

# Plan Sponsor FMI

## DOL Extends Disclosure Deadlines

For some time now you have been reading about additional disclosures that service providers will be required to make to you as fiduciaries ("408(b)(2) disclosures"), as well as additional disclosures that your plan will be required to make to plan participants ("participant disclosures").

The good news is that your service providers have been gearing up to either meet, or help you meet, these requirements. Many of them are primed to do so already. However the Department of Labor (DOL) recently delayed the effective date for both types of disclosures. The 408(b)(2) disclosures' (from the service provider to the plan) effective date has been moved from January 1, 2012 to April 1, 2012. The participant disclosures' (from the plan to its participants) effective date has been moved (for calendar year plans) to May 31, 2012 (with quarterly disclosures likely provided by August 14, 2012). We'll keep you apprised of any more developments regarding the disclosures as they occur.

Source: Retirement Plan Advisory Group. August 2011.

## Why Pay More? 401(k) Plan Pricing Considerations

Plan assets and average account balance are generally the two most significant demographic factors impacting total 401(k) plan costs, but plan services are also a primary driver of cost, especially when a plan sponsor takes the plan to

market during an RFP Vendor Search. Based on the Retirement Plan Advisory Group's experience of having conducted hundreds of fee and service benchmarking reports, the following plan services consistently have the biggest impact on 401(k) fees:

**Non-standard (unusual) investments** – Any fund or vehicle that creates additional friction on the service providers' recordkeeping system. Examples include the recordkeeping of outside GICs (guaranteed investment contracts) that are not manufactured by the existing service provider; illiquid limited partnerships; brokerage windows and; Employer stock (private or publicly-traded). Plan sponsors need to weigh the benefits and costs of offering these investments, including a determination of their appropriateness from a fiduciary standpoint.

**Multiple, complicated, or antiquated payroll transmittal frequency or systems** – Data that is submitted through non-electronic methods, or by plans with multiple payroll systems, locations, and payroll frequency, typically generate additional recordkeeping fees.

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## Why Pay More? 401(k) Plan Pricing Considerations (continued from p. 1)

On-site employee meetings with multiple locations – Labor and travel to deliver ongoing periodic on-site group or individual enrollment and investment education meetings is expensive. Plan fiduciaries need to evaluate the results of on-site meetings versus other more potentially beneficial communications and plan design strategies.

Investment management objectives – *Passively* managed funds that track an index generally have significantly lower management fees than *actively* managed funds whose objective is to outperform a certain benchmark, index, or asset class. The analysis of investments should include an “apples to apples” comparison of investment management styles, objectives, and asset classes.

Investment Advice – Many providers offer on-line investment advice, usually delivered through a third party firm. Fees typically range from 0.50% - 1.25% of employee account balances. Often these fees are as much as all other total 401(k) cost components added together. This is another important topic for plan fiduciaries to discuss and document in the consideration of services and plan design.



Remember, plan fiduciaries are not obligated to pay the lowest fees, but rather to make sure that plan participants are paying reasonable fees for the services being delivered.

Source: Retirement Plan Advisory Group. July 2011.



### Staying the Course: Participants and Market Volatility

It is always helpful to remind participants about the importance of staying diversified and not to panic in times of crises; timing the market or bailing out of the retirement plan altogether is futile in meeting long-term savings goals. It may seem counterintuitive, but tough times like these serve to highlight the benefits of staying invested during periods of volatility.

Historically, stocks have always recovered from previous setbacks and gone on to resume their general overall trend of price appreciation. Although past performance is no guarantee of future results, it's worth noting that while stocks have generated greater short-term risk than other investments, they have also achieved higher long-term average returns. Investors who feel tempted to cash out of equities in the wake of dramatic downswings should also consider the potential risks of abandoning ship and missing out on a possible recovery.

Source: Standard & Poor's. Past performance is no guarantee of future results. Diversification does not guarantee a profit or protect against loss.

### Web Resources for Plan Sponsors

Internal Revenue Service, Employee Plans  
[www.irs.gov/ep](http://www.irs.gov/ep)

Department of Labor, Employee Benefits Security Administration  
[www.dol.gov/ebsa](http://www.dol.gov/ebsa)

401(k) Help Center  
[www.401khelpcenter.com](http://www.401khelpcenter.com)

Plan Sponsor  
[www.plansponsor.com](http://www.plansponsor.com)

Profit Sharing/401(k) Council of America  
[www.pzca.org](http://www.pzca.org)

### Resources for New Disclosure Rules

DOL's Fact Sheet  
<http://tinyurl.com/DOLFeeFinalRule>

DOL's Model Comparative Chart  
<http://tinyurl.com/DOLFeeModelNotice>

Profit Sharing/401(k) Council of America's detailed summary  
<http://tinyurl.com/PSCAFeeDisclosure>

## Selecting Your Plan's Investments: How Many Options Are Enough?

Open-architecture environments and advances in recordkeeping technology have made it possible for sponsors to offer participants an ever-increasing array of investment choices. Providing as many choices as possible may sound like a good idea, but research indicates that having too many investment options may actually hinder participation. Sponsors may be more likely to enhance participation by limiting investment selections to a number that participants can understand and educating them about the potential benefits and risks associated with each fund.

