MassMutual

It’s not apples to apples

Help your plan sponsor clients compare provider fees using four real-world comparisons.

1 | Ladders and stable value funds

Picture this: You’re at the home center trying to choose between two ladders for your big outdoor project. On the surface, they look the same but the silver ladder is cheaper than the blue one. Curious, you take a close look and then it hits you: the blue ladder extends higher than the silver one. Suddenly, the prices make sense.

With stable value funds, the story is similar: if the only criterion was price, choosing between them would be simple. But if one stable fund provides a current crediting rate that’s considerably higher than the other, expense differences may make more sense (it’s not uncommon to see difference in rates exceed 1%).

2 | Cars and sample fund mapping

Imagine this: A car salesman shows you a price for a car and you like the price. But in truth, the salesman really doesn’t make any money on that particular model. So when you’re ready to sign the contract, the dealer pulls a fast one and shows you a different car for a higher price. It’s then that the little voice in your head tells you to run.

Some plan providers play the same game. They’ll give you a price with 100% of your plan’s assets mapped to a low-cost index fund. But in reality, the level of required revenue that provider needs means that your actual fund lineup may be different. And not only that, but the provider’s overall fees may be higher as well.

3 | Clothes and fiduciary liability

Consider this: An employer needs to buy uniforms for her 250 employees. Online, she sees a design that she really likes. But there’s just one (really big) caveat: they only come in one size. Time to abandon the shopping cart.

Sample fund lineups mapping 100% of your plan’s assets into an index fund may be ill-fitting too: employees have different career stages and retirement goals. In reality, it’s unlikely that any plan would map all its assets into a single investment like an index fund: doing so might not be attractive to plan participants and could create fiduciary exposure for the plan sponsor. So why would any provider present a fund mapping scenario that a plan sponsor is unlikely to implement? The answer is simple: to create the illusion of lower plan costs.

4 | À La Carte versus all inclusive

Fancy this: White tablecloths. Great drinks. Black tie service. Your romantic dinner is going perfectly until you get the bill and realize that not even the water was included in the à la carte menu.

A lower price from a plan provider can look great too until you take a closer look to see what isn’t included. Onsite employee meetings? Targeted employee engagement programs? A dedicated single point of contact? Deep administrative support? Some of these key elements may be extra. And when you feel like you’re being nickeled and dimed, indigestion may follow.

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