



Benchmarking of Retirement Plan Expenses

Real Data for Decision Support

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The PlanTools™ Risk Management System is a hosted technology platform used by retirement plan service providers and investment professionals. PlanTools supports standards-based fiduciary compliance management and reporting. This paper is provided to help plan sponsors, service providers and professional advisors understand how expense data may be collected, collated and analyzed to help plan fiduciaries to make better decisions and reduce fiduciary risk.

This analysis is based upon data entered into PlanTools™ by professionals evaluating retirement plans. The data reflected in this analysis is not from a survey – what a service provider might charge a client, but instead actually identifies what a service provider has charged a client for the categories of services listed in this analysis.

PlanTools' proprietary statistics are based on actual results using actual plan data entered by professionals. The data is used for benchmarking and to meet the disclosure obligations of ERISA Section 408(b)(2).

Actual Data is a better Risk Management Measure than a Survey

Surveys are based on “what if” scenarios. Vendor respondents typically report their standard fee schedule, usually the highest fees. Benchmark statistics from a standard fee schedule produces a reported expense that is higher than actual fees charged by a service provider seeking to win an engagement in a competitive environment. The resulting survey data creates an artificially higher average expense scenario for comparison by the buyer, making it easier for a service provider to beat the surveyed mean or median reported expense. The result appears to be a “better deal” and the perception that offered fees are reasonable and defensible.

DOL Attacks Survey Results – Is it an Isolated Case or a Trend?

Surveys have come under recent attack by the Department of Labor (“DOL”). In a recent bankruptcy case involving the payment of \$500 per hour to a Bankruptcy Trustee for his role as the interim plan administrator, a pension consultant sought a “Request for Information” from 57 different law firms. The survey results revealed a range of hourly rates for a partner of \$500 to \$840. Only two attorneys were willing to accept the role of the plan administrator and the acceptance of that appointment was subject to an hourly rate premium and indemnification.

In the DOL’s objection to the court for the interim payment of fees to the Bankruptcy Trustee, the DOL did “not see how the Survey buttresses the Trustee’s argument”¹ that a \$500 hourly rate was reasonable even though it was the lowest hourly rate. In fact, the DOL expressed to the court that “it appears inappropriate to ask a pension consultant employed to assist the Trustee in his ERISA duties to perform a Survey to justify the

¹ Secretary of Labor’s Objection to the Requests for an interim award of fees and reimbursement of expenses by the Chapter 7 Trustee and retained professionals in connection with the performance of Trustee’s ERISA Plan Administrator Duties, United States Bankruptcy Court Eastern District of New York, In the Matter of The Robert Plan Corporation, et al, Chapter 7 Case No. 8-08-74573-reg and Case No. 8-08-74575-reg

Trustee's proposed hourly rate."²

Furthermore, the DOL concluded that employing a pension consultant to engage in this survey was a lapse of judgment and concluded its objection with a request the court reduce the Bankruptcy Trustee's hourly rate to \$200 per hour.

"This lapse in judgment on the Trustee's part is reflective of why a significant holdback in his fee request is warranted, in addition to a reduction in his hourly rate to \$200 per hour."³

The DOL's actions, in this case, raise several important questions for the retirement industry including:

1. Is this an isolated case?
2. Are surveys a reliable source of information in the future?
3. Should plan assets be used to pay for surveys?
4. Is the DOL attempting to set precedence by establishing reasonable rates of pay for service providers?

It is important to note that historically the DOL has not taken the position that plan sponsors hire the lowest cost provider. In fact, the DOL is not on record prohibiting the use of the highest cost provider. Bottom line, a plan sponsor has to determine if the fee for services rendered is reasonable given the level and quality of services. This requires a documented process that will assess both quantitative and qualitative criteria.

I do not presume to know the answer to these questions. However, if the DOL prevailed in their attempt to persuade the Court to set the Bankruptcy Trustee's rate of pay at \$200 per hour, well below the lowest hourly rate reflected in the survey, one wonders if the precedence may be applied to all other service providers.

