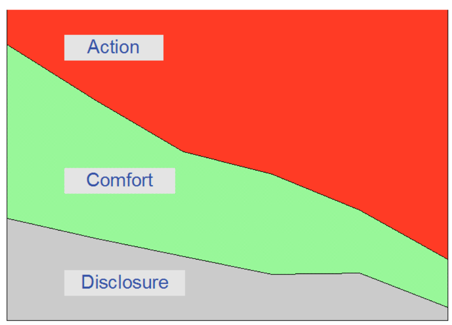
Fee Zones of Retirement Plans

A guide to interpreting your retirement plan fees in the era of regulated fee disclosure.



April 2012

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Introduction

Fee disclosure regulations begin taking effect on July 1, 2012 for virtually all retirement plans. These new regulations herald an era in which all retirement plan stakeholders, including regulators, investment managers, record keepers, consultants, advisors, employers and plan participants, become engaged in discussions about fees.

There is one indisputable fact about retirement plan fees: Stakeholders are confused by them! In general terms, most:

- ✓ Participants don't realize they are paying any fees.
- ✓ Employers don't understand how they are assessed.
- ✓ Businesses that serve retirement plans are uncertain about the effects of fee disclosure.

The goal of this paper is to offer a rational presentation of how employers can best respond to the regulations, the demands of plan participants and their own priorities.

Regulatory Requirements

Under federal regulations, responsible fiduciaries (who are primarily employers) are required to evaluate the services and fees charged to the plans they sponsor. Furthermore, if the services and fees are found to be unreasonable, regulations then require actions to correct this.

Failure to comply with these regulations exposes employers to the severe penalties that result from a breach of fiduciary duty to plan participants.

While regulations specify that the evaluation is required, there is no procedure defined for how this should be done. It is up to the employer to use an evaluation that demonstrates a good faith effort to comply. Such an effort must take all relevant factors into consideration if the evaluation is to be considered credible.

In making the evaluation employers should consider the cost of similar services in the marketplace, the breath and quality of services and the value of the services to both the employer and to the participants in the plan.

The Fee Zones described in this report enables the employer to address the first issue of the cost of services in the marketplace. The report goes on to highlight the critical factors that should be evaluated in each Fee Zone.

This report presents a consistent and credible basis for evaluation and thus provides a method that is fair and can be defended, should the need arise.

Details of regulatory requirements, analyses and tools to comply are available at www.ERISAFeeDisclosure.com

Framework

From a regulatory standpoint, providing a retirement plan to employees is an entirely voluntary decision that has no fiduciary responsibility associated with it. This means that employers may act in their own best interest in deciding to offer or not to offer a plan with impunity, again from a regulatory standpoint.

This impunity ends when a plan is offered. The employer then assumes the fiduciary responsibility for the participants' assets held in the plan. The employer or any designated fiduciary is required to act in the best interest of participants and not in their own best interest.

Essential to acting in the participants' best interest is to protect the assets from fee erosion. Regulations permit fees to be paid, providing that they are used judiciously. The fees must be used to fund only necessary services, these services must be reasonable and the costs cannot be out of line.

Employers and other fiduciaries that are not aware of the fees being paid and the value received cannot meet the requirement of using fees judiciously.

Enforcement Actions

Regulators are expected to investigate fee disclosure compliance through technology. The reviews of regulatory filings (Form 5500) have already produced hundreds of notices of inconsistencies in the disclosures made there.

Such electronic investigations as well as audits put plan sponsors at higher risk of discovery than has been the case in the past.

Employers must be prepared to demonstrate the steps that were taken to evaluate the plan costs and services to both regulators and to employees.

About DALBAR

DALBAR, Inc. is the financial community's leading independent expert for evaluating, auditing and rating business practices, customer performance, product quality and service. Launched in 1976, DALBAR has earned the recognition for consistent and unbiased evaluations of investment companies, registered investment advisers, insurance companies, broker/dealers, retirement plan providers and financial professionals. DALBAR awards are recognized as marks of excellence in the financial community.

DALBAR provides a solution to support the evaluation required by fee disclosure regulations. The DALBAR Fee Disclosure Evaluation & Recommendation service performs the required duties, documents compliance and makes recommendations when appropriate. Findings of reasonableness are confirmed in an opinion letter when applicable.

