Understanding the Report of Indirect Compensation

Frequently Asked Questions

On an annual basis, T. Rowe Price Retirement Plan Services, Inc. (RPS), distributes the Report of Indirect Compensation to assist clients in meeting their responsibilities under the Form 5500 reporting rules.

The following questions and answers have been prepared to help you understand the report as well as the Schedule C to the Form 5500 disclosure requirements. These frequently asked questions (FAQs) are general in nature and are not intended to constitute legal advice on any specific matter.

Q.1 What is the purpose of the Report of Indirect Compensation?
A.1 The Schedule C to the Form 5500 disclosure rules require that each retirement plan required to file a Schedule C to the Form 5500 review, and potentially report, any “indirect” compensation received by its service providers in connection with their services to the plan.

The Report of Indirect Compensation identifies indirect compensation received by RPS in connection with your plan.

Q.2 How do the Schedule C requirements differ from what was previously required?
A.2 ERISA plans that are required to file a Schedule C are required to report any “indirect” compensation received by service providers in connection with services to the ERISA plan (subject to a reporting threshold and other exceptions).1 For plan years prior to 2009, the Schedule C was generally limited to reporting “direct” compensation paid to service providers. The Department of Labor’s (DOL’s) explicit goal in revamping Schedule C was to expand and clarify the reporting of “indirect” compensation.

Q.3 What is “indirect” compensation?
A.3 “Indirect” compensation is compensation received by a service provider from sources other than directly from the plan or plan sponsor that is received in connection with services rendered to the plan or the person’s position with the plan. It includes the value of nonmonetary payments (such as meals, entertainment, free travel, or other gratuities) made to the ERISA plan’s service providers (including payments made to the employees of such service providers). However, indirect compensation does not include compensation that would have been received had the service not been provided to the plan and that cannot be reasonably allocated to such a service.

Q.4 Will T. Rowe Price also provide the plan with information on the “direct” compensation it received?
A.4 Yes. T. Rowe Price will continue to provide direct compensation amounts via the annual Investment Valuation Statement and in the standard audit package (distributed by request).

Q.5 How are the recipients of direct or indirect compensation like T. Rowe Price identified on the Schedule C?
A.5 Each such service provider recipient of direct or indirect compensation, including T. Rowe Price, should be identified separately by name and EIN on Line 2 (a), Part 1, of the Schedule C. For T. Rowe Price, use the following:

T. Rowe Price Retirement Plan Services, Inc.
EIN: 52-1714114

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1 Compensation is reportable when a person (for this purpose, a “person” includes individuals, trades, and businesses, whether or not incorporated) is paid or receives $5,000 or more total in direct or indirect compensation, during the plan year, in connection with services rendered to the plan or the person’s position with the plan.
Q.6  What compensation paid to T. Rowe Price and other service providers is actually reportable on the Schedule C?

A.6  Compensation required to be reported on the Schedule C includes “direct” compensation and any “indirect” compensation that does not fall within the definition of “eligible indirect compensation.”

Reportable “direct” compensation is compensation paid directly by the plan during the plan year. It is reported on Line 2 (d), Part 1, of the Schedule C.

Reportable “indirect” compensation is compensation received by a service provider from sources other than directly from the plan or plan sponsor and that is based in whole or in part on services rendered to the plan or transactions with the plan. It is reported on Lines 2 (e), (g), and (h), Part 1, and Lines 3 (a), (b), (c), (d), and (e), Part 1, of the Schedule C. “Indirect” compensation that qualifies as “eligible indirect compensation” does not get reported on the Schedule C.

Q.7  What “indirect” compensation qualifies as “eligible indirect compensation”?

A.7  The instructions to Schedule C identify the categories of indirect compensation that can be treated as “eligible indirect compensation,” and, therefore, are not reportable on the Schedule C, to include fees or expense reimbursement payments that are charged to investment funds and reflected in the value or return on the investment (i.e., included in calculating the expense ratio or unit value of the fund), finders’ fees, “soft dollar” revenue, “float” revenue, and/or brokerage commissions or other transaction-based fees. Such amounts are not reported on the Schedule C but need to be reviewed by the plan administrator.

Q.8  Are the administrative fees paid to T. Rowe Price (see Section II of Report of Indirect Compensation, “Indirect Administrative Payment Summary”) properly treated as “eligible indirect compensation”?

A.8  Clients should check with their counsel, plan auditors, and/or Form 5500 preparers for a final determination as to the status of any fee as “eligible indirect compensation,” but the 2009 DOL FAQs (Q.3) and the 2009 Supplemental FAQs (Q.7) would appear to allow such fee payments to be treated as “eligible indirect compensation.” In this respect, all 12b-1, transfer agent and shareholder servicing fees received by RPS from T. Rowe Price affiliate-sponsored mutual funds are disclosed in the prospectus for the fund and are charged against the funds’ assets and are, therefore, reflected in the value of the investing plan’s shares. Any administrative fees paid to T. Rowe Price from T. Rowe Price affiliate-sponsored collective trust funds are similarly charged against the assets of the collective trust fund and are, therefore, reflected in the plan’s unit value. Administrative fees that T. Rowe Price receives from non-T. Rowe Price investments are also typically reflected in the expense ratio or unit value of the fund; however, as some exceptions may occur, you should verify through fund disclosure documents or other supplemental materials provided by the fund as to the inclusion of administrative fees in a fund’s expense ratio or unit value.

Q.9  If “eligible indirect compensation” received by T. Rowe Price and my other service providers is not reportable on the Schedule C, do the plan fiduciaries still need to review it?

A.9  Yes. The DOL specifies that plan administrators should review the entire plan fee and service arrangements for each service provider to the plan and determine that they are reasonable. Line 2 (f), Part 1, of the Schedule C requires that the plan administrator indicate “yes” or “no” as to whether the plan’s service provider received eligible indirect compensation for which the plan received the required disclosure.

