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Smarter Investing

FIDUCIARY BRIEF

Revenue Sharing: The Cost of Your Plan You Never Actually See a Bill For

If your plan has never written a separate check for recordkeeping, that doesn't mean recordkeeping is free. It usually means participants are paying for it inside their funds.

WHY IT MATTERS NOW

Revenue sharing is compensation that flows from a mutual fund to a plan's recordkeeper or advisor, embedded in the fund's expense ratio rather than billed directly. It isn't illegal or inherently improper — but it's opaque by design, and ERISA §404(a) requires fiduciaries to know what's actually being paid to whom, and to confirm it's reasonable. Without a benchmarking study that isolates these payments, a sponsor has no way to answer that question, even in good faith.

WHERE THIS SHOWS UP ON YOUR DISCLOSURES

Document	What It Shows
Form 5500, Schedule C	Direct and indirect compensation paid to service providers above $5,000 — including revenue sharing reported as “reportable indirect compensation.”
408(b)(2) disclosure	The provider's own disclosure of direct and indirect compensation, delivered before a service agreement begins and after any material change.
Fund expense ratios	The embedded cost that generates the revenue share in the first place — comparing gross vs. net share class pricing often reveals it.

WHAT THIS MEANS FOR YOUR PLAN

- Revenue sharing isn't evenly distributed across your fund lineup — some funds generate significantly more than others, which can create a quiet incentive to keep higher-cost funds on the menu even when cheaper share classes exist.
- If revenue sharing exceeds what's reasonable for recordkeeping services actually provided, ERISA requires the excess to be credited back to participants (often called an ERISA budget or plan expense account) — confirm your plan is doing this, not just collecting it.
- The 408(b)(2) disclosure your provider sent is the raw data, not the analysis — it tells you what's being paid, not whether it's reasonable relative to the market. That comparison is what a benchmarking study actually does.

CWM'S TAKE

Revenue sharing isn't automatically a red flag — but “we've never looked into it” is. Most committees have never separated what their recordkeeper actually costs from what's quietly embedded in fund pricing. That distinction is usually the single biggest surprise in a benchmarking review.

Not sure how much revenue sharing is flowing through your plan? A complimentary CWM Fiduciary Benchmarking Study will find out.

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