

# Retirement Times

JULY 2020



## Are Your Participants Experiencing Fee Imbalance?

Subsequent to the 2012 implementation of ERISA fee reporting regulations (ERISA 408(b)(2) & 404(a)(5)), the Department of Labor (DOL) began to consider the appropriateness of the allocation of plan fees among participants. This is a subject that generally had not been on the radar screen of many plan fiduciaries, but once identified, tends to generate considerable traction due to its obvious validity. Ironically, a plan sponsors' diligent attention to obtaining the lowest accessible share class for new funds in plan menus has contributed to this fee imbalance among a plan's participants.

Fred Reish, a partner with Drinker Biddle in the Los Angeles office has weighed in on this issue by stating, "While there are no requirements to charge equitable fees, in Field Assistance Bulletin (FAB) 2003-03, the Department of Labor (DOL) indicated that allocating plan expenses is a fiduciary decision that requires fiduciaries to act prudently... Whatever allocation method is used, **failure by fiduciaries to engage in a prudent process to consider an equitable method of allocation of plan costs and revenue sharing would be imprudent and a breach of fiduciary duty.**"

While ERISA does not prohibit the passing on of reasonable plan fees to participants, others concur with Reish that having a process to consider how fees are charged to each participant is a best practice sponsors need to consider.

Most plans contain funds in their menu that include fee ingredients, such as various revenue-sharing payments, that can contribute to participant fee imbalance. While there are some investments that do not offer a share class that has zero revenue sharing, many do. The simplest way to solve for the fee imbalance is by eliminating this fee ingredient altogether, wherever possible. But, this typically generates a revenue loss to your plan's recordkeeper that needs to be recovered in some form. This revenue loss can be offset with an alternative, and more levelized form of revenue recovery, such as a fixed dollar quarterly participant fee (which is the ultimate in simplistic fee transparency), or an asset wrap fee (fees can increase as assets grow) or some combination of both. Combining both the quarterly fixed fee and asset wrap fee becomes of interest to plan fiduciaries when they realize that the fixed fee approach advantages the high account balance participant and the asset wrap approach advantages the low account balance participant. Some plans having an ERISA budget account established can remit revenue-sharing fees back to this account. Another method is for the provider to issue fee credits to participant accounts to achieve fee levelization.

Many plans have not yet addressed participant fee levelization. Some reasons for this are lack of awareness on the part of plan fiduciaries, recordkeeper system limitations, and imperfect current solutions. Most industry people believe that participant fee levelization will eventually become ubiquitous as recordkeeper systems are adapted. Fee levelization is a difficult concept to refute as it logically makes sense and ignoring this issue may potentially lead to fiduciary liability concerns.

Most providers have been working on options that can remediate fee levelization concerns to some extent, if not fully. At this time, a prudent approach for plan fiduciaries is to investigate the appropriateness of current fee allocation structure among plan participants, consider opportunities to approach fee levelization with your current providers, and document the consideration process and conclusions.

## Why You Need to Communicate with Employees



Businesses understand how vital it is for employees to understand retirement options and are increasingly including employee education in fiduciary risk management, whether it's in the form of one-on-one counseling or educational seminars. Take a look at these reasons why you should communicate with and educate your employees.

### Gossip Can Be Dangerous

If retirement opportunities are not properly explained, employees will likely ask each other instead. Someone could accidentally relay incorrect information and create the misconception that your savings plan options aren't effective, leading to disgruntled, unsatisfied employees. This tends to snowball into frustration and a lack of trust. Make sure your employees know that you have their best interest at heart.

### Open Communication

Create a culture of open communication. Encourage employees to approach you with questions, suggestions on benefits they'd like to see, or concerns, whether they're positive or negative. Intentionally respect, honor, and reward that honest communication. This helps employees feel valued and happy, and a happy employee is a productive one.

### Competitors Communicate

If you don't provide the educational support your employees need, chances are good that there are competitors who will. If you struggle to find and retain great workers, this could be a contributing factor. Employees may believe your plan is inadequate when compared to what other businesses offer, so by conveying your plan's many benefits, you can avoid this problem and keep employees happy.

