Deciding what is reasonable:
Assessing fees using value and outcomes
According to the Assistant Secretary of Labor Phyllis Borzi, “...the fee disclosure rule doesn’t simply require providers to reveal how much plan sponsors are paying in fees, but what they get in return, so fiduciaries will be in a better position to make informed decisions. It’s about making sure they have access to all the information they need to assess the quality of their investment.”

With greater transparency around fees, plan sponsors now have more information than ever before to evaluate the fees they are paying for plan services. This is good news for plan sponsors as they try to meet their long-standing fiduciary obligation to monitor and assess the reasonableness of their plans’ fees.

However, many sponsors are uncertain about how best to meet their fiduciary obligations. They aren’t quite sure how to use and apply the large amounts of information provided by the Department of Labor’s 408(b)(2) fee disclosure regulations. When assessing fees, they frequently focus their attention on seeking out the lowest costs for plan services and investments when fees are just one part of the story. As a result, many plan sponsors may not fully consider the quality and effectiveness of the services they are receiving and how they contribute to positive outcomes for their employees.

It is therefore critical for plan sponsors to rely on a well-thought-out plan for fiduciary compliance. This is especially true given the unique factors in the not-for-profit environment, such as the presence of multiple providers, the availability of annuity products, and the portability of plan assets. An intentional, carefully designed fiduciary process can help you organize and evaluate the data available to help answer questions of fairness and value. And, ultimately, following a prudent fiduciary process can also help drive better plan outcomes for your employees.

We recommend a four-step framework using the key parameters of Who, What, How and Why. Developed by fiduciary expert Donald Trone, CEO of 3ethos, this four-step process can help plan sponsors in all organizations make reasonably informed and knowledgeable assessments about fees:

1. **Who** is receiving compensation from your plan?
2. **What** are the fees and expenses associated with your plan?
3. **How** do your fees and expenses compare to other service providers or investment options?
4. **Why** is the compensation warranted?
1. *Who* is receiving compensation from your plan?

The first step is to identify a list of all covered service providers, which may include any plan fiduciaries, investment advisors, recordkeepers, brokers, and providers receiving “indirect compensation” such as investment or plan consultants.

**Identify your providers and review the process for their inclusion**

The 408(b)(2) service and fee disclosures you receive from each provider should help you to both assemble an initial list and validate who is being compensated. *Figure 1* presents some considerations for best practices in identifying and evaluating each of your providers.

Consider each of your provider relationships, the impact they have on the fees you pay and any interdependencies. As you review the list, ask yourself:

- Are all your relationships accounted for?
- Have you reviewed each provider recently?
- Are any providers’ fees above the norm?
- Do you need the help of a third-party professional to evaluate your providers?

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**Figure 1. Best practices in reviewing service providers**

<table>
<thead>
<tr>
<th>Task</th>
<th>Best Practice Considerations</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Identify all “covered service providers.”</td>
<td>- Includes fiduciaries, investment advisors, recordkeepers, brokers, and providers receiving “indirect compensation,” such as consultants</td>
</tr>
</tbody>
</table>
| 2. Gather complete information regarding your providers, services and fees. | - Provider qualifications  
- Scope and quality of services  
- Fees charged for services and investments |
| 3. Consider indirect compensation when evaluating investments and services. | - Require disclosure of all compensation arrangements  
- Understand any potential conflicts of interest |
| 4. Use procedural prudence when selecting a new provider or evaluating an existing one. | - Thoroughly review and document the process  
- Regularly monitor the reasonableness of fees  
- Review total cost plus individual fee components |
| 5. Conduct fiduciary reviews regularly and maintain supporting documentation. | - Periodically audit invoices to assure compliance with agreed-upon fees  
- Ask for a thorough itemization if necessary |

Indirect compensation comes from sources other than the plan, the plan sponsor, participants or an affiliate of the manager. An example of indirect compensation is when an investment manager receives research from a brokerage house in exchange for conducting their fund’s trading with that brokerage firm. This type of compensation is also known as “soft-dollar” revenue. Other examples include finder’s fees, float revenue, brokerage commissions or other transaction-based fees for transactions or services involving the plan.
2. What are the fees and expenses associated with your plan?