### More Funds, Less Participation?

According to the Profit Sharing/401(k) Council of America, plan sponsors provided an average of 18 investment selections in 2010.<sup>1</sup> But even when participants say they want more investment choices, research has documented that they often do not select new options when they are available.

After controlling for variables such as employer match and participant demographics, a survey by professors at Columbia University and the University of Chicago indicated a significant number of investment choices is likely to reduce the probability of participation.<sup>2</sup> The probability that a participant in a defined contribution plan with five funds would enroll was 72%. The rate dropped to 67.5% for a participant in a plan with 35 investment choices. On average, for every additional 10 funds available, the predicted individual participation probability declined by about 2%.



Keep in mind that the larger your investment menu, the more time you and plan participants may need to spend on investment education. Many participants may be unlikely to spend significantly more time on their plan even when new investment choices become available. The investment knowledge of plan participants varies widely, and many may lack the experience necessary to compare a large number of options. Also, providing too many choices may increase the likelihood that you'll eventually terminate a fund due to poor performance or lack of participation. Closing a fund may create administrative headaches and disappoint participants.

In addition, remember that an investment smorgasbord may increase your costs. As a plan fiduciary, you are responsible for minimizing discretionary expenses levied against the assets within your organization's retirement plan. If an investment roster that numbers close to the industry average meets your needs, offering a larger menu may result in unnecessary expenses that could ultimately dampen participants' returns and their likelihood of participating.

### Implications for Plan Sponsors

When developing your menu of investment selections, you may want to focus on a limited number of core funds -- such as domestic equity, diversified bond, asset allocation, and money market funds -- that participants are likely to understand. You may want to supplement your core group with target-date or lifestyle funds that offer simplified diversification.<sup>3</sup>

There is no magic number for plan sponsors to focus on, but too many investment choices may detract from your ultimate goal of enhancing participation. Keeping things simple may streamline your administrative responsibilities while making it less complicated for participants to save for their later years.

<sup>1</sup>Source: Profit Sharing/401(k) Council of America, 53rd Annual Survey of Profit Sharing and 401(k) Plans, October 2010.

<sup>2</sup>Source: Choice Overload and Simplicity Seeking, Sheena S. Iyengar, Columbia University, Graduate School of Business; and Emir Kamenica, University of Chicago, Graduate School of Business; February 2007.

<sup>3</sup>Diversification does not ensure a profit or protect against a loss in declining markets.

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## Plan Sponsor Q & A

Have a question you'd like to have answered? Send us an email and we may feature it in our next newsletter!

**Q:** We're planning ahead for preparation of the plan's Summary Annual Report. What are the key items that must be included?

**A:** A Summary Annual Report summarizes information from the plan's Form 5500. It's required each year, and generally must be distributed to participants and beneficiaries within nine months after the end of the plan year. The following information is required:

- The plan's formal name, the employer identification number under which the Form 5500 is filed, and the plan year covered by the Form 5500.
- Financial information, including:
  - Plan expenses
  - Value of plan assets at beginning and end of the plan year, and the amount of increase or decrease in net assets
  - Plan income (employer and employee contributions, gains or losses from the sale of plan assets, and investment earnings)
- Statement of right to obtain additional information
- Availability of foreign-language assistance



If your plan is eligible for the small plan audit waiver, you may need to include information about the plan's fidelity bond and financial institutions where certain plan assets are held.

The Department of Labor has a model Summary Annual Report available on its website.

**Q:** What documentation should the plan have regarding plan loans to participants?

**A:** The starting point is to verify that the plan document permits loans. Assuming that it does, a detailed loan policy should be prepared. This would include the administrative procedures for determining the minimum and maximum loan amounts a participant may be granted, the reasons for which a loan can be requested and how the loan term and interest rate will be determined. The policy should also address missed repayments, default, leave of absence rules and what happens when a participant with a loan terminates employment.

A loan application is also necessary. On this form, the participant indicates the loan amount requested, and acknowledges receipt of a copy of the loan policy and any other documents to enable him or her to fully understand the loan's terms and conditions.

You will also want to have a formal loan approval document which confirms the terms of the loan and administrative details, such as when payroll deduction repayments will begin.

Most plans also require a promissory note. The note includes the participant's promise to repay the loan and the key loan terms, such as the amount borrowed, the interest rate and the repayment schedule.

The Internal Revenue Service offers questions and answers about retirement plan loans at <http://tinyurl.com/IRSFAQsLoans>.

*Source: The Standard.*