Fee Zones

There have been two approaches to evaluating retirement plan fees, neither one of which has been successful or rational:

The first approach has been to detail fees in the variety of categories and component services for which they apply. Such an approach is inadequate because its inherent complexity serves little purpose for evaluation. This approach fails because it omits the qualitative factors and forecasted benefits that are a critical part of the value of the plan.

The second failed approach is the over-simplification. The over-simplification establishes a single fee that is said to be "normal". In addition to failing to consider that there are differences between a good plan and a bad plan this approach does not consider the realities of the economies of scale and preferences of employers and participants.

The weaknesses of these approaches led to the development for Fee Zones. Fee Zones have been introduced to provide a rational basis for evaluating the veracity of plan services. The Fee Zones are:

- ✓ **The Disclosure or Grey Zone**: Fees are so low in proportion to plan assets as to raise questions as to whether disclosure is complete. The complex fee structures used for retirement plans made this zone necessary.
- ✓ **The Comfort or Green Zone**: Fees are within the normal range but require an assessment of the quality and value of services that the plan receives. This zone developed from more informed employers and service providers committed to transparency. The variety of service levels across plans with normal fees made it necessary to establish this zone.
- ✓ **The Action or Red Zone**: Fees are above normal in proportion to plan assets and require an evaluation to determine if the specific circumstances justify these fees. The red zone is populated by plans that receive an extraordinarily high level of service as well as plans in which costs are simply out of line.

These zones are based on fees paid by plans in six different ranges that reflect the economies of scale derived as plans become larger. The fixed cost of operating a plan is distributed over a larger base, which in turn reduces the fee that each participant must pay. The six ranges used for Fee Zones are based on assets in the plan at the following levels:

1. Under $1 million
2. $1 million to $10 million
3. $10 million to $100 million
4. $100 million to $500 million
5. $500 million to $1 billion
6. Over $1 billion

Finding Your Zone

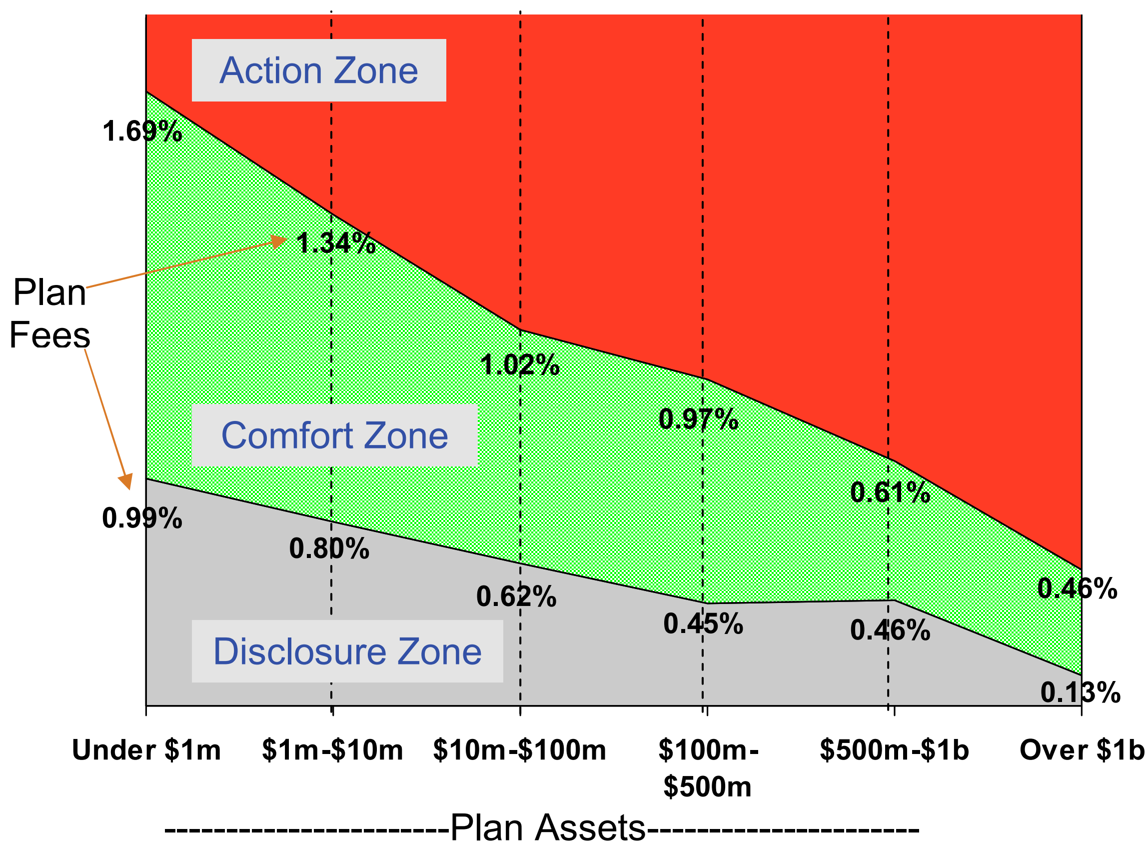
Finding the applicable zone is imperative to doing a rational evaluation. This requires only two numbers: Plan assets and the total fee as a percent of assets.

