Christian Schools International

Cost Comparison for CSI 403(b) Plan vs. Individual School 403(b) Plan

The following review focuses on the expense for a CSI member school, identified as School A, to maintain its own 403(b) plan in comparison to the cost of participating in the Christian Schools International 403(b) Retirement Savings Plan. This review is not a fabricated scenario but an actual comparison we were asked to provide by one of our member schools.

1. School A will be charged $1,200 to prepare the initial plan document. It also will be billed $350 for each subsequent amendment. There will be no separate plan document charges billed to School A for the CSI Plan.
2. Recordkeeper A, the proposed recordkeeper for the plan, has several different charges:
   - A base fee of $2,200 per year.
   - $48 per participant per year. This is limited to employees who have accounts under the plan.
   - 30 basis points as a "platform fee." This fee could potentially be offset by revenue sharing receiving from mutual funds under the plan. (Note: A basis point is 1/100 of 1%. So 30 basis points is 0.30%. This percentage is multiplied by the plan assets to determine the fee.)
   - If Recordkeeper A provides Section 3(38) fiduciary services, a charge of 10 basis points per year. This charge would apply if Recordkeeper A or some other fiduciary provides "investment manager" services for the plan. This would mean the fiduciary would be totally responsible for choosing the "menu" of investment funds under the plan.

     Because Investment Advisor A will be charging a fee for being a Section 3(21) investment advisor, CSI suspects that there is not an investment manager. If there is an investment manager, there would be an additional 10 basis points of cost.
3. Investment Advisor A charges 40 basis points per year each year, and their proposal states that they typically act as a fiduciary under Section 3(21) of ERISA.

If one assumes the plan has 50 participants and $1 million in assets, the total fee for a year would be as follows:

1. $2,200
2. $48 x 50 participants = $2,400
3. 70 basis points multiplied by $1 million = 0.70% x $1,000,000 = $7,000 (80 basis points would apply if there is a Section 3(38) investment manager.)

So, the total would be $11,600. And the cost would be increased by $1,200 during the first year for the plan document.

It is also important to review the expense ratios of the mutual funds made available under the plan. Each mutual fund has a series of different expense ratios that apply to separate share classes for that mutual fund. As a general rule, a retirement plan with more assets qualifies for a mutual fund share class that has a lower expense ratio. You should review the expense ratios of a likely “menu” of mutual funds that will be made available to School A’s employees.

It should be noted that some employers choose mutual fund share classes with higher expense ratios because those higher fees generate “revenue sharing” that can be offset against other plan fees. This was previously mentioned in the context of the “platform fee” charged by Plan Provider A. But, of course, a higher expense ratio reduces the participant’s rate of return from a particular mutual fund investment. The expense ratio is an offset against the fund’s rate of return.

By contrast, here are the types of fees that will be charged under the CSI Plan:

1. CBIZ provides investment services for the Plan. They are a Section 3(38) investment manager. They bear the fiduciary responsibility for choosing the “menu” of investment funds under the Plan. CBIZ’s fee for this service is five basis points per year. But CSI intends to pay CBIZ’s fee at this time, so there will be no cost to the CSI Plan.
2. TIAA and TAG together charge a recordkeeper/plan administration fee equal to $190 per participant per year. This fee will decrease as the amount of plan assets increases.
3. If the CSI Plan has more than 100 participants at the beginning of the plan year, the Plan is required to be audited by a CPA firm. The cost of an audit is likely to be in the “ballpark” of $10,000–$15,000 per year. As the Plan becomes larger, the financial impact of this fee will dramatically decrease. For example, if there were 20 employers in the Plan, the average cost per employer is only $500–$750 (if paid by the employers).

Let’s assume that School A has $1 million in assets and 50 participants under the CSI Plan. In that situation, the annual fee for the School A employees would be calculated as follows:

1. $190 x 50 participants = $9,500
2. CBIZ’s fee would be $1 million x 0.05% = $500, if charged. But CSI will pay this fee at this time.

So, the total annual fee would be $9,500, plus the pro rata cost of the annual audit (if any). This fee could be paid from the participants’ accounts, paid by School A, or shared by the participants and School A.

In these examples, the fees of the CSI Plan are lower under the assumed facts. But this difference would become larger if the assets increased to $2 million and the Plan still had 50 participants. The fees for the Plan Provider A plan would now be $18,600, calculated as follows: $2,200 annual base fee, the $48/participant fee, and 70 basis points on $2 million. The fee related to the 70 basis points would increase from $7,000 to $14,000 ($2 million x 0.70%).

By contrast, the fees for the CSI Plan are the same – a $9,500 recordkeeping fee. If CSI did not pay the CBIZ fee, the cost would increase by $1,000 ($2 million x 0.05%), for a total of $10,500. This differential will continue to grow over time, unless the number of participants zooms up while the assets stay flat (which realistically would not happen).

The **menu of investment funds** displays the mutual funds that will be made available under the CSI Plan. As you can see, the rates of return are higher and expense ratios are lower than for other peer funds. And the fund lineup includes several Vanguard funds that have expense ratios of seven basis points or less. Once again, these expense ratios will be a lower offset against participants’ returns in their mutual fund investments.

Further, School A will have more fiduciary responsibility if it maintains its own plan. It is typical that the employer is the “plan administrator.” And even if Investment Advisor A acts as a Section 3(21) fiduciary, the members of the 403(b) investment committee will also be co fiduciaries. You will want to purchase fiduciary liability insurance for these members and any other School A employees that carry out fiduciary responsibilities for the plan.