

Retirement Report

News and updates for Plan Sponsors and
Fiduciaries of Defined Contribution Plans

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Happy Holidays from Your Retirement Plan Consultant!

On behalf of Independent Benefit Services, it is my pleasure to extend greetings of this special season. As I look forward to a new year and the hope it brings, I look back as well on our achievements in 2011, and the degree to which we accomplished our primary goals—helping to create a successful retirement plan for you and your employees. Congratulations for all that you accomplished in 2011. We remain fiercely proud of being your dedicated Retirement Plan Consultant.

For the December issue of our *Retirement Report*, we have included “excerpts” from issues published in 2011. Please contact us with any questions or feedback; we look forward to serving you in 2012 and beyond!

~Michele Kocak, CPC, QPA
Vice President, Retirement Services

How Many Fixed Income Funds Belong in a Retirement Plan? [March 2011]

Diversification within a retirement plan includes access to a variety of asset classes – primarily cash equivalents, U.S. and international equities, and fixed income. As one of the more conservative asset classes, fixed income is primarily utilized to generate income with limited volatility, making it a somewhat more popular investment given the economic conditions of the past few years. While fixed income investments can post negative returns over certain periods, potential losses are lower when compared to equities. In addition, fixed income often adds a crucial diversification component to the portfolio's exposure to equities, actually enhancing the overall risk-return characteristics of the entire portfolio.

Often times our clients ask us how many fixed income options are appropriate for the plan's fund line-up. Our consulting philosophy supports utilizing a single, highly diversified fixed income fund (a “core fixed income” bond fund) to achieve all of the above mentioned objectives in a straight-forward manner, and it is our belief that this is appropriate for the average defined contribution retirement plan. Essentially, the fixed income universe encompasses numerous types of securities including treasuries/agencies, mortgage-backed-securities, corporate, high yield, inflation-protected, emerging markets and foreign bonds. Offering several bond funds that focus on different subsectors of the fixed income markets can often confuse plan participants and actually increase portfolio volatility when allocated incorrectly. Core fixed income bond funds (represented by the average intermediate-term bond fund in Morningstar) have typically exhibited less risk over the last ten years than six (of seven) security subsector types listed above. Giving an active manager the latitude to invest in various subsectors of the fixed income market allows him/her to take defensive positions when trouble is foreseen and to pursue opportunities when they arise. *Note: Diversification and asset allocation does not guarantee a profit, nor do they eliminate the risk of loss of principal.*

The Qualitative Investment Review Process [June 2011]

RPAG's proprietary ScorecardSM System includes both quantitative and qualitative metrics to evaluate fund managers and their investment strategies. Beyond our ScorecardSM System, RPAG's CFA-led Investment Research group meets regularly with portfolio managers and analysts to ascertain if the portfolio analytics (the quantitative analysis) are supported by the people, process and philosophy (the qualitative analysis). Our qualitative analysis helps explain, and in many cases support, the quantitative analysis. It may also conclude that a deeper level of research is needed to explain the contradictions and/or anomalies found in the data. The qualitative review process is structured in its approach and designed to identify the factors that will ultimately drive future investment performance, including:



1. **People** – experienced team with ability to manage both philosophy and process;
2. **Process** – clearly defined and consistently applied. The implementation of a strategy may be just as, if not, more important than the ideas and research supporting it; and
3. **Philosophy** – the research and ideas must be coherent and persuasive with a strong rationale supporting past results and future performance expectations.

Our Investment Research group monitors fund scores in order to determine which investment managers require immediate due diligence reviews. In many cases, the fund's score will dictate the type of conversation we have with the managers and lead us to ask the more probing questions to help us to determine if a strategy should be kept, or considered for removal. The fund score also serves as a way to determine the strongest managers to be considered (for a given mandate), providing the Investment Research group a starting point from where they can identify and interview the managers from a qualitative point of view, helping to confirm the best ones from both perspectives (quantitative and qualitative). While fund scores dictate on a quarter to quarter basis those managers who are reviewed, regular meetings with managers (who score acceptably) are also scheduled to ensure the team, process, and philosophy has not changed.

ERISA Fidelity Bond versus Fiduciary Liability Insurance [July 2011]

Plan sponsors often ask, "Is an ERISA fidelity bond the same thing as fiduciary liability insurance?" The answer is no, they are not the same. An ERISA fidelity bond is required under ERISA Sec. 412. Its purpose is to protect the plan, and therefore the participants. It does this by ensuring that every fiduciary of an employee benefit plan, and every person who handles funds or other property of the plan, be bonded. This protects the plan from risk of loss due to fraud or dishonesty on the part of the bonded individuals. The amount is 10% of the plan assets (with a \$1,000 minimum) and is capped at \$500,000 (or \$1,000,000 for plans with company stock). On the other hand, fiduciary liability insurance protects the fiduciaries (not the plan or participants) from a breach of their fiduciary responsibilities with respect to the plan. Remember that fiduciaries may be held personally liable for losses incurred by a plan as a result of their fiduciary failures. Unlike a fidelity bond, fiduciary liability insurance is not required under ERISA. The Department of Labor may ask whether the plan fiduciaries have insurance in the event of an investigation. It's important that fiduciary liability insurance explicitly covers "ERISA" claims. And review of any policy, including E&O policies, should look for language that may void the coverage in the event a plan has ever been out of compliance (something virtually all plans experience at some point in their existence).

DOL Extends Disclosure Deadlines [August 2011]

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. In addition, 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). If your plan is not a calendar year plan, please contact iBEN Retirement Services for further information that may be relevant to your plan. As always, we'll keep you apprised of any more developments regarding the disclosures as they occur.

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