Zone Summary[1]

The Zone Chart shown below is the centerpiece of the Fee Zone concept. It shows the three zones described earlier and details the applicable high and low fees for each asset range. The Zones underscore that there is a wide range of fees that can be considered normal, making it critical to evaluate fees in a broader context than just simple statistical averages.

This Zone Chart can be used to determine which zone applies to a specific plan. The zone will then indicate the nature of the evaluation that plan will require. The required evaluations are detailed later in this report. In summary, the goals of the evaluation in each zone are:

- ✓ **The Disclosure or Grey Zone**: Ensure that all fee information is known.
- ✓ **The Comfort or Green Zone**: Ensure that services are properly aligned with the fees being paid.
- ✓ **The Action or Red Zone**: Determine if an extraordinary level of service is being provided and if not, seek an alternative.



[1] Sources: DALBAR, Inc. and ICI 2011 report, "Inside the Structure of Defined Contribution/401(k) Plan Fees"

Economies of Scale

While small plans pay far less in fees than larger plans, the rate (as expressed as a percent of assets) is higher for the small plans. For example, a small plan with $1 million at the high end of the Comfort Zone pays only $16,900 per year, while a large plan with $10 million will pay $134,000. This, however, translates to 1.69% for the small plan and only 1.34% for the $10 million plan.

As the Zone Chart indicates, fees are charged at a higher rate for small plans but the actual fees are lower. This is due to fixed costs that are distributed over a larger base for larger plans and produces an economy of scale.

An example of the economy of scale is the cost of designing a participant statement. In this case, thousands of dollars are spent on the design but in the case of a small plan, this cost is borne by few participants while the same cost is borne by many more participants in a large plan.

Because of the economies of scale, it is considered reasonable for small plans to be charged at a higher percentage rate than larger counterparts that receive the same level of service.

What Green Zone Participants Pay

The preceding Zone Summary shows that fees vary greatly, more so than almost any other consumer product. Even within the green zone variance is enormous, imagine paying $1.69 for one plan while others pay $0.13 for theirs! While this is more than tenfold within the range we consider normal, the shocker is that we are not talking about a dollar sixty nine and thirteen cents but these differences add up to hundreds of dollars annually for the average plan participant.

This is the effect of the economies of scale described in the previous section.

The following example shows how much the average 401(k) participant with $50,000 can be paying in an average Green Zone plan.

Comfort Zone Example				
Asset Range	**Average Plan Size**	**Average Fee**	**Total Paid Annually from Plan**	**Total Paid Annually by Average Participant**
Under $1 million	$500,000	1.41%	$6,700	$670
$1 million to $10 million	$5,500,000	1.12%	$61,600	$560
$10 million to $100 million	$55,000,000	.85%	$467,500	$425
$100 million to $500 million	$300,000,000	.80%	$2,400,000	$400
$500 million to $1 billion	$750,000,000	.51%	$3,825,000	$255
Over $1 billion	$3 billion	.38%	$11,400,000	$190

These fees are an average paid in the marketplace and by definition include both high value and low value plans. As such, they cannot be taken in isolation since they would be considered very high for plans that do not deliver great value to participants. Conversely, the examples shown here would be considered very low for highly effective plans.

It is therefore imperative that the value of the plan be considered in evaluating these fees.

This example illustrates a reasonable variance in plan fees for participants who express concern but must be considered in the context of how good the plan is.

What Goes Into the Fees

For purposes of convenience and ease, fees are most often charged as a percentage of plan assets. Charging in this way makes it simpler to calculate and collect fees. This method of charging is only for convenience and does not reflect how the cost of providing services to the plan and its participants is actually incurred. As a consequence, fees can rarely be broken down into individual components of a service offering.

