

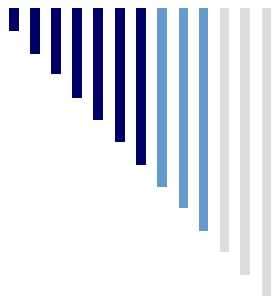
# ***Finding Money in Retirement Plans for Employees and Plan Sponsors***

Presented By Investech Retirement Plan Services



**INVESTECH**  
Retirement Plan Services

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## Most Important Takeaway

**To save your employees and your organization money, you have to ask the right questions.**



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## Why are Fees Important?

- A recent survey in PLAN SPONSOR Magazine indicated that most plan sponsors are satisfied with their retirement plan fees.
  - **The Problem:** The vast majority of plan sponsors do not understand their retirement plan fees, may not be able to accurately calculate the costs of their retirement plans, and are limited in their ability to develop strategies to reduce these costs.
- Fees and expenses are becoming the number one issue of concern on the part of plan sponsors and fiduciaries.



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## Why are Fees Important?

- The fees and expenses of a plan (including its investments) can significantly reduce participants' benefits.
- Plan fiduciaries have a legal responsibility to understand and evaluate retirement plan fees.
- Plan fiduciaries are being sued for allegedly failing to understand, evaluate and monitor retirement plan fees.

**Defendants in these cases include plan sponsors, service providers, Boards of Directors, Plan Committees, individual executives who serve on Committees, and individuals that have responsibility for plan administration.**



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## Why are Fees Important?

- Recent lawsuits allege that the defendants' breached fiduciary duty under ERISA by:
  - Subjecting plan participants to excessive fees; and
  - Failing to inform plan participants of the fees.
- Lawsuits further allege that plan sponsors have failed to:
  - Identify direct and indirect fees paid to service providers;
  - Evaluate fees against services received; and
  - Monitor the fees on a recurring basis.



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## Why are Fees Important?

- Congress is currently investigating defined contribution plan fees.
- The Department of Labor has recently issued guidance regarding participant fee disclosure
- Law firms representing plaintiffs are soliciting retirement plan participants via postings on their websites.
  - Example: [www.erisafraud.com](http://www.erisafraud.com)
- Fiduciary obligations and lawsuits aside, managing retirement fees and expenses to ensure that the best interests of participants are being met is the right thing to do.



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## Finding Money – Easier Said Than Done

- Retirement plan fee arrangements have become so complex that plan sponsors are often unable to fulfill their fiduciary duty to understand all expenses associated with their retirement plans.
- A fiduciary who does not understand defined contribution plan fees and actual compensation received by plan service providers is open to allegations of a breach of fiduciary duty.
- Understanding total plan expenses is not sufficient; a fiduciary must understand fees paid to all plan service providers, evaluate the services provided and, in a perfect world, develop the most cost effective fee and service arrangement.



# Finding Money-Easier Said Than Done

Fund Management Fees  
Fund Operating Fees  
12b-1 Fees  
Sub-Transfer Agent Fees  
Dealer Concession Payments  
Trading Costs  
Market Value Adjustment  
Payment Processing Fees  
Loan Implementation Fees  
Loan Administration Fees  
Compliance Testing Fees  
Form 5500 Filing Fees  
Postage Fees  
Printing Charges  
Separate Account Fees  
Surrender Fees

Investment Advisory Fees  
Audit Fees  
Wire Transfer Fees  
Interest Rate Spreads  
Float-Disbursements  
Float-Contributions  
Recordkeeping Fees  
Prototype Document Fees  
Document Filing Fees  
Return of Excess Contribution Fees  
Additional Payroll Processing Fees  
Manual Processing Fees  
Financial Planning (Advisory Fees)  
Managed Account Fees  
Self-Directed Brokerage Fees  
Trust Custody Fees

Mortality/Expense Risk Fees  
QDRO Qualification Fees  
QDRO (Account Split) Fees  
General Consulting Fees  
Premium Taxes (Annuities)  
Wrap Fees  
Legal Fees  
Financial Planning Fees



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## Finding Money– Easier Said Than Done

- Direct Expenses - Payments that are made directly from plan assets with the knowledge of fiduciaries. These payments are reported on Form 5500, Schedule C.
- Indirect Expenses - Payments that are incorporated into the expense ratio of mutual funds and stable value or managed income funds. Portions of these amounts or “revenue sharing payments” are used to compensate various service providers.

