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INFORMATION



DC Plan Fee Transparency: Fiduciaries Managing Costs

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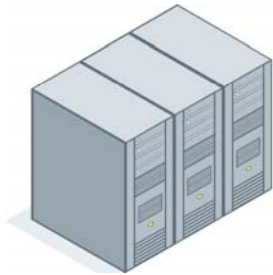
Salesforce.com

CRM (NYSE)

- Worldwide leader in on-demand customer relationship management (CRM) services and enterprise cloud computing
- Founded in 1999 by former Oracle executive Marc Benioff
- 82,400+ Customers, 800+ Applications, 15 Languages
- Revenues: US\$ 1.5 Billion (FYE 4/30/2010)
- <http://www.salesforce.com/crm>

Salesforce.com's Mission: Cloud Computing Driver, Catalyst & Evangelist

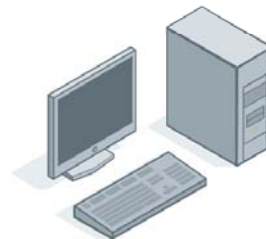
Mainframe



1960's Platforms

IBM digital

Client/Server



1980's Platforms

ORACLE SIEBEL
PeopleSoft. SAP Microsoft

Cloud Computing

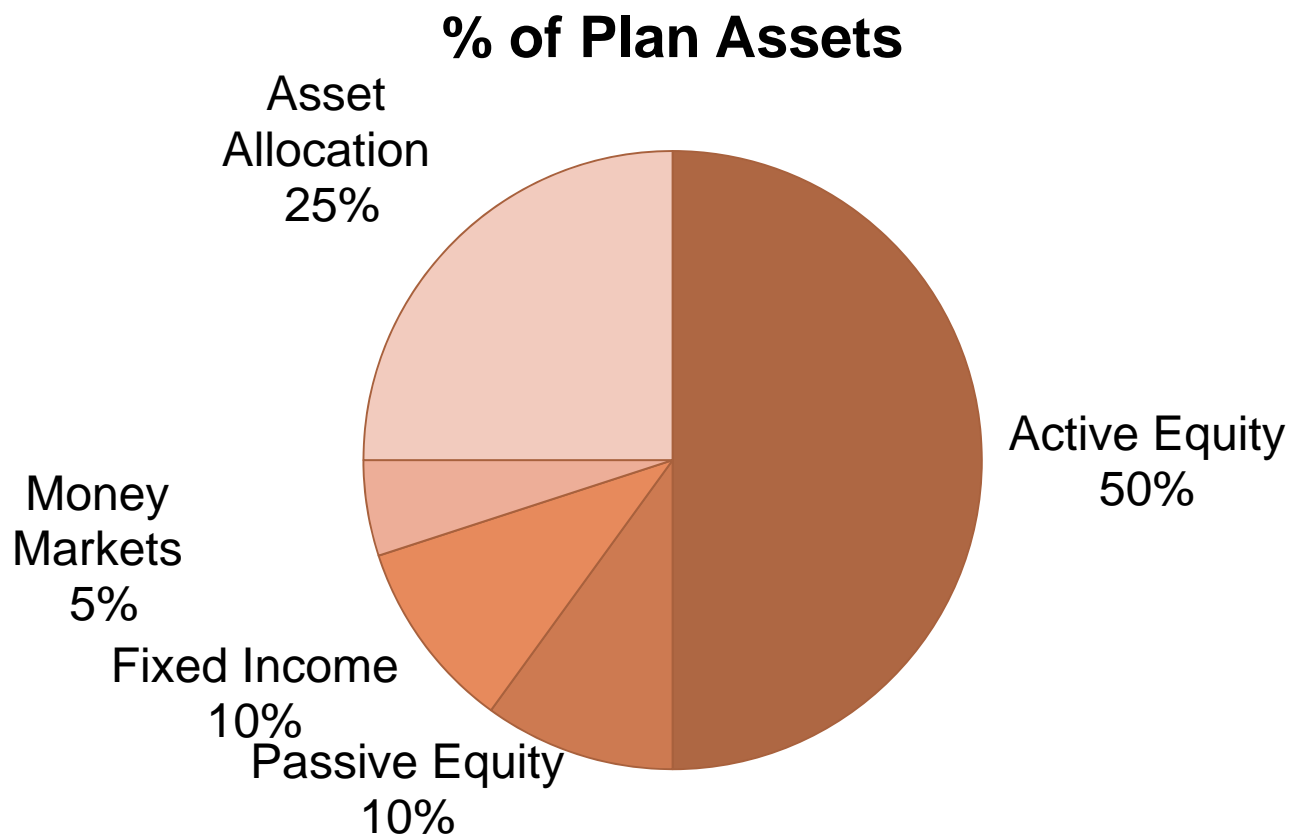


Today

The Salesforce.com 401(k) Savings Plan

- Over 3,000 participants
- Median age of participant: 25 years old
- Bundled Provider for Recordkeeping, Funds, Education
- 404 (c)
- QDIA – Target-Date Funds
- Auto-enrollment (with opt-out)
- 14 Core Fund Options - Active and Index Funds
- Multiple Fund Families
- Roth 401(k) using same core funds
- Regular participant education program

Salesforce.com Plan Asset Allocation



Salesforce.com Plan, Fund and Fee Monitoring

- Quarterly review with 401(k) Committee
- Third-party investment consultant, co-fiduciary
- Benchmark expenses quarterly
 - Per Fund - total fees, % and \$
 - Revenue Share by Fund, % and \$
 - Per-Participant \$ Cost
 - Measure as % of Total Assets and Absolute Dollars
- Renegotiated fees as balances grew
 - Reduced per-participant cost
 - Changed to lower-cost share classes

DC Plan Fee Transparency

Why do we Care?

- DC plan sponsors have a fiduciary duty under ERISA
 - To ensure that Plan fees are *reasonable*
 - Neglecting fees may be deemed a fiduciary breach
 - Explosion in class action lawsuits against plan sponsors
 - Allege that plans sponsor breached their fiduciary duties under ERISA
