

Fiduciary Duties and Fees

- Fees paid out of plan assets should be:
 - Reviewed & approved by a fiduciary
 - Allowed by law and terms of the Plan
 - Reasonable for services received
 - Incurred for exclusive benefit of the Plan
- Fee Challenges:
 - Finding them
 - Benchmarking them
 - Negotiating them

Finding the Fees

- Fees lurk in many places:
 - Mutual fund expense ratios
 - Trust or separate account management fees
 - Wrap fees (a.k.a. “mortality, expense and administration” fees)
 - Administrative services fees
 - GIC/Stable Value spreads
- Disclosure practices vary widely

GIC (Stable Value) Products

- Product issuer earns a “spread”
 - Issuer promises an interest crediting rate
 - Issuer invests the assets for their own benefit
 - $SPREAD = (\text{market return}) - (\text{crediting rate})$
- Spread products are difficult to analyze
 - Risk is shifted to the product issuer
 - Contract terms are complex
 - Crediting rate usually controlled by the issuer
 - History of non-disclosure across the industry
- It's worth the effort!

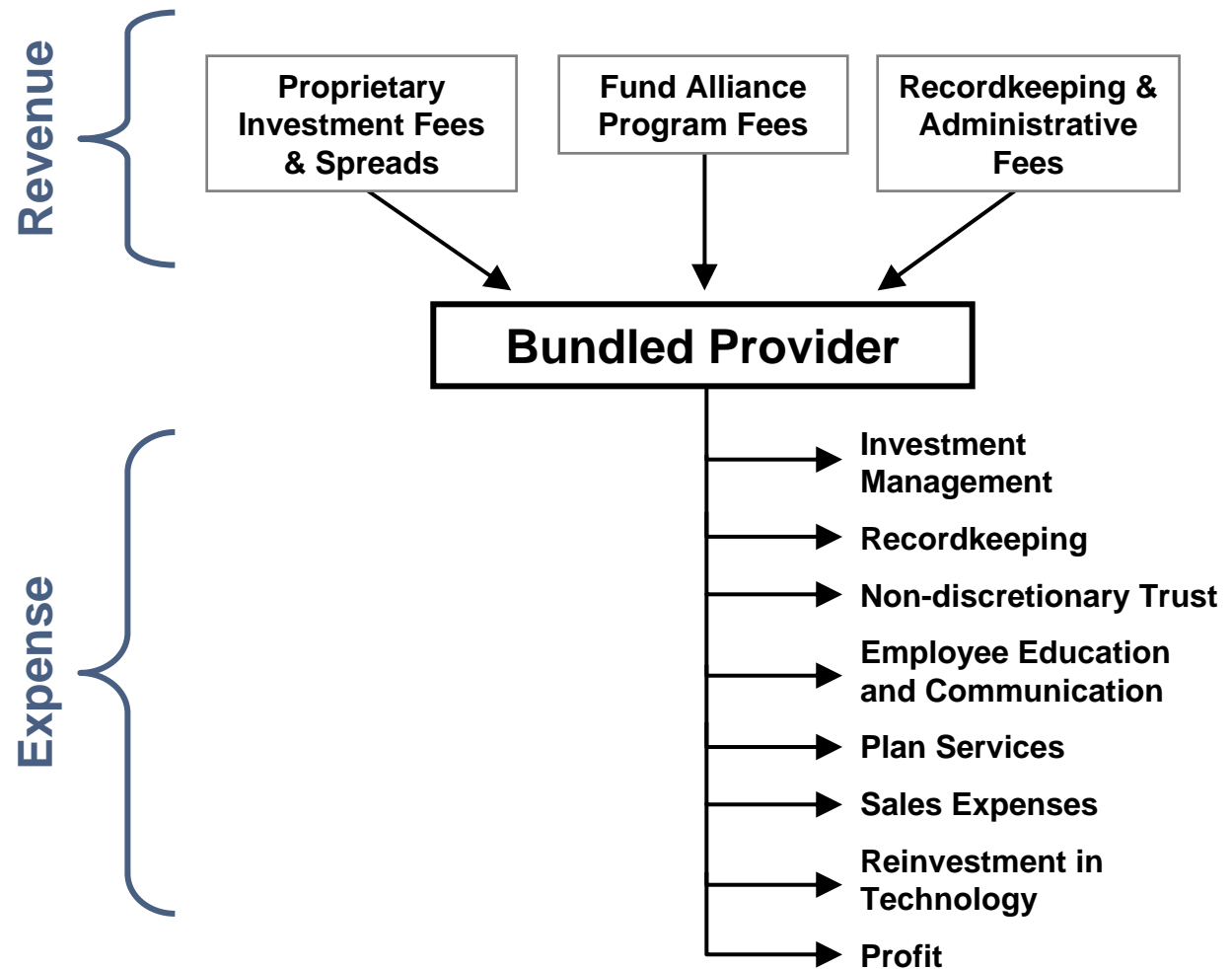
Benchmarking Investments

- Unbundled plans: benchmark each component separately
 - Managed products:
 - Appropriate no-load universe averages
 - Morningstar, Lipper, eVestment, Mobius, PSN ...
 - Spread products:
 - Separate out the risk charge component
 - Evaluate risk charge based on credit rating
 - Evaluate remaining spread based on fees for intermediate-term bond portfolios

Benchmarking Admin Fees

- Usually assessed “per participant”
 - Fees vary based on plan size and complexity
 - Best method: phone a friend!
- Wrap fees should be treated like administrative fees
 - Convert to per-participant basis and add to other administrative fees

Anatomy of Bundled Services



Benchmarking the Bundle

- Bundled plans should be evaluated on a “total revenue” basis
 - Compute fees & spreads for all components
 - Add them up & divide by participant count
 - Compare to plans of similar size & complexity
- DOL Fee Worksheet
 - Excellent tool for documenting expenses
 - Web: www.dol.gov/ebsa/pdf/401kfefm.pdf

Negotiating Tactics

- Fee Products
 - Consider best share class
 - Commission recapture programs
 - The “MFN” clause
- Spread Products
 - Participating or synthetic contracts
 - GIC Pools
- Bundled Arrangements
 - RFP’s based on “scenario pricing”
 - Total revenue limits and revenue recapture

Getting Help

- Fee Products
 - Morningstar Principia: Cheap, easy to use
 - eVestment Alliance: Not cheap, but comprehensive and available online
- Spread Products
 - S&P Life Insurance Rating Methodology
 - Consultants with specific expertise
- Administration & Bundled Services
 - Any consultant can help, but...
 - Best source of help are your NAGDCA peers



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Thanks for your Time!

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