SUMMER 2011 :: VOL 41, NO 3

THE ASPPA Journal

ASPPA's Quarterly Journal for Actuaries, Consultants, Administrators and Other Retirement Plan Professionals

In This Issue:

Washington Update

Retirement Success: A Surprising Look into the Factors that Drive Positive Outcomes

Top-heavy Plan Basics

Navigating FASB Accounting Standards Codification

TPA Partnerships—Consider the Opportunities

Systemization and Automation

Ethics and Professionalism: How Do We Know?

WASHINGTON UPDATE

Promoting Savings at the Expense of 401(k) Plans

by Brian H. Graff, Esq., APM

As the debate around tax reform proceeds, a threat to employer-sponsored retirement plans may come from an unexpected source—namely some policymakers purporting to support a pro-savings agenda. As we all know, most Americans save at work through a company 401(k) plan. However, proposals currently being discussed to eliminate the tax on capital gains would threaten to undermine the incentive that drives many employers to offer these plans to their workers. Without 401(k) plans, the savings rates of middle and lower income workers would be greatly reduced.

Many conservatives make the argument that our current tax system discourages savings to the detriment of the economy. There is no debate that increasing our nation's savings rate is a worthy goal. Increased savings produces greater capital leading to lower interest rates, which is a good thing for a debtor nation such as ours. Policymakers and economists focused on this objective periodically suggest "consumption-model" taxation systems that exempt savings

Continued on page 4

www.autorollovers.com
6 Rhoads Drive, Suite 7
Utica, NY 13502-6347
1.866.401.5272 x 6941

TPAs now earn a perpetual revenue stream* on all new AutoRollovers Accounts!

$10 initially, $1.25 per month for the life of each account.

*Payment applicable for accounts greater than $200.

Proud exhibitor at the Annual Conference, please visit us at Booth #200.

In addition to an additional revenue stream, signing up for AutoRollovers provides…

Plan Sponsors with the following benefits:

- A fully compliant Safe Harbor rollover solution
- Reduced Plan expenses
- Easy to sign up: one contract covers all rollovers
- No cost to Plan Sponsor nor to TPA
- Eliminate need to track former employees
- Avoid lost participants upon Plan termination

Participants enjoy:

- Low-cost IRA account
  - No account set-up fee
  - Low annual maintenance fees
- Stable value GIC fund as default investment option
  - Eleven additional mutual fund offerings for account diversification

Editor in Chief
Brian H. Graff, Esq., APM

The ASPPA Journal Committee
William C. Grossman, QPA, Co-chair
James T. Comer, III
Kim A. Cooley, QKA, QPFC
Kimberly A. Flett, QPA, QKA
Catherine J. Gianotto, QPA, QKA
Ronald A. Hayunga, QKA, QPFC
Barry Kozak
Michelle C. Miller, QKA
Mary L. Patch, QKA, QPFC
John M. Phillips
David A. Pitts, MSPA
Steven F. Sullivan
Peter K. Swisher, CPC, QPA
David J. Witz

Editor
Chris L. Stroud, MSPA

Associate Editor
Troy L. Cornett

Production Manager
Troy L. Cornett

Technical Review Board
Michael Cohen-Greenberg
Barry Kozak
Marjorie R. Martin, MSPA
Robert M. Richter, APM
Nicholas L. Saakvitne, APM

Advertising Sales
Jeff Hoffman

Design and Layout
Lynn A. Lema

ASPPA OFFICERS

President
Thomas J. Finnegan, MSPA, CPC, QPA

President-Elect
Robert M. Richter, APM

Senior Vice President
Barry Max Levy, QKA

Vice President
Kyla M. Keck, CPC, QPA, QKA

Vice President
Robert L. Long, APM

Treasurer
David M. Lipkin, MSPA

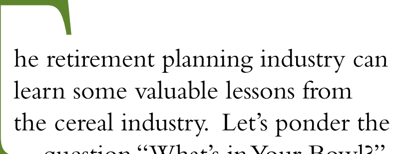
Secretary
Adam C. Pozek, QPA, QKA, QPFC

Immediate Past President
Sheldon H. Smith, APM

FROM THE EDITOR

What's in Your Bowl?

by Chris L. Stroud, MSPA



The retirement planning industry can learn some valuable lessons from the cereal industry. Let's ponder the question "What's in Your Bowl?"

Lesson #1: The whole is greater than the sum of its parts. Cereal is better when other ingredients like milk, yogurt or fruit are added to the bowl. Cereals are also frequently teamed up with other ingredients in popular recipes. In our industry, plan sponsors and participants are often better served by a team of industry players (*e.g.*, TPAs, recordkeepers, attorneys, accountants, actuaries, advisors, investment providers, etc.). And when those folks work together harmoniously, it's the perfect recipe for success.

Lesson #2: Fiber is good for the body; moral fiber is good for the soul. Back in the late 1800s, Dr. John H. Kellogg was obsessed with the human bowel and with encouraging others to lead a moral life. John experimented with fiber options and his brother Will created wheat flakes by accident—the rest is history! The Kellogg Company was grounded on moral practices as well as the principles that eating more fiber led to a healthy gastrointestinal system. In our industry, moral fiber is key—we are affecting people's future and dealing with their money. ASPPA and other organizations now require ethics as a CPE topic to underscore the importance. The recent focus on fee disclosure and fiduciary issues is to ensure ethical practices. {Note: Dr. Kellogg might be somewhat disappointed today with the cereal industry. According to the Cereal FACTS Report [published by The Food Advertising to Children and Teens Score (FACTS)], cereals marketed to children today have 85% more sugar, 65% less fiber and 50% more sodium than cereals marketed to adults. What happened to the fiber—and the moral fiber?}

Lesson #3: Brand recognition is important. Will Kellogg founded the Kellogg Company and focused on getting the name and products recognized in the market. In the midst of the Great Depression, when other companies were cutting advertising and staff, he instilled hope by doubling his advertising budget, hiring a second shift of workers and increasing production. Kellogg's was the first cereal company to advertise on TV. Today, with 2010 sales of nearly $12 billion, Kellogg Company remains the world's leading producer of cereal. Our own industry has many players, large and small, with different talents. Like Kellogg, each firm must distinguish itself in the retirement plan marketplace by continuously communicating the firm's brand, competitive advantages and value proposition. We must also educate the public on the value of industry credentials and retirement plans.

Lesson #4: No one wins the "race to the bottom" on fees. Cereal wars have raged on. In 1996, Kellogg's saw its cereal consumption declining due to 20% price decreases by Post and Nabisco, who were trying to capture more of the market. In response, Kellogg dropped prices on many of its cereals and at the same time warned Wall Street that the price cuts would sharply reduce earnings. Kellogg's profits were down and the share price declined. Other cereal companies were forced to make price cuts, some of which resulted in layoffs or failed businesses—and the industry as a whole was negatively affected. Consumers deserve fair pricing, but if the price paid does not support the service or product delivered, no one wins. In our industry, as we enter the era of "full disclosure," we must keep in mind that the focus should not be solely on fees. Plan sponsors and participants are best served when they understand the *value* of the services provided; the cheapest price is not always the best option.

Lesson #5: Pay it forward. Will Kellogg established the W.K. Kellogg Foundation, dedicated to helping people solve the problems of society. He also gave nearly $3 million to hometown causes in Battle Creek, Michigan. In our industry, if we do our jobs right, we are helping people prepare for retirement. Hopefully, their plan will "pay them forward." Helping ASPPA keep our industry strong by contributing to ASPPA's PAC is another way we can "pay it forward" so that employees can continue to benefit from qualified plans.

So, what's in your bowl—and is your bowl half-full or half-empty?

CONTINUED FROM PAGE 1

from tax as an effective means to encourage savings. Most commonly this approach takes the form of proposals to completely eliminate the tax on capital gains, dividends and interest.

