

## BUILDING A BENCHMARK GROUP IS MUCH MORE INVOLVED THAN SIMPLY DIVIDING A DATA SET INTO QUARTILES

- 1. Determine** mathematically which variables impact pricing. For example, for a recordkeeper, average account balance still impacts recordkeeper fees due to revenue sharing. That variable, however, does not impact the fees paid to investment managers whose primary pricing factor would be assets that any conclusions drawn have the highest degree of predictability
- 2. Discard** any “outliers” from the data set. For example, a plan with significant company stock or passively managed funds will be removed from the benchmark group consideration
- 3. Diversify** the benchmark group by service provider so no single service provider dominates the benchmark group
- 4. Ensure** that the benchmark group is representative of the market segment. For example, a recordkeeper benchmark group in the small plan market should have a larger insurance company representation
- 5. Select** the benchmark group that has the highest correlation coefficient so that any conclusions drawn have the highest degree of predictability

