

The Reasonableness Factor

How are you measuring your retirement plan's reasonableness factor?

Presented by

Jim Waggoner, Partner

Jacinta Thompson, Managing Director



Credit Union Member for Over 40 years



Exclusive Member Benefits

- Strong customer service
- Discounted loan rates
- Higher interest rates on deposits



Measuring the Reasonableness Factor

Agenda:

- Who governs this area?
- What is required of you?
- How can I prove my process and understanding?



VISIONPOINT
IMPACTING THE SUCCESS OF THOSE WE SERVE

ERISA



- Employee Retirement Income Security Act of 1974 (ERISA) is federal law governing most retirement plans
- Enacted to protect plan participants and their assets
- Department of Labor is the entity responsible for enforcing ERISA



Department of Labor

1

**Selection of
Service Provider
is a Fiduciary
Act**

2

**Fiduciaries Must
Act with
Prudence**

3

**Hire an Expert if
You Lack the
Expertise**



Prudent Selection Process Requires

Data Equality

All vendors should receive identical and complete information about the plan and the desired services.

Compare Data

All bids should be specific regarding services offered for the fee charged.

Fees

Least costly provider isn't required nor is it recommended if the services needed aren't offered.



Process for Selecting Service Providers

What Services are Needed?	How are Fees Paid?	Is the Arrangement Reasonable?
<ul style="list-style-type: none">• Plan operations• Participant needs	<ul style="list-style-type: none">• Plan assets• Corporate assets• Combination of the two	<ul style="list-style-type: none">• Do services offered fulfill needs• Are fees in line with value received



Cycle for Selection & Monitoring

- Determine needs of plan & participants
- Review prospective service providers
- Select service provider & document rationale
- Monitor service provider
- *Document decision* to retain or replace

Avoid prohibited transactions!



Lawsuits Continue to be Filed

Tussey v. ABB

Settled in March 2019

- Largest settlements ever paid by a plan sponsor (\$55M)
- Alleged employer caused employees to lose retirement savings due to unreasonable fees for plan services and investment management



Common Themes

Participant Allegations	ABB	Edison	Lockheed Martin	International Paper	Boeing
Excessive recordkeeping costs	✓		✓	✓	✓
Using “retail” or expensive share classes	✓	✓	✓	✓	✓
Failure to follow the plan’s IPS when selecting or removing investments	✓				
Alleged improper investments			✓	✓	✓
Using plan assets to benefit the company	✓			✓	
Prohibiting transfers out of company stock				✓	
Delayed deposits of participant salary deferrals	✓			✓	



Our Approach

Fiduciary Benchmarks' Evaluation Process

The Employee Retirement Income Security Act (ERISA) REQUIRES Fiduciaries to make sure they pay only reasonable expenses to Service Providers and fund managers. Note that the Department of Labor (DOL) does not provide a specific definition of the term "reasonable". Instead, they wish each fiduciary to make that determination based on the data for each Service Provider or fund manager. BUT...they do provide some important guidance per the DOL's booklet on 401(k) Plan Fees: "don't consider fees in a vacuum. They are only one part of the bigger picture including investment risk and returns and the extent and quality of services provided." This report from Fiduciary Benchmarks can help you determine whether the fees being paid to your Service Providers and Fund Managers are reasonable by following a logical and patented process (U.S. Patent 8,510,198) as shown below.

1. Customize Benchmark Group
First, we build a customized benchmark group from your plan to allow valid comparisons.

2. Review Provider Quality
THE QUALITY YOU'RE GETTING
The DOL has specifically noted that you can consider the quality of your Service Provider when determining fee reasonableness of your Service Provider. Therefore, Fiduciary Benchmarks provides a framework to help you examine this important factor that is customized for each type of Service Provider for your plan.

3. Assess Scope of Services
THE SERVICES YOU'RE GETTING
Another important factor to consider is the Scope of Services being delivered by each of your Service Providers. In that regard, Fiduciary Benchmarks has relied on our extensive industry experience to develop a comprehensive list of services with varying degrees of difficulty. We then built proprietary mathematical models that allows you to easily compare the level of services you receive from your Service Provider to a typical service

4. Examine Value Delivered
THE VALUE YOU'RE GETTING
After looking at the services that drive fees for your Service Provider, we then examine the Value being delivered to you as Plan Sponsor and to your Participants. For you as Plan Sponsor, we provide data that is generally related to the quantity and quality of services you receive as the Plan Fiduciary. For your Participants, we examine the Participant Success Measures for your plan. We also may estimate potential difference in total

