Understanding retirement plan fees and the options for paying them

What plan fiduciaries need to know.

When it comes to how plan fees are paid, there's no one right answer. Instead, it becomes an exercise in diligence requiring you as the plan fiduciary to have a prudent, deliberative, and documented process to determine how fees will be paid and the impact to your participants. As part of that process, you first need to understand the different options for how plan fees are paid.

How can retirement plan fees be paid?

Typically, plan fees are paid through one or a combination of fee methods. Here are the primary methods used to cover plan fees:

1. **Billed fees** are paid by the plan sponsor and included in the plan sponsor's annual budget. The fees paid by the plan sponsor may be a tax-deductible expense. Billed fees are not allocated among participants and are not paid using plan assets.
2. **Revenue-sharing** allows a plan sponsor to pay all or a portion of the plan fees implicitly through payments received from the plan's investment options. (Note: A given investment option may or may not provide revenue-sharing.)

   When this approach isn't used or it doesn't cover all of the plan fees, fees can be billed directly to the plan sponsor (as described above) or deducted from participant accounts (as described below).
3. **Deducted** fees collected directly from participant accounts:

   - Shown as a per-head dollar amount, but calculated either as the same flat-dollar fee for everyone or as a percentage of the participants' account balances.

   - Shown as an asset-based fee (basis point) calculated using a percentage of the participants' account balances.

Here's an example showing the allocation difference between participant-deducted fees (assuming needed collection is 0.30%):

		Per-head fee ($)		Asset-based fee (%)
Participant	Account balance	In proportion to account balance	Flat dollar amount	Basis point amount (illustrated in dollars)
John	$100,000	$300.00	$116.25	0.30% ($300.00)
Mary	$50,000	$150.00	$116.25	0.30% ($150.00)
James	$25,000	$75.00	$116.25	0.30% ($75.00)
Ashley	$12,500	$37.50	$116.25	0.30% ($37.50)
Robert	$6,250	$18.75	$116.25	0.30% ($18.75)

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Revenue-sharing? How does it work?

Many plan sponsors have plan investment options that have fees deducted by the investment before calculating its published return. These fees, often referred to as the expense ratio, cover the costs to manage the investment option (e.g., investment management, operations, and legal expenses). A portion of the expense ratio can include revenue-sharing, which may be used to pay all or a portion of the plan's administrative expenses. Plan providers may receive revenue-sharing payments from the plan's selected investment providers to help pay for services provided to the plan.

It's important to know that revenue-sharing received from certain investment options can be used to offset administrative expenses of the plan on an investment-by-investment, account-by-account basis. Because of this, participants pay for some or all of the recordkeeping or plan administrative fees through the investments they select.

The amount of revenue-sharing paid by an investment option can vary from one option to the next. That means participants may pay a different percentage of the plan's administrative expenses depending on the investment options they select. This is illustrated in the chart below.

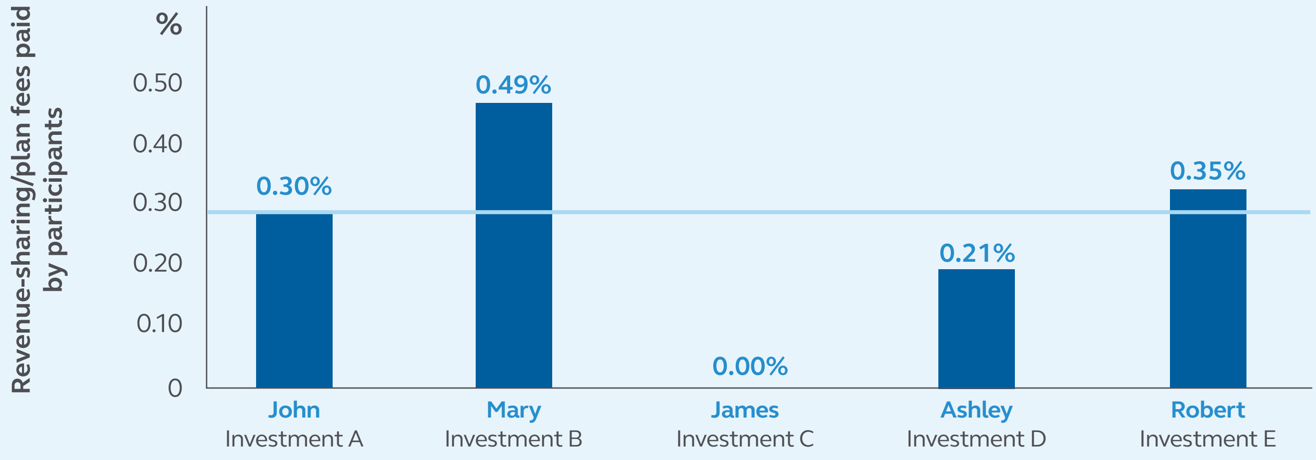
REVENUE-SHARING ...

