Is Fee Leveling Right for Your Retirement Plan?

Understanding the options

As a plan fiduciary, you're required to pay only "reasonable" plan expenses and to "act prudently" in how you allocate costs. That's why it's important to understand plan fees, how your plan covers them and what options you have in allocating fees to participants. These fees help cover recordkeeping, legal and investment advisory costs and they can be clearly communicated or hidden.

What is fee leveling?

Fee leveling is a term used to describe a plan's fee structure—or how the total cost of plan administration is paid—often with the objective of allocating costs proportionally among plan participants. How these costs are paid is reflected in the fee structure of the plan and if **Retail** or **Institutional Funds** are offered.

Here's an example of an "Indirect" method to pay plan expenses using Retail Funds:

Retail Fund	Expense Ratio	Indirect Payment	Quoted Fees	Actual Vendor Comp
ABC Growth Fund	0.82%	0.42%	0.50%	0.92%
XYZ Index Fund	0.05%	0.00%	0.50%	0.50%
ABC Target Date Fund	0.75%	0.45%	0.50%	0.95%
XYZ Money Market	0.30%	0.10%	0.50%	0.60%

Notice how the vendor compensation differs based on participant fund selection which may create conflicts of interest and the uneven burden of plan costs.

Here's an example of a "Direct" method to pay plan expenses using Institutional funds:

Institutional Fund	Expense Ratio	No Payments	Quoted Fees	Actual Vendor Comp
ABC Growth Fund Inst	0.40%	0.00%	0.60%	0.60%
XYZ Index Fund Inst	0.05%	0.00%	0.60%	0.60%
ABC Target Date Inst	0.30%	0.00%	0.60%	0.60%
XYZ Money Market Inst	0.20%	0.00%	0.60%	0.60%

The vendor compensation is now level and "Transparent" and in most cases total fees are lower!

The trend has been to provide more transparency around the cost of administration and the fees participants pay. This usually done using a direct fee method, which explicitly charges participant accounts and clearly communicates the details on participants' account statements and fiduciary disclosures.