

# Bundling of 401(k) Services

401(k) plans require an array of investment and administrative services and plan sponsors have various options in structuring arrangements for their plans.

---

## Services Provided to 401(k) Plans

### *Administrative Services*

- » Recordkeeping
- » Payroll and Investment Transaction Processing
- » Plan Creation / Conversion / Termination
- » Trustee and Custodial Services

### *Regulatory and Compliance Services*

- » Plan Document Services
- » Consulting
- » Accounting and Audit Services
- » Legal Advice
- » Nondiscrimination Testing
- » Processing of Domestic Relations Orders

### *Participant-Focused Services*

- » Participant Communication
- » Websites, Call Centers, Voice Response Systems
- » Participant Education and Advice
- » Loan and Withdrawal Processing

### *Investment-Related Services*

- » Professionally Managed Diversified Pooled Investment Options
- » Brokerage Window
- » Employer Stock Fund
- » Insurance and Annuity Services

---

Many sponsors find it cost effective and more convenient to hire a plan recordkeeper or administrator that both will provide all or most of the administrative, regulatory, and participant services the plan requires and make available a wide range of investment products from which the sponsor can choose an appropriate investment menu for the plan to offer to participants. Using a single provider is more cost effective in part because the sponsor eliminates the need to monitor multiple service providers.

In addition to selecting investment options and service providers for the plan, plan sponsors choose how, and by whom, most plan administrative services will be paid. A 2005 survey found that in 37% of surveyed plans, plan sponsors paid all administrative and recordkeeping expenses. In the majority of surveyed plans (55%) participants paid for recordkeeping and administrative services: 12% of plans charged participants directly and 43% indicated

participants pay through the fees and expenses included in the particular investment products.\* In the case of mutual funds, the fees and expenses paid through the fund for administrative services are included in the fund's total expense ratio. Typically, the plan recordkeeper or administrator receives 12b-1 distribution or sub-transfer agent payments from the mutual fund and uses this revenue (and revenue in connection with other plan investment products) as compensation for the array of administrative services provided to the plan and its participants.

By law, plan sponsors have “a responsibility to ensure that the services provided to their plan are necessary and the costs of those services are reasonable.” In the case of mutual funds, the expenses of the fund (e.g. investment management fee, administrative fees, 12b-1 fees) are fully disclosed. In deciding whether to purchase plan services in a bundled package or a la carte, plan sponsors can obtain price quotations for both options. Service providers compete actively for plan business, and plan sponsors have available a wide range of options in how plan services are structured. Typically, plan sponsors also receive information from recordkeepers about payments they receive from investment product providers, and the Institute supports the Department of Labor's initiative to codify best practices. This allows sponsors to evaluate the reasonableness of service arrangements, the total compensation received by the recordkeeper, the costs associated with each investment product, and to understand any possible conflicts of interest in the arrangements.

**FOR MORE INFORMATION:** Investment Company Institute, “The Economics of Providing 401(k) Plans: Services, Fees, and Expenses,” *Fundamentals*, vol. 15, n. 10, November 2006, available at [www.ici.org/pdf/fm-v15n7.pdf](http://www.ici.org/pdf/fm-v15n7.pdf).

---

\*Investment Company Institute tabulation of data from Deloitte Consulting LLP, International Foundation, and International Society of Certified Employee Benefit Specialists, *Annual 401(k) Benchmarking Survey 2005/2006 Edition*



1401 H Street, NW  
Washington, DC 20005  
202/326-5800  
[www.ici.org](http://www.ici.org)