

Retirement Report

News and updates for Plan Sponsors and
Fiduciaries of Defined Contribution Plans

July 2011

Why Pay More? 401(k) Plan Pricing Considerations

Plan assets and average account balance are generally the two most significant demographic factors impacting total 401(k) plan costs, but plan services are also a primary driver of cost, especially when a plan sponsor takes the plan to market during an RFP Vendor Search. Based on RPAG's experience of having conducted hundreds of fee and service benchmarking reports, the following plan services consistently have the biggest impact on 401(k) fees:

- Non-standard (unusual) investments – Any fund or vehicle that creates additional friction on the service providers' recordkeeping system. Examples include the recordkeeping of outside GICs (guaranteed investment contracts) that are not manufactured by the existing service provider; Illiquid limited partnerships and; Employer stock (private or publicly-traded). Plan sponsors need to weigh the benefits and costs of offering these investments, including a determination of their appropriateness from a fiduciary standpoint.
- Multiple, complicated, or antiquated payroll transmittal frequency or systems – Data that is submitted through non-electronic methods, or by plans with multiple payroll systems, locations, and payroll frequency, typically generate additional recordkeeping fees.
- On-site employee meetings with multiple locations – Labor and travel to deliver ongoing periodic on-site group or individual enrollment and investment education meetings is expensive. Plan fiduciaries need to evaluate the results of on-site meetings versus other more potentially beneficial communications and plan design strategies.
- Investment management objectives – *Passively* managed funds that track an index generally have significantly lower management fees than *actively* managed funds whose objective is to outperform a certain benchmark, index, or asset class. The analysis of investments should include an "apples to apples" comparison of investment management styles, objectives, and asset classes.
- Investment Advice – Many providers offer on-line investment advice, usually delivered through a third party firm. Fees typically range from 0.50% - 1.25% of employee account balances. Often these fees are as much as all other total 401(k) cost components added together. This is another important topic for plan fiduciaries to discuss and document in the consideration of services and plan design.

Remember, plan fiduciaries are not obligated to pay the lowest fees, but rather to make sure that plan participants are paying reasonable fees for the services being delivered. Contact your Henderson Brothers Retirement Plan Services Consultant for more information on this topic.

S&P Launches TIPS Index

Adding an important piece to its growing family of fixed income indices, S&P Indices recently announced the launch of the S&P/BGCantor U.S. TIPS Index – the only index in the market to use pricing exclusively from BGC Market Data LP. The S&P/BGCantor U.S. Treasury Inflation Protected Security Index is a broad, comprehensive, market value-weighted index that seeks to measure the performance of the U.S. Treasury Inflation-Protected Securities (TIPS) market. "TIPS" is an acronym for Treasury Inflation Protected Securities, marketable Treasury securities whose principal is adjusted according to changes in the Consumer Price Index (CPI). TIPS are designed to provide protection against inflation, with the principal of the security increasing with inflation and decreasing with deflation, as measured by the CPI. According to the Securities Industry and Financial Markets Association (SIFMA), the market value for TIPS outstanding as of end of March 2011 is \$640.8 billion.

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PSCA Releases New Survey on Non-Qualified Plans

The Profit Sharing/401(k) Council of America (PSCA) and Boston Research Group have collaborated to complete a survey of Non-qualified plans to provide the same type of benchmarking data that is available for other types of defined contribution plans. The survey, which includes responses from 385 plan sponsors of varying sizes and industries, concludes that Non-qualified plans continue to be more common among large companies with fewer than 10 percent of small companies (fewer than 500 employees) offering a non-qualified plan versus 70 percent of companies with 25,000 or more employees. On average, 8 percent of all employees are eligible to participate in their company's non-qualified plan and nearly two-thirds of eligible employees participate. Other survey highlights include:

- The majority of plans are "account balance" plans similar to qualified defined contribution plans (83 percent), as opposed to "non-account balance" plans which are similar to a defined benefit plan.
- About 40 percent of plans match on employees' contribution in account balance plans and 45 percent provide a non-matching employer contribution.
- Only 28 percent of plan sponsors feel that their plan has met their overall objectives.

More information about the survey can be found at www.psc.org. For more information about Non-Qualified Deferred Compensation Plan Consulting services, please contact your Henderson Brothers Retirement Plan Services Consultant.

ERISA Fidelity Bond versus Fiduciary Liability Insurance

Plan sponsors often ask, "Is an ERISA fidelity bond the same thing as fiduciary liability insurance?" The answer is no, they are not the same. The two insure different people and have different requirements under the terms of ERISA.

An ERISA fidelity bond is required under ERISA Sec. 412. Its purpose is to protect the plan, and therefore the participants. It does this by ensuring that every fiduciary of an employee benefit plan, and every person who handles funds or other property of the plan, be bonded. This protects the plan from risk of loss due to fraud or dishonesty on the part of the bonded individuals. The amount of the fidelity bond is 10% of the plan assets (with a \$1,000 minimum) and is capped at \$500,000 (or \$1,000,000 for plans with company stock).

Fiduciary liability insurance protects the fiduciaries (not the plan or participants) from a breach of their fiduciary responsibilities with respect to the plan. Remember that fiduciaries may be held personally liable for losses incurred by a plan as a result of their fiduciary failures. Unlike a fidelity bond, fiduciary liability insurance is not required under ERISA. The Department of Labor may ask whether the plan fiduciaries have insurance in the event of an investigation. It's important that fiduciary liability insurance explicitly covers "ERISA" claims. And review of any policy, including E&O policies, should look for language that may void the coverage in the event a plan has ever been out of compliance (something virtually all plans experience at some point in their existence).