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What Is The Best Way for Plan Sponsors to Pay Retirement Plan Fees?

Plan sponsors have two primary options available to cover costs for what the government deems as Non-Settlor Expenses. These are expenditures associated with the annual administration of a retirement plan. There are also fees referred to as Settlor Expenses that are linked with the establishment, amendment, or termination of a retirement plan; however, those fees can only be paid by the plan sponsors and not plan assets. That being the case, for this article, we will be focusing on Non-Settlor fees which typically include the following service providers:

- Third-Party Administration (TPA) Services
- Investment Advisory Services
- Recordkeeping Platform Services
- Employee Benefit Audit Services (if applicable)

All of these service providers can be paid by invoicing the plan sponsor directly or by being paid out of plan assets, so the big question then becomes which method (or a combination of both) makes the most sense for the company and their plan participants. We mention participants in this evaluation process because plan sponsors are required to operate a retirement plan in the best interest of their participants, and this decision directly impacts their ability and potential to save for retirement.

Paying with Plan Assets

It is a fairly common practice for plan sponsors to have plan expenses paid from plan assets, thus having participants share in paying some or all plan operational fees. Two common reasons companies incorporate this method are budgetary constraints and/or fundamentally, they believe participants should share in the costs. To generate the required revenue needed to pay these fees, a plan sponsor will usually incorporate one or a combination of the following strategies:

- **Pro-Rata via Variable Asset Charge** – The amount of money necessary to pay service providers is calculated (amortized in some cases), and a percentage of assets equivalent is derived and applied to the plan. This structure will equate to plan participants paying a disproportionate amount of the fees as plan accounts with more significant balances will generate more revenue. This option also has the possibility of "fee creep," where the variable percentage charged to the plan assets continues to escalate over time and could, in some cases, generate more proceeds than needed. To help mitigate this potential issue, plan sponsors can incorporate an ERISA account to collect this revenue and have any excess money go back to plan participant accounts. When utilizing the Pro-Rata option, it is also paramount to consider the timing and frequency of the charge being applied. It is recommended to have this fee withdrawn periodically (daily, weekly, monthly, quarterly) and not as a one-time deduction as it may impact dollar-cost averaging for participants.

- **Per Capita Account Debit** – A total cost per participant is computed, and a flat fee is deducted from each participant account periodically. This arrangement does offer a level cost configuration for all participants, so everyone is paying the same amount.

- **Combination of Pro-Rata and Per Capita** – As the description indicates, this is a blend of the two arrangements previously mentioned, and it can offer some relief to participants with smaller account balances. However, this still creates a scenario where participants are not covering the same dollar amount of plan costs, and the possibility of "fee creep" still exists.

Retirement plan fees are not tax-deductible when paid with plan assets.

Company Paying Fees

Companies are becoming more open and willing to pay retirement plan servicing fees. There are several potential advantages to this arrangement if a company can manage this structure from a budgeting standpoint. In some cases, plan sponsors may want to consider offsetting the additional cost by leveraging some of the traditionally allocated employer contributions (match or profit-sharing). This concept still directly benefits the participants (simply trading a portion of employer contribution to lower plan fees at the same dollar level), but also helps to accomplish the prospective benefits below.

- **Tax deductibility** – Retirement plan service provider fees are tax-deductible, which could equate to the company paying approximately $.60 on the dollar for plan services.
- **Accelerated Participant Account Growth** – All participant accounts, regardless of balances, will grow and compound at a faster rate as they are not having fees debited from their account. This also helps support participant retirement readiness initiatives and the attraction/retention of employees.
- **Fee Liability Mitigation** – There have been several court cases in recent years concerning excessive fees being paid by plan assets and participants. If the plan sponsor is paying plan fees, this essentially becomes a moot point as there is no question that plan costs are reasonable for the plan participants.
- **Start-up Plan Tax Credit** – Through the newly enacted SECURE Act, start-up plans are now eligible for significantly higher levels of tax credits. This new structure should be a strong motivator for plan sponsors as their retirement plan could be up to "50% off" for the first three plan years if qualifying conditions are met.

As you can see, there are some compelling benefits for a company to pay plan fees.

Plan Sponsors need to carefully weigh the "pros and cons" of each of these payment strategies to determine the best approach for them to incorporate, as there are budgetary and fiduciary level implications. Please reach out to BPP if you have any questions, or if you are looking for additional insight and perspective!

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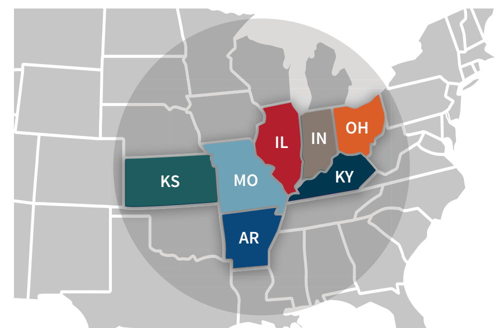

This information was developed as a general guide to educate clients and is not intended as authoritative guidance or tax/legal advice. Each plan has unique requirements and you should consult your attorney or tax advisor for guidance on your specific situation.