

# MODERNIZING 401(K), 403(B) AND OTHER SPONSORED RETIREMENT PLANS

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*Cutting Costs, Helping Employees and Reducing Liability*



GLOBAL FINANCIAL

**Private Capital**

COMPREHENSIVE WEALTH MANAGEMENT

# THE ISSUE

## CURRENT ENVIRONMENT

On July 16, 2010, the DOL finalized a regulation addressing what constitutes a reasonable contract for purposes of the service provider exemption in ERISA section 408(b)(2). This regulation requires that service providers disclose fee information to plan fiduciaries, including revenue sharing amounts. **This required disclosure indicates that the DOL wants to make sure fiduciaries are aware of and take into consideration revenue sharing payments.**

The DOL recently issued a regulation requiring fee disclosures to plan participants. The participant disclosure regulation specifically requires plan administrators to explain that some of the plan's administrative expenses were paid from the total annual operating expenses of one or more of the plan's investment options.

Since its infancy, the 401(k) marketplace has suffered from a lack of quality data that is comprehensive enough to be useful for most strategic functions. **Historically, it has been virtually impossible to determine a specific mutual fund's total distribution in 401(k) plans.**

First, let's take a look at the biggest issues facing the industry right now. They all fall under the heading of "fiduciary liability." **In no particular order, we have: plan sponsors (Employers) being held accountable for excessive fees, plan sponsors (Employers) being held accountable for investment selections and plan sponsors (Employers) being held accountable for increasingly intricate compliance requirements.** Worse, each regulatory attempt to improve the standing of these issues only tightens the noose around the 401(k) plan sponsor's neck without addressing the real needs of the plan investors.

### October 14th, 2010 - US Labor Department issues final rule to improve transparency of fees and expenses to workers with 401(k)-type retirement plans.

WASHINGTON — The U.S. Department of Labor's Employee Benefits Security Administration today announced a final rule to give the estimated 72 million participants covered by 401(k)-type retirement plans greater information regarding the fees and expenses associated with their plans in order to better manage their retirement savings.

Many 401(k)-type plans allow workers to make their own investment decisions. Current law does not require that all workers be given the information they need to make informed investment decisions or, when information is given, that it is furnished in a user-friendly format. This rule will ensure that all workers who direct their plan investments have access to the information they need to make informed decisions regarding the investment of their retirement savings, including fee and expense information. Under the rule, workers will receive this information in a format that enables them to meaningfully compare the investment options under their plans.

**"This rule provides uniform disclosure to workers about what they pay for investment options in their retirement plans," said Secretary of Labor Hilda L. Solis. "For the first time, workers will have at their fingertips important and accessible investment-related information to comparison shop among the plan options available to them."**

The final regulation requires plan fiduciaries to:

- Give workers quarterly statements of plan fees and expenses deducted from their accounts.
- Give workers core information about investments available under their plan including the cost of these investments.
- Use standard methodologies when calculating and disclosing expense and return information to achieve uniformity across the spectrum of investments that exist in plans.
- Present the information in a format that makes it easier for workers to comparison shop among the plan's investment options.
- Give workers access to supplemental investment information in addition to the basic information required under the final rule.

