NAGDCA

THE VOICE OF PUBLIC PLAN SPONSORS

FEES GUIDE

An overview of public sector retirement plan fee types and structures

CONTENTS

FEES GUIDE OVERVIEW

Introduction

One of the most important aspects of managing a public sector defined contribution plan is understanding the costs associated with the plan. Consultants, asset managers, and recordkeepers all charge fees for their services, and negotiating a fair price for those services is a key element of the plan sponsor's fiduciary obligation.

Throughout our history, NAGDCA has provided important information and insights for administrators, boards, and committees to consider when they negotiate plan fees. However, we have never consolidated the primary components of our collective knowledge into a single source until now.

The purpose of the NAGDCA Fees Guide is to provide a foundational document for the understanding of different fee types and structures that apply to government defined contribution plans. Plan sponsors will have to negotiate many different fees in many different circumstances over the course of their careers, and our intent with this document is to provide a guide that can be used as a reference over and over for each new situation they encounter.

To develop this guide, we assembled a group of experts from every corner of the public plans industry to participate in a Fees Task Force. They spent countless hours collaborating, writing, editing, and reviewing all the terms and concepts this guide contains. For their tireless efforts and dedication to making the public sector defined contribution industry better, we cannot thank them enough.

THANK YOU TO THE NAGDCA FEES TASK FORCE:

- Kelly Bush, Empower
- Michael Consorte, State University of New York (SUNY)
- Andee Gravitt, Nationwide
- Amy Heyel, Corebridge Financial
- Mike Kennington, City of Mesa, AZ
- Adam Kornegay, AllianceBernstein
- Karyn Lujan, State of New Mexico
- Jacob Peacock, AndCo Consulting
- Julian Regan, Segal Marco
- Kristine Sciangula, Suffolk County Deferred Compensation
- Elise Willey, RVK, Inc.

Additional Fees Resources:

- Recordkeeping Cost Drivers and Their Impact on Plan Expense
- Float Income in Retirement Plans - A Comprehensive Guide
- General Accounts and Their Impacts on Retirement Plan Fees – A Comprehensive Guide
- Self-Directed Brokerage in Retirement Plans – Fiduciary Considerations

It should be noted that distributions and loans mentioned here can only occur if the plan document includes applicable provisions.

ADMIN

May include legal, accounting, trustee, recordkeeping and other administrative fees and expenses associated with maintaining the plan. Explicit fees are deducted directly from participant accounts. Implicit fees can be paid through revenue sharing arrangements or netted out of the investment options directly.

NOTES: Explicit fees often appear as a line item making them easy to identify whereas implicit fees are typically less visible.

ALTERNATE TERMS: *Operating Fee, Recordkeeping Fee, Plan Expense*

ADVICE

Fees paid to a financial professional or financial professional service to provide fiduciary advice on topics such as how much to save, how to invest, and timeline towards retirement based upon an individual's risk profile and unique financial profile and needs.

NOTES: Fees are normally charged as a percentage of assets under management but could also be a fixed fee.

ALTERNATE TERMS: *Managed Account, Asset Allocation Service*

ASSET CHARGE

A percentage fee based on your assets under management (AUM).

NOTES: Fees are often referred to in basis points, which is one-hundredth of a percentage point.

ALTERNATE TERM: *Asset-Based Fee*

AUDIT

A fee paid to an external or internal auditing firm to ensure the plan is operating in compliance with its documents and applicable regulatory requirements.

COMMUNICATION PACKAGE

The communication budget or product offering associated with the contract to provide marketing and participant education materials to the participant population of the plan.

This is typically included in the recordkeeping fee but can be broken out as a separate line item for custom communications (as there is often a separate fee) or to use an external marketing firm (other than the recordkeeper) for this service.

CUSTODIAN

The fee associated with custody of the participant assets in the account. As most assets are held within the investment options, this account is for assets not yet invested or distribution or loan checks not yet cashed.

