



AAFCPAs

Unraveling the Mysteries of Employee Benefit Plan Costs



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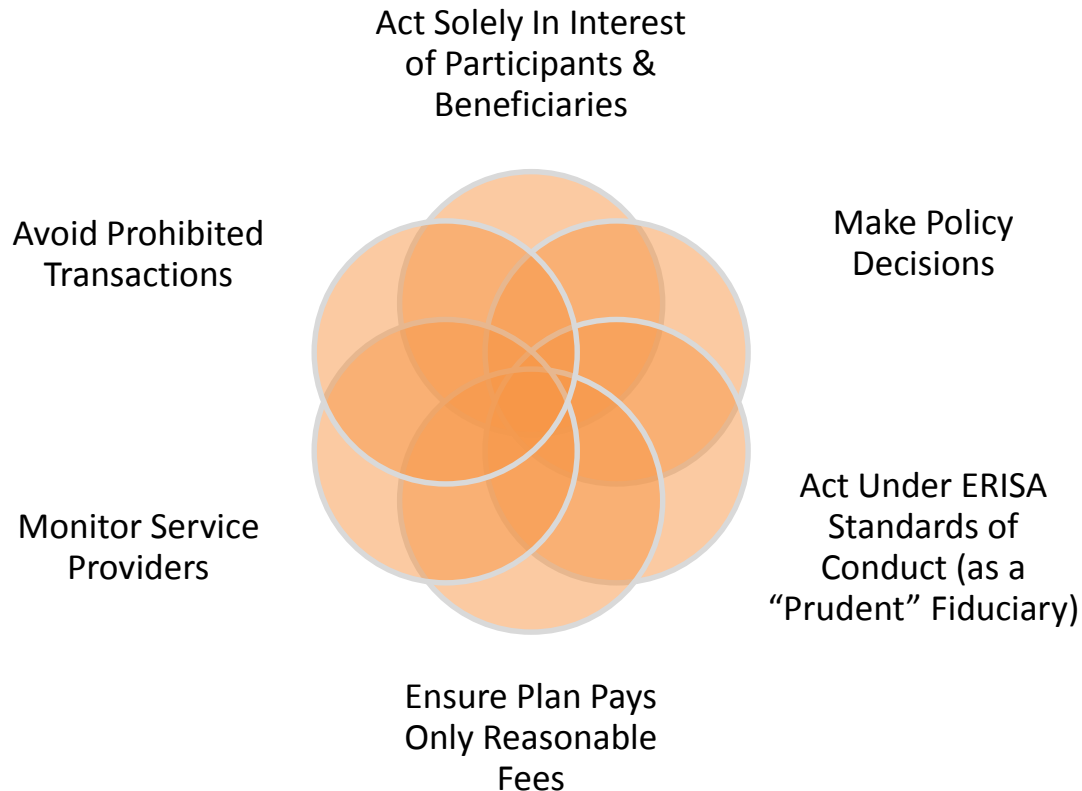


Agenda/Objectives

- Key Take-A-Ways -
 - Every retirement plan pays fees
 - Plan fiduciaries can be held personally liable for any breach of fiduciary duties
 - 5 key steps to documenting fee evaluation
 - Mitigating risk with a fee policy statement



Plan Fiduciary Responsibilities



5 Key Steps to Documenting the Fee Evaluation Process

1. Gather and evaluate facts, including participant needs
2. Assess available fee payment methods
3. Determine fee collection method and document process
4. Provide clear, simple participant communication
5. Monitor