These proposals have once again resurfaced as Congress begins its consideration of tax reform. Congressman Ryan, as chairman of the House Budget Committee, advanced this idea in his budget plan released earlier this year. Newt Gingrich, newly minted presidential candidate and former Speaker of the House, has made tax-free capital gains and dividends a centerpiece of his economic agenda. And, just recently the Heritage Foundation released its comprehensive tax reform agenda, which included no tax on all savings.

As Congress considers how to reform our nation's tax system, there will no doubt be significant debate on what impact eliminating the capital gains tax would have on savings rates. Proponents will argue that it would lead to a major boost in aggregate national savings. Critics will counter that previous Congressional reductions in the capital gains tax rate in 1997, and then again in 2003, did not reverse the downward trend of personal savings rates that has persisted for nearly three decades.

401(k)s Work

What is clear, however, is that the savings vehicle that does the best job of creating retirement savings for middle and lower income taxpayers—the 401(k) plan—would become significantly less attractive to the small business owners who voluntarily establish these plans. Under current law, employers are encouraged to set up 401(k) plans because of the tax incentives—deferral of income tax on both contributions and investment earnings. There are special nondiscrimination rules (*e.g.,* requiring matching contributions) to make sure that lower-paid employees benefit from the plan, not just the key employees. In other words, the business owner gets a valuable tax break if he or she is willing to help lower-paid employees save as well.

And it really works. According to the Employee Benefits Research Institute (EBRI), more than 70 percent of workers earning $30,000 to $50,000 will save when covered by a 401(k) plan, while less than 5 percent of workers with the same incomes will save on their own in an IRA. The 401(k) is the only way we have ever effectively encouraged moderate income workers to save. **www.asppa.org/document-vault/pdfs/mediaroom/Effectivenessof401kPlans_EBRI2010.pdf.aspx**

If taxes on capital gains were eliminated, the incentive for a small business owner to maintain a 401(k) plan would be dramatically reduced. The small business owner could now invest outside of a 401(k) plan, knowing there will never be any tax on the investment. It would be like a Roth IRA without any limits. With such an option, why would the small business owners incur the expense and liability of having a qualified plan? In many

contents

1 Washington Update

6 Retirement Success: A Surprising Look into the Factors that Drive Positive Outcomes

12 Top-heavy Plan Basics

15 Notice of ASPPA's Annual Business Meeting

20 Navigating FASB Accounting Standards Codification

24 Thank You to All of The ASPPA 401(k) SUMMIT 2011 Participants!

26 TPA Partnerships—Consider the Opportunities

29 Systemization and Automation

31 GAC Corner

34 Ethics and Professionalism: How Do We Know?

38 From the President

40 NextGen Capitol Hill Visit Experience

42 The ABCs are Going Strong

44 Welcome New Members and Recent Designees

45 Calendar of Events

46 Fun-da-Mentals

cases, the answer is they wouldn't, and without a plan we know that most of the employees won't save at all. And even for those small business owners who choose to keep a 401(k) plan for their employees, since the owner no longer has a stake in the plan it will likely be bare bones without incentives like matching contributions to encourage the workers to save.

Even beyond the issue of small business retirement plan coverage, proposals to eliminate the tax on capital gains and dividends would have a negative impact on retirement savings. Why would any workers, even if offered a retirement plan at work, contribute to a plan that would greatly limit access to their savings? They can garner the same tax benefits by investing outside the plan with unfettered access to their assets and no future worries about minimum required distributions. Again, it would be like an unlimited Roth IRA without any distribution restrictions. And the consequence would most certainly be reduced savings for retirement as many would be too tempted to spend that savings in advance of their retirement years.

The Right Incentive

Thus, any serious consideration of greatly reducing or eliminating the tax on capital gains and dividends must be accompanied by appropriate incentives to encourage the formation and maintenance of employer-based retirement plans and to continue to encourage workers to save in those plans.

One such incentive could be to provide the investment earnings in retirement plans with the same tax treatment as investment earnings outside the plan. In other words, contributions to retirement plans by employees, and by employers on behalf of their employees, would still be tax deductible, but only the amounts contributed would be subject to tax (on a pro-rata basis) upon distribution. In other words, the portion of the retirement plan distribution attributable to investment earnings would be tax-free. In this way, investment earnings would be exempt regardless of the savings vehicle, but a tax incentive for retirement savings would be retained.

Simply put, without maintaining some meaningful incentive for retirement savings, the elimination of the tax on capital gains and dividends alone will jeopardize the most reliable savings vehicle for American workers—the 401(k). That consequence is certainly not consistent with a pro-savings agenda.

Brian H. Graff, Esq., APM, is the Executive Director/CEO of ASPPA. Before joining ASPPA, he was pension and benefits counsel to the US Congress Joint Committee on Taxation. Brian is a nationally recognized leader in retirement policy, frequently speaking at pension conferences throughout the country. He has served as a delegate to the White House/Congressional Summit on Retirement Savings, and he serves on the employee benefits committee of the US Chamber of Commerce and the board of the Small Business Council of America. (**bgraff@asppa.org**)

The ASPPA Journal is produced by The ASPPA Journal Committee and the Executive Director/CEO of ASPPA. Statements of fact and opinion in this publication, including editorials and letters to the editor, are the sole responsibility of the authors and do not necessarily represent the position of ASPPA or the editors of *The ASPPA Journal*.

The American Society of Pension Professionals & Actuaries (ASPPA), a national organization made up of more than 7,500 retirement plan professionals, is dedicated to the preservation and enhancement of the private retirement plan system in the United States. ASPPA is the only organization comprised exclusively of pension professionals that actively advocates for legislative and regulatory changes to expand and improve the private pension system. In addition, ASPPA offers an extensive credentialing program with a reputation for high quality training that is thorough and specialized. ASPPA credentials are bestowed on administrators, consultants, actuaries and other professionals associated with the retirement plan industry.

© ASPPA 2011. All rights reserved. Reprints with permission. ASPPA is a not-for-profit professional society. The materials contained herein are intended for instruction only and are not a substitute for professional advice. **ISSN 1544-9769**.

To submit comments or suggestions, send an e-mail to **theasppajournal@asppa.org**. For information about advertising, send an e-mail to **jhoffman@asppa.org**.

4245 North Fairfax Drive, Suite 750
Arlington, VA 22203
P 703.516.9300 F 703.516.9308
www.asppa.org

Retirement Success: A Surprising Look into the Factors that Drive Positive Outcomes

by David M. Blanchett, QPA, QKA, and Jason E. Grantz, QPA

Saving for retirement has changed considerably since Congress amended the Internal Revenue Code by adding section 401(k) in 1978. While only 17,303 companies offered 401(k) plans in 1984, today more than 400,000 companies are offering 401(k) plans to their employees. The 401(k) introduced a fundamental shift in the way many Americans prepare for retirement.

Before the 401(k), preparing for retirement was a relatively passive activity for most workers, with the majority of retirement income coming from a defined benefit (DB) plan and from Social Security. However, as the 401(k) became more popular, the burden (risk) of adequately preparing for retirement was increasingly placed on the shoulders of working Americans, the majority of whom were ill equipped to deal with the change.

401(k) plans shift the risk of accumulating an adequate retirement benefit from the employer (with a DB plan and required minimum funding standards) to the employee, without necessarily verifying or ensuring that the employee has the tools necessary to accumulate enough funds for retirement. While many plan sponsors are committed to providing quality 401(k) plans for their employees, the authors have observed that participants spend a disproportionate amount of time focusing on those success drivers that, while important, have a relatively minor impact on improving the likelihood of "retirement success," *i.e.,* the ability for workers to retire with enough savings to maintain their standard of living and not outlive their wealth.

