

Fiduciary Duty #31

As a complement to our last memo on Fiduciary duties, this report addresses the concept of conducting a Fee Benchmarking analysis in order to provide the documentation needed to determine if the fees being paid to the Covered Service Providers are meeting the “reasonableness” test.

In essence, anyone who receives annual compensation for the performance of their services equal to, or in excess of, \$1,000 per year, is deemed by the IRS to be a Covered Service Provider (CSP).

If the compensation is provided to the CSP from the assets of the plan, a determination must be made by you, as the Plan Sponsor that the compensation is reasonable, based on the services provided in exchange for the fees received.

The standard practice surrounding such an endeavor involves the gathering of information on the following service providers to a plan:

- Investment managers (those who offer the investment products within the plan)
- Third party administrator
- Plan recordkeeper
- Trustee
- Custodian
- Financial advisor

Once gathered, this information is then compared to like-sized plans, based on 2 primary metrics:

- Total number of participants in the plan
- Total assets in the plan

The difficulty that surrounds this process involves the challenge of locating such information on companies of similar size, and determining the fees they are paying for the services received.

Fortunately, there are services in the marketplace that can provide you with the reference points that you need. Two that are often used are The 401k Averages Book, and Fiduciary Benchmarks.

If you haven't conducted a Fee Benchmarking analysis for your plan, be sure to do so and keep the results in your Fiduciary Audit File for future reference in the event of a DOL audit.

Please let us know if you would like to discuss this topic further

Mike & Matt