 - Used plan assets via revenue-share or indirect compensation to pay excessive fees
 - Used retail funds when lower fee (institutional) funds were available
 - New IRS 5500 Schedule C requires providers' fee breakdown for 2009
 - Congress has competing Fee Disclosure Acts for participant disclosures
 - DOL regulations under ERISA Section 408(b)(2) effective July, 2011
 - All providers must disclose direct and indirect compensation
 - Recent fee survey shows expense ratios rose in 2009
-

ERISA - Fee Transparency

Why do we Care?

- 3 sets of regulation concerning **reasonable** fees:
 - *Establishment of Trust* rules under ERISA Section 403
 - *Prudent Man* standard of care under ERISA Section 404
 - *Prohibited Transaction* exemption under ERISA Section 408(b)(2)
 - Severe penalties under ERISA if plan sponsor breaches its fiduciary duties
 - **ERISA Section 409**
 - Fiduciary is *personally liable* for plan losses from a breach or use of plan assets to pay *unreasonable* fees
 - **ERISA Section 502(1)**
 - 20% civil penalty on amounts recovered from a DOL settlement
 - **IRS Code 4975**
 - Excise tax against provider receiving unreasonable compensation (prohibited transactions)
 - ERISA Section 502(a)
 - Empowers participants to sue for fiduciary breach
-

DOL Disclosure Regulations under ERISA Section 408(b)(2)

- Effective July 16, 2011 disclosure rules target revenue sharing
 - All service providers, affiliates and sub-contractors (>\$1,000)
 - Must provide written description of services and compensation
 - Revenue share is permissible if the compensation for relevant services rendered is *reasonable*
 - Plan sponsor must assess appropriateness and *reasonableness* of fees
 - Plan sponsor could be in fiduciary breach if total fees are *unreasonable*
 - Providers are not required to identify a specific conflicts of interest including referral relationships
 - Referral relationships that do not entail \$ compensation
 - Are *not required* to be disclosed
 - *Plan sponsors must figure it out*
-

