THE EXCELLENT FIDUCIARY

Roadmap to Retirement Readiness

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Think your vendors have provided a roadmap for your participants' retirement readiness? Not so fast. The predominant "retirement readiness" model places control in the hands of the retirement plan's vendors, rather than the plan participants themselves. The good news: Attaining retirement readiness for your plan participants is just one simple step away.

THE BUZZ ABOUT RETIREMENT READINESS

These days, the road to retirement readiness for many retirement plan participants seems long, daunting, and in some cases, it is altogether unattainable. In response to this public anxiety, many retirement plan vendors have been promoting solutions for becoming retirement ready in lesser time—from new investment products, to novel saving strategies and cutting-edge technologies. Most of these tactics, however, include some level of control by the vendors themselves—which defeat the purpose of providing participants with the "power" to control their own financial destiny. To enable plan participants to truly become retirement ready, it is the plan sponsors that must make an adjustment to their existing retirement plan process.

But first, what does being "retirement ready" really mean, and why is this concept important to plan sponsors? Retirement readiness is being financially prepared for retirement. Specifically, it measures the degree to which an individual is on target to meet her retirement-income goals and can maintain the same standard of living after retirement. Executives named as the primary fiduciary of their company's retirement plan—plan sponsors—are required under ERISA to act in their plan participants' best interest. So, in the process of fulfilling their fiduciary duty, plan sponsors should maintain an interest in facilitating their plan participants' quest for retirement readiness.

The current market buzz about retirement readiness, however, makes it seem as though a plan sponsor could fulfill his fiduciary duty by selecting the right funds, the most adept money manager, or the most renowned investment firm. In fact, the way a plan sponsor can act in his participants' best interest is by executing one simple step (that has more to do with the plan sponsor's responsibilities than anyone else's in the vendor supply chain!). Before making any changes, however, let's explore what the

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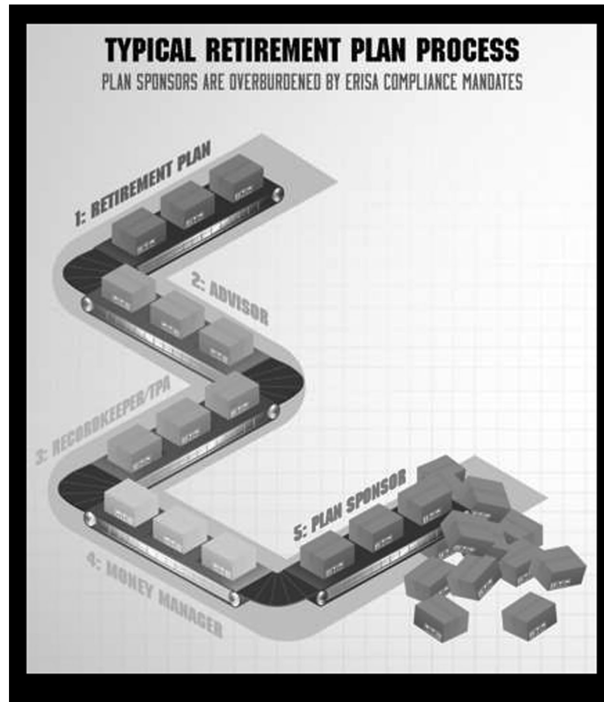
anatomy of a typical plan sponsor retirement plan process looks like today.

The Typical Retirement Plan Process Commonly referred to as the "fiduciary supply chain," the retirement plan process is the interworking of several vendors and a plan sponsor in an effort to maintain the company's retirement plan, serve the plan's participants, and comply with ERISA regulations governing the plan.



PART I: RETIREMENT PLAN

The retirement plan process, or fiduciary supply chain, begins with the retirement plan itself, a trust that is established by a Board of Directors. Whether a 401(k), 403(b) or another type of plan, all retirement plans are originally constructed as savings vehicles for the company's employees. This is where the simplicity of the retirement plan process ends, however, for the next pieces of the supply chain require coordination between several different vendor parties that often put competing (or self-serving) interests at play.

