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BENCHMARKING: A CRITICAL DIFFERENTIATOR

GROWING FOCUS ON PLAN FEES

Plan fees have been the focus of intense scrutiny in recent years—and that trend is expected to continue. There are several underlying drivers of this trend:

- **ERISA** – Plan sponsors, as fiduciaries, are held to high standards of conduct including making certain that only “reasonable fees” are paid from the plan.

- **Department of Labor regulations** – Plan sponsors are required to collect and analyze service provider fee disclosures and to benchmark fees to make sure they are reasonable based on the services received.

- **Litigation** – A rapidly growing volume of class action lawsuits by participants claiming the plan paid excessive fees for investments and services has resulted in large judgments and settlements against plan sponsors.

Analyzing plan fees is no easy task for most plan sponsors. They often struggle to understand just how much their plan is paying—or how much they should be paying—for plan services and investments. This has become even more challenging in recent years with the growing variety and complexity of investment options and service models to choose from, some of which include revenue sharing arrangements.

ADVISOR OPPORTUNITY

One of the most valuable services you can provide as an advisor is to help plan sponsors design a process for collecting fee information and benchmarking those fees against comparable investments and service providers. Without your support, plan sponsors do not have access to the tools or data needed to benchmark their plan fees against other providers. In addition to providing critical information about fees, you have the skills to help them weigh the fees against other elements that should be considered when selecting investments or services.

- **Prospective clients** – Introducing your benchmarking services creates an opportunity to illustrate the depth of your industry knowledge and the scope of fiduciary compliance support you can deliver as the plan’s advisor.

- **Existing clients** – In addition to helping plan sponsors meet their fiduciary obligation to monitor plan fees, periodic benchmarking reviews provide an opportunity to strengthen your relationship and to identify strategies to enhance plan performance.

To make fee analysis a premier component of your service model, you must be able to perform benchmarking efficiently—to make the service scalable—while at the same time being able to address the unique objectives and needs of each client. Virtus Investment Partners’ Fee Comparison Tool is the resource you need to meet those objectives.
THE VIRTUS FEE COMPARISON TOOL

First introduced on the heels of the DOL’s 2012 service provider fee disclosure regulations, the Fee Comparison Tool has enabled advisors to provide the benchmarking data their plan sponsor clients need to fulfill their fiduciary mandates under ERISA and DOL regulations. Virtus helps keep advisors abreast of fee-related trends and marketplace changes through continuous updates to the database supporting the Fee Comparison Tool.

Key features set Virtus’ Fee Comparison Tool apart from other benchmarking tools:

- **Simple & Intuitive Navigation** – Easy-to-use ability to create meaningful benchmarking reports with minimal data
- **Broad Variables** – Ability to benchmark a broad range of investment and recordkeeping fees as well as critical participant success metrics
- **Robust, Reliable Database** – Large database built on information collected from plan service providers, updated quarterly
- **Advisor Customization** – Ability to select the investment and plan features to benchmark, and customize reports with the advisor’s logo
- **Complimentary** – No licensing or report generation fees (up to five reports per quarter)

Follow the simple step-by-step instructions and Practice Pointers in the following sections of this User Guide to deliver the critical benchmarking support your clients need.
SECTION 1 – ACCESSING THE FEE COMPARISON TOOL

Follow the simple registration process to gain access to the Fee Comparison Tool.

• Direct your internet browser to planadvisortools.com

• From the Plan Advisor Tools drop-down list, select Fee Comparison Tool

• Complete the simple registration process and you will receive an email confirming your registration; upon verifying your email you will be allowed to log into the Plan Advisor Tools

• Select the Fee Comparison Tool

If you have any difficulties accessing the Fee Comparison Tool, call 1-800-243-4361.

Complimentary Report Services
You will be able to produce five reports per quarter for no charge. If your benchmarking needs exceed this volume, call 1-800-243-4361.
SECTION 2 – DEFINING YOUR PEER GROUP

This segment of the Fee Comparison Tool allows you to define the companies in the database against which you will benchmark the plan.

PRACTICE POINTERS

• **Knowing your peers** – Identifying the correct peer group is critical to providing meaningful benchmarking data. Fees can vary significantly based on plan size, with larger plans generally paying a lower fee, calculated as a percentage of plan assets. Benchmarking within a client’s industry will also help determine whether the plan is competitive in the marketplace.

• **A strong database** – The database underlying the Fee Comparison Tool is provided by Fiduciary Benchmarks, an independent company that provides benchmarking data and services. Characteristics of the database that make it uniquely suited to retirement plan benchmarking include its:
  – **Reliability** – contains information collected directly from service providers (e.g., recordkeepers, advisors) rather than pulling data from Forms 5500 or collecting information through surveys
  – **Large size** – includes data on more than 100,000 plans
  – **Frequent updates** – reflects changes in plan trends through quarterly updates

1 Finding the data

Both plan size and the industry category for a plan can be found on the plan’s Form 5500, Annual Return/Report of Employee Benefit Plan. Forms 5500 are accessible at:

https://www.efast.dol.gov/portal/app/disseminate?execution=e1s1

2 Advisor information

The contact information you enter here will be reflected in the benchmarking report generated for the client.
SECTION 3 – CHOOSING YOUR QUESTIONS

You have the flexibility to customize the output of the Fee Comparison Tool.

PRACTICE POINTERS

- **Focused benchmarking** – The Fee Comparison Tool allows you to drive the plan elements included in the benchmarking report, focusing only on those issues that are relevant to each specific client.

