment products, including documentation that proprietary funds must meet all the standards required by the plan's fiduciary process for fund selection
- Benchmarking base recordkeeping fees against plans of similar asset size and similar number of participants
- Testing the marketplace via a request for proposal from time to time

As recordkeepers look to re-tool and re-capture a portion of their margins worn away by the pace of fee compression, there has been a notable increase in recordkeeping fees for projects, the introduction of participant level transaction fees, and new fees for services once provided as part of the standard recordkeeping arrangement. Certain recordkeepers that have historically included distribution fees, loan maintenance fees, plan document updates, data feed changes, and QDRO review in their base fees are introducing per occurrence fees for such transactions or projects.

Questions that may be less common in a review of plan fees, yet important to finding the right fee structure and appropriate scope of services documented in a recordkeeping agreement, are:

- What are the services driving fees under the current fee structure?
- What are the services most utilized by plan participants?
- What are the services most valued by participants and the sponsoring organization?
- What are the services not provided that would be of value to the plan and its participants?
- Are there any underutilized services? If so, are there potential fee savings by reducing/eliminating those services?
- Are there anticipated projects that can be negotiated at the time of a fee review?
- How will unforeseen projects be priced, and should there be a budget for such events?

There is no requirement that plan fiduciaries always choose the least expensive option for base recordkeeping or for additional services. Rather, a committee whose advisors and recordkeepers work well together will be able to compile a comprehensive analysis of services - making it easier for plan committees and their advisors to review, negotiate, and document that their fees are reasonable, necessary, and of value to the plan.

Newton's Law of Action and Reaction gives us insight into the tensions inherent between fees and services. Retirement plan fee reviews should always look for ways to increase services of value at a reasonable cost and eliminate those that are unnecessary.

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