



# **Pricing and Broker Compensation in the Small Plan 401(k) Market**

**August, 2010**

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## Introduction and Summary

### Points of Departure

- The pricing and advisor compensation comparisons presented in this report are intended to provide industry benchmarks so that a provider can determine relative price position and pricing structure under various standard scenarios. We recognize and fully embrace the idea that price is only one side of the value equation; offering a superior product with outstanding service delivery and advisor support at an above average price is one potentially successful value proposition, as is a more spartan offering at a low price.
- We selected mainstream products for which standard pricing schedules are available in RRI profiles. As several providers use only model-driven pricing to determine custom service fees and contract charges (where applicable) for each separate client, such providers and their products are not included in the comparisons. It should be noted that for any given client or prospect a provider may elect to depart from standard pricing, especially for larger and more demographically attractive plans; nevertheless, standard pricing schedules should be representative of "typical" account pricing.
- Products have been grouped for comparison purposes by service model: Bundled "Full Service" products or service model option; TPA Interface products or service model option.
- A total of ten scenarios were priced. Five account sizes ranging from \$240,000 to \$5 million of plan assets were selected (our experience is that standard pricing is of diminished value much above the \$5 million level). For each asset size we then modeled a low balance/higher number of participants scenario (\$20,000 average account balance) and a high balance/lower number of participants scenario (\$60,000 average account balance). Both first and second year prices were calculated to capture the impact of installation and conversion fees in year one.
- Where a provider offers multiple products or product variations that could have been used for a given scenario, the product most often used was selected. In several instances we switched from one product to another moving up the plan asset scale.
- To the extent feasible, advisor compensation has been held constant using a standard 1.00% finder's fee (first year only) and a 0.25% trail (beginning 13<sup>th</sup> month); alternatively, an "R" or similar share class paying a 0.50% immediate trail was selected where that was the closest comparable option in NAV products. If pricing information was not directly available, we assumed that the 1.00% finder's fee/0.25% trail commission would be priced at 0.42%.
- A few products use moderately different bundled commission arrangements – we selected the most closely comparable share class or schedule. In the case of American Funds PlanPremier and PlanPremier TPA products, we elected to show pricing for both the "R-2" and "R-3" shares since there is no 0.50% commission option. The "R-2" share with a 0.75% 12b-1 fee and 0.65% trail commission and the "R-3" share with a 0.50% 12b-1 fee and 0.35% trail commission bracket the standard 0.50% trail.
- Given the unavoidable differences in bundled commission arrangements, we calculated first year and second year payouts plus a 10 year rollup for each product. The rollup uses the simplifying assumption that payouts in years 3 through nine are the same as in year 2.

## **Introduction and Summary**

### **Points of Departure (continued)**

- All-in pricing includes a weighted average total expense ratio of the underlying standard investment funds, a contract charge or wrap fee where applicable and billed service fees calculated using a standard set of pricing assumptions detailed in the documentation included in the appendix section of this report. Billed fees have been expressed as a percentage of assets for consistency in comparison with the other components of all-in pricing but are also available as dollar amounts on pricing worksheets that are included in an appendix section.
- An analysis of ancillary service pricing is included as a final section of the report. These are services that often are optional and may be priced separately, e.g., directed trustee services, loan set-up and administration, managed account services. Services are grouped by those provided at the Plan level and those provided for Participants.

### **Summary Observations**

- Total asset size has a substantial impact on all-in pricing; average account balance has a significant but more modest impact, on average, but this varies from no impact to a very sizeable impact across products.
- Billable service fees can have a substantial impact on all-in pricing of small plans but that impact declines rapidly with plan size. At \$5 million, billables typically equate to 5 to 25 basis points or less than 10% of total price. Billable service fees often represent a much higher component of total price with full service NAV products than with full service annuity and wrap fee products.
- Pricing variability – the spread of specific product prices around the mean – tends to be highest at the small plan size and narrows with increased plan size. This is due largely to the decreasing impact of billables on total price as plan size increases.
- The commission schedule most typically used with annuity and wrap fee products, a 1.00% first year finder's fee with a 0.25% 13<sup>th</sup> month trail, generates higher total payout to the advisor through the initial 2 years than does the 0.50% immediate trail typical of mutual fund company "R" and similar share products. However, payout favors the 0.50% immediate trail product by the end of the third year and payout over a ten year period may be more than 50% higher. In practice, this difference may be narrowed somewhat by lower payouts on alliance funds than proprietary funds, on index or money market funds and so on.