The fee is typically included in the recordkeeping services as most providers bundle this service in an omnibus account; however, it is possible for the plan sponsor to maintain their own custody relationship and pay for this service directly if the recordkeeper is set up to handle this type of relationship. This often happens when a custom fund is created for the plan.

DISTRIBUTION

A fee charged for withdrawing money from your retirement plan.

NOTES: Fees may not be assessed on all withdrawal types. For example, fees may only apply to overnight checks requests or other types of withdrawals beyond periodic payments.

Your service provider should be able to provide a full list of distribution fees, which are negotiated and outlined in the contract between the plan sponsor and service provider.

ALTERNATE TERM: Withdrawal

ELECTRONIC DELIVERY (E-DELIVERY) ASSUMPTION

The percentage of participants that are currently defaulting into e-delivery of statements and/or notices.

NOTES: The cost of mailing notices and statements can be reduced if a recordkeeper understands how many mailings per participant they will have to assume in the pricing model.

ALTERNATE TERM: Online Delivery, Paperless Statements

EMPLOYEE TURNOVER

The average number of new hires expected per year.

NOTES: An understanding of employee turnover will help the recordkeeper estimate future enrollments and contribution/withdrawal assumptions for optimal pricing.

ALTERNATE TERM: New Hires, Attrition

FIDUCIARY INSURANCE

A type of liability insurance typically purchased through a third party that protects plan fiduciaries and organizations from financial losses resulting from claims of breach of fiduciary duties, errors in plan administration, mismanagement of plan assets, or other acts of negligence related to the management of the plan.

NOTES: A fiduciary is a person or organization that acts on behalf of another person or persons putting the participants/employee/client needs ahead of their own. Fiduciaries may include plan sponsors, key decision makers, organizational leaders, plan consultants, and plan staff.

ALTERNATE TERMS: Fiduciary Liability Coverage, Fiduciary Bond Coverage, Fiduciary Liability Insurance, Management Liability Insurance

HARDSHIP DISTRIBUTIONS

A type of distribution permitted for current employees participating in a retirement plan in the event of a severe financial hardship resulting from specific events as defined by the IRS.

NOTES: A plan sponsor may choose to further restrict IRS specific events from qualifying as a hardship through the plan document, or require that a participant use plan loan option as an alternative solution prior to approving a hardship distribution.

Prior to SECURE 2.0, this distribution request required extensive review by a plan and/or recordkeeper to document the hardship and justify the amount permitted. SECURE 2.0 gives 457(b) plans the option of allowing self-certification by the participant, reducing the burden on plans and record keepers.

ALTERNATE TERMS: Unforeseeable Emergency Withdrawal (for 457(b) plans; may face stricter restrictions)

IN-SERVICE WITHDRAWAL

When a participant distributes funds from their employer-sponsored retirement account while still employed by that employer. This type of distribution can only occur if the plan document includes applicable provisions.

These applicable provisions include age 59 ½ or age 70 ½ in-service withdrawals.

NOTES: As a result of the SECURE Act, 457(b) plans now have the ability to offer in–service distributions to participants starting at age 59 ½ (instead of 70 ½) if the sponsor has chosen to implement the provision.