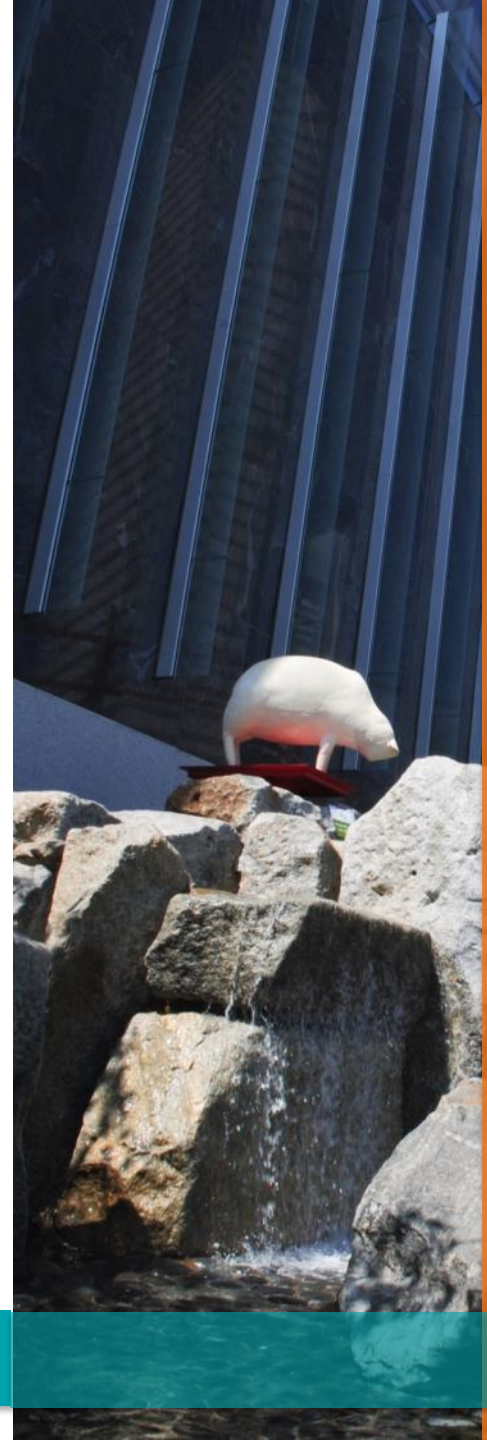
Direct Costs vs Indirect Costs

- Direct Costs – Most Transparent
 - Record Keeping Fees – Testing, 5500 form preparation, plan document creation, etc.
 - Participant Fees – Loan transactions and distributions
- Indirect Costs
 - Plan Investments – Expense Ratios and Revenue sharing



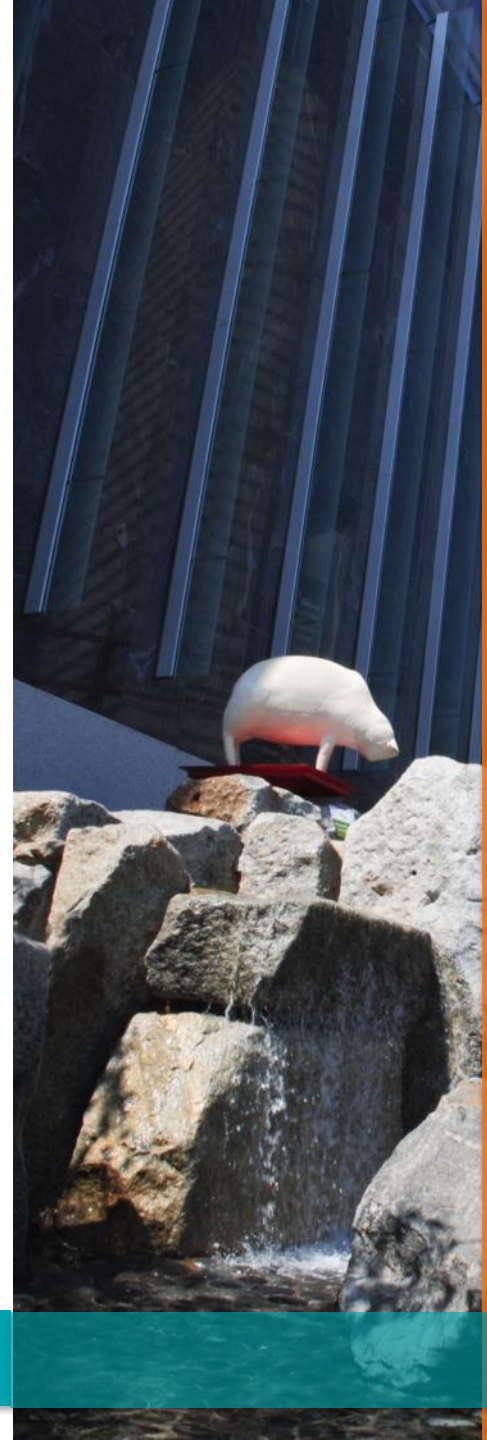
How Service Providers Get Paid From Plan Assets – Revenue Sharing