This article will explore and quantify the relative importance of the four primary "drivers" of retirement success: (1) Savings Rate, (2) Asset Allocation, (3) Asset Quality and (4) Actuarial Assessment & Intervention. In order for participants and the retirement plan professionals who work with participants to better understand and plan for retirement success, the disparity between those factors that

are most important at delivering a successful outcome and those that are overemphasized and less impactful must be illuminated.

The Drivers of Retirement Success

While originally intended for executives, 401(k) plans have become the most widely used retirement vehicle in America. 401(k) plans are attractive to employers for a variety of reasons: They are less expensive than defined benefit (DB) plans, because some or all of the administration costs can be passed onto participants and the primary funding comes from the participant rather than the employer; they create a more consistent funding cost for employers (sometimes no funding cost); and they allow the employer to shift the "investment risk" and the "market risk" of underfunding to participants.

Intuitively, one might think giving employees more control over their retirement success would be a good thing—it is certainly the American thing to do. However, the results thus far tell a different story. This "risk shifting" has had a dramatically negative impact on the preparedness of most

investors for retirement. Many behavioral finance studies show that emotional bias plays a significant role in how average investors make decisions with their money. DALBAR's "Quantitative Analysis of Investor Behavior" cites from the period of 1988-2007, the S&P 500 had annualized returns of 11.81%, investment grade bonds returned 7.56% while the average mutual fund investor (primary investment vehicle type along with unitized sub-accounts) returned 4.48% during the same time period.

Many behavioral finance studies show that emotional bias plays a significant role in how average investors make decisions with their money.

Sponsors of DB plans typically engage a variety of professionals, such as actuaries, financial advisors and investment managers in order to help them determine funding requirements vs. affordability, how much to reasonably expect in earnings from investments and how to invest the assets. Plan sponsors of DB plans are mandated by the IRS to make minimum contributions and the Pension Benefit Guaranty Corporation stands ready to be the "guarantor of last resort" should the plan sponsor fail. In a 401(k), the participants bear the burden (or risk) for each of these decisions, and they may or may not have good (or any) resources available to guide them in the right direction. [Refer to Table 1, which compares the responsible party for various activities in 401(k) vs. DB plans.]

Table 1: Responsible Party Comparison: 401(k) vs. Defined Benefit Plans

Activity	Typical 401(k) Plan	Defined Benefit Plan
Determining How Much to Save	Participant	Actuary
Selecting and Monitoring Plan Investments	Plan Sponsor and Investment Consultant	Investment Consultant and Investment Manager
Asset Allocation	Participant	Investment Consultant and Investment Manager
Making Strategic Changes to the Allocations as Situations Warrant	Participant	Actuary, Investment Consultant and Investment Manager

The activities in Table 1 are those that drive income replacement rates and retirement success: savings rate (determining how much to save), asset quality (selecting and monitoring plan investments), asset allocation, and actuarial assessment and intervention (making strategic changes to the allocation as situations warrant).

While each of these drivers is important, they are not *equally* important. The amount of time spent on each by plan fiduciaries, including advisors, versus the relative importance of each is considerably different. This concept is depicted visually in Table 2, which includes a comparison of the time spent on each driver by plan fiduciaries (in our experience) versus the relative importance of each to retirement success. These results will be demonstrated and discussed later in this article.

Table 2: Time Spent on the Drivers of Retirement Success by Plan Fiduciaries vs. Actual Relative Importance to Retirement Success

Activity	Time Spent by Plan Fiduciaries	Importance for Retirement Success
Asset Quality	Most	Least
Asset Allocation	More	More
Adequate Savings	Less	Most
Actuarial Assessment	Least	Less

Interestingly, the authors found that while the quality of plan investments (generally mutual funds, unitized insurance sub-accounts or bank collective trusts) is typically the single largest consideration for most plan fiduciaries, it has the least impact, in the aggregate, on generating a successful retirement. Often, plan sponsors or their advisors view the 401(k) plan as an investment vehicle (versus a savings vehicle or benefit program). Under this circumstance, the majority of a plan fiduciary's time will be spent selecting and monitoring plan investments in addition to their formal role as the ERISA plan administrator. In fact, many 401(k) oversight committees are referred to as "plan investment committees," where the primary focus is on ensuring high investment quality, rather than ensuring benefit adequacy or measuring participant retirement success.

There are likely a number of reasons for this "investment first" focus in 401(k) plans. First, the relative performance of plan investments is fairly easy to objectively quantify, benchmark and communicate. Second, many plan advisors are current or former investment advisors or registered reps—trained and often experienced in evaluating investments. Many of them are also effective sales professionals and relationship managers. These investment professionals spend their energy focusing in the area in which they have the most expertise and where they have the greatest array of tools at their disposal to provide metrics and measurements. Third, plan investments (asset quality) have been a common area for litigation in the past. Few participants are likely to sue because they didn't save enough money, especially since saving is an employee decision. Finally, let's not forget that the plan trustees have a fiduciary duty to act in the best interest of the participants and that ERISA itself deals with investments as a primary area of responsibility. In general, plan fiduciaries are required to ensure that quality investments are offered to plan participants.

Asset Quality and Asset Allocation

As mentioned, asset quality tends to get the most attention from plan fiduciaries for a variety of reasons. Many investors and financial planners (and plan oversight committees) spend considerable energy searching for funds that are going to outperform an appropriately selected benchmark on a risk-adjusted basis, even though the majority of the return experienced by a plan is going to be based on market exposure. Research by Sharpe [1992], for example, demonstrates that style and size explain 80%-90% of mutual fund returns, while stock selection explains only 10%-20%. More simply, most of the return comes from the market beta exposure (*i.e.,* the asset allocation) and not from the portfolio manager exposure.

The importance of the strategic asset allocation decision is well known and generally accepted among financial planning professionals. Brinson, Hood and Beebower [1986] provided the most well-known (and often misquoted) statistic that asset allocation explained 93.6% of the variation in the 91 large U.S. pension plans tested. Research has consistently shown, though, that the average 401(k) participant makes poor asset allocation decisions. For example, Mottola and Utkus [2007] reviewed the allocations of approximately 2.9 million participants at Vanguard and found that only 43% of participants had "green" portfolios with balanced exposure to diversified equities, while 26% of participants had "yellow" portfolios that were either too aggressive or too conservative and 31% of participants had "red" portfolios with either no equities or a high concentration of employer stock.

Recent legislation such as the Pension Protection Act of 2006 should improve participant asset allocation decisions with the introduction of Qualified Default Investment Alternatives (QDIAs). QDIAs can be used as the default investment for participants who are automatically enrolled in a plan but who did not affirmatively elect a particular investment. Target date mutual funds have overwhelmingly become the most commonly used QDIA investment for plans. In fact, 96% of plans that offer the automatic enrollment feature are using target date funds according to a summary of committee research report prepared by the majority staff of the Special Committee on Aging in October 2009.

While target date funds represent an improvement over "do-it-yourself" investing, drawbacks remain. Participant misuse is common among plans where target date funds are offered, including combining target date funds with other plan investment options, thus destroying their fundamental purpose. A second drawback is the average costs associated with these types of funds. A study by BrightScope, Inc. found that target date funds have internal fees that are between 10% to 25% more expensive than other funds offered on the core menu. Finally, this "one size fits all approach" to lifetime risk, where there is no such thing as a conservative 30-year-old or an aggressive 60-year-old, simply assumes too much uniformity among participants.

Savings Rate

From a practical perspective, adequate savings is the most important driver of successful income replacement. Simply put, regardless of the rate of return you earn on your savings, if you save enough, you'll be able to retire successfully (assuming you don't invest it all with Bernie Madoff). Conversely, if you don't save anything you won't be able to retire successfully. America is a competitive consumption society, where happiness and wealth are often equated. In the aggregate, Americans are not good savers. They tend to have one of the lowest savings rates among other developed nations [Guidoli and La Jeunesse (2007)].