ALTERNATE TERM: In-service Distribution

INFORMATION TECHNOLOGY (IT) BUILDS	If a custom IT build is required to administer unique plan design or program attributes, the recordkeeper or service provider may charge the client for related expenses. NOTES: If the requirement is known at the request for proposal (RFP) stage, a provider may factor it into the overall cost of administering the plan. Alternatively, the IT build could be outlined as a separate cost. *ALTERNATE TERMS: Custom Build, Custom Programming*
LOAN ORIGINATION	The fee charged when a loan is first modeled, reviewed for approval, and processed. NOTES: This covers the review of plan loan rules to determine what a participant is eligible for and what the interest rate and payment amounts should be, issuing a promissory note, and ultimately providing information to the plan sponsor regarding the payroll deductions needed for the loan repayment. *ALTERNATE TERM: Loan Processing Fee*
LOAN MAINTENANCE	The fee associated with maintaining the loan, amortization schedule, repayment, and loan statements.
NUMBER OF SERVICE DAYS (EDUCATION)	Days when an education specialist of the service provider is hired to provide plan education to plan participants and is available to meet with employees on the employer's worksite, at a predetermined location, or virtually. NOTES: It is important to address the hours/shifts that representatives will be available to the plan's participants and employees, as well as the commitment to travel on-site, if desired, vs. virtual service. If a certain amount of days are required per contract, the fee for education is typically embedded in the recordkeeper's fee. A per-day charge for additional service days may also be predetermined in the contract. Content, services, and format of the meetings should also be considered. Will the representatives provide investment advice or focus on education? Will a financial plan be required? Can participants also conduct transactions with the representatives? *ALTERNATE TERMS: Education Days, Group Meetings Days, Individual Meeting Days, Employee Onsite Support*

ONSITE EDUCATION	A fee charged separately from the recordkeeping or administration fee for onsite education services. *ALTERNATE TERM: Participant Education*
PAYROLL SETUP	If a plan requires a complex payroll setup arrangement or setup with a payroll provider with whom the recordkeeper has not previously programmed, an additional fee may be assessed to cover the expenses. NOTES: If the issue is identified at the request for proposal (RFP) stage, the recordkeeper may build this into the proposed pricing.
PRINTING / COMMUNICATION	Fees that cover the cost of printing and mailing required materials as well as additional communication and education materials. NOTES: Printing, postage, and communication costs are often embedded in the overall recordkeeping administrative fee; however, they can be separated and billed to the sponsor directly, particularly for special (non-regulatory required) mailings.
STABLE VALUE	A fee that is assessed for managing the assets and insurance wrap of the stable value option. If the stable value fund is proprietary to the recordkeeper, a separate and distinct fee from recordkeeping for the investment will be charged to participants and netted from the participant balance. NOTES: Collective trust fees may be netted out of the net asset value of the collective trust.
GENERAL ACCOUNT	There is no direct fee charged to participants in a general account. Firms offering general account products derive revenue from the difference in the rate earned by the underlying portfolio and the credited rate quoted to participants. NOTES: Explicit recordkeeping fees can be charged to all assets in a plan or variable assets only (thus excluding the assets of the general account).

QUALIFIED DOMESTIC RELATIONS ORDER

The fee charged to review and/or process Qualified Domestic Relations Orders (judgments, decrees or orders including but not limited to the approval of a property settlement agreement, which grants plan assets to a spouse, former spouse, child or other dependent). This division of assets is most commonly due to divorce.

A plan, recordkeeper or third party may review draft Orders prior to the participant or alternate payee submitting them to a Court to ensure the order is written in a way that can be clearly understood and implemented by the recordkeeper. Upon receiving a signed order, the actual calculation and account split must be done, transferring assets from the participant to the "alternate payee."

NOTES: Does the fee include the review and approval of draft orders or only the processing of signed orders? Is this fee being charged to the plan, the participant, or the alternate payee? This can be online for a lesser fee, or via paper and phone for higher fee. Processing an order is not the same as qualifying it and processing an order could be charged or waived.

SELF-DIRECTED BROKERAGE ACCOUNTS (SDBA)

A fee assessed to participants who use a brokerage window designed to allow them to select investments outside of the core retirement offering while staying within the plan and receiving the associated tax benefits.

NOTES: Offering a brokerage window is a plan design decision made by the plan sponsor. Brokerage fees can vary depending on the provider. In cases where the brokerage window is propriety to the recordkeeper the fee could be waived.

ALTERNATE TERMS: Brokerage Window, Brokerage Option

STAFFING COSTS

The cost of additional local staff associated with serving the plan is often included in the overall recordkeeping price; however, this can be separated as a line-item cost in the recordkeeper's fee structure or offered by a firm distinct from the recordkeeper.

