

# I'm Paying for What?

## Fee Clarity for Retirement Plan Sponsors

by Patrick M. Fay

Fee disclosure continues to be a hot topic surrounding retirement plans. On July 15, 2010 the Department of Labor (DOL) issued an interim final regulation under the Employee Retirement Income Security Act (ERISA) 408(b)(2) that requires all providers to outline the services they offer, the compensation received for those services and how the compensation will be acknowledged before entering into a contractual agreement to provide services. An interim period extends through August 30, 2010 to give record keepers and other industry experts the opportunity to comment on the changes.

### What does this mean for you?

As a plan sponsor, it guarantees you a sufficient window of time to become familiar with the fees associated with a particular retirement plan that you may want to offer your employees. This extra time will make it easier for you to understand exactly what it is you are paying for, while allowing you to compare the value of one service provider over another. In essence, it is intended to create more transparency in retirement plan services.

This provision should eliminate the practice of offering services for a small flat fee or no fee at all. Vendors will now need to show the revenue they receive for all activities, such as recordkeeping, administration and investment management, instead of lumping it all together under one price. This disclosure allows you, the Plan Sponsor, to better compare the services and the associate fees on a more even playing field, thus simplifying the benchmarking of your plan against others. The new regulations will also require providers to disclose whether or not they act as plan fiduciaries (those who exercise authority or control in the management of a plan).

### What does this mean for service providers?

The new regulations affect retirement plan vendors, as well as the plan's investment professionals. Going forward, an investment professional is required to initially disclose the services offered to the plan, the cost of those services and how compensation will be handled. The goal of the regulation is to

eliminate the practice of burying the investment professional's fee in the overall expense of the plan. This knowledge will give the plan sponsor a better idea of what those services will cost and whether they truly provide an added value to the plan.

Along with these up-front disclosures, the Internal Revenue Service has also expanded the information that appears on Form 5500, most notably in Schedule C. This additional information is available to the public and can be assessed by anyone who wishes to review it. There are pros and cons associated with this new arrangement; on the positive side, the new regulations will generate increased scrutiny of plans due to the public disclosure of information. Consequently, vendors and investment advisors will be forced to be more competitive with their offerings and will have to justify their value. The bad news is that Form 5500, which is already quite complicated, will become even more complex, thus creating a greater opportunity for mistakes. To avoid errors, it is very important that plan fiduciaries have a thorough understanding of Form 5500.

### What does this mean for the future?

An increase in regulations may not sound like good news; however, the overall goal of making more information readily available is a positive step. SilverStone Group has always operated under the rule of true fee transparency. The new DOL regulations bring change that should ultimately benefit employees seeking retirement plan services. Increased competition among plan providers should make what is already a commoditized business even more so, as plan sponsors will be able to compare costs easier. Furthermore, the changes will allow retirement plan service providers who are truly offering value to employees to overshadow those who are merely dabbling in the retirement plan business. SilverStone Group's experienced Qualified Plan team is here to guide you through the changing retirement plan environment, ready to help your company find a package that best suits the needs of your employees.



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