Trends

PRICE POINTS

Are plan sponsors and members paying too much for their retirement plans?

BY SANDRA W. COHEN

Given the complexity and variety of different services involved in maintaining a DC plan—and the sophisticated jargon that is used by service providers to market their services—it's no wonder participants and plan sponsors are confused about who is getting paid and for what service. The increased scrutiny on plan fees, especially for DC plans, gives pause for thought on whether plan sponsors and participants pay too much for their retirement plans.

Across the Border

For many years, critics of U.S. DC plans (401(k) plans), members of Congress and plaintiffs in some highly publicized lawsuits have claimed that fees were hidden and murky and, well, just plain too high. Studies showed that a surprisingly large percentage of U.S. participants and even plan sponsors were ignorant about fees and mistakenly thought that their 401(k) plans were free.

Finally, in response to these pressures, the U.S. Department of Labor took regulatory action—there are now new administrative rules that require service providers to disclose their fees in writing to the plan sponsors that hire them, and plan sponsors to disclose plan fees in writing to participants in DC plans.

In Canada, retirement plan fees came into focus in 2004 when the Joint Forum of Financial Market Regulators issued the CAP Guidelines. They require generally that the plan sponsor describe to members all fees, expenses and penalties borne by participants. As well, the cost of the service provider is an important factor for the plan sponsor to consider when selecting and reviewing service providers.

Best Practices

The plan sponsor's job is not done when it receives the disclosure from a service provider about plan fees. If the service provider's disclosure is accepted without challenge or understanding, the economic consequences to the plan (and members' retirement accounts) can be severe. It would be hard to imagine, for example, an office manager accepting an invoice from a supplier for 100 widgets when only 85 widgets were delivered. Similarly, in the retirement plan context, plan sponsors must be on guard against overpayment and underservice. In those instances, plan sponsors can be held responsible for a breach of duty if they fail to properly monitor and assess their service provider performance.

Following are some best practices for plan sponsors.

Understand plan fees. Carefully evaluate "bundled services," which may be presented as efficient and convenient one-stop shopping for plan sponsors, but may also involve fees for services that are not being utilized.

Evaluate plan fees against the services received. Regularly benchmark fees against other service providers, and consider whether the service provider has a conflict of interest (i.e., recommending in-house funds). Consider whether it's time to renegotiate fees or request proposals from new service providers.

Keep documentation. Prepare for an audit or legal challenge by demonstrating that a prudent process was followed. Retain documentation used when selecting and monitoring service providers (e.g., reports or written policies).

Seek professional help in complex cases. Know when to hire an independent advisor (e.g., legal counsel).

Canadian Impact

The U.S. plan market is much larger than the Canadian market. There may still be room for further downward pressure on fees, especially for cross-border employers that may be able to take advantage of synergies in services from tapping service providers with significant U.S. plan portfolios. Ever since fees have been in the spotlight, a downward trend in U.S. plan fees has been reported. No doubt this is related to sunlight being the best disinfectant, and to many sponsors taking a more proactive approach. Taking an affirmative approach on plan fees shows admirable stewardship and brings peace of mind to plan sponsors and members.

Fact File

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