The actual components that are part of providing the services at the desired level fall into eight categories described below. Understanding the reality of these components is essential to making an assessment and explaining whether the total cost is reasonable.

Without adequate funding, the plan can be seriously compromised because simply lowering fees can eliminate components that are less visible but are essential to a successful plan. Such a circumstance would not be in the best interest of participants and in extreme cases can be considered a breach of fiduciary duty.

A good understanding of these components is also needed when considering a change of service provider. Unless appropriate weight is given to the underlying component, it is easy to make an imprudent decision based only on a total fee that may exclude elements that are critical to the plan.

Employers should use these components to establish the minimum requirements or prerequisites for the plan. In this way, costly errors are avoided.

The method of charging a plan's fee is often disconnected from the component costs and can only be evaluated in total after giving consideration to the need for the components.

1. Functionality and Features

These are the most visible components and are often used to group different types of plans. Functions and Features including the investments offered, the capability to enroll participants, provide specific services as well as the features available to both employers and participants.

2. Flexibility

Far less discernable than Functions and Features, Flexibility is often considered the most important characteristic of a service provider. Flexibility includes the ability to respond and change as needs and situations change. Examples of Flexibility include the ability to change which investments are designated in the plan, respond to changes in the employer's business, manage regulatory changes and responding to unexpected market upheaval.

Flexibility is often only measurable after an actual experience. Experiencing a lack of flexibility can be devastating to a plan and to an employer.

3. Service Quality

Also difficult to assess, delivering a high quality of service can make the difference between a plan that achieves its goals for plan sponsors and participants and one that does not.

The key elements of service quality are:

- ✓ Personal Interaction
- ✓ Phone Service
- ✓ Web based services
- ✓ Automated telephone lines

4. Expertise

Expertise is quite easily observed and is critical to employers who rely on the experts to assist with the critical aspects of managing their plan. This category reflects the knowledge and expertise of the leadership of the service provider.

5. Staffing

The service provider staffing levels and training directly contribute to the success of a plan.

From the employer's perspective, adequate and competent staffing relieves the administrative burden of day-to-day operation of the plan and is a valuable resource to answer employee concerns, questions and complaints.

From the participant perspective adequate and competent service provider staff provides answers that inspire confidence and lead to sound decision making.

6. Technology

The top consideration in the area of technology is compatibility with the employer's technology in areas where it is necessary to bring these systems together. Incompatibility can lead to a total breakdown of the operation of the plan.

The service provider's technology is also expected to be efficient and easy to use. It should also provide the functionality necessary to meet the vital requirements of both employer and participants.

7. Practices & Procedures

Good practices and procedures used by a service provider protect the employer from liability and participants from losses.

In the highly regulated environment of retirement plans, service providers must be compliant with regulations to avoid the disruption of a violation. Compliance is not limited to ERISA regulations but must also include securities regulations as well as IRS, and specific State regulations.

Practices and procedures must also provide protection from litigation.

8. Responsibility

Employers have several responsibilities when a retirement plan is offered to employees. These responsibilities can be shared with services providers who are willing and able to relieve some of the burden.

It is important to understand the level of responsibility that a service provider will assume before the need arises to respond to an emergency. The willingness to accept responsibility varies greatly among providers and should be carefully considered when evaluating fees.

On the other hand the employer's need to offload some of the responsibility will depend on the specific circumstances of the employer. Employers who are able to assume all of the responsibility and have the resources to respond to and defend themselves from challenges will not need the service provider to assume as much responsibility.

Various forms of responsibility that service providers can assume include:

- ✓ Acting as a fiduciary of the plan, and *assuming* the potential liability in the event of a problem.
- ✓ Acting as a co-fiduciary and *sharing* the potential liability with the employer.
- ✓ Offering a limited *guarantee* against fiduciary breaches caused by the service provider.
- ✓ Providing *audits and third party validation* of practices and services provided.
- ✓ Pre-emptive *risk assessments* to determine if there are areas of exposure.
- ✓ Support and expertise to handle regulatory *examinations*.

Placing a Dollar Value on Plan Services

The most important aspects of evaluating the services provided to a plan are the results produced. The results are the effect of all that goes into the plan, and how they accomplish the goals of both the employer that decides to offer the plan and the participants that rely on the plan to fund their retirement.

Valuing the results is done in three broad categories: The overall success of the plan, the needs and preferences of the employer and participants and the protection from liability.

