

Case Study No. 3

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Embracing open investment architecture, fee transparency and revenue sharing for the benefit of plan participants.

Blue Prairie Group helped an Indiana client reduce the total cost of their plan, revamp their investment portfolio including custom lifestyle funds and capture “excess revenue” back to the plan.

Challenge:

Many employers who use bundled recordkeeping arrangements with leading mutual fund companies are usually required to keep a certain percentage of their plan’s assets in the fund company’s proprietary funds. This holds even if the fund performance isn’t that great or if the plan is highly profitable. A situation like this often costs participants in the long run because of mediocre investment performance as well as the fact that “excess revenue” generated by the plan (i.e., revenue that exceeds the cost to recordkeep and administer the plan including margin), is kept by the service provider.

Goal:

Our goals are simple: to make ERISA plans demonstrably better. In the case of 401(k) plans, this means increasing participation and savings rates and making sure participants are properly allocated. It also means lowering the total cost of the plan, improving investment performance and keeping excess revenue generated by the plan *within the plan*. Finally, it means making sure that the plan is in overall compliance with various regulatory agencies and that sponsors are meeting their fiduciary obligations.

Audience:

Blue Prairie Group Institutional Retirement and Investment Consultants work with a company’s retirement committee including representatives from finance, legal and human resources. This process clearly benefits the participants and demonstrates unequivocally that the client is discharging its fiduciary duty.

Strategy:

By understanding industry economics and taking advantage of the trend towards full fee transparency, we are able to help our clients redesign their portfolios and renegotiate their service agreements so that they are not beholden to one fund family. The client can then also participate in an equitable system where excess revenue generated by the plan is kept within the plan for the benefit of plan participants. We believe that the question, “Whose money is it anyway?” needs to be asked more often by plan sponsors.

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Approach:

We first benchmark a plan to better understand its overall competitive situation (e.g., participation, deferral percentage, asset allocation, plan design, total plan costs, etc.) and then use this information to negotiate more even-handed contracts for our clients. Sometimes this involves changing service providers but usually it just means asking the current provider to renegotiate service and fee arrangements and to return “excess” revenue back to the plan.

Solution:

Blue Prairie Group Institutional Retirement and Investment Consultants walked the client through a formal, due diligent vendor search process in which the focus was to find a top-notch provider who embraced open investment architecture, full fee transparency and revenue sharing back to the plan. With our help, the client was able to offer funds from 10 different fund families, lower the total cost of the plan by 15 – 20 percent and negotiate favorable long-term pricing because of the attractive underlying economics of their plan. The plan committee is using the expense credit for employee education purposes to provide an additional benefit for the participants.

Results:

After changing providers, the following results were achieved:

- The asset-weighted cost of the portfolio dropped several basis points. More importantly, the investment performance of the funds improved significantly.
- The new portfolio consists of 14 separate funds from 10 different fund families. Blue Prairie Group also created custom lifestyle funds for the participants based on the core investments of the plan.
- The plan also received a \$50,000 “Expense Credit” to spend on ERISA eligible expenses. The credit will increase 10 basis points or \$10,000 for every \$10mm increase in plan assets and once the plan reaches \$100mm in total plan assets, the plan will be able to further lower its total cost structure by using institutionally-priced investment products in certain asset classes such as stable value.