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## Bundled - Low Balance

Total Expense as a % of Average Assets					
Scenarios:	Low Balance				
	1	2	3	4	5
<b>Participants</b>	12	25	50	150	250
<b>Monthly Deposits</b>	\$ 2,500	\$ 5,208	\$ 10,417	\$ 31,250	\$ 52,083
<b>Annual Deposits</b>	\$ 30,000	\$ 62,500	\$ 125,000	\$ 375,000	\$ 625,000
<b>Assets</b>	\$ 240,000	\$ 500,000	\$ 1,000,000	\$ 3,000,000	\$ 5,000,000
<b>First Year</b>					
<i>ADP Access (R Shares)</i>					
<i>American Funds Plan Premier (R-2)</i>					
<i>American Funds Plan Premier (R-3)</i>					
<i>Ascensus Single Source</i>					
<i>Great-West Key Easy Start 401(k)</i>					
<i>Hartford Aviator (R Shares Option 2)</i>					
<i>Hartford Aviator EB</i>					
<i>ING MAP Select (Core Menu)</i>					
<i>Lincoln Director (Complete Pricing)</i>					
<i>Nationwide Clear Advantage</i>					
<i>Nationwide Retirement Innovator</i>					
<i>OneAmerica Architect (Option A3)</i>					
<i>OneAmerica Foundation (Option N7)</i>					
<i>OppenheimerFunds Pinnacle (N2 Shares)</i>					
<i>Principal Advantage (R-3 Menu)</i>					
<i>Principal PCRP (R-3 Menu)</i>					
<i>Prudential Redefining Retirement - Retail Mutual Funds</i>					
<i>Putnam Small Business 401(k)</i>					
<b>Group Average</b>	<b>3.32%</b>				

## *TPA Interface Pricing Summaries*

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## TPA Interface - Low Balance

Total Expense as a % of Average Assets					
Scenarios:	Low Balance				
	1	2	3	4	5
<b>Participants</b>	12	25	50	150	250
<b>Monthly Deposits</b>	\$ 2,500	\$ 5,208	\$ 10,417	\$ 31,250	\$ 52,083
<b>Annual Deposits</b>	\$ 30,000	\$ 62,500	\$ 125,000	\$ 375,000	\$ 625,000
<b>Assets</b>	\$ 240,000	\$ 500,000	\$ 1,000,000	\$ 3,000,000	\$ 5,000,000
<b>First Year</b>					
<i>American Funds PlanPremier TPA (R2 Shares)</i>					
<i>American Funds PlanPremier TPA (R3 Shares)</i>					
<i>American Funds Recordkeeper Direct (R3 Shares)</i>					
<i>Ascensus LinkInsight</i>					
<i>Great-West Easy Start 401(k)</i>					
<i>Hartford Aviator (R Shares Option 2)</i>					
<i>Hartford Aviator EB (R Shares, Option 1)</i>					
<i>ING MAP Select (Core Menu)</i>					
<i>John Hancock - JH Signature (Class 7)</i>					
<i>Lincoln Director</i>					
<i>MassMutual Group Annuity TPA (A Shares)</i>					
<i>Nationwide Clear Advantage</i>					
<i>Nationwide Retirement Innovator</i>					
<i>OneAmerica OneAlliance TPA (TPA3)</i>					
<i>OppenheimerFunds Record(k)eeper Pro</i>					
<i>Principal Advantage (R3 Shares)</i>					
<i>Principal PCR P</i>					
<b>Group Average</b>	<b>2.62%</b>				



# **Pricing and Broker Compensation in the Small Plan 401(k) Market Appendix**

**Documentation and Detailed Low/High Balance Pricing Spreadsheets**

**August, 2010**

# **Pricing and Broker Compensation in the Small Plan 401(k) Market**

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