

MTA Plans Cost Too Much

By **JOEL L. FRANK**

In the MTA Deferred Compensation Report covering the final quarter of 2004, Michael J. Jaszcar, Chairman of the Deferred Compensation Committee, accuses me (Current Pension Topics Jan. 7, 2005) of being "at best in-



accurate and at worst misleading" because I did not break down the services one receives in return for paying 0.29 percent for record-keeping and administration. I labeled this fee as shark-like and I leave it up to the good common sense of the participants to decide if the service, in the aggregate, is worth 0.29 percent.

Moreover, the Chairman erroneously accuses me of using the higher-expense ratios associated with the retail versions of the mutual funds used by the MTA Plans. I did not. I used the expense ratios of the funds as enumerated on the plans' Web site. For example, I listed 1.54 percent as the cost of investing in the William Blair fund after we add the 0.29 percent administrative fee to the fund expense ratio of 1.25 percent. The Chairman erroneously accuses me of overstating the expense ratio because he did not add on the 0.29 percent.

He repeated the mistake with the nine other funds that I listed as costing more than 1.00 percent (fund expense ratio plus 0.29 percent).

The cost of investing in the Stable Value Fund is 0.49 percent (0.20 percent fund expense ratio plus 0.29 percent administration fee). Clearly 59 percent of the cost of investing in this Fund goes for administration and record-keeping (0.29 percent divided by 0.49 percent). The cost of investing in the Van-

guard Fund is 0.34 percent (0.05 percent fund expense ratio plus 0.29 percent administration fee). Clearly 85 percent of the cost of investing in this fund goes for administration and record-keeping (0.29 percent divided by 0.34 percent). I repeat what I said in my Jan. 7, 2005 column: "This is absurd and should be rejected out-of-hand."

Revenue-sharing only reduces the cost of investing in a particular fund and is not transparent (i.e. disclosed prior to investing in the fund). Moreover, it is not recurring and any benefit is very small compared to the recurring fixed expense ratios associated with investing in the fund.

Capping the administrative fee at \$290, resulting in a \$460,000 FASCorp refund, proves that the participants were being overcharged for administration and record-keeping in the first place.

Mr. Jaszcar believes "the MTA Plans are low cost and efficient." I strongly disagree. He asserts that it is unfair to compare the costs of the MTA Plans to those of the much larger city plans because "the city plans have almost four times the number of participants and five times the assets as the MTA Plans, allowing the city bet-

ter buying power for investment services." This is an excellent reason for the MTA Plans to be absorbed by the city plans. Such consolidation will lead to a reduction in costs due to even "better buying power for investment and administrative services." Currently, on a simple average fund basis, the city plans charge 0.29 percent (fund expense ratio plus administrative fee), while the MTA Plans charge 1.04 percent without revenue sharing and 0.91 percent with revenue sharing (fund expense ratio plus administrative fee). For every dollar the city plans charge, the MTA Plans charge more than \$3. The combination of the two programs would be a win-win situation for all participants.

The hard copy of the report was mailed to participants on or about Jan. 21, 2005. In it Mr. Jaszcar extends an invitation to me to contact him, yet he did not have the courtesy to mail a copy of the report to me. If not for a participant faxing me a copy on Feb. 23, 2005, I would still be waiting to read it on the Web site.

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