The act of saving is difficult, but determining how much to save in order to fund a successful retirement is even more difficult. Unlike DB plans,

where the annual contribution is defined by an actuary, 401(k) participants are often left to their own devices or may rely on service provider tools, which may be rudimentary or flawed, to determine the appropriate contribution rate. The authors' experiences suggest that most 401(k) participants are not familiar with time value of money calculations or more complex calculations that help determine actuarial equivalencies at different points in time. While there are a variety of free calculators available online, it requires proactive effort on the part of the participant, as well as the know-how that most would agree participants do not have.

Recent legislative changes in the Pension Protection Act of 2006 have made "forced" saving easier through features like automatic enrollment and automated progressive savings. A study by Vanguard (2007) noted that new employees hired under automatic enrollment designs have participation rates dramatically higher than new employees hired under voluntary enrollment designs, 86% versus 45%. Despite the fact that participants can still opt out of automatic enrollment and automated progressive savings, many, if not most, 401(k) plan sponsors have still not adopted these plan features. According to PLANSPONSOR.com's "2009 Defined Contribution Survey," only 30.8% of 401(k) plans use automatic enrollment.

Actuarial Assessment & Intervention

Many 401(k) participants do not receive any regular guidance about how to allocate their portfolio. More likely, they receive irregular asset allocation guidance in the form of group employee meetings where they receive education rather than advice or they receive guidance once from an advisor in a one-on-one setting, but rarely, if ever, meet again with them to reassess. Many 401(k) plan statements do not address whether participants are on track to retire successfully, but

Bottom line profitability!

Improve staff productivity with ASC's full suite of integrated software systems

- Avoid redundant data entry with our integrated **5500, Plan Document, DC Recordkeeping & Compliance,** and **DB Valuation Systems**
- No additional server fees translates to increased bottom line profitability
- Help your clients avoid missing deadlines with ASC's 5500 e-filing system reminder emails
- Contact us today to learn more!

See for yourself!
Email info@asc-net.com today to schedule a webcast demo!

Retirement plan software, documents & 5500 forms

info@asc-net.com www.asc-net.com (800) 950-2082 x1

Instead of focusing on selecting the best investments (asset quality), 401(k) advisors should spend their energies on those things that truly have an impact on retirement success, such as improving savings rates and improving asset allocation.

rather focus on investment performance. We've observed that most participant educators focus on helping participants determine the right mix of investments, but not necessarily on increasing the probability of achieving adequate income replacement. IMPORTANT NOTE: Maximizing the probability of achieving a successful retirement is not the same thing as maximizing the account value at retirement. To maximize the probability of achieving a successful retirement, once the lifetime income need has been determined one should take the least amount of risk necessary to achieve the goal (*i.e.,* dial back the risk whenever possible). Clearly, this approach is quite different from one where *maximizing* the account value at retirement is the goal.

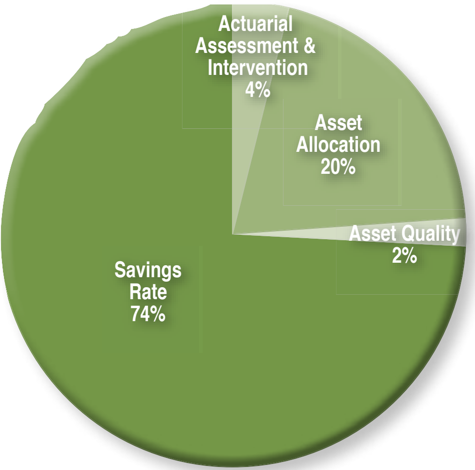
Managed account platforms are one way to implement an actuarial assessment & intervention solution, as well as an improved solution for asset allocation. These platforms appear to be gaining acceptance in 401(k) plans. However, there are a number of barriers that will likely make widespread acceptance of managed account platforms difficult. First, managed accounts are not usually the default option for participants (*i.e.,* participants have to affirmatively select them). Second, there are typically additional costs for managed accounts, with fees ranging from 25 basis points (or .25%) to over 75 bps (or .75%). Finally, in many cases, managed accounts are presented as just an investment solution and not a total financial planning solution since they do not incorporate savings rates or seek to calculate the likelihood of retirement success. They tend to be un-targeted accumulation vehicles, rather than endpoint driven accumulation vehicles.

Quantifying the Relative Importance of Retirement Success Drivers

In order to determine the relative importance of each of the aforementioned drivers of retirement success, three different tests were conducted with varying levels of complexity. The goal of the analysis was to provide clear quantitative guidance as to the relative importance of those factors driving retirement success. For purposes of this article, we will focus our attention on the results, rather than on the underlying calculations of the tests.

Our analysis suggests that savings rate is clearly the primary driver of retirement success. This result should make intuitive sense to readers without their even having to consider the underlying math. However, on a relative basis, we found the savings rate to be approximately five times more important to achieving retirement success than asset allocation, approximately 30 times more important than actuarial assessment & intervention, and approximately ***45 times*** more important than asset quality. These results are shown visually in Figure 1. While changing some of the assumptions of the tests would affect the percentages in the results, it is unlikely that the order of importance would be materially affected (*i.e.,* savings rate will always be the most important and asset quality will always be the least important).

Figure 1: The Relative Importance of the Drivers of Retirement Success



Implementing These Results

What do the results of this analysis tell us about saving for retirement? First, focusing on picking the next great mutual fund is not the activity that's going to maximize the probability of retirement success for a retirement plan or its participants. We all know that savings is important, but historically it has been difficult to relay the relative importance of savings in quantitative terms, which we will now be able to do. The analysis conducted for this paper suggests that savings rate is clearly the primary driver of retirement success by a wide margin.

Although improving savings rates can be difficult, spending additional time having meetings with participants, sending targeted mailers or implementing "smart" plan defaults like automatic enrollment and automated progressive savings are some relatively easy things to implement in order to improve deferral rates in retirement plans. These are the types of activities for which financial planners are excellently suited, given

their direct contact with participants. While some plan sponsors may worry that higher deferral rates may lead to a higher employer cost due to the higher employer match, there are plan design techniques that can be used to mitigate this cost increase. If an employer is only willing to spend a certain amount in contributions for the 401(k) in a given year, they can work with their consultant or plan administrator to determine the smartest way to maximize total employee contributions while keeping the employer contribution amount static. Of course, this design has to be within any nondiscrimination boundaries required by ERISA.

An additional step that is important to implementing these practices is changing the participant's focus. Right now participant 401(k) quarterly statements are primarily focused on performance, not on retirement success. The first thing participants see when they look at their quarterly statements is some information as to how well their account has performed over the most recent period. While this information does have some value, it tells participants very little (or nothing) about whether they are on track to retire successfully. Shifting the focus of 401(k) statements to make them more "benefit" focused would not only provide participants with valuable information, but it would also change the focus from near-term performance (which can often lead to poor market-timing decisions) to long-term funding adequacy.

Conclusion

This research provides clear quantitative guidance as to the relative importance of each of the four key components to retirement success: savings rate, asset allocation, actuarial assessment & intervention and asset quality. It was determined that savings rate is clearly the primary driver of retirement success and is approximately five times more important than asset allocation, approximately 30 times more important than actuarial assessment & intervention, and approximately 45 times more important than asset quality.

While asset quality, which could be thought of as the time spent selecting and monitoring the plan investments, is the driver that typically receives the most attention, it is the driver that has the lowest impact on retirement success. Instead of focusing on selecting the best investments (asset quality), 401(k) advisors should spend their energies on those things that truly have an impact on retirement success, such as improving savings rates and improving asset allocation. Introducing plan features such as automatic enrollment and automated progressive savings are simple steps that can lead to a dramatic improvement in deferral rates and ultimately improve the statistic that really matters: the number of participants who are going to be able to retire successfully.