The Future of Surveys

In addition to the DOL's actions, the use of surveys for expense benchmarking may be limited in the future because they rely on pricing guidelines (fee schedules) as opposed to pricing realities (actual charges). Detailed disclosure of pricing realities is required under ERISA 408(b)(2) and comparative analysis of pricing realities is clearly a superior benchmarking methodology than a survey of pricing guidelines. This is especially true for self-reported surveys of and by plan service vendors.

Since all service providers are obligated by ERISA Section 408(b)(2) to report their actual fees by client for services rendered beginning January 1, 2012, there is an opportunity to collect that data to calculate accurate and reliable benchmarking statistics that will assist plan sponsors and service providers in their assessment of reasonable fees. This data is currently being captured by PlanTools to populate the required disclosure reports (using PlanTools templates) that will enable service providers to meet their regulatory disclosure obligations. In addition, PlanTools simultaneously benchmarks the actual plan fees against a reliable database of similar plans to determine the reasonableness of fees for services rendered. Finally, to support risk management objectives, professionals are able to publish the combined disclosure/benchmarking report to a web-based document lockbox system that is date stamped to provide proof the disclosures were provided on a timely basis.

Assessing the Value of Plan Services: Quality versus Quantity

PlanTools has adopted an approach that benchmarks fees without attempting to specifically assess or score perceived value. PlanTools simply benchmarks fees for the services rendered against other plans of similar size by plan assets or participant count. Based upon the PlanTools benchmarking results, value can be accurately measured and analyzed through the following discrete processes:

² *Id.*,
³ *Id.*,

- **Compare** the number of services offered between service providers;
- **Evaluate** the complexity of the services offered between service providers;
- **Determine** which services have the highest degree of difficulty or risk; and
- **Rank** which services are most important to the plan and responsible plan fiduciaries.

The timeliness, accuracy and number of services can be measured objectively and empirically, but value one service provider delivers to a given client compared to that of another vendor is a highly subjective matter. Most benchmarking and data services fail to take the “science” of service pricing to the level of art available from qualified and objective professionals.

Relying on value assessments structured around a third party’s subjective scoring system that lacks industry vetting and acceptance is similar to buying a cure for cancer that does not have FDA approval. Plan sponsors in the crosshairs of a plaintiff attorney for unreasonable fees are particularly susceptible to relying on flawed survey methodologies.

Furthermore, any subjective benchmarking approach that attempts to score value and achieve universal acceptance places the plan sponsor in jeopardy of losing their litigation trump card. That trump card permits the plan sponsor with a prudent and documented benchmarking process to argue their selected service provider is the best solution for their situation even if their cost is higher than the average or the median cost. If this were not the case, a plan sponsor would have to find and retain the lowest cost auditor, attorney, advisor and recordkeeper in the industry. In fact, it would be difficult for any service provider domicile in Los Angeles, New York and Chicago to compete with a service provider domicile in Ohio, Utah or Oklahoma due to the cost of living differences.

Benchmarking Challenges for the Plan Sponsor and Service Provider

There are several common challenges raised when evaluating actual benchmarking statistics. They include:

1. Is your sampling size sufficient to produce reliable statistics?
2. Who is vetting the data to confirm it is accurate?
3. Should there be more ranges of analysis?
4. Should there be more criteria besides plan size by assets and participant count?

These are all valid questions worthy of a response.

1. Is your sampling size sufficient to produce reliable statistics?

There are currently no studies, to my knowledge, that address sampling size for benchmarking the reasonableness of fees for retirement plan purposes. The only guidance we have to draw from is provided by the AICPA as it relates to auditing retirement plans. According to my discussions with numerous auditors from different accounting firms, a small plan with a 100 participants requires a sampling size of approximately 25 or 25%; however, a plan of 1,500 to 100,000 participants only requires a sampling size of 60 or a mere 4% to .06%. Whether this sampling size would apply to fee benchmarking has yet to be validated but it does provide a basis for discussion and consideration.

Fortunately, for most benchmarking ranges, PlanTools has more than 25 or 60 samples. In fact, the total sampling size of approximately 500 plans represents 15% of the entire PlanTools database. Expect future

benchmarking studies from PlanTools to include a growing number of representative plans but it is unlikely that future statistics will vary much.