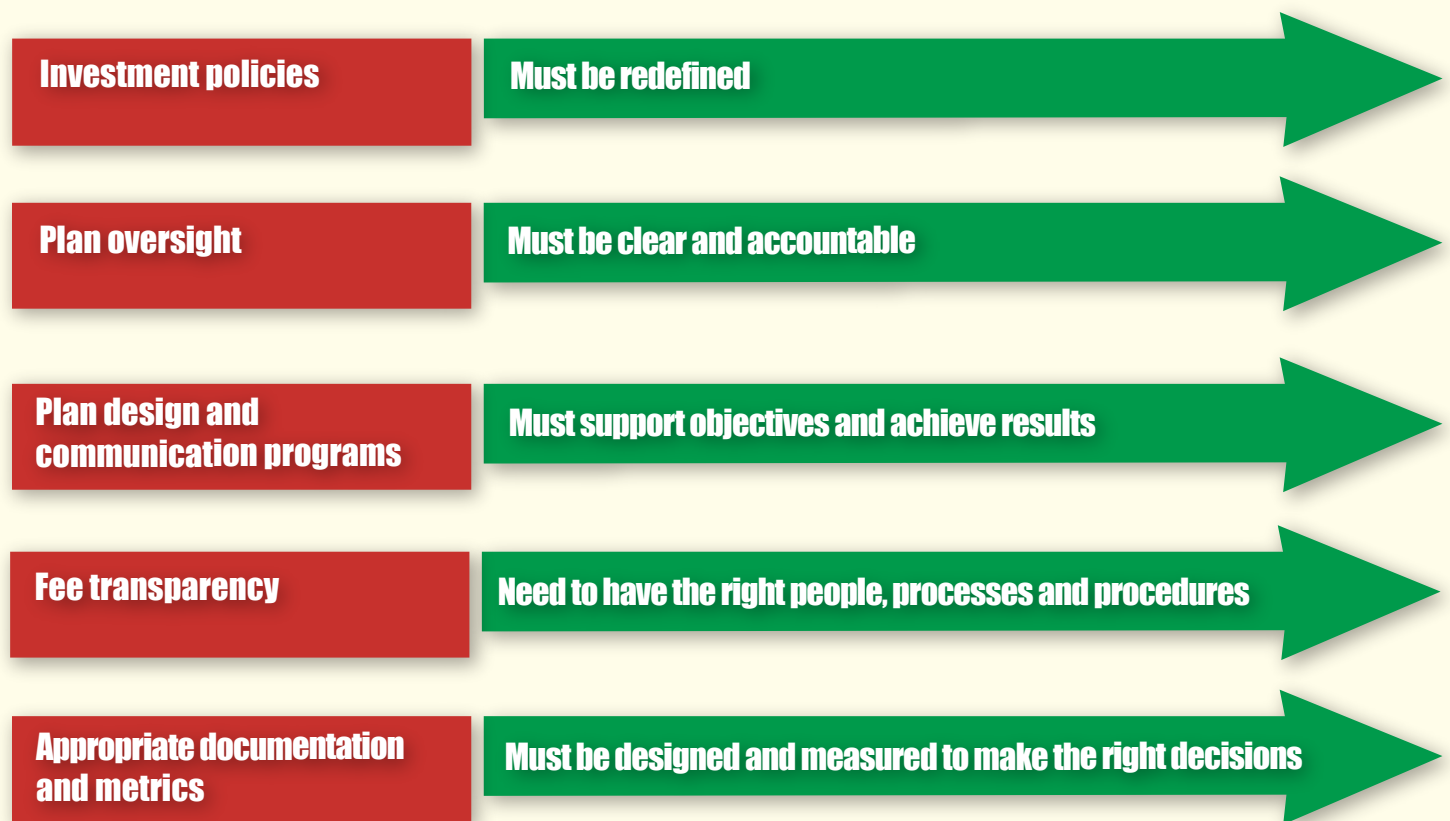
**"We are giving workers the tools they need to make the best possible decision about investing the nearly \$3 trillion held in their 401(k)-type plans. Now they will have information about different investment options to help them make wise decisions,"** said Assistant Secretary of Labor Phyllis C. Borzi.



*“For years, the 401(k) industry has operated without comprehensive data on which funds and managers have the best distribution,” said Mike Alfred, the CEO and co-founder of BrightScope (aka the “Morningstar” of retirement plan analysis). “As the defined contribution marketplace becomes increasingly competitive, only firms operating with the benefit of the very best data will succeed.”*



WHAT DOES THIS MEAN FOR PLAN SPONSORS (EMPLOYER(S)) AND/OR FIDUCIARIES?



# WHY USE OUR SOLUTION?

## RETIREMENT PLAN SOLUTIONS

Defined contribution plans face more risk than ever. Sharp market declines and the threat of more regulation and litigation have left many 401(k) sponsors exposed. Global Financial Private Capital can help you mitigate risk and optimize plan value.

As an ERISA co-fiduciary, Global Financial Private Capital can tailor – and implement – a solution specific to your needs. Our expertise in designing and communicating retirement strategies can help you make sure you have right governance and the best possible plan for your participants. We deliver a comprehensive and independent solution. You get peace of mind.

## PARTNERING WITH GLOBAL FINANCIAL PRIVATE CAPITAL

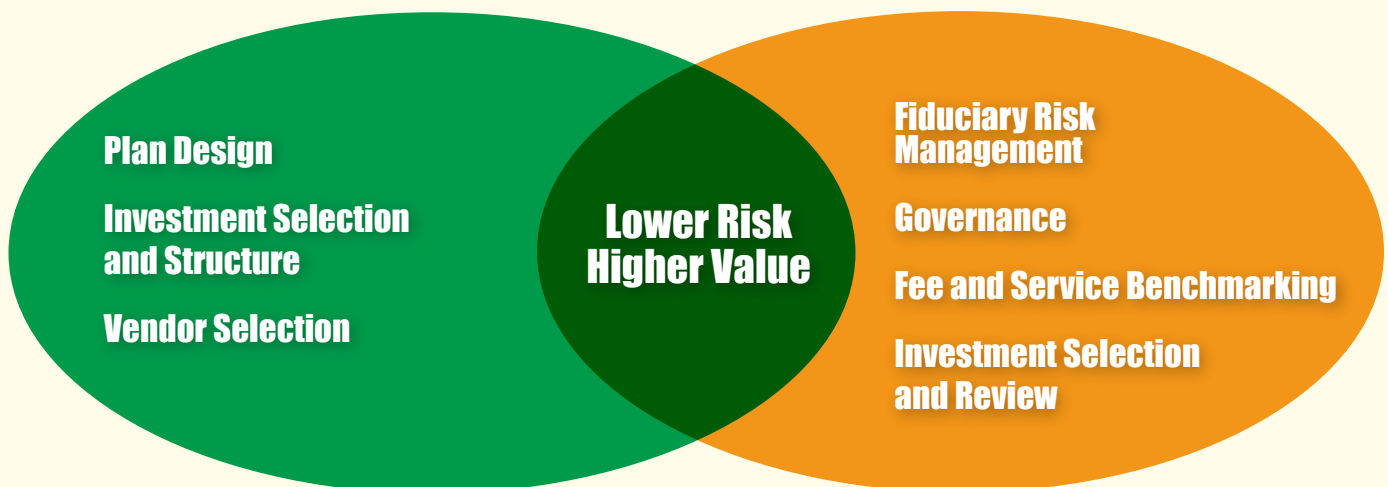
As your partner, Global Financial Private Capital shares your goal – making the most of your plan benefits. Our services are tailored to meet your needs and include:

