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CASE STUDY:

Overhauling a defined contribution plan drives down the total cost for the benefit of participants

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Challenge:

A multi-national conglomerate with US headquarters in Chicago asked Blue Prairie Group to identify their DC Plan's market rate cost structure. The plan had assets of $750 million and 8,500 participants.

Results:

1. Blue Prairie Group (BPG) conducted a plan benchmarking study to identify the market rate cost structure.
2. BPG negotiated an annual fee savings of $480,000 for the exclusive benefit of plan participants.
3. Over a five-year period, the plan saved approximately $2.7 million dollars.
4. The client moved to lower priced core investment options.
5. The movement to lower-priced target date funds saved participants nearly $320,000 dollars.
6. The committee determined the reasonableness of plan expenses, negotiated lower costs and therefore discharged its fiduciary duty by acting in the best interests of participants.

Background:

Many employers use bundled recordkeeping arrangements with leading mutual fund companies and are usually required to keep a certain percentage of their plan's assets in the fund company's proprietary investments. This holds true even if the fund performance isn't that good 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 recordkeeper.

Historically, recordkeepers have been reluctant to fully disclose the revenue they collect. Today, although recordkeepers have become more open regarding the revenue they collect from other fund companies, their internal formulary for revenue sharing on proprietary funds differs by recordkeeper.

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