PART II: ADVISOR

The retirement plan advisor, which is called by various names such as investment consultant, broker, and investment advisor is the next part of the process, and is often viewed as the "quarterback" of the vendor supply chain. The advisor oversees and coordinates the delivery of services to the retirement plan, including those of the recordkeeper/TPA and money manager. The advisor also facilitates the resources that are available to participants, such as online document access and investment instructional sessions. One of the most important roles that the advisor plays in the retirement plan process is managing overall plan sponsor satisfaction with the retirement plan and its performance. Hence, the advisor has almost as much interest in ensuring participant retirement readiness as the plan sponsor—as this can be a critical piece in measuring the retirement plan's success. A re-

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tirement plan consultant, most commonly paid from the retirement plan itself, can experience conflicts of interest if they encourage the use of funds or products that provide them higher compensation than other fund options outside of their network.

PART III: RECORDKEEPER/TPA

Following behind the advisor's lead role is the Recordkeeper/TPA function. This entity handles the recordkeeping of participants' assets and investment transactions. Ensuring that participant fee disclosures and account statements are issued timely and accurately also falls within the Recordkeeper/TPA's purview. Responsible for IRS compliance testing, these players have an interest in maintaining strict compliance with ERISA mandates and staying abreast of any changing regulations.

PART IV: MONEY MANAGER

The money manager can be one of the most visible roles within the retirement plan process. Because retirement plans are so frequently measured by investment performance, money managers often gain more exposure than other vendors within the supply chain. With or without notoriety, they serve a critical function in the retirement plan process. Money managers make investment decisions on behalf of the plan that are consistent with policy mandates. They manage participant assets, and enable fund modifications—but often only within a certain allotment of funds provided by their management firm.

PART V: PLAN SPONSOR

While the money manager role can contribute complexity to the overall retirement plan process, it is not the most common breakdown in the supply chain. Surprisingly, the plan sponsor role is the one piece of the retirement plan process that can most easily fall off track. The difficulty inherent in the structure of the plan sponsor role creates a challenging environment for fulfilling the required duties. The responsibilities of a plan sponsor include overseeing the entire retirement plan process, ensuring ERISA compliance through vendor monitoring, and serving participants' best interests through the management of the plan.

Indeed, most plan sponsors serve a dual role: 1) that of a leader in their corporation, responsible for the oversight of critical business functions (which falls under their specific area of expertise), and 2) that of a plan sponsor or primary fiduciary, responsible for the prudent management of their retirement plan (which typically is not an area in which they are an expert). It is easy to see how serving in both of these functions could create an unreasonable expectation for the majority of plan sponsors. In reality, a plan sponsor's responsibilities could be described as follows: Overseeing the retirement plan process while juggling executive responsibilities Seeking ERISA compliance amidst complex requirements Hoping to serve participants' best interests without a roadmap to follow

Further, recent activity from the Department of Labor ("DOL") has placed increased pressure on plan sponsors to properly satisfy their duties. The finalization of ERISA regulation 408(b)(2) requires plan sponsors to be even more vigilant of their vendors—and more detailed in assessing whether their vendors' fees are appropriate for services rendered. Indeed, these developments contribute to a high-stakes environment for today's plan sponsor, who is overburdened by the combination of both executive management and retirement plan oversight responsibilities.

THE CURRENT MODEL'S IMPACT ON PLAN PARTICIPANTS

The breakdown in today's typical retirement plan process is significant because of its

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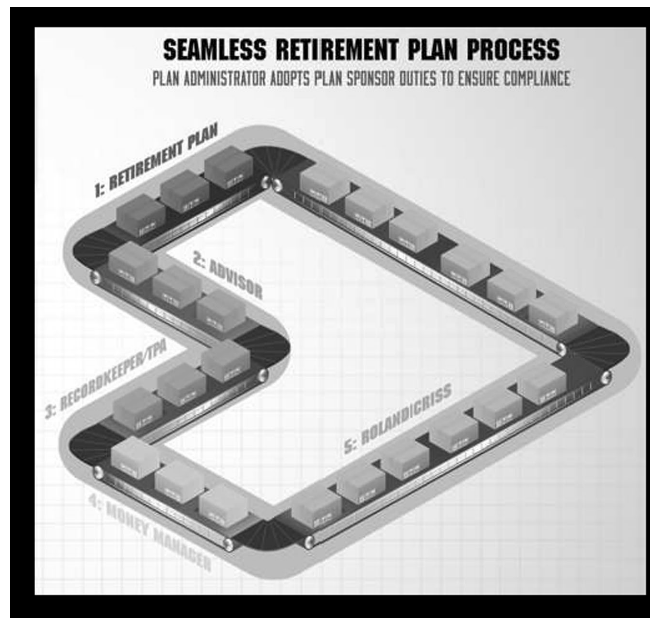
impact on plan participants and their retirement readiness. With an overwhelmed plan sponsor at the helm, vendors can proceed in serving their own interests (rather than those of the plan participants), which can limit the resources or options from which participants can choose. The ability of retirees to maintain their current lifestyles into retirement is determined by many factors, including changes in retirement plan features (e.g., automatic enrollment, auto-escalation of contributions, and diversified default investments) as well as investment performance. Since vendors control the information that is used in order to select the best retirement plan features and investment strategies, it becomes apparent that the current fiduciary supply chain leaves little for participants to control in determining their own retirement readiness. So, what is the solution?



