


SCHNEIDER DOWNS
INSIGHT • INNOVATION • EXPERIENCE

Not All Retirement Plans Are Created Equal
12 Steps to a “Best-in-Class” Program

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12 Steps to a “Best-in-Class” Program

Many employers that provide retirement benefits to their employees do not have the resources or the time to thoroughly research retirement plan alternatives and options.



This process is important, because
“not all retirement plans are created equal.”


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12 Steps to a “Best-in-Class” Program

1. Position the plan as an integral part of your organization’s overall compensation package.

Integrate your plan design into your compensation package and help your employees understand that your compensation package is salary plus benefits, not just salary.

RETIREMENT PLAN
 HEALTH INSURANCE
 WAGES
 ETC...

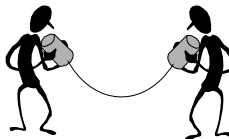


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2. Effectively communicate the importance of saving for financial independence and ultimately retirement.

- The best method of communicating this message is a reasonable and consistent employer contribution every year.
- Consider in your business plan budgeting that retirement plan contributions are not subject to payroll taxes.



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3. Keep it simple.

- Focus on three things to make your plan better:
 - lower costs,
 - professionally managed investment options, and
 - modifying participant behavior.




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4. Utilize an auto enrollment process.

Studies have proven participants are apathetic when it comes to their planning for retirement and auto-enrollment has proven to be an effective tool to increase participation.




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5. Illustrate projected income streams.

Just as the Social Security Administration provides an annual projection to individuals highlighting their projected benefits, retirement plan packages should issue a similar computerized analysis capable of showing all sources of income to help participants plan accordingly.




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6. Engage a professional ERISA fiduciary.

Engaging an individual or firm capable of meeting ERISA mandates will help ensure that all Plan Sponsor responsibilities are met and associated liabilities are minimized.




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7. Utilize an open architecture investment platform.

Make sure the Plan's chosen investment platform is unrestricted in its ability to provide access to investment options. Restrictions usually are a result of revenue sharing or proprietary fund conflicts of interest.




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8. Make available both passive and active investment options.

An unfortunate percentage of actively managed funds fail to out-perform their passively managed counter-parts over time while charging significantly higher investment management fees.




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9. Educate participants about the advantages of auto-pilot investment portfolios.

Participants need to understand the long term performance advantages of professionally constructed, monitored and managed asset allocation portfolios over haphazard fund picking by the participants themselves.



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10. Provide participants with larger account balances access to vetted and credentialed investment advisors.

Participants with larger plan balances and other outside investment accounts may benefit from working with an investment advisor who can help them create a holistic integrated composite portfolio.




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11. Provide older participants access to a retirement planner.

Far too many participants work a lifetime accumulating a nest egg to fund their financial independence and then make poor decisions or align themselves with inferior advisors immediately following retirement and undo years of hard work and financial prudence.



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12. Demand full fee disclosure and transparency.

Unreasonably high fees can dramatically reduce participant balances and create potential plan sponsor liability exposure. Demand full

Regulatory Update!

against industry standards and marketplace alternatives to assure competitiveness.



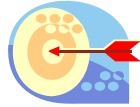
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Plan Sponsor Level Disclosure

ERISA 408(b)(2)–Originally Effective July 16th, 2011

Postponed Effective Date now January 1st, 2012

Goal: This is generally a plan level fee disclosure regulation aimed at helping ERISA plan fiduciaries fulfill their duty to make informed decisions about the reasonableness of fees as required under ERISA 404(a)(1) and a enable a better process of identifying conflicts of interest amongst contracted service providers or their affiliates.




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Plan Sponsor Level Disclosure

ERISA 408(b)(2)

Execution: Covered service providers who enter into a contract or arrangement with a covered plan and reasonably expect \$1,000 or more in compensation for services rendered, whether direct or indirect, must now provide a description of the services provided and disclose the fee directly to the covered plan sponsor.



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Plan Sponsor Level Disclosure

ERISA 408(b)(2)

How can you compare what you don't know or don't see?
Daylight will be a great antiseptic that will drive down retirement plan costs and make the marketplace more price competitive.