### Employee Success Is Business Success

Employees are interested in working for thriving companies that offer exceptional benefits. Since high employee morale has been connected<sup>[1]</sup> to great customer service, know that if you take care of your employees, they will in turn take care of your clients. Satisfied customers will recommend you to friends and your business will continue to grow.

Communication is an important part of fiduciary risk management. By making an effort to counsel and educate your employees on 401(k) programs, HSAs, and other retirement options, you'll improve morale and quickly grow your business.

[1] <https://siclytics.com/employee-morale-and-customer-satisfaction-go-hand-in-hand/>



## What Constitutes Proper Documentation of Retirement Plan Committee Meetings?

With most retirement plans, the fiduciary responsibility of selecting and monitoring the plan's menu of investments is designated to a retirement plan investment committee. This committee usually includes financial officers and human resources officers of the employer. The committee meets periodically (anywhere from annually to quarterly) to consider agenda items including investment due diligence, fees and services of plan providers, status of plan goals, etc.

From a fiduciary perspective it is just as important to properly document these meetings as it is to hold the meetings. Proper documentation serves as proof that the committee's responsibilities are being prudently executed. Often plans question the degree of documentation necessary. Below are a few suggestions of what the retirement plan investment committee meeting minutes should include:

- A listing of all parties present with identification of roles (committee member, guest, financial professional, provider representative, attorney, accountant, etc.);
- A description of all issues considered at the meeting: fund performance of investments offered, participant communication/education initiatives, plan demographic and provisional review, investment policy statement review, market summary and other topics as appropriate to achieving and maintaining a successful plan;
- Documentation of all materials reviewed during the meeting;
- Documentation of all decisions made and the analysis and logic supporting each decision; and
- Identification of any topics to be continued in subsequent meetings.

For those topics which are relevant to services provided by us, complete documentation will be included in the Executive Summary which your financial professional provides after each meeting. These documents should also be posted for you to access at any time during the year.

For more information, please contact Kevin Donahue AIF®, CRPC® at [kevin@risensonfinancial.com](mailto:kevin@risensonfinancial.com)

THIS MONTH'S PARTICIPANT MEMO:

## Participant Corner: Good Health is the Best Wealth



This month's employee memo encourages employees to make small lifestyle changes to reduce their out-of-pocket health costs. The memo shows the difference in savings between an average-managed patient and a well-managed patient. Please see an example below.

Believe it or not, staying healthy just might make you wealthy. With small lifestyle changes and healthy choices, you may reduce your annual healthcare costs and increase your income. These lifestyle changes can be as simple as limiting your salt intake or taking your prescribed medication regularly.

For Example:



**Alisha**  
**The average managed patient**

- Blood pressure of 150/95
- Sometimes forgets medications
- Sometimes doesn't follow her suggested diet
- Occasional smoker and drinker



**Jasmine**  
**The well managed patient**

- Takes prescribed medication
- Exercises 30 minutes/day, 5 days/week
- Moderate alcohol intake
- Chooses healthy fats
- Limits dietary salt
- Quit smoking

For purpose of the case study, Alisha and Jasmine are compared in two levels of care: average managed (loosely follows physician recommendations) and well managed (fully complies with physician recommendations).

Alisha and Jasmine are both 45 years old and both sought medical treatment for high blood pressure. Alisha doesn't follow the lifestyle changes her doctor suggested, whereas Jasmine diligently follows her doctor's recommendations. With Jasmine's small changes she saves more than \$1,000 in out-of-pocket healthcare costs. Additionally, Jasmine's combined pre-retirement and in-retirement savings will be \$89,456 more than Alisha, as shown in the table below.

### Annual Out-of-Pocket Healthcare Costs:

	Alisha	Jasmine	Jasmine's Savings in Health Expenditures
Age 45	\$2,477	\$1,286	\$1,192
Age 64	\$13,936	\$7,343	\$6,592
Total Pre-Retirement	\$138,288	\$72,591	\$65,697
Total In Retirement	\$51,790	\$28,031	\$23,759
<b>Grand Total</b>	<b>\$190,078</b>	<b>\$100,622</b>	<b>\$89,456</b>

*For illustrative purposes only.*

The hypothetical case study results are for illustrative purposes only and should not be deemed a representation of past or future results. This example does not represent any specific product, nor does it reflect sales charges or other expenses that may be required for some investments. No representation is made as to the accurateness of the analysis.

