USI CONSULTING GROUP

Focused on Fees:

How Retirement Plan Sponsors Can Rein in Excessive Fees

After several years of excessive fee lawsuits, a growing number of plan sponsors and fiduciaries are paying closer attention to cost, proactively assessing the reasonableness of fees paid to service providers and working with experienced advisers to negotiate fairer pricing structures.

In an October 2018 survey of defined contribution plan sponsors, conducted by the Plan Sponsor Council of America, one-fourth of 300 plans indicated they had implemented some form of fee levelization (fee levelization helps plan sponsors split administrative fees equally among all employees enrolled in a retirement savings plan). Half of the respondents that had made fee changes acted as part of the normal course of plan governance. However, 50% of the large plans (plans with 1000 or more participants) indicated making changes in response to recent lawsuits.

Despite making progress on the fee front, there are still many plan sponsors that have not made any fee assessment changes in the last two years and continue to overpay by millions of dollars for investment, recordkeeping and other administrative services. In many cases, it is not because the employers do not want to make meaningful efforts to pay lower fees – oftentimes, they simply do not know how to go about this process.

Knowledge of Plan Fees is Essential

Regardless of plan type, whether 401(k), 403(b), or a 457(b) plan, there are a wide range of expenses associated with managing retirement plans. Understanding how fees are collected, who is being paid, and if the cost of services provide good value for plan participants is critical. Plan sponsors should make every effort to learn about all options available to reduce these expenses.

Recordkeeping fees are a very common type of fees. It can vary significantly depending on the amount of plan assets under management. In addition, various types of funds have different fee structures. Some mutual funds, for example, charge a commission that is often paid upfront by plan participants. Increasingly, recordkeepers are transitioning from basis-point pricing, which is based on plan assets, to flat-fee per-head pricing, which is based on the number of participants in the plan.

Overall, plan sponsors have a fiduciary responsibility to find competent service providers that do not charge unreasonable fees that would reduce participants' returns. They are also required to disclose fees and charges so plan participants can make responsible choices.

How do You Stack up Against Peer Plans?

Regular benchmarking of retirement plan costs is an effective way to assess whether fees are fair and reasonable. Experts recommend that sponsors conduct cost benchmarking annually, leveraging the process to assess the quality of services provided by vendors.

Typically, plan sponsors use advisory firms for benchmarking. It is important to select firms that have experience working with different plan types and sizes, and access to effective benchmarking tools.

Oftentimes, it is through benchmarking that many sponsors learn for the first time how much they are paying in fees and how much they could save by taking different measures. For example, USI Consulting Group (USICG) typically finds cost saving in 75% of plans during benchmarking.

In a recent case, USICG deployed its benchmarking capabilities to help a nonprofit sporting association dramatically lower plan cost. USICG consultants worked diligently with the plan recordkeeper, making a strong case for lower fees based on recent provider searches of comparable $50 million plans.

The team also explored multiple approaches to pricing the 401(a), 403(b), 457(b), and 457(f) plans to secure the best result. The process ultimately resulted in fee savings of more than $50,000 per year for the association.

Leading Practices to Rein in Excessive Fees

In addition to benchmarking and strong negotiations, sponsors can take various steps to keep plan fees in check.

Here are a few leading practices that plan sponsors should consider:

- Engage in a request for proposals regularly, perhaps every **three to five years**. Even if it doesn't lead to a change in service provider, this practice would help sponsors obtain information with which to negotiate a better deal with current vendors.
- Develop a process and policy around the assessment and retention of service providers.
- Assess each service provider's fiduciary role or interest. This information can be indicative of whether a plan is paying excessive and undisclosed fees.
- Dedicate a plan sponsor meeting each year to reviewing updated information on fees and benchmarks.

How USICG Can Help

Since the cost to operate a retirement plan can vary widely based on many different factors, making regular review a part of a plan's governing process is critical. USICG consultants have experience working with plans of different sizes and types. They can help firms with benchmarking, service provider search and audit services. These solutions, which are supported by proprietary analytics, are designed to help sponsors identify the right service providers and ultimately select the most cost-efficient service.

To learn more about USICG services, fee negotiation and benchmarking capabilities, contact your USICG representative.

The USI ONE Advantage®

To analyze our client's business issues and challenges, our benefits team leverages USI ONE®, a fundamentally different approach to risk management. USI ONE integrates proprietary business analytics with a network of local and national technical experts in a team based consultative planning process to evaluate the client's risk profile and identify targeted solutions. Clients then receive tailored recommendations for improving their employee benefit plans. To learn more about USI ONE and the USI ONE Advantage, contact your local USI team today.