NOTES: A certain number of staff may be included in the bundled recordkeeping cost and additional staffing costs may be separate. For example, additional education days beyond what is included in the contract with the recordkeeper.

ALTERNATE TERMS: Admin Costs, Office Admin Costs

THIRD-PARTY ADMINISTRATOR (TPA)

A fee paid to a third-party administrator to provide operational services such as claims processing and employee benefits management under contract to another company.

It should be noted that the methodology used to collect funds to support the expenses of a plan are not always aligned to the cost charged by the recordkeeper. For example, a plan may collect funds from its participants using an asset-based structure, but the recordkeeping services are charged to the plan per participant at a flat dollar rate. One of the goals of the fund collection process is to ensure that the plan collects enough dollars to cover all plan expenses, which may include other services and items outside of recordkeeping.

ASSET-BASED

When a percentage of the assets in the account are charged for services.

NOTES/BENEFIT: Asset-based structures are typically how *investment fees* are assessed to participants. An asset-based structure would result in a lower charge to a participant with a lower account balance and a higher charge to a participant with a higher account balance. Asset-based structures can be set up with breakpoints that decline based on the amount of assets in the account.

Plan sponsors may create fee structures such that the asset-based fee is not charged on assets over a certain balance (cap) or below a certain balance (floor).

ALTERNATE TERMS: ABS, Asset Charge, Asset-base Fee

AVERAGE PARTICIPANT BALANCE (APB)

The amount of assets in the plan divided by the number of participants with an account.

BUNDLED SERVICES

When one provider is engaged to offer all or a combination of recordkeeping, administration, participant, and investment management services.

NOTES/BENEFIT: A plan and/or plan sponsor who would like one provider to complete most or all services would benefit from this structure. There could also be price efficiencies to be gained from engaging with a bundled service provider.

As an alternative, a plan may choose **UNBUNDLED SERVICE** in which multiple providers are engaged to complete services needed for a plan. For example, recordkeeping is completed by one provider while the administration of a plan is completed by a separate provider like a third-party administrator (TPA). Unbundled service can also mean a suite of services is chosen at a fixed cost with additional services charged separately from one provider.

ALTERNATE TERM: Bundled Service Provider

DIRECT DOLLAR BASED

When participants are charged a dollar amount per account or per social security number if multiple accounts exist. The frequency of assessing the fee is typically outlined in the contract with the sponsor.

NOTES/BENEFIT: A plan that wants every participant to pay the same amount (fee equalization/fee leveling) to the provider regardless of asset size would benefit from this fee structure.

ALTERNATE TERMS: Per-head Fee, Per-account Fee

EXPLICIT FEE

A transparent arrangement where a fee is deducted from a participant's account balance.

NOTES/BENEFIT: Fees can be clearly explained, communicated, understood, and seen on the participant's quarterly statement.

FLAT FEE

A stated dollar amount or percentage is charged either at the participant or plan level to cover plan-related expenses.

NOTES/BENEFIT: This fee structure can be easily explained, understood, and communicated as it is one number either assessed as a dollar fee or a percentage of assets to the account/participant.

ALTERNATE TERMS: Flat Plan Fee, Per-participant Charge, Per-head Charge, Flat Basis Point Charge

GROSS FLOW

The total contributions into a plan during a measured time period.

IMPLICIT FEE

When expenses associated with a plan are collected through investment fund revenue. The recordkeeper typically deducts their portion of the fee from the investment revenue generated and any excess revenue can either be shared back to plan sponsor (via direct payment or deposited into a trust account) to help support the cost associated with running the plan or directly to the participant in the funds from where the revenue was taken. The choice of how this will be handled will be determined by the plan sponsor.

NOTES/BENEFIT: A plan that does not want or is unable to explicitly charge participant plan fees may benefit from this arrangement. When using this methodology special consideration should be taken as expenses are not transparent.

