Employee benefit plan expenses

The AICPA Employee Benefit Plan Audit Quality Center (EBPAQC) has developed this primer to provide Center members with a general understanding of employee benefit plan expenses. There are a variety of plan expenses, including those related to establishing the plan, plan administration, investments and investment options, and fees paid to persons or companies providing services to the plan. This primer discusses types of plan expenses; fee arrangements; and who pays plan expenses; and includes a quick reference table and a list of additional resources available.

Types of plan expenses

Plan expenses generally include plan administration fees, individual service fees, investment management fees, and settlor costs.

Plan administration fees

Plans incur expenses for administrative services that are necessary for plan operations, such as:

- recordkeeping and compliance services,
- professional services, including auditing, legal, and consulting fees,
- trust services,
- custodial services,
- administrative salaries,
- trustee meeting expenses,
- office supplies, including printing and mailing expenses, and
- insurance costs for the plan fiduciaries or for the plan to cover liability or losses occurring by reason of the act or omission of a fiduciary, and bonding.

In addition, plan administration fees may vary depending on the plan type and level of services provided. For example, administrative fees may cover such specific services and features as:

- telephone voice response systems,
- customer service,
- retirement planning software,
- investment advice and education,
- electronic access to plan information, daily valuation, and online transactions, and
- loan processing fees.

Defined benefit plans (pension and health and welfare) may also incur expenses related to:

- actuarial valuations, and
- premiums paid to the Pension and Benefit Guaranty Corporation (PBGC).

Health and welfare plans may also incur expenses related to:

- claims processing,
- provider access fees,
- preferred provider organization (PPO) network fees,
- pharmacy benefit manager (PBM) administration expenses, and
• expenses for medical reviews and second opinions, HIPAA, and compliance fees.

Multi-employer plans may also incur expenses related to:
• rent,
• trustee and administrator compensation,
• plan employee compensation,
• graduation ceremonies for apprenticeship training plans,
• marketing or promoting the plan,
• necessary and reasonable employee and trustee travel and meeting expenses, and
• certain gifts and donations.

Employee stock ownership plans (ESOPs) may also incur expenses related to:
• appraisals, and
• valuation services.

Individual service fees

In addition to administrative expenses, defined contribution plans may also be charged individual service fees for optional features, such as:
• Loan processing fees charged to a participant who obtains a loan from the plan.
• Fees associated with certain investment elections, such as self-directed accounts.
• Individual distribution fees associated with processing paperwork and issuing a check for a distribution of plan assets to a participant.

Investment management fees

The largest share of plan expenses generally relates to managing plan investments. Investment management fees charged in connection with plan investments or investment options made available to participants and beneficiaries and fees for other related services typically are assessed as a percentage of assets invested.

These fees include:
• Sales charges for buying and selling shares, which may be specific to a particular investment product. These charges are commonly referred to as loads or commissions.
• Fees for managing the assets of the investment fund, which generally are based on a percentage of the amount of assets invested in the fund. These fees are commonly referred to as investment advisory fees.
• Other advisory fees may be charged by a third party that makes investment recommendations but does not directly manage the plan's investments.

Passively managed funds are those whose fund managers follow predetermined guidelines for buying and holding securities of a benchmark index, such as the S & P's 500, to obtain the investment results of that established market index. Actively managed funds, whereby an investment adviser actively researches, monitors, and trades the holdings of the fund to seek a higher return than the market as a whole, generally have higher fees than those that are passively managed.

Common investments and related fees. Some fees are unique to specific types of investments. For example, mutual funds will include investment management and administration fees related to the fund, and may also assess sales charges (as discussed above) which may be paid when the shares are purchased (front-end load) or sold (back-end load, deferred sales charge, or redemption fee).

Collective investment funds are managed by a bank or trust company that collects investment management and administrative fees; there are no load fees associated with a collective investment fund. Investment management and administrative fees also apply to pooled guaranteed investment contract (GIC) funds.

For variable annuities, insurance companies collect investment management and administration fees related to the annuity contracts. In addition, insurance-related charges (e.g., sales expenses, mortality risk charges, and the cost of issuing and administering contracts) and surrender and transfer charges for termination of a contract by an employer before the specified expiration date or when a participant withdraws an amount from the contract, may also apply. These charges are similar to early withdrawal penalties on bank certificates of
deposit or a back-end loads charged by mutual funds, and typically decrease and eventually disappear over the term of the contract.

