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New JP Morgan DC Execs Focus On Behavior

Two newly-hired executives at **JP Morgan Funds** said the firm is studying participant behavior and will alter its target-date fund lineup and other investments based on what they find.

See story, page 2

WATSON WYATT STUDY: VENDORS GET READY FOR DEFAULT CHANGES

A study by **Watson Wyatt** suggests vendors should anticipate that plan sponsors will have to change their default investments as a result of pending legislation. The study, which surveyed 100 plan sponsors that use default investments, and which have approximately $100 billion in assets under management combined, found that nearly half will have to change their defaults because they offer their employees either a stable-value fund or a money market fund. Neither will be acceptable under new regulations from the **Labor Department**.

Mark Warshawsky, director of retirement research, said the implications for fund managers are huge. "Vendors will have to respond somehow to the regulations," he said. "The only solution is to completely redesign platforms so that they are consistent across

(continued on page 7)

GREAT-WEST GETS GREAT REPRIEVE

The **City of Riverside**'s (Calif.) finance committee has shot down a recommendation from the city's deferred compensation committee to drop **Great-West Retirement Services** and award both the $107 million 457 plan and $1.4 million part-time employee plan exclusively to incumbent **ICMA-Retirement Corp**.

After sending out the RFP, the committee learned that Great-West had a $1 million payout coming if it was not given five years' notice. Despite a counter offer from ICMA to essentially eat the fee as well as provide better service, Riverside's finance committee decided to stay with Great West after the fire department and other entities covered insisted on multiple providers.

"The employees wanted a choice of companies and the city did not want to limit their choice," said **Art Gage**, chairman of the finance committee. The recommendation from the

(continued on page 7)

TRENDLINE

ROTH 401(K) STRUGGLES IN ITS DEBUT YEAR

The Roth 401(k) had its first birthday Jan. 1, but some in the industry said there was little to celebrate because plan sponsors have been reluctant to adopt it. **Catherine Collinson**, senior v.p. of strategic planning at **Transamerica**, said a recent survey conducted by her firm shows that only 9% of 660 employers surveyed offer a Roth and only 13% of those will consider it in the coming year. But when Transamerica asked employees whether they would prefer to contribute assets on a post-tax elective deferral basis, which is the case with Roths, two-thirds of the 1,400 employees said yes. "This shows that there is great disconnect between employees and employers," she said.

Many plan sponsors simply do not see the benefit of Roths. Officials at **Brown Shoe**, **Pike**

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At Press Time

New JP Morgan DC Execs Focus On Behavior

Two newly-hired executives at **JP Morgan Funds** said the firm will study participant behavior and alter its target-date fund lineup and other investments based on what they find. **David Musto**, who joined the firm as a managing director to run the Retirement and Defined Contribution Investment Only business and **Glenn Dial**, who is now senior retirement sales specialist, said JP Morgan has begun researching its clients and will release a white paper in the coming months. Both positions are new.

JP Morgan offers the Intrepid Funds to DC plans. The funds have multiple asset classes for varying risk tolerance. Dial said the direction that his firm is heading expands on that idea, but applies to other types of investments. "For example, understanding more about when people cash out and how events in one's life change how they invest, and then taking what we've learned and applying it to our funds will be unique," he said.

Musto was previously at **Prudential Retirement** where he was a senior manager. Dial came from **Merrill Lynch** where he was national sales manager for the **Princeton Retirement Group**. JP Morgan has approximately 1.3 million participants and $96 billion in assets under management in its DC business.

Santa Barbara County Closes 457 RFP

Santa Barbara County (Calif.) has closed its request for proposals for its $146 million 457 plan. The RFP was issued in November. According to the RFP, Santa Barbara is seeking lower participant and plan expenses, a simplified investment menu, group and individual meetings and other services. The county offers 20 fund options, including **American Century**'s three asset allocation funds and **Dodge & Cox**'s Balanced Fund. An official said the RFP is part of due diligence, but she would not comment further. **The Hartford** is the provider and **Arnerich Massena & Associates** is the consultant.

Jayson Davidson, consultant at Arnerich, said the city wants to make sure the plan is priced properly. Six bids were submitted, but Davidson could not disclose names. Vendors will be required to have at least five years of experience administering 457 plans and must be currently servicing three 457 plans each with assets of $100 million or more. The contract will run for five years with renewal options at the discretion of the county. Interviews may be requested.