An evaluation of plan services must weigh these factors (referred to as X-Factors) in combination with marketplace fees to determine an appropriate price, the "Target Price". The determination of the Target Price in each Fee Zone is different. These differences are detailed in later sections for each Fee Zone.

Value of Making a Plan Successful

Perhaps the most important and least asked question about a retirement plan has been: "Is it working?" Much like asking the surgeon whether the operation was successful, but failing to inquire if the patient survived, the central issue in retirement plans is whether employees will be able to fund their retirement.

The value of a plan that does not adequately contribute to employee retirement is questionable at best. In severe cases, the plan could be considered to have no value!

From the standpoint of the responsible fiduciary, it is unmistakable that a retirement plan that does not fund retirement is not in the best interest of the participants. As such, it can be considered a fiduciary breach to spend participants' money on services when it is known that the promised benefit cannot be achieved… the benefit being a secure retirement.

The ultimate X-Factor applicable to plan success is the replacement income ratio at retirement. A forecast of replacement income provides evidence that the plan is on the right track. Other X-Factors supporting plan success are contribution rates, participation and the asset allocation at the plan level. When these X-Factors exceed industry norms, the plan can be expected to pay a higher price for its services. By the same token, plans that fall below the norm should not be expected to pay a premium price.

Value of Meeting Employer and Participants Needs

Employers are not required to offer a retirement plan nor are employees required to use one, if it is offered. The voluntary nature of the plan makes it necessary to be responsive to the needs and preferences of both plan sponsors and employees.

This category of X-Factors consists of those that encourage plan sponsors to offer and support the retirement plan and those that encourage use by employees. For plan sponsors they include the quality of service, ease of doing business, technology, and ultimately, trust. For employees X-Factors include the ability to make smart investment choices, quality of service, plan features available and answers to their key concerns.

Value of Protecting the Employer from Liability

The risk related X-Factors represent the compliance and related capabilities that reduce the fiduciary liability and other risks associated with offering a retirement plan.

Service providers can increase risks by having potential conflicts of interests, refusal to take fiduciary responsibility, interpreting regulations so narrowly that they put the plan at risk and failure to provide meaningful fee disclosures. Risks are reduced by financial guarantees, good compliance procedures, managing the schedule of required activities, offering products and services that have been evaluated and meet regulatory requirements.

Evaluation: The Disclosure or Grey Zone

While the Grey Zone contains plans that pay the lowest fees, it is also the area that is likely to have the least clarity. Plans that are in this Zone must ensure that the low fees are in reality low and not just appearing to be low but in actuality the funding is coming from elsewhere.

Focus

Plans in the Grey Zone are priced at below market rates and could represent a bargain for plan participants. Unfortunately the Grey Zone also includes plans where the true costs are difficult to determine and remain out of sight of employers.

The focus in this Zone is to validate the true cost.

Method

Validation of true costs requires an appreciation of the adage that there are no free lunches. The approach is to identify all the ways fees are charged and to determine that all are included in the total plan cost.

Regulations require disclosure of certain fees but there are several areas that are not covered explicitly by regulations.

The most frequently used method of collecting fees is a deduction from plan assets. The first step is to account for all the deductions from and additions to plan assets:

- ✓ **Mutual Fund Expense Ratios**. The effect of these deductions are difficult to spot because they are reflected only in the valuation of individual funds and do not appear as a line item on any invoice or statement. It is difficult to calculate in total because the deductions are spread across different funds and can be different for each fund. Additionally, different share classes of the same fund have different expense ratios.

  Included in the Mutual Fund Expense Ratio are a variety of payments that are made on behalf of the plan. These include 12b-1 fees, Sub-TA fees, Revenue Sharing Arrangements, Finders Fees, etc. Note that sales charges are not paid out of the Mutual Fund Expense Ratio but are separate additional costs.

  In order to validate this cost it will be necessary to find the applicable expense ratio for each fund and share class and multiply the assets in the fund/class by the expense ratio.

- ✓ **Mortality and Expense Charges (M&E)**: These charges apply to insurance contracts that may be available investments in the plan. The effect of the M&E is difficult to spot because, like the Mutual Fund Expense Ratio the effect is imbedded in the value of each share and not usually totaled as a separate line item.

  The M&E is disclosed in the contracts where they apply. Validating the M&E requires calculating the total that is paid by participants who own these investments.

- **Sales Charges**: Certain investments assess a sales charge each time shares or units are purchased. Others assess a sales charge when the investments are sold. Some do both. These charges are in addition to the Mutual Fund Expense Ratio or M&E.

