

Variety of Services in 401(k) Plans

401(k) plans require an array of investment and administrative services and plan sponsors have various options in structuring arrangements for their plans.

Services Provided to 401(k) Plans

Administrative Services

- » Recordkeeping
- » Payroll and Investment Transaction Processing
- » Plan Creation / Conversion / Termination
- » Trustee and Custodial Services

Regulatory and Compliance Services

- » Plan Document Services
- » Consulting
- » Accounting and Audit Services
- » Legal Advice
- » Nondiscrimination Testing
- » Processing of Domestic Relations Orders

Participant-Focused Services

- » Participant Communication
- » Websites, Call Centers, Voice Response Systems
- » Participant Education and Advice
- » Loan and Withdrawal Processing

Investment-Related Services

- » Professionally Managed Diversified Pooled Investment Options
- » Brokerage Window
- » Employer Stock Fund
- » Insurance and Annuity Services

Many sponsors find it cost effective and more convenient to hire a plan recordkeeper or administrator that will both provide all or most of the administrative, regulatory, and participant services the plan requires and make available a wide range of investment products from which the sponsor can choose an appropriate investment menu for the plan to offer to participants. Using a single provider can be more cost effective in part because the sponsor eliminates the need to monitor multiple service providers.

In addition to selecting investment options and service providers for the plan, plan sponsors choose how, and by whom, most plan administrative services will be paid. A 2011 survey found that in 19 percent of surveyed plans, plan sponsors paid all administrative and recordkeeping expenses. In the majority of surveyed plans (70 percent) participants paid for recordkeeping and administrative services: 11 percent of plans charged participants directly and 55 percent indicated participants pay indirectly through the fees paid by the investment funds held by the plan for shareholder or distribution services.* In the case of mutual funds, these fees and expenses take the form of 12b-1 distribution or sub-transfer agent payments, all of which are included in the fund's total expense ratio. Other

* Investment Company Institute tabulation of data from Deloitte Consulting LLP, International Foundation of Employee Benefit Plans, and International Society of Certified Employee Benefit Specialists, *Annual 401(k) Benchmarking Survey, 2011 Edition*.

plan investment products have similar ways to compensate plan recordkeepers or administrators for the array of administrative services provided to the plan and its participants.

By law, plan sponsors have a responsibility to ensure that the services provided to their plan are necessary and the costs of those services are reasonable. Service providers compete actively for plan business, and plan sponsors have available a wide range of options in how plan services are structured. In the case of mutual funds, the expenses of the fund (e.g., investment management fee, administrative fees, 12b-1 fees) have historically been fully disclosed. Beginning with the effective date of the Department of Labor's participant disclosure rules in 2012, this information must be disclosed for non-mutual fund investments as well.

In deciding whether to purchase plan services in a bundled package, plan sponsors are required by the 2012 disclosure rules to receive from providers price quotations broken down between the cost of investment services and recordkeeping services as well as recordkeeping services only. The new rules also require that plan sponsors receive information from recordkeepers about payments they receive from investment product providers to ensure that the bundled package pricing is appropriate. This allows sponsors to evaluate the reasonableness of service arrangements, the total compensation received by the recordkeeper, the costs associated with each investment product, and to understand any possible conflicts of interest in the arrangements.

For more information:

- » "The Economics of Providing 401(k) Plans: Services, Fees, and Expenses, 2010," *ICI Research Perspective* 17, no. 4, available at www.ici.org/pdf/per17-04.pdf.
- » *Inside the Structure of Defined Contribution/401(k) Plan Fees*, available at www.ici.org/pdf/rpt_11_dc_401k_fee_study.pdf.
- » Frequently Asked Questions About 401(k) Participant Disclosure, available at www.ici.org/faqs/faq/faqs_401k_participant_disc.
- » Frequently Asked Questions About 401(k) Service Provider Disclosure, available at www.ici.org/faqs/faq/faqs_401k_service_disc.



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