While disclosure of revenue sharing amounts is improving, plan sponsors still face the challenge of determining the recipient of these amounts, how much is being distributed, and whether the distributed amounts are reasonable and appropriate.



## Finding Money– Easier Said Than Done

Revenue sharing payments exist within the defined contribution plan industry because of the need to:

1. Reward financial intermediaries (brokers, agents-of-record) for placing assets with certain fund companies.
2. Compensate retirement plan service providers with asset-based fees that allow the service provider to avoid having to charge plan participants or plan sponsors with “hard dollar” or explicit fees.
3. Create an environment that results in increased levels of compensation that result from the growth in plan assets.

Plan sponsors end up with a “no cost package of services” and plan participants often end up paying higher costs for fund management services which negatively impacts investment fund performance.



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## Finding Money – Easier Said Than Done

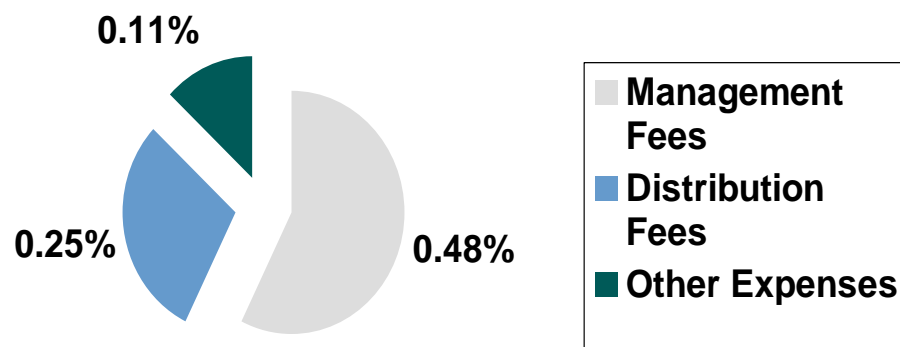
### Types of Indirect Payments

- Dealer Concessions or Finders Fees;
- 12b-1 Fees;
- Sub-Transfer Agent Fees, Asset-Based;
- Sub-Transfer Agent Fees, Account Based;
- Gifts and Awards; and
- Asset Placement Incentives.

Plan fiduciaries should always be cautious of potential conflicts with respect to investment fund and/or vendor selection.

## Finding Money-Easier Said Than Done

### Davis NY Venture A



Total fund expense ratio of 0.84%. Commissions of 0.25% paid to broker-of-record and sub-transfer agent fees of 0.10% paid to service provider. This fund may also provide an NAV commission.



# Finding Money-Easier Said Than Done

## Revenue Sharing Description-From Product Prospectus

Broker-dealers and other financial intermediaries (“Qualifying dealers”) may charge Davis Distributors, LLC (the “Distributor”) substantial fees for selling Davis Funds’ shares and providing continuing support to shareholders. Qualifying dealers may charge (i) sales commissions from sales charges paid by purchasing shareholders; (ii) distribution and service fees from the Funds’ 12b-1 distribution plans; (iii) record-keeping fees from the Funds for providing record-keeping services to investors who hold Davis Funds shares through dealer-controlled omnibus accounts; and (iv) other fees, described below, paid by the Distributor from its own resources.

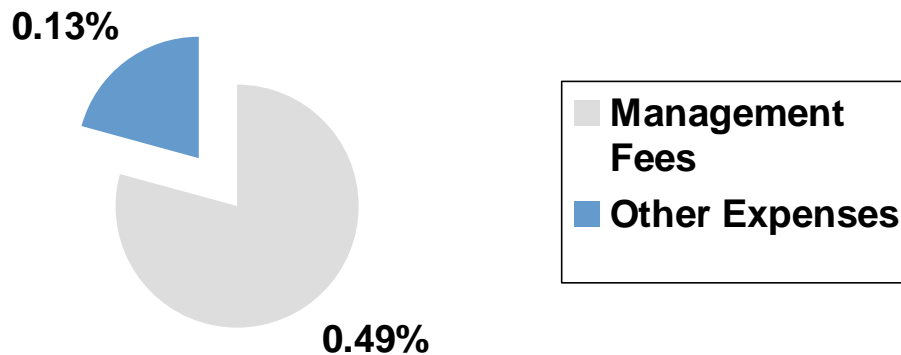
Qualifying dealers may, as a condition to distributing shares of the Davis Funds, request that the Distributor pay or reimburse the Qualifying dealer for (i) marketing support payments including business planning assistance, educating personnel about the Davis Funds, and shareholder financial planning needs, placement on the dealer’s list of offered funds, and access to sales meetings, sales representatives and management representatives of the dealer; and (ii) financial assistance charged to allow the Distributor to participate in and/or present at conferences or seminars, sales or training programs for invited registered representatives and other employees, client and investor events and other dealer-sponsored events. These additional fees are sometimes referred to as “revenue sharing” payments.