- Governance structure review and monitoring
- Vendor fee and service benchmarking
- Comprehensive review of plan design
- Investment structure review to identify the appropriate number and types of options
- Investment selection, implementation and monitoring
- Ongoing ERISA investment fiduciary support

## INDEPENDENT ADVICE

Independent advice is the single most important factor in making better, more informed decisions about risk management. As an *independent advisor*, Global Financial Private Capital has created processes to ensure there are no commercial compromises in our advice.

## MITIGATING RISK AND OPTIMIZING PLAN VALUE



# THE SOLUTION



## GOVERNANCE

**Fiduciary Responsibility** – Adoption of a clear Fiduciary Standard. The public has a right to know what they can expect in the way of a Financial Advisor’s obligations to act in the best interests of their clients. Suitability is insufficient and inappropriate. Proposed rules allowing advisors to “change fiduciary hats” when working with clients on different aspects of their relationship seem unreasonable.

*The various fiduciary roles for qualified retirement plans are spelled out in the Employee Retirement Income Security Act (ERISA). ERISA identifies six general fiduciary categories:*

- NAMED FIDUCIARY
- PLAN ADMINISTRATOR TRUSTEE
- INVESTMENT MANAGER
- INVESTMENT ADVISOR
- OTHERS THAT OWE A DUTY OF LOYALTY OR ACT WITH DISCRETION OR AUTHORITY “TO ANY EXTENT.”



*The public, in our opinion, has a right to expect that financial advisors will act in their clients’ best interest. Anything else falls short.*

# GOVERNANCE

RETIREMENT PLAN MANAGEMENT –  
USING GOVERNANCE TO EFFECTIVELY MANAGE COST AND RISK



# GOVERNANCE

## HOT TOPICS – FEE OVERSIGHT RESPONSIBILITY

Five Questions you should be able to say “YES” to in order to reduce your exposure to potential lawsuits:

- Is your governance structure set up properly?
- Have you documented that you understand the current fee environment and your own fees?
- Have you benchmarked your fees in the last three years and documented the process and results?
- Have you benchmarked your investment structure in the last three years and your fund managers in the last year?  
Have you documented the process and results?
- Have you disclosed your fees to participants?

## FEE LAWSUITS –

“LOOSE” COMPLIANCE HAS RESULTED IN SERIOUS LITIGATION!

19 “BRAND NAME” EMPLOYERS SUED

### Key Allegations – Failures to Comply with ERISA

#### Duty to pay only reasonable fees

- ERISA Section 404(a): the duty to be prudent

#### Original suits alleged failures to monitor and disclose “revenue sharing”

- Use investment fees to pay for administrative services
- Alleged failure to meet ERISA Section 404(c) – with presumed result that participants did not have responsibility for asset allocation choices

#### Recent suits allege imprudent use of “retail” investments

- Failure to use “scale” to help participants
- Sacrifice of lower costs/performance for “brand”



# COMMUNICATION

## PARTICIPANT & SPONSOR EDUCATION

Only 11.9% said they are satisfied with their current education programs. At the same time, 73.8% said their participants need help with basic investing knowledge. Surprisingly, only 5% claimed to be concerned with the cost to implement a comprehensive education program to their participants.

35% of employers claim they receive a lot of questions whenever 401(k) statements are issued. Only 33% believe their participants could tell them what investments they currently have in their 401(k) or Retirement Plan and 73.8% feel strongly that their participants need help with basic investing knowledge.