Tell Us What You Think!

Questions? Comments? Criticisms? Do you have something to say about a story that appeared in *DCSPA*? Or is there information you'd like to see published? Whether you're irate with your boss, would like to discuss a new business strategy or crow about a big hire, give us a call. Executive Editor **Wendy Connett** can be reached at 212-224-3979 or wconnett@iinews.com.

defined contribution & savings plan *alert*

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Search Advisory

Kansas County Receives 10 Bids

Sedgwick County in Kansas has received 10 bids after issuing a request for proposals for its $24 million 457 plan. **Lincoln Financial Group**, **Great-West Life & Annuity**, **Diversified Investment Advisors**, **Nationwide Retirement Solutions**, **ING**, **ICMA-Retirement Corp.**, **MetLife**, **The Hartford**, **Citistreet** and **Allen, Gibbs & Houlik** were the bidders. **Iris Baker**, purchasing director, said the committee is still evaluating the bids, but a shortlist will be created soon, followed by negotiations and then a recommendation to the board. ICMA and ING are the incumbents.

The RFP was issued because the county wants to consolidate the number of providers to one, as well as simplify the investment line-up and cut plan expenses (DCSPA, 11/20). An award is expected by the end of February.

Marketing Strategies

AIG Rolls Out Education Materials

AIG VALIC will roll out an updated version of its education materials for K-12 403(b) plan sponsors, consultants in that field and school district personnel. **Bruce Corcoran**, v.p. of the K-12 market, said the materials, named AIG Retirement Manager K-12 Compliance Series, are designed to assist these groups comply with recent regulations that force 403(b)s to act like 401(k)s. AIG will provide brochures, Web-based instructions and personal meetings for its clients. Much of the focus here is on regulatory and administrative issues, he said. Compliance Series will be ready to go once final guidance from the **Department of Labor** on 403(b)s is released, which Corcoran expects to happen early this year. AIG manages approximately $20 billion in K-12 403(b) assets. AIG Retirement Manager K-12 Compliance Series has been available to sponsors since 2004.

ProManage Hires Account Manager

ProManage, which offers a managed account program to 401(k) plans, has hired **Barbara Auerbach** as an account manager. **Mike Chard**, v.p. of account management, said Auerbach will be in charge of servicing existing clients, which have plans ranging from $10 million to over $100 million. She will maintain the overall relationship between plan sponsors and recordkeepers and gather participant information, such as income, age and history, for the managed account service. Chard added she will also be responsible for ensuring the program is sold and administered properly to clients through an intermediary. Chard has not assigned an intermediary to Auerbach yet. She started February 1 and reports to Chard.

Previously Auerbach was the project manager at the **General Board of Pension and Health Benefits of The United Methodist Church** for nine years. She is also an attorney.

Retirement Calculator To Sell Leads To Providers

Retirement Calculator plans to sell its leads on prospective clients to retirement service providers. **David Phillips**, chairman and ceo, said most companies are not equipped with an effective lead generation system to support advisors. A new Web site, www.retirementleads.com, will be launched by April to connect advisors with leads from individuals seeking retirement help.

The new Web site will pool leads from 1,650 Web sites owned by Retirement Calculator, a Canton, Mi.-based interactive marketing firm. The sites link individuals with advisors after retirement-related information is filled out. Roughly 300-500 national leads are generated daily. Independent advisors will be charged $13,500 annually. The cost of the new site for corporations is still under consideration.

Four independent advisors have already signed on. **Chris Radar**, an independent advisor and president of **R Financial Group**, said the leads at Retirement Calculator come from individuals who are looking for a service—preparing for retirement—rather than a product or the best rate. They are quality leads because the customer knows what they are signing up for, compared to other lead generators, Radar said. The Raleigh, N.C. financial advisory firm signed up in December.

