

Benchmarking - All About That Fee

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Stealing a tag line from the new hit song “All About That Bass” this blog outlines a practical approach to benchmarking fees in a manner that complies with ERISA 408(b)(2) fee disclosure. As you may recall, ERISA 408(b)(2) is designed to provide a responsible plan fiduciary (“RPF”) with sufficient information to determine if fees are reasonable and conflicts are avoided.

In general, the information a covered service provider (“CSP”) is obligated to provide a RPF includes their fiduciary status, a description of their services, and the fees charged for those services. This information provides the foundation for preparing a quantitative fee benchmarking assessment. Once this information is in hand, it must be loaded into a database to run a comparative assessment. The database cannot be a universe of plans that represents a single CSP.

For the results to be reliable, the plan must be benchmarked against other plans that are similar in size by plan assets and participant count. The more similar, the more accurate the benchmarking results, hence, the reason a quantitative assessment must be accompanied by a subjective qualitative analysis in the words of the RPF. For plans below \$50 million, benchmarking statistics are very reliable. As the universe becomes smaller which occurs as plans become larger, benchmarking may not provide the data needed to confirm fees are reasonable. Complex plans with size advantages are better off using benchmarking to support a formal request for proposal (“RFP”) process to validate fee reasonableness.

The depth of your benchmarking report will impact your ability to draw reasonable conclusions about fee reasonableness. Failure to comprehensively consider services rendered, who pays for those services, and how those services are paid are all material elements of sound benchmarking. Utilizing a software solution like PlanTools™ will assist a CSP in collecting the necessary information to make a prudent decision. Taking short cuts in the collection and evaluation of pertinent data subjects benchmarking results to criticism the process was imprudent. In short, this is one process that cannot be taken lightly.

However, implementing a proper process with appropriate documentation to support fiduciary procedural prudence protects both the plan sponsor and the CSP by preventing a plan sponsor from paying unreasonable fees and protecting a CSP from receiving less than reasonable fees for services rendered.

If you would like further information on what is needed to benchmark a retirement plan using [PlanTools™ Risk Management System](#), call or email me at 704-699-7031 or jwitz@fraplantools.com.