When asked what they considered the most important factors for an education and communication program, the **top five responses** were:

**90.5% - on-going updates & participant support**

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**85.7% - explain how to establish retirement goals**

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**83.3% - provide basic knowledge of investing**

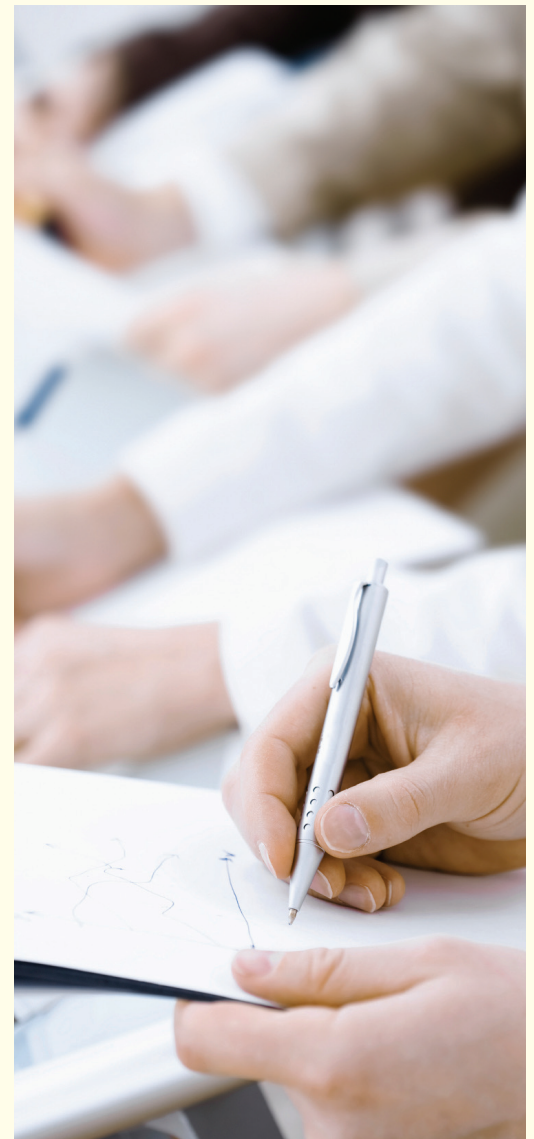
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**82.0% - explain specific investments available in the plan**

## YOUR EMPLOYEES ARE LIKELY THINKING...

- Is my retirement money safe?
- Should I stop contributing to my 401(k) until the markets improve?
- Should I move my savings into different investment funds?
- Where can I go for advice – and whose advice can I trust?
- Will the company continue to match my contributions?
- How secure is my job, my company, my retirement savings?
- Should I take a loan or hardship withdrawal from my 401(k)?

**WHAT DO I DO NOW?**



# INVESTMENTS



## INVESTMENT OPTIONS

According to the General Accounting Office, the company that administers the 401(k) “**MAY ALSO BE RECEIVING COMPENSATION FROM MUTUAL FUND COMPANIES** for recommending their funds. As a result, participants may have more limited investment options and pay higher fees for these options than they otherwise would.”

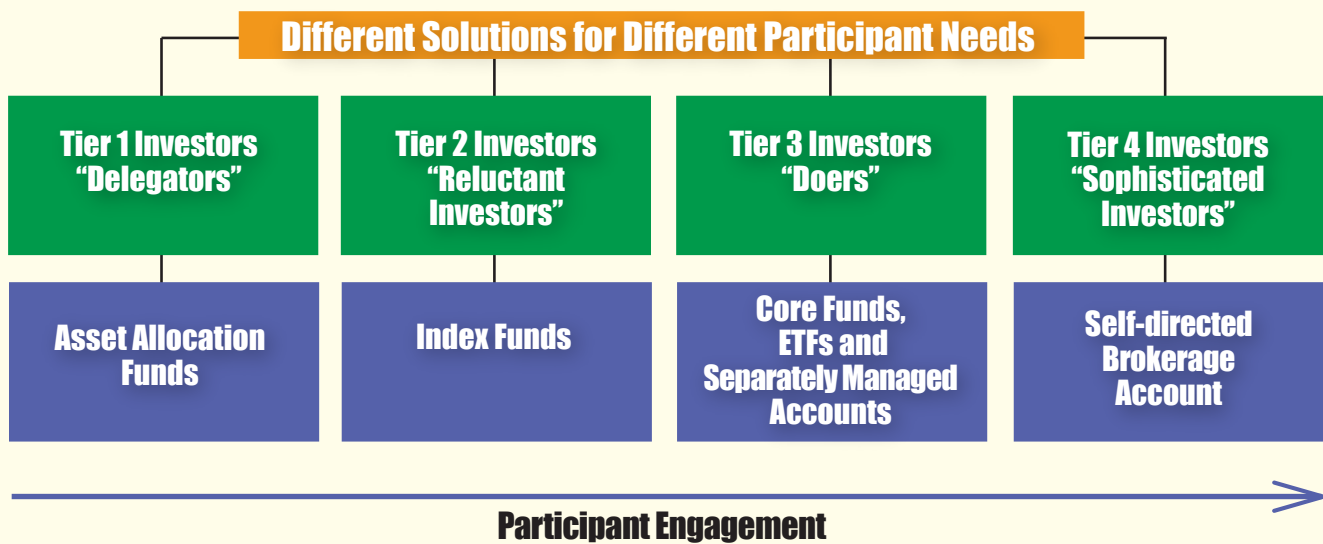
## VALUE IS CREATED FROM GOVERNANCE.

