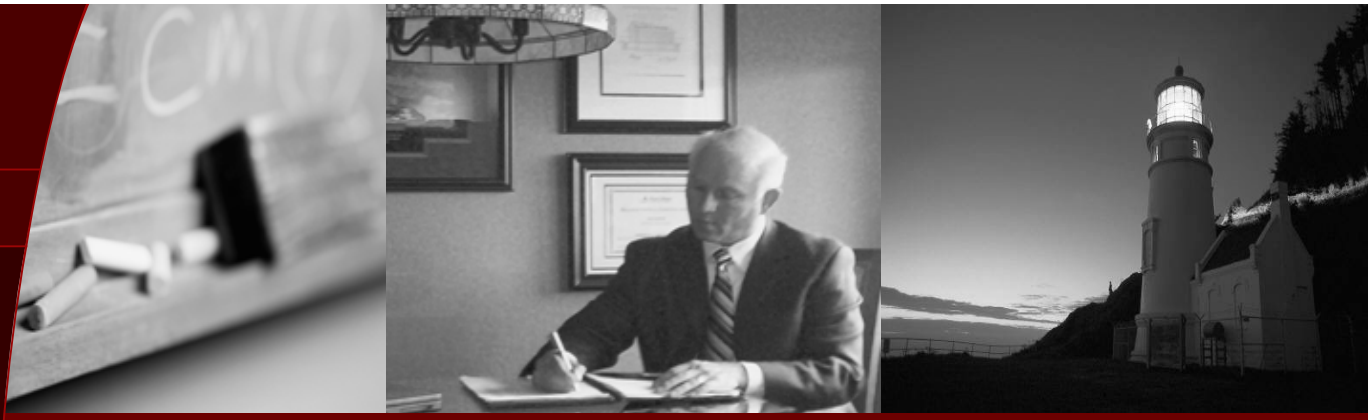
the

401k Service SOLUTION™

Setting the Standard for 401k Service Excellence™



DEFINING PLAN SUCCESS

EDUCATION GUIDE

YOUR STEP-BY-STEP GUIDE TO:

Viewing Success from the Perspectives of All Involved
Understanding the Regulations that Guide Qualified Plans
Understanding the Key Plan Management Issues
Understanding What Resources are Available to Help You

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What Makes A Retirement Plan Successful?

Success...

Merriam Webster defines success as: a. degree or measure of succeeding, b. favorable or desired outcome

Do you have a successful retirement plan?

Unless you have clearly defined a vision of success for your plan, this question is difficult to answer.

While participation rates and investment performance are often measuring factors, there many other factors that contribute to plan success.

Success depends on what objectives an employer has when establishing the plan. It depends on how much sponsors understand about the plan and the amount of work required from your Human Resources Department to manage the plan.

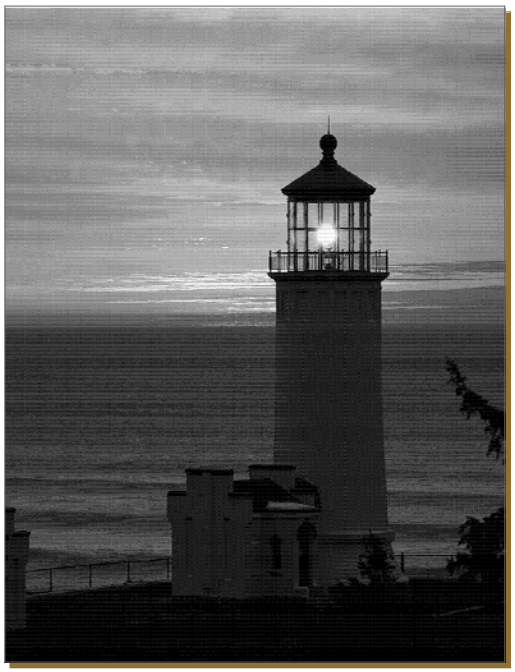
Success also depends a great deal on how much the employees understand the benefit that is provided to them. It depends on whether they take advantage of the benefit and feel as though their plan is providing the resources to help prepare them for retirement.

As you look to define your vision of plan success, documenting the goals and objectives of your plan is a great starting point towards uncovering your desired outcome in offering an employer-sponsored plan.