... can be included in the investment expense that a participant pays for a particular investment.

... can be used to pay for plan administrative fees.

... may be a different amount for each investment option used by a participant.

Example: Revenue-sharing amounts can vary from investment to investment, resulting in participants paying different plan fee amounts depending on their investment selections.



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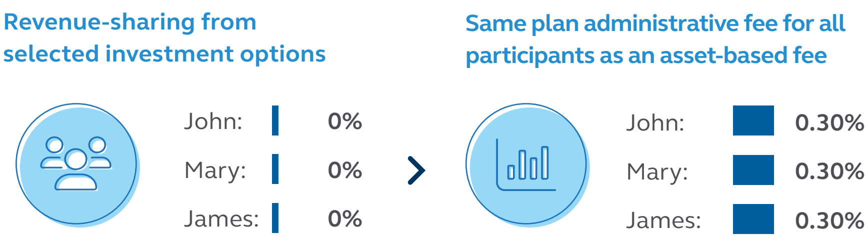
What other options are available?

As the chart at the bottom of the previous page illustrates, revenue-sharing can result in participants paying different percentages of the plan fees. There are other options, however, to structure revenue-sharing so that the fees are allocated equally (as a percentage) to all participants regardless of the investment option the participant has selected. Here are a few to consider:

1. ZERO REVENUE-SHARING INVESTMENT OPTIONS

Offering investment options that provide **no revenue-sharing and charging a fee based on participants' account balances.**



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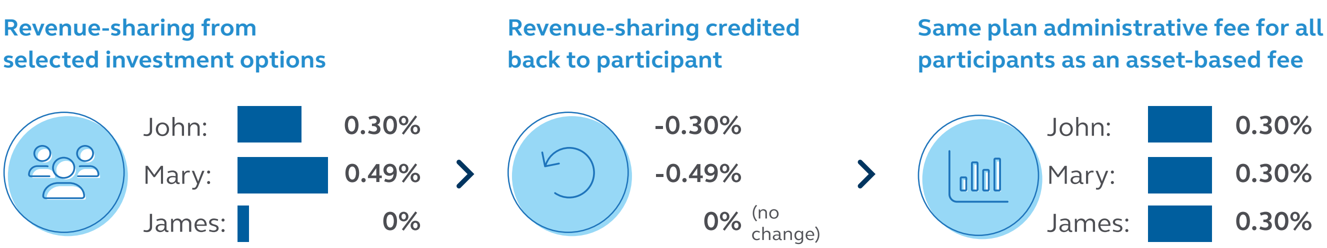
Benefits:

- A clear separation of plan administrative and recordkeeping fees from investment expenses.
- Easy to understand.
- May include investment options with lower fees.
- Access to investment options with no revenue-sharing provides investment flexibility to choose options that may best meet participant needs.
- Simple, clean participant communications—no fee adjustments to communicate.

2. ZERO REVENUE-SHARING THROUGH FEE CREDITS

All revenue shared from investment options credited back to participants and then charging a fee based on participants' account balances.



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Benefits:

- A clear separation of plan administrative and recordkeeping fees from investment expenses.
- Easy to understand.
- May include investment options with lower fees.
- Fee adjustments are calculated using an average daily balance and applied to the participants' accounts either monthly or quarterly based on when we receive the expected revenue from the fund family.
- Flexibility to choose investment options that may best meet participant needs.

The information above just scratches the surface when it comes to explaining how these options work. Be sure to contact your financial professional or Principal® representative for more information.

What's the best approach?

Again, there's no one right answer when it comes to how fees should be paid. Every plan sponsor and every plan look a little different. By knowing and reviewing all options, you can feel more confident in determining a prudent approach and meeting your related fiduciary duties.

HERE ARE A FEW STEPS YOU CAN CONSIDER AS YOU DECIDE WHICH APPROACH TO TAKE:

1. Gather and evaluate facts (including your participants' needs).
2. Assess fee payment methods, impact on participant accounts, and fee disclosure requirements.
3. Determine fee collection method and document the process for reaching this determination.
4. Provide clear, simple communication to your participants.
5. Monitor the method selected.

Looking for a way to document your process for evaluating fees? Consider creating a fee policy statement. Keep notes and periodically review the fee policy statement to make sure it reflects your current process.

Keeping these best practices in mind can help you reduce plan compliance risk while improving efficiency and effectiveness.

Questions? We're here to support you no matter which approach you choose. Contact your local Principal representative for more information on the options available.

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