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## Finding Money-Easier Said Than Done

### Davis NY Venture Y



Total fund expense ratio of 0.62%. No payments to financial intermediary or NAV commissions. Minimum purchase requirement of \$5,000,000.



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## Finding Money – Easier Said Than Done

- Step One-Determine investment management fees, starting with the expense ratios of mutual funds and the cost (stated or implicit) of stable value or managed income funds.
- Step Two-Calculate the amount of administrative fees paid by participants and the plan sponsor, including any fees for transactions (loans, withdrawals, for example);
- Step Three-Determine how these fees are allocated to the providers (administration, investment management, agent or broker of record, and investment advisor).
- Step Four-once fee amounts are properly characterized, benchmark allocated fees against peer group providers and industry best practices.



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# Case Study-Lakeland Regional Medical Center

## Background

- Plan cost percentage of 0.70%;
- Nine investment funds with 12b-1 fee components;
- Expense ratios for index fund alternatives, with the exception of one fund, substantially exceeded competitive practices;
- 72% of administrative fees accruing to provider were funded from revenue sharing payments;
- Provider recovery for administrative services exceeded industry benchmarks.



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## Case Study-Lakeland Regional Medical Center

### Step One

- Index fund alternatives transitioned to Vanguard Institutional Class shares;
- Asset allocation portfolios converted to Vanguard LifeStrategy Funds;
- One actively managed fund converted to lower cost institutional class share;
- 420 terminated participant accounts (vested balances of less than \$1,000) were removed from the participant database.

### Results

**Total Annual Cost Reduction: \$350,000**

**Additional Forfeiture Recovery: \$150,000**



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## Case Study-Lakeland Regional Medical Center

### Step Two

- Request for Proposal distributed in late 2007;
- Service provider transition completed in Spring, 2008;

### Results

1. Stable Value Fund yield increased by 1.60%;
2. Plan cost percentage reduced to 0.53%;
3. 12b-1 fees were eliminated;
4. Provider revenue derived from administrative fees charged directly to participant accounts, and not from revenue sharing payments.



# Cost Management Strategies

## **Plan Sponsor Objectives-Primary**

1. Achieve lowest possible expense ratios on actively managed funds by reducing or eliminating asset-based revenue sharing components.
2. Reduce expense ratios on index and money market fund alternatives.
3. Determine appropriate and reasonable compensation for the various firms providing retirement plan administration, employee communications, investment advisory, and investment education services.
4. Reduce or eliminate, to the extent possible, additional administrative and compliance fees.
5. Review the participant database.

Primary objectives are to reduce costs to targeted industry benchmarks.



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## Cost Management Strategies

### **Plan Sponsor Objectives-Secondary**

1. Reduce investment fund duplication within asset categories, if applicable.
2. Provide investment fund alternatives across entire risk/reward spectrum, if applicable.
3. Establish investment fund lineup, supported by fund performance, that reduces total annual costs paid by plan participants to targeted annual benchmark.
4. Develop modified fee and service arrangements that enables each provider to achieve appropriate compensation for participant and plan sponsor services.



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## Case Study-Health First, Inc.

### Background

- Retirement Savings Plan assets of approximately \$300 million;
- 5,600 participants with Plan balances.

### Step One

- Analysis completed in 2004 resulted in the identification of 615 terminated participants subject to automatic distribution and forfeiture;
- Potential annual cost savings of more than \$300,000 identified under an alternative investment/service provider arrangement.

### Results

1. Additional forfeiture recoveries of approximately \$600,000 identified and used to reduce future employer contributions to the Plan.



## Case Study-Health First, Inc.

### Step Two

- Service provider transition completed in 2005;
- Second cost analysis project completed in 2007.

