RETIREMENT PLAN PERSPECTIVES

Insights for Your Plan and Employees

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Benchmarking: More Than Just a Fiduciary Foundation

For business owners, executives, and stakeholders, cost management is a daily focus. Sometimes, however, the costs associated with a company's benefits, such as a workplace retirement plan, get overlooked. Being conscious of retirement plan fees and expenses—and having a process to manage them—isn't just a good business practice that can lower your bottom line; it's one of the most important responsibilities a retirement plan fiduciary can fulfill under the Employee Retirement Income Security Act (ERISA) of 1974.

In general, retirement plan fees can be divided into two main categories: investment-related fees and administrative-related fees. Let's look at both, highlighting tips that can help you build your own process for evaluating and managing your company's retirement plan fees.

Fees and Expenses Related to Investments

- Ensure that your plan's investment policy statement (IPS) includes guidelines for evaluating your plan's investment expenses.
- Collect and organize information pertaining to each investment in the plan (e.g., manager qualifications, investment objectives, investment performance, and the fund's annual operating expenses).
- Periodically (at least every two years) review the fund manager's qualifications and past performance and ensure that the fund in question adheres to the terms prescribed in the IPS.
- Evaluate the fund's operating expenses for reasonableness. Remember, ERISA calls for fees to be reasonable, not necessarily the cheapest (though the cheapest investment might also be appropriate for your employees). The definition of reasonable for purposes of determining fees, according to ERISA, "depends on the particular facts and circumstances of each case," which underscores the need to benchmark investment fees relative to your company's specific retirement plan.
- Your evaluation should include a comparison of other investment products to ensure that your plan's current funds are competitive with the cost of available alternatives.
- Retirement plan investments are frequently offered in different share classes (i.e., different versions of an investment that have varying sales charges, expense ratios, and minimum investment thresholds). Lower-cost share classes are usually available when a fund's assets reach a break point (a predetermined dollar amount that, when reached, allows for reduced fees). When that happens, your plan's investments may be able to change to a lower-cost share class offering, which could lower expenses for your company and your employees.

Benchmarking: More Than Just a Fiduciary Foundation *(continued)*

Fees and Expenses Related to Plan Administration

- Determine how much you and your employees are paying for the services you're receiving. (You can do this with the help of your plan's retirement advisor or service providers, or by reviewing a fee disclosure, also referred to as a 408(b)(2) fee disclosure.)
- Examine the services, tools, technology, and other resources offered by your plan's service providers (e.g., recordkeeper, third-party administrator, or plan advisor). Is there a service or technology offered by a current provider that you aren't taking advantage of?
- Periodically (about every two years and no longer than three) compare the fees of your service providers by asking their competitors how much they would charge for the same services. Are fees reasonable relative to the services you and your employees are receiving?
- Can another service provider offer you the same (or better) services for a more competitive fee?
- Ask your service providers if you are in line for a fee reduction based on the balance of your company's plan. When certain break points are met, you could receive a fee reduction, access to an expanded menu of services, or both.

Key Takeaways for Retirement Plan Fiduciaries

When benchmarking investment or administrative fees, everything should tie back to a thoughtful, well-documented process. Your plan's IPS should guide you through the steps for an effective evaluation. You may also consider establishing a fee policy statement, which is a guide to help plan fiduciaries carry out their duty to prudently evaluate and monitor the reasonableness of service provider fees, including how they will be communicated to plan participants. And, as always, keeping a documentation file (hard copy or virtual) of your decision-making process is the first line of defense against any potential litigation or investigation.

As a result of significant consolidation within the retirement plan and investment marketplaces in recent years, industry fee averages have become compressed and are more competitive than ever. Because of this, conducting regular analysis to verify that your plan fees are reasonable (remember, not necessarily the lowest) is essential to ensuring that your company and its employees are enjoying the best value relative to the fees being paid.

Benchmarking retirement plan fees is not a simple exercise. If you need help, tap into the expertise of your plan's service providers, such as a retirement plan advisor, who has specialized knowledge and access to resources for evaluating retirement plan investments and service providers. A retirement plan advisor can also assist you in making the right choices for your company and your employees.

Nonqualified Plan Basics

When offering retirement plan benefits to employees, most employers tend to stick to the tried-and-true qualified plan, such as a 401(k), 403(b), or profit-sharing plan. For certain employers, however, exploring alternative plan types in addition to (or in lieu of) a qualified plan might help them better meet corporate objectives.

