



## Ten Reasons to Review 401(k) Plan Fees, Services & Investments

USI Consulting Group and USI Advisors, Inc. (a Registered Investment Advisor and wholly-owned subsidiary of USI Consulting Group) specialize in analysis of 401(k) plan fees, services and investments. These reviews often lead to searches for service providers that result in significant cost savings for both employers and plan participants.

Exploring the possibility of expense reductions makes sense in 2009. What may be surprising are the other inherent advantages in a 401(k) plan review. The list below highlights ten reasons for employers and plan fiduciaries to complete an evaluation of their 401(k) plan early this year:

- 1. Fulfill fiduciary responsibilities:** 401(k) plans must be administered, with prudence, for the exclusive benefit of plan participants. Fiduciaries should consider utilizing independent experts for the selection and ongoing monitoring of plan investments. Regarding plan expenses, plan fiduciaries have a duty of loyalty to participants and must monitor any fees being paid out of plan assets and determine they are reasonable.
- 2. Analyze investments:** Evaluate performance, diversification of the line-up to minimize the risk of large losses, correlation of asset classes and the suitability of the investments for 401(k) plan participants in accordance with the investment policy statement. For target retirement date funds, investigate the equity and bond allocation mix, rebalancing policy, exposure to international investments and the strategy for adjustments to expected risk levels for participants as they approach retirement. Inquire as to how assets are handled to preserve principal for retirees during the distribution period.
- 3. Save money for the corporation, partnership or organization:** Many 401(k) plan documents allow most plan-related expenses to be paid for out of plan assets. Invoices directed to the corporation can often be eliminated, especially for plans with relatively high average account balances per participant.
- 4. Enhance employee relations, improve morale:** A refreshed line-up including improved investment options and/or reduced expense ratios can help reestablish a feeling that the employer is on the employees' side.
- 5. Protect against potential fiduciary liability:** Recently, there has been a focus on court cases alleging breaches of fiduciary duties by plan sponsors (a few of these cases are now on appeal). Plan sponsors and fiduciaries should document decision-making processes and exercise procedural prudence regarding management and monitoring of investments and fees under 401(k) plans.
- 6. Consider potential for conflicts of interest:** A recent news article covering the merger of two very large financial services firms reported that, during a conference call, an executive of the purchasing firm encouraged brokers of the newly acquired company to sell stock of the acquiring firm to their clients. An unbiased and independent investment advisor can help with objectivity and insight where a 401(k) plan service provider utilizes proprietary products, including investments held or managed through subsidiary companies.

- 7. The economic crisis:** Difficulties stemming from derivatives related to mortgages and the credit freeze have forced some of the largest and seemingly stable financial services firms to rely on government funding. Emergency loans by governments have occurred both in the U.S. and abroad (many service provider organizations have foreign parent companies). Inquiries regarding the financial health of a service provider organization, as well as the level of ongoing commitment to servicing the 401(k) plan, should be documented.
- 8. The service provider(s) no longer feel like a good fit:** The service model may be outdated. For example, if a corporation is moving towards a “paperless” work environment to save money, a service provider with strong technological resources and robust, user-friendly Internet tools makes sense. Regarding the structure of investments, for plans under annuity contracts, a shift to a mutual fund platform may be appropriate. Revisit the asset size of the 401(k) plan, including the average account balance per participant and expectations for annual contribution flows.
- 9. Align the 401(k) plan with the overall goals of the organization:** The 401(k) plan should be designed to function as an integrated part of a strategy to help recruit, retain, reward and retire valued employees. Consider the needs of various segments of the employee population and the employer organization in light of updated expectations for employee staffing. Many employers may need to outsource more administrative functions relating to the 401(k) plan. For retiring participants, depending on the demographics of the employee population as a whole, it might make sense to look into distribution options that can provide a guaranteed income stream. New investment products are evolving that provide participants with the flexibility to experience market upside while periodically “locking-in” benefits.
- 10. Read the service agreement:** The underlying plan documents, including the formal service agreement, are important components of a review of 401(k) plan fees, services and investments. Provisions of the service agreement should be aligned with the interests of the plan sponsor and its participants. For example, asset-based fees should generally decline as a percentage of assets as the plan grows. The service agreement can incorporate specific asset thresholds and state the associated reduced percentages for fee calculations.

## Conclusion

Many of the reasons to review 401(k) plan fees, services and investments generally relate to fiduciary responsibility, an obligation of paramount importance. Regarding fees, a plan review uncovers the cost of 401(k) plan investments, administration and recordkeeping and facilitates disclosure by the service provider of the amount of revenue required to run the plan.

As a practical matter, fees for 401(k) plan services are best measured and negotiated through the foundation of a competitive bidding process. Fee reductions ranging from ten to twenty percent are possible, and cost savings can be more, depending on the number of participants in the 401(k) plan and the corresponding asset size. A provider search also provides documentation of a process designed to fulfill fiduciary responsibilities, even if the plan sponsor decides to remain with the existing service provider. An added benefit of a provider search is the probability of an improved investment and service platform on behalf of plan participants. For any of the ten reasons noted above, 401(k) plan sponsors are well-served to complete a 401(k) plan review or implement the provider search process.

If you would like further information on how USI Consulting Group can provide expertise for a 401(k) plan review or provider search initiative, please feel free to contact one of our executives at [DCConsulting@usi.biz](mailto:DCConsulting@usi.biz) or (212) 878-0442.

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