Best Practices

- Plan sponsors should have detailed written service agreements
- Create a Fee Policy Statement (supplements the IPS)
 - Documents a due diligence process to monitor provider costs
 - Provider qualifications, service standards, reasonableness
- Conduct a plan Fee Analysis periodically
- Use Benchmarking Studies to determine *reasonableness*
 - Renegotiate fees or more services using reliable competitive information
 - Establish an ERISA budget account to recapture fees
- Conduct a provider RFP if services are inadequate

Plan Service Providers

- **Key Players in Bundled and Unbundled Plans**
 - Recordkeeping
 - Third party administration
 - Investment management
 - Trustee services
 - Education and communication
 - Legal counsel
 - Auditor
 - Investment consultant
 - Financial advisor or broker
 - Managed accounts
 - Self-directed brokerage
 - On-line advice
 - Participant transactions
-

Types of Fees

- Direct fees
 - Billed expenses paid by plan sponsor or plan assets
 - Invoiced, visible and known
- Indirect (hidden) fees
 - Embedded fees – difficult to track
 - Deducted from participant accounts or plan assets
 - Netted against investment returns
 - Revenue sharing arrangements among service providers
 - Often asset-based
 - As assets grow fees can become excessive

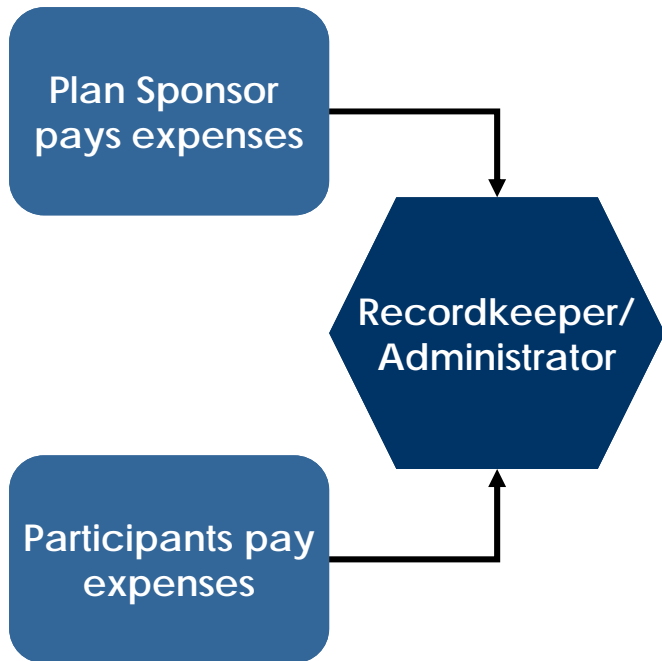
Revenue Sharing

Revenue share is derived from:

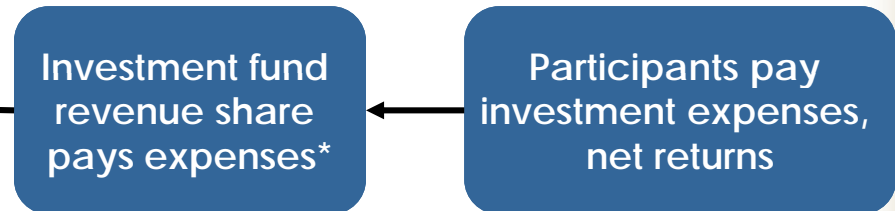
- 12(b)-1 fees
- Investment management fees
- Administrative services charges
- Different share classes
- Proprietary funds
- Sub-transfer agent fees
- Wrap fees
- Finder's fees
- Overrides, volume, asset incentives
- Asset charges or wrap fees
- Group annuity contract charges
- Sales charges
- Redemption fees
- Surrender charges

Typical Revenue Sharing

Direct Expenses



Indirect Expenses



*When revenue share exceeds plan recordkeeping/administrative fees, excess revenue share can be applied to plan expenses or rebated to participants.

