



401k Shopping Companion

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SUMMARY

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

That's a problem. 401k 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 401k fiduciaries can result.

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

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

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

Steps 1 and 2 are described in depth in **Selecting 401k Service Providers: Determine the Professional Help You Need Before You Shop**. For the third step, we recommend 401k 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 401k providers, you should first confirm each provider offers all three of the basic administration services every 401k 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 **401k fiduciary responsibilities** is paying only reasonable expenses from plan assets. One way to prove 401k fee reasonableness is to compare provider fees. Unfortunately, these comparisons can be difficult given the numerous ways 401k 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 401k 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		
Plan Document Amendment Fee		\$150		

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SERVICE DIFFERENCES

401k 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 401k provider differentiation include:

		Employee Fiduciary	Provider #2	Provider #3
Does the provider assign a dedicated relationship manager to each 401k 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 401k 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 401k providers. 401k fiduciaries should know their options before they start shopping

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