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Participant Level Fee Disclosure

ERISA 404(a)(5)
Generally effective for plan years beginning on or after January 1, 2012

Goal: Provide the estimated 72 million participants covered by 401(k) type plans greater information regarding the fee and expenses associated with their plans in order to help them better manage their retirement savings.



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Participant Level Fee Disclosure

Execution:


- Give participants quarterly statements of plan fees and expenses deducted from their accounts
- Give participants core information about investments available under their plan including the costs of the available investments
- Use standard methodologies when calculating and disclosing expense and return information to achieve uniformity across the spectrum of investments that exists in plans
- Present the information in a format that makes it easier for workers to comparison shop among the plan's investment options
- Give participants access to supplemental investment information in addition to the basic information required of the final rule

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Participant Level Fee Disclosure

Comment from Assistant Secretary of Labor for EBSA Phyllis C. Borzi:


“We are giving workers the tools they need to make the best possible decision about investing the nearly \$3 trillion held in 401(k) type plans. Now they will have the information about different investment options to help them make wise decisions.”



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Participant Level Fee Disclosure

Many participants are going to be shocked to learn of fees they did not know about and/or the total costs they are paying out of their retirement accounts. The initial brunt of accountability will fall back on plan sponsors who in many cases just learned of some fees themselves thanks to the new 408(b)(2) regulations from the previous year.




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Do Fees Matter That Much?

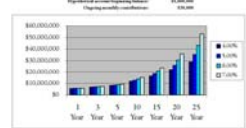
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The Power of One Percent
The Impact of Increased Fee Rates of Return on the Future Value of a Retirement Plan or Investment Account

Please reference the example page in your SD-Retirement Plan Solutions Kit.



Significant amount of money being lost due to higher fees



Higher Fee Rates Result in Lower Future Values

Initial Investment	1.00%	1.25%	1.50%	1.75%	2.00%
\$100,000	\$179,084	\$170,000	\$161,000	\$152,000	\$143,000
\$200,000	\$358,168	\$340,000	\$322,000	\$304,000	\$286,000
\$300,000	\$537,252	\$510,000	\$484,000	\$458,000	\$432,000
\$400,000	\$716,336	\$680,000	\$654,000	\$628,000	\$602,000
\$500,000	\$895,420	\$850,000	\$824,000	\$798,000	\$772,000

The chart illustrates the impact of higher fees on the future value of an investment. The higher the fee rate, the lower the future value. The difference between the 1.00% and 2.00% fee rates is significant, especially over a 25-year period. The chart also shows that the impact of fees is more pronounced on larger investments.

This chart is for informational purposes only and does not constitute an offer of any financial product. The actual results may vary. Please consult your advisor for more information.

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Factors Leading to the Increased Scrutiny

- The impact of fees and the disparity of fees amongst service providers
- Investment market losses
- Increased awareness of fiduciary standards and corresponding liabilities
- National focus on retirement security
- Heightened expectations of advisors
- DOL/SEC examination of conflicts of interests among service providers

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Impact Analysis of New Regulations

The Negatives


- Regulators and Plaintiffs will have an easier time connecting the dots
- Disclosures will trigger participant inquiries and create examinations, enforcements and potentially lawsuits

The Positives

- Proactive employers will be able to drive down fees and improve services for plan participants
- Proactive plan sponsors will finally understand the responsibilities associated with being a plan sponsor and transfer much of that risk away by engaging professional fiduciaries

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Impact Analysis of New Regulations



- Expect to hear a lot about **Multiple Employer Plans (MEPs)** in the year ahead as Industry and Trade Associations, Professional Employer Organizations (PEOs) and creative retirement plan industry service providers promote how participation in a MEP structure can:
 - Mitigate plan sponsor liability through fiduciary risk transfer
 - Drive down costs through scalability
 - Improve investment options
 - Expand participant access to fiduciary based guidance, planning and advice, again driven by scalability

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January 1st, 2012

WHY WAIT?

BE PROACTIVE.

Demand full fee disclosure from your service providers as soon as possible and begin your comparative process as soon as possible!



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Thank you for your time!

Please be sure to review your laminated copy of the **12 Steps to a "Best-in-Class" Program** included in your SD-Retirement Plan Solutions kits.

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