2. Who is vetting the data to confirm it is accurate?

No one! The detailed data entered into the PlanTools™ expense analysis and benchmarking system is entered by professionals. The data they enter into the system is intended to populate reports to meet 408(b)(2) disclosure requirements and conduct benchmarking analytics. It is unreasonable to expect any recordkeeping system and especially an IRS Form 5500 to provide accurate and complete data regarding fees from such a wide range of service providers. Comprehensive analysis of fees can only be accomplished with the help of a qualified advisor or consultant.

Furthermore, all professionals licensed to use the system are provided training to master the system. In short, there may be some mistakes but they are negligible.

3. Should PlanTools increase the number of plan size ranges for analysis?

It has been our observation that additional ranges need to be added to the benchmarking process as the database grows. For example, you will notice the “high” cost for a participant count of 25 employees is over 6%. In large part, very small plans are subject to minimum recordkeeping and administrative fees that creates an extremely high cost as a percentage of assets.

4. Should there be more criteria besides plan size by assets and participant count?

PlanTools benchmarking services will be expanded to include additional criteria including more asset and participant based ranges, SIC industry code, region (i.e., by state and/or city) and average balance size. Enhancements are scheduled for development to expand the scenarios as the database of actual expense realities increases.

Revenue Sharing Database to automate production of reports

PlanTools is releasing a “Revenue Sharing Database” that will auto populate expense analysis, benchmarking and 408(b)(2) disclosure reports. Professionals will have the ability to compare multiple platforms using the same or different investment alternatives to determine which share class by platform is the most cost effective. Future benchmarking statistics produced by PlanTools will reflect the investment management fee net of all revenue sharing without requiring manual entry of that data.

Currently, PlanTools investment management statistics exclude 12b-1 fees but they do not exclude Shareholder Service Fees or Sub-Transfer Agency Fees unless the user adds this information manually to the system. Most advisors have been provided the revenue sharing amount so they can manually enter that data in PlanTools; however, several plans in our database lack that information because the advisor was not provided the revenue sharing amount by the platform provider.

A plan sponsor is required to report a platform provider that refuses to disclose indirect compensation beginning January 1, 2012.

Distribution Channels for Platform Providers at Risk

As the details of revenue sharing agreements become available in the marketplace, distribution channels that contract platform providers will discover who receives the best pricing. Public availability of this information could have a number of repercussions on service providers including a new wave of consolidation:

- As third party administrators (TPAs) seek volume discounts with platform providers

- Renegotiation of revenue sharing agreements between investments and platform providers
- Renegotiation of revenue sharing amounts between platform providers and TPAs
- Consolidation of plan sponsor business with TPAs holding the most lucrative agreements

Benchmarking Report

This benchmarking report reflects the results from nine different asset-based scenarios. Each scenario is benchmarked against comparable plans with similar size assets and participant count. The percentage reflected for each service category is based upon the plan assets for the scenario whereas the dollar amount reflected is calculated as a cost per head based upon the number of participants assumed in the scenario. The statistics in this report are extracted from the actual data entered into PlanTools benchmarking system by professionals. A professional uses this information to report to fiduciaries regarding reasonableness of plan fees and 408(b)(2) disclosure obligations. It is important to note that fees reflected in each column may not represent a single plan. For example, the high percent (%) is not the high percent applied to a single plan in each expense category. Also, this analysis does not reflect the number of services rendered to a specific plan. Therefore, plans with higher fees may justify that cost because more services are rendered.

Scenarios Based on Participant Count

Sample size is 327 for plans having less than 100 Participants

	High %	High \$	Low %	Low \$	Mean %	Mean \$	Median %	Median \$
Investment Mgmt	2.29%	\$458	0.13%	\$26	0.53%	\$108	0.66%	\$132
Custody/Trust	1.56%	\$312	0.00%	\$0	0.09%	\$18	0.09%	\$18
Recordkeeping/Admin	3.38%	\$676	0.01%	\$2	0.27%	\$54	0.23%	\$46
Advisor Services	1.00%	\$200	0.13%	\$26	0.47%	\$94	0.50%	\$100
Total Cost	8.23%	\$1,646	0.27%	\$54	1.37%	\$274	1.48%	\$296

