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Sterling Investment Advisors Ltd.

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"What is all the noise lately regarding fee disclosure for retirement plans?"

By Timothy E. Flatley

"Price is what you pay. Value is what you get."—Warren Buffett

The "noise" is about the 408(b)(2) provider-fee disclosure to retirement plan sponsors and the 404(a) fee disclosure to retirement plan participants. You should care if you are an executive in a company that sponsors a retirement plan, or a participant in a retirement plan.

1. 408(b)(2)–Covered Service Provider(CSP)* fee disclosure to plan fiduciaries. Retirement Plan Sponsors should use this information to determine whether the fees charged for the services rendered to the plan and its participants are reasonable. The effective date: July 1, 2012.

2. 404(a)—Participant fee disclosure. This requires enhanced annual and quarterly disclosure to plan participants to help them make choices. The effective date: August 30, 2012.

This year, 2012, may be the first time plan sponsors get a true look at the revenue from their retirement plans. Many plan participants may be shocked to learn they are paying fees in their plans—a 2011 AARP survey showed that a large majority of plan participants did not think they paid any.

Historically, a mismatch has occurred: Companies that sponsor a retirement plan were charged with knowing their retirement plan fees and determining whether they were reasonable, but CSPs were not required to disclose their fees. Also, participants needed information to make investment decisions, but disclosures were not required.

So, now what? We believe fee disclosure is a positive movement that will create consistency and transparency in the retirement plan market. But disclosure is only part of the issue. Because plan sponsors are charged with determining whether their fees are reasonable, they should benchmark their plans and compare their fees to like plans, in terms of plan assets, participants, etc. Such benchmarking services are available for a fee. Sponsors may also be able to have their current advisor/broker provide this service.

Yet, not all benchmarking services are created equal. Sponsors should know the size of the database used for the benchmarking report. Some providers are new to this business and do not yet have the scale for an adequate benchmark. One solution is to request proposals from other providers **Plan sponsors should know that:**

- While providers are in business to make a profit, the least expensive plan is not necessarily the best.
- No two retirement plans are identical.
- The most important goal is achieving a balance among fees, revenue and service.
- Consulting fees can be paid directly by the plan sponsor or in some cases by the plan if it is a legally permissible plan expense.
- Investment fees typically are embedded in the fund's overall expense ratio and are paid proportionately by participants in the fund.
- Administration fees can be paid by the plan sponsor directly or allocated back to the plan.

FACTORS THAT DRIVE FEES

The characteristics of the plan, the investments offered and the services received all impact companies' fees. Determining factors include plan size, type, and average balance; plan complexity; payroll frequency and format; transaction volume; fund type and asset allocation; cash flow into revenue-producing funds; and scope of services.

Many attributes define a successful plan. As part of their obligation to make decisions in the best interest of their plan participant, fiduciaries should ensure that the fees are reasonable compared to the value received.

Here again, reasonableness does not always equate to the lowest fees. With the new transparency, plan participants and sponsors will be able to make more informed decisions about their retirement plans.

**Covered Service Provider (CSP)—any service provider that paid $1,000 or more from plan assets. For example: accounting, auditing, actuarial, appraisal, banking, consulting, custodial, insurance, investment advisory, legal, recordkeeping, securities or other investment brokerage, third party administration, valuation services, etc.*

The Delaware Valley region is defined as the following counties: Pennsylvania—Berks, Bucks, Chester, Delaware, Montgomery, Philadelphia; Delaware—New Castle; Maryland—Cecil; and New Jersey—Atlantic, Burlington, Camden, Cape May, Cumberland, Gloucester, Mercer, Ocean, Salem.

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