

As a 401(k) plan sponsor, your company has important fiduciary liability for the plan, its operation, and its continued maintenance. A meaningful and measurable performance standard is a very important component in making sure your plan operates properly over time.

- *How aggressively will you monitor your fund performance and cost?*
- *Do all of your eligible employees use the plan?*
- *Do the employees know how much they should be saving for retirement?*
- *Does your provider deliver service in a cost – effective way?*
- *How long does it take to get participant’s statements?*
- *Do you have an investment policy?*

This simple tool will help quantify the management process and current performance of your company’s 401(k) plan. The answers to these important questions will help you draw one of three potential conclusions:

1. *Your current plan, processes, administration, and performance are being properly administered. There are minimal opportunities for improvement.*
2. *There are specific areas for improvement in your current plan, processes, administration, and performance. A clear path for improvement is evident.*
3. *Achieving the improvements in your current plan, processes, administration, and performance will require objective analysis and diagnosis.*



A plan sponsor has many fiduciary responsibilities. This brief survey will help you evaluate how well your company is performing relative to several key measures.

Please circle the appropriate response to each question and write the point value in the box. Refer to the Definitions section on the back page of profile for a full description of key terms.

1 *Have you had a fiduciary review?*

- performed in the last 12 months? 15 points
- performed in the last 24 months? 5 points
- Never? 0 points

Points _____

2 *Have you received a written performance review from your current investment manager or advisor in the last 12 months?*

Yes 10 points

No 0 points

Points _____

3 *What percentage of your current eligible employees participates in the plan?*

90% to 100% 15 points

80% to 89% 10 points

70% to 79% 8 points

60% to 69% 5 points

0% to 59% 0 points

Points _____

4 *Are your highly compensated employees (HCEs) receiving the maximum deferral (year 2009 is \$16,500)? Is your company taking advantage of the 401(k) Executive Excess Plans?*

(HCEs) saving max deferral & Executive Excess Plan 10 points

(HCEs) saving max deferral & with no Executive Excess Plan 7 points

(HCEs) - unable to defer max 0 points

Points _____

5 *What percentage of your employees has determined whether they will have enough money at retirement (completed a future value projection/replacement ratio calculation)?*

75% to 100% 10 points

50% to 74% 7 points

25% to 49% 3 points

0% to 24% 0 points

Points _____

6 *What percentage of your employees understand their risk tolerance? Are they using a risk tolerance based investment strategy?*

75% to 100% 10 points

50% to 74% 6 points

25% to 49% 2 points

0% to 24% 0 points

Points _____

7 *Does your service provider conduct ongoing annual investment education (a process versus a one time campaign) meetings for plan participants?*

Yes 15 points

No 0 points

Points _____

8 *How many hours per month does your human resources department spend managing / administering your 401(K) plan?*

under 5 hours 5 points

about 5 to 10 hours 3 points

more than 10 hours 0 points

Points _____

9 *Have you compared your plan expenses to industry averages?*

Yes 10 points

No 0 points

Points _____

Total points of 100 _____

Based upon your analysis:

- *How do you feel about your company's performance?*
- *Are you confident that your plan is ERISA compliant?*
- *What are the key areas for improvement for your plan, processes, administration, and performance?*
- *How will you institute these improvements?*

If you believe there is an opportunity for improved performance, you should consider having us work with you to complete a 401(K) Diagnostic Report to determine exactly where your 401(K) plan can be improved.

Definitions

Fiduciary Review *The plan sponsor of a qualified plan is required, under ERISA, to have a documented review process to satisfy their fiduciary duties. A fiduciary review is an annual meeting that reviews the following items:*

- *Your current plan participation and average deferral rate in comparison to past years. In this part of the review, you should also review ideas to increase plan participation.*
- *A review of your plan participation by age group. A recent industry study showed that only of 30% younger participants are saving in a plan while 75% of participants over 45 are saving in a plan*
- *A review of the investment performance of each of the funds you offer. The performance would be compared to the performance benchmark outlined in the investment policy statement.*
- *A review of the asset allocation (investment strategies) that your employees are using to ensure that they are adequately diversified in their plan.*
- *A review of recent legislative changes and how they might impact the plan design offered to the participants.*
- *A review of service enhancements that would make your plan easier to administer.*
- *A review of your plan expenses in comparison to industry averages*

ERISA 402(b) *ERISA 402(b) outlines that a plan sponsor should have a selection process and a monitoring process as part of their fiduciary responsibility in offering the plan.*

401(k) Excess Plan *The IRS has special test [(401(k) and 401(m)] that potentially limit the amount that highly compensated employees (employees over \$110,000) are able to save. Many companies have added a 401(k) excess plan in addition to the 401(k) plan. The excess plan is a nonqualified plan that allows a special class of employees to save on a tax-deferred basis.*

Investment Review *An investment review would include fund performance with comparisons to the appropriate peer group. A common tool used in this calculation is provided by Morningstar. In addition, risk adjusted return and volatility (as measured by standard deviation) should also be reviewed versus peer group.*

Replacement Ratio *A key concept in planning for retirement is reviewing the needed income to meet a person's goals. In reviewing income sources, you can develop a replacement ratio by looking at three potential revenue sources for the participant. The revenue sources are social security, income created from personal savings, and income from their qualified plan. For example, an employee currently making \$30,000 would have a 60% replacement ratio if their income stream were \$18,000 at retirement.*

Risk Tolerance Based Investment Strategy *A risk tolerance based investment strategy gives a participant direction on the best investment strategy based on their personal risk tolerance. This is typically defined by utilizing a questionnaire that reviews a participant's time horizon and comfort with volatility.*