THE NEW AND IMPROVED RETIREMENT PLAN PROCESS

The true roadmap to retirement readiness closely resembles today's retirement plan process. It involves the same sequence of events, the same responsibilities and the same key players—except for one. Yes, the ideal fiduciary supply chain model for retirement readiness entails just a single adjustment at the plan sponsor level: to remove the plan sponsor altogether.

Practically speaking, of course, the plan sponsor role still exists. The entire retirement plan process still depends on that role's critical responsibilities to ensure the proper functioning of the retirement plan itself. The only difference? In this approach, the plan sponsor role is fulfilled by a different entity.

In place of the plan sponsor, a comprehensive 3(16) Plan Administrator takes over the plan sponsor's responsibilities, as outlined (and encouraged) in Section 3(16) of ERISA. A comprehensive 3(16) Plan Administrator may not provide any other services to the retirement plan that it serves including recordkeeping, investment advice, third party administration, and custody of assets. The Plan Administrator adopts fiduciary liability on behalf of the plan sponsor, helps bolster the advi-

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sor's value as the "quarterback" of the fiduciary supply chain team, and ensures compliance across each segment of the vendor supply chain.

The result is a managing entity—fluent with the fiduciary process and ERISA regulations—that is able to return the power to the plan participants, maximize vendor value, and minimize plan sponsor responsibility.

LEADING THE WAY TO RETIREMENT READINESS: THE PLAN ADMINISTRATOR

The substitution of an independent 3(16) Plan Administrator in place of a plan sponsor can transform plan participants' experience and outcomes. Because a comprehensive Plan Administrator has a sole focus on the retirement plan—including maintaining a prudent ERISA process and managing vendors who prove their value—plan sponsors can rest at ease knowing that their fiduciary duty is being fulfilled. Further, the Plan Administrator's best-practice approach ensures that participants are placed in control of their own futures, and that every decision is made in their best interest alone.

A plan sponsor can expect the following benefits in transitioning their responsibilities to a 3(16) Plan Administrator:

Unburdened Responsibilities. First and foremost, plan sponsors experience relief from the burden of acting in the singular role of overseeing their retirement plan process, a responsibility that few executives feel fully qualified to perform.

Seamless Supply Chain Management. Supply chain management is a well-advanced discipline in corporate America. Proficiency in that discipline is a key trait of an independent 3(16) Plan Administrator, and a critical requirement under ERISA. Consequently, plan participants can expect improvement in the performance of their plan's vendors. Those improvements appear in the matching of state-of-the-art features to the employee base and optimum investment results by controlling costs and ensuring vendor value.

Improved Vendor Relationships. Vendors enjoy working with a professional 3(16) Plan Administrator because they talk the same language. ERISA jargon is not a foreign language to a Plan Administrator, as it is to most responsible plan sponsors.

Slimmer Risk Profile. A key to corporate risk management is the ability to define and delineate key risk management roles, responsibilities and accountabilities. An independent 3(16) Plan Administrator adds a vital layer of legal protection to a plan sponsor.

Reduction or Elimination of Errors of Omission. With a Plan Administrator, payroll distributions are observed and analyzed for irregularities. When found, errors of commission or omission are given priority appropriate to the consequences, and are accompanied by corrections in practices, staffing, vendors, or all of the above.

Objectivity Through Independence. ERISA requires that Plan Administrators faithfully observe three key duties: exclusive purpose, loyalty, and independence. In an environment where vendors have found profitable opportunities in offering multiple services under a single brand, plan sponsors can feel confident that their outsourced Plan Administrator role is pursuing retirement readiness for their employees in a completely independent fashion.

While quick fixes usually turn out to be "too good to be true," the solution to enabling the best

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outcomes for plan participants is a simple one. By placing a Plan Administrator in the driver's seat, the road to retirement readiness looks a lot less bumpy—for plan participants and their sponsors.

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