Once you identify the parties involved, the next step is to determine what fees and expenses you are paying these providers. Remember, in defined contribution plans such as 403(b) plans, a variety of fee and service arrangements exist, and they are charged in different ways, including per-participant fees, per-plan fees or a percentage of total plan assets. This variability may make benchmarking challenging, especially when you attempt to make comparisons with peers or other providers.

Understanding fee arrangements

Despite the variables, it may be helpful to review your fees in terms of three basic categories: 1) administrative services; 2) individual services; and 3) investment services. This approach can help you better understand exactly what services are included in your offering and related cost drivers. It can also inform your discussions with providers and direct questions about what factors are driving your plan costs, such as the presence of manual processes, for example.

Administrative services: Administrative services include recordkeeping, accounting, legal and trustee services, web site, customer service phone lines and participant communications—all necessary to keep the plan up and running.

Plan sponsors typically charge these expenses to participants, particularly in the 403(b) market. Plan administration fees are commonly determined on a per-participant basis; however, fee arrangements by provider may vary. For example, some administrative costs may be borne by the investment options themselves (typical in the 403(b) market); others can be captured as a per-head fee deducted from participant accounts or a combination of the two.

Individual services: Fees apply to specific transactions requested by employees. If your plan allows for loans, for example, employees may pay a one-time loan initiation fee and/or annual loan maintenance charge. There may be fees for other services, such as a qualified domestic relations order (QDRO) or wire transfer. These service fees can be bundled with the total service package or charged directly to a participant’s account.

Investment services: Investment management fees typically represent the largest portion of a plan’s expense and are paid by employees through a reduction in net return on investments in their accounts. Known as the “expense ratio,” these fees support expenses associated with investing employees’ assets. Expenses can vary widely depending on type of investment or retirement plan product (actively managed vs. indexed, fixed income vs. equities, annuities vs. mutual funds, etc.) and the level of plan assets.
Considering recordkeeping offsets

Your evaluation should factor in any “recordkeeping offset” (also known as “revenue sharing”). Under this arrangement, the manager of an investment option may agree to rebate a portion of its investment fee to a service provider—in the case of 403(b) plans, generally the recordkeeper. This amount helps to offset the cost of administration provided by the retirement service provider that would otherwise be charged directly to the plan, the plan sponsor and/or participants.

This adds important considerations for fiduciary evaluation of fees:

- In the majority of 403(b) plans, individual and investment service fees are typically covered in whole or in part by a recordkeeping offset agreement between investment providers and the plan’s recordkeeper.
- Recordkeeping offsets vary widely in practice, depending on individual plan economics and individual investment manager practices. The agreement between the plan sponsor and service provider should disclose whether any funds are used to offset administrative expenses charged by your recordkeeper—and whether the recordkeeper is entitled to these credits under plan rules.
- Any amounts that the plan receives from providers as revenue offsets can serve to lower plan costs for employees.
- Some plan sponsors have used the concept of an “all in” fee which combines all fees into a single figure expressed as a percentage (Figure 2) to help them better understand what they are paying (further explored in the How section.)

Figure 2. Using an “All-in” or “Total” Fee to Help Analyze Fees

The question of fairness

With greater scrutiny around plan level-fees, a new question is emerging around the fairness of how these fees are charged to participants. There are currently no statutes requiring fees to be assessed equitably across plan participants, but regulators are studying this closely. As plan sponsors operate their plans in the best interest of their participants, the question has become: What is fair for participants?

For some sponsors, there may be an awareness issue and they don’t realize that participants are paying different amounts for plan administration. It is common for retirement plans to offer investment options with revenue sharing; however, the amount of revenue sharing can vary significantly by fund. This could result in an employee investing in funds that have greater revenue-sharing levels and paying a greater share of the plan’s expenses than other employees. This difference may not be apparent to the employee (it may not be an explicit line item or a readily available disclosure) and the resulting fee differences could be “unfair.”
Examine provider practices

Participants can be charged for plan administrative and recordkeeping fees in different ways depending on plan set up. Plans may charge

- per capita fees that are fixed-dollar amounts charged per participant
- pro rata fees that are asset-based fees charged as a percentage of assets
- hybrid fees that are a combination of fixed-dollar and asset-based fees. The asset-based fee is typically capped once account balances reach a certain threshold—for example, at $100,000.