ALTERNATE TERM: Revenue Sharing Fee Arrangement

NET FLOW

The amount of contributions to a plan minus the amount of withdrawals from the plan during a measured time period.

ALTERNATE TERM: Net Cash Flow

OPEN ARCHITECTURE

Open architecture assumes that the plan sponsor can select the investment options for its plan and the pricing does not require the use of any proprietary products.

NOTES/BENEFIT: When choosing an open architecture structure special consideration should be given to the recordkeeping expenses as often the use of proprietary investment options from a service provider may result in lower recordkeeping expenses.

PER-ACCOUNT FEE

When plan fees are charged based on the number of participant accounts in a plan with a balance.

NOTES/BENEFIT: If a plan has more than one plan type [e.g., a 457(b) and a 401(a)] and a participant has an account in each plan, each account is charged under this structure.

PER-PARTICIPANT FEE

When plan fees are charged based on the number of unique participants with an account balance. Unlike the *per account fee structure* participants with multiple accounts are only charged for one.

NOTES/BENEFIT: A plan that offers multiple plan types would benefit from this fee structure as it allows participants to have multiple accounts but only be charged a single fee.

TIERED ASSET-BASED

When plan expenses are collected based on a percentage of assets using a predetermined sliding scale either at the plan or the participant level.

For example, at the participant level, a participant with a higher account balance may be charged a lower percentage on their assets to ensure that fees are not excessive. At the plan level, a plan may be charged a lower percentage as assets in the plan grow.

NOTES/BENEFIT: A plan with a high number of participants with large account balances may benefit from this structure which encourages participants with high account balances to remain in the plan. At the plan level, a plan that is anticipating rapid asset growth (for whatever reason) would benefit from this structure.

ALTERNATE TERM: Breakpoint Fee

TOTAL ACCOUNTS (PARTICIPANTS WITH BALANCE)	The number of participants with an account balance of at least $0.01. *ALTERNATE TERM: Participant Count (if only one plan)*
TOTAL ACTIVE ACCOUNTS (CONTRIBUTING)	The number of employees in a plan with a current deferral from their paycheck. *ALTERNATE TERM: Actively Contributing*

12B-1

Fee structures added to mutual fund share classes intended to offset marketing and distribution related expenses. Rules governing Regulated Investment Companies/1940 Act Mutual Funds require such fee arrangements be approved by the Funds' Board of Directors/Trustees.

Defined contribution, defined benefit, and other pension/retirement plans typically do not utilize share classes with 12b-1 fees attached.

NOTES: Typically, 10-25 basis points (bps), these fees are added to the fund's advisory fee and operating expenses. For example, Advisory Fee 0.50% + Fund Operating Expenses 0.20% + 12b-1 Fee 0.25% = Total Expense Ratio of 0.95%.

The 12b-1 is typically paid to distribution partners, but can be used to cover other marketing and sales related expenses. The maximum 12b-1 fee for the sale/advertising of the fund is 0.75%. However, an additional service fee of 0.25% of the fund's assets is also allowed for administrative expenses.

ALTERNATE TERMS: *Revenue Sharing, Advisor Shares; may include Shareholder Servicing Fees*

ACQUIRED FUND FEES & EXPENSES (AFFE)

When commingled investment vehicles, such as mutual funds, collective investment trusts (CITs), or exchange-traded funds (ETFs), invest in other funds, they "acquire" the fees and expenses of those underlying portfolios, resulting in an embedded cost to the "fund of fund."

EXAMPLE: ABC Mutual Fund, a '40 Act mutual fund, is a Fund of Fund, investing in ~80 underlying mutual funds and ETFs. The Fund has a 1.00% Management Fee + 0.19% Operating Expenses + 0.42% Acquired fund fees and expenses (AFFE) for a total expense ratio (TER) of 1.61%.

