



401(k) Provider Shopping Companion

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SUMMARY

401(k) provider services can vary dramatically in breadth, depth and price. This variability can make it difficult for small business fiduciaries to pick 401(k) providers with services that match their plan's needs at a reasonable price.

That's a problem. 401(k) plans should not pay for superfluous services participants won't use. Excess services can be expensive, dragging down participant returns unnecessarily. When this happens, personal liability for 401(k) fiduciaries can result.

To avoid this issue, 401(k) fiduciaries should understand their 401(k) service options before they start shopping. When 401(k) fiduciaries don't know their options, they can be easily sold overpriced or unnecessary services by 401(k) providers.

To help 401(k) fiduciaries choose the best service provider(s) for their 401(k) plan, Employee Fiduciary recommends a 3 step process:

1. Understand the services that compose a 401(k) plan
2. Determine which of these services require professional assistance to deliver
3. Compare 3 or more 401(k) service providers

Steps 1 and 2 are described in depth in **Selecting 401(k) Service Providers: Determine the Professional Help You Need Before You Shop**. For the third step, we recommend 401(k) fiduciaries develop a checklist that compares three provider attributes:

- A. Competence
- B. Fees
- C. Service differences

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CHECKLIST

Below is a sample checklist for plan administration services. You can use this sample as a basis for your own checklist – adding or deleting the variables you want to compare.

Plan Administration Services Offered

Before you start comparing 401(k) providers, you should first confirm each provider offers all three of the basic administration services every 401(k) plan needs – asset custody, participant recordkeeping and **third-party administration (TPA)**.

Many providers do not offer all three services. Instead, they partner with one (or even two) other companies to deliver all three services. When this is the case, evaluate the different companies as one provider when comparing services.

| Service | Employee Fiduciary | Provider #2 | Provider #3 |
|---------------|--------------------|-------------|-------------|
| Custody | ✓ | | |
| Recordkeeping | ✓ | | |
| TPA | ✓ | | |

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COMPETENCE

According to the **Department of Labor (DOL)**, “selecting competent service providers is one of the most important responsibilities of a plan sponsor.” To evaluate provider competence, we recommend the comparison of 4 objective criteria – experience, growth, risk mitigation and service standards. Client referrals from each provider should also be requested.

| | | Employee Fiduciary | Provider #2 | Provider #3 |
|---------------------|--|---|-------------|-------------|
| Business Statistics | Year Founded | 2004 | | |
| | Total Plans | 4,000+ | | |
| | Total Participants | 100,000+ | | |
| | Total Assets | 5 Billion+ | | |
| | Annual Growth | >10% | | |
| Risk Mitigation | Does the provider have a current SOC 1 Report (Service Organization Controls Report)? | Yes | | |
| | Does the provider have errors and omissions (E&O) insurance? | Yes | | |
| | Does the provider have an information security policy? | Yes | | |
| | Is there any current or pending litigation or administrative actions against the provider? | No | | |
| Service Standards | E-mail or phone response time | Less than 24 hours | | |
| | Contributions | Invested within 2 business days | | |
| | Distributions | 7-10 business days | | |
| | Quarterly Benefit Statements | 15 business days after quarter-end | | |
| | Annual Nondiscrimination Testing | If employee census and employer survey are received in good order by 1/31, testing guaranteed by 3/15 | | |

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FEES

One of the most important 401(k) fiduciary responsibilities is paying only reasonable expenses from plan assets. One way to prove 401(k) fee reasonableness is to compare provider fees. Unfortunately, these comparisons can be difficult given the numerous ways 401(k) providers can be paid today – some are paid directly by employer invoice or participant deduction while others are paid indirectly from plan investments. To normalize these differences, I recommend 401(k) fiduciaries sum all administration fees, regardless of their source, into a single all-in fee and then compare that fee between providers.

