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CASE STUDY: Government Contractors

Background:

MV Financial was introduced to the CFO and General Counsel of a government contractor with 250 employees and multiple offices across the country. The referral came from a CPA who acknowledged the plan had not been reviewed or "benchmarked" for many years. The plan size was roughly $25,000,000 in assets and was managed by a well-known national insurance company under a group annuity contract platform. The General Counsel was the primary decision maker for the plan. At first, he was resistant in reviewing the plan's metrics. However, he quickly realized that the plan needed a change after reviewing MVF's benchmark and understanding how much improvement could be made.

Issues Identified:

We uncovered the following deficiencies and concerns during the benchmark and subsequent review with the plan's administrators/sponsors:

- Lack of Fiduciary Protection
    - The administrator/sponsor was responsible for investment selection and therefore personally liable for plan performance.
    - Investment options had different share classes with different levels of revenue sharing, a clear violation of ERISA.
    - The plan's use of high-fee proprietary funds raised potential conflicts of interest.
- Lack of Education
    - Employees had access to vast resources through the employee website but no individualized education. Thus, 404(c) compliance was in question.
- Above-Average Fees
    - Plan fees were higher than average in this company's peer group.
    - Investment options fees were higher than average and were underperforming their respective benchmarks over most periods.

MVF Solution:

Based on the benchmark results, MVF offered the following recommendations:

- Delegate fiduciary responsibility to MVF as a 3(38) Fiduciary Investment Manager.
- Change the plan's platform to an open architecture platform, moving away from proprietary funds and potential conflicts of interest.
- Provide risk-based actively managed portfolios utilizing a combination of exchange traded funds (ETFs) and institutionally priced mutual funds.

- Make MVF responsible for individualized employee education and support through on-site meetings, webinars, and phone calls.

Conclusion:

The government contractor chose MV Financial to manage the plan's investments and act as a 3(38) Fiduciary Investment Manager. Sponsors' direct fiduciary responsibility was reduced and they realized annual cost savings of $150,000 per year by moving to an open architecture platform with lower cost investment options. Employees were thrilled to have individualized education and investment options that outperformed their respective benchmark over various periods. As a result, roughly 80% of employees deferred their investments to MVF's managed portfolios. In the end, despite the General Counsel's initial reluctance to review the plan, we achieved a positive outcome for both employer and employee.