Selecting the fairest way to assess participant fees requires careful consideration. What may seem like a fair approach for all may benefit some employees over others. For example, one seemingly fair approach is to use per capita fees that charge each participant the same dollar amount for plan administration. In such a scenario, a participant with a $5,000 account balance paying a flat $75 administration fee would pay a 1.50% fee. Another participant with a $500,000 account balance and that same $75 fee would only be paying 0.02% of their account balance—significantly less on a percentage basis than the participant with the smaller account balance.

The same type of analysis applies to pro rata fees. Charging the same 10 basis points (0.1%) of assets across all participants appears to pass the fairness test. However, in this case participants with larger accounts will shoulder a much heavier share of administrative fees than participants with smaller accounts. In this example, a participant with a $500,000 balance would pay $500 in plan fees, while a participant with a $5,000 balance would only pay $5. The use of a hybrid approach can address some but not all of the fee disparities that result from a per capita or pro rata approach, as Figure 3 shows.

**Figure 3: Hypothetical participant fees by fee structure used**

<table>
<thead>
<tr>
<th>Participant Account Balance</th>
<th>$75 Fixed per participant fee</th>
<th>Asset-based fee (0.10% or 10 bps)</th>
<th>$50 fixed per participant fee and a 0.05% (5 bps) asset based fee (up to $100,000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>$5,000</td>
<td>$75.00</td>
<td>$5.00</td>
<td>$52.50</td>
</tr>
<tr>
<td>$25,000</td>
<td>$75.00</td>
<td>$25.00</td>
<td>$62.50</td>
</tr>
<tr>
<td>$50,000</td>
<td>$75.00</td>
<td>$50.00</td>
<td>$75.00</td>
</tr>
<tr>
<td>$100,000</td>
<td>$75.00</td>
<td>$100.00</td>
<td>$100.00</td>
</tr>
<tr>
<td>$500,000</td>
<td>$75.00</td>
<td>$500.00</td>
<td>$100.00</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Participant Account Balance</th>
<th>$75 Fixed per participant fee</th>
<th>Asset-based fee (0.10% or 10 bps)</th>
<th>$50 fixed per participant fee and a 0.05% (5 bps) asset based fee (up to $100,000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>$5,000</td>
<td>1.50%</td>
<td>0.10%</td>
<td>1.05%</td>
</tr>
<tr>
<td>$25,000</td>
<td>0.30%</td>
<td>0.10%</td>
<td>0.25%</td>
</tr>
<tr>
<td>$50,000</td>
<td>0.15%</td>
<td>0.10%</td>
<td>0.15%</td>
</tr>
<tr>
<td>$100,000</td>
<td>0.08%</td>
<td>0.10%</td>
<td>0.10%</td>
</tr>
<tr>
<td>$500,000</td>
<td>0.02%</td>
<td>0.10%</td>
<td>0.02%</td>
</tr>
</tbody>
</table>

Source: TIAA-CREF calculations
When evaluating participant fee fairness, you should also consider the capabilities of retirement providers and the most efficient way of implementing a level playing field. For example, with some providers you could use a fee “equalization” approach that assesses the same level of fees across participants. This can be accomplished by crediting and debiting participants’ accounts based upon the level of revenue sharing they are paying. Those that pay more than what is needed receive a credit and those that pay less are charged a fee. This option is intended to offer greater participant fee fairness, but there are operational and practical challenges associated with its implementation. Because of the complexity of these approaches, not all recordkeepers offer this as an option. You may also find that from an efficiency perspective, the added costs and effort associated with fee levelization may outweigh the benefits. This results in a trade-off between fairness and efficiency.

Another option could be to only offer investment options that have the same revenue-sharing levels or none at all. However, not all asset managers offer funds with no-revenue sharing and plan sponsors may prefer the use of these managers over a zero-revenue sharing investment menu.

As you can see, participant fee fairness is an important, yet complex issue for you to understand and explore. You can turn to your providers and advisors for help in evaluating your existing participant fee structure and to determine what’s best for your organization.
3. How do your fees and expenses compare to other service providers or investment options?