An alternative to a qualified plan is a nonqualified deferred compensation (NQDC) plan. This plan type is a great tool for recruiting and retaining top talent because it can be structured to benefit a select group of executives or key employees. And, when properly drafted, NQDCs are exempt from ERISA qualified plan rules, such as limits on contributions, making them attractive to highly compensated employees.

Nonqualified Plan Basics *(continued)*

What Is a Deferred Compensation Plan?

In simple terms, in a deferred compensation plan, an employer promises to pay an employee's compensation—and, thus, payment of taxes—until a later date, usually retirement. Various financial products may be used to assist in financing this promised payout obligation, including corporate-owned life insurance and mutual funds.

How Does an NQDC Plan Differ from a Qualified Plan?

Perhaps you're wondering how a traditional qualified plan, such as a 401(k), stacks up against an NQDC? The chart below gives a side-by-side comparison of each plan's basic features and key differences:

Plan Feature	Qualified Plan	Nonqualified Plan
Eligibility	Must be equally available to all employees as defined by plan document	Can be offered to select employees
Deductibility of deferrals to employer compensation and contribution limits	Deductible in the year deferral is made	Deductible when deferral is distributed
Contribution and compensation limits	In 2021, contributions capped at $19,500 (plus $6,500 for those age 50 and older); eligible compensation capped at $290,000	No IRS limits, but plan may impose limits
Distributions	Generally, assets cannot be distributed until participant reaches age 59½ or cases of financial hardship; required minimum distributions must begin when employee turns 72	Flexible distribution options upon termination of employment (plan may impose other restrictions)
Annual nondiscrimination testing	Yes	No
Account assets are protected from creditors	Yes	No
Loans	Yes (determined on plan-by-plan basis)	No
Rollovers	Yes (determined on plan-by-plan basis)	No

Nonqualified Plan Basics *(continued)*

Are All Companies Good Candidates for NQDC Plans?

A company's attributes, goals, and objectives will determine if an NQDC plan is a good fit. Making the determination of whether an NQDC plan is appropriate for your business depends on several key considerations, such as (but not limited to):

1. **How the business is structured for income tax purposes.** Generally, NQDC plans are best suited for public companies, privately held C corporations, or pass-through entities, such as S corporations, LLCs, and partnerships.
2. **When your company would like to benefit from an income tax deduction.** In a NQDC, the employer must wait until benefits are paid out to employees to claim a tax deduction; at that time, employees will pay taxes on the income they receive. If your company is looking for an up-front tax reduction, then perhaps another plan type, such as a bonus plan, should be considered because there is no up-front tax deduction for the employer with an NQDC arrangement.
3. **Your company has several high earners**, for which traditional qualified plan contribution caps are insufficient. Those high-earning employees may want to save a higher percentage of their income but are constrained by qualified plan limits. And, in a competitive job market, offering them a more attractive benefit could tip the scales in your favor.
4. **The employer's primary goals and objectives.** Is a strategy for retaining top talent—perhaps a "golden handcuffs" plan design—in order? With an NQDC plan, participants risk forfeiting benefits if they leave the firm before an agreed-upon date or event. Knowledge of the employer's objectives, including how many employees it needs to incentivize, is an important factor when deciding on the most appropriate plan choice.

In addition to the key considerations above, NQDC plans must be carefully designed in a way that makes the most sense for the employer, based on the business's unique circumstances and objectives. Determining whether an NQDC plan is right for your company should be made in conjunction with an experienced NQDC third-party administrator and a financial advisor.

Despite Pandemic, Employers Remain Committed to Financial Well-Being

Despite the COVID-19 pandemic turning life upside-down for many Americans and countless businesses, research has shown employers remain as committed as ever to helping their employees' financial well-being. Hot Topics in Retirement and Financial Wellbeing 2021, a report from Alight Solutions, highlights that most employers are not—nor do they have any intention of—adjusting employer-matching contributions within their workplace retirement plans as a result of the pandemic. Here are a few notable data points from the report:

- **91 percent** of employers made no changes to their employer-matching contributions in 2020.
- And, though **9 percent** suspended matching contributions, they expressed a commitment to restoring contributions once the pandemic ends.
- **99 percent** of employers plan on making no changes to their employer-matching contributions in 2021 because of the pandemic.

We Can Help

Contact us to learn more about benchmarking, nonqualified plan basics, and employers’ commitment to financial well-being. We’re ready and willing to help.

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