  Validating the cost of sales charges requires obtaining a history or typical experience from firms offering such investments.

- **General Account Expenses**: Investments with returns that are based on the investment of an insurance company for its own account have expenses that are imbedded with the insurance company's own costs.

  These expenses are obtainable from the insurance company and must be allocated to the plan. If not done by the insurance company, the employer will have to make such an allocation.

- **Self Directed Brokerage**: Participants that use self directed brokerage accounts usually pay additional fees that are not accounted for elsewhere. These include charges to set up the account, to maintain the account, to transfer funds and to purchase and sell securities.

  Validation of the self directed brokerage cost requires calculating the amounts paid by participants that use this feature.

- **Contracted Rates of Return**. Investments that guarantee a specific rate of return do cost, but the cost is reflected in a lower contractual return or elevated risk. This information may not be easily available and it may be necessary to demand the information from the firm that provides the investment vehicle.

  Validating the cost of investments with a contracted rate of return can be challenging and may require expert assistance.

- **ERISA Spending Accounts**. There are arrangements in which the service provider will credit a plan for fees that were collected but were not used for the plan. These expenses may remain unapplied and forfeited to the service provider, depending on the specific arrangements.

  Validation that these fees are fully credited requires an accounting from the service provider and an explanation of what happens to any unapplied balance.

- **Fees Paid by Employer**. When employers pay the cost of plan services, the plan should be into the Grey Zone.

- **Participants Charged Directly**. For plans where employees are charged directly, fees should be in the Grey Zone since these charges are seldom reflected as an expense to the plan.

- **Use of Forfeited Assets**. When participants terminate employment before all their holdings are fully vested, these assets should be used to lower plan expenses or reallocated to remaining participants. Proper use of forfeited assets can put a plan into the Grey Zone.

- **Float**. Any income that is generated from cash balances belongs to the plan and should be used to offset fees.

Evaluation: The Comfort or Green Zone

Green Zone plans have fees that are not too high to require action and not too low so as to raise concerns about completeness and accuracy of fee disclosures. Employers that are pleased with their Green Zone plans, need only document that fact, and include the basis for the conclusion.

Focus

The Green Zone represents the range that on the surface appears most reasonable. As pointed out earlier in this report, the variation in the Green Zone can be very wide.

The focus of the Green Zone evaluation is to determine that the value of services to the plan is properly stated and that the Target Price remains in the Green Zone.

Method

The Green Zone evaluation documents the factors that were considered.

This begins with a simple profile of the plan as it stood at the time of the evaluation. The profile includes the characteristics of the plan, participants, investments, expenses, the service provider relationship, plan services and features.

The profile is used to create a document that states that the plan has been evaluated, conclusion from that evaluation and the economic and factual basis for the conclusion.

Evaluation: The Action or Red Zone

When plan fees are in the Red Zone employers are faced with taking some action. This action can be either:

- ✓ Evaluate the plan to determine if the high cost provides advantages that are worthwhile.
- ✓ Change the plan arrangements to lower the cost to a level that puts the plan in the Green Zone.
- ✓ Restructure or terminate the plan.

Focus

Red Zone plans are most likely to be of concern to participants, most visible electronic scans by regulators and reviewrd by auditors.

The focus for Red Zone plans is to determine if the high cost is justified by the value received.

Method

The evaluation process is identical to the one used for Green Zone plans, but with a greater sense of urgency.

The response to the evaluation is where the employer must act differently. If the evaluation results indicate that the cost is *unreasonable*, a course of action must be laid out to correct the situation.

If the evaluation indicates that the cost of the Red Zone plan is *reasonable*, no further action is required.

Appendix: Sample Evaluation

Certification of Reasonableness of Plan Services

for

Sample Green Zone Plan

For the period ended
March 30, 2012

DALBAR
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Boston, MA 02210
617.723.6400
www.dalbar.com

March 30, 2012

To: Charles I N Charge
President
Sample Green Zone, Inc.
123 Main Street
Kansas City, MO 77777

We have evaluated the services provided to Sample Green Zone Plan to determine if they meet the requirements of the Employee Retirement Income Security Act of 1974, as amended ["ERISA"] Section 408(b)(2) which requires that they be "*necessary for the establishment or operation of the plan and no more than reasonable compensation is paid therefor*".