The third step is to determine how your fees and expenses compare with industry standards. Most often, organizations turn to various forms of benchmarking. Fees are important, but plan sponsors should be aware that ERISA does not require a plan sponsor (or a non-ERISA plan sponsor who is not required to, but chooses to follow ERISA best practices) to select the lowest fee provider.

Benchmarking has taken on greater prominence in a new era of transparency and it can play an important part in your process towards informed decision-making. Available benchmarking data allows you to reasonably compare your plan against others, while factoring in any limitations of such data. Figure 4 highlights resources available to help compare providers and services.

David Richardson, Senior Economist at the TIAA-CREF Institute, believes that benchmarking should balance fees with service quality and retirement outcomes. “Very often benchmarking focuses on a cost minimization algorithm. But this doesn’t look at the full picture, nor does it take into account that provider services vary,” Richardson said. “The objective of the plan should be that your employees are accumulating adequate retirement income so they can eventually retire.”

Figure 4. Resources to compare providers and services

<table>
<thead>
<tr>
<th>Tactic</th>
<th>Considerations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benchmarking</td>
<td>▪ Understand the metrics’ relevancy, realizing your plan may not align perfectly.</td>
</tr>
<tr>
<td></td>
<td>▪ Ensure you understand your providers’ fee practices and any investment related expenses beyond the “total expense ratio.” Consider an “all-in” fee for a meaningful evaluation (See Figure 2).</td>
</tr>
<tr>
<td>Issuing a request for proposal (RFP)</td>
<td>▪ Issuing an RFP is not required, but can help your organization compare services and plan pricing.</td>
</tr>
<tr>
<td></td>
<td>▪ Are you prepared for the cost, time and resource-intensive effort required?</td>
</tr>
<tr>
<td>Using professional services</td>
<td>▪ If your organization lacks internal expertise, a knowledgeable plan consultant can facilitate a thorough review of fees and services, although it is up to you as plan fiduciary whether to act on the advice.</td>
</tr>
<tr>
<td></td>
<td>▪ Make sure you understand the consultant’s analysis and assumptions before adopting recommendations.</td>
</tr>
<tr>
<td></td>
<td>▪ Understand the sources of consultant compensation. Any indirect compensation should be disclosed and reviewed.</td>
</tr>
<tr>
<td>Reviewing third-party data</td>
<td>▪ There is a wide array of independent information available to plan sponsors. Choose objective sources that include meaningful samples.</td>
</tr>
<tr>
<td></td>
<td>▪ Some third-party studies use a template that may not match your plan structure or needs.</td>
</tr>
</tbody>
</table>
A point of comparison

One source of benchmarking information is the 2014 Deloitte/ICI Defined Contribution/401(k) Fee Study. While this study does not cover all plan types, including 403(b) plans, it may be useful as a starting point to benchmark your plan’s all-in fees and common fee drivers.

The Deloitte/ICI study created and uses the aforementioned “all-in” fee as a measure of reasonableness by correcting for variation in fee practices and differences in allocating major expenses (such as recordkeeping versus investments) among plan participants, the sponsor and the plan. In the current and in previous editions of the study, the all-in fee includes both plan sponsor and plan participant fees (although it excludes individual service fees such as loans).

The median participant-weighted “all-in” fee of plans surveyed was 0.67 percent. As shown in Figure 5, fees ranged from 0.29 percent for plans at the 10th percentile to 1.29 percent for plans at the 90th percentile. Bear in mind that past pricing practices are not a predictor of future practices and total plan fees should be included as a point of reference among many points of comparison to reduce any fiduciary liability.

This study found that plan size is a significant fee driver: Fees tend to decrease as the average participant account balance, number of employees in the plan and total plan assets increase. Bear in mind, however, that while plan size plays a critical part in determining plan fees, it is also essential to consider the relationship between the services offered to a plan and fees—and ultimately how these services contribute to retirement readiness.