| | | Employee Fiduciary | Provider #2 | Provider #3 |
|-------------------------------|---|---|-------------|-------------|
| Plan Administration Fees | Base Fee | \$1,500 (includes up to 30 eligible employees) | | |
| | Per Head Fee | \$30 for each eligible employee in excess of 30 | | |
| | Asset-Based Fee | 0.08% of plan assets | | |
| | If the provider receives revenue sharing, do these payments offset base, per head and asset-based fees? | Yes | | |
| | Does the provider add a “wrap” fee to plan investment options? | No | | |
| | Total all-in annual administration fee | | | |
| Plan Establishment Fees | Startup (New) Plan | \$500 | | |
| | Conversion (Existing) Plan | \$1,000 | | |
| Initial Commitment Period | | None | | |
| Service Termination Fee | | \$300 | | |
| Participant Distribution Fee | | \$50 | | |
| Loan Establishment Fee | | \$50 | | |
| Loan Maintenance Fee (annual) | | \$50 | | |

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SERVICE DIFFERENCES

401(k) fees are very important, but they should not be the sole consideration when selecting between service providers – the value of any service differences should be considered. Some common areas of 401(k) provider differentiation include:

| | | Employee Fiduciary | Provider #2 | Provider #3 |
|--|---|--------------------|-------------|-------------|
| Does the provider assign a dedicated relationship manager to each 401(k) plan? | | Yes | | |
| Do participants have access to a dedicated call center for questions? | | Yes | | |
| Plan Assets | Are plan assets held by a custodian (non-fiduciary) or directed trustee (fiduciary)? | Directed Trustee | | |
| | Does the provider limit investment options to funds that make revenue sharing payments? | No | | |
| TPA Services | Does the provider offer plan design consulting? | Yes | | |
| | Is a volume submitter plan document included in the provider's base fee?* | Yes | | |
| | Does the provider identify highly compensated and key employees during year-end nondiscrimination testing? ** | Yes | | |
| | Does the provider monitor plans for required minimum distributions? | Yes | | |

* Many providers include a less flexible prototype doc that limits design options.

** Many providers require the employer to identify these employees.

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FEEL GOOD ABOUT YOUR CHOICE!

Too many 401(k) fiduciaries shop for service providers backwards – they start shopping before they know their options. When this happens, fiduciaries can be easily sold overpriced or unnecessary services by 401(k) providers. 401(k) fiduciaries should know their options before they start shopping.

Selecting competent 401(k) service providers does not need to be overwhelming – a prudent selection process can be completed in just 3 steps.

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HYPERLINK FOOTNOTES

- ¹ **Selecting 401k Service Providers: Determine the Professional Help You Need Before You Shop:**
<http://blog.employeefiduciary.com/blog/selecting-401k-service-providers-determine-the-professional-help-youneed-before-you-shop>
- ² **Third-Party Administration (TPA):**
http://www.401khelpcenter.com/faq/faq_45.html#.VrznRVLXdEI
- ³ **Department of Labor (DOL):**
<http://www.dol.gov/ebsa/newsroom/fs052505.html>
- ⁴ **401(k) Fiduciary Responsibilities:**
<http://www.dol.gov/ebsa/publications/fiduciaryresponsibility.html>
- ⁵ **All-In Fee:**
<http://blog.employeefiduciary.com/blog/power-401k-fee>
- ⁶ **Plan Administration Fees:**
<http://www.truckerhuss.com/2010/02/white-paper-a-guide-to-retirement-plan-fees-expenses/>
- ⁷ **Custodian or Directed Trustee:**
http://www.geeksonfinance.com/info_8250213_custodian-vs-trustee.html
- ⁸ **Plan Design Consulting:**
<http://blog.employeefiduciary.com/blog/401k-plan-design-our-checklist-can-make-the-process-simple>
- ⁹ **Volume Submitter:**
<https://www.irs.gov/Retirement-Plans/Types-of-Pre-Approved-Retirement-Plans>
- ¹⁰ **Highly Compensated:**
<http://www.investopedia.com/terms/h/highly-compensated-employee.asp>
- ¹¹ **Key Employees:**
<http://www.investopedia.com/terms/k/key-employee.asp>
- ¹² **Required Minimum Distributions:**
<https://www.irs.gov/Retirement-Plans/Retirement-Plans-FAQs-regarding-Required-Minimum-Distributions>