
Study alleges fund “favoritism” in bundled 401(k) plans

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“Plans remove just 13.7% of affiliated funds in the lowest performance decile, [compared with a] 25.5% deletion rate for unaffiliated funds in the lowest performance decile,” said a new study from the Center for Retirement Research at Boston College.

Do 401(k) participants sometimes get second-rate proprietary mutual funds from their bundled 401(k) providers, and does that hurt their ability to save enough for retirement? New research from the Center for Retirement Research at Boston College suggests as much.

“Where mutual fund companies serve as plan trustees—indicating their involvement in the management of the plan—additions and deletions from the menu of investment options often favor the company’s family of funds,” the August 2015 research brief said.

“This bias is especially pronounced in favor of affiliated funds that delivered sub-par returns over the preceding three years. And participants do not shift their savings to undo this favoritism, especially the favoritism shown to subpar affiliated funds. ... [and] the lackluster performance of these sub-par funds usually persists.”

The study was based on plan data from 1998 to 2009, so the sample predates the possible reformative effect of recent federal class-action suit judgments against major plan providers and plan sponsors for failing to minimize fund expenses. It was written by Veronica Pool, Clemens Sialm and Irini Stefanescu of Indian University, the University of Texas and the Federal Reserve, respectively.

The data was culled from SEC Form 11-K filings and Form 5500 filings of 2,494 plans with about nine million participants. Three-quarters of the plans had trustees that were affiliated with mutual fund companies. Most of the plans offered proprietary funds as well as outside funds.

“The bias in favor of affiliated funds is particularly pronounced for poor performers,” the authors wrote. “Plans remove just 13.7% of affiliated funds in the lowest performance decile, dramatically less than the 25.5% deletion rate for unaffiliated funds in the lowest performance decile.”

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