Perimeter Gets Fund On Schwab, Wells Fargo Platforms

The **Perimeter Capital Management** Small-Cap Growth Fund will soon be available on the platforms of **Charles Schwab Retirement Services** and **Wells Fargo**. **Teri Benson**, director of third-party distribution and client relations, could not comment on specific arrangements made between the firms. The Atlanta-based investment management boutique already has the fund on the platforms of **Fidelity Investments** and **AST Trust**. "Even though it's a relatively new fund, the management team has been around a while," she said. The fund was launched on Sept. 29, and the team was previously at **Trusco Capital Management** until they left to form Perimeter. **Brad Ball**, ceo of Perimeter, said the selling point is a focus on fundamentals and its sell-side experience. "We don't buy into crazy fads… If a stock is not performing well it's dropped," he said.

Benson said **Morningstar** will soon complete an analysis of

Marketing Strategies (cont'd)

the fund and that it will be included in its Principia program. Principia is a reporting service for recordkeepers that offers them analysis on funds in various categories.

Mutual Fund Store To Staff New Shops

The Mutual Fund Store, which services retirement plans with fewer than 100 employees, plans to staff three new, upcoming shops. The firm's operations will expand into Denver, Atlanta and Phoenix in June, August and September, respectively, with two shops in each area. **Christopher Braudis**, v.p. of retail operations, said the firm plans to hire a team of two, consisting of a senior investment advisor and client service representative, for each store. The new hires will be responsible for meeting with clients, determining needs and implementing a plan. They will report to **Jason Black**, assistant v.p. of corporate operations. The firm also opened up two stores in Detroit this month, and plans to hire two more teams of two for each store by year end.

The Kansas City, Mo., fee-based investment advisory firm is expanding its operations for several reasons. Braudis said the three locations have a large population, high growth rates and radio stations to broadcast the Mutual Fund Show hosted by founder and chief investment officer **Adam Bold** of The Mutual Fund Store. He said the mass affluent, the firm's target client, are underserved in these areas as well. The average account size is $200,000, with the account minimum at $50,000. The firm expects assets to increase by $1.5-$2 billion in 2007, in which 50% of the assets will come from the retirement business, Braudis said. Currently it manages $2.7 billion.

Washington

DOL To Take On Thorny Advice Issues...

The **Labor Department** is not going to shy away from the politically-sensitive question of whether fees charged for investment advice must be kept level. **Louis Campagna**, chief of fiduciary interpretations for the department, said Jan. 26 that DoL hopes to get out guidance on whether the Pension Protection Act's requirement that advisors must keep fees level no matter what product the plan participant buys applies not just to the advice-giver but the firm he works for. Advice providers have been lobbying strenuously to get either Labor or Congress to make the narrower interpretation apply.

Campagna raised the possibility that the department might actually broaden the coverage of the level fees requirement to include affiliates of the advisor's employer. Questions had been raised about broadening the level fees rule to include affiliates, he said. The official's comments were made at a lawyers' meeting sponsored by the **American Law Institute** and the **American Bar Association**.

The PPA offered one other way besides level fees for firms like mutual funds which provide investment products to 401(k) plans exempt from ERISA conflict of interest barriers—provide advice generated by computer models. Campagna said that language in the law also is causing questions to rain in on the department. He said people are asking what that part of the new statute does to a previous Labor Department approval of computer-generated advice in its **Sun America** opinion. Did the statute override Sun America? The question will be answered, Campagna said. But he did not say how or when.

...Heeding Default Option Feedback

A senior **Labor Department** official on Jan. 26 assured powerful groups that their wishes for change in the DoL's proposed new default option rule were being heeded. The final version of the rule is due to come out next week. **Louis Campagna**, chief of fiduciary interpretations at the department, specifically singled out three areas where Labor is weighing advice to change the rule—letting other providers besides mutual funds design a plan's default option, allowing stable value funds into the mix of investment choices and making clear that redemption fees would not be a barrier to a fund's involvement in a default option.

Allowing slow-growing stable value funds into the lineup of permissible options could be a source of contention. Some members of Congress have written to the DoL asking it to permit this. On the other hand, on Jan. 22 the **Financial Planning Association** wrote a last-minute amendment to its original comment letter trying to head DoL off from going that way, which it claimed would be "inconsistent with congressional intent." Campagna said on Jan. 26 a lot of insurance companies (which sell stable value products) had pressed for stable value's inclusion. They offered, Campagna said, "a lot of good arguments…so we are looking at these things."

