How the costs associated with your retirement plan are paid is important

Here’s some help for the decisions you make

The various costs that come with your organization’s retirement plan can be hard to understand – but they don’t have to be. There are many ways you can decide to pay these costs – even by combining a couple of methods – and it can be confusing. This decision tree can help. Consider the options you have and read up to understand what they mean.

**Important:** Along with the decisions you make, the reasons why you made them matters from a fiduciary standpoint. Document and file your organization’s decision-making process for how you collect and pay for retirement plan costs.
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| Costs billed to your organization. | Simply put, the costs associated with your plan are billed to you – and you pay the bills out of your annual budget. | **Pros:**  
Simplest – there are no considerations of how you recoup costs from participants.  
Employee satisfaction with benefits – since you pay the costs of the plan, this is typically most appreciated by your employees.  
You may receive a tax deduction for plan-related costs paid by you.  
**Cons:**  
You may need to account for these costs in your annual budget. | Participants generally appreciate a truly paid benefit.  
Plus, it may allow them to save more for retirement due to lower fees (paid by them.) |
| A way to collect costs from participants: Deduct from participant accounts as $ or %. | You can arrange to have retirement plan costs deducted from participant accounts directly. This can be a flat-dollar cost that’s the same for everyone or a stated percentage of plan assets. | **Pros:**  
If using a flat-dollar cost, everyone pays the same dollar amount.  
**Cons:**  
If factoring as a stated percentage, the amount some people pay will be more than others.  
If using a flat dollar cost it may be high for new participants just getting started. And people with higher balances are paying less as a percentage. | Can be perceived as everyone paying the same depending on your method.  
Participants may wonder why there’s a changing amount on their statements each quarter. |
| Revenue sharing: Used to pay for all or a portion of plan costs. | Revenue sharing is a cost placed on investments by the investment provider to help cover certain management and marketing expenses. If available, it will likely differ by investment option. With this method, revenue sharing is used to offset plan costs.  
This is where you may want to consider investment options that include revenue sharing. | **Pros:**  
If all plan costs are covered this way, participants see one cost that is inclusive of plan fees and investment fees.  
**Cons:**  
These costs are part of an investment option’s fees and vary by investment, meaning some people may pay more than others based on their balance and choices of investment options.  
Participants are not able to distinguish the amount of plan costs from the investment fees for the investment options they are using. | The revenue sharing amount varies by investment.  
With costs being part of an investment option’s fees, participants can reach the misconception that there are no costs to the plan, because they don’t see a dollar amount listed on their statements. |
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| **Choosing zero-revenue sharing investment options** (i.e., investment options with no revenue shared) may be one way to do it. | Participants pay this cost if they invest in an option that has revenue sharing (but in this case, there is no revenue shared to cover plan expenses). You can offer investment options that provide no revenue sharing, but must decide how to cover plan costs. This can be one or a combination of – the methods listed above. | Pros:  
- This can be one of the simplest methods.  
- More easily understood.  
Costs:  
- You still must decide how any remaining costs will be paid and if/how you collect from participants. | If/how you decide to collect the plan costs from participants, they will be paying at least a portion of plan costs and will see that on statements.  
Removes the outcome where some participants pay more plan costs than others based on the investment options they choose. |
| **Fee adjustments to participants is another way to do it.**         | Participants pay this cost if they invest in an investment option that has revenue sharing.  
In this arrangement, your retirement plan service provider credits (or debits) these revenue sharing payments back to participant’s accounts on an investment-by-investment basis. This is done to either get participants to zero revenue (therefore the participants are not paying for plan costs via the investments they are using) or to a set percentage that everyone pays. | Pros:  
- You can create the effect of zero-revenue sharing investment options even if they aren’t available to you.  
Costs:  
- The participants’ statements may be confusing to some because they’ll see these credits and debits on their statements, but it is transparent.  
- You still must decide how any remaining costs will be paid and if/how you collect from participants. | If/how you decide to collect the plan costs from participants, they will be paying at least a portion of plan costs and will see that on statements.  
Removes the outcome where some participants pay more administrative costs than others based on the investment options they choose. |

With the various methods of collecting and paying plan costs, arriving at a decision for your plan can be hard – but we’re here to help.

If you have questions or want assistance, contact your financial professional or Principal® representative.