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Savings Plans

Big Banks Go After 401(k) Trillions

By Margaret Collins March 31, 2011

Bank of America (BAC), JPMorgan Chase (JPM), and Wells Fargo (WFC) are adding staff, creating easier-to-use technology, and competing on fees in an effort to win a bigger share of the trillions of dollars in 401(k) savings plans. JPMorgan almost doubled its sales force dedicated to selling retirement plan services to employers in 2010, according to Michael Falcon, whose job as head of retirement in the U.S. and Canada for the bank's asset management unit was created in January. "It's one of the top priorities" at JPMorgan, he says.

Americans held $2.9 trillion in 401(k) plans as of September, and the total may reach $4 trillion by 2015, according to Cerulli Associates, a Boston research firm. Increased competition from banks may lead to lower costs and more choices for employers and savers, says Laura Pavlenko Lutton, an editorial director in the mutual fund research group at Morningstar (MORN). And it may mean less revenue for the top three 401(k) administrators: Fidelity, Aon Hewitt (AON), and Vanguard, which together had 43 percent of the market at the end of 2009, compared with a combined share of less than 10 percent for Bank of America, JPMorgan, and Wells Fargo, according to Cerulli.

The most expensive plan administrators charge fees equal to more than 6 percent of the amount of money in employee accounts annually, while the lowest-cost providers charge less than one-tenth of one percent, says Ryan Alfred, co-founder of BrightScope, a San Diego firm that rates 401(k) plans. In most cases, the money comes out of employees' assets, but some companies shoulder a portion or all of the fees. Bank of America, JPMorgan, and Wells Fargo would not disclose the average fees for plans they serve. Michael Kozemchak, managing director of Institutional Investment

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Consulting, says the employers he works with that sought bids on their 401(k)s in the last year were able to realize average cost savings of 31 percent.

Hallmark Cards switched its plan to JPMorgan last year to reduce costs and improve services for employees, says Tresia Franklin, head of benefits and compensation for the Kansas City (Mo.) company. JPMorgan had the best pricing for the services Hallmark wanted, she says. Franklin declined to disclose how much Hallmark pays the bank in fees or to quantify its savings. The plan had been administered by Aon Hewitt, the consulting and human resources outsourcing firm, which declined to comment on the change or its fees.

Banks are searching for new ways to make money as losses on mortgages and increased regulation of fees have curbed their revenue sources, says Terry Moore, managing director of the North America banking practice for consulting firm Accenture.

"We've been upping the ante on retirement," says Andy Sieg, head of retirement services for Bank of America Merrill Lynch. The bank has beefed up its retirement services staff with executives brought over from Fidelity and other rivals, including Rich Linton, who had overseen Fidelity's adviser retirement group and now has a similar role with Bank of America.

Wells Fargo has added features that allow employers to more closely track their employees' saving and investing, says Laurie Nordquist, director of institutional retirement and trust for the bank. In 2010, Wells Fargo added $6.2 billion to the defined-contribution assets it administers. Bank of America gathered an additional $14.5 billion, and JPMorgan Chase added $10 billion in 2010. The total market grew by about $125 billion in the first nine months of last year. Not all banks are rushing into the business. Citigroup (C) doesn't have a 401(k) administration operation.

Fidelity, which dominates the industry, is "very comfortable" with the increased competition, says James MacDonald, head of workplace investing for the Boston-based mutual-fund company. Fidelity administered 27 percent of all assets in 401(k) plans as of 2009, or three times more than Aon Hewitt, its closest competitor. Fidelity's client retention rate is 97 percent, and it runs the plans of General Electric (GE), Microsoft (MSFT), and IBM (IBM), among others, according to BrightScope.

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Bank of America's Sieg says his company will be able to claim market share by winning the plans of corporate customers of its banking business. "We have access to more client companies than any other firm in the marketplace," he says. "We're just beginning to scratch the surface of that opportunity."

The bottom line: *On the prowl to replace lost income, banks are seeking a bigger slice of the growing $2.9 trillion 401(k) pie.*

Collins is a reporter for Bloomberg News in New York.

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