ANNUITY WRAPPER

For retirement plans that are required to or desire to offer the ability to annuitize one's retirement savings, an annuity wrapper fee allows for a non-annuity investment option (e.g., a mutual fund) to be wrapped into a variable annuity for purposes of annuitization at the end of the accumulation phase.

NOTES: These fees should be negotiated at contract negotiations with the annuity provider, which is usually the platform recordkeeper.

ALTERNATE TERMS: *Wrap, Wrapped Fee*

ASSET ALLOCATION

In asset management, typically used to describe the investment management fee charged for selecting underlying funds and managers for a multi-asset investment product, such as a target date fund (TDF).

This term could also be used to describe the fees charged by an investment consultant that is allocating capital from a specific asset pool across various managers and asset classes.

ALTERNATE TERM: *Management Fee*

CONDITIONAL DEFERRED SALES CHARGE (CDSC)

Back-end sales charge or "load" usually specific to mutual funds. Generally, not applicable to the defined contribution or other qualified retirement savings plan markets. These charges begin reducing after the first year and generally decline to zero between the sixth and eighth year after purchase. Use of such fees has been significantly declining in recent years.

NOTES: CDSCs tend to discourage investors from actively trading mutual fund shares, which helps reduce the need of mutual funds to keep significant levels of liquid cash on hand.

ALTERNATE TERMS: Back-end Load, C-share

CUSTODIAL COSTS

The fees charged by a bank or other qualified custodian for the safekeeping of securities owned by a fund or investor.

NOTES: In a custodial relationship, the person who purchased the asset always remains the legal owner.

ALTERNATE TERMS: Custody Fees, Safekeeping Fees

INVESTMENT ADVISORY

The fee charged by the Asset Manager or Investment Manager for managing the portfolio's assets allocating to a specific strategy. The fee can be assessed through a commingled structure, such as a mutual fund, collective investment trust (CIT), or exchange-traded fund (ETF), or the fee can be applied to a separately managed account or sub-advised mandate.

NET EXPENSE RATIO

The total expenses paid by a plan or asset owner for a commingled or unitized product when the investment manager has capped fees and provided either a waiver or reimbursement to keep fees at the stated level. This is used as a measure of how much of a fund's assets are used for administrative and other operating expenses.

EXAMPLE: The fees for a portfolio are capped at 0.50% but are actually 0.65% on a gross basis. The investment manager waives 0.15%, resulting in a net ratio of 0.50.

OPERATING EXPENSES

Expenses other than the management fee or asset allocation fee related to the ongoing operations of a fund, investment pool, separate account, or some other commingled product.

NOTES: Shareholders do not receive an explicit bill for the operating expense; instead, the expenses periodically are deducted from the assets of the fund. Shareholders pay for these expenses through the reduced value of the portfolio.

SELF-DIRECTED BROKERAGE OPTION	The fees associated with a participant-directed plan. A participant-directed plan lets the participant invest as they see fit. They can choose from a wide range of mutual funds, stocks, and bonds rather than sticking to the prepackaged funds in the defined contribution plan lineup.
TOTAL EXPENSE RATIO (TER)	The cumulation of all fund fees and expenses, including advisory fees, operating expenses, revenue sharing, etc. NOTES: Can be gross or net. Gross expenses describe total expenses before any waiver or reimbursement; net expenses describe the total expenses after any waiver or reimbursement.
TRADE COSTS	Transaction costs related to the buying and selling of securities within an investment portfolio, such as a mutual fund, collective investment trust (CIT), or separate account.

ASSET-BASED	Fees are calculated as a percentage of the assets under management (AUM) of the client investment mandate or commingled fund. NOTES: This could be a flat basis point calculation, or in some cases could be tiered.
REVENUE SHARING	Revenue sharing typically refers to the compensation recordkeepers and service providers receive from mutual fund companies in exchange for assuming part of the mutual fund company's administrative functions. In the retirement plan industry, revenue sharing is often used to cover the recordkeeping and administration costs of the retirement plan providers and advisors, not the fund company managing the fund.