Based on evaluations concluded on March 30, 2012 it is our opinion that, services provided do meet the three standards of being 1) necessary 2) reasonable and 3) that compensation paid for these services is reasonable.

Detailed findings from our evaluations are included in the report that accompanies this letter. You should review these findings and if you concur with them make a note of that fact in the Acknowledgement below, describe any action you take and retain this report containing your acknowledgement in your permanent records. Please contact DALBAR if you disagree with the findings in this report.

Our opinion regarding the plan and its services is based on information provided by Sample Green Zone Plan and confirmed through public sources where feasible. Any material change or discrepancy in this information could change our opinion.

Very truly yours,

DALBAR, Inc.

Acknowledgement

I/We have reviewed the evaluations contained in this report and concur with its findings.

I/We have taken the following actions in response to these findings:

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____

____

____

☐ See further information in attachments

______________________ ______________

Signature Date

______________________ ______________

Signature Date

Introduction

This report demonstrates compliance with these regulations and presents the results of DALBAR's Fee Disclosure Evaluation & Recommendation ("Evaluation") process which is based on information provided by the responsible fiduciary as defined in ERISA ("Plan Sponsor"). The intent of the report is to document performance of duties required by ERISA §408(b)(2) fee disclosure regulations and make recommendations when appropriate.

Please see the "*Computations and Assumptions Guide*" for explanations of information reported here.

Background

Federal government regulations now require Plan Sponsors to actively monitor and evaluate the reasonableness of their employees' retirement plans based on specific guidelines. Failure to comply subjects Plan Sponsors to severe fines, taxes and penalties.

Methodology

Information used in this analysis was obtained from Sample Green Zone Plan.

The determination of reasonableness is performed by the calculation of the "Target Price" for the plan that incorporates a number of quantitative and qualitative variables (X-Factors). The calculation uses a statistical fee benchmark as its starting point and applies various X-Factor weightings based on the facts and circumstances applicable to this specific plan. There are more than fifty X-Factors that are grouped into three categories:

Success in Achieving Retirement Goals

These X-Factors lead to a secure retirement of employees and include the time until retirement, level of plan contributions, participation rates, investment quality and asset allocations. They influence the replacement income percentage at retirement.

Meeting Plan Sponsor & Participant Needs/Preferences

Plan sponsors are not required to offer a retirement plan nor are employees required to use one, if it is offered. The voluntary nature of the plan makes it necessary to be responsive to the needs and preferences of both plan sponsors and employees. This category of X-Factors consists of those that encourage plan sponsors to offer and support the retirement plan and those that encourage use by employees.

Reducing Exposure to Risks and Liabilities

These X-Factors protect plan sponsors from taking actions or failing to act in ways that cause a fiduciary breach or non-compliance.

Assumptions

The following assumptions were used in calculating the target price for this plan:

Retirement Related		Annual Investment Returns	
Annual Income Inflation	3%	Equities	7%
% of Retirement $ in Plan	75%	Fixed Income	4%
Expected Retirement Age	65	Stable Value	3%
Retirement Withdrawal Rate	5%	Cash Equiv.	2%
		Blended Investments	5%

Plan Summary

Name and contact information for Plan Sponsor:

B. Buck Boss 555-555-1234 BBuck@GreenZone.com
CFO
Sample Green Zone, Inc.
123 Main Street
Kansas City, MO 77777

Name of plan:	Sample Green Zone Plan
Type of plan	401(k)
Total number of participants in plan including beneficiaries:	100
Estimated or actual value assets in plan:	$4,000,000
Estimated average participant age:	40
Estimated average deferral rate:	6%
Average annual income of participants:	$40,000
Number of non-participating eligible employees	35

Service providers:

General Processing, Inc (Recordkeeper)

National Administrators, LLC (TPA)

Various Mutual Funds (Investment Manager)

Statewide Trust Co. (Custodian/Trustee)

Mark Twain Financial (Advisor)

Computation of Target Price

Statistical benchmark used **$44,800**

Summary of X-Factors:

Success Factors +3%

Needs & Preferences
Relationship Factors -10% (trust, ease of doing business, etc.)
Service quality +0%
Scope of services 100%

Risk Factors +0%

Target price for this plan **$41,464**

Findings Summary

The following are the principal findings from the Evaluation. Further details are presented in the Recommendations, Plan Improvements and Test Results sections that follow.