5. Evaluate Fees
Finally, we take a detailed look at the fees being paid to your Service Providers. We account for the various Services listed in the Table of Contents. **COMPARABLE DATA** Because services can vary greatly, we compare your fees to the benchmark group and our proprietary FeePoint™ - an estimated fee for the Service Provider being evaluated which consists of a base fee typical of the benchmark group and adds uncommon services that are provided by the Service Provider based on market rates. **UNDERSTAND**



Determine Your Fee Reasonableness



Fiduciary Benchmarks

- Data directly from the source
- Provides “apples-to-apples” benchmarking assessing the balance between value and fees
- Report is simple, transparent and practical

Fulfills ERISA required review of fee reasonableness



Proof of Reasonableness Factor

Recordkeeper: Examine Value Delivered



Fiduciary Benchmarks

Independent | Comprehensive | Informative



Examine Value Delivered

THE FOURTH STEP in understanding "What You Are Getting" is to examine the value being delivered. For you as Plan Sponsor, Fiduciary Benchmarks worked with numerous recordkeepers to examine how they "add value" for their Plan Sponsors. We concluded their efforts can be concentrated into three areas that help Plan Sponsors be Responsible Plan Fiduciaries. For your Participants, we examine the Participant Success Measures for your plan versus your industry.

Value Delivered to You as Plan Sponsor

SERVICE QUALITY: ACCURACY AND TIMELINESS

Quite simply, your RecordKeeper is supposed to provide services that are accurate and timely. *In that regard, you should ask your RecordKeeper how do they measure their service standards and what types of reporting do you receive to monitor those service levels.*



SUPPORT SERVICES

Being a Plan Sponsor is not easy. There are a myriad of rules and regulations that seem to change every year and you have a need for information to help you manage the plan and answer participant questions. *In that regard, you should consider the People, Processes and Technology provided by your RecordKeeper that help you as the Plan Fiduciary.*



PLAN PROVISIONS ASSISTANCE

More and more plan fiduciaries are taking advantage of lessons learned from behavioral finance and other research to make changes to Plan Provisions which may promote improved participant behavior and better retirement outcomes. *In that regard, you should consider the ability of your RecordKeeper to help you assess and implement changes to your plan that may better position your participants to retire well.*

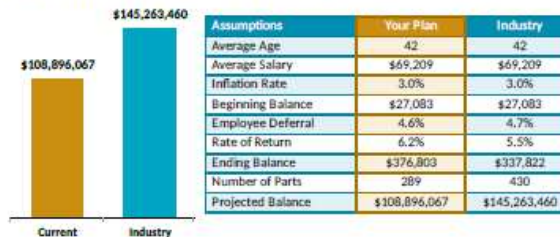


Value Delivered to Your Participants

Participant Success Measures	Your Plan	Industry Median
Participation Rate	46.4%	69.0%
Deferral Rate	4.6%	4.7%
% Maximizing Company Match	-	55.0%
% Assets in Auto-Diversified Options	68.0%	25.0%
% Terminated Participants NOT "Cashing Out"	87.8%	67.0%

† Industry: 99 - All Industry - Average - Sourced from FID database, all plan sizes.

The chart below projects current account balances in 2018 for the 289 active participants in the plan **assuming all participants are average** using the metrics shown above.



This is a hypothetical example and does not represent any specific situation. Your rate of return will vary and may not be the same as projected. Hypothetical rates of return used do not reflect the expenses associated with investing. This example uses a baseline 5% return for the Industry Median, then calculates an adjusted return for Your Plan based on the amount of assets in Auto-Diversified options as compared to the Industry or Your Prior Plan as seen in the chart. This mathematical calculation is based on research regarding the impact of 'Help' in defined contribution plans.

*2014 Financial Engines and Aon Hewitt study of 723,000 plan participants in 14 plans with over \$55 billion in plan assets who used target date funds, managed accounts and online advice between 1/1/2006 and 12/31/2012: <http://www.financialengines.com/employers/FinancialEngines2014-Help-Support.pdf>



VISIONPOINT
IMPACTING THE SUCCESS OF THOSE WE SERVE

THANK YOU!

Jim Waggoner &
Jacinta Thompson

www.vpadvisor.com



This information was developed as a general guide to educate plan sponsors, but is not intended as authoritative guidance or tax or legal advice. Each plan has unique requirements, and you should consult your attorney or tax advisor for guidance on your specific situation. In no way does advisor assure that, by using the information provided, plan sponsor will be in compliance with ERISA regulations.

