



Abstract

Abstract: Abernathy Daley 401k Consultants (“Abernathy Daley”) believes at least 78% of all corporate retirement plans in the United States have not been benchmarked by independent 3rd parties over the last 3+ years. Consequently, more than 78% of corporate plan sponsors are overpaying on plan administration, and their employees are overpaying for the investment alternatives available within the corporate retirement plan. This assumption includes both 401(k) plans and 403(b) plans.

Introduction

Human resources (HR) departments are tasked with understanding the corporate responsibility of offering employees a strong retirement plan while keeping up with increasingly frequent and complex regulatory changes. HR professionals are stretching beyond their traditional role as they manage increasingly sophisticated benefit offerings. These offerings, including retirement plans, often feature complex financial, legal, and compliance demands. If overlooked, the result can have severe consequences. Further, the consistent, innovative nature of financial services and their ever-changing regulatory requirements will only continue to challenge HR departments nationwide.

An Easy Strategy

Implementing an annual benchmarking plan audit conducted by an independent third party acting as a legal fiduciary is an often neglected yet crucial first step for HR professionals overseeing their organization’s retirement plan. A yearly benchmarking analysis can highlight the plan’s components, identify overpriced and poor-performing investments for employees, determine whether regulatory adherence is up to date, and pinpoint regulatory infractions.

Benchmarking audits are independent assessments of corporate retirement plans, such as 401(k) and 403(b) plans. These audits compare the fees, administrative services, and investment offerings of a company’s plan with industry standards ensuring the plan is competitively priced, adhering to best practices, and aligning with regulatory and fiduciary responsibilities. Benchmarking clearly shows where plans are offering excellent investment options and where plans are offering overpriced options. They also detail regulatory requirements, infractions, and innovations, allowing HR to make changes and document the process of evaluating the employee retirement plan each year.

In short, benchmarking enables every HR department to identify improvements that can be made and how to make those improvements. It allows and encourages plan sponsors to make changes when needed and to document their vigilance when improving their plans. The investment in benchmarking can alleviate key regulatory, financial, and fiduciary concerns, transforming corporate retirement plan offerings from a basic requirement into a potentially powerful employee recruitment and retention tool.



The Abernathy Daley Formula: How we estimate the percentage of plans that have not been benchmarked over the past 3 or more years:

Technology is Deflationary

Innovative technology enables companies to do more while simultaneously lowering costs and increasing productivity. Over the past 3-5 years, we've seen significant advances in the financial services industry based on technological improvements, which lower costs, streamline operational efficiency, and increase productivity.

Technological advancements in retirement plan administration have significantly reduced costs for both plan sponsors and employees. Automation and Artificial Intelligence have streamlined support services for corporate 401(k) and 403(b) plans, reducing administrative expenses. Similarly, the costs of managing diversified mutual funds and ETFs have dropped dramatically, with many funds now offering significantly lower fees compared to three years ago. These reductions have translated into substantial cost savings: plan sponsors benefit from lower administrative costs while employees enjoy reduced fees on investment offerings.

Overall, the costs to administer a 401(k) plan have decreased by at least 25%, and investments with comparable returns are now widely available at a fraction of their previous cost. Unfortunately, only a small minority of corporate plan sponsors have taken advantage of these lower costs created by automation and new technology.

Thesis

Abernathy-Daley 401k Consultants believe the vast majority of corporate plan sponsors have not had their 401(k)/403(b) plans benchmarked by an independent 3rd party over the last three or more years. Consequently, the majority of corporate plan sponsors are paying more than they should for a) the administrative fees associated with their retirement plan and b) the fees charged* for the investments available to their employees in their corporate retirement plans.

*Overcharging employees for investments available in the 401(k) plan creates an avoidable risk and is a direct violation of a plan sponsor's Fiduciary responsibility. If a plan sponsor violates their Fiduciary responsibility the violation could become the source of a legal charge.



Our reasoning:

A) Most corporations are run by intelligent management teams and are overseen by intelligent boards.

B) Most corporations are rational actors. Meaning - most corporations will make decisions that maximize their benefits and minimize their costs.

C) If businesses can build or buy a product or produce a service at a lower cost than their competition, it creates an advantage and/or it increases profits.

D) If corporations don't constantly work to produce and deliver their products and services at the lowest costs, their competition will. If they don't constantly innovate to remain competitive, revenues and profits will shrink, and they will lose clients.

E) If a corporation knows an advantage exists, and can realize the advantage, they will implement that advantage and improve profits.

WE BELIEVE IT IS LIKELY THAT OVER 78% OF THE 401(K) PLANS IN THE U.S. HAVE NOT BEEN BENCHMARKED OVER THE LAST 3+ YEARS

Methodology

Our proprietary database analyzed data for the most recently available form 5500 in the United States for companies with at least 100 employees, representing 69,154 retirement plans listed. Large companies not only have additional reporting requirements, but they also tend to have more well-developed corporate structures, thus representing the more accountable subset of employers.

Of those 69,154 plans, we believe over 78% (54,147) are overpaying for their retirement plan administration and investment offerings[i].