Once you have your goals documented, you can review and monitor your plan to ensure you are meeting your stated objectives, and meeting your definition of success.

Consider the following...

- how do you see your plan?
- what goals do have in offering a retirement plan?
- what benefits are important to your company?
- what level of service do you expect?
- do you feel your employees understand and appreciate the benefit offered in their retirement plan?
- do you have a clear understanding of the regulations that govern employer-sponsored plans?
- do you feel you are meeting your fiduciary obligations?
- are you happy with the investments in your plan?



Success doesn't rest solely on the plan sponsor's specific goals and objectives. Employees are the main beneficiary of an effective retirement plan, and understanding what factors they deem important is equally as important. In addition to those directly involved or affected by the plan, are the regulatory agencies that oversee workplace plans. A plan is not successful unless it can demonstrate the ability to meet the regulations set forth by ERISA and the Department of Labor.

PLAN SPONSOR Success Factors	EMPLOYEE Success Factors	DEPARTMENT OF LABOR Success Factors
▸ Ease of administration ▸ Full understanding of requirements ▸ Simplified management ▸ Assistance with fiduciary obligations ▸ Successful compliance tests ▸ Competitive investment returns ▸ High participation rates ▸ High contribution rates ▸ Employees understand and appreciate benefit	▸ Understanding how much they should be saving ▸ Ability to save for retirement ▸ Plan helping to achieve retirement goals ▸ Employer match making a meaningful contribution to retirement goals ▸ Investment options made simple ▸ Education material on topics of importance to participants ▸ Easy to understand and make changes	▸ Plan providers being selected and monitored according to a prudent process ▸ Investments being selected and monitored according to a prudent process ▸ Plan passing compliance tests ▸ Sponsor meeting fiduciary responsibilities ▸ Expenses being monitored and checked against industry averages ▸ Participants making informed investment decisions ▸ Documentation available showing fiduciary decision-making processes ▸ Knowledgeable professionals hired for areas where fiduciaries lack the experience and knowledge

Having a successful plan starts with a clear understanding of what the critical issues are and how to address them so they do not hinder your ability to have an effective and compliant plan.

This education guide will provide you with an overview of what issues are important to managing a successful plan, and it can help you define a **vision of success** for your plan.

Review the following pages to gain a better understanding of the issues you should address, then contact us for a no obligation consultation.

Understand the regulatory bodies that oversee employer-sponsored plans...

What is ERISA?

It is the responsibility of the DOL to enforce ERISA. In some ways, the Department of Labor has similar responsibilities to that of a plan fiduciary—they keep a close eye on employers to ensure that plan participants best interest are adequately served.

The Employee Retirement Income Security Act of 1974, or ERISA, protects the assets of millions of Americans so that funds placed in retirement plans during their working lives will be there when they retire.

ERISA is a federal law that sets minimum standards for pension plans in private industry. For example, if an employer maintains a pension plan, ERISA specifies when an employee must be allowed to become a participant, how long they have to work before they have a non-forfeitable interest in their pension, how long a participant can be away from their job before it might affect their benefit, and whether their spouse has a right to part of their pension in the event of their death. Most of the provisions of ERISA are effective for plan years beginning on or after January 1, 1975.

ERISA does not require any employer to establish a pension plan. It only requires that those who establish plans must meet certain minimum standards. The law generally does not specify how much money a participant must be paid as a benefit.

ERISA does the following:

- Requires plans to provide participants with information about the plan including important information about plan features and funding. The plan must furnish some information regularly and automatically. Some is available free of charge, some is not.
- Sets minimum standards for participation, vesting, benefit accrual and funding. The law defines how long a person may be required to work before becoming eligible to participate in a plan, to accumulate benefits, and to have a non-forfeitable right to those benefits. The law also establishes detailed funding rules that require plan sponsors to provide adequate funding for your plan.
- Requires accountability of plan fiduciaries. ERISA generally defines a fiduciary as anyone who exercises discretionary authority or control over a plan's management or assets, including anyone who provides investment advice to the plan. Fiduciaries who do not follow the principles of conduct may be held responsible for restoring losses to the plan.
- Gives participants the right to sue for benefits and breaches of fiduciary duty.
- Guarantees payment of certain benefits if a defined plan is terminated, through a federally chartered corporation, known as the Pension Benefit Guaranty Corporation.