- Who gets paid by the fees?
 - Mutual Fund Company
 - Advisor
 - Record Keeper
 - Third Party Administrator
 - Legal & Accounting



How Service Providers Get Paid From Plan Assets

- Is revenue sharing a bad practice?
 - Consider level of service – how much are you paying for what you're getting?
 - Could you offer this benefit if you had to pay out of pocket?
 - Are some participants paying more of the administrative costs without knowing it?
 - Fee Levelization



Benchmarking

Calculated Administration Fees in Past 12 Months

54.4%

Yes, and
benchmarked
fees

27.0%

Yes, but did not
benchmark fees

18.6%

No



Benchmarking

100 Participants and \$5,000,000 in Assets

Comments

Total Plan Cost per participant is \$623.

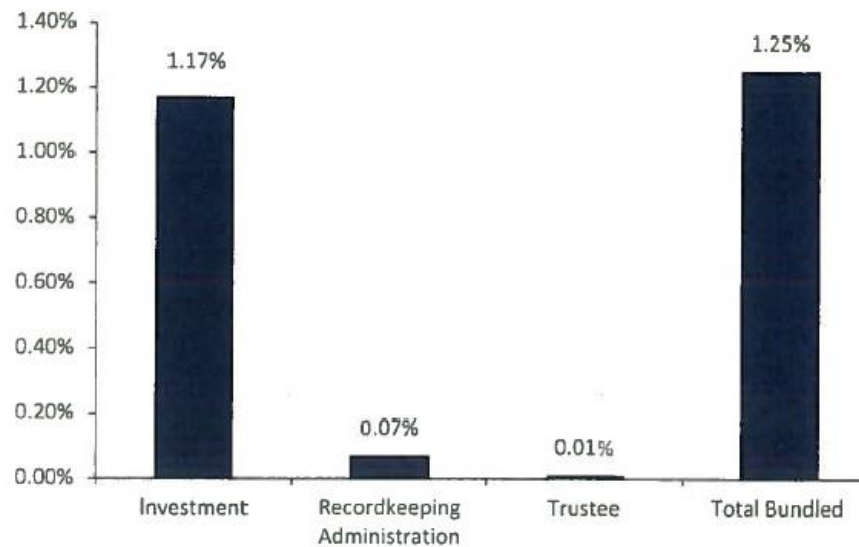
Average Investment Expense is 1.17% of assets.

Average Total Bundled Expense is 1.25% of assets.

Investment Expense accounts for 93.90% of total plan costs.

