Retirement Times

NEWS AND UPDATES FOR RETIREMENT PLAN SPONSORS AND FIDUCIARIES

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# Getting the Biggest Bang for Your Buck! – Negotiating Retirement Plan Fees with Your Provider

According to plan sponsors, one of the most harrowing aspects of their fiduciary obligations is to ensure that plan fees are reasonable. From administration and recordkeeping to compliance and investment management, how can a plan sponsor feel assured that they are aware of all plan fees, understand them thoroughly and then determine they are fair and reasonable? It's quite a task! Best practices dictate the use of fee benchmarking as a valid method of determining fee reasonableness. Your Lebel & Harriman advisory team provides comprehensive fee benchmarking for all service providers, including ourselves, on an annual basis. Once produced, this analysis can serve as documentation of the plan fees falling within a reasonable range.

What happens when the data shows that your plan provider's fees are higher than the benchmarks? Even though your provider may be meeting your plan needs and service expectations, you may be concerned when the analysis demonstrates that your plan fees are outside of range and significantly higher than the benchmarks. In this situation, consider partnering with your Lebel & Harriman advisory team to engage in a Request for Proposal (RFP).

As part of the RFP process, our team will:

- Solicit your feedback on plan design features as well as service levels. This feedback, along with current plan demographics and asset balances, by fund, will be provided to several record-keepers. This ensures that the results are a true apples-to-apples comparison.
- Request, as appropriate, that the incumbent provider award a fee concession within the range of the alternate providers. In many cases, fees can be negotiated down to at least the mid to slightly above mid-range of fees. We advise your provider that they are not expected to be the lowest cost, but that you and our team have a fiduciary responsibility to ensure pricing is fair and reasonable for services delivered.

As your dedicated plan service team, we are uniquely qualified to undergo this complex task for you periodically so that you feel confident in meeting your fiduciary obligation to ensure your plan fees are fair and reasonable.

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# Changes in Employee Demographics May Impact Owner's Percentage of Retirement Plan Contributions

A common goal for successful business owners when designing a retirement plan is to provide a reasonable benefit level to their employees while maximizing the benefits to themselves. Most times this is accomplished with an aged-based or "cross-tested" design that allocates differing contribution levels based on an employee's class.

It is important to understand that changes in your clients' employee demographics from year to year may have a dramatic effect on the allocation of contributions. Even the addition or termination of one employee may reduce the allocation to the business owner or require an increase in contributions for the staff.

Consider this situation: A business with 10 employees designed a plan in which the owner and his spouse were receiving approximately 89 percent of the total contributions. The following year the business lost one of the younger employees. The allocation percentage for the owner and spouse went down to 70 percent.

What should plan sponsors do?

Be aware that changes in employee demographics can impact the owner's percentage of the plan contributions. If you have questions about the addition of new employees to the plan or existing participants leaving the plan, please contact your Third Party Administrator or your Lebel & Harriman service team at 207-773-5390.

PenSys Optimizing Retirement Solutions *This article was based on a publication written by PenSys.*

# Index Funds – Passive or Passive Aggressive?

One of the largest misconception about index funds is that their only distinguishing feature is their fees. It's not uncommon to hear, "index funds are just holding the stocks or bonds in the index, so we don't need to pay attention to them." This assumption, however, is an oversimplification. Many investors don't realize that all index funds are not created equally.

A key difference between indexes and index funds is that index funds are exactly that – funds. Index funds manage obstacles that indexes themselves don't face. The largest is that funds actually must transact in securities whereas indexes do not.

As an example, when Standard and Poor's recently added Coty (COTY) to the S&P 500 Index to replace Diamond Offshore Drilling (DO), S&P simply recalculated the index values based on the closing prices of the securities on the effective date. Index funds that track the S&P 500, however, had to sell out of their positions in DO and purchase COTY, PLUS rebalance the weightings of any remaining securities that were impacted by the change. Trading in these securities exposed the funds to transaction costs such as commissions and market impact. Additionally, funds face the risk that their realized trade prices on the securities may be different than the values used to calculate the index, creating a difference in performance. In this example, the impact of these factors is generally small.

Where the impact is more meaningful is in areas such as fixed income and international equities where liquidity in the securities tends to be significantly lower, there are more securities in the indexes, and changes are more frequent. The Barclays Aggregate Index, for example, has over 8,500 securities in it, with many of them not trading every day. In addition, the index rebalances on a monthly basis, so managers tracking this index must constantly adjust the fund.

Index funds must also efficiently manage flows in and out of the funds, dividends and interest payments, mergers, tax consequences and securities lending – all challenges that the underlying indexes do not face.

Fortunately, most index managers are adept at keeping their funds in-line with their benchmarks, so the impact of these factors on fund performance is generally small – small, but important. Just like active funds, evaluating index funds requires careful analysis beyond fees and should also include performance and risk. The index fund metrics in the Scorecard System™ incorporate all of these, providing a complete picture of the factors that produce the most effective index funds.

## COMMUNICATION CORNER: 2017 Retirement Plan Limits

This month's employee memo provides participants with the cost of living adjustments affecting dollar limitations for pension plans and other retirement-related items for tax year 2017.

Please feel free to call or email Nate Moody at (207) 773-5390 or nmoody@lebelharriman.com, if you have questions

The Barclays Capital U.S. Aggregate Bond Index is an index, with income reinvested, generally representative of intermediate-term government bonds, investment grade corporate debt securities, and mortgage-backed securities.

S&P 500 Index is an unmanaged group of securities considered to be representative of the stock market in general. You cannot directly invest in the index.

Performance of indexes reflects the unmanaged result for the market segment the selected stocks represent. Indexes are unmanaged and not available for direct investment.

International investing involves special risks such as currency fluctuation, lower liquidity, political and economic uncertainties, and differences in accounting standards.

The value of fixed income securities may fall when interest rates rise. Fixed income securities with longer maturities tend to be more sensitive to changes in interest rates, usually making them more volatile than fixed income securities with shorter maturities. For all bonds there is a risk that the issuer will default. High-yield bonds generally are more susceptible to the risk of default than higher rated bonds.

Please note that all investments are subject to market and other risk factors, which could result in loss of principal.

**Mutual funds are sold by prospectus only. Before investing, investors should carefully consider the investment objectives, risks, charges and expenses of a mutual fund. The fund prospectus provides this and other important information. Please contact your representative or the Company to obtain a prospectus. Please read the prospectus carefully before investing or sending money.**