ICCCFO CONFERENCE
403(B) PLAN GOVERNANCE
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DC Plan Management Framework

**Design**
- Draft design philosophy
- Cost design alternatives
- Monitor benefit adequacy
- Perform market benchmarking

**Investment**
- Establish/review investment policy
- Establish investment structure
- Monitor fund performance
- Manager Research

**Governance**
- Establish governance framework
- Educate new committee members
- Monitor ongoing compliance
- Provide committee support

**Employee experience**
- Conduct participant surveys/research
- Integrate with Total Reward communication
- Manage vendor communication strategy

**Vendor management**
- Benchmark fees
- Benchmark and monitor service levels
- Monitor vendor community activity
- Conduct marketplace review
DC Plan Best Practices

- Mandate broad participation through automatic enrollment*
- Facilitate potential for substantial employee savings augmented by employer contributions
  - Automatic enrollment at 3%+*
  - Automatic increase in savings rate*
- Minimize pre-retirement outflows
  - More restrictive loan / pre-retirement distributions
- Incorporate mechanism to manage longevity risk
  - Income for Life options*
- Ensure plan fees are reasonable and monitored
- Enable better investment decisions
  - Limited options
  - Generic labeling/naming for options
  - Custom target date funds
  - Institutional investment management
  - Investment advice / Managed accounts*
  - Automatic rebalancing
  - More effective participant education and communication

* Supported by incentives under Pension Protection Act
Investment and Administrative Fees

Understanding the services that you are buying is critical to assessing and understanding the fees that are charged.

Goals and Objectives

Services Desired/Provided

- Administration
- Communications
- Employee Education
- Investments & Trust Services
- Plan Design Consulting
- Investment Consulting

Cost of Services Provided

How Services are Paid for

- Participant Fees
- Plan Sponsor
- Administrative Fee Offsets
Benchmarking of Administration Fees
Vendor Revenue Discussion

• Administrative revenue refers to monies collected by vendors from both hard-dollar and asset-based fees to offset the cost of administering the plan.
  – Revenues from hard-dollar fees are collected from either the participant or plan sponsor, while revenues from most asset-based fees are collected from the investment managers.
  – Vendors may refer to monies collected from the investment managers as “fee offsets” or “administrative fee payments”; this income is commonly referred to as revenue sharing or plan expense reimbursements. These payments are often the primary source of revenue to pay administrative costs.

• It is important to note that revenue sharing collected above and beyond the cost of a plan’s administration is often retained by the service provider as additional profit.

• Recently, revenue sharing has come under scrutiny as a result of litigation being filed on behalf of plan participants with regard to the reasonableness of overall plan fees.
Benchmarking of Administration Fees
Vendor Revenue Discussion (continued)

• Generally, pricing structures offered by vendors rely heavily on asset-based revenues generated from the plan’s investments. This revenue approach allows vendors to widen profit margins more quickly through asset growth than would be possible by increasing revenues based on the increase in the number of participants.
  – Hard dollar per participant fee increases are often substantiated through the increased cost of providing services or the expansion of services.
  – Increased revenue due to asset growth is often unsubstantiated and historically has been overlooked by plan sponsors.

• Hard dollar fees do not generally increase at the same rate as asset based fees since they are not tied to the growth in the market value of the plan's investments.

• From a plan sponsor’s governance perspective, hard-dollar, per participant fees are generally more transparent and more accurately reflect the "true" cost of providing administration.
### Benchmarking of Administration Fees

**Mercer Methodology**

- We determine the current fees for the plan and revenue sharing based on the investment fund line-up and assets in each plan as of a specific date. This approach uses a “snapshot” basis for calculating fees. Actual plan fees would vary from these figures since asset levels would have fluctuated throughout the year.

- Mercer prepares data on the plan's design, administrative requirements and participant / financial demographics. We identify the unique features of the plan and its administration.

- Mercer solicits fee quotes on behalf of plan from four to six 403(b) providers, who provide administrative services for plans of similar size.

- Vendors are instructed to provide fee quotes on a "recordkeeping only" basis to allow a benchmarking of their proposed fees to the current vendor's fees independent of investment selection.

- Vendors are promised their fee quotes will be provided on an anonymous basis; therefore, individual vendor responses in the report are designated as vendors A, B, C, D, E, and F.
Benchmarking of Administration Fees
Sample Results

- Current vendor per participant recordkeeping fee is $85.
- The per participant fees for the other six vendors averaged $78.