



# Part of the “Parcel”

## Benchmarking as a part of a prudent process

It is commonly accepted that 401(k) fiduciaries must prudently select and monitor both investments and service providers. It also is understood that, in order to fulfill those monitoring responsibilities, fiduciaries must engage in a prudent process. However, many fiduciaries do not understand those requirements. There are several steps to a prudent process:

**Identify whether an issue should be considered.** Fiduciaries must make certain decisions: They must decide which asset classes should be used by the plan and which mutual funds should be selected to represent those asset classes. In other cases, though, fiduciaries have the flexibility to decide whether or not to address an issue: For example, should the plan offer participant-level investment advice?

## Determine, gather, and evaluate the information relevant to making an informed decision.

**Determine, gather, and evaluate the information relevant to making an informed decision.** All of these steps are subject to the Prudent Man Rule, which measures fiduciaries by the standard of a hypothetical knowledgeable person. Thus, fiduciaries need to identify the information that a knowledgeable person would need in order to make a prudent—or thoughtful—decision. If the fiduciaries aren't sure they have the knowledge to identify the needed information, they must hire a competent adviser. Then, they need to analyze the information to make a decision that is a rational result of the analysis.

**Implement, and then, at reasonable intervals, monitor the decision.** When evaluating the information, fiduciaries should compare it to marketplace data for comparable plans. In other words, fiduciaries have to “benchmark” the investments and services in order to evaluate their quality, cost, and results. This requirement applies to all fiduciary decisions. In other words, benchmarking is an inherent part of a prudent process

for virtually all decisions.

While an RFP may provide the best data about marketplace pricing and services, it costs money and is time-consuming. When a plan sponsor is unable or unwilling to make that cost or time commitment, the use of benchmarking services is a good alternative. Several benchmarking services are now available at reasonable costs. However, it is critical that the plan be benchmarked against an appropriate peer group (as opposed to, e.g., national averages). The three most important factors in identifying the peer group are: the total assets in the plan, the number of participants, and the industry of the plan sponsor.

The DoL explains: “*Whether such a process is appropriate in subsequent years may depend, among other things, upon...the fiduciary’s knowledge of prevailing rates for the services.*” In other words, fiduciaries must be able to demonstrate that they engaged in a process to evaluate the service provider or investment and to compare it with appropriate peer group data (i.e., benchmarks).

The point is that, to engage in a prudent process, fiduciaries must do more than evaluate a service provider or an investment. They also must compare that information with data about similar services and investments.

While 401(k) fiduciaries commonly benchmark investments and sometimes benchmark costs, my experience is that they do not commonly use benchmarking data for other fiduciary decisions, such as services like investment education, enrollment meetings, investment advice and management, and so on. However, that is changing as plan sponsors become more aware of their responsibilities and as more benchmarking services become available.

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