

RECORDKEEPING COST DRIVERS AND THEIR IMPACT ON PLAN EXPENSE

Introduction

The goal of the assessment is to highlight key drivers of recordkeeping fees. Plan characteristics can lead to vastly different fees and structures for plans with similar baseline demographics, such as the same asset level and number of participants. Beyond a plan’s core demographic profile, fees may be driven by the degree of customization a plan elects or requires. Customization may offer additional value to participants but may come at an additional cost which may or may not be justified by a higher fee. Auxiliary revenue sources to vendors such as the level of proprietary investments in plan design may also influence fees.

Fees can be structured in a variety of ways. Fee structures should consider current and future plan demographics as well as plan fiduciary’s opinions on equity. That is, who benefits and/or bears the costs for the services provided. A plan may want to encourage new participants to join the plan by offering a fee holiday to low balance participants or retain older high balance participants with a fee cap.

Cost Drivers

A plan with smaller-sized assets and participants may cost more than a larger-sized plan due to economies of scale; however, plan design can have a significant impact on administrative fees. The most common features that can impact recordkeeping fees are:

- 1. proprietary investment funds,
- 2. managed accounts,
- 3. onsite outreach and communication, and
- 4. plan customization requiring system/IT builds.

Recordkeeping Only

For two plans that require only recordkeeping services with an open-architecture investment menu (all investment menu funds are non-proprietary), no managed accounts, and standard base communication package, the cost per unit (per participant or per assets) will be lower for a larger plan.

PLAN SIZE		COST PER PARTICIPANT
SMALL	Plan A \$100 million 1,900 participants	
LARGE	Plan B \$1 billion 65,000 participants	

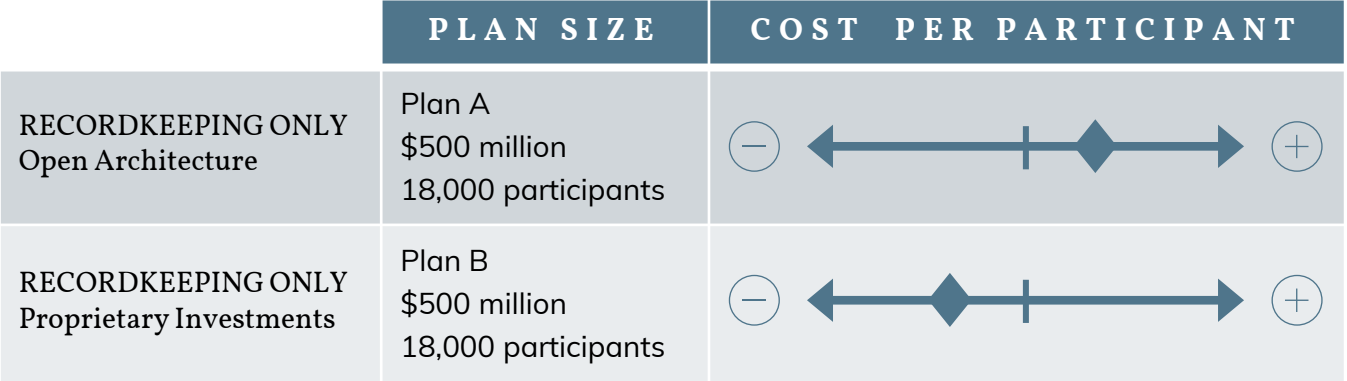
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Proprietary Investments

Investment design should be based on the investment policy and merit. By prudently selecting an investment strategy that is proprietary to the recordkeeper and is the right fit for the plan, there may be an opportunity for fee savings. However, the interconnected nature could create complexity if the fund needs to be terminated for investment reasons. Manager termination could cause recordkeeper fees to rise.

For a given Plan A, which requires essential recordkeeping services and uses open architecture, fees may be higher than Plan B, of the same size, but utilizes proprietary investments such as stable value.

For smaller recordkeepers without proprietary investments, this may not apply.

