



TGA
CAPITAL MANAGEMENT

Michael D. Green, Principal
A Registered Investment Advisor
25 Braintree Hill Office Park
Suite 200, Braintree, MA, 02184

www.tgacapitalmanagement.com ~ mgreen@tgacapitalmanagement.com ~ 1-508-224-9646

Good Afternoon

WHEN WASTEFUL PLAN FIDUCIARIES TELL YOU THAT SAVINGS YOU PROPOSE ARE NOT "APPLES-TO-APPLES"

When it comes to bringing a needed change to a retirement plan, there will usually be a fair amount of push-back from the third-party administrator or a plan's record-keeper or current plan fiduciaries.

Advisors using the 401kFiduciaryOptimizer quant analysis tool can analyze any 401(k) plan and visually see how much the plan can save by replacing expensive funds with highly similar less expensive vehicles. But the question of revenue sharing inevitably comes up and some plan fiduciaries think they can use the opacity of rev sharing arrangements as defense against much needed plan optimization. When presented with an optimized plan proposal, a plan sponsor will likely push back saying that the analysis is not 'apples-to-apples' because expensive funds are paying for other expenses in the plan through revenue sharing. We can use 401kFiduciaryOptimizer to point out the flaws with this argument.

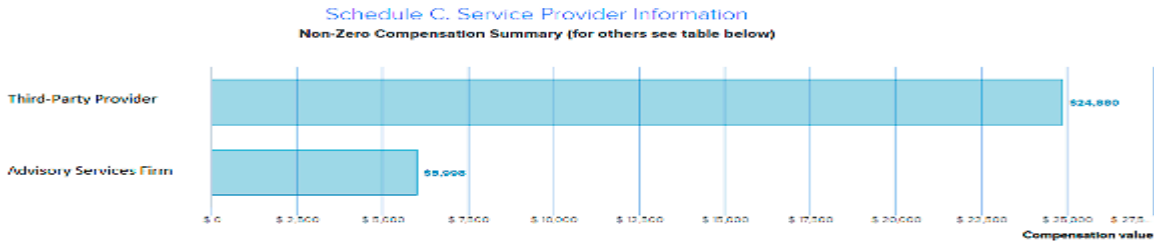
To analyze the funds in a plan, we look at various factors with a set of assumptions to account for these unseen fees. By default, all plans that are analyzed will have the assumption that revenue sharing is equal to 12b-1 fees. This means that any suggested savings are reduced by the amount of 12b-1 fees (if we replace a 1% fund that has a .4% 12b-1 fee, we assume that its cost was only .6% to the plan). With this assumption checked, we are trying to give the current plan and its TPA the best chance possible for a fair comparison. Even though we may not know the true revenue sharing or combined expenses, we use this setting to view existing revenue sharing arrangements in the best possible light for the sponsor while comparing lower cost options. If a plan sponsor truly wants to do the right thing by participants, they can easily provide the exact revenue sharing numbers to the advisors (when different from 12b-1 fees) and the advisor can use the 401kFiduciaryOptimizer to create detailed analysis. However, if a plan is wasting .5% per year with the assumption of 12b-1 fees as revenue sharing, it is highly unlikely that custom revenue sharing arrangements will bridge this gap.

But even some of the opacity of revenue sharing can be reduced by using Schedule C data from the form 5500 filing. Using the 401kFiduciaryOptimizer we can check the "Providers" menu and see how much direct and indirect compensation a third-party provider is receiving from their form 5500.



Fiduciary
Management
Association

Institutional Account Custodian Charles Schwab & Company., Inc. FINRA/SIPC



Providers

Third-Party Provider

Total compensation with percent of total plan assets: **\$ 24,880 0.43%**
 Direct compensation: \$ 326
 Indirect compensation: \$ 24,554

Employer Identification Number (EIN): 010233340
 Relationship to employer, employee organization, other party in interest: None
 Received indirect compensation?: Yes
 Indirect compensation include eligible:

[SEE PIC HERE](#)

(Figure 1) Schedule C information as displayed in 401kFiduciaryOptimizer

On this plan, we can see that the Sample Provider (the name of the company is hidden) is receiving over \$24k in indirect compensation per year. We can use this data in our 401kFiduciaryOptimizer report to demonstrate to plan sponsors how much they can save on their plan even adjusting for approximate revenue sharing. But we can go further in our analysis. We can enter in almost any kind of fee in both an original and proposed lineup.