- **Benchmarking for prospective clients** – Determine the critical questions that will help you most effectively compare the services you can introduce to the plan as compared to their existing providers. While the initial concern may be costs, you may want to introduce the Participant Success Measures as well to illustrate the depth and breadth of the support you can offer to help drive positive savings outcomes for employees who participate in the plan.

- **Benchmarking for existing clients** – Benchmarking reviews are becoming a common element of many plan sponsors’ fee due diligence process. Use the Participant Success Measures to evaluate savings outcomes year-over-year, both to identify areas for improvement (e.g., plan design changes, enhanced participant communications, or education) and to measure the success of prior plan strategies that you may have helped implement.

1. **Prioritize questions**
   Determine the plan sponsor’s primary objectives for the retirement plan. Select the questions you want to include in the report, using the “ADD” tab. Next, move the order of the questions to align with the plan’s priorities by clicking and dragging the questions into the preferred order.

2. **Missing data**
   In some cases, you may find it beneficial to select a question for which you are unable to collect data. You will be able to generate the report even if there is missing data and the report will provide you the benchmark for that data element (but no plan-specific information) to discuss with the client.
This segment of the Fee Comparison Tool gathers specific information needed to generate the benchmarking report.

### 1. Finding the data
You can find much of the cost information for each of the data points on this page on a plan's Form 5500, Annual Return/Report of Employee Benefit Plan. Forms 5500 are accessible at:

https://www.efast.dol.gov/portal/app/disseminate?execution=e1s1

### 2. Scope of recordkeeping services
The scope of services provided can vary significantly among recordkeepers. To accurately compare fees, be sure to identify fees paid from all sources (e.g., participant accounts, plan sponsor, revenue sharing). Participant 404a-5 fee disclosures can provide information regarding recordkeeping fees paid through revenue sharing.

### 3. Advisor compensation models
To enable you to effectively compare advisor/consultant costs, even when different compensation models are used (e.g., level fees, 12b-1 fees, commissions), the Fee Comparison Tool computes compensation as a percentage of plan assets (basis points). When analyzing advisor compensation for a prospective plan, be sure to verify the scope of services provided by the plan's existing advisor versus your service model.

### 4. ERISA spending accounts
ERISA spending accounts, which collect revenue sharing payments, may be a source of payments to certain service providers. The plan's recordkeeper is the best source to identify the amount of revenue sharing allocated to the plan annually.
PRACTICE POINTERS

• **Focused benchmarking** – Only the questions you selected in Choose your questions will appear as data entry fields.

• **Missing data** – Unlike some benchmarking tools that require detailed employee census information to generate a report, the Fee Comparison Tool requires only minimal data to build a meaningful report. You will be able to generate the report even if there is missing data.

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**Participant Success Measures 2/2**

- Plan’s Current Participation Rate (%)
- Average deferral rate for non-Highly Compensated Employees (%)
- Average deferral rate for Highly Compensated Employees (%)
- Percent of participants maximizing company match
- Percent of plan assets in automatically diversified options
- Percent of eligible participants making catch-up contributions
- Percent of participants with a personal retirement goal
- Percent of participants on track to achieve that goal
- Percent of terminated participants not ‘cashing out’

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5. **Finding the data**

For existing plan clients, contact the plan’s recordkeeper for the metrics requested on this page. For prospective clients, if you do not have access to the recordkeeper, request copies of the plan’s quarterly or annual performance reports and nondiscrimination testing results from the plan sponsor.

6. **Importance of success metrics**

Many plans fail to track whether participants have set a personal savings goal or are on track to achieve that goal. This gap creates an opportunity for advisor support.

7. **Review results**

After entering the cost and participant success metrics, you will be given an opportunity to review your input and make any necessary adjustments. You can also add commentary that will be included in the report.
SECTION 5 – ANALYZING & PRESENTING THE FEE COMPARISON REPORT

A customized report will be generated based on the data you entered.

PRACTICE POINTERS

• Analyzing the Fee Comparison Report – In your initial review, focus first on major discrepancies as compared to industry benchmarks. Identify any variables that may be causing the discrepancies.

• Presenting the Fee Comparison Report – As you prepare to review the report with a plan sponsor, consider if there are any complementary issues that should be discussed that may create a context for the benchmarking report (e.g., plan sponsor’s ERISA fiduciary obligation to benchmark fees, the plan sponsor’s plan objectives).

• Next steps – In addition to discussing the outcome of the report with the plan sponsor, prepare a list of potential action steps that you will want to introduce. Some possible steps include:
  – Delivering plan sponsor fiduciary education
  – Helping the plan sponsor refine the plan’s due diligence process for monitoring plan fees
  – Exploring new service providers or new service models
  – Setting and measuring participant success metrics
  – Adjusting plan design to drive stronger participant savings outcomes
  – Building and executing a participant education or communications strategy
  – Setting a schedule for future benchmarking

You have the option to print the report or to deliver it electronically as a PDF. You also may replace the Virtus Investment Partners logo with your own logo.
As you discuss the plan sponsor answer relative to industry benchmarks, explore any differences in the scope of services that may impact the result.

The graphics clearly illustrate the plan’s current metrics vs. industry norms. For plans in which current metrics were not available, use the industry benchmark as a starting point to set goals for the plan that will be measured in future reports.

To learn more about the Fee Comparison Tool or other advisor resources available from Virtus Investment Partners, visit planadvisortools.com.