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Pension Management

Pension Management: DOL, Lawsuits on Fees Drive 401(k) Changes

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New rules on disclosure, recent lawsuits have retirement plan providers looking to build trust, add transparency.

Now is the time to take a good look at your pension management plans and to make sure your company and its plan administrators are positioned to meet the new Department of Labor (DOL) rules on fee disclosures.

The new rules require retirement plan service providers to explain their fees and services to plan sponsors, and take effect on July 1, 2012 (a deadline extended three months recently by the DOL).

Given the complexity of 401(k) plan fees and recent lawsuits, independent investment firms, built on foundations of transparency and trust, may be a good option to lower both your retirement plan's costs and your fiduciary risk given the new DOL requirements.

Lawsuits drive more disclosure. Amid lawsuits like the September 2011 Ameriprise Financial suit that was filed by employees over the company's own 401(k) funds, claiming Ameriprise put retirement assets into funds that incurred millions in excess costs, the DOL will implement new regulations to improve fee disclosure for pension plans.

While a judicial decision in this and other cases are still pending, asset managers and corporate executives alike are all keenly interested in the outcome. Meanwhile, the DOL hopes to pre-empt future litigious actions by setting new regulations for company plan administrators and pension committee board members, many of whom include treasurers, and all of whom have fiduciary responsibility for acting on behalf of participants and their beneficiaries.

The new rules do not come soon enough for Ameriprise and its plan's overseers. And the example of the fee structure and the overcharges is instructive. Fees can be burdensome over time; for instance a weighted average annual cost of 1.63 percent vs. 1.27 percent for a $16,000,000 plan over 10 years equates to $576,000 more that stays with the plan and participants.

And employees are now scrutinizing these fees and taking notice like never before. As Lyle Himebaugh, managing director of Granite Group Advisors, one of the new breed of firms bringing a fresh approach to investment management, notes, “the 401(k) market is traditionally riddled with hidden costs.” And the bigger names in the mutual fund, brokerage, bank and insurance world, which are a party to the lawsuits, "may find it difficult to meet itemized fee requirements due to the complexity of their fee structures.”

Record keeper concerns. Adding to the complexity is that some of the investment fees may be coming back to your plan’s record keeper to pay for administrative costs which can be construed as a conflict of interest. By partnering with an independent firm such as Granite, you can be assured of 100 percent compliance. Independent vendors are used for recordkeeping and custodial services, and clients are the sole source of revenue. And this is achieved free of all conflicts of interest. “It is all about the client. We have ZERO conflicts of interest.”

Ultimately, if you have discretion or control over your company’s pension plan, it is crucial that you are clear about the rules of proper disclosure and a have a reasonable understanding of at what level fees would be considered ordinary and not excessive. Otherwise, you may be breaching your fiduciary responsibilities under Employee Retirement Income Security Act of 1974 (ERISA). Additionally, look to see if your company indemnifies you against potential personal liability, as well as joint liability for the actions of your co-fiduciaries.

The question companies should be asking is shall they continue to do business with partners that may have trouble meeting 100 percent disclosure requirements? To avoid high fees and hidden costs as well as a limited platform of investment choices, your better option may be to look outside of the box and to independent consultants. In general, independent consultants like Granite are not tied to proprietary funds, work for the client and not the fund managers, and can both lower the plans’ fees and your risk.

A new breed.

With full fee transparency and actively managed model portfolios, Granite’s product sets them apart in this industry and their success rebounds from their emphasis on the human side of funds management. Totally independent, the firm provides their clients with unbiased evaluations in addition to lower costs. Their quantitative investment methodology has a proven track record and they have developed portfolios that meet different risk/return goals and help participants decide which risk level is best for them.

Cofounded by Mr. Himebaugh and Richard Zipkis, Granite is already well-positioned to meet the higher demands of accountability within the pension management industry as the firm was built on their “drive for a better integrity product.” The two partners brought 25 years plus experience on Wall Street managing financial portfolios before creating Granite.

Among the less than 17.9 percent of the industry that manages retirement funds independently, Granite goes a step further with a defined process to select investments for their clients. As Mr. Zipkis points out, “proactive management of our fund lineup and model portfolios is unmatched in the industry.”

Granite's seven model portfolios can help participants allocate based on their appetite for risk, and additionally, they can also create their own customized portfolio of funds. Granite says that the key differentiators specific to its retirement plan solution, are designed to give greater control of the costs, better investments and reduced risks. Those differentiators include:

- A modular system that protects plan sponsor and participants
- A defined and proven investment methodology to protect & grow funds assets
- Open fund selection of and and all mutual funds in the marketplace
- No proprietary products which often contain hidden fees
- Full fee disclosure – 100 percent transparency
- Clearly stated investment policy & high level of due diligence
- Independent vendors for third-party administrators, recordkeeping and custodial services

On closer examination. Increased disclosure is coming whether employees collectively demand it or DOL regulates it. Treasurers, who may sit on pension committees, along with other members in turn, will demand from their current provider full disclosure – 100 percent fee transparency. Independent investment firms, such as Granite, are better positioned to meet the needs of lower costs, full transparency and fiduciary responsibility due to the conflict free environment they operate in. It's time to take a closer look at how your pension funds are managed and start building that trust today.