Altogether, the department has received over 100 comment letters on the default option rule. Campagna brought up the **Sun America** opinion Labor issued in 2000 permitting computer-based advice in talking about the default option, and pointed out that letters coming in asked for more flexibility to use Sun America-type design models rather than fund providers. "We are looking at that," Campagna said. He mentioned doubts some of the letter writers had expressed about whether participants might be disenchanted with the company 401(k) plan if they found their paychecks slimming down because money was being deducted and put into a default option without their consent. The official did not hint at how the department would handle that problem. He did say DoL "is considering" how to handle fund redemption fees. The rule presently says fees would disqualify a default option.

SPARK Leadership Series Meeting

*The **Society of Professional Administrators and Recordkeepers** (SPARK) brought its members to Washington, D.C. for its annual Leadership Series Meeting last week. Speakers updated attendees on issues ranging from Capitol Hill's interest in 401(k) fees to recordkeepers work to compensate investors for market-timing losses. Washington Bureau Chief **Stan Wilson** covered the event.*

SEC Gives SPARK Little Cheer On Market-Timing Duties

A **Securities and Exchange Commission** official discouraged any hopes recordkeepers might have that they will be reimbursed for finding victims of mutual fund market timing and paying them restitution money on behalf of the SEC. If there is any excess of funds disgorged by the guilty parties, **Peter Bresnan**, deputy director of enforcement, said last week the residue will be turned over to the **U.S. Treasury**. Attendees raised the possibility of having their costs defrayed in this way.

Bresnan also said the 20 administrators running the restitution funds for investors in fund complexes paying money back to investors would have their expenses paid. Recordkeepers in the room complained that because their firms have been asked to allocate the money they have been turned into ERISA fiduciaries, whereas the administrators were rumored to be steering clear of doing the allocation work in order to avoid being subject to fiduciary status and possible penalties. "We wouldn't second guess Labor," Bresnan said. The **Labor Department** made the determination that recordkeepers allocating the money would be covered by ERISA.

Move To New Cash Balance Plans Still Missing, Says Treasury Official

Even though Congress last year acted to legitimize new cash balance plans, so far there is no sign companies are thinking of setting new ones up, Treasury Benefits Tax Counsel **Thomas Reeder** said last week at the annual meeting. There had been some hope in Washington that firms which dropped traditional defined benefit plans might turn to cash balance. "There is not yet evidence that cash balance will save the DB world," Reeder commented. The apparent alternative would be more 401(k) plans.

A meeting participant brought the subject up, saying he had been unable to detect the slightest corporate interest in establishing cash balance plans. The department aide said he did not think the **Bush** Administration would want Congress to react to the DB dilemma by relaxing funding rules for traditional plans. "The administration wanted to go further," he noted.

Reeder did indicate Treasury is working on the needs of firms which in the past tried to convert standard DB plans into cash balance only to have the department freeze their applications at the end of the 1990s. He said he hoped to finish issuing determination letters for all of the frozen plans by the end of the year so companies wishing to do so could implement their plans. Reeder also said regulations on cash balance plans necessitated by the Pension Protection Act could be done in April.

Reeder Blesses Cost-Cutting On Diversification Notices

A way to cut the cost of providing participants with notices of the right to diversify account holdings got encouragement from Treasury's benefits tax counsel **Thomas Reeder**. Diversification notices are required by the Pension Protection Act. One attendee asked Reeder about substituting cross referencing to existing documents in place of plan-specific notices. Reeder agreed that requiring plans to mail out a lot of detail that might go unread was not a good idea. "Point taken," he said. "We have to come up with something workable."

He also predicted the imminent release of final Treasury regulations for Roth 401(k) and 403(b) plans. Treasury officials had earlier predicted they would be out by the end of last year. "Look for them to be out in the coming month," Reeder said.

Not moving so fast is revision of the regulations governing 403(b) plans. But Reeder said the Treasury was committed to completing them by July 1. There has been an effort by the **American Society of Pension Professionals and Actuaries** to see that the regulations do not lead to non-profit plans under 403(b) coming under Title I of ERISA. Reeder talked of "somewhat more comfort" to address these concerns "for those people truly not under ERISA." But, he added, "A lot of people who think they are not under ERISA, are."

