

Case Study No. 1

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Overhauling a 401(k) Portfolio Drives Down the Total Cost of the Plan for the Benefit of Participants

Blue Prairie Group completed a project for an Ohio-based subsidiary of a foreign-owned global manufacturing company and helped them to select a new 401(k) service provider, revamp their 401(k) investment lineup and significantly drive down the total cost of their plan.

Project Approach:

After using Blue Prairie Group to conduct an employee survey and benchmarking their current plan against national data, the client then asked Blue Prairie Group to assist them in a due diligent search to select a new service provider. Once the bundled, open investment architecture provider was selected, Blue Prairie Group also assisted the client in sifting through all available fund options available on the new recordkeeper's platform (approximately 3,000) and create a new investment portfolio.

Solution:

Blue Prairie Group's Institutional Retirement and Investment Consultants walked the client through a formal, due diligent investment selection process and documented each step of the way. Blue Prairie Group came up with 2 – 3 options for each asset and sub asset class and worked with the Committee in designing a portfolio that increased diversification, reduced the total number of funds offered and significantly decreased the cost of the portfolio.

Results:

After changing providers, the following results were achieved:

1. Introduce several new asset classes to allow for greater participant diversification: a true small cap fund, several international funds including foreign large value, foreign small/mid growth and diversified emerging markets, an intermediate-term corporate bond fund and four separate "retirement age" funds.
 2. Add four separate international funds including foreign large blend (index), foreign large value, foreign small/mid growth and diversified emerging market. The recommendation is based on several insights. First, many foreign large cap blend funds are more closely correlated to the U.S. large cap fund universe than many people think. As a result, the Committee added two sub asset classes not represented in the current lineup to enable participants to better asset allocate. Second, the Committee realizes that 50 percent of the world's total market capitalization lies outside of the United States. Finally, one of the new options is passively managed thus allowing participants to create a low cost, highly-efficient portfolio.
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3. Add four index funds – S&P 500, Total Market Index, International and Intermediate Term Bond – to the portfolio thus creating low cost, highly efficient investment alternatives for participants and driving down the overall cost of the portfolio.
 4. Reduce the cost of the portfolio thereby directly benefiting the participants. The average cost of the aggregate portfolio declined from 88 to 72 basis points – a decline of 18 percent. For a \$35mm portfolio, this represents aggregate savings of \$56,000 per year ($\$35\text{mm} \times .0016$) or \$93.33 per participant per year ($\$56,000/600$.)
 5. The asset-weighted cost of the aggregate portfolio declined from 92 to 62 basis points – a decline of 33 percent. For a \$35mm portfolio, this represents aggregate savings of \$105,000 per year ($\$35\text{mm} \times .03$) or \$175 per participant per year ($\$105,000/600$)
 6. By selecting the new service provider, the Committee created a portfolio where “excess” revenue (i.e., revenue received by the recordkeeper in excess of the cost to provide fully bundled services) is returned back to the plan. As the plan grows over time, any revenue greater than 35 basis points on total plan assets will be returned to participants in the form of lower cost funds, lower cost share classes and in the form of an expense credit to pay for “ERISA-eligible” plan expenses.
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