There should be a strong link between governance and plan investment structure.

$$\text{Governance} = \text{Time} + \text{Expertise} + \text{Organizational Effectiveness}$$

①	<b>None/Minimal</b>	<b>Single Plan Sponsor (Employer(s))</b>
②	<b>Limited</b>	<b>Single Board</b>
③	<b>Middle-Range</b>	<b>Investment Committee</b>
④	<b>Advanced</b>	<b>CIO and Investment Team</b>

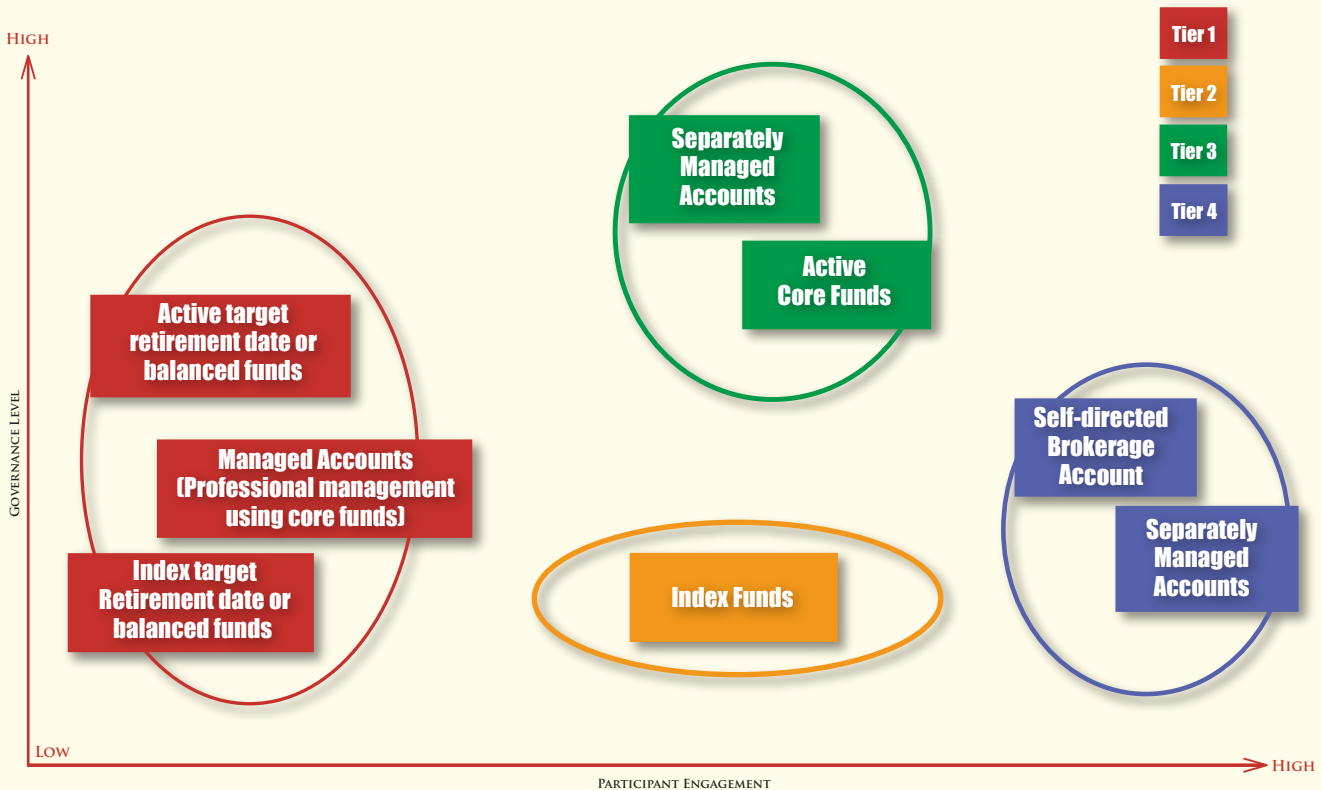
## INVESTMENT STRUCTURE OPTIONS



# INVESTMENT

**Non-proprietary Investment Recommendations** – Global Financial Private Capital is independent and is not compensated by fund companies. Its unbiased investment analysis process is designed to recommend best-in-class investment options.

## OPTIMIZING THE INVESTMENT STRUCTURE (LOW-COST, EASY TO ADMINISTER)



## ALTERNATE INVESTMENT CHOICES

### Types of Investments

- Beyond the need for looking it up in the paper
- Leveraging size to access Institutional Funds or Separately Managed Accounts

