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The logo is centered on a background of flowing, wavy lines in shades of orange and yellow. The text 'fi360' is in a large, bold, serif font, with 'fi' in black and '360' in orange. A registered trademark symbol (®) is to the upper right of the '0'. Below 'fi360', the words 'global' and 'fiduciary insights' are written in a smaller, italicized, serif font, stacked vertically.

Benchmarking & Demonstrating Value in the Age of Reasonableness

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Outline



- The Reasonableness Requirement
- Regulation 408(b)(2)
- Assessing Reasonableness
- Advisor Fee & Service Trends
- Communicating Fees & Value to Clients
- Q&A

ERISA service provider requirement

- Under ERISA §408(b)(2)
 - An Investment Advisor provides services to the plan and therefore is a “party in interest” under ERISA and potentially subject to prohibited transactions rules, unless those services are, “necessary for the establishment or operation of the plan” and “no more than **reasonable** compensation is paid therefore.”

Practice 1.5

PRACTICE

1.5

STEP 1 : ORGANIZE

ORGANIZE

PRACTICE

1.5

Agreements, including service agreements under the supervision of the Investment Advisor, are in writing and do not contain provisions that conflict with fiduciary standards of care.

CRITERIA

- 1.5.1** The Investment Advisor fully discloses in writing all compensation arrangements and affiliations involved in the service agreement between the client and Advisor, as well as the Advisor's services and fiduciary status.
- 1.5.2** If the Investment Advisor is responsible for oversight of other service provider agreements, those service agreements disclose all compensation, affiliations, and fiduciary status if it is assumed by the service provider.
- 1.5.3** Agreements are periodically reviewed to ensure consistency with the needs of the client.
- 1.5.4** Comparative reviews of service agreements for which the Investment Advisor is responsible are conducted and documented approximately every three years.

Regulation 408(b)(2) and “Reasonableness”



- Since July 2012, ERISA service providers have been required to provide enhanced disclosures, which include:
 - Compensation; direct and indirect (12b-1 fees, sub-transfer agency fees, and other forms of revenue sharing)
 - Services
 - Fiduciary status; if assumed
- Regulation also requires that plan sponsor evaluate this information and there is an increased DOL expectation that they do so
- This provides an opportunity for advisors

How does a fiduciary demonstrate that the service provider relationship is “reasonable”?



- RFP
 - Apples-to-apples comparison
 - More formal and time consuming
 - More expensive
- Benchmarking
 - Acceptable and less formal alternative
 - Faster and cheaper
 - More practical for smaller clients

A CEFEX retirement plan case study



- CEFEX utilizes four schedules, two of which facilitate the reasonableness determination:
 - A. Checklist of questions meant to evaluate the service provider agreement and ensure it meets the 408(b)(2) regulation's disclosure requirements.**
 - B. ERISA 3(38) Investment manager checklist
 - C. 404(a)(5) participant disclosure checklist
 - D. Checklist to determine fee reasonableness through benchmarking.**
- It's important to compare against an appropriate peer group in terms of attributes like plan assets and number of participants.

A CEFEX retirement plan case study, cont.



- Fees that fall within a reasonable range of the peer group average (e.g., plus or minus 10-15%) – reasonable? Since this has not been tested in court, it's a judgment call.
- If fees are more than 15% below average, are typical services not being provided?
- If fees are more than 10-15% above average, additional factors may justify higher fees such as:
 - Years of experience as a firm
 - % of business devoted to ERISA plans
 - Industry credentials
 - Assumption of fiduciary status
 - Assumed discretion for fiduciary decisions
 - Services that exceed what is normally provided

A CEFEX retirement plan case study, cont.



- If fees are more than 10-15% above average, additional factors may justify higher fees such as:
 - Assistance with participant services
 - Assistance with measuring the success of participant services based on outcomes
 - Provision of industry benchmarking services
 - A service provider that invests in its business, implements or helps implement fiduciary best practices, keeps abreast of industry trends, and does research to give its plan clients an advantage in helping participants achieve retirement security

Advisor Fee and Service Trends

Fee Benchmarker™ Advisor Fee Almanac

- At your fingertips reference guide
- Advisor fee & service information on more than 35 plan sizes
- Benchmark plans from \$250,000 to \$650M in assets
- Updated Q4 2013

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ADVISOR FEE ALMANAC	

Additional Announcements



- Ann Schleck & Co.'s Fee Almanac book is available in the Fiduciary Store (www.fiduciarystore.com).
- CEFEX can conduct a Service Provider Disclosure Review on your plan clients, helping them fulfill their 408(b)(2) regulatory requirement.
- Join us as we celebrate our 10th annual INSIGHTS conference in Nashville, Tennessee. Visit our website to learn more. (<http://www.fi360.com/fi360-conference>).

Thank You



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