*David M. Blanchett, QPA, QKA, CFP®, CLU, AIFA®, CFA is the director of consulting and investment research for the Retirement Plan Consulting Group at Unified Trust Company in Lexington, KY. Unified Trust is a nationally chartered trust company that specializes in the fiduciary management of retirement plans. At Unified Trust, David is responsible for helping 401(k) advisors with fiduciary, compliance, operational and investment issues relating to Unified Trust's retirement plan services. He has published more than 35 papers in various industry journals. (**david.blanchett@unifiedtrust.com**)*

Jason E. Grantz, QPA, AIF® is an institutional consultant in the Retirement Plan Consulting Group at Unified Trust Company in Lexington, KY serving and overseeing the Northeast. Unified Trust is a nationally chartered trust company that specializes in the fiduciary management of retirement plans. Jason's main focus is providing clarity on often misunderstood retirement plan topics such as: evaluating and analyzing stable value investments, ERISA fiduciary standards and advanced fiduciary topics. Jason has been published in various prestigious industry journals and is the creator and primary author of The 401(k) Plan Blog, *http://the401kplanblog.blogspot.com, a centralized forum for the discussion of issues surrounding retirement plan governance, consulting and services. (**jason.grantz@unifiedtrust.com**)*

Brinson, Gary P., L. Randolph Hood, and Gilbert L. Beebower. 1986. "Determinants of Portfolio Performance." *Financial Analysts Journal,* vol. 42, no. 4 (July/August): 39-44.

Mottola, Gary R. and Stephen P. Utkus. 2007. "Red, Yellow, and Green: A Taxonomy of 401(k) Portfolio Choices." Working Paper: http://www.reish.com/publications/pdf/redyellowgreen.pdf.

Sharpe, William. 1992. "Asset Allocation: Management Style and Performance Measurement." *Journal of Portfolio Management*, vol. 18: 7-19.

Vanguard 2007. "Measuring the Effectiveness of Automatic Enrollment": https://institutional.vanguard.com/iip/pdf/CRRAUTO.pdf.

2009 PLANSPONSOR MAGAZINE Defined Contribution Survey DALBAR'S Quantitative Analysis of Investor Behavior 1985-2007.

Blanchett, David and Grantz, Jason E. 2011. "Quantifying the Drivers of Retirement Success" www.unifiedtrust.com.

Top-heavy Plan Basics

by William C. Grossman, QPA, and Ronald A. Hayunga, QKA, QPFC

A top-heavy plan is one that primarily benefits officers, owner-employees, shareholder-employees, partners, self-employed persons and other employees who are deemed to be "key employees" (as defined later in this article). When a qualified plan becomes top-heavy, special provisions are activated to ensure that non-key employees receive reasonable benefits under the plan. For example, a minimum contribution is generally required.

Prior to 2007, an accelerated vesting schedule was also required; however, the Pension Protection Act of 2006 (PPA) made the top-heavy accelerated schedule the maximum vesting schedule for all plans. This article explains how to determine when a plan becomes top-heavy and what must be done to comply with the law thereafter.

Defined Contribution Top-heavy Plan Defined

Defined contribution (DC) plans are top-heavy when the aggregate account balances of key employees exceed 60% of the total account balances.

Account Balances

The account balance used for the top-heavy test includes employer contributions, elective deferrals, after-tax contributions, rollover contributions received prior to January 1, 1984, "related" rollovers, investment earnings credited to account balances and forfeitures. The following are excluded from the account balance for top-heavy test purposes: unrelated rollover contributions received on or after January 1, 1984, deemed IRA contributions, and Voluntary Deductible Employee Contributions (VDECs) are excluded from the top-heavy test.

Employer contributions: In profit sharing and 401(k) plans, except for the first year of the plan, employer contributions are included only if contributed on or before the determination date. In money purchase plans, contributions will be included, if contributed by the last day of the plan year or, if later, up to 8 ½ months after the close of the prior plan year (§1.416-1 Q & A T-24).

Example: Garden State Diner, Inc. sponsors both a profit sharing and a money purchase plan. Each plan is on a calendar year basis. To determine top-heavy status for 2011 (using 12/31/10 data), the profit sharing plan will only include 2010 contributions made on or before December 31, 2010. To determine the top-heavy status for 2011 (using 12/31/10 data), the money purchase plan will use contributions made on or before September 15, 2011 for 2010.

Elective deferrals counted in the account balance include employee voluntary after-tax, pre-tax elective deferrals or mandatory after-tax contributions, but not Deemed IRA or Qualified Voluntary Employee Contributions (QVECs), rollovers received prior to January 1, 1984, but not those received on or after that date, unless from a plan of a *related* employer.

Example 1: Ava, a new employee of Garden State Diner, Inc., rolls in money from her prior employer's plan. Ava was not an owner of her prior employer, which was unrelated to Garden State Diner. This amount is not included in the top-heavy determination.

Example 2: Bob, who owns Garden State Diner, Inc., also owned another company and rolls the funds from the other plan into Garden State Diner's. Because Bob owned both companies, this transaction is a related rollover and would be included in the top-heavy determination.

Investment earnings credited to account balances, forfeitures and distributions made within the one-year period ending on the determination date due to severance of employment, death or disability must be included in the top-heavy test. There is a five-year lookback period for in-service distributions, including excess deferrals, excess contributions, excess aggregate contributions and excess annual additions. In-service distributions also include a terminated plan of the employer if that plan would have, except for the fact that it was terminated, been aggregated for testing.

For example, when performing the top-heavy test as of the December 31, 2010 determination date, in-service and corrective distributions for 2010, 2009, 2008, 2007 and 2006 must be added to the December 31, 2010 balance.

If a plan participant does not have any earned income during the lookback year, his or her balance is excluded from the test.

Example: A participant terminates employment on April 23, 2010 and by September 16, 2010 withdrew his entire balance in the plan. For the 2011 top-heavy test, the determination date balance of December 31, 2010 would be used. Of course, since the participant withdrew everything, his balance would be zero, but any amounts distributed during the one-year lookback period, in this example the amount distributed on September 16, 2010, would be added back into the December 31, 2010 determination date balance.

Example of a DC Top-heavy Plan

Employee	Key or Non-Key	12/31/10 Account Balance
Bob	Key	$ 473,000
Mom	Key	$ 358,000
Dad	Key	$ 45,000
Otto	Non-Key	$ 135,000
Elle	Non-Key	$ 127,000
Anna	Non-Key	$ 81,000
Ava	Non-Key	$ 69,000
Ada	Non-Key	$ 102,000
Lil	Non-Key	$ 18,000
Nan	Non-Key	$ 31,000
		$ 1,439,000

This defined contribution plan is top-heavy because as of December 31, 2010, the testing date for the 2011 plan year, the total of the account balances of the key employees was $876,000 and the total account balance of all employees was $1,439,000. Since key employees' account balances were 60.876% of the total account balances (876,000 ÷ 1,439,000 = 60.876%), the plan is top-heavy.

Note: If the key employee account balances exceed 60%, the plan is top-heavy.

There is no *de minimis* amount applicable to the key employee account balances. One of our clients had a multi-million dollar retirement plan become top-heavy by approximately $200. Neither the Internal Revenue Code nor the regulations provide any leeway where the 60% is exceeded by even the smallest amount. It is a pure mathematical calculation that draws a line at the 60% amount. Thus, it is important to alert a client when the plan reaches a level approaching 60% so that the client may advise its key employees to cut back on contributions.

Example: On December 31, 2010, the key employees have a balance of $433,050 and the total plan balance is $720,900. This plan has 60.07% of the balance in the key employees' accounts and thus, the plan is top-heavy. To show how little can make the difference, if the key employees had $575 less and the plan balance had been the same, the plan would have not been top-heavy with a ratio of 59.997%.

