FAQ: PlanTools™ Revenue Sharing Database

The following questions and answers are designed to address the common questions asked about the PlanTools™ Revenue Sharing Database.

1. Where does PlanTools obtain its revenue sharing data?

Our data is received from one of three sources. a) directly from the platform, b) from a TPA, or c) from an advisor.

2. How often is this data updated?

We request updates semi-annually but don't alway receive the updated data as requested.

3. How reliable is the database?

For many of the funds, the revenue sharing amount rarely changes. However, in our experience revenue sharing changes occur as a result of a) change in volume of business with the investment company, or b) growth objectives of the investment company.

4. What type of guarantee does PlanTools provide to users of the revenue sharing database?

None! Obviously, we can't guarantee what we don't control. In fact, all users of the revenue sharing database sign a contract which, in part, includes the following language: "The revenue sharing information is provided by third parties to PlanTools. PlanTools does not warrant or insure the accuracy of the information. Revenue sharing amounts are subject to change on a frequent basis. The amount of revenue sharing for a specific fund tied to a specific vendor may change at any time without notice. It is, therefore, up to the Customer to validate the accuracy of all revenue sharing amounts reflected in any report produced by the PlanTools RMS system."

5. What is the history behind the PlanTools revenue sharing database?

Our database is made up of two parts for some funds. The first part is the 12b-1 fee which we import directly from Morningstar. The second part of revenue sharing, if it exists, is sometimes referred to as "shareholder services" or "sub-transfer agency fees." Regardless of the name given, and there are other names assigned to revenue sharing, this information has historically been vigorously protected under confidentiality and nondisclosure agreements. However, in July 2012 with the implementation of ERISA 408(b)(2) changes, revenue sharing become public information with the changes to the IRS Form 5500 reporting requirements. Slowly after that point a custodian, trading platform, recordkeeper or vendor began to provide their list of funds and their corresponding revenue sharing to their producers i.e., advisors and TPAs. This information, in turn, was provided to PlanTools to assist our clients with their obligations to benchmark fees to determine fee reasonableness.

6. How is this revenue sharing used in PlanTools benchmarking solution?

PlanTools benchmarking solution segregates the revenue sharing from the operating expense ratio of each fund held by a retirement plan and identifies that amount in both dollars and a percentage of assets. This information is provided to a PlanTools user to assign that amount to the actual covered service provider that receives revenue sharing as fees for their services rendered or to identify the amount at a given point in time that is reallocated back to the funds from which it came. In either case, the complexities of revenue sharing have been simplified to assist the user with conducting a benchmarking study.

7. What is the "Net Weighted Operating Expense Ratio" (OER)?

This title ppears under the Investment Management service category of expenses. The investment management fee is calculated based on a weighted average of all investments. For example, if the operating expense of Fund A is 1% and Fund B is .50% or half of one percent and both have an equal dollar allocation, the weighted average is 0.75% or three quarters of a percent. In addition, this weighted OER is "net" of all revenue sharing including 12b-1 fees. In other words, the

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"net" weighted OER reflects the cost associated with the pure cost to manage the money. All other indirect fees are removed from the "net" weighted OER and allocated to those service categories for which those indirect fees are paid e.g., recordkeeping or advisor services.

8. Why doesn't the data in the service line columns for a category equal the total for the Category?

If you are a Covered Service Provider (CSP), you were required to comply with the ERISA § 408(b)(2) fee disclosure requirements by July 1, 2012. Many CSPs met their disclosure obligation by developing or modifying their service agreement. However, it is unlikely that service providers will use their service agreement as a point of sale brochure. Instead, design your PlanTools benchmarking report to include the necessary wording to address your 408(b)(2) disclosure obligation and thereby combine your compliance obligation with point of sale consulting research and save your service agreement for the close.

9. How do I add my ERISA § 408(b)(2) disclosures to my benchmarking report?

PlanTools provides subscribers with the ability to add custom disclosures to any report under the ADMIN tab. This section will give a subscriber the ability to create a report and add disclosure language that could be used to satisfy the ERISA § 408(b)(2) requirements at the inception of the engagement.

10. What type of disclosures do you suggest?

Clearly, any recommendations provided must be reviewed by your compliance officer and/or ERISA counsel. The same applies to the wording you add to your service agreement. Examples of ERISA § 408(b)(2) language follow:

1. (RIA Name) is an SEC registered investment advisor. Our address is XXXXXX. EIN XX-XXXXXXX.

2. (RIA Name) has been retained, accepted, and acknowledges its role as the fiduciary investment advisor, as that term is defined in ERISA Section 3(21)(A)(ii) and the corresponding regulations under 29 C.F.R. 2510.3-21(c), to (Plan Name).

