

Ask Kidder.

Are you being complacent about fees and performance?

A few weeks ago, law professors from Yale and the University of Virginia published a paper suggesting that many plan sponsors are complacent about investment menus that can lead to higher fees and underperformance. But fees are only part of the equation. In making decisions regarding their plans, fiduciaries must also consider such variables as plan design, compliance and the participant outcome.

A proper [plan design](#) is both efficient and effective, supporting the unique circumstances of the plan sponsor. While an off-the-shelf plan might be workable and appear less expensive, the sponsor might be better served by a tailored plan that targets additional contributions to participants or groups that are generating more to the bottom line.

Plan administration must be timely and accurate. Yet we see many plans with compliance problems. Using low-cost vendors may ultimately result in high-cost expenses to correct allocation errors, tax filings or respond to Department of Labor compliance questions.

Index funds are inexpensive and generally have a role in a plan. But they will never generate above-benchmark returns, since the benchmark is the index! Most plans have a combination of actively managed and passive (index) funds, even though actively managed plans cost more. The goal of active management is to exceed the benchmark or index return. Some do, some do not.

That's why, together with their investment professionals, plan fiduciaries should conduct regular investment due diligence reviews and replace underperforming funds. This review should match the plan's adopted Investment Policy. This [fiduciary responsibility](#), alone, is significantly reducing the complacency "uncovered" in the professors' report.

Working with your investment professional and a qualified TPA makes it easier to create a prudent, efficient and effective investment line-up. A plan fiduciary is not obligated to find the very best or lowest cost solution. They are obligated only to utilize a solution that produces solid results at a "reasonable" cost. The regulations focus on the term "reasonable," defined as the ability to make informed decisions, while applying a consistent and appropriate due diligence process.

The desired participant outcome varies from sponsor to sponsor. There are basic requirements to provide participant education. Many plan sponsors go a step or two farther by providing more personal participant interaction with financial professionals, either in a group or one-on-one setting. Personal education increases costs, but generally results in better participant outcomes.

Bottom line, the 401(k) industry has been changing rapidly in the past few years. [Fiduciary responsibility](#) has always existed but has been elevated in status. Quality service providers – including investment platforms, investment professionals and TPAs – have taken the lead on improving the industry. Department of Labor regulations have been costly to implement, but are helping to improve plans and outcomes through increased disclosure of services and costs.

Restatement update

As reported in the January edition, the [Plan Restatement](#) process is upon us. In late April, we will mail information regarding 401(k), 403(b) and other Defined Contribution plans to plan sponsors. The IRS is currently finalizing approval of our plan documents. Restatements are on track to begin in July and will continue into 2015. If you would like to make any amendments to your plan, this Restatement period is a great opportunity to combine that request with the restatement. Contact your [Kidder Primary Administrator](#) or Pension Consultant for more information.

New fiduciary peace of mind is coming!

With plan complexity and liability on the rise, many of our clients have asked if we could make plan decisions on their behalf – including decisions on participant loans, terminations, Qualified Domestic Relations orders and more – even the signing and filing of Form 5500. These are generally called ERISA section 3(16) decisions.

Working with ERISA counsel, we will soon unveil a new a la carte fiduciary service for sponsors seeking this peace of mind. Stay tuned!

Upcoming speaking engagements

Keith Gredys, CEO & President, will be a panelist at two upcoming national events. He will be a panelist on ERISA section 3(16) services at the [fi360](#) National Conference in Nashville and at the Center for Fiduciary Studies in San Antonio. Both events are geared toward financial professionals, CPAs and ERISA attorneys who focus on fiduciary issues affecting qualified plans.

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