Condition of the Plan

The level of participation and contribution, plan costs, diversity of investments, plan features and compliance with regulations indicate that the plan condition is:

- **Good**

Fee Disclosure Compliance

Compliance with regulations to obtain fee disclosures from all covered service providers is:

- **Not yet available**

Other Observations

In conducting the Evaluation, the following observations were made:

- None

Recommendations

The Evaluation has identified the need to take the following actions:

- None

Plan Improvements

Adopting or eliminating the features indicated below should be considered in order to improve the effectiveness of the plan:

Plan Feature	Currently In Plan	Consider this Action	For this Reason
Automatic Enrollment	Yes	Re-enrollment	Increase participation
Automatic Escalation of Contributions	Yes	Increase default	Raise contributions
Electronic Document Delivery	Yes	No Action	
Safe Harbor (eliminates ADP & ACP testing)	Yes	No Action	
Loans	Yes	No Action	
Hardship Withdrawals	Yes	No Action	
Self Directed Brokerage	Yes	No Action	
Roth (taxable contributions)	Yes	No Action	
Participant Advice by Computer Model	Yes	No Action	
Face to Face Participant Advice	Yes	No Action	
Catch-up Contributions	Yes	No Action	
In-service Distributions	Yes	No Action	
Pre-retirement Counseling	Yes	No Action	
Matching Contributions	Yes	No Action	
Enrollment/Education Meetings	Yes	No Action	
Automatic Rollovers (for terminated employees)	Yes	No Action	

Test Results

Tests are conducted in five broad categories. These categories represent the information necessary to determine if service arrangements are reasonable.

Note: The numbers in parentheses (6.1) following the title of each category identifies the section of the *Computations and Assumptions Guide* where method of determination is described.

The basis for establishing each of these categories are:

- **Completeness, Accuracy and Usability**

  Completeness -408(b)(2)(c)(1)(i) prohibits use of Covered Service Providers unless proper disclosures are made.

  Accuracy -408(b)(2)(c)(vii) requires that errors or omissions are corrected within 30 days.

  Usability -404 and 408(b)(2) require a Plan Sponsor to decide whether it has enough information to determine whether the cost of services paid for by the plan is reasonable.

- **Plan's Success**

  A plan that cannot be reasonably expected to meet the overarching goal of employee retirement security is by definition unreasonable.

- **Necessity of Plan Services**

  408(b)(2) requires that services used by a plan are necessary.

- **Comparability of Costs**

  408(b)(2) requires that no more than reasonable compensation is paid for services.

- **Judgment of Reasonableness**

  The ability to exercise this judgment is the stated goal of the regulation.

Completeness, Accuracy and Usability

Service Provider	Disclosure Received[1]	Required Information	Consistency	Information Accessibility

[1] Disclosure not yet received, required by July 1, 2012

Plan's Success

Plan Success Factor	This Plan	Normal Level
Participation Rate[1]	68%	87%
Deferral Rate[2]	6%	6.8%
Replacement Income %	32%	22%

[1] Steps should be taken to increase participation

[2] Steps should be taken to increase deferral rates

Necessity of Plan Services

Service Provider	Service	Quality	Fiduciary	Necessary	Basis for Necessity*
General Processing, Inc	Recordkeeper	Good	No	Yes	A, B, D
National Administrators, LLC	TPA	Fair	No	Yes	A, D
Various Mutual Funds	Investment Manager	Good	No	Yes	B, C
Statewide Trust Co.	Custodian/Trustee	Fair	No	Yes	A, D
Mark Twain Financial	Advisor	Good	No	Yes	B

* **A** -Establish or Operate the Plan **B** -Produce Successful Results for Participants
C -Respond to Participants' Demand **D** -Comply with Regulations

Comparability of Costs

Service Provider	Current Estimate	Proposal Estimate	% Difference	Target Price	% Difference
All	$46,000	N/A	N/A	$41,664	10%[1]
Total	$46,000	N/A	N/A	$41,664	10%

[1] Current estimate does not materially exceed the target price

Judgment of Reasonableness

Consideration	Finding	Conclusion
Potential Conflicts of Interest	None were identified.	Satisfactory
Resolution Method	N/A	N/A
Completeness, Accuracy, Usability	Disclosures have not yet been delivered.	N/A
Plan Success	Participation and deferral rates are below normal levels.	Attention is required
Necessity	All services are necessary.	Satisfactory
Comparability	Costs are marginally above the target price but not so much so as to incur the cost of converting to other service providers.	Satisfactory

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