3(21) ADVISOR

An advisor that provides investment-related guidance and recommendations as a fiduciary but final decisions are still approved or determined by the plan sponsor.

NOTES: A plan sponsor who hires a 3(21) advisor is typically looking for outside investment expertise but wants to retain final discretion over the plan. If plan staff must provide any plan related recommendations to a Board or Committee for approval, a 3(21) advisor is usually most appropriate.

ALTERNATE TERMS: Consultant, Investment Consultant, Retirement Plan Consultant

3(38) ADVISOR

An advisor that makes all investment decisions and also bears the additional fiduciary risk and liability related to those decisions.

NOTES: A plan sponsor who hires a 3(38) advisor is typically looking to delegate authority related to investment decisions to an independent fiduciary.

ALTERNATE TERMS: Discretionary Consultant, Advisor, Outsourced Chief Investment Officer (OCIO)

ALL INCLUSIVE

Fee arrangement where the advisor provides a complete list of services for one annual fee. All-inclusive contracts typically include all necessary fiduciary support services including, but not limited to, investment manager selections and recommendations, quarterly meeting attendance, plan performance reporting, defined contribution best practice advice, and potentially also recordkeeper oversight and search services. The list of services can vary based on the desired scope of services to the plan.

NOTES: Plan sponsors who want comprehensive support or public plans who may need to run all contracts through a procurement process may benefit from this model.

ALTERNATE TERM: Full Retainer

A LA CARTE

Fee arrangement where the advisor provides some basic services, but all other services are billed upon request. The most common example of an a la carte service is recordkeeping search services, as they are typically only required every five to seven years. However, some 3(38) advisors have also offered additional services like participant education and advisor managed accounts as additional a la carte options.

NOTES: Plan sponsors should consider a la carte services when the specific services proposed are not necessarily required and/or when such services are not required on an ongoing or frequent basis.

ALTERNATE TERM: Projects

ASSET-BASED

Fee structure based on a percentage of total assets, typically assessed on a quarterly or annual basis.

NOTES: New plans with a low balance could consider an asset-based fee structure for consulting services. Typically, plan sponsors should explore options related to potential caps on asset-based fees (e.g., assets up to $150 million are assessed the fee) in order to minimize the overall fees collected on the relationship. Plan sponsors should be aware that fees will fluctuate as assets move up or down, so budgeting for total fees should be carefully considered.

FLAT DOLLAR

Fee structure that is independent of total plan assets. Typically, the stated annual fee is guaranteed for a period of two to three years.

NOTES: Established plans with a high balance should consider a flat dollar fee structure for consulting services. Flat dollar fees allow plan sponsors to understand the total anticipated fees for budgeting purposes, and fees do not fluctuate as assets fluctuate.

HYBRID

Fee structure that combines an asset-based and a flat dollar fee.

NOTES: A hybrid fee model may be considered optimal for plans with growing assets (i.e., not brand new plans, but not well-established plans). This type of fee structure allows some budgeting planning considerations, but also minimizes the amount of hard-dollar fees that are due annually as the plan is building its asset base.

FLAT FEE PLUS INFLATION ESCALATION

Fee structure that has a flat-dollar fee component, but builds in a small annual fee increase to acknowledge and account for increase in costs of goods and services over time (usually 3-5%).

NOTES: Inflation escalation clauses help to provide protection to consultants or advisors for fixed costs of providing such services, while also helping to minimize large increases to fees over time. If fees are automatically incrementally increased on an annual basis, then this often minimizes the need for fees to be periodically reassessed.