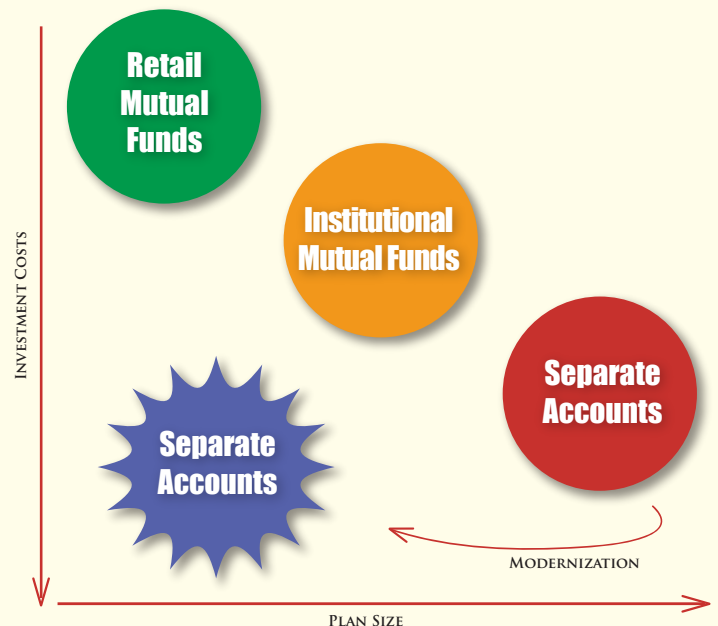
### Open Architecture

- Complete investment flexibility
- Access to best-in-class investment options (ETFs, SMAs)

### Paradigm Shift

- Institutional Separately Managed Accounts now available to the smaller plan market

*Fund expenses are typically the largest and most manageable cost component. Separately managed accounts offer more choices tailored to client needs and have lower costs.*



# INVESTMENT PLATFORM

Global Financial Private Capital offers a powerful investment platform. From pre-screened investment portfolios to a completely open architecture platform, Global Financial Private Capital has the capability to meet your investment needs.

The Global Financial Private Capital Retirement Plan Consulting Team can assist in defining your plan investments based on the vast choices from over 12,000 mutual fund families (including institutional class), 1,200 low-cost Exchange Traded Funds (ETFs), Institutionally Managed Separate Accounts (SMAs) and Self Directed Brokerage Account (SDBA).

DEPENDING ON THE SIZE OF YOUR RETIREMENT PLAN AND DESIGN CHARACTERISTICS YOU MAY PICK FROM THE FOLLOWING TWO THIRD PARTY ADMINISTRATORS:



DailyAccess is a charter member of the Council of Independent 401(k) Recordkeepers (CIKR).



DailyAccess is an ASPPA-Certified Recordkeeper. DailyAccess Corporation is one of the first recordkeepers in the country to be certified by the American Society of Pension Professionals & Actuaries (ASPPA).



DailyAccess has been awarded the Five Star Fiduciary Fitness Ranking for recordkeepers from IFLC (Investment Fiduciary Leadership Council).



FWD Forward Thinking

FWD Custom(k)<sup>TM</sup>

FWD Express(k)<sup>TM</sup>

FWD SimpleIRA<sup>TM</sup>

FWD <sup>SUPER</sup> SimpleIRA<sup>TM</sup>

FWD Single(k)<sup>TM</sup>

	CUSTODY	COMPENSATION	INSTALLATION
DAILY ACCESS	Fidelity Investments or Mid Atlantic	All parties paid via asset based fees	On site support at all levels; 9 Regional Managers
THE ONLINE 401(K)	Schwab, TD Ameritrade and Matrix	TPA – flat fee, Investment Management via asset based fees	Web based, internal support at all levels

# HOLISTIC PLAN MANAGEMENT

## PLAN ADMINISTRATION

Although most Employers and Human Resources personnel are experienced in dealing with such matters as conflict resolution, hiring, disciplinary and termination policies, as well as payroll and record keeping, few of them have had thorough (or even adequate) training in employee retirement planning. This shortcoming can perhaps be the most damaging during the plan selection process, when critical issues such as costs and fees, investment choices and risk tolerance must be considered.