What is DOL?

The following is the stated mission of the DOL:

The Department of Labor fosters and promotes the welfare of the job seekers, wage earners, and retirees of the United States by improving their working conditions, advancing their opportunities for profitable employment, protecting their retirement and health care benefits, helping employers find workers, strengthening free collective bargaining, and tracking changes in employment, prices, and other national economic measurements. In carrying out this mission, the Department administers a variety of Federal labor laws including those that guarantee workers' rights to safe and healthful working conditions; a minimum hourly wage and overtime pay; freedom from employment discrimination; unemployment insurance; and other income support.

The Department of Labor (DOL) administers and enforces more than 180 federal laws. These mandates and the regulations that implement them cover many workplace activities for about 10 million employers and 125 million workers.

The Employee Retirement Income Security Act (ERISA) regulates employers who offer pension or welfare benefit plans for their employees.

Title I of ERISA is administered by the Employee Benefits Security Administration (EBSA) (formerly the Pension and Welfare Benefits Administration) and imposes a wide range of fiduciary, disclosure and reporting requirements on fiduciaries of pension and welfare benefit plans and on others having dealings with these plans. These provisions preempt many similar state laws. Under Title IV, certain employers and plan administrators must fund an insurance system to protect certain kinds of retirement benefits, with premiums paid to the federal government's Pension Benefit Guaranty Corporation (PBGC).

EBSA also administers reporting requirements for continuation of health-care provisions, required under the Comprehensive Omnibus Budget Reconciliation Act of 1985 (COBRA) and the health care portability requirements on group plans under the Health Insurance Portability and Accountability Act (HIPAA).

The DOL has a comprehensive website with resources and publications that can assist plan sponsors and fiduciaries navigate through the decision making process as it relates to their retirement plans.

There are **eight key issues** that must be addressed in order to have a successful plan. These issues involve meeting the basic requirements by **ERISA** for the prudent management of a qualified plan, as well as issues critical to both you and your employees.

1

Documenting Plan Goals and Objectives

"... the fiduciary has to set definitive goals and objectives that are consistent with the portfolio's current and future resources..."
- The Foundation for Fiduciary Studies

Every company has motives for initially setting up an employer-sponsored plan. There are many reasons for setting up a retirement plan, including:

- Attracting and retaining qualified employees
- Providing employees with an opportunity to save for their retirement on a tax-deferred basis
- Providing yourself (upper management) with an opportunity to save for your retirement on a tax-deferred basis
- Taking advantage of additional corporate tax deductions

In addition to a certain benefit you are looking for, there are key objectives to consider and meeting them is equally important.

Identifying and documenting your goals and objectives is a key component to having a successful retirement plan. You must set definitive goals and objectives in order to monitor how well your plan is meeting them.

2

Developing a Statement of Investment Policy

"The preparation and maintenance of the Investment Policy Statement ("IPS") is one of the most critical functions of the fiduciary. The IPS should be viewed as the business plan and the essential management tool for directing and communicating the activities of the portfolio."
- The Foundation for Fiduciary Studies

An Investment Policy Statement (IPS) is a written document with the purpose of providing meaningful direction and guidance for trustees and investment professionals regarding the selection and management of investment assets based on established and documented investment goals and objectives.

When used properly, this document can limit liability, provide consistency, and set expectations for investment performance.

While having a formal Investment Policy Statement is not required, ERISA does stipulate that a well-articulated, documented procedure for investment selection and ongoing investment evaluation is a fiduciary *obligation*.

And according to the U.S. Department of Labor, the statement of investment policy must be referred to both by fiduciaries who manage plan assets, and fiduciaries who appoint and monitor those who manage plan assets. If you develop a formal IPS for your plan, a process must be put in place to ensure it is used properly.

EIGHT KEY ISSUES

THAT MUST BE ADDRESSED...

3

Monitoring Plan Assets

A comprehensive investment review documents the steps you are taking to comply with ERISA's investment monitoring requirement.

