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Interview with Yannis Koumantaros of Spectrum Pension Consultants, Inc.

Tom: One thing we know for sure, and that is, if you keep your fees lower, if you pay less to others, there's a pretty good chance you're going to end up with more money. I hate using the word guarantee on this show because they come and step on my toes a little bit afterwards for saying that, but I think we can say guarantee around that, can't we guys? I mean, if we say guarantee, if you pay less, you save more? You'll end up with more money.

Paul: You can say that if you make the assumption that it's exactly the same instrument. Yes, if you had a lower fee on an S & P 500 fund, you'll make more.

Tom: There you go! You will make more. So it stands to reason that the government is now trying to look into fees, and one of the areas they're looking into is 401(k) fees. We can do an investment outrage every week basically about either the asset allocation that's provided to people in their 401(k) or the fees that they pay which are within 401(k)s and 403(b)s.

Paul: Exactly, and unwinding what fees are in there and trying to figure it all out is not an easy thing. Now, the Department of Labor is putting pressure on advisors to make 401(k) fees more transparent. This makes sense for you, the consumer out there. Well, we thought we'd bring in our expert from Spectrum Pension Consultants. Yannis Koumantaros joins us here on Sound Investing. Yannis, thank you very much for joining us on the program.

Yannis: Thank you, I am glad to be here.

Tom: And, so what about this? Is this a good step that the Department of Labor is sort of stepping into this quagmire and saying, “Hey, let's spell things out, let's make it a little clearer to the plan participants what fees they're paying and what kick backs are in this business?”

Yannis: Yes, I think it has a great premise. When the Department of Labor gets involved in items, it's usually based on some kind of a negative connotation. The response that the Department of Labor has is essentially tied to a lot of the lawsuits that we saw coming up late last year. I think most firms in the industry would

probably argue that this is going to help the industry in the long run. If you would've asked me six months ago whether or not the government would have responded this quickly, I would have said "No Way." So, I think that this does definitely help the consumers in at least stirring the pot a little bit.

Paul: Yannis, tell us about what really goes on out there today, or at least six months ago. Where are the people who were paid? You sort through the mutual fund industry and find the very best for the participants in those 401(k) or 403(b) plans. Were they finding that indexing was a good way to go? Were they finding that using a family like Vanguard, where the expenses are very low and turnovers are very low, and there's huge diversification, is that the kind of funds they were finding?

Yannis: That's a great question, and the reality here is that most people, when evaluating 401(k) product solutions, typically go with what's sold to them. Very infrequently does a firm do a proper due diligence review of all the options available. Typically what would happen is the CFO or someone in HR would form a pension committee, and then that committee would be responsible for evaluating the options that are available to the plan. I think that you all understand this, but the larger a 401(k) or 403(b) plan has in assets, the better access they have to cheaper products. This came with the lawsuits, but what was being seen is that assets grew in these plans, and nobody renegotiated fees or reevaluated from a due diligence perspective. That's where these fees became excessive, especially with the market returns over the last four years.

Tom: Yannis, what kind of disclosures are going to be required would you imagine? What are they going to have to tell participants?

Yannis: I think what's going to come out of all of this, and I don't know if it's going to be in the next twelve months or something more like three or four years, but what I ultimately see is some kind of required report. The Department of Labor currently has something called a Summary Annual Report that is given to each participant that essentially validates that the assets held in the entire plan trust were in fact held through a regulated financial institution. I'm guessing that either that one page Summary Annual Report will get updated to have fee disclosures or that some additional fee disclosure form will have to come out if the company, in this case the plan sponsor, chooses to pass fees to the plan assets. In most of these "Free Plans," when the assets get really big, the plan pays for everything. Those "free" fees are actually two or three times the fees you pay in a properly designed open architecture environment where fees are fully being disclosed and known to both the pension committee and service providers.

Paul: Yannis, let's put this in perspective. If I had \$100,000 in a 401(k) plan, and I'm with one of these advisors that use funds having a 12(b)-1 fee, the net $\frac{1}{4}$ of 1% will be paid to the administrator. On my account, the administrator is going to get \$250.00 for having that money in those funds. Let's talk about the real world. Now, you administer the plan for our firm by the way. I just want to make that disclosure.

Yannis: Thank you for that plug, and hopefully we do it very well.

Paul: Well, you do and we trust you. But, here's my point. \$250.00, what do you charge to a plan that has a fair number of 30, 40, or 50 employees? What would your charge be to somebody who then could use Dimensional Fund Advisor funds or Vanguard funds? What would it be?

Yannis: And that's a great question Paul. What we do here is administer and perform the record keeping services in an open architecture arrangement. In most of the surveys, the per participant fee ends up being about \$200.00 which includes per participant and administrative fees. The larger a plan gets, the less we have to charge that plan. That's because we are a full disclosure fee transparent company. If we were to receive any payments from mutual funds in your plan or any other plan, we would fully disclose those fees and use them to offset those arrangements. To plug your company, your firm Merriman Capital actually covers our entire administrative fee which means that the participants pay Spectrum nothing.

Paul: Yannis, if there is a requirement of full disclosure in 401(k)s and 403(b)s, how would this affect those products that are sold by the insurance industry that have fees that are so neatly hidden away that they don't even show up in a prospectus?

Yannis: It would probably have some kind of a detrimental affect. Because, if I were to bring you a \$20 bill and say you can give me \$25.00 for me to give you the \$20.00 bill, you probably wouldn't want to take that deal. So, what it would do is it would probably require that everyone reassesses what fees get paid, who pays them, and how much people get compensated for the services that they provide. I think indirectly, what it would do, and this is looking out to the future, Paul where I see the industry ultimately moving is plans will have asset thresholds. When there are a certain number of participants and a certain asset value in the entire plan, that plan should get updated to a better share class of mutual fund or investments, and a better pricing model automatically. That may be 5 or it may be 10 years away, but the reality is that's what America is demanding. And, I think that the Department of Labor, though sometimes intrusive in all of our lives from a regulatory perspective, is helping speed that time line along. And, I think that the insurance company products that are out there provide a great service for smaller plans, where asset fees don't affect the plan as much as in the larger plans. I still think there will be a market for those plans. I just think that larger plans would prefer to hire consulting firms like our own or others across the nation to do proper due diligence reviews for them to really take the liability out of the CFO and HR department's hands.

Tom: Well, some great information as always. Yannis, thank you very much for joining us on here at Sound Investing.

Yannis: Thank you all. I appreciate it.