Q.10  What requirements to report indirect compensation on Schedule C apply to participant-selected investments through brokerage or TradeLink® accounts?

A.10  According to the DOL FAQs (Q.5), Schedule C reporting for “open brokerage windows” like TradeLink can be limited to direct and indirect compensation received by the designated broker(s) and other brokerage window providers; transaction fees in connection with the purchases, sales, or exchanges made through the brokerage window; and any other plan-related fees. Section IV of the Report of Indirect Compensation, “Other Expenses – TradeLink,” identifies the fees paid in connection with the TradeLink service.
Q.11 The Report of Indirect Compensation uses formulas in certain instances to identify indirect compensation. Is this permissible for purposes of reporting on Line 2?

A.11 Yes. The preamble to the final amendments to regulations relating to the annual reporting requirements states that “[f]ilers generally have the option of reporting a formula used to calculate indirect compensation received instead of an actual amount or estimate…” 72 Fed. Reg. 64710, 64712 (Nov. 16, 2007).

Q.12 If a formula is provided as the disclosure from my service provider, is the plan administrator required to calculate or estimate dollar amounts from the formula?

A.12 No. Element (g) on Line 2 of Part I of Schedule C requires the plan administrator to enter the “total of all indirect compensation that is not eligible indirect compensation” and element (c) on Line 3 of Part I of Schedule C states that the plan administrator should “Enter amount of indirect compensation.” Where a plan administrator receives a formula from a service provider for amounts reportable on Line 2, the plan administrator may enter “0” if that is the only indirect compensation reportable in element (g) on Line 2. The plan administrator must check “yes” in element (h) of Line 2 and attach a statement describing the formula(s) that is labeled “Schedule C, Line 2(h) formula description.” Where a plan administrator receives a formula from a service provider for amounts reportable on Line 3, the plan administrator may enter “0” if that is the only indirect compensation reportable in element (c) on Line 3. The plan administrator must include in element (e) on Line 3 a description of the formula(s).

Q.13 The Report of Indirect Compensation uses estimates of compensation in certain instances, for example, in presenting commissions and fees associated with TradeLink and aggregate commissions associated with company stock and/or individual securities. What guidelines apply where such an “estimate” of compensation is provided?

A.13 The DOL FAQs (Q.27) states that “[s]ervice providers that provide an estimate of their indirect compensation may use any reasonable method for developing an estimate, as long as the method is disclosed with the estimate. Where more than one reasonable method is available for generating an estimate, it would be appropriate for the plan and the service provider to consider the relative costs involved in selecting a method.”

Q.14 For purposes of Line 2(b), Part 1 of the Schedule C, what “service” and “fee” codes are applicable to services provided by T. Rowe Price?

A.14 The “service codes” applicable to a full-service relationship with T. Rowe Price will vary based on the services and features offered through your plan. The Supplemental FAQs (Q.15) states that “[a] reasonable good faith effort to properly classify services and fees is required.” We believe that the chart on the next page presents a reasonable approach to selecting such service codes.
### Schedule C Service Codes

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<tr>
<th>For all plans, generally include:</th>
<th>If T. Rowe Price serves as directed trustee, include:</th>
<th>If T. Rowe Price serves as custodian, include:</th>
<th>If plan has TradeLink, also include:</th>
<th>If plan includes T. Rowe Price affiliate managed mutual funds, collective trust funds, and/or separate accounts, include:</th>
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<tr>
<td>15 Recordkeeping and information management (computing, tabulating, data processing, etc.)</td>
<td>21 Trustee (bank, trust company, or similar financial institution)</td>
<td>18 Custodial (other than securities)</td>
<td>33 Securities brokerage</td>
<td>28 Investment management</td>
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<td>37 Participant loan processing</td>
<td>25 Trustee (directed)</td>
<td>19 Custodial (securities)</td>
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<td>38 Participant communication</td>
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The fee codes identified in the instructions to the Schedule C are fairly self-explanatory. One or more of the fee codes set forth below are most likely to be relevant to a plan’s relationship with T. Rowe Price, but clients should check with their counsel and/or Form 5500 preparers for a final determination.

50 Direct payments from the plan
51 Investment management fees paid directly by plan
52 Investment management fees paid indirectly by plan (e.g., mutual fund investment adviser management fees)
55 Other commissions
56 Nonmonetary compensation
59 Shareholder servicing fees
60 Sub-transfer agency fees
62 Float revenue
63 Distribution (12b-1) fees
64 Recordkeeping fees
65 Account maintenance fees
71 Securities brokerage commissions and fees
72 Other investment fees and expenses
99 Other fees

**Q.15** How will plan officials obtain information about direct and indirect compensation received by service providers to my plan other than T. Rowe Price?

**A.15** ERISA plans and their plan administrators will generally look to their service providers to obtain all such direct and indirect compensation received. Schedule C requires the plan administrator to report to the DOL any service providers who refuse to provide necessary information following a request.

Clients who use service providers, such as consultants, outside advisers, accountants, and auditors outside of T. Rowe Price, will need to contact such providers directly to obtain the necessary information.

**Q.16** What do plan administrators do if their service providers refuse to provide the information needed to complete the Schedule C?

**A.16** Schedule C (Line 4, Part 2) requires the plan administrator to report service providers who refuse to provide the necessary information following a request. And, the DOL has provided relief to plan administrators who make a good faith effort to collect information but are not able to obtain the necessary information.

**Q.17** Where can plan administrators get additional information about the Form 5500, Schedule C requirements?

**A.17** The Employee Benefits Security Administration of the DOL has helpful information available on its website at [http://www.efast.dol.gov/](http://www.efast.dol.gov/).
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