Additional Fees

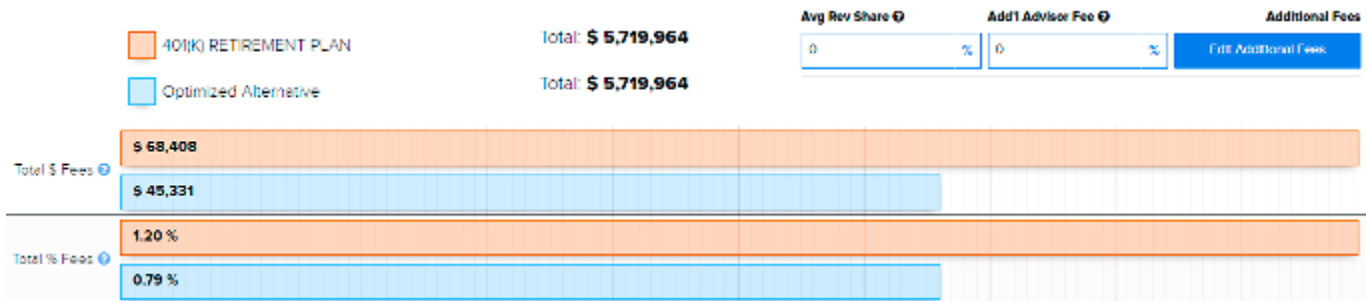
	Original	Proposed
Advisor Fee	<input type="text" value="0"/> %	<input type="text" value="0"/> %
Record-keeper Base Fee	<input type="text" value="0"/> %	<input type="text" value="0.2"/> %
Record-keeper Per Participant Fee	<input type="text" value="0"/> %	<input type="text" value="0"/> %
Custodian Fee	<input type="text" value="0"/> %	<input type="text" value="0"/> %
Third Party Administrator Fee	<input type="text" value="0"/> %	<input type="text" value="0.3"/> %
Third Party Administrator Per Participant Fee	<input type="text" value="0"/> %	<input type="text" value="0"/> %
Total Participants	<input type="text" value="68"/>	

Buttons: Cancel, Accept, Add custom Fee

[SEE PIC HERE](#)

(Figure 2) Additional fees menu in 401kFiduciaryOptimizer

We can customize these fees to demonstrate that even including generous amount of revenue sharing, we can still pass on significant savings to plan participants.



[SEE PIC HERE](#)

(Figure 3) Total Fees for initial and proposed line-ups

We can see in this graph that even with .5% in proposed additional fees (see figure 2), there is an annual savings of over \$20k for this \$5.7M plan! This can equal huge savings for plan participants, and is a significant red flag for any plan sponsor. And it is likely even this estimate is way too conservative and savings are really much more significant than presented.

Passive Vs Active Vs "Closet Index" Funds

Looking at this plan using the 401kFiduciaryOptimizer, we can see that it contains many funds that are greatly undercut by cheaper funds that have a nearly identical similarity rating:

Current Fund Option ID (Total Plan Assets: \$ 3,712,904)	Expense Ratio	Similar Fund With Lower Fee	New Expense Ratio	Similarity ID	Horizon	Return	Avg Rev Share ID	Advtl Advisor Fee ID	Annual Inflow						
					10	Y	6	%	0.3	%	0	%	10	%	
Hypothetical Aggregate Plan Savings ID: \$ 181,550 (0.62% P/A)															
JALGX John Hancock Lifestyle Growth A \$ 1,873,428	1.35 %	FFNOX Fidelity Four-in-One Index	0.15 %	0.98					\$ 367,295						
		VASGX Vanguard LifeStrategy Growth Investment	0.15 %	0.98					\$ 367,295						
		GMIAX Nationwide Investment Destinations Moderate aggressive (I)	0.54 %	0.98					\$ 206,739						
		SWHGX Schwab MarketTrack Growth Investment	0.59 %	0.98					\$ 186,500						

[SEE PIC HERE](#)

(Figure 4) Using RiXtrema's similarity score to find low fee alternative funds

A similarity rating is a type of correlation calculated by RiXtrema that is based off of both fund returns and underlying holdings. A score of .98 in this case is telling us that these funds are virtually identical. We can use this score to identify what we call "closet index" funds. These funds will charge a premium for being active, yet are nearly identical to an index fund. Revealing funds like these in a 401(k) plan can mean huge savings for plan participants.

While a plan sponsor may suggest that active funds should be compared only against active funds, we disagree. We believe that what a fund claims to do is less important than what it does. Said differently, it really depends whether a fund is truly active or simply identifies itself as active while acting like an index fund. By properly accounting for any hidden expenses, our advisory can diagnose potential deficiencies of plan menu. This massive cost to plan participants can also be a tremendous fiduciary liability to any plan sponsor. Overlooking wastefulness could prove costly for a plan sponsor in more ways than one. Any advisor can show plan sponsors how much these hidden fees may be costing their participants with the 401kFiduciaryOptimizer!

If you're Considering a plan review, the advisory welcomes your inquiry and we can be contacted at 508-224-9646 or email us to request or schedule a consultation with me at mgreen@tgacapitalmanagement.com

[Schedule your consultation with Mike](#)

Michael D. Green,
 A Registered Investment Advisor
 TGA Capital Management
www.tgacapitalmanagement.com
mgreen@tgacapitalmanagement.com
 25 Braintree Hill Office Park~ Suite 200
 Braintree, MA 02184
 1-508-224-9646

P.S. [Take your personal Risk Quiz here](#)

This is not a solicitation nor recommendation to buy or sell a securities nor to imply any tax or legal advice, always seek a registered investment advisor to attain your risk/averse attitude and investment suitability before investing. All information is considered accurate and reliable, however, due to changing market, economic, taxation, institutional, and other pertinent potential cycles and variations, future results cannot be guaranteed by past performance and should be monitored on a continual periodic systematic basis to provide current advisory recommendations that meets the client short-term potential deviations and management disciplined style, while advisory provides solely long-term recommendations. **Confidentiality Notice.** The information in this e-mail and any attachments is confidential and may be privileged or protected by other rules, including but not limited to the Electronic Communications Privacy Act, 18 U.S.C. §§ 2510-2521. It is intended solely for the addressee(s). Access to this e-mail by anyone other than the addressee(s) is unauthorized. If you are not the intended recipient, you are not authorized to and therefore must not disclose, copy, distribute or retain this message or any part of this message.