## PLAN DESIGN



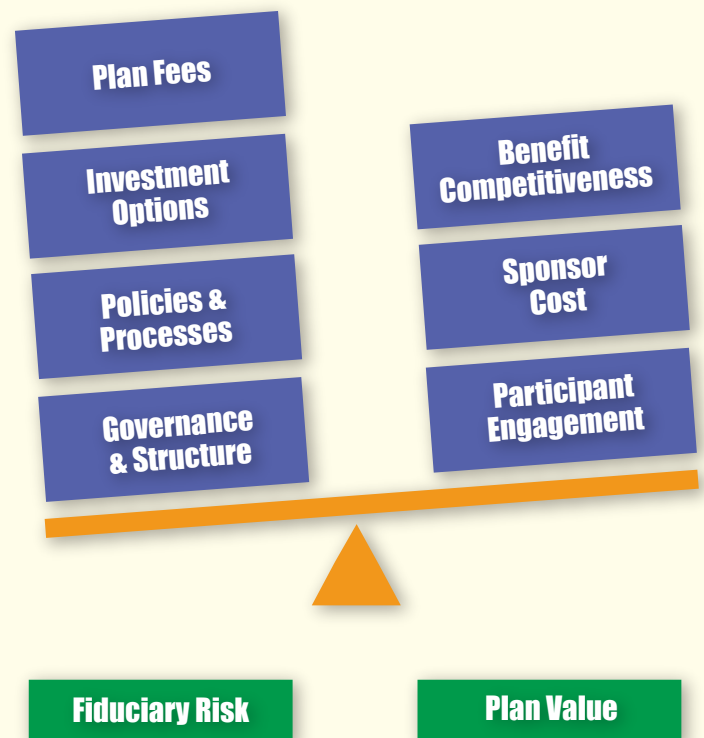
EFFECTIVE PLAN MANAGEMENT REQUIRES ADDRESSING ALL AREAS OF RISK

INVESTMENT SELECTION AND OVERSIGHT

GOVERNANCE AND PLAN DESIGN

PARTICIPANT ENGAGEMENT

MINIMIZING FIDUCIARY RISK WHILE INCREASING PLAN VALUE



# WHY USE OUR SOLUTION?

## 401(K) AND RETIREMENT PLAN SPONSORS: DO YOU KNOW ALL OF YOUR RETIREMENT PLAN COSTS?

Believe it or not, 85% of retirement-industry revenue is never billed directly or disclosed. This is because more 401(k) plan distribution and record-keeping costs are subsidized by the funds themselves in the form of fund-marketing fees, shareholder-servicing fees, sub-transfer agent fees, and finder's fees that compensate the sales and distribution effort. Many of these costs are even unbeknownst to Plan Sponsors.

These hidden costs may be a problem because, as a plan fiduciary, you have a responsibility to account for all plan dollars, and to investigate and understand all expenses that are being assessed against your employees' assets.

Your advisor and Global Financial Private Capital's innovative Transparent Pricing model is designed to enable you to do just that.

## WHAT IS TRANSPARENT PRICING?

Transparent Pricing is a **three-step process** that is revolutionizing the 401(k) industry.

### STEP ONE

All plan expenses – including so-called undisclosed fees – are identified and fully disclosed. There are no more camouflaged fees and no hidden charges.

Disclosed fees include:

- Administration & Record-Keeping
- Investment Management Fees
- Trustee Services
- Education & Communication

### STEP TWO

Recapture all revenue sharing. Your advisor and Global Financial Private Capital will identify all hidden costs and revenue-sharing arrangements, and deposit them into your Plan Trust. Revenues generated by the plan belong to the plan.

### STEP THREE

Reduce plan expenses.

- Once recaptured, the credits can be used to reduce your plan expenses.
- Reduction of up to 50% or more in out-of-pocket plan expenses are not unusual.
- Some plans accumulate a surplus of fund credits in the Plan Trust. In this event, the Plan Sponsor can distribute these surplus credits to participants, potentially enhancing their returns.

Your advisor and Global Financial Private Capital are committed to Transparent Pricing of retirement plan services. We fully disclose all expenses. 100% of all revenue-sharing is collected by your Plan Trust for the exclusive benefit of the plan.

## FLEXIBILITY

With our open architecture platform, you aren't limited to one or two mutual fund companies.

## DECREASE RISK

Global Financial Private Capital will help to fulfill your duties as a fiduciary and will help you create a risk-management system. This includes drafting an investment-policy statement on stringent ERISA standards.



# THE SECOND OPINION

## A COMPLETE UNBIASED ANALYSIS OF YOUR CURRENT PLAN

### ABC, Incorporated Current Retirement Plan Fee Comparison

#### Plan Assumptions:

Assets	\$1,456,584.00
Participants	20
Average Account Balance	\$ 72,779.20

#### Current Provider

#### Estimated Current Fees and Fund Lineup

##### ANNUAL FEES FOR ALL SERVICES

Asset Fee	1.25%	\$ 18,194.80
Single Sum Fee		\$ 1,200.00
Base Fee		\$ 1,800.00
Participant Charge	\$10.00	\$ 200.00
ADP/ACP Non-discrimination Test		\$ 290.00
		<b>\$ 21,684.80</b>

Fund Name	Estimated Assets	Expense Ratio
American Century Real Estate	4,856.95	1.41%
American Funds Growth Fund of America	104,858.92	0.97%
American Funds Income Fund of America	23,051.84	0.99%
American Funds Washington Mutual	59,851.52	1.03%
Barron Small Cap	17,358.75	1.31%
Calvert Income	7,467.16	1.23%
Dreyfus Appreciation	18,768.49	1.09%
Dreyfus Premier Technology	14,517.30	1.51%
Eagle Capital Appreciation	60,583.42	1.32%
Eagle Series Tr. Mid Cap Growth A	57,563.27	1.44%
Eagle Series Tr. Mid Cap Stock	49,368.16	1.26%
Fidelity Advisor Small Cap	142,376.25	1.53%
Franklin Balance Sheet Investment	166,391.36	1.00%
Franklin Income	336.52	0.65%
Franklin US Govt Secs	17,141.17	0.73%
Goldman Sachs Short Term Duration	17,645.24	0.88%
Invesco VK Equity Income	69.71	0.78%
Janus Adviser Flexible Bond	144,067.55	0.95%
Legg Mason Clear Bridge Aggressive Growth	183.33	1.29%
Lord Abbett Bond Debenture	1,634.24	1.00%
Nationwide Money Market	699.23	0.61%
Oakmark Equity & Income	20,749.97	1.12%
Oakmark Fund II	46,365.35	1.42%
Oakmark International II	171,401.89	1.45%
Oppenheimer International Bond	142,900.98	0.98%
PIMCO Allianz NFJ Dividend Value	99,162.84	1.06%
Victory Diversified Stock	17,067.60	1.07%