3. (RIA Name) DOES NOT received any indirect compensation from any service provider engaged or retained by (Plan Name). Any 12b-1 fees, Sub-Transfer Agent Fees, Shareholder Service Fees or any other name given to indirect payments made from a designated investment option, hereinafter referred to as "revenue sharing" shall be deposited into an ERISA Account within the plan and are considered plan assets which may be used to pay reasonable plan expenses. Any remaining amounts held in the ERISA account at year-end may be reallocated to participants subject to the provisions within the plan document and legal council's recommendations.

4. (RIA Name) DOES NOT have a relationship with any service provider retained directly or indirectly by (Plan Name) that would create a conflict of interest by relation, owenership or business association.

5. (RIA Name) has received non-monetary compensation from (Name of payor e.g., a mutual fund). The amount attributable to (Plan Name) is $325.

6. Compensation paid to (RIA Name) i.e., $XXXX per year, is directly deducted from plan assets in quarterly increments and reflected on participant statements each quarter. There is approximately 10 basis points or $XXXX, based upon the current value of plan assets, that is collected as revenue sharing. The revenue sharing collected is a combination of 12b-1 fees and Shareholder Service Fees.

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7. Service Fees are deposited into a plan level ERISA Fee Reimbursement Account and are used to offset the Annual Audit fees. (RIA Name) does not receive any portion of the revenue sharing payments.

8. Neither (RIA Name) nor any of the other service providers retained by (Plan Name) include a termination fee to discontinue services. Services may be discontinued by submitting a 30 day advanced written notice. Fees due through the termination date will be pro-rated. Any portion of fees paid in advance that have not been earned will be refunded.

9. Section 408(b)(2) requires the disclosure of indirect fees. The 12b-1 fee paid to (Advisor Name), a registered representative of (Broker-Dealer), is an indirect fee that must be reported. See 29 C.F.R. 2550.408b-2(c)(1)(viii)(B)(2).

10. It is expected that (Advisor Name) will receive more than $XXXX of compensation, therefore, this report is required to be provided at the initiation of an engagement and within 30 days of any changes or upon renewal of the engagement. See 29 C.F.R. 2550.408b-2(c)(1)(iii).

11. 12b-1 fees paid to (Adivsor Name) are part of securities or other brokerage services. See C.F.R 2550.408b-2(c)(1)(iii)(C).

12. Because (Advisor Name) is receiving indirect compensation, this report must identify the payor of the indirect compensation i.e., each mutual fund and provide you with a list of services being provided in return for 12b-1 compensation. See 29 C.F.R 2550.408b-2(c)(1)(iv)(C)(2) and 29 C.F.R. 2550.408b(2)(c)(1)(iv)(C)(3).

13. (Advisor Name) is not a fiduciary and does not provide fiduciary services to this plan. However, the services provided by (Advisor Name) are as follows: 29 C.F.R 2550.408b-2(c)(1)(iv)(C)(2) and 29 C.F.R 2550.408b-2(c)(1)(iv)(B)

A. Product search and placement
B. Education and Communications
C. Individual and Group Enrollment Services
D. Provision of Prospectus and other investment reports

NOTE: Not all examples will apply to your situation. Only use those that do apply to your engagement. This may require that you set up several different 408(b)(2) scenarios within the PlanTools system.

11. How often is your database refreshed?

Statistics for all plans is recalculated everyday at 1am to reflect any changes. Changes include new plans entered into the database as well as existing plans that roll out. Specifically, PlanTools removes all plans that have not been benchmarked within 3 years. If the data is older than 3 years it is removed.

12. Final question, how are the PlanTools' universes constructed?

Our database is divided into 13 ranges by asset size and 12 ranges by participant count. All plans that share the same asset range are benchmarked as a universe. The same process applies to participant count. It is important to understand that different plans may reside in each range. In other words, all plans benchmarking within the participant count range of 26 to 50 are not the same plans in the asset range of $500,000 to $1,000,000. The reason we split the two into separate benchmarking results is due to the growing trend of recordkeepers moving to a flat fee that is not tied to the plan assets.

NOTE: Please send questions regarding PlanTools Benchmarking to Customer Support at 704-699-7031 or help@fraplantools.com. *Fiduciary Risk Assessment (FRA) LLC is an ERISA consulting firm that provides expert witness services, advisor evaluations and advisor searches. PlanTools, a wholly owned subsidiary and a pioneer in the delivery of integrated web-hosted, standards-based analytics, reporting and monitoring systems, provides Software as a Solution (SaaS) including benchmarking and fiduciary governance systems.*

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