*For more tips on preparing for healthcare costs, please contact Kevin Donahue AIF®, CRPC® at [kevin@risensonfinancial.com](mailto:kevin@risensonfinancial.com)*

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## Helping Employers Manage Their Retirement Plans with Confidence

### Our Mission

Risen Son Financial strives to help employers reduce the cost of their retirement plans and the liability of their responsibilities by naming ourselves as fiduciaries to the plan and participants. We believe this builds the foundation to help employees reach their ideal financial future, through one-on-one education, risk analysis, and financial planning.

### Why Us?

Based in Land O' Lakes, Florida, Risen Son Financial serves as retirement plan partners and investment fiduciaries for large and small businesses across the nation. Fulfilling the duties of good faith and trust, clients choose us knowing we will go above and beyond. As an Independent Financial Advisor, Risen Son Financial represents clients to the marketplace without any bias or conflicts of interest. We're accountable to you and your best interests. Risen Son Financial serves as a named fiduciary for both the plan and participants. As your Plan Fiduciary, we evaluate plan design, mitigate risks, conduct reviews, and offer solutions helping to improve performance. As Participant Counselors, we also serve as fiduciaries providing customizable advice and resources for the participants.

### Our Process

At Risen Son Financial, our first step is to review the current cost and value being received by the plan. We can do this by reviewing the 404(a)(5) (participant fees) and 408(b)(2) (plan fees) disclosures that plans are required to distribute and receive from vendors. If these are not readily available, we can also review fund lineups and statements.

### We meticulously review the retirement plan, including these 4 costs:

1. **Recordkeepers** – Receive funds from the employer and employee paycheck. Their main responsibility is to keep record of the contributions a participant receives and investment gains. Additionally, recordkeepers do the buying and selling of investments that the participant chooses, while also providing a website and quarterly statements.
2. **Administrators** – Make sure the plan meets the requirements set forth in the IRS code. They handle, testing, compliance, vesting, eligibility, loans, and withdrawals. Many times, administrators are "bundled" with the recordkeeper.
3. **Investments** – Contributions are deposited into investments. They have their normal expense ratio; however, these often come loaded with internal fees like 12b-1, sub-TA, concession and wrap. This is called "indirect compensation" or "revenue sharing." Often, an investment company will pay the recordkeeper a fee to be included in the investment lineup.
4. **Advisors or Brokers** – There is a difference. As a named fiduciary to the plan and participants, Advisors give advice, recommendations, and/or have discretionary control of investments, along with being the quarterback of the plan. This includes benchmarking all fees paid to vendors and shopping plan costs to keep fees reasonable. Advisors are held to the best interest standard. In contrast, Brokers are held to the suitability standard. Brokers can't give advice nor can they name themselves as a fiduciary to the plan. Brokers sell a product as a representative of a larger entity.

Once all fees are known, we benchmark those fees and services being received to the open market. We then use this benchmarking to get the cost of the plan reduced. We accomplish this by either going to the current provider to have them reduce the cost or moving the plan to a platform that will, along with providing for the needs of the plan. Being completely independent we can work with all providers which allows us to provide conflict-free and bias-free advice.

### **About Kevin Donahue, CRPC®, AIF®**

Kevin Donahue is the owner of Risen Son Financial. After serving four years in the United States Navy, he graduated from Florida State University in 2004 earning a bachelor's in Computer Science and a minor in Mathematics. Seeing firsthand, the impact of retirement saving and planning with his own parents, Kevin entered the financial services business to pursue his passion of helping clients meet and exceed their financial goals and visions. During his career, Kevin has passed and/or currently holds the series 6,7, 63 and 65 exams along with obtaining Chartered Retirement Planning Counselor (CRPC) designation from the College for Financial Planning. This designation encompasses pre-and post-retirement needs, wealth management, estate planning, and the entire retirement planning process. Additionally, he holds the Accredited Investment Fiduciary (AIF), which empowers investment professionals with the fiduciary knowledge and tools they need to serve each client's best interests.



Kevin resides in Land O' Lakes, with his wife Brittany and their twin boys Andrew and Noah.

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