Ongoing investment monitoring and review is the most labor-intensive and time-consuming activity of the investment management process. It is also the area where there are the most fiduciary shortfalls.

The best way to fully document the monitoring process is to conduct regular investment reviews that, at the least, document the following:

1. What were the returns of the major asset classes and peer groups?
2. How did each manager perform compared to their peers and benchmarks?
3. Are there investments that no longer meet the initial selection criteria?
4. What is the call to action—managers to be replaced, etc?

As a fiduciary, it is important to demonstrate the prudence in the management of your plan. One of the most important areas is investment monitoring. This demonstrates why having a formal IPS is so critical as this document becomes the roadmap for monitoring plan assets to show prudence in the reasons behind keeping or replacing investments within your plan.

4

Documenting Fiduciary Standards of Care

What are the main responsibilities of a fiduciary? A plan fiduciary must act solely in the interest of plan participants and beneficiaries.

In doing this, they must adhere to a set of standards and show documentation that these standards are being followed.

The Uniform Fiduciary Standards of Care are seven standards that are common to the three legislative acts that shape investment fiduciary standards. (The three legislative acts that shape investment fiduciary standards are: ERISA, UPIA, and MPERS.)

- Know standards, laws, and trust provisions
- Diversify assets to specific risk/return profile
- Prepare an investment policy statement
- Use "prudent experts" (money managers) and document due diligence
- Control and account for investment expenses
- Monitor the activities of "prudent experts"
- Avoid conflicts of interest and prohibited transactions

These standards make up the foundation that guides a fiduciary as the traditional investment management process is carried out.

Fiduciaries must be aware of these standards and show documented proof that each is understood and adhered to.

KEY ISSUES

5

Selecting and Monitoring Service Providers

The Department of Labor makes it clear that a plan fiduciary must conduct a thorough and diligent investigation and a rigorous analysis of relevant information when selecting and reviewing plan providers.

As a retirement plan sponsor and fiduciary, you're responsible for selecting and monitoring providers for your company's plan. You need to have either a single provider or a combination of providers that offer:

- A broad selection of quality investments;
- Recordkeeping and administration options that meet your needs;
- An effective participant communications program that meets the guidelines outlined by ERISA as well as the needs of plan participants; and
- An expense structure appropriate for your plan and service options.

Most companies do not have a system in place to compare their existing plan against what is available in the marketplace. The Department of Labor provides clear guidance on how to select and monitor a service provider and it is critical that you have a documented process to show that you are meeting the requirements in order to demonstrate procedural prudence.

6

Understanding Plan Expenses

"The fiduciary must establish procedures for controlling and accounting for investment expenses in order to fulfill the obligation to manage investment decisions with the requisite level of care, skill, and prudence; and to fulfill the specific obligation of the fiduciary to pay only reasonable and necessary expenses."
- The Foundation for Fiduciary Studies

In order to demonstrate one of the key fiduciary responsibilities—that of paying only 'reasonable' expenses—a plan must have a process in place to document an expense review and comparison to industry averages.

A plan does not have to be the cheapest in order to demonstrate prudence practices are being followed. A plan should, however, be able to show documentation for the decisions made regarding provider and investment selection, and have a process to ensure expenses paid are not excessive compared to similar options.

There are several methods available to document plan expenses and several resources plan sponsors can use to compare those expenses to industry averages. Whichever you choose, it is recommended that an expense review be conducted about once every three years.

KEY ISSUES

7

Understanding Participant Communication Guidelines

"If you don't provide education, you open yourself to liability, because you haven't provided sufficient support to participants who must make investment choices."
- David L. Wray, President - Profit Sharing Council of America

There are certain standards that must be met for the investment communication materials you distribute to plan participants. Standards to follow include those set forth by the Financial Industry Regulatory Authority (FINRA, formerly NASD), the Department of Labor (DOL), and ERISA Section 404 (c) of the Internal Revenue Code.

ERISA requires plans to provide participants with information about the plan, including important information about plan features and funding. Some of the items required must be provided to participants regularly and automatically by the plan administrator. Others are to be provided upon request. In addition, specific intention to comply with ERISA Section 404(c) means additional information is required. By intending to comply with this section, the participant must be provided with adequate information to make appropriate choices.