### Results

1. Additional forfeiture recoveries of approximately \$250,000 identified (automatic distribution and five-year breaks-in-service).
2. Asset growth facilitated the transition to lower cost share classes (American Funds R5 shares, Davis NY Venture Y, Vanguard Institutional Index) and the subsequent removal of all 12b-1 revenue sharing payments.
3. Total annual costs reduced by approximately \$300,000 as a result of the share class transitions.



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# Cost Management Strategies

## Plan Sponsor Considerations

1. Understanding the amounts required by each service provider to perform services to participants and the plan sponsor begins a dialogue that often results in the development of a more efficient and equitable fee and service arrangement.
2. The elimination of revenue sharing components improves investment fund performance in a manner that is likely to be consistent with the provisions of the Investment Policy Statement.
3. Plan cost benchmarking and focused attention on revenue distribution reduces litigation exposure of plan fiduciaries.
4. The process should be collaborative, not confrontational.



# Cost Management Strategies

## **Reducing the Number of Vendors**

1. Organizations that have multiple 403(b) Plan providers may benefit from an administrative and cost standpoint by reducing the number of service providers.
2. Combining service arrangements may also result in the elimination of multiple investment fund alternatives within the same asset category.
3. Reduction in the number of investment fund alternatives and the elimination, in many instances, of mortality and expense risk fees and separate account fees enhances investment returns.
4. Reducing the number of service providers will facilitate compliance with new 403(b) regulations which are effective January 1, 2009.



# Case Study-Martin Memorial Health Systems

## Background

- 13 separate 403(b) service providers, including custodial accounts (mutual fund platform) and individual 403(b) annuity contracts (assets of approximately \$30 million);
- Three separate 401(k) plan service providers (assets of approximately \$5 million);
- Defined benefit plan changes resulted in suspension of benefit accruals for a substantial number of employees;
- Defined contribution plans (403(b) and 401(k)) became primary source for retirement income accumulations for new employees and those with less than ten years of service.
- Employer automatic enrollment and matching contribution features implemented for the defined contribution plans.



# Case Study-Martin Memorial Health Systems

## Step One

- Single provider selected to service the new defined contribution plan;
- Contributions to legacy or prior 403(b) and 401(k) service arrangements were suspended;
- Comprehensive cost and participant database analysis completed for each separate service arrangement;
- Costs of separate 403(b) arrangements ranged from approximately 0.75% to 2.4% depending on the nature of the product and asset distribution;
- Cost analysis included the determination of surrender fees and additional costs, if applicable for transitioning assets with legacy firms to new provider.



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## Case Study-Martin Memorial Health Systems

### Step Two

- Participant balances that were not subject to surrender fees were transitioned to new provider;
- Employee education initiatives were initiated for the purpose of facilitating additional plan transfers, specifically the transfer of the 403(b) annuity contracts that had to be initiated by plan participants;
- Asset transfers to new provider are continuing, and a number of prior service providers have been discontinued.
- Participation in the new defined contribution plan has increased each year, and growth in asset balances has enabled the provider to enhance participant and plan sponsor services.



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## Case Study-Martin Memorial Health Systems

### Results

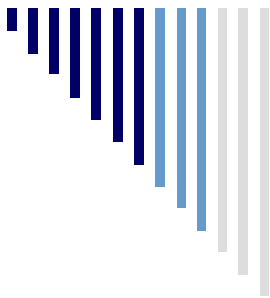
- Single plan provider with expanded level of employee communications and investment education services;
- Multiple fund alternatives, although generally limited to a single fund within each asset category;
- Elimination of multiple provider arrangements has substantially reduced Human Resource administrative responsibilities;
- Transition of balances from individual annuity contracts and the elimination of multiple provider arrangements has, over the course of a three-year period, reduced participant costs by more than \$500,000.