Fees

- **Plan expenses are paid by the plan sponsor and/or from plan assets**
- **Costs can be divided into three categories:**
 - One-time or initial plan fees
 - Recurring or ongoing fees
 - Termination fees
- **Recurring or ongoing fees are calculated:**
 - Participant-based
 - Transaction-based
 - Asset-based – as assets grow, fees can become excessive

DC Plan Cost Disclosure Worksheet

Service Provider Name: _____ Plan Assets: _____ Prepared On (Date): _____

Number of Plan Participants: _____ Number of Eligible Employees: _____

Expense Type	Typical Method Of Fee Calculation	Total Plan Cost	Total Company Cost	Total Cost
One-Time Fees				
Startup Education Program	Person-based			
Startup Enrollment Expense	Person-based			
Conversion Fee	Flat fee			
Installation Fee	Flat fee and/or person-based			
One-Time Fund Fee	Flat fee per fund			
Plan Document/ IRS Filing Fee	Flat fee			
Consultant	Hourly			
ERISA Attorney	Hourly			
<i>Total One-Time Fees</i>				

Source: Profit Sharing/ 401(k) Council of America (PSCA)

DC Plan Cost Disclosure Worksheet

Ongoing Fees		Total Plan Cost	Total Company Cost	Total Yearly Cost
Fund-Related Investment Expenses	Asset-based (See chart, page 3)			
Annuity Fee	Asset-based			
Commission	Asset-based per transaction			
Front-End Load	Asset-based per transaction			
Management Fee	Asset-based			
Trustee Fee	Asset-based			
Wrap Expense	Asset-based			
Administration/ Recordkeeping Fee	Person-based or asset-based			
Ongoing Education Program	Person-based			
Ongoing Enrollment Expense	Person-based			
Balance Inquiry Expense	Transaction-based			
Distribution Expense	Transaction-based			
Investment Transfer Expense	Transaction-based			
Loan Origination Fee	Transaction-based			
Annual Audit Fee	Flat fee			
Annual Loan Maintenance Fee	Flat fee per loan			
Discrimination Testing Expense	Flat fee and/or person-based			
Fidelity Bond Premium	Flat fee			
Fiduciary Insurance Premium	Flat fee			
Fund Fee	Flat fee			
Signature Ready Form 5500 Fee	Flat fee			
Consultant	Hourly			
ERISA Attorney	Hourly			
Out of Pocket Expenses	Reimbursement for actual costs			
QDRO Charge	Varied methods of calculation			
Total Ongoing Fees				

Source: Profit Sharing/
401(k) Council of
America (PSCA)

DC Plan Cost Disclosure Worksheet

Ongoing Fund-Related Investment Expenses							
	Expense Ratio	12(b)1 Fees %	Sub-account Transfer Credits	Assets in Fund	Total Plan Cost	Total Company Cost	Total Yearly Cost
Fund 1	(+	+ +)x				
Fund 2	(+	+ +)x				
Fund 3	(+	+ +)x				
Fund 4	(+	+ +)x				
Fund 5	(+	+ +)x				
Fund 6	(+	+ +)x				
Fund 7	(+	+ +)x				

Enter costs in *Fund-Related Investment Expenses* on page 2. Include additional pages for additional funds, if necessary.

