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News in Brief

Execs Profit by Querying 401(k) Costs, Plans Can Save Millions

Extra fees at 401(k) service providers can reach into the millions. Just ask chemical maker Akzo Nobel.

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A growing number of 401(k) plan executives are demanding to know how much in excess revenue is generated by their plans and how they can get their hands on that money to cut costs and enhance services to participants.

Among those that have gone through the process: Akzo Nobel in Chicago, with $1.6 billion in plan assets; Stamford, Connecticut-based International Paper ($4 billion); and Internet Security Systems of Atlanta ($40 million).

Plans can save millions through portfolio redesign and revenue-recapture programs that result from fee studies and analyses, said Matthew Gnabasik, managing director of Blue Prairie Group in Chicago.

Excess revenue occurs if revenue-sharing payments received by a 401(k) plan provider exceed the provider's cost of providing record keeping and other services to the plan. The excess revenue is a plan asset that should be captured and used for the benefit of the plan and its participants, consultants say.

Gnabasik stressed the importance of a fee study and the company's determination to get satisfaction from a provider. "As a plan sponsor, you need to account for every dollar in your retirement plan, especially in this heightened fee-lawsuit environment."

Since 2006, several class-action lawsuits have alleged that plan sponsors failed to meet their fiduciary responsibilities by ignoring payments that investment managers paid to record keepers and other service providers. The suits also charge that plan executives failed to disclose these fees to participants, as required by ERISA.

As a result, said Gnabasik, "providers and sponsors have to be more open about disclosing fees and plan costs."

With help from Blue Prairie, Akzo Nobel negotiated for lower-cost investment options and extra services from its bundled provider, Fidelity Investments. But it was a lengthy process.

Jaime Erickson, manager of defined-contribution plans for Akzo Nobel, said the study found $558,000 in excess revenue.

"Doing a fee study is critical. It doesn't guarantee huge savings, but if excess revenue is identified, it could mean significant savings," Gnabasik said. "In Akzo Nobel's case, there was significant savings, for sure."

Much of the savings came from eliminating three funds from Franklin Templeton Investments and moving to less costly ones from the Vanguard Group and Barclays Global Investors.

"The final result was we would be saving $31,000 by moving to a Vanguard index fund, $67,000 by switching to a Vanguard money market [fund], $340,000 by moving to Barclays' target-date funds, and Fidelity would waive all our quarterly fees, which [total] $120,000," Erickson said.

Akzo Nobel executives also negotiated for more education for participants.

“Fidelity increased the number of education meetings from six to 12, and they waived the implementation fees for Financial Engines’ managed accounts,” she said. Akzo Nobel will begin offering managed accounts and investment advice from Financial Engines of Palo Alto, California, in July.

Another plan Blue Prairie Group consulted with, which Gnabasik declined to name, hired the firm to help it find a new service provider and lower its costs. Blue Prairie helped the company negotiate a contract in which any excess revenue reaped would be returned to the plan. The redesign shrank the investment-management cost of the plan to 60 basis points, from 71.

Carol Sung, manager of 401(k) product development at International Paper, said plan officials recently completed a fee study, but declined to provide details of how much in excess revenue they found. JPMorgan Retirement Plan Services is the plan’s record keeper.

According to a consultant who worked on Internet Security Systems’ $40 million 401(k), the plan cut costs significantly by switching to lower-cost investment options and closing out a number of orphaned accounts for which it was unknowingly paying administrative fees.

“This plan is relatively small, but they were able to save about $80,000,” said the consultant, who asked not to be named.

Daniel Eidson, treasury director for ISS, declined to comment.

Some fund executives, however, face an uphill battle with their service providers.

“What we did was negotiate for more services. We had to go back to our provider on more than one occasion to find out how much there was. We found that there was hundreds of thousands of dollars generated from three outside funds,” Erickson said.

A spokesman for Fidelity declined to comment.

According to Callan Associates, fee analysis and fee disclosure are priorities for plan sponsors in 2008.

Of the 90 plan executives surveyed, 48 percent anticipate or will consider engaging in a fee analysis of their defined-contribution plan, compared with 23 percent who have no interest. Thirty-two percent intend to voluntarily enhance fee disclosure.

Filed by Jenna Gottlieb of ***Pensions & Investments***, a sister publication of ***Workforce Management***. To comment, e-mail editors@workforce.com.
