

Could unbundling save you a bundle?

The truth behind recordkeeping fees

by Laura Nemeth

Recordkeepers play an indispensable role in servicing DC plan participants and keeping behind-the-scenes plan details running smoothly. For years, many plan sponsors opted to bundle their investment options and recordkeeping relationships with one provider, but sponsors are increasingly unbundling the investment management and recordkeeping relationships. In this candid interview, Mark Olsen, a consultant with the Blue Prairie Group, shares his insights about what qualities to look for in a recordkeeper, and how unbundling your plan can help you deliver best-in-class investment options and lower overall plan costs.

What's changed about the recordkeeping? Why more scrutiny now?

The landscape of recordkeeping has changed over time, and today's plan sponsors are no longer paying direct fees to recordkeepers. Sponsors are now asking, "How does the recordkeeper deal with issues like excess revenue and fee disclosure? How flexible are they in terms of supporting non-proprietary funds?"

You might think fees are reasonable because you're not writing the check, but the bulk of the fees are borne by the participants. If a plan sponsor hasn't looked at those fees in the last three to five years, plan asset growth has probably outpaced either inflation or the increased costs from a personnel or technology perspective. The focus should be understanding whether the recordkeeper is receiving a fair level of compensation for services. Not all recordkeepers are created equal. It's also important to understand what services are available, and then use the services to drive retirement readiness

for participants and meet the plan sponsor's fiduciary duties.

How should clients go about searching for a new recordkeeper?

It's easy to identify the top recordkeepers and craft an RFP to get that information. But when you go through that process, are you asking the right questions? Are you asking those questions in the right format? How do your results compare to another plan? What's driving the cost of your plan versus your peers?

From a due diligence perspective, you want to create a fair RFP that measures the services you're looking to receive. The more information you can provide to assist them in better understanding important elements such as plan design, number of participants, projected growth or shrinkage of participants, historical cash flow into the program—all of that factors into the attractiveness of your plan versus others in the marketplace. As a fiduciary, you don't want to learn as you go when it comes to the RFP process, fee nego-



tiation, and service level comparison. The stakes are too high.

How have recordkeeping fees and transparency evolved over time?

Recordkeeping fees and transparency are intertwined. In terms of recordkeeping fees, the industry was initially built on a hard-dollar fee plus revenue-sharing fee based on assets in the plan. Over time assets have grown, and recordkeepers have stopped charging sponsors for services. When plan sponsors stopped writing the check for services, there was a sigh of relief. But a number of years went by and many plan sponsors didn't take a hard look at what their participants were paying. From a transparency perspective, it was also difficult to see what recordkeepers were receiving from proprietary versus nonproprietary investments. Today there's still a lot of clutter and unknown. When you compare three or four recordkeepers, the cost for the same level of services may vary dramatically. The math isn't different, but the end result may differ.

What is revenue sharing and what do sponsors need to know about it?

Plan sponsors should know that revenue sharing is out there and they should also know what it amounts to. One would think that large, sophisticated clients might equate to lower fees per participant, but that's not always the case. Maybe they haven't done a

due-diligence exercise in the past five years, and the revenue that's being generated on the plan is far greater than the recordkeeper needs. The recordkeeper is less inclined to go to the plan sponsor and say, "We're 30% more profitable in this relationship than we need to be." Frankly, recordkeepers just aren't incented to do that because any CFO would inevitably ask, "How long has it been this profitable, and why didn't you bring it to our attention before now?" That's a difficult conversation to have.

I would encourage plan sponsors to ask their recordkeepers for disclosure at least annually. Ask your recordkeeper, "How much are you generating on the plan? What is your minimum required revenue? How much are the other outside investment managers sharing with you? How much are proprietary investments sharing with the recordkeeper?"

How should clients go about searching for a new recordkeeper?

If I were a plan sponsor I might wonder, "Why do I need to hire a consultant? It's easy to identify the top recordkeepers and craft an RFP to get that information on my own." But when you go through that process, are you asking the right questions? Are you asking those questions in the right format? How do your results compare to another plan? What's driving the cost of your plan versus your peers?

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How should sponsors weigh the potential benefits and costs for various recordkeeping arrangements, such as open architecture versus bundled?

If you're trying to create a process that really gets to the heart of fee disclosure and understanding reasonable fees and open architecture, craft your RFP in a way that gets you there, versus a more generic version that perhaps leaves you wondering about the responses. I think a thoughtfully developed RFP lends itself to a good result from a fee and service perspective.

Have you worked with clients who have successfully unbundled their DC plan?

Yes. For example, I worked with a midsized plan that had worked with one recordkeeper for more than 10 years, and the plan hadn't focused on their recordkeeping relationship. Over time, they added a number of investment options, and some of those additions were nonproprietary, but at the end of the day, 80% of the funds were proprietary.

Together, we did a holistic review of their retirement program on the 401(k) side. One of the things that struck us initially was the clumping of assets. There was a heavy orientation toward stable value, and not many assets in the target-date, small-cap, or international funds. Through our

recordkeeping search, the plan sponsor got a healthy perspective of the fund flexibility their recordkeeper offered. Initially they thought they might need to add another investment option or two, but they ended up going all the way and achieved completely open architecture while maintaining their relationship with the recordkeeper—because the recordkeeper was willing to quote on a recordkeeping-only relationship. That really opened up the window of opportunity to have a recordkeeper with strong technology prowess and communication capabilities, and then select best-in-class investment options. **DC**

FOUR TIPS CAN HELP YOU lower your recordkeeping fees

When it comes to recordkeeping, transparency is key. To better understand how much you're paying for recordkeeping and how to potentially lower your recordkeeping expenses, consider the following tips:

- 1 Know thy recordkeeper.** Your recordkeeper should understand the cost structure of your plan, including details on your investment menu, number of participants, and how much you expect that number to expand or contract in the future.
- 2 Address plan design.** What are the goals of your DC plan? Are your employees aligned with their investment choices? If not, it may be time to revisit plan design and services, which could potentially lower recordkeeping fees. (For more on plan design, see the June issue of DCfocus.)
- 3 Conduct a smart search.** If you're conducting a recordkeeper search, do you want to hire a recordkeeper yourself, or hire a consultant? Consider the time and expertise involved and decide what is most reasonable and achievable for your plan.
- 4 Find the right partner.** Work with an investment manager who has the experience and expertise to help you achieve plan design goals, transition assets smoothly, and communicate to participants.