Expense Type	Typical Method Of Fee Calculation
Termination Fees and Surrender Charges (Note: It is important to know these fees and their methods of calculation when evaluating a plan service provider. However, it is difficult to calculate the actual cost of such fees in advance. Use this portion of the worksheet to identify the specific asset-based percentages, person-based fees and flat fees that are used in termination and surrender charge cost calculations.)	
Annuity or Stable Value/GIC Contract Termination Surrender Charges	Asset-based
Annuity or Stable Value/ GIC Participant Transfer or Termination Surrender Charges	Asset-based
Back-End Load	Asset-based per transaction
Individual Fund Termination Fee	Asset-based
Full Plan Termination Charge	Asset-based and/or person-based
One-Time Plan Termination Fee	Flat fee

Source: Profit Sharing/
401(k) Council of
America (PSCA)

Reasonableness of Fees

- *Reasonable* investment fees
 - Retail, institutional, and share class are critical
 - Annual fund operating expense vs. peer group
 - Fund asset manager quality
 - Net performance vs. benchmark and peers
 - Comparative peer pricing from fund databases

- ***Fiduciary best practice***
 - *Maintain a written record to document a prudent review of funds and fees*

Share Class is Critical

Tibbe v. Edison International

- Class Action Suit - Edison International (SCE)
 - Plan assets were \$3.1 billion in 2005
 - July 14, 2010 Court decides against Southern California Edison
 - Using retail vs. institutional share class funds is a fiduciary breach
 - Plan sponsor took advice of its plan investment consultant
 - Selected 3 retail fund shares instead of their less-costly institutional share classes
 - Investment in retail share classes cost participants excessive fees
 - Plan sponsor should have asked fund managers for institutional class and to waive minimums which the managers had done for other plans
 - *The consultant did not ask yet the plan sponsor is at fault*

Benchmarking Study

- Benchmarking study compares the plan's fees with comparable plans
 - Easiest and lowest cost way to document *reasonableness*
 - Provides comprehensive relevant comparisons
 - Plan's fees, design, support & services to a benchmark group of similar plans
 - Provides basis to renegotiate services and fees if appropriate
 - Benchmarking Study provides documentation of a thorough and objective *fiduciary* process.
- RFP to new providers
 - Obtain new bids for services if plan has not been upgraded in several years
 - More expensive due diligence than benchmarking
 - Should result in substantial additional savings, upgraded services, better fund platform

Administration Recordkeeping Fees

Current Plan	Plan Sponsor
Eligible Employees	11,001
Plan Participants	9,903

Provider Administration/Recordkeeping Fees					
Description	Current Provider	Industry Average	Provider A	Provider B	Provider C
Annual Base Fee					
Billed Expenses					
Indirect Fees					
Per Eligible Fee					
Per Participant Fee					

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Average Plan Expense Ratios

Average Expense Ratios					
Description	Current Provider	Average	Provider A	Provider B	Provider C
Average Equity Expense Ratio	0.00%	0.00%	0.00%	0.00%	0.00%
Average Bond Expense Ratio	0.00%	0.00%	0.00%	0.00%	0.00%
Average Money Market / Stable Value Expense Ratio	0.00%	0.00%	0.00%	0.00%	0.00%
Average Additional Asset Management Rate	0.00%	0.00%	0.00%	0.00%	0.00%

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Compensation for Service Provider

Compensation for Service Provider - Revenue Share										
Description	Current Provider		Industry Standard		Provider A		Provider B		Provider C	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Investment Manager										
Trustee/Custodian										
Advisor										
Recordkeeper										
Administrator										
Legal - Plan Amendments										
Accounting										
Participant Communications										
Total Annual Compensation										

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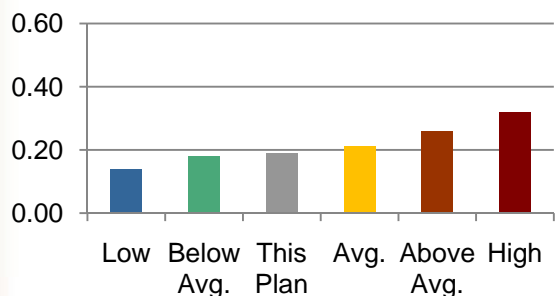
Benchmarking Summary

