



## Understanding and Evaluating Retirement Plan Fees, Part One: A Holistic Approach

**NOTE: Information on this page has been updated as of August 2024.**

According to the Department of Labor (DOL), understanding and evaluating plan fees and the expenses associated with plan investments, investment options, and services are important parts of each plan sponsor's fiduciary responsibility. Among other duties, fiduciaries have a responsibility to ensure that the costs paid by the plan are reasonable for the services received.

Looking at fees holistically can help retirement plan fiduciaries fulfill their duties. The three types of fees that retirement plan fiduciaries need to understand and evaluate are:

- Investment fees
- Recordkeeping and administrative fees
- Other service provider fees

For plan fiduciaries, it is prudent to document the process for reviewing and managing fees and address items such as:

- Benchmarks used when evaluating fees
- Frequency with which fees will be reviewed
- Method for allocating various fees—For example, will the fees be borne by the employer, the plan, or its participants? How will the costs be distributed?

### Investment Fees

It's a good idea to review investment fees and performance on a regular basis. As part of this review, it is important that investment fees not be evaluated in isolation but in conjunction with performance.

Investment fees can be compared to peers in the same investment category (e.g., large-cap blend) and in conjunction with investment performance compared to category peers and the index (e.g., the S&P 500 Index for a large-cap blend fund). In some instances, the fund may have a custom benchmark defined by the investment manager, which could also be used for comparison purposes. In some cases, a comparable peer group may be hard to identify based on the uniqueness of the investment strategy, but best efforts should be made.

As part of the fiduciary's responsibility to review investment fees, it is important to evaluate the investment option's share classes in an effort to understand the *net investment fee* of each fund (i.e., total fund expenses minus any revenue sharing), which may be different from the stated expense ratio.

There is an alphabet soup of share classes for mutual funds—plus collective investment trusts (CITs), in some cases—available to retirement plan sponsors. This plethora of share classes was developed to provide various pricing mechanisms and expense ratios and allow plan sponsors to use a portion of investment expenses to pay for recordkeeping and administration services.

### **Recordkeeping and Administrative Fees**

Recordkeeping and administrative fees should be reviewed periodically to assess whether fees are reasonable for the quantity and quality of services provided. Typically, best practice is to benchmark these fees and services every one to three years, with a more formal recordkeeper search-and-selection process conducted approximately every five to seven years. However, client-specific circumstances may warrant a shorter or longer period between evaluations.

Recordkeeping and administrative fees should be evaluated and compared to plans of similar size and type that are receiving analogous services. While each plan is unique—making an apples-to-apples comparison imperfect—evaluating fees against similarly situated and similarly sized plans provides a good reference point in helping to determine if plan fees are reasonable.

### **Other Service Provider Fees**

Other service provider fees should also be evaluated on a periodic basis, including audit fees, legal fees, and investment advisory and consulting fees. Similar to recordkeeping and administrative fees, if concerns exist regarding the quality of service being provided or the level of fees being paid, a request for information (RFI) or request for proposal (RFP) should be conducted.

Ultimately, having a sound fiduciary process in place is key. Performing regular reviews, documenting the process and details that lead to decisions, and providing a forum to discuss plan issues and consider alternatives can protect fiduciaries and benefit plan participants.

In part two of our series on retirement plan fees, we take a deeper dive into investment costs to explore what comprises a fund's expense ratio, how to benchmark different asset classes, and why



share class selection is important to a plan sponsor's overall fee methodology.

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