NOTE: Per head fees are based on a plan with either 25 or 50 participants

Sample size is 111 for plans having 100 to 499 participants

	High %	High \$	Low %	Low \$	Mean %	Mean \$	Median %	Median \$
Investment Mgmt	0.98%	\$490	0.02%	\$10	0.52%	\$260	0.60%	\$300
Custody/Trust	0.25%	\$125	0.01%	\$5	0.06%	\$30	0.04%	\$20
Recordkeeping/Admin	0.50%	\$250	0.01%	\$5	0.14%	\$70	0.14%	\$70
Advisor Services	1.50%	\$750	0.04%	\$20	0.30%	\$150	0.25%	\$125
Total Cost	3.23%	\$1,615	0.08%	\$40	1.02%	\$510	1.03%	\$515

NOTE: Per head fees are based on a plan with either 100 or 200 participants

Sample size is 21 for plans having 500 to 999 participants

	High %	High \$	Low %	Low \$	Mean %	Mean \$	Median %	Median \$
Investment Mgmt	0.75%	\$375	0.19%	\$95	0.51%	\$255	0.61%	\$305
Custody/Trust	0.06%	\$30	0.01%	\$5	0.05%	\$25	0.05%	\$25
Recordkeeping/Admin	0.45%	\$225	0.04%	\$20	0.21%	\$105	0.24%	\$120
Advisor Services	0.10%	\$50	0.06%	\$30	0.13%	\$65	0.25%	\$125
Total Cost	1.36%	\$680	0.30%	\$150	0.90%	\$450	1.15%	\$575

NOTE: Per head fees are based on a plan with 500 participants

Sample size is 23 for plans having 1,000 to 4,999 participants

	High %	High \$	Low %	Low \$	Mean %	Mean \$	Median %	Median \$
Investment Mgmt	0.89%	\$445	0.13%	\$65	0.41%	\$205	0.42%	\$210
Custody/Trust	0.10%	\$50	0.03%	\$15	0.07%	\$35	0.06%	\$30
Recordkeeping/Admin	0.28%	\$140	0.00%	\$0	0.08%	\$40	0.05%	\$25
Advisor Services	0.25%	\$125	0.10%	\$50	0.17%	\$85	0.25%	\$125
Total Cost	1.52%	\$760	0.26%	\$130	0.73%	\$365	0.78%	\$390

NOTE: Per head fees are based on a plan with 1,000 or 2,000 participants

Sample size is 7 for plans having 5,000 to 9,999 participants

	High %	High \$	Low %	Low \$	Mean %	Mean \$	Median %	Median \$
Investment Mgmt	0.89%	\$445	0.13%	\$65	0.55%	\$275	0.51%	\$255
Custody/Trust	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0
Recordkeeping/Admin	0.30%	\$150	0.01%	\$5	0.15%	\$75	0.12%	\$60
Advisor Services	0.25%	\$125	0.01%	\$5	0.14%	\$70	0.19%	\$95
Total Cost	1.44%	\$720	0.15%	\$75	0.84%	\$420	0.81%	\$410

NOTE: Per head fees are based on a plan with 5,000 participants

Scenarios Based on Plan Assets**Sample size is 188 for plans with assets of less than \$1 Million**

	High %	High \$	Low %	Low \$	Mean %	Mean \$	Median %	Median \$
Investment Mgmt	1.23%	\$246	0.13%	\$26	0.66%	\$132	0.71%	\$142
Custody/Trust	1.56%	\$312	0.03%	\$6	0.19%	\$38	0.10%	\$20
Recordkeeping	3.38%	\$676	0.04%	\$8	0.36%	\$72	0.30%	\$60
Advisor Services	1.00%	\$200	0.25%	\$50	0.63%	\$126	0.50%	\$100
Total Cost	5.15%	\$1,434	0.45%	\$90	1.84%	\$368	1.61%	\$322

