WORTH MAGAZINE
W
ESTABLISHED 1992

MAKE
Ten Best Power Lunch Spots; Dealmaking at Michael's; Kimbal Musk Breaks from Tech

GROW
Eight Emerging-Market Power Brokers; Trusting Financial Advisors; JPMorgan's Marianne Lake

LIVE
Dangerous Vacations Worth Considering; Ferrari's New Beauty; The Ultimate Smart Home

Worth®

THE EVOLUTION OF FINANCIAL INTELLIGENCE

THE MOST POWERFUL PEOPLE IN GLOBAL FINANCE

2015 POWER 100

WORTH.COM
38
VOLUME 24 | EDITION 05

Richard P. Slaughter Associates Inc.
Phil Webb, AIF®,
Senior Plan Advisor, RPS Retirement Plan Advisors

"Are your company's retirement plan fees shared equally?"

By Phil Webb

What if you found out that some participants in your company's 401(k) plan, including you and your fellow executives, were not paying their fair share of plan expenses? Would that surprise you?

Unfortunately, that scenario is all too common. It is also one that could put your plan at risk.

The investment structure of some 401(k) plans has created an uncomfortable situation where some employees are subsidizing the costs of the plan for other employees. When the employees benefiting from this unequal allocation of expenses are executives and fiduciaries to the plan, the potential for fiduciary exposure increases.

COVERING PLAN FEES

Most 401(k) plans use revenue sharing from the mutual funds to pay all or part of the plan expenses. These could be expenses for administration, compliance, recordkeeping or advisory services.

Typically, all of the revenue sharing from the various mutual funds is put into an account within the plan, called a revenue holding account, or ERISA budget account, so named after the Employee Retirement Income Security Act (ERISA) of 1974.

The service provider then draws fees from this account. Any fees not covered by this account are billed to the plan sponsor. The bill can be paid by a check from the company, or by splitting the fees evenly among all plan participants.

INEQUITABLE FEES CONCERNS

The problem is that many of the mutual fund investments in the plan pay different amounts of revenue sharing. For example, your plan may contain different share classes of mutual funds, such as "A" shares, "R" shares, "I" shares or index funds. Some "R" shares pay as much as 1 percent in revenue sharing, while "I" shares and index funds may pay substantially less, or even none at all.

Suppose you and your fellow executives are investing your assets in "I" shares or index funds that pay zero revenue sharing. If most of the plan fees paid to the various service providers come from revenue sharing, then the participants investing in these low-cost or low-revenue sharing funds are not really paying their share of plan expenses.

As a result, participants in the higher-cost, and subsequently, higher-revenue sharing funds, end up subsidizing the costs of the plan.

EQUALIZING PLAN COSTS

As the plan sponsor, you have a fiduciary duty to monitor plan fees and revenue-sharing arrangements with your service providers. It is also your responsibility to follow a prudent process with respect to allocating plan costs and revenue sharing.

SO, WHAT IS THE SOLUTION TO UNEQUAL ALLOCATION OF PLAN COSTS?

You could limit your 401(k) plan menu to investment options that have zero revenue sharing built into the expense ratio. However, not all mutual fund families offer such funds. Alternatively, you could employ a record keeper or service provider with the technology in place to ensure that revenue sharing and plan costs are allocated equally.

Or, you could ignore the issue and hope it never comes up. That option, however, could put yourself and the plan at risk.

To minimize liability, it is imperative that you be proactive. And, regardless of which solution you choose, work with a knowledgeable advisor who can help you navigate these complex situations.

"The investment structure of some 401(k) plans has created an uncomfortable situation where some employees are subsidizing the costs of the plan for other employees."

—Phil Webb

How to reach Richard P. Slaughter Associates

You can reach any member of our team at 512.918.0000.
We look forward to speaking with you.

THE LAST BOOK I READ…

Save More Tomorrow
by Shlomo Benartzi

WHAT MAKES A GOOD CLIENT…

A good client is someone who sees value in the solutions you provide.

WHAT'S ON MY DESK…

Lots of business cards, pens, highlighters, a few coasters and a picture of my family

About Richard P. Slaughter Associates

Richard P. Slaughter Associates is a leading wealth management and financial planning firm which specializes in working with high net worth individuals and entrepreneurs. Fiduciary services are delivered to defined contribution plans through the firm's subsidiary, RPS Retirement Plan Advisors. Slaughter Associates cultivates a comprehensive financial relationship with its clients by delivering expertise in financial planning and asset management and coordinating with tax, insurance and estate professionals. The result is a holistic approach that is unique in a financial industry that is often segmented and outsourced. By committing to these important components, Slaughter Associates charts a path to reach the individual financial goals of its clients. Founded in 1991 in Austin, Texas, by Richard Slaughter, Slaughter Associates is one of the original fee-based firms in the nation. With offices in both Austin and the Dallas-Fort Worth Metroplex, Slaughter Associates has been recognized by NABCAP as a Premier Advisor and given exemplary status for expertise in personal risk management.

Assets Under Management
$400 million (as of 11/30/14)

Largest Client Net Worth
$20 million

Minimum Fee for Initial Meeting
None required

Minimum Asset Requirement
$500,000 (investment services)

Website www.slaughterinvest.com
www.rpsplanadvisors.com

Compensation Method
Asset-based and hourly fees

Professional Services Provided
Planning, investment advisory and money management services

Primary Custodians for Investor Assets
Charles Schwab & Co., TD Ameritrade

Association Memberships
CFA Institute, CFA Society of Austin, Financial Planning Association, The National Association of Personal Financial Advisors

Email phil@rpsplanadvisors.com

ILLUSTRATION BY KEVIN SPROULS

Richard P. Slaughter Associates Inc. | 13809 Research Boulevard, Suite 905, Austin, TX 78750 | 512.918.0000

LEADING WEALTH ADVISORS
Worth
2015
W
WEALTH • INSURANCE • LEGAL

Phil Webb, AIF®

Senior Plan Advisor, RPS Retirement Plan Advisors

Richard P. Slaughter Associates Inc.
13809 Research Blvd., Suite 905
Austin, TX 78750
Tel. 512.918.0000

phil@rpsplanadvisors.com
www.slaughterinvest.com
www.rpsplanadvisors.com

RICHARD P. SLAUGHTER
ASSOCIATES, INC.

Charting Your Course to Financial Security

REPRINTED FROM
Worth®
THE EVOLUTION OF FINANCIAL INTELLIGENCE