<table>
<thead>
<tr>
<th>Plan assets</th>
<th>All plans ($1M or More)</th>
<th>$1M–$10M</th>
<th>$10M–$100M</th>
<th>$100M–$500M</th>
<th>$500M or more</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0.29</td>
<td>0.70</td>
<td>0.59</td>
<td>0.35</td>
<td>0.24</td>
<td></td>
</tr>
<tr>
<td>1.29</td>
<td>1.28</td>
<td>0.90</td>
<td>0.67</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.65</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.0%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* Sample includes 401(k) plans with plan assets of $1 million or more.


This graph is for illustrative purposes only and is drawn from information published in the Deloitte/ICI 2013 Study in August 2014, and based on data gathered as of the end of 2013. Your own plan and fee situation may differ. Some or all of these recordkeeping or administrative fees may be paid through a portion of asset-based investment expenses (e.g., in the form of 12b-1 fees, shareholder servicing fees or administrative servicing fees), which is often referred to as revenue-sharing or recordkeeping offset.

Bear in mind the survey does not evaluate quality or value of services provided—both of which can impact fees. Quality of service varies. Qualitative differences in services may affect fees but are not easily quantified and were not addressed in this Deloitte/ICI study.

* When a survey sample is drawn from a population, the proportions of segments within the sample may not match the distribution of those segments within the population. In the normal course of survey work, researchers will determine the appropriate variables on which to “weight” their survey observations, in this case, participants.
The 403(b) environment involves the complexity of multiple providers and numerous employee choices. With more choice, the need for employee education and advice becomes even greater.

Factoring in the 403(b) difference

An important consideration when comparing services and fees is the difference between the 403(b) and 401(k) environments, which adds to fiduciary complexity in evaluating plan fees and all-in charges. For example, annuity options can be additional cost drivers in 403(b) plans but they may contribute to better retirement outcomes (see “Considering the value of annuity options”). The 403(b) environment also typically involves the complexity of multiple providers, which may warrant strategic investment tiering designed to rationalize the investment lineup, reduce fiduciary risk and simplify your employees’ choices.

With numerous available choices, the need for education becomes even greater because the employee is required to make two decisions: 1) what provider to select, and 2) how to invest their retirement savings. Plan sponsors have traditionally placed a higher value on the availability of targeted participant education and advice programs to promote financial literacy and informed decision making.

Although 403(b) sponsors historically allowed multiple service providers the trend is toward consolidation. Fewer service providers reduces administrative burden, eases fiduciary management, provides for a clearer participant experience, and takes advantage of economy of scales that could reduce the cost of administration to the plan and its participants.

Considering the value of annuity options

Many plan sponsors value low-cost annuity options because of their importance in helping employees achieve guaranteed lifetime income. Offering these options within a plan menu demonstrates a plan sponsor’s lifelong loyalty and commitment to their employees’ financial well-being—not just until their point of retirement. Plan sponsors can refer to TIAA-CREF’s white paper, “Helping participants generate a lifetime of income,” as a resource when evaluating the benefits and implications of offering their employees low-cost annuities.

If your provider already offers annuities, it is important to review the fees against a similar universe to ensure they are competitive. Not all annuities are the same, and annuities have additional expenses not associated with mutual funds. Plan sponsors should consider:

- What is the expense ratio of the annuity option? Evaluate expense ratios against independent, objective sources using a broad sample for comparison, such as Morningstar.
- What is the mortality and expense fee (a fee charged by an insurance company intended to cover the cost of death benefits)? What other fees exist?
- Does the annuity provider have a strong insurance rating from major independent ratings agencies? Does it generate the return needed to pay sufficient retirement income throughout employees’ lifetimes?
- What are the interest rates and other benefits offered by the annuity?

Annuities can help address the risk of employees outliving their income.* If employees are able to contribute to an annuity during the accumulation phase, they may also benefit from less volatility, diversification and dollar cost averaging. In addition, research has shown that employees who save in an annuity during the accumulation phase are more likely to create a lifetime stream of income at retirement.⁵

According to Richardson at the TIAA-CREF Institute, the presence of annuities helps to educate employees about the benefits of receiving retirement income they cannot outlive. “The presence of annuities during the accumulation phase is a strong indicator that you can socialize people to the lifetime income concept. Moving from a stockpile of assets during the accumulation phase to a flow of income during retirement is an easier transition,” he says.⁶

* All guarantees are subject to the claims-paying ability of the issuing company.
4. **Why is the compensation warranted?**

After reviewing the breakdown of your fees, considering them through an all-in fee model as applicable and performing relevant benchmarking, now it’s time to ask the most important question. *Why is the compensation warranted?* Does it represent a good value to your organization? *Figure 6* demonstrates the careful balancing act between fees and value.