NOTE: Per head fees are based on a plan with 25 or 50 participants

Sample size is 218 for plans with assets of \$1 to \$10 Million

	High %	High \$	Low %	Low \$	Mean %	Mean \$	Median %	Median \$
Investment Mgmt	2.29%	\$1,145	0.13%	\$65	0.57%	\$285	0.61%	\$305
Custody/Trust	0.20%	\$100	0.00%	\$0	0.06%	\$30	0.06%	\$30
Recordkeeping	1.38%	\$690	0.01%	\$5	0.22%	\$110	0.17%	\$85
Advisor Services	1.50%	\$750	0.04%	\$20	0.40%	\$200	0.40%	\$200
Total Cost	5.37%	\$2,685	0.18%	\$90	1.25%	\$625	1.24%	\$620

NOTE: Per head fees are based on a plan with either 25, 50 or 100 participants

Sample size is 72 for plans with assets \$10 to \$100 Million

	High %	High \$	Low %	Low \$	Mean %	Mean \$	Median %	Median \$
Investment Mgmt	0.89%	\$445	0.13%	\$65	0.44%	\$220	0.55%	\$275
Custody/Trust	0.25%	\$125	0.00%	\$0	0.05%	\$25	0.05%	\$25
Recordkeeping	0.45%	\$225	0.00%	\$0	0.14%	\$70	0.15%	\$75
Advisor Services	0.50%	\$250	0.06%	\$30	0.18%	\$90	0.25%	\$125
Total Cost	2.09%	\$1,045	0.19%	\$95	0.81%	\$405	1.00%	\$500

Per head fees are based on a plan with either 200, 500 or 1,000 participants

Sample size is 11 for plans with assets of \$100 to \$500 Million

	High %	High \$	Low %	Low \$	Mean %	Mean \$	Median %	Median \$
Investment Mgmt	0.89%	\$445	0.13%	\$65	0.48%	\$240	0.47%	\$235
Custody/Trust	0.10%	\$50	0.10%	\$50	0.10%	\$50	0.10%	\$50
Recordkeeping	0.30%	\$150	0.01%	\$5	0.11%	\$55	0.01%	\$5
Advisor Services	0.25%	\$125	0.01%	\$5	0.14%	\$70	0.10%	\$50
Total Cost	1.54%	\$770	0.25%	\$125	0.83%	\$415	0.68%	\$340

Per head fees are based on a plan with either 2,000 or 5,000 participants

NOTE:

1. This study was completed using data as of March 31, 2011.
2. The cost per head is reflected as a dollar amount in each scenario.
3. Each service category reflects the highest or lowest cost for that category based on all plans with data in that service category. It is incorrect to assume that any one plan pays the highest or lowest cost in all service categories.
4. Although PlanTools provides professionals the ability to analyze all plan services or service components, this analysis does not restrict all plans in the sampling to the same level of services. Therefore, part of the variation in fees may be specifically tied to the variation in services offered.
5. PlanTools provides the ability to report the benchmarking cost for each service line. This permits professionals to identify value by assessing more services and the complexity of those services for each service category.
6. Investment management fees exclude 12b-1. Shareholder fees and Sub-Transfer Agent fees are revenue sharing that may be excluded if the user has access to that information and manually entered that data in PlanTools. Not all professionals were provided revenue sharing amounts by the platform providers for this study. This means the investment management expense may be slightly higher than it should be if revenue sharing had been added to every plan in the sample size.
7. The PlanTools "Revenue Sharing Database," due for release in May 2011, will permit PlanTools to conduct benchmarking studies that will automatically include all revenue sharing per fund by platform provider.
8. A platform provider is an organization that provides its distribution channel i.e., advisors, bundled solutions and Third Party Administrators a universe of investment alternatives with predetermined revenue sharing agreements. Platform providers have been known to accommodate secondary agreements negotiated directly between an investment advisor and distribution channel.

FOR MORE INFORMATION

PlanTools™ Risk Management System (PlanTools) is a pioneer in the delivery of an integrated web-hosted, standards-based analytics, reporting and monitoring suite used by retirement plan service providers and investment professionals. For more information or to demo the expense analysis, benchmarking, 408(b)(2), Advisor RFP or fiduciary governance system visit www.fraplantools.com or contact David J Witz, AIF® and Managing Director at 704-564-0482 or dwitz@fraplantools.com.