

Why plan fiduciaries need to pay careful attention to retirement plan fees



Competitive benchmarking is a way to measure and compare fees associated with running your retirement plan.

Retirement plan fees can take many different forms, making it difficult to determine whether they're reasonable. In this article, we'll discuss why fiduciaries need to pay careful attention to fees and how benchmarking can help you make informed decisions. We'll also explore some of the most frequently asked questions about retirement plan fees and how to benchmark them.

Why is understanding your plan costs so important?

For starters, it helps you fulfill your fiduciary duties and safeguard you, your plan and your committee from excessive fee lawsuits. Plan sponsors have specific responsibilities to understand plan fees under ERISA, the law that governs most workplace retirement plans.

ERISA requires plan fiduciaries to:

- Monitor and benchmark service providers and other plan expenses to make sure that fees are reasonable based on the level and quality of services being delivered

- Monitor and review the plan's investment options regularly to make sure they're performing in line with expectations
- Disclose plan, investment and fee information to participants so they can make informed decisions on investing their savings

Fees typically fall into three categories:

- 1. Administrative:** These are costs associated with the plan's day-to-day operations, including recordkeeping, accounting, legal, trustee and other related expenses.
- 2. Investments:** The largest share of plan expenses are investment costs that include investment management and investment-related services; they are often charged as a percentage of plan assets. It's important to pay attention to investment fees because they aren't always clear or easy to understand. Additionally, investment fees that are too high may significantly diminish participants' savings over time.
- 3. Individual services:** Generally, these fees are associated with optional plan features, such as loans. These costs may be passed directly onto participants who opt to take advantage of them.

Fees are charged in different forms too, such as a flat fee, a percentage of assets and/or a combination of both. They may be charged on a one-time or on an ongoing basis, depending upon the services received.

As fiduciaries, plan sponsors must engage in a thorough process to ensure that plan fees are reasonable, and the benchmarking process is carefully documented.

What is the best way to analyze 401(k) plan costs?

Benchmarking is the process of comparing costs and value for the services being received by your retirement plan with plans of a similar size and type. Issuing requests for proposal (RFPs) is a common approach to benchmarking, but it isn't the only solution.

Other benchmarking resources include:

- Retirement plan consultant databases
- General benchmarking data
- Recordkeeping data

How often should you benchmark your 401(k) plan?

Generally, smaller plans may benchmark their fees and services every three years while larger plans may do an annual review. "Kicking the tires" on your plan expenses on a regular basis is a good way to confirm that costs are in line with plans like yours (or not).

Need help understanding your 401(k) plan fees?

Making sense of your plan fees and recognizing whether or not you're getting the most value for your plan dollars can be complex. We can help you review and evaluate your plan costs so you can make informed decisions on how to manage them efficiently and cost-effectively. Once you understand your plan fees, you'll be better able to carry out your fiduciary responsibilities and feel more confident that you're doing what's best.

To learn more about plan fees and how to benchmark them, connect with us at [hhconsultants.com](https://www.hhconsultants.com). We're here to help you navigate the complexities of retirement plan management and help ensure that your plan is running efficiently and cost-effectively.

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