Average Expense Ratio		1.11%
Average Weighted Expense		1.13%
Current Annual Fees	\$ 21,684.80	1.49%
Total Estimated Fees		<b>2.62%</b>

#### ABC, Incorporated Proposed Retirement Plan

#### DailyAccess

#### Estimated Fees and Fund Lineup

##### ANNUAL FEES FOR ALL SERVICES

Recordkeeping Fee	.32%	\$ 4,638.96
Per Participant Fee	\$15.00	\$ 300.00
Base Fee		\$ 1,600.00
Minimum Fee	\$6,500	\$ 61.04
Financial Advisor Fee	0.45%	\$ 6,550.13
Fiduciary Fee	0.30%	\$ 4,366.75
		<b>\$ 17,416.88</b>

Fund Name	Estimated Assets	Expense Ratio
SPDR Dow Jones Large Cap Growth ETF	131,307	0.20%
Vanguard Large Cap ETF	168,795	0.12%
Shares MSCI USA ESG Select Index Fund	131,307	0.50%
Shares Morningstar Mid Growth Index Fund	102,897	0.30%
SPDR Dow Jones Mid Cap ETF	85,907	0.30%
Vanguard Extended Market Index ETF	98,314	0.13%
Shares Russell 2000 Growth Index Fund	65,083	0.25%
SPDR Dow Jones Small Cap ETF	55,068	0.32%
Vanguard Small Cap Value ETF	72,456	0.14%
Shares MSCI EAFE Value Index Fund	112,965	0.40%
PowerShares Dynamic Small Cap Portfolio	89,158	0.60%
SPDR Barclays Capital Short Term International Treasu	54,797	0.35%
Vanguard Emerging Markets Stock Index ETF	43,439	0.27%
PowerShares Fundamental High Yield Corporate Bond	62,589	0.50%
Vanguard Intermediate-Term Bond ETF	84,780	0.12%
iShares Barclays 1-3 Year Treasury Bond Fund	96,005	0.15%
The Bancorp Master Demand Account	716	0.00%

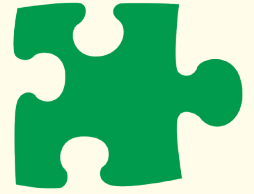
Average Expense Ratio		0.27%
Average Weighted Expense		0.28%
Estimated Fees	\$ 17,416.88	1.20%
Estimated Revenue Credit	\$ (2,263.50)	(.15%)
Total Estimated Fees	\$ 15,153.30	1.04%

<b>Estimated Annual Savings</b>	<b>\$ 18,903.84</b>	<b>1.29%</b>
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# WHICH PLAN IS RIGHT FOR YOU?

## THE BENEFITS FOR THE EMPLOYER PLAN SPONSOR MAY INCLUDE:

- ★ Corporate tax savings
- ★ Enhanced employee acquisition and retention
- ★ Greater funding flexibility
- ★ Flexibility in contributions
- ★ Plan assets protected from creditors



## WHY HAVE A 401(K) RETIREMENT PLAN?

There are four main reasons why you may want to consider sponsoring a 401(k) plan in your workplace:

1. A 401(k) retirement plan demonstrates that **you care about and value your employees**; you want to provide a means for them to plan for their future. According to Fidelity Investments retirement research, experts estimate that “each of us will need between 60 percent and 80 percent of our final annual working income every year that we’re retired. Since Social Security typically provides only 40 percent of the average retiree’s income, many of us will need to rely on our own savings and investments.”
2. A 401(k) retirement plan has **tax advantages** for the employer and the employee, including tax-deductible advantages for the employer and tax deferred growth for the employee.
3. Use the 401(k) retirement plan to **attract** high quality employees.
4. The 401(k) retirement plan helps you **retain** high quality employees. Your best employees expect the best benefits and pay.

	2011	2010
<b>IRAs</b>		
IRA Contribution Limit – 219(b)(5)(A)	\$5,000	\$5,000
IRA Catch-up Contributions	\$1,000	\$1,000
<b>401(k), 403(b), Profit-Sharing Plans, etc.</b>		
Annual Compensation - 401(a)(17)/404(I)	\$245,000	\$245,000
Elective Deferrals - 402(g)(1)	\$16,500	\$16,500
Catch-up Contributions - 414(v)(2)(B)(i)	\$5,500	\$5,500
<b>Defined Contribution Limits - 415(c)(1)(A)</b>	<b>\$49,000</b>	<b>\$49,000</b>



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