



B E N E F I T S B R I E F

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Multnomah Group Publishes 2004 Retirement Plan Design Survey

The Multnomah Group just completed its 2004 review of regional retirement plans for features and design. The survey provides reviews of eligibility, benefit, vesting, and retirement plan features both within the Pacific Northwest as well as how the Northwest compares with similarly positioned sponsors across the country. For information on how your plan compares to others in the region the Multnomah Group is conducting design studies for regional employers. [Click here for more information on our benchmarking studies.](#)

Columbia Funds/Bank of America to Terminate Retirement Plan Product

The Multnomah Group has learned that Bank of America has decided to no longer sell the Columbia Funds Pro-Plan and Master-Plan product and to focus instead on its national product set in the retirement plan marketplace. Our expectation is that these plans will be sold in the near future, although at this time it is not known who the acquiring entity will be and what impact this might have on service levels and pricing.

PSCA Advocates Disclosure of ALL Retirement Plan Fees on Form 5500 Filing

When ERISA was enacted, and its attendant regulatory structure was developed, fees, expenses, and commissions paid by the plan were explicit and easily identifiable. Further, under generally accepted accounting principles, these fees were reported in the expense section of a qualified retirement plan's Statement of Income and Expenses. In other words, the actual fees, expenses, and commissions paid by the plan equaled the fees, expenses, and commissions in the plan's audit report. They were also reported on the Form 5500, which was validated by the plan's audit report.

However, as the mutual fund industry began to manage defined contribution plan assets in the 1980's, the situation changed. Mutual fund fees, expenses, and in some cases, commissions are not explicitly stated. They are netted out of plan assets when the mutual fund net asset value (NAV) is determined on a daily basis. Further, under generally accepted accounting practices, the fees, expenses, and in some cases the commissions, paid for mutual fund services are combined with a fund's gains and losses and reflected only, and indirectly, in the income section in a plan's Statement of Income and Expenses. This change has dramatically decreased the level of transparency initially envisioned by the Department of Labor. Accordingly many, including the Profit Sharing/401(k) Council of America (PSCA), gave testimony before the Department of Labor encouraging them to require full and public disclosure of all fees paid by the retirement plan trust, including mutual fund fees, commissions, and other soft-dollar compensation. [Click here to read the PSCA testimony.](#)

Department of Labor Records Record Year for Enforcement Action

The Employee Benefits Security Administration (EBSA) recently announced the results of their audit and investigation work with regard to ERISA covered plans in 2004. The \$3.1 billion was either restored or protected for the benefit of participants and beneficiaries for the year. This amount was more than double the \$1.4 billion in 2003. Most notable was the 3000% increase in Voluntary Fiduciary Correction Filings in 2004. [Click here to view the total audit numbers from 2000 through 2004 by the EBSA.](#)

What was That Advice?

In past publications we have discussed our concerns with the sole use of quantitative measures of performance and the “bundling” of investment oversight by retirement plan vendors. The biggest provider in the mutual fund analytic game is Morningstar. Their data and opinion are inescapable to most sponsors reviewing their retirement plan status. If any entity had the research tools to evaluate mutual fund managers and identify the superior managers in advance, it stands to reason that it would be Morningstar. However, three years after inception, performance for Morningstar models continues to trail a self-imposed benchmark consisting of three broad-based index funds. This outcome illustrates the challenge of identifying winning managers in advance even with unlimited quantitative data to support your conclusions. [Click here to see the comparative performance as stated by Morningstar.](#)

Lifestyle and Target Retirement Mutual Funds Tough to Judge

The defined contribution industry has seen an explosion in lifestyle and target retirement funds offered up in 401(k) plan menus. These investment vehicles provide a needed service in the industry allowing participants to make a single investment election that provides diversification of plan assets, appropriateness of allocation, and automatic rebalancing. Given the poor performance of investors in mutual fund only investment menus these investment options provide some promise of better returns.

However, the relative newness of these investments and the lack of a clear benchmark of comparison make the process of monitoring (for which the sponsor is still responsible) difficult. When looking at the available 2020 Target Retirement Funds in the marketplace (funds for investors expecting to retire in 2020) we saw differences in stock allocation among the managers ranging from a low of 21.3% to a high of 79%. The most aggressive 2020 fund was 40% more volatile than the least aggressive fund in the category. While clearly these funds all have the same goal they use very different methods to get there. Retirement plans utilizing lifestyle and target allocation funds should continually assess 4 issues with regard to these funds:

1. What are the fees associated with the product – Many lifestyle funds are made up of other retail funds. Shareholders in this case pay for the packaging of the lifestyle fund as well as the retail funds that are held.
2. How is the strategy pursued – Is this product a managed product by a single manager or is it a composite of other investment options. Investment companies may allocate to poor performing retail funds in a lifestyle fund to boost sales of the product.
3. Does the investment profiling process adequately capture the intent of the participant – If after an enrollment meeting all of your participants are profiled as aggressive investors (regardless of their age and income) the process being employed may not adequately capture the needs of the investor.
4. Has the investment product performed well – Due to the lack of peers and the huge differences in how they manage to the same result, peer comparisons of lifestyle funds do not provide any helpful data. Static benchmarking to an index is useless for target retirement funds that progressively get more conservative as the investor approaches retirement. Sponsors should demand of their consultants rolling style benchmarks that quantify the additional performance generated by the manager beyond what a similarly positioned index product might provide.

[Contact Erik Daley for more information on lifestyle and target retirement investment products and performance measurement.](#)



Affecting Participant Behavior – The Ultimate Means to Improving the DC System

Too much has been made by far too many of the fund selection and monitoring process. Outside of employer stock and self-dealing by financial institutions inside their own retirement plans there is little to support the contention that litigious participants could successfully hold their employer responsible for the failures of the investment managers they have selected in their 401(k) plan. The issue of participant behavior in retirement plans is an entirely different matter. There continues to be strong evidence that participants lack the skills to successfully invest for retirement. [Click here to view the DALBAR study on mutual fund investor performance.](#) Increasingly plan sponsors are measuring and assessing the success of their participants at investing in addition to their assessment of their investment managers. [Click here for an article on participant data mining.](#)

[The Multnomah Group](#) is the region's leading provider of comprehensive qualified plan management solutions and investment consulting to businesses in the Pacific Northwest. To subscribe to this newsletter please email us at newsletter@multnomahgroup.com

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