Benchmarking for Success

Optimizing the value of a plan

Spring 2013
Key topics for discussion

- Current Regulatory Environment
- What it Really Means to Understand Plan Fees
- Benchmarking: The Key to a Prudent Process
Current Regulatory Environment
“Industry Eyes Lawsuits Over Pension Investment”

FINANCIAL TIMES

“401(k) Fees Gain a Bit of Clarity”

The New York Times

“What Your 401(k) Really Costs You”

“Shining a Light on Murky 401(k) Plan Fees”

U.S. News & WORLD REPORT

THE WALL STREET JOURNAL

“Cracking Down on 401(k) Fees”

“Labor Department Requires 401(k) Fee Disclosure”

CNBC
Current DC regulatory environment

A Spotlight on Fees

The Department of Labor and Congress are placing a great deal of emphasis on plan expenses and services:

- Form 5500 Schedule C reporting requirements
- 408(b)2 reporting requirements
- Participant level fee disclosure
- Pending legislation
- Lawsuits

Now, more than ever, it is critical for plan sponsors to understand plan fees.

SOURCE: Department of Labor (dol.gov)
What it Really Means to Understand Plan Fees
What it really means to understand plan fees

Plan Fiduciaries have:

“... a specific obligation to... Ensure that fees [and] expenses are reasonable in light of the level and quality of services provided...”

To be successful, we believe they need to follow these three steps:

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<td>Understand how fees are derived</td>
<td>Determine whether reasonable in light of services being provided</td>
<td>Document a prudent process</td>
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Source: A Look At 401(k) Plan Fees, U.S. Department of Labor Publication, p.3

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Step 1
**Understand how fees are derived**

It's not enough to look at total plan costs—many factors influence plan fees.

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Step 2

**Determine** whether fees are reasonable in light of services provided

In order to determine how “reasonable” fees are, it is important to evaluate factors such as:

- Plan level services provided
- Participant level services provided
- Participant success measures
- Other services offered

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Step 3

**Document a prudent process**

Plan fiduciaries should demonstrate that a prudent process was followed, including:

- Understanding plan fees and expenses
- Determining reasonableness of fees
- Documenting the decision-making process when selecting service providers

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Benchmarking: The Key to a Prudent Process
Benchmarking: The key to a prudent process

“Benchmarking” or evaluating and comparing plan fees and services to other similar plans:

- Can help you understand the fees paid by your plan
- Can help you determine whether fees are reasonable in light of services being provided
- Provides documentation for your records

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Why is benchmarking important?

ERISA requires that all fees that a plan pays to service providers are reasonable in light of the services being provided.

“The service provider offering the lowest cost services is not necessarily the best choice for your plan.”

In order to determine how “reasonable” a plan’s expenses are, a plan sponsor should evaluate a number of factors beyond just cost.

**GOAL:** Not to have the lowest fees or the most services, but striking the right balance between fees charged and services rendered.

Benchmarking is one way to help plan fiduciaries determine what is “reasonable.”

SOURCE: Department of Labor (dol.gov)
Explore new ways to benchmark plans

Traditional approaches to benchmarking plan fees have not been effective:

1. Requesting periodic proposals from different vendors
   - Compares your plan to what you can get, not to what similar plans are actually getting
   - Doesn’t include plan level data such as participation, deferral rates, etc.
   - Typically very time consuming

2. Using databases from 5500 filings
   - Information may be dated and incorrect
   - May include fees and plan level data but not services being provided
   - Wide variance in pricing may make it hard to draw conclusions

3. Benchmarking produced by the plan provider
   - Comparative bias
   - Not independent
Best practices

- Leverage independent, third party data

- Use an “apples to apples” comparison of your plan against other similar plans. Factors to consider include:
  - Plan size
  - Number of participants
  - Company industry
  - Employer match and
  - Allocation to index funds

- Provides the data needed to accurately understand and assess relative plan fees, support, services and success measures.
Be ahead of the curve

Review

- Benchmarking can help you:
  - Renegotiate with your provider for lower fees
  - Realize you may be paying for services you don’t need
  - Improve low participation rates
  - Enhance your investment lineup
  - Revisit and improve plan design
  - Provide documentation for a fiduciary audit file

Next Steps

- Work with your advisor to utilize the benchmarking capabilities of an independent, third party specializing in retirement plan fee benchmarking
Appendix
Obtaining a benchmarking report

Step 1 Contact your advisor to discuss the benchmarking opportunity.

Step 2 Gather required information to submit to independent, third party specializing in retirement plan fee benchmarking.

Step 3 Once report is received, work with your advisor to discuss what steps you should take to modify fees if necessary.
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