**The question of value**

There are strategies you may wish to consider to help determine the answer. If measuring value feels elusive, it may be useful for your organization to take both a philosophical and practical point of view. In this step of the process, it’s time to prioritize what is most important to your organization and to your benefits offering. Ultimately, what does your organization need and value the most? And what are you willing to pay to get it?

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**Figure 6. What does your organization value most?**

<table>
<thead>
<tr>
<th>Plan sponsor priority</th>
<th>Value priorities/Potential measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Participant outcomes</td>
<td>- Does your plan reflect high income replacement ratios over a working career?</td>
</tr>
<tr>
<td></td>
<td>- Does your provider measure its success by the success it creates for your employees?</td>
</tr>
<tr>
<td></td>
<td>- Does your provider offer personalized advice for your employees?</td>
</tr>
<tr>
<td>Service quality and plan</td>
<td>- Does your provider meet or exceed your service level expectations, including</td>
</tr>
<tr>
<td>consultative support</td>
<td>high levels of timeliness, accuracy and participant satisfaction?</td>
</tr>
<tr>
<td></td>
<td>- Does your provider offer a high level of consultative plan support to help you</td>
</tr>
<tr>
<td></td>
<td>target areas for improvement?</td>
</tr>
<tr>
<td>Minimizing fiduciary risk</td>
<td>- Do you receive robust support to help meet fiduciary obligations?</td>
</tr>
<tr>
<td>Managing cost</td>
<td>- Do you understand exactly what services are included in your offering and the cost drivers?</td>
</tr>
<tr>
<td></td>
<td>- Ask what changes can be made to lower your plan costs, such as reducing manual processes.</td>
</tr>
<tr>
<td>Provider experience</td>
<td>- How experienced and focused is your provider in the relevant market?</td>
</tr>
<tr>
<td></td>
<td>- With added complexities of the 403(b) environment, are you confident your provider is up to the</td>
</tr>
<tr>
<td></td>
<td>task?</td>
</tr>
</tbody>
</table>

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Are your fees, and your assessment of them, focused on the right criteria? Are you focused on lowering costs or extracting value?
Tom Kmak, CEO of Fiduciary Benchmarks, suggests that plan sponsors may want to consider a “rule of three” in terms of key value metrics:

1. Quality of the service from hired provider
2. Scope of services provided (which drives cost)
3. Value delivered to plan sponsor and employees (in terms of retirement outcomes)

All things considered, it is useful to recall that the primary objective behind offering a 403(b) retirement plan is to help your employees retire with sufficient lifetime income. According to Kmak: “Driving better outcomes is the biggest value component, according to our calculations. We’ve seen that even small changes here can make meaningful differences.”

Dr. Brigitte Madrian, Professor of Public Policy and Corporate Management at Harvard, and award-winning author of a study on fees, agrees. “The plan sponsor needs to be thinking about choosing an effective plan design, education program and investment menu that gets individuals to a good place, and sets them up for success,” says Madrian. “While plan sponsors need to understand what is in their service bundle, a rich service bundle does not necessarily translate to a high fund expense ratio.”

Madrian maintains that strategies such as a well-designed and easy-to-understand matching contribution structure, comprehensive participant education, a simplified menu of carefully screened investment choices, and automatic enrollment have been shown to increase the odds of retirement plan success.
Improving retirement readiness

Plan sponsors are adjusting to life post-fee disclosure and dealing with a plethora of information, but they should not allow an abundance of fee information to distract from the true focus of a fiduciary: providing positive plan outcomes. In order to achieve this, plan sponsors should consider four key drivers—of which assessing fees for value and reasonableness is a core component—when evaluating the effectiveness of their plan.