Settlor costs

Expenses for activities related to the formation of plans generally are referred to as settlor costs. Settlor costs include those related to the formation, design, and termination of plans, including:

- Legal or consulting services in connection with plan formation.
- Plan design activities (such as legal or consulting expenses incurred in advance of the adoption of the plan or plan amendment, plan design studies & cost projections to determine the financial impact of the plan change).
- Drafting of discretionary amendments (such as plan spin-off, establish a participant loan program and early retirement window).
- Legal and consulting expenses in connection with plan termination (decision to terminate and drafting of plan amendment).
- Certain actuarial services, such as those related to forecasting future years' minimum required contributions for purposes of plan sponsor budgeting and forecasting pension expense for plan sponsor's balance sheet reporting.

As discussed below, settlor costs typically are considered expenses of the plan sponsor rather than plan expenses. However, certain activities that would be settlor activities for single-employer plans might be fiduciary activities, and therefore would be considered plan expenses, for multiemployer plans. For example, in Advisory Opinion 80-8A, the DOL concluded that trustees of multiemployer plans engage in fiduciary conduct when they allocate employer contributions to related multiemployer plans as provided under collective bargaining agreements that contain a binding fixed formula for allocation.

Fee arrangements

Plan administrative and investment services may be provided through a variety of arrangements. A bundled arrangement may be used, whereby all of the various plan services and investment alternatives are offered by one provider for a single fee paid to that provider. The provider will in turn pay any other service providers that it may have contracted with to provide the services.

In other cases, plans may obtain services and investments from individual providers (e.g., investment manager, trustee, recordkeeper, communications firm), and the expenses of each provider are charged separately. This is commonly referred to as an unbundled arrangement.

Plans also may use a bundled arrangement for certain services, such as administrative services, but use unbundled arrangements with a number of different providers for investments.

Who pays plan expenses?

Certain plan related expenses can be paid out of plan assets while other types of expenses may not be paid from plan assets. DOL rules and regulations help clarify what expenses can be charged to a plan. DOL Advisory Opinion 97-03A states that "A determination as to whether to pay a particular expense out of plan assets is a fiduciary act governed by ERISA's fiduciary responsibility provisions. ERISA provides that, subject to certain exceptions, the assets of an employee benefit plan shall never inure to the benefit of any employer and shall be held for the exclusive purpose of providing benefits to participants and beneficiaries and defraying reasonable expenses of administering the plan. In discharging their duties under ERISA, fiduciaries must act prudently and solely in the interest of the plan participants and beneficiaries, and in accordance with the documents and instruments governing the plan insofar as they are consistent with the provisions of ERISA."

Payment of improper expenses from a qualified plan is a breach of fiduciary duties and may be considered a non-exempt prohibited transaction. EBPAQC Topix Primer, *Employee Benefit Plans – Parties in Interest and Prohibited Transactions*, provides general information about employee benefit plan parties in interest and prohibited transactions under ERISA.
Plan administrative fees

Plan administrative fees may be paid by the plan sponsor, participant or both, or through other types of arrangements, as permitted by the plan document, and DOL and IRS rules and regulations. In some instances, the costs of administrative services will be covered by investment fees that are deducted directly from investment returns. In other instances, when the administrative costs are billed separately, they may be borne, in whole or in part, by the employer or charged directly against the assets of the plan. The nature of these arrangements may not be apparent by the information that is provided on the service organization’s statements.

Insurance costs for the plan fiduciaries or for the plan to cover liability or losses occurring by reason of the act or omission of a fiduciary, provided that insurance permits recourse by the insurer against the fiduciary in the case of a breach of a fiduciary obligation by the fiduciary, may be paid by the plan if the plan is the named insured party. If the plan sponsor is the named beneficiary, then the costs must be paid by the plan sponsor. In defined benefit pension plans, PBGC premiums may be paid by the plan for years in which the plan is not in distress or involuntary termination proceedings. Costs of bonding may be paid by the plan or the plan sponsor.

In defined contribution plans, administrative fees paid by the plan generally are either allocated pro rata among individual accounts in proportion to the individual account balance (i.e., participants with larger account balances pay more of the allocated expenses) or passed through as a per capita charge (i.e., a flat fee against each participant’s account). However, administrative fees may also be charged against the plan’s forfeiture account or allocated in any other prudent manner.

In defined benefit (DB) pension plans and health and welfare plans, it may be difficult to understand the nature of the plan administrative expenses because they are often netted against income, or there may be other arrangements resulting in expenses not being apparent on the service provider statements. Plan administrative expenses may be paid directly by the plan from trust earnings, employer contributions, or employee reimbursements, as permitted by the plan document. Alternatively, some DB plans may pay plan expenses by offsetting the expenses against investment income.