- Retain independent, third party to benchmark costs
- Verify
 - Fees, expenses, revenue sharing, amounts, parties involved
- Use institutional share class rather than retail funds
- Use expense reimbursement accounts to recapture excess fees
- Renegotiate asset-based fees as plan grows
- Renegotiate fund share class
- Benchmark services and fees
 - Develop a benchmarking peer group
 - Renegotiate for additional services
 - Use industry surveys to benchmark costs

Plan Benchmarking

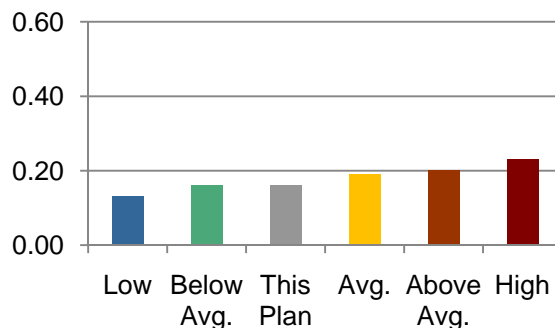
Recordkeeper Fees	Plan Fees in Dollars
Investment fees	\$ 157,664
Managed Account Fees	\$ 124,687
Other Fees	\$ 137,650
ERISA Spending Account Credit	\$ (75,000)
Total Fees	\$ 207,351

Recordkeeper vs. Benchmark Universe



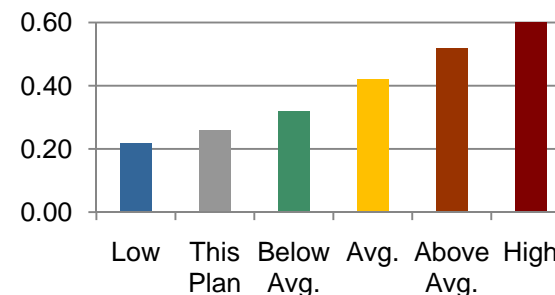
Advisor Fees	Plan Fees in Dollars
Investment fees	\$ 75,945
Commissions	\$ -
Finder's Fees	\$ 795
Other Fees	\$ 2,500
Total Fees	\$ 79,240

Advisor vs. Benchmark Universe



Fund Management Fees	Plan Fees in Dollars
Investment fees	\$ 175,945

Fund Management vs. Benchmark Universe

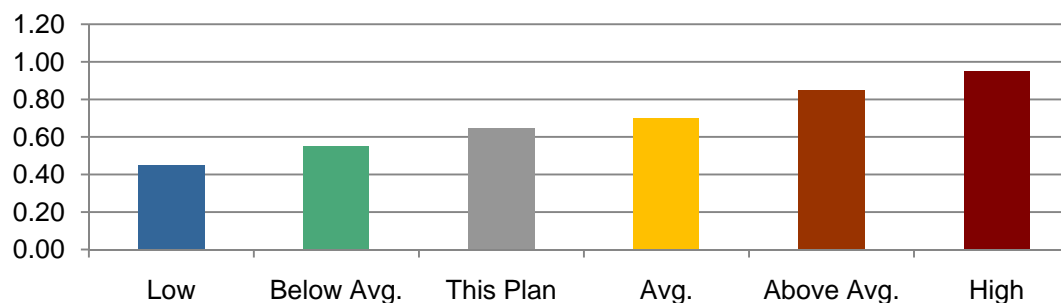


Plan Benchmarking

Breakdown Fee Type	\$ Plan Fees	% Plan Fees
Investment Fees	\$ 268,493	27%
Commissions	-	0%
Finder's Fees	\$ 795	0%
Managed Account Fees	\$ 49,374	13%
Other Fees	\$ 58,150	15%
ERISA Spending Account Credit	\$ (25,000)	-
Grand Total	\$ 351,812	100%

Breakdown By Service Provider	Plan Fee in Dollars	Plan Fee in Percent
Recordkeeper	\$ 95,001	27%
Advisor/Consultant	\$ 79,240	23%
Investment Managers	\$ 130,564	37%
Managed Accounts Provider	\$ 24,687	7%
Other Service Providers	\$ 22,320	6%
Grand Total	\$ 351,812	100%

