

What does Benchmarking a 401(k) plan mean?

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The financial world is notorious for acronyms and vocabulary thrown out in general conversation with the assumption all know what they mean. “ Benchmarking a plan” is exemplary of this situation. The term/phrase is used frequently and often times the individual responsible for the 401(k) retirement plan has no idea what it means. **Benchmarking your 401k plan is a process of evaluating your company retirement plan.**

The evaluation is necessary to ensure that you understand what plan fees are being charged and why. It will also enable you to have confidence that you are providing an excellent employee benefit. By taking the time to review, you will ensure that your current plan remains the right fit for your company and plan participants. The review/benchmark process should focus on a minimum of 3 basic areas:

1. **Plan Design-** reviewing that the various points of the plan are set for best utilization of the plan. (eligibility, company match, loan availability, etc).
2. **Plan Fees-** reviewing the two levels of fees to confirm you are paying a reasonable amount for the product you have. Administration services fees include charges for revenue sharing and other services. They also cover holding plan assets in trust and record-keeping for participant contributions, earnings, and investments. Evaluating and redesigning plans to ensure ERISA compliance are also included in these fees. Investment management fees include charges for services such as managing each plan fund in accordance with the objective. They also cover expert advice on investment options to the plan sponsor and participants.
3. **Plan Services-** reviewing the level of service you are receiving from your recordkeeper versus what your company needs. It's essential to have a recordkeeper who is suitable for your plan. Proper documentation is necessary for staying in compliance with ERISA law. Therefore, you should know that not all record-keeping services are made equal. Even within the same company, recordkeepers and services can have a range of tiers available to you and your employees.

When looking for a suitable service provider, ask questions about their offerings, prices, and discounts. It is essential to be clear about what you are paying and why. Assessing whether your record-keeping services are worth the cost is a way to ensure unnecessary fees don't accumulate. It also allows you to make sure your employee accounts are under the best management possible.

Not only understanding Benchmarking, but also completing them annually is crucial to a well run 401(k) retirement plan. It is the responsibility of the plan sponsor to schedule and document these evaluations every year. Benchmarking is more than a term, it is a necessity.

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