Fiduciary Management Model

A plan sponsor is able to address its overall investment objectives

Until November 2015, the fiduciary committee for Teradyne, a high tech global product company, managed its 401(k) plan investment lineup for the 3,566-participant plan. Steve Fagerquist, vice president of human resources (HR) for Teradyne, says, “We were managing the plan via our fiduciary committee. We were tasked with managing a complex fund lineup and making investment decisions in and out of the lineup on a macro level while doing our full-time jobs. There is a certain bandwidth that goes with that.”

Headquartered in the Boston area, the 57-year-old firm has $2 billion in revenues and operates in about 25 countries worldwide, with the biggest business units in the U.S. and Asia.

Fagerquist says the increase in 401(k) plan complexity, litigation and fiduciary regulation led the company to examine its in-house investment expertise. “We became aware of the rise of the outsourced model, and the significance of the workload we were doing as a collateral duty to the lives of the company employees.”

After exploring numerous options, Teradyne hired SEI, headquartered in Oaks, Pennsylvania, as its partner, to act as 3(38) discretionary manager overseeing investments and 3(21) adviser for setting the fund menu. SEI worked closely with the firm to build a custom investment menu strategy for its demographics, which include many highly educated professionals, and chose appropriate funds to offer them that would help meet their retirement goals at a lower overall cost.

SEI fiduciary managers use a combination of advisory and delegated investment services to address a plan sponsor’s overall investment objectives. Mike Cagnina, vice president and managing director of North American sales for SEI, gives an example: “Once it’s decided to put an international strategy on a plan sponsor’s core menu, SEI hires multiple managers within that investment option—we may have four or five institutional money managers whom we believe are best in class inside the strategy.

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I emphasize ‘inside the strategy’ because, for the participants that choose to invest in that international fund, we are overseeing those managers, hiring and firing the managers, and re-weighting those managers based on market conditions on behalf of the plan sponsor, every day.”

Teradyne no longer has to directly oversee the underlying managers, and the plan committee does not necessarily have to alter and disrupt its work force if an issue arises with an individual manager.

But the switch to fiduciary management involved more than just the committee and SEI. Fagerquist says, “It was a necessary and fairly complex set of interactions between the company fiduciary committee, recordkeeper Fidelity, and SEI to communicate and deliver this big change.”

For participants, Fagerquist says, SEI worked with Teradyne to provide an intensive in-person, multi-site set of presentations, as well as written communication. “Fidelity partnered with SEI, and us, around the written communications. From the beginning, we knew that communications were key to pointing out advantages of this to the participants.”

Besides these well-managed funds, Fagerquist says, Teradyne gained other benefits. Under the new plan, participants pay proportionally less in plan administrative fees. And, as part of the change, Teradyne took the opportunity to re-enroll employees, with opt-out provisions, into age-appropriate target-date fund (TDF). Participants went from 14% participation in TDF strategies to 57%.

The new Teradyne 401(k) plan has 13 TDFs, geared to five-year increments, and 10 core funds. SEI manages all of the funds except for a Fidelity stable value fund. The funds use almost 40 investment managers. Before hiring a fiduciary manager, the plan had TDFs plus 18 core funds with 14 investment managers.

“The core lineup offers both passive and active options,” Cagnina explains. “People may have a need for one versus the other, and as they go in and out of favor we don’t want that recent effect to populate only one methodology and not the other. So it allows participants who want to build it themselves to have the options to do so.”

Fagerquist says, “We now deliver a better product to participants, which is our ultimate goal.” —*Judy Faust Hartnett*

SNAPSHOT

PLAN SPONSOR	KEY PLAYER	PARTICIPATION RATE	AVERAGE DEFERRAL RATE	NUMBER OF PARTICIPANTS	TOTAL ASSETS
Teradyne	Steve Fagerquist, vice president of human resources	95.5%	11.7%	3,566	$737 million (as of August 30)

REPRINTED FROM PLANSPONSOR September 2017