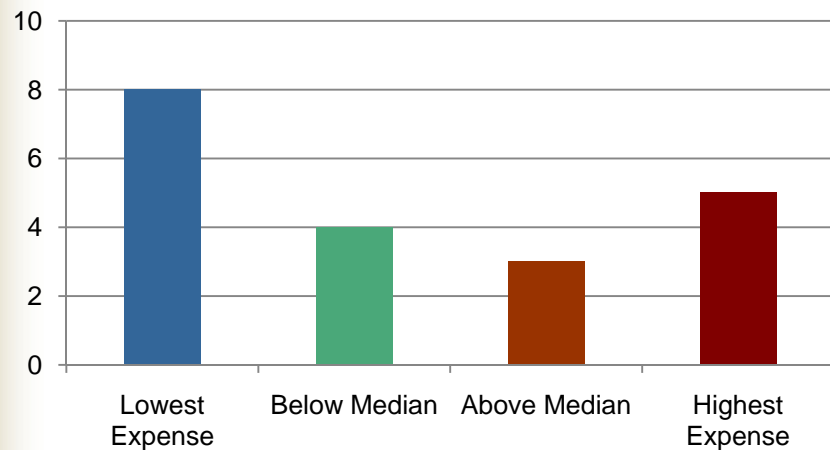
Total Plan Fees vs. Benchmark Universe



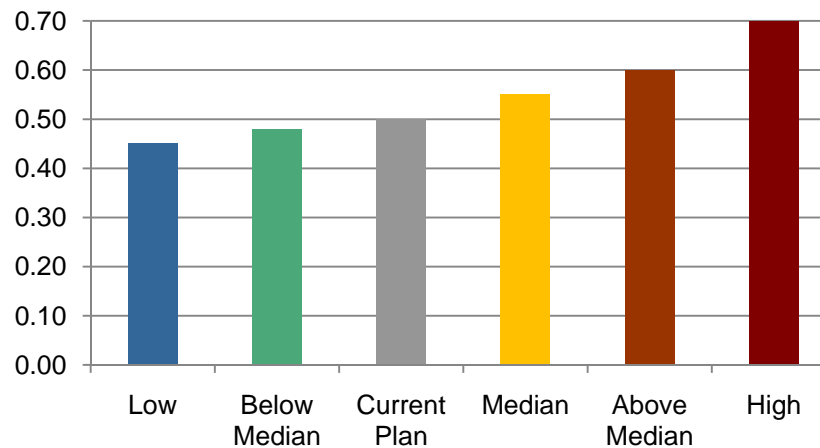
Plan Benchmarking

Expense Ratios for the Funds vs. Benchmark Universe

- 8 funds are Lowest Expense
- 4 funds are Below Median
- 3 funds are Above Median
- 5 funds are Highest Expense



Total Fund Expense vs. Benchmark Universe



Document Fee Conclusions

- Document the reasons that plan fees are reasonable for the services rendered
 - Complexity of plan design
 - Accuracy of processing
 - Customized services
 - Responsiveness to inquiries
 - Prompt problem resolution
 - High number of transactions
- Documentation shows that plan sponsor considered plan fees and quality of services
- Establish an ERISA fee recapture account if fees are high
 - Excess revenue sharing received by the provider is deposited into an account
 - Fees used under the plan sponsor's instructions to pay ERISA eligible plan expenses or return to participants

Best Practices

- Create a Fee Policy Statement (supplements the IPS)
 - Documents a due diligence process to monitor provider costs
 - Provider qualifications, service standards, reasonableness
- Conduct a plan Fee Analysis periodically and document results
- Use Benchmarking Studies to determine *reasonableness*
 - Renegotiate fees or more services using reliable competitive information
 - Establish an ERISA budget account to recapture fees
 - Document the benchmarking results
- Conduct a provider RFP if plan has outgrown provider's services