

What's Happening?

The 401k marketplace is in the midst of some significant changes. With the Pension Protection Act (PPA) of 2006 and subsequent pending legislation, regulators are fixing their gaze squarely upon plan sponsors in an effort to highlight their fiduciary responsibility to their employees.

Plan Sponsor Knowledge



Source: Alliance Bernstein Research 2009

Any individual acting with authority over an ERISA-governed retirement plan is considered a fiduciary. As fiduciaries, these individuals have definitive responsibilities. These duties include providing systematic oversight to the plan as well as understanding its costs, features and relative merits when compared to other offerings in the marketplace.

Currently many plan sponsors use insurance companies, banks or broker-dealers as providers of their 401k plans. Generally these entities employ sales agents, not fiduciaries. As such, their plans often engender high costs, poor investments and impersonal service.

Fiduciaries also assume personal liability as 401k plan sponsors. As a result, individuals deemed fiduciaries to a plan can be explicitly named in a lawsuit and potentially face fines as well as criminal penalties.

What's Possible?

With so much at stake, both for fiduciaries as well as their employees, it makes sense to have a truly top-notch plan.

"Best Practice" plans share the following characteristics:

- **Low cost investments** not tied to any single provider
- **Administrative charges based upon headcount**, not plan assets
- **One-on-one financial consultations** for employees
- **Leading-edge service and education tools** for participants
- **Co-fiduciaries** on the advisory team

Providing a plan with these benchmark characteristics will not only enhance employee participation and satisfaction, but will also ensure that plan sponsors are satisfying their responsibility as fiduciaries.

What's Next?

If you are a 401k plan sponsor, it is in your best interest to have your plan evaluated regularly. Procuring an objective, third-party evaluation of your plan is easy, and goes a long way towards satisfying your responsibilities as a fiduciary. A thorough diagnostic should include an evaluation of the following:

- | | |
|-----------------------|-------------|
| – Plan Structure | – Fees |
| – Investment Policies | – Education |
| – Investment Quality | – Service |

If you are interested in procuring a comprehensive, complimentary analysis of your 401k plan, feel free to contact us. We can run the numbers and let you know if your company's plan can be improved.

Fiduciary duties include:

- *Acting solely in the best interest of the plan participants*
- *Paying only necessary and reasonable fees*
- *Minimizing the possibility of loss by providing a high-quality, diversified fund menu*
- *Acting with the care, skill, prudence and diligence of a knowledgeable professional*

Overview

One easy way to make sure that you are complying with fiduciary best practices is to obtain an independent evaluation of your plan. At Portico, our thorough diagnostic helps you answer pertinent questions in the following areas:

Plan Structure: *Is my plan up to date and structured in the most advantageous fashion?*

Investment Policies: *Does my plan have an Investment Policy Statement and are we following it?*

Investment Quality: *Are the investments that we are providing top quality?*

Fees: *Do I understand all of the costs associated with my plan and am I sure they are fair and reasonable?*

Education: *Are my employees receiving world-class education, including one-on-one consultations?*

Service: *Does my plan offer a robust website and a designated call team for both my employees and me?*

Components

Checklist

Provisions Cont.

- Is Vesting Graded or Modified Graded? ✓
- Re-employment Mentioned? ✓
- Distribution Details Outlined? ✓
 - Upon Termination? ✓
 - Upon Death? ✓
 - Late Retirement Provisions? ✓
 - Small Account Distributions? ✓
- Mandatory Spousal Beneficiary Clause? ✓
- Hardship Provisions Outlined? ✓
- In-Service Distributions Outlined? ✓
- QDRO Provisions? ✓
- Loan Provisions Referenced? -
- Social Security Integration? -

Investments

- Intent to Evoke 404(c)? ✓
- Exclusion of Employer Stock? ✓
- Top-Heavy Provisions Outlined? ✓

Other

- ERISA Rights Detailed? ✓
- Claims and Arbitration Outlined? ✓
- Fees Outlined? ✓
- Lack of PBGC Coverage Stated? ✓
- Shelter from Creditors Language? ✓

PORTICO

The Plan Document Checklist looks at the features of your plan versus industry standards. If something is missing, we will let you know.

IPR: General

Rank	Commentary
General	<ul style="list-style-type: none"> - States IPS Must be in Writing - Lists the Following Members: <ul style="list-style-type: none"> - Plan Name - Plan Sponsor - EIN - Trustees - Investment Committee Members - Administrator - Trading Agent/Custodian - Record Keeper - Investment Advisor
Purpose	<ul style="list-style-type: none"> - Statement of Purpose Provided for the Following: <ul style="list-style-type: none"> - The Plan - The IPS
Roles & Responsibilities	<ul style="list-style-type: none"> - The Following Parties are Defined: <ul style="list-style-type: none"> - Fiduciaries - Trustees - Investment Committee - States that Any Investment Advisor is Acting as a Co-Fiduciary

The Investment Policy Statement Review highlights the areas addressed in your IPS, and offers commentary on how to make improvements.

401k Investment Scorecard: Sample Co.

Comparison: Expense, Performance, 3 Year Data, 3 Most Expensive Funds, 3 Least Expensive Funds, Summary, Overall Score: D

The Investment Scorecard provides an in-depth review of key investment metrics, including diversification, performance, risk and fees.

The Score

The score featured on the right is an amalgamation of the grades tabulated in each of the 3 core areas of this report. Each of the categories was given an equal weight. The scale for each grade is as follows:

Score	Grade
90-100	A
80-89	B
70-79	C
60-69	D
<60	F

Plan Document Checklist: A-
 Investment Policy Statement Review: C-
 Investment Scorecard: D
 Service Experience Survey: C+
Overall: C

These results, along with our Service Experience Survey, are aggregated into an overall score. This information is essential for every plan sponsor.