ALTERNATE TERM: Inflation Clause

ADVISOR MANAGED ACCOUNT (AMA)

A managed account (MA) is an investment management service traditionally offered by recordkeepers in partnership with a 3(38) investment manager (fiduciary) like Morningstar or Edelman Financial Engines. The investment fiduciary creates a fixed amount of asset allocation models and then using each participant's demographic information (provided by the recordkeeper or the participant), diversifies the enrolled participant's plan assets among the models to meet desired investment objectives through a mix of equity and fixed income exposures – specifically using only a mix of those investment options available in the plan. The participant pays both the underlying investment expenses as well as a program fee (typically asset based), the revenue of which is shared by the recordkeeper and investment fiduciary. Most recordkeepers offering managed accounts have invested heavily in the technology to provide the participant online tools to customize their managed account further by adding other information like other retirement accounts, spousal assets, etc.

Some consulting firms or advisors have begun offering advisor managed account programs. Under the newer advisor managed accounts (AMA) structure, an advisor is responsible for both the underlying fund selection as well as some portion of the asset allocation models. The participant still pays the underlying investment expenses as well as the program fee, but this program fee is now split three ways between the advisor, the recordkeeper, and the investment fiduciary. In some cases, the advisors also offer 1:1 advice to the participants utilizing the AMAs.

The program fee for MAs and AMAs is generally structured as a flat asset-based fee (e.g., 0.40% on all assets) or as a tiered structure with the fee decreasing as a participant's assets in the managed account program grow (e.g., 0.50% on the first $100,000; 0.45% on the next $100,000; 0.40% on the next $200,000, etc). Program fees typically range between 0.20% and 0.50%.

NOTES: AMAs are an additional revenue source for the advisors offering them, so fiduciaries need to fully understand the fee structure and determine whether the potential added value to participants is worth the cost. In addition, AMAs may introduce potential conflicts of interest, so fiduciaries need to document the decision-making process, especially in situations where the advisor is recommending AMAs be utilized as a default investment alternative (DIA).

PARTICIPANT EDUCATION AND ADVICE

While most recordkeepers have robust standard participant education services that are suitable for most plan participants, some consultants or advisors have begun to offer supplemental education and advice as a value-added service. While this education and advice may be customized to each participant, it is usually an additional revenue source for the advisor, so fiduciaries should document the decision-making process for who they are allowing to talk to plan participants, what they are recommending, and any additional associated fees.

PARTICIPANT EDUCATION AND ADVICE (cont.)	NOTES: Advisors who offer participant education and advice services may also be licensed to sell retail products such as annuities, individual retirement accounts (IRA), etc. Plan fiduciaries should discuss cross-selling policies and seek to implement restrictions to cross-selling, when appropriate. They should also document such policies and request reporting on participant actions taken through interactions with advisors to understand potential revenue gained through cross-selling activities and to provide oversight to advice given to participants.
PROJECTS AND OTHER SERVICES	There are other projects often offered by consultants or advisors that are outside the scope of required services. These projects are usually proposed as a la carte, optional services. NOTES: Examples include, but are not limited to, recordkeeper reviews or search services (request for proposals or other search types), asset allocation studies, fee benchmarking exercises, plan demographic reviews, etc. Plan fiduciaries should consider whether there are potential conflicts of interest for the consultant to provide such services (i.e., if the resulting recommendation may result in an additional ongoing revenue stream for the consultant or advisor) and should document the necessity of selecting such services to be provided.
PROPRIETARY FUND	An investment product that is owned or managed by the organization, with associated revenue gained through the investment management fees collected. Historically, many recordkeepers provided administrative and recordkeeping services at low or no cost, as the revenue they received on proprietary funds provided adequate compensation to the organization. While most recordkeepers have moved away from this business model towards an open architecture investment lineup to avoid perceived conflicts of interest, the industry has seen an increase in proprietary funds and service offerings by some consulting firms and advisors, particularly with 3(38) advisors, as seen through a rise in advisor managed accounts, model portfolios, proprietary funds, and other investment solutions for which the advisors recommend or receive compensation. NOTES: The primary example is advisor managed accounts but could include any investment product or solution for which the advisor receives direct or indirect revenue.