Fee Equalization

The Challenges of Revenue Sharing

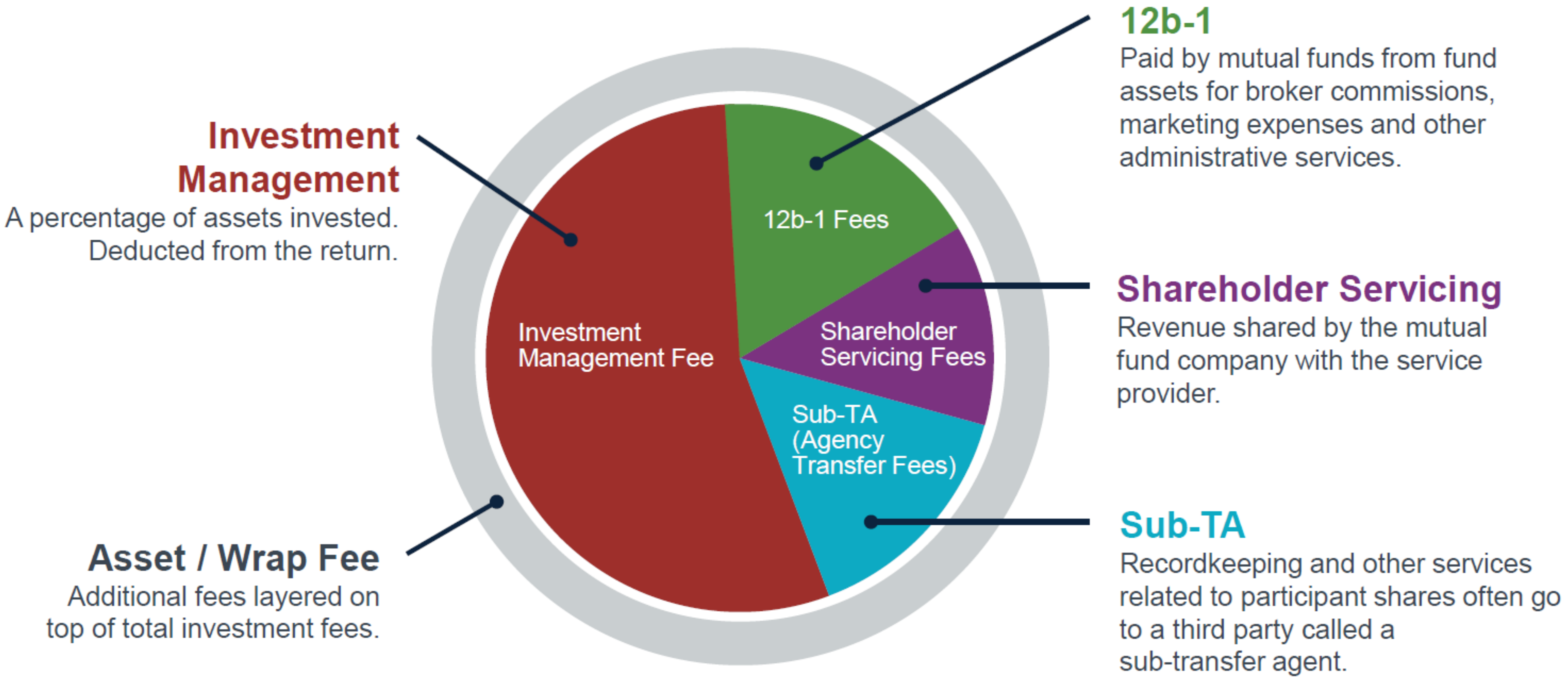
- Paying plan expenses largely through revenue sharing can create imbalances in fees paid by participants
- Required revenue for a plan often does not align with revenue sharing levels in funds
- Participants generally do not see revenue sharing levels for funds in the plan, so have low transparency into plan administrative expenses
  - “Our retirement plan is free.”
  - “Why are our index funds so much more expensive than ETFs?”

Participant	Investment	Revenue Sharing
Katie	Target Date Fund	0.25%
Leslie	Active Large Cap Fund	0.60%
Steve	S&P 500 Index Fund	0.00%
Eric	Cash	0.40%
Overall Required Revenue of 0.32%		

Leslie and Eric are subsidizing fees for Katie and Steve, but are not aware

Expense Ratio Components

Revenue that is derived from investment management fees is known as revenue sharing. Payments, also known as revenue sharing credits, may be made by investment managers to service providers or advisors. The amount of revenue sharing typically varies by each plan investment, based on assets in that particular fund and the percentage of revenue the investment manager shares. While some funds do not generate any revenue sharing, others have one or more different type of revenue sharing, illustrated by the chart below. Plan fiduciaries are required to understand total plan costs (of which revenue sharing is a part) and whether those fees are reasonable given the services and investments offered in the plan.



Why Fee Equalization?

Equal share of administrative expenses

Greater transparency

More flexibility in fund selection

Approaches to Fee Equalization

Zero Revenue Sharing

Every fund in the plan is selected through a share class with no revenue sharing

Plan expenses paid through an asset charge or per-participant fee

May be difficult to find zero revenue sharing class for each option in the plan

Revenue Rebates

Any revenue sharing is rebated back to participants

Plan expenses paid through an asset charge or per-participant fee

Important to understand the recordkeeper's method for rebating

Debits and Credits

Recordkeeper applies a charge or credit to each fund based on the level of revenue sharing relative to required revenue

Depending on the funds they hold, participants may see a charge or credit on their statements

Not all recordkeepers offer this option

Share Class Efficiency

- After adjusting for revenue sharing, the “lowest cost” share class may not be the true lowest cost
- Recordkeeper capabilities and plan philosophy should drive how efficiency is pursued
  - Limited recordkeeper capabilities for rebating revenue and/or concerns for participant confusion may reduce value of using the lowest net investment cost share class
  - “Most efficient” share class may have lower score due to higher overall expense ratio

Share Class	Score[1]	Expense Ratio	RevenueSharing	Net Investment Cost
R6	7	0.41%	0.00%	**0.41%**
R5	7	0.51%	0.20%	**0.31%**
R4	6	0.59%	0.25%	**0.34%**
R3	4	0.84%	0.55%	**0.29%**
R2	4	1.09%	0.80%	**0.29%**
R1	4	1.59%	1.30%	**0.29%**

For illustrative purposes only.
[1]The score is derived from RPAG’s Scorecard System™. The Scorecard System is built around pass/fail criteria, on a scale of 0 to 10 (with 10 being best) and measures active, passive and asset allocation investing strategies. Active and asset allocation strategies are evaluated over a five-year time period, and passive strategies are evaluated over a three-year time period. ACR# 4759120 05/22

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