Once you have a full understanding of what the communication standards and specific documents are, you should seek to determine what plan participants want and need and strive to develop an education program that meets the requirements and the needs of participants.

8

Staying Informed of Changes That Affect Your Plan

Administering a plan and managing its assets require certain actions and involve specific responsibilities.

The vast amount of information necessary to effectively manage a qualified plan can be daunting. Change is constant.

How do you stay informed and keep up with the changes that affect your company's retirement plan?

For most plan sponsors, the amount of time available to devote to the management of your employer-sponsored plan is minimal compared to other areas of employee benefit management. However, as a fiduciary, you have an obligation to ensure your plan is compliant with the legislative acts that govern it.

There are ways to proactively seek updates that affect your plan and education for the key issues you face during plan management. The Department of Labor website has information on a variety of topics relevant to the management of a qualified plan. On this site you can also find information regarding regulations or changes that affect employer-sponsored plans.

Another way to identify issues that might affect your plan is by reviewing a list of key areas during annual plan reviews to identify if any areas require action or change to your plan.

RESOURCES FOR PLAN SPONSORS

There are many issues to address in order to run an effective and compliant plan.
The 401k Service Solution™ is a comprehensive set of tools which can help you manage these issues. In addition, you will find a variety of other of resources and tools available to help you as you look to define a vision of success for your plan.

The Department of Labor (www.dol.gov) offers the following publications:

- **Meeting Your Fiduciary Responsibilities** This publication provides an overview of the basic fiduciary responsibilities applicable to retirement plans under the law.
- **Understanding Retirement Plan Fees And Expenses** This booklet will help retirement plan sponsors better understand and evaluate their plan's fees and expenses. While the focus is on fees and expenses involved with 401(k) plans, many of the principles discussed in the booklet also will have application to all types of retirement plans.
- **401(k) Plan Fee Disclosure Tool** A form that provides employers with a handy way to make cost-effective decisions and compare the investment fees and administrative costs of competing providers of plan services.
- **Selecting An Auditor For Your Employee Benefit Plan** Federal law requires employee benefit plans with 100 or more participants to have an audit as part of their obligation to file the Form 5500. This booklet will assist plan administrators in selecting an auditor and reviewing the audit work and report.
- **Reporting and Disclosure Guide for Employee Benefit Plans** This guide is intended to be used as a quick reference tool for certain basic reporting and disclosure requirements under ERISA.

The following newsletters and publications provide plan sponsors with current updates on issues relating to employer-sponsored plans:

- **Employee Plans News** A publication of the Employee Plans office of the Tax Exempt and Government Entities Operating Division of the IRS. This quarterly newsletter provides information about current developments and upcoming events within the retirement plans arena. (www.dol.gov)
- **Department of Labor** DOL offers additional updates through their website: (www.dol.gov). By voluntarily subscribing to E-mail Updates, OCA will send you an e-mail when significant Compliance Assistance activities occur or when DOL adds new, valuable information to the Compliance Assistance Web pages.
- **Internal Revenue Service** The IRS also offers a newsletter for sponsors that includes regulatory updates at www.irs.gov. They offer two newsletters:

  Employee Plans News
  Geared toward retirement plan practitioners - attorneys, accountants, actuaries and others - this newsletter presents information about retirement plans.

  Retirement News for Employers
  Designed for employers and business owners, this newsletter provides practical retirement plan information.
- **Profit Sharing Council of America** offers Legislative & Regulatory Updates. PSCA's Executive Report is a monthly legislative newsletter and compliance bulletin for members. (www.psca.org)

What makes a retirement plan SUCCESSFUL?

The answer depends entirely on your idea of success.

What makes an employer-sponsored plan successful cannot be measured by investment performance or participation rates alone.

Success depends on what objectives an employer has when establishing the plan. It depends on how much sponsors understand about the plan and the amount of work required from HR to manage the plan. Success also depends a great deal on how much the employees understand the benefit that is provided to them. It depends on whether they take advantage of the benefit and feel as though their plan is providing the resources to help prepare them for retirement.

Success is measured by several factors. Defining Plan Success is a important educational tool to help you identify what you consider 'success' so that you can build and review your plan according to *your* vision.