- **Plan management** that helps to mitigate fiduciary risk, drive efficiency and maximize value.
- **Plan design** that builds a strong foundation for the plan’s structure and services.
- **Investment solutions** that provide employees with lifetime income.
- **Employee engagement** with a focus on outcomes-based education and advice.

Your service package should build on these four pillars with programs expected to improve employee outcomes, even if including those services could lead to a reasonable increase in plan fees.

A deliberative fiduciary process for assessing Who, What, How and Why can assist your organization with fulfilling its obligation to provide a plan that operates in the best interest of your employees. Ask your plan advisor, consultant and recordkeeping partners for their support and guidance as you seek clarity on fee issues.

TIAA-CREF remains committed to helping you meet your fiduciary obligations and reasonably assess fees. If you have any questions, please contact your Relationship Manager or visit us online at www.tiaa-cref.org/plansponsors.

Plan sponsors must filter out the noise on fee disclosure and zero in on what’s most important: preparing employees for a lifetime.
Checklist: Four questions to guide your fee evaluation process

As a plan fiduciary it’s not enough to simply read your service providers’ fee disclosure document. You also have a responsibility to ensure their compensation is reasonable relative to the services being provided. A deliberative fiduciary process for assessing fees can assist with fulfilling your obligation to provide a plan that operates in the best interest of your employees. Your plan provider or consultant can help you navigate this process by helping you answer four key questions.

1. Who is receiving compensation from your plan?

- Identify all plan covered service providers including fiduciaries, investment advisors, recordkeepers, brokers, and providers receiving direct and “indirect compensation.” Collect complete information regarding their qualifications, scope and quality of services.

- Follow a documented process to regularly monitor each of your providers. That includes having set criteria to measure their effectiveness and determining whether there are any potential conflicts of interest.

- Ensure that you have received the required disclosures from your plan’s service providers. Review the collected information closely in order to verify the disclosures are complete and accurate. Clarify any questions you may have with your provider or consultant.

2. What are the fees and expenses associated with your plan?

- Understand all of the fees associated with your plan and how they are charged. Part of this process includes reviewing how recordkeeping offsets are handled by your provider and understanding how participant fees are assessed.

- Use an all-in-fee approach to determine your total plan costs and to help facilitate the fee evaluation process. Categorizing your fees by administrative, investment and individual categories may also make it easier to understand what services are included in your offering and their related cost drivers.

- Make sure you effectively communicate the plans’ fees to your employees and that you have the necessary information from your service providers to help create your required participant fee disclosures.
3. How do your fees and expenses compare to other service providers or investment options?

- Finding suitable benchmarks to compare your fees with may be difficult to find. You may want to rely on your provider or consultant to help with the benchmarking process. When comparing your fees, it is important to not only benchmark your plan’s all-in-fees but also to benchmark each of your covered service providers. ✔

- Keep in mind that the lowest fee isn’t necessarily the best. Your evaluation should also account for the quality of services you are receiving and how they are improving plan outcomes. ✔

- Determine if any changes are necessary to the plan’s investment options or services based on your fee evaluation (e.g., fund removal or replacement). A knowledgeable plan consultant can facilitate a thorough review of fees and services if you do not have the internal expertise. ✔

- Consider issuing a request for proposal to help you compare services and plan pricing or to replace existing providers if necessary. ✔

4. Why is the compensation warranted?

- Catalog the full range of services—both for plan sponsors and participants—that are included in your plan fees. This includes plan management services, reporting, online access, plan communications, advice and guidance offerings and other services. Then, prioritize the services according to what you value and what benefits the plan the most. ✔

- Consider if your plan offering takes into consideration the lifetime value of the services you are receiving, including the value of an in-plan annuity and the guaranteed income it offers. ✔

- Based on your plan’s objectives, evaluate how your plan’s services are delivering upon desired outcomes. Partnering with your provider and consultant you can identify the metrics to determine the retirement readiness of your plan. ✔
Annuities are designed for retirement and other long-term goals and offer payment options including lifetime income. Guarantees are based on the claims-paying ability of the issuer. Payments from variable annuities are not guaranteed and will rise or fall based on investment returns. Withdrawals of earnings from an annuity are subject to ordinary income tax plus a possible federal 10% penalty if you make a withdrawal before age 59 ½.

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