Plan sponsors sometimes pay plan administrative expenses and then seek reimbursement from the plan. Because the plan sponsor is a party in interest, this type of arrangement would be considered an interest-free loan that results in a prohibited transaction unless certain requirements in DOL Prohibited Transaction Exemption (PTE) 80-26 are met. If the plan sponsor also administers the plan, the amount the plan may reimburse the plan sponsor is limited to the direct and necessary cost of the services provided. For example, if the plan sponsor is a bank that does recordkeeping for the plan, the plan sponsor cannot charge retail administration fees that it would charge other customers, as those fees include a margin for profit. Instead, the plan sponsor would charge direct employee and other actual costs of plan administration. If the plan sponsor administers more than one plan, the administrative costs must be allocated among all plans.

Individual service fees

Individual service fees are charged separately to the accounts of participants who choose to take advantage of a particular plan feature.

Investment management fees

Investment fees generally are deducted directly from the investment and, as such, are in effect an indirect charge against the participant’s account or the plan. Because these fees may not be specifically identified on participant statements or investment reports, they may not be immediately apparent.

Revenue Sharing: Investment Managers and Service Organizations. The investment manager may agree to share a portion of its investment management fees with a service organization for services provided to the investment fund. Where the service organization is also the recordkeeper for a plan investing in the fund, these payments often help reduce the costs of the recordkeeper’s administrative services provided to the plan that would have otherwise been charged directly to the plan sponsor, the plan, or participants. This amount is commonly referred to as “revenue-sharing.” Revenue-sharing fees can present themselves in a number of
different ways, for example 12b-1 fees, sub-transfer agency fees, administrative servicing fees, and shareholder servicing fees.

**Revenue Sharing: Service Organizations and Plan Sponsors.** Growing in popularity is an element of the revenue sharing arrangement whereby the plan sponsor enters into a contractual agreement with their service organization (for example, the plan’s recordkeeper) that allows the plan to participate in the revenue sharing amounts when the revenue exceeds the agreed upon price for recordkeeping the plan. In such instances, an account is commonly established to receive revenue sharing amounts paid by the service organization and deposited into the plan (for example, plan expense reimbursement accounts, ERISA spending accounts, or ERISA accounts).

**Settlor costs**

Expenses incurred relating to the formation of the plan, such as settlor functions (e.g., decisions relating to the formation, design, and termination of the plan) would not be considered administrative costs payable by the plan. However, expenses incurred related to operating the plan pursuant to settlor decisions (e.g., drafting required plan amendments to maintain the plan’s tax qualified status, routine non-discrimination testing, and implementing discretionary amendments) may be reasonable expenses of the plan.

For multiemployer plans, according to **DOL Field Assistance Bulletin (FAB) 2002-2**, if the relevant documents, including the collective bargaining agreement, the trust agreement and the plan document, indicate that the board of trustees of a multiemployer is acting in a fiduciary capacity when it undertakes activities that might otherwise be settlor in nature, the board will be treated as a fiduciary, and the activities may be paid out of plan assets. If, however, the relevant documents are silent, activities of the board that are settlor in nature will be treated as settlor activities and may not be paid from plan assets.

**Quick reference table**

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<thead>
<tr>
<th>Types of expenses</th>
<th>Expense examples</th>
<th>How paid?</th>
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| Plan administration fees (non-settlor fees) | • Plan recordkeeping  
• Legal  
• Audit  
• Advisory/consulting | • Paid by participant - per capita, pro-rata, normally paid quarterly  
• Paid by plan sponsor  
• Other offsetting arrangement* |
| Individual service fees | • Loan processing  
• Distributions  
• Withdrawals  
• Self-directed brokerage accounts  
• QDRO fees | • Paid by participant  
• Paid by plan sponsor |
| Investment fees | • Investment management fees  
• 12b-1 fees  
• Transfer Agent Fees  
• Sales charges  
• Insurance charger fees  
• Other fund operating costs | Annual basis point % paid out of fund assets |
| Settlor Costs | • Plan design activities (such as legal or consulting expenses)  
• Drafting of discretionary amendments  
• Legal and consulting expenses in connection with plan termination  
• Certain actuarial services | Generally paid by plan sponsor |
* Other offsetting arrangements may include forfeiture accounts, expense reimbursement accounts, ERISA spending accounts, investment management fees, etc.

Other resources


DOL guidance on settlor vs. plan expenses https://www.dol.gov/agencies/ebsa/employers-and-advisers/guidance/advisory-opinions/settlor-expense-guidance


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