



BENCHMARKING: WHY IT MAY BE THE MOST IMPORTANT FIDUCIARY DUTY OF ALL



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There's an old saying that a house is just another mouth to feed. There's always something that needs to be fixed, repaired, replaced or redone. Every year, homeowners make the same decision – what will it be this year? Sometimes, the choice is already made for you. Something is broken, something you just can't live without and have no choice but to replace. This year, my house must have item was a new pool pump. Finally, after 15 summers and several repairs, our pump died, sadly, but peacefully. It earned its long rest, but for us, the hunt was on! We needed a new pool pump forthwith! Our pool was already open, and for anyone that owns a pool, you know a pool just can't sit and wait, unless you're looking to convert your pool to a pond, with bright green water, live algae, mosquitos & more.

Obviously, it had been a long time since we shopped for a pump. My husband and I started with our

pool guy. We asked him to get a few prices. We learned very quickly that, like most other products, there is a tremendous mark-up. Then a friend of ours recommended we look online. I was kind of surprised at first, even though I'm an avid online shopper, but I tend not to shop for larger, bigger and heavier ticket items online. As it turns out however, it was the best advice we received. We were able to compare several pumps, brands, horsepower, warranties and most important of all ... price, quickly and conveniently. We found a great deal on a brand new, more powerful pump, from a brand name we trusted, with an extended warranty and saved hundreds of dollars (and oh yeah, free shipping too!). Online shopping gave us the ability to shop around, compare prices and save money, all in a shortened time frame.

In most cases, we have more time to look at our options (or at least we hope to). Time to visit a few stores, compare prices, explore different brands, get a few estimates, make some calls, etc. It's an extremely important process. Why? Because how would you know if you were paying too much for something? How would you know if there was something better? How would

know that not only could you be getting better, but have more service and support? A price may seem fine to one person, but to another, more experienced person, it may be outrageous. Unless you're a Renaissance Man, no one knows everything about everything. So, the only proven method to figure out whether or not you're paying a fair price is to shop around.

The same holds true in retirement plans. Dare I say, *especially* in retirement plans. But in retirement plans, we call the process Benchmarking. There are many different aspects to benchmarking, but generally speaking, benchmarking a retirement plan is basically shopping your plan with other providers to compare pricing and services. It's the method of finding out what you plan is worth in the open market. Without benchmarking your plan, how could a plan sponsor know if they were paying too much? And let me be crystal clear, I'm not saying cheapest, nor am I even suggesting it. As a matter of fact, cheapest in this industry is usually not a good thing, and that's not what the Department of Labor ("DOL") is looking for either. I know for a fact that our TPA fees are sometimes higher than our competitors, but I also know we provide outstanding service, hands on support, and one-on-one attention. Our clients know us by name and are more than willing to pay a little more for superior service. Plus, benchmarking goes beyond just the plan [assets] itself. In other words, you should benchmark all of the providers involved in your plan: recordkeeping, TPA, custodial, financial advisor and more, for the same reasons I stated before. How can you know what you don't know? I was reminded of that just the other day and it is, absolutely, true. Benchmarking is the only way any of us could understand and determine if something is fair.

Another misconception about benchmarking is that when you benchmark your plan, you're planning to move or change providers. While that is true sometimes, that is not the true purpose of benchmarking.

You can keep a plan with the same financial institution for years, but if you're not regularly benchmarking your plan with other providers, how will you know if your pricing is competitive? Benchmarking is the tool that gives you the power to negotiate with your providers. Not to mention that it is a fiduciary duty of a plan sponsor to benchmark their plans every 1 to 3 years and document the process for their fiduciary files. Upon audit, the DOL will ask you for that proof, since you are expected to follow prudent processes and pay only reasonable fees. Without a benchmarking or comparative analysis, how would you prove that you tried to make that "reasonableness" determination? Unfortunately, the DOL doesn't accept "I don't know" as an answer.

It would be so much easier if the DOL gave plan sponsors a guideline to follow, right? A chart, a rule, an opinion as to what they should be paying for their plans based on the amount of assets, number of participants, etc., but they don't. A plan sponsor is left to make these decisions alone, to determine the "reasonableness" of fees. It is their fiduciary duty and responsibility. Furthermore, if someone finds they didn't fulfill this duty, then it's a breach, and a potential lawsuit waiting to happen. High fees are probably the most common causes of action in most 401(k) litigations. What's left for a plan sponsor to do? The answer is benchmarking, and as I've tried to show, it may very well be the most important fiduciary duty of all.

Priority Pension Services, Inc. (AFI) is a full-service employee benefits consulting, actuarial, insurance and third-party administration (TPA) firm. If you have any questions or would like more information about benchmarking and other helpful topics, please don't hesitate to contact me on Linked In, email: ginam@ppsafi.com, direct: 516-584-2750 ext. 2 or visit our website at www.ppsafi.com where we have useful links, valuable resources, an events calendar and more.



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