## Why Finding Money is Important

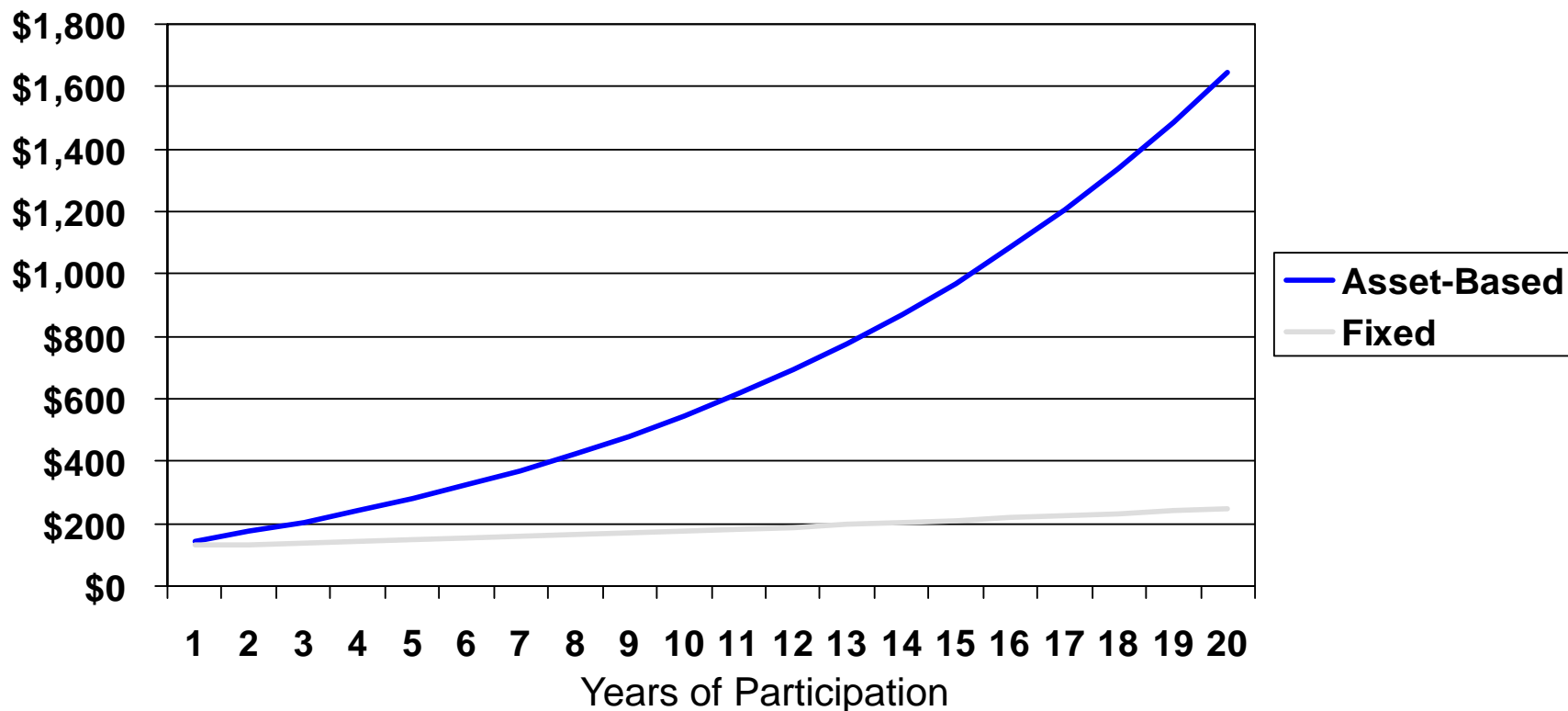
Example: A participant with a \$40,000 account balance has annual contributions of \$5,000, which increase at the rate of 5% each year. The participant will, over a 20-year period, achieve average annual returns of 8%

- Under a fee arrangement that includes an annual revenue sharing recovery of 0.30% of assets, the participant will pay a total amount of approximately \$13,850 for administrative and employee communications services.
- A fee arrangement that includes an annual administrative recovery of \$130, with this amount increasing at the rate of 3.5% each year, will result in the participant paying approximately \$3,675 for administrative and employee communications services.



# Why Finding Money is Important

Annual Administrative Fee



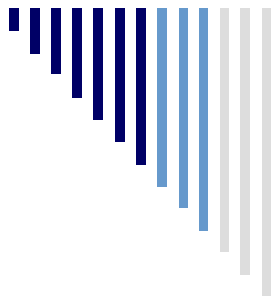


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## Our Closing Statement

### Five Simple Questions

1. Who is receiving compensation for services provided to plan participants and/or the plan sponsor?
2. How much are they receiving?
3. Is the amount received reasonable, appropriate, and consistent with industry best practices?
4. Is there a more efficient delivery method to provide reasonable and appropriate compensation to our service providers?
5. Can a more efficient delivery mechanism reduce costs paid by either our employees and/or by our organization?



Conclusion

Questions