The determination date for the top-heavy test is the last day of the plan year preceding the plan year for which the rules will be applied. For example, to determine if a calendar year plan is top-heavy for 2011 and, thus, to see if a top-heavy allocation is required for 2011, the determination date of December 31, 2010 is utilized. Therefore, the December 31, 2010 account balance for any individual who was a key employee at any time in 2010 is used to determine if the plan is top-heavy for 2011. Keep in mind that the key employee had to have rendered personal service and received compensation during the 2010 year.

If the plan requires an allocation to only non-key employees, then once the determination date of December 31, 2010 shows that the plan is top-heavy for 2011, the non-keys who are employed on December 31, 2011 will receive a top-heavy allocation, assuming that any key employee received an allocation—which for top-heavy purposes includes making an elective deferral contribution.

Defined Benefit Top-heavy Plan Defined

Defined benefit (DB) plans are top-heavy when the present value of accrued benefits of key employees exceeds 60% of the present value of total accrued benefits.

The present value of accrued benefits must be based on reasonable actuarial assumptions. The rules for including previously distributed amounts in a defined benefit plan's top-heavy determination are the same as with defined contribution plans. Distributions within one year of the determination date are added back. There is a five-year look-back for in-service distributions.

Example of a Defined Benefit Plan that is *Not* Top-heavy

Employee	Key or Non-Key	Age	Accrued Benefit	Present Value of Accrued Benefit
Jack	Key	55	$ 6,000/mo.	$ 305,819
Jill	Non-Key	50	$ 5,300/mo.	$ 183,853
Karen	Non-Key	40	$ 3,200/mo.	$ 51,417
Tom	Non-Key	35	$ 2,400/mo.	$ 26,245
Tracey	Non-Key	25	$ 1,600/mo.	$ 8,104
Steve	Non-Key	25	$ 1,000/mo.	$ 5,065
				$ 580,503

Unlike the defined contribution plan example, this plan is not top-heavy. The present value of accrued benefits for the key employee is $305,819, while the total present value of all accrued benefits is $580,503. The key employee benefits represent 52.68% of the total. Thus, the top-heavy rules below will not be applicable to this plan during the next plan year.

Aggregated Plans

All plans of the same employer covering a key employee must be aggregated for top-heavy testing. Two or more plans must be aggregated where one plan covers a key employee and is dependent on the other(s) in order to meet the coverage [Code §410(b)] and nondiscrimination tests [Code §401(a)(4) and 401(k) and (m)] for qualification.

Two or more plans of a controlled group may be aggregated where one covers a key employee and aggregation may make the plans, when tested together, not top-heavy, provided the plans are nondiscriminatory when considered as a unit.

Once aggregated, all plans that must be aggregated are either top-heavy or not top-heavy as a group.

Determination Date

The determination date for measuring whether a plan is top-heavy for a given year is the last day of the preceding plan year. For a calendar year plan, to determine top-heavy for 2011, the test would be done using the December 31, 2010 balances. For first year plans, the determination date is the last day of the first plan year. Thus, for a plan that was established in 2010, December 31, 2010 is the determination date for 2010 and 2011.

For defined contribution plans, the account balances are determined as of the most recent valuation date in the 12-month period ending on the determination date plus an adjustment for contributions due as of the determination date.

For defined benefit plans, the present value of accrued benefits is determined as of the most recent actuarial valuation in the 12-month period ending on the determination date.

Additional Qualification Requirements

Minimum Allocation or Benefit Accrual for Top-heavy Plans

In defined contribution plans the minimum allocation for each non-key employee in a plan that is top-heavy is the lesser of 3% of compensation, or the highest actual percentage allocated to any key employee. For this purpose, employer contributions include elective deferrals, employer match, employer discretionary or required contributions and forfeitures.

Example 1: Bob, the key employee of Garden State Diner, Inc., receives a 2% allocation in the profit sharing plan. All eligible, non-key participants must receive an allocation of at least 2%.

Example 2: Bob, the key employee of Garden State Diner, Inc., receives a 10% allocation in the profit sharing plan. All eligible, non-key participants must receive an allocation of at least 3%.

Example 3: Bob, the key employee of Garden State Diner, Inc., defers 6% to his 401(k) plan. This amount is considered an accrual of benefit and triggers the requirement for a 3% contribution to the non-key employees.

Note: The top-heavy minimum contributions must be made for all non-key employees. Legally, the top-heavy contribution does not have to be made to key employees. Whether the employer will want to permit its key employees to receive such contributions will depend on considerations such as costs, demographics and whether providing more allocations to key employees is making it more difficult to no longer be top-heavy. Selecting the appropriate plan provision can eliminate the top-heavy contribution to key employees.

Last Day Requirement Rule

All non-key participants who are active employees on the last day of the plan year must receive the defined contribution minimum regardless of the actual number of hours of service performed.

Example 1: The profit sharing plan allocation of contribution requires the completion of 1,000 hours of service and employment on the last day of the plan year. Elle, a non-key employee, is an eligible plan participant employed at year-end. However, she only has 750 hours of service. Although she is not eligible for the profit sharing contribution, she must receive the 3% top-heavy minimum required contribution.

Example 2: Jack became eligible to participate in the plan in the year 1997. Since then Jack worked about 2,040 hours in every year and received a top-heavy allocation as a non-key employee. Jack decided to terminate service as of December 22, 2010. Although Jack had worked more than 2,000 hours in 2010, he is not eligible for a top-heavy allocation because he is not employed on the last day of the 2010 plan year.

No 1,000-hour Requirement

There is no 1,000-hour requirement in a defined contribution plan for a top-heavy allocation.

An eligible participant who works as little as one hour during the year and who is employed on the last day of the plan year has met the service requirement for a top-heavy allocation in a defined contribution plan. A 1,000 hours of service requirement may not be imposed even if the plan requires 1,000 hours of service for an allocation of matching or non-elective contributions.

Example: An eligible participant makes deferrals and only worked 800 hours during the year but was still employed on the last day of the year. In the employer's plan, 1,000 hours of service is required to receive the matching contribution and to receive a profit-sharing contribution. Thus, this participant is neither entitled to the matching contribution nor the profit-sharing contribution. However, this participant is entitled to the top-heavy contribution.