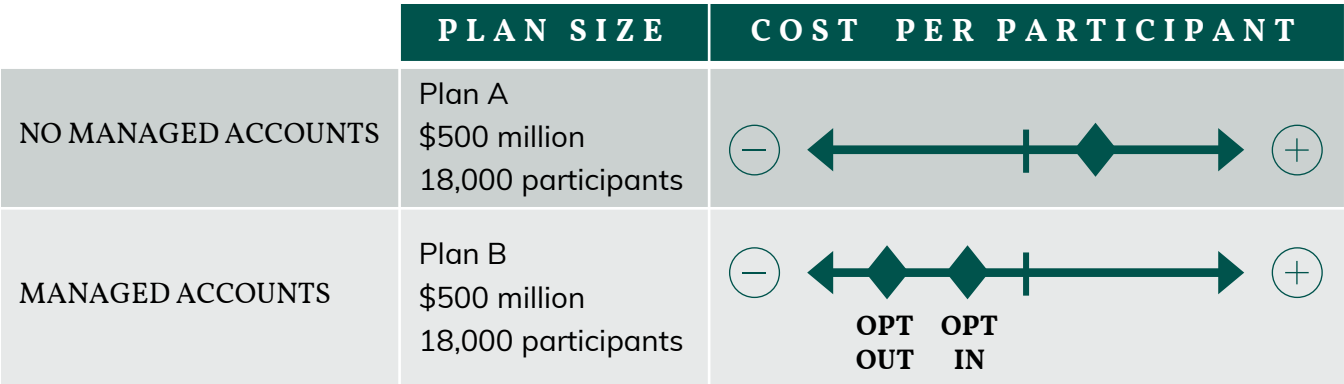


Managed Accounts

The decision to offer managed accounts is a fiduciary decision and may or may not be a value add to the plan; however, the decision to offer managed accounts and further the decision to structure the program as opt-in versus opt-out can have an impact on fees.

In Scenario 1, Plan A, requires essential recordkeeping, and does not offer managed accounts. Plan B is the same size, requires essential recordkeeping, and offers opt-in managed accounts, which significantly reduces the fee.

In Scenario 2, Plan A remains the same; however, Plan B, offers opt-out managed accounts, which further reduces the fee from Scenario 1.



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Onsite Education Outreach & Communication

Outreach services may require a standard number of service days and communication packages may default to quarterly campaigns. Additional onsite education or customized communication campaigns may increase the cost.

Onsite Education: Plan A with the same plan demographics as Plan B, may be less expensive because they have less onsite education for their participants than Plan B.

	PLAN SIZE	COST PER PARTICIPANT
FEWER EDUCATION DAYS 30 Days	Plan A \$500 million 18,000 participants	
MORE EDUCATION DAYS 60 Days	Plan B \$500 million 18,000 participants	

Communication Customization: There may be a value-add proposition to customizing communication that requires special outreach campaigns targeting various populations and events. Plan A's plan design is similar to Plan B but requires a customized communication package, which significantly adjusts the fee. Despite having the same plan design as Plans A and B, Plan C's assets and number of participants result in a significant fee change due to printing costs and the complexity of differentiated plan populations.

	PLAN SIZE	COST PER PARTICIPANT
STANDARD COMMUNICATION	Plan A \$500 million 18,000 participants	
CUSTOM COMMUNICATION	Plan B \$500 million 18,000 participants	
CUSTOM COMMUNICATION	Plan C \$1 billion 85,000 participants	

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System & IT Builds

While there may be some setup requirement for any plan, if plan design features are particularly complex or if plan design changes occur that require a system/IT build, this can significantly increase the fee. Plans A and B are the same size plan, but Plan B requires a system & IT build to support the plan, so it is more expensive.

	PLAN SIZE	COST PER PARTICIPANT
STANDARD SETUP	Plan A \$500 million 18,000 participants	
PLAN IT BUILDS	Plan B \$500 million 18,000 participants	

Conclusion

Plan characteristics vary and fee assessments should be evaluated on a case-by-case basis. Every recordkeeper has their unique way of quoting fees and creating an apples-to-apples comparison may be difficult. Understanding the different drivers of fees can provide a roadmap for fiduciaries to ask the right questions. The more information plan sponsors can provide to bidding vendors allows them to receive the most accurate fee quotes for the plan’s particular requirements.

Fee evaluations should be focused on periodic assessment, documentation, and transparency. Fiduciaries should understand the fees being charged to their plan, the drivers of those fees, and periodically review fees.