

Compass HR Consulting, LLC

High Technology Capital Equipment Business 2

Situation

Firms across the U.S. were experiencing class action suits targeting 401(k) plans for failure to exercise proper fiduciary prudence. Most of the suits were based on plan committees failing to prudently monitor and manage plan costs, investment fund selections, and investment fund expenses (expense ratios for mutual funds.) The suits argued that failure to exercise prudence led to unnecessary costs and expenses that reduced participants' returns.

Opportunity

Fiduciary liability is based on adherence to prudent processes in selecting investment alternatives offered, selecting service providers, and managing costs. Plans are not necessarily held liable for participant investment decisions or the actual results of investment funds. However, the increased fiduciary risk and potential liability afforded the opportunity to make improvements in plan administration and oversight that would improve the plan itself and mitigate fiduciary risk.

Actions

Independent consultants reviewed the 401(k), defined benefit pension, and Non-qualified deferred compensation plans. The findings confirmed limited risk but formed the basis to take plan management to "state-of-the-art" and further mitigate initiatives. A five-point action plan was developed: 1) reorganized Employee Benefits Plans Committee, developed a Committee Charter, and improved records management and internal reporting; 2) selected an investment advisor (co-fiduciary) based on RFP; 3) negotiated new service agreements for recordkeepers and outside counsel; 4) revised investment fund line-up based on "core and satellite model" and the efficient frontier; and 5) selected a participant investment advisor based on the qualified investment advice arrangement to strengthen 404C safe harbor compliance.

Results

Reduced plan recordkeeping expenses by one-third (\$120K) for 401(k) plan and average fund expense ratio from 91 bps to 55 bps over two years. Deferred Compensation Plan fund line-up revision resulted in a similar decrease in average expense ratio. The 401(k) plan was registered by the Centre for Fiduciary Excellence, one of the first to be recognized as plan stewards. CEFEX registration is based on an ISO type process recognizing that the Plan and its stewardship adhere to high standards of fiduciary excellence.