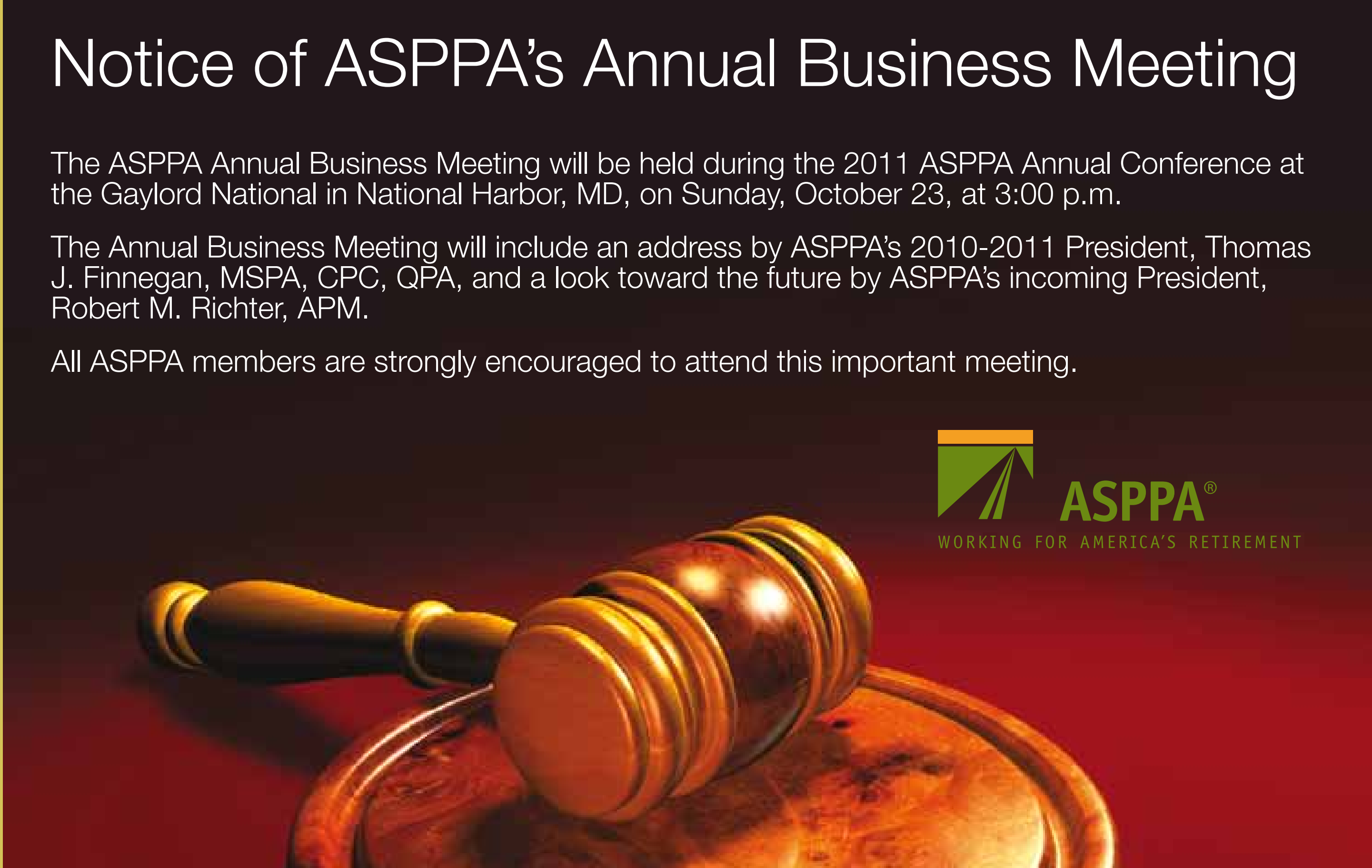
Defined Benefit Top-heavy Allocation Rules

The defined benefit plan top-heavy rules are different and may require the completion of a year of service to be entitled to a top-heavy benefit accrual. In addition, defined benefit top-heavy rules do not require the participant to be there on the last day to accrue a top-heavy benefit. In defined benefit plans the minimum benefit accrued for each non-key employee in a plan that is top-heavy is two percent of compensation for each year of service until the accrued benefit equals 20% of compensation. After the top-heavy minimum is accrued, the participant's benefit is determined in accordance with the normal benefit formula in the plan. All non-key participants who have at least 1,000 hours of service for a benefit computation period must accrue a minimum benefit even if they are not employed at year-end. Although a frozen defined benefit plan may be top-heavy based on the value of accrued benefits, frozen plans are not subject to top-heavy minimum contributions. Frozen plans are, however, subject to vesting and aggregation requirements.

Determining Contributions and Benefits When a Plan is Top-heavy

Compensation

The Code Section 415 definition of compensation must be used for determining required top-heavy minimum contributions. This type of compensation includes all earnings for services rendered to the employer. It is gross compensation (deferrals are not netted out) and is for the full year of employment, even if the employee was not a plan participant for the entire year.



Where the employer maintains a defined contribution and a defined benefit plan, either can provide the top-heavy minimum for both by providing an increased formula amount.

Example: Anna is employed for all of 2010 and earns $30,000. However, she entered the plan on July 1, 2010 and had earnings of $15,000 between July 1 and December 31. The top-heavy benefit is based on the $30,000 salary [if she deferred to a 401(k) that amount is not subtracted].

Compensation is limited to $200,000 adjusted for cost-of-living. The limit for 2007 is $225,000, for 2008 is $230,000, for 2009 is $245,000, for 2010 is $245,000 and for 2011 is $245,000.

When More Than One Plan Exists

If an employer maintains more than one qualified plan, the top-heavy allocation or benefit accrual limitations that apply are as follows:

Multiple Defined Contribution Plans

When an employer maintains two DC plans, the top-heavy minimum can be satisfied by either plan. However, appropriate language must be included in each plan to stipulate which plan(s) will receive the top-heavy minimum; otherwise, each plan will be required to satisfy the top-heavy minimum. Typically the money purchase plan is selected because the contribution is already mandated by the terms of the plan.

Dual Eligibility

Beware of DC plans with dual eligibility. If an employee is eligible for any portion of the plan, that employee is considered a participant and is eligible for top-heavy contributions.

Example: Garden State Diner, Inc. maintains a 401(k) that has immediate eligibility for elective deferrals but a one-year of service requirement for matching and nonelective employer contributions. Those participants eligible to defer are entitled to a top-heavy contribution, even if not yet eligible for the other contribution sources under the plan.

Defined Contribution and a Defined Benefit Plan

Where the employer maintains a defined contribution and a defined benefit plan, either can provide the top-heavy minimum for both by providing an increased formula amount.

If the top-heavy minimum for both the DC and DB is covered by the defined contribution plan, the minimum contribution percentage is increased to 5% from 3%.

If the top-heavy minimum for both is covered by the defined benefit plan, the accrual percentage is increased to 3% from 2%.

Contributions That Are Not Counted Towards a Top-heavy Minimum

Contributions that are not counted towards a top-heavy minimum include:

- Employee after-tax contributions and accrued benefits attributable to them may not be considered for purposes of the top-heavy contribution;
- Employer contributions to the OASDI program cannot be counted; and
- Employer contributions representing employee elective deferrals cannot be considered.

Note: Effective for plan years beginning on or after January 1, 2002, matching contributions may be counted towards satisfying top-heavy accruals even if they are used in testing.

Vesting Requirements Under Top-heavy Plans

Full vesting after two years of service must be used if the plan has an eligibility requirement that is two years. A "year of service" for this eligibility standard is deemed to be a maximum of 1,000 hours in a 12-consecutive month period. If the employer uses a one-year or less eligibility requirement, the plan may utilize either of the following vesting schedules when the plan is top-heavy:

2/20 Graded Vesting

Years of Service	% Vested
2	20%
3	40%
4	60%
5	80%
6	100%

Three Year Cliff Vesting

Years of Service	% Vested
0 - 2	0%
3	100%

The Change from Five Year Cliff and Seven Year Graded Vesting Schedules

The change to top-heavy vesting occurred in two stages. Effective in 2002, all plans with matching contributions must use a top-heavy vesting schedule with regard to such contributions. Effective for plan year 2007, all new employer contributions may not be on a schedule that is longer than a top-heavy vesting schedule.

Most plan documents contained provisions that will automatically change the vesting schedule if the plan becomes top-heavy. Thus no plan amendment was required. However, the vesting schedule did not revert to a non-top-heavy schedule if the plan subsequently was determined to be not top-heavy. In this case an amendment was required.

Top-heavy Exemption for Certain Safe Harbor 401(k) Plans

EGTRRA included a change for plans that meet the ADP/ACP safe harbor with the non-elective contribution (NEC) or the matching contribution and offer no contributions other than deferrals and a safe harbor contribution. These plans are deemed to satisfy top-heavy minimum allocation requirements. Revenue Ruling 2004-13 covers the exemption from top-heavy testing afforded some safe harbor 401(k) plans. A safe harbor 401(k) plan that consists solely of elective deferrals and employer contributions that satisfy the safe harbor requirements as set forth in §401(k)(12) and 401(m)(11) of the Internal Revenue Code is exempt from top-heavy. The key clarification is to what the term "solely" that is used in the law refers.

The revenue ruling consists of four specific examples, which clarify the IRS interpretation of the law.