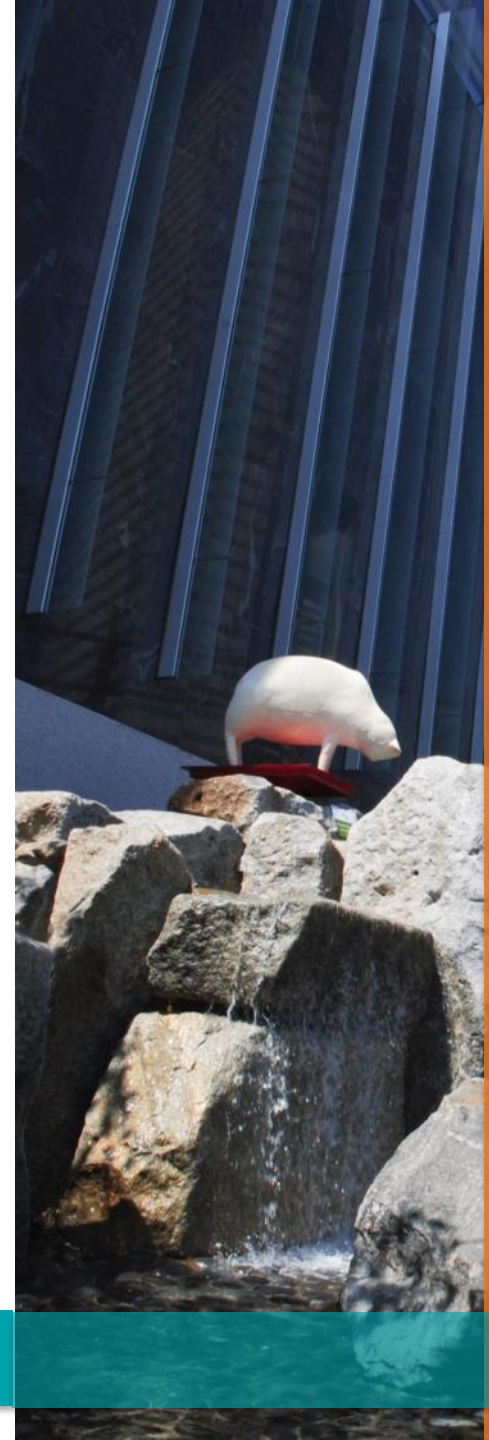
Chart 12.1

Average Plan Cost as a Percentage of Assets



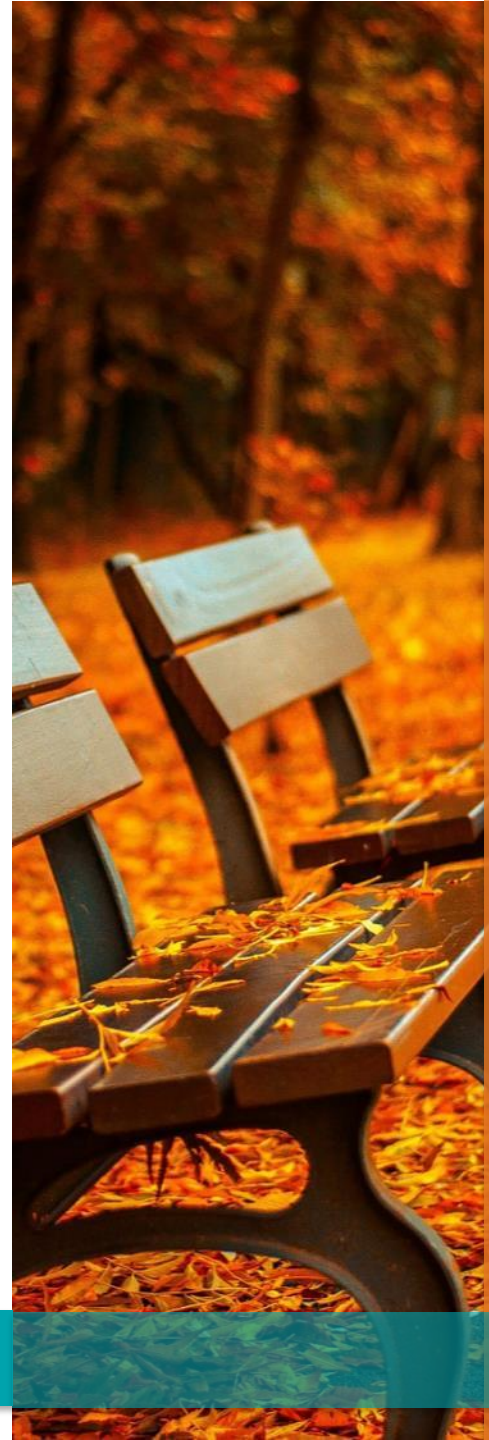
Benchmarking – Total Plan Assets

	Actual	Benchmark	Difference
Total Plan Assets	\$5,000,000	\$5,000,000	-
Total Fees (bundled)	2.0%	1.25%	0.75%
Cost Per Year	\$100,000	\$62,500	\$37,500
Total Fees Paid in 10 Years	\$1,318,079	\$823,800	\$494,280



Benchmarking – Average CEO Account Balance

	Actual	Benchmark	Difference
Executive Avg Account Balance	\$500,000	\$500,000	-
Total Fees (bundled)	2.0%	1.25%	0.75%
Cost Per Year	\$10,000	\$6,250	\$3,750
Total Fees Paid in 10 Years	\$131,808	\$82,380	\$49,428



Fee Policy Statement

- Documenting all of these plan fee details may seem overwhelming
- Having a fee policy statement can help provide guidelines for the plan fiduciary to manage plan fees and expenses paid to service providers
 - Who is paying the service providers?
 - How are they paid – indirect vs direct?
 - How expenses are allocated to participants?
 - What are you paying for?
 - Who will perform and review the fee benchmark analysis?
 - When will plan fees be compared to industry benchmarks (Industry Standard Every 1 - 3 years)
 - When will the plan conduct an RFP for service providers (Industry Standard Every 3 – 5 years or sooner if a significant event occurs)



Questions & Comments



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