Separately, he promised Treasury would try to get automatic enrollment rules written "well before" they are needed at the end of the year.

SPARK Leadership Series Meeting

Reeder Likes Suggestion To Funnel Refunds Into 401(k)s

A suggestion to take a portion of the $230 billion in annual income tax refunds and channel them into 401(k) accounts was floated past the Treasury Department's top retirement tax specialist last week and he loved it. **Thomas Reeder**, in fact, went a step further, and proposed linking the income tax refunds to the savers tax credit and putting them both in 401(k)s—assuming Congress makes the credit refundable, a step that could well happen. "That's a great idea," said Reeder.

Until now, all the money in 401(k)s has been either participant deferrals or company matches. Yet in the capitol there has lately been a growing recognition that the average $2,000 per year tax refund people receive may be, in many cases, the best shot individuals have at setting aside funds for retirement.

But opposing the Washington impulse in that direction has been misgivings felt in industry circles that government money might come with strings attached—such as limits on how much of the funds could be invested in employer stock or on what fees plans could be charged. The threshold question for plan sponsors is what the infusion of government money would do to sponsors' efforts to meet the non-discrimination test they must pass. Reeder characterized the industry as "spooked by the idea of getting feedback from the government."

SPARK General Counsel **Larry Goldbrum** used the recordkeeper group's annual January Washington briefing to ask Reeder whether a mechanism could be set up so employers could learn from their workers if they wanted some of their tax refunds to be funneled into 401(k)s and if the Treasury would be amenable to doing it. "If anybody has a plan, let me know," Reeder replied.

In an interview later, Goldbrum said after canvassing SPARK members on the subject, SPARK would see "if we can come up with a way to put the money in 401(k)s" and pass that blueprint on to Treasury.

Under a new Treasury rule, this year for the first time taxpayers will be able to split their tax refunds and take part in cash and put the rest into an IRA. It is this second part of the split refund that Goldbrum and Reeder are interested in shifting over from IRAs to 401(k)s. Reeder pointed out that a 401(k) is "longer-term and deeper than an IRA" because the money is harder to withdraw for current spending. The savers credit is an incentive for low and moderate income taxpayers to save. But until it is made refundable it can only be used to lower tax bills and cannot directly be a source of funds for saving.

DC Search Directory

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The following directory includes search and hire activity for the two weeks ending Wednesday, January, 31. The information comes from a variety of sources; it is deemed reliable but its accuracy cannot be guaranteed.

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Potential Searches

Fund	Fund Size	Fund Type	Assignment	Mandate Size	Consultant	Comment Or Firm Hired
City Of Riverside, Riverside, CA, U.S.	USD107	Public D.C.	US / Bundled	USD107	None	Committee recommended rehiring incumbents ICMA-RC and Great West Retirement Services in this invitation-only search. Decision expected shortly.
Santa Barbara County Employees Retirement System (Defined Contribution), Santa Barbara, CA, U.S.	USD146	Public D.C.	US / Investment Products	USD146	Arnerich, Massena & Associates, Portland, Oregon, OR	Fund has closed its RFP. Seeking lower participant and plan expenses, a simplified investment menu, group and individual meetings and other services for its 457 plan. No timeframe for decision.

Updated Searches

Fund	Fund Size	Fund Type	Assignment	Mandate Size	Consultant	Comment Or Firm Hired
Sedgwick County, Wichita, KS, U.S.	USD25	Public D.C.	US / Bundled	USD24	Unknown	Currently reviewing ten bids. The RFP was issued because the county wants to consolidate the number of providers to one, as well as simplify the investment line-up and cut plan expenses. An award is expected by the end of February.

WATSON WYATT

(continued from page 1)

all plans."

"There is no doubt providers will have to act on it," said Warshawsky.

But providers that depend on stable value and money market products may have found an ally. A group of 16 House members, including Reps. **Earl Pomeroy** (D-N.D.) and **Sam Johnson** (R-Texas) have urged the DoL to add both stable value funds and a combination of a managed account and an annuity contract to the list of acceptable default funds (DCSPA, 1/8).

Warshawsky said the DoL will likely listen to plan sponsors over all else, despite pressure from lawmakers. Roughly 94% of sponsors surveyed said asset allocation funds are the most attractive default investment, whereas only one-third of the sponsors said they are moderately attracted to stable-value or money market funds. "The respondents saw the government's stamp of approval when default investments were addressed in the Pension Protection Act… Now it is going to change the way they invest."

Warshawsky previously worked with **Anne Combs**, former assistant secretary at the DoL, and was part of the effort to get the default provision on the PPA.

Other findings of the study include:

- 70% of those surveyed said automatic enrollment was the primary reason to have default investments.
- 60% are somewhat or very positive about balanced funds, while only 39% think a professionally managed-account is appropriate.
- 84% have a stable-value fund, but only 27% have it as their default investment. Meanwhile 58% offer a money market fund and 18% offer it as their default.

GREAT-WEST

(continued from page 1)

finance committee to retain both incumbents will be reviewed by the full city council, along with contract proposals from the incumbents. A final decision is expected in a month.

Gregg Seller, senior v.p. of government markets at Great-West, said it was improper for the city to allow ICMA to revise its bid. **Joan McCallen**, ceo at ICMA, would not comment on its revised bid.

If the incumbents are awarded the mandate, which is likely, they will offer the same funds and more. The incumbents have served the plan for about two decades.

—Liman Cheng

ROTH 401(K)

(continued from page 1)

Electronics and **Fridley** all said they do not offer a Roth or plan to because it would be too difficult to communicate to employees. One official said Roths would add an administrative burden because the company would have to run two sets of books. "We have enough to worry about," she said.

Keith Sykes, defined contribution product group director at **Wachovia Retirement Serices**, said his firm has seen only 4% of the plans it administers adopt a Roth 401(k). He suggested the reason is because they are difficult to communicate to employees. "It's a very complex decision to make," he said. "If you're an employee considering Roth you have to try to plan 20 or 30 years ahead depending on what tax bracket you are in," he said. "So not only do we have to try to educate participants on investing, but we have to educate them on taxes too."

Sykes said Wachovia's response to the slow adoption rates will be to adjust the calculators plan sponsors and advisors use for participants. These changes will factor in how multiple scenarios in one's life alter their retirement income pre-tax versus post-tax. He said calculators used today do not factor in things such as changing jobs or funding a child's education and how that affects retirement income.

Transamerica plans to increase education and communication efforts. "Roth is a wonderful product, and the opportunity is there," she said. "We just have to do a better job at educating people."

Julian Onorato, president and ceo of **ExpertPlan**, a Princeton, N.J.-based recordkeeper, said the future of Roths is bleak. "At this point I see Roths having very little penetration." Onorato said the trouble is not just a lack of understanding, but also part of a bigger savings crisis. "The average participant puts in only 3% of their income into the 401(k)," he said. "The money is just not there for another product."

—Richard Kellerhals

Quote Of The Week

"There is no doubt providers will have to act on it."—**Mark Warshawsky**, *director of retirement research at* ***Watson Wyatt****, on why vendors should anticipate plan sponsors changing their default options (see story , page 1).*

One Year Ago

The **Labor Department** ruled that an advisor hired by a plan sponsor or participant to invest 401(k) money can escape ERISA liability if the advisor is not a fiduciary of the 401(k) plan. [Since then some advisors, such as **Sanders Booze Capital Management**, have decided it would be a selling point to agree to take on some or all fiduciary responsibility.]

THE LAST WORD

65 The New 60

The **Federal Aviation Administration** has proposed that the mandatory retirement age for airline pilots now be 65 instead of 60. The FAA said its new rule mirrors a similar rule adopted by the **International Civil Aviation Organization**, which is part of the **United Nations**. But some in the industry see this as merely a means for pilots to recoup their losses after years of battling over pensions. "Many pilots have taken huge penalties to their pensions, and this is a way to recoup some of that," said **Carl Kuwitzky**, president of the **Southwest Airlines Pilots' Association**, which lobbied for the change.

But are aging pilots safe to fly? Those who oppose the new retirement age, including leaders of the **Airline Pilots Association**, said the safety impact of changing the retirement age hasn't been analyzed. But **Marion Blakey**, the FAA administrator who proposed the change, said there is no medical evidence that shows older pilots are unsafe. "Is there a group of employees in better shape than pilots?" Blakey said.