Scenario One: The contributions allowable under the plan are the elective deferrals, safe harbor match and discretionary non-elective. The plan chooses not to fund the discretionary nonelective piece for a year. Even though there might be prior dollars in the plan from this source, since it is not being used currently then the plan is exempt from top-heavy for the year.

Scenario Two: The facts are the same as Scenario One above, except that the nonelective portion of the plan receives a contribution for the year. The top-heavy exemption is not applicable for this year.

Scenario Three: The facts are the same as Scenario One above, except that allocations are made from prior year forfeitures in the same manner as the nonelective contribution. The top-heavy exemption is not applicable for this year.

Scenario Four: The facts are the same as Scenario One above, except the eligibility requirements for the deferral portion of the plan is immediate and the eligibility for the safe harbor matching contribution is one year of service with the employer. The top-heavy exemption is not applicable for this year. Since all eligible non-highly compensated employees under the plan do not receive the safe harbor contribution, the matching requirements do not meet the conditions of the ADP safe harbor.

The final 401(k) regulations made clear that the safe harbor 401(k) exemption from top-heavy testing is a year-by-year determination.

At the October 2006 ASPPA Annual Conference, the IRS stated that in order for a safe harbor NEC plan to be exempt from the top-heavy test, the compensation must be based on

EGTRRA included a change for plans that meet the ADP/ACP safe harbor with the non-elective contribution (NEC) or the matching contribution and offer no contributions other than deferrals and a safe harbor contribution. These plans are deemed to satisfy top-heavy minimum allocation requirements.

full year compensation and not compensation only while a participant. In addition, the IRS stated that for the safe harbor match plan to be exempt from the top-heavy rules, only the safe harbor match and elective deferrals may be made to the plan. If any other contributions or forfeitures are made, the plan would not be exempt from the top-heavy rules. We await written IRS guidance on these statements.

Key Employee Defined

Key employees are used only for the purpose of top-heavy testing. Prior to 2002, the rules were different than the rules shown below, which are effective currently.

A key employee is any employee who, during the plan year containing the determination date for the year being tested, falls into any one of the following three categories:

1. An Officer:
    - Earning in excess of $145,000 for 2007, $150,000 for 2008, $160,000 for 2009, $160,000 for 2010 and $160,000 for 2011.
    - Limit on number of officers; employers with:
        - more than 500 employees—no more than 50 officers must be counted
        - 30 - 500 employees—no more than 10% of all employees must be counted as officers
        - fewer than 30 employees—no more than three officers must be counted as key employees
    - If only some officers need be counted, they must be determined in order of compensation from the top down.
2. A 5% Owner:
    - An employee who owns more than 5% of the employer.
    - Stock attribution rules apply as set forth in Code §318. Thus, interests owned by parents, spouse, children and grandchildren regardless of ages will be deemed to be owned by any and all others listed.
3. A 1% Owner with compensation of more than $150,000.
    - An employee who owns more than 1% of the employer and earns more than $150,000.
    - Family attribution rules apply for the 1%.
    - The $150,000 is not adjusted for COLA.

Compensation for Key Employee Determination

All rules are applied on the basis of total compensation actually paid to an employee during the applicable year, including amounts which were deferred under 401(k), cafeteria and tax-sheltered annuity [403(b)] plans. Compensation should not be annualized for this calculation. The determination of a key employee is made based on the information for the plan year that contains the determination date. For example, for a 2011 top-heavy test for a calendar year plan, the determination date would be December 31, 2010; therefore, the determination of key employees would be based on the 2010 plan year (in this case, calendar year) data. If the participant is a key employee at any time during the look-back year, the person was a key employee for the entire year.

Example: Donald owned 51% of his company for many years. Donald sells his interest in the company but stays on as an employee working one day a week as of August 2, 2010. Donald continues to work only one day a week. When does Donald stop being a key employee for testing purposes?

As of the December 31, 2010 determination date (for the 2011 top-heavy test), Donald is still classified as a key employee because he had key employee status during part of the 2010 year. As of the December 31, 2011 determination date (for the 2012 top-heavy test), Donald is no longer considered a key employee since he had no ownership during any period of 2011.

Donald is then a former key employee and a former key employee's balance is excluded from the top-heavy test.

Other Issues

Corrections

What is the required correction for a plan that does not provide the minimum top-heavy benefit? Appendix A of EPCRS Rev. Proc. 2008-50 requires that an employer who fails to provide the minimum top-heavy benefit under §416 must contribute the proper amount as required under the terms of the plan.

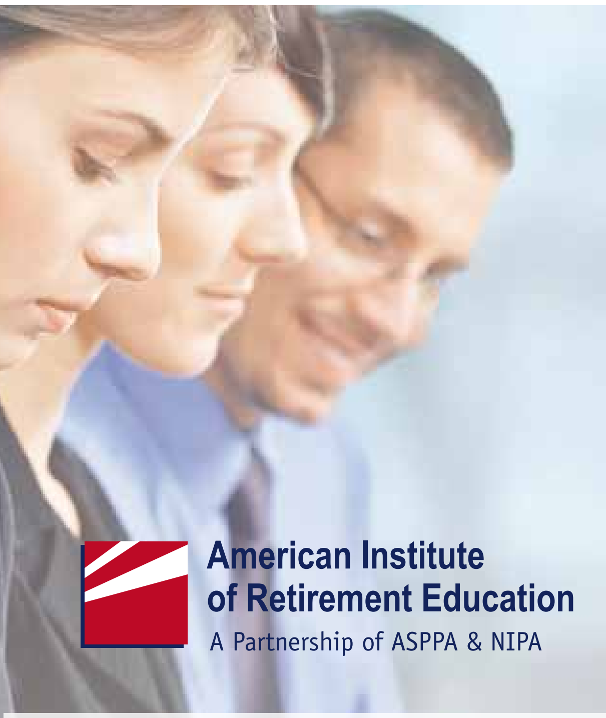
Note: Key employees may not have their deferrals returned to avoid the required top-heavy contribution (such action would not be a permitted distributable event).

Exemptions

The following plans are exempt from top-heavy rules: SIMPLE IRAs, SIMPLE 401(k), 403(b) plans, 457(b) plans and Safe Harbor 401(k)—including QACAs that meet the requirements above for being exempt.

William C. Grossman, ERPA, QPA, is director of education and communications for McKay Hochman Co., Inc. and has been with McKay Hochman for nearly ten years. (McKay Hochman is a subsidiary of Newkirk Products Inc. On May 2, 2011, Newkirks Products Inc. became a wholely owned subsidiary of DST Systems Inc.) Bill is an instructor for the firm's public and in-house education programs and is the primary writer and editor for McKay Hochman's client newsletters and for the McKay Hochman website. Bill became an Enrolled Retirement Plan Agent (ERPA) in June 2009. Bill serves as Co-chair of The ASPPA Journal Committee. He is also on the ASPPA Annual Conference Committee. Bill served on the ASPPA asap Committee for several years and has taught webcasts for ASPPA and NIPA. Bill served on the NIPA Annual Conference Committee for several years. He is currently serving his second year as Co-chair of the ERPA Conference Planning Committee. He just was awarded the NIPA Outstanding Volunteer of the Year Award for 2011. (bgrossman@mhco.com)

Ronald A. Hayunga, QKA, QPFC, is a retirement plan consultant for McKay Hochman Co., Inc. for more than two years. Ron is primarily involved in providing technical and compliance support to clients. Ron is also involved in writing drafts of articles for our newsletters and website. Ron also works with the 401(k) portal and helping clients with those calls also. He brings ten years of experience in the qualified plan field to McKay Hochman. Prior to coming to McKay Hochman, Ron was with New York Life Retirement Plan Services where he was a senior client account manager. He has also worked for ADP, AXA Financial, and Pricewaterhousecoopers where he continuously