To formulate this estimate, we specifically analyzed corporate retirement plans with over 100 employees ("large companies"). We focused on this subset of retirement plans for two reasons:

- Firstly, because all plans with over 100 employees/plan participants must legally file a Form 5500 with accurate data describing the 401(k) plan. Without the accurate yearly data from Form 5500, we could not reach intelligent conclusions about plan size, plan expenses, plan participants, etc.
- Secondly, our professional experience leads us to believe that companies with over 100 employees tend to have greater resources available for their employees than companies with less than 100 employees[ii]. Thus, they are more likely to have HR staff and remain up to date with regulatory changes and current product offerings, making them more responsible for the plan.



Data on Administrative Overpayments

Larger companies: Our database tells us that 54,147 (78.29%) of all large company retirement plans are overpaying for the most basic administrative services, which are easily obtained from any of the top providers[i].

Our first assumption is that corporations are intelligent and profit-seeking. In order to remain competitive, they want to offer the best products and services at the lowest cost. If over 78% of the large companies in our database are overpaying for a basic service like retirement plan administration, they must **not know** those services are available at a significantly lower cost. Since a benchmarking analysis details the cost of readily available administrative offerings and competitively priced investment fund offerings, they must not have had a benchmarking analysis. Thus, we believe they don't know they are overpaying and have not had a benchmarking analysis.

That said, there are always outliers for any analysis; meaning there may be valid reasons a company might choose to overpay for basic services. We assume that 5% of those 69,154 large companies are voluntarily overpaying and may have a reason for it. Therefore, we estimate that 95% of corporate plan sponsors would have replaced excessively priced 401k plan administrators with competitively priced administrators had the benchmarking analysis been performed.

Non-Administrative Retirement Plan Offerings Affecting Employees

What about the other non-administrative services associated with the retirement plan offerings?

Of the 15,007 large company retirement plans that had competitive administrative costs, our research shows that in reviewing existing plans, over 80% offer a selection of funds available to plan participants **with excessive fees and additional costs** that could easily be corrected by replacing the higher-cost investments with lower cost investments offering **similar or superior returns**.

Reason: Offering competitively priced investment alternatives for employees who are plan participants is **primary fiduciary duty #1** and legal responsibility for all plan sponsors interested in avoiding a punitive lawsuit.

If this reasoning is correct, it increases the likelihood that a significantly large number of retirement plan sponsors are unaware they have a meaningful number of overpriced funds available in their 401(k) plan. Offering highly priced or unreasonably priced investment alternatives is one of the primary justifications for legal prosecution against corporate America's plan sponsors. Overpriced investment offerings can be easily detected and corrected by an independent benchmarking analysis.



Summary

The vast majority of companies offering retirement plans in the U.S. are overpaying for the services and costs available for their retirement plans. Technology has lessened costs and can reduce the time and effort a company's HR department spends administering the 401(k) plan. It can also significantly reduce the time HR devotes to retirement plan regulation and administration while also reducing the fiduciary responsibilities of the corporate sponsor. For example, we estimate companies with more than 100 employees can save 150 hours - or more - per year by implementing up-to-date technology and working with a competent, independent administrator and record keeper.

Abernathy Daley believes every company in the U.S. should embrace the time and expense to have their corporate retirement plan benchmarked annually. A benchmarking analysis^[iii] will clearly document where the corporate retirement plans can reduce the plan sponsor's administrative costs. It will also clearly show the plan sponsor if - and where - investment choices for employees can be improved with lower fees and potentially higher returns.





Footnotes

[i] Companies with over 100 employees tend to generate more revenue and more profit than those companies with fewer than 100 employees, thus are more likely to bear the costs of regulatory adoption and yearly benchmarking analysis.

[ii] 709,079 plans filed Form 5500 picked up by our database. 69,154 have > 100 employees. Of those 69,154, our database gives a rating which documents that 54,147 have costs for retirement fund administration which clearly exceeds the standard costs available today from any of the 10 top vendors.

[iii] Abernathy Daley 401k Consultants is not a benchmarking analysis firm. All benchmarking analysis efforts should be performed with independent third parties and without bias in any way. Additionally, while Abernathy Daley can recommend an independent 3rd party to perform a benchmarking analysis, Abernathy Daley 401k Consultants has no incentive to recommend any of the third parties offering a benchmarking analysis, in any way. Abernathy Daley 401k Consultants seek to lower the costs associated with retirement plan administration and investment alternatives, reduce the hours HR spends on retirement plan activity, and deliver personalized employee education. Their goal is to turn the retirement plan into a benefit for employees rather than just a cost center

Total companies with greater than 100 employees – without a benchmarking analysis in the last 3 years - we estimate 54,147.

Total U.S. companies with 100 or more employees and retirement plans in our database 69,154.

Total U.S. companies/total companies without benchmarking analysis = $69,154/54,147 = 78.29\%$.

This leads us to estimate that approximately 78% of all companies with at least 100 employees in the U.S. are overpaying for their retirement plans administration and investment costs. *This calculation does not include those plans with investment options charging fees which can be obtained at a fraction of current costs for statistically similar investment results. An independent benchmarking analysis clearly documents investment alternatives which could provide plan participants/employees with similar results at lower costs.

Companies with over 100 employees tend to generate more revenue and more profit than those companies with fewer than 100 employees, thus are more likely to bear the costs of regulatory adoption and yearly benchmarking analysis. Those companies with fewer resources are less likely to spend their revenue on operations that are not directly related to the corporate initiative aimed at creating profitable products and services. Therefore, we surmise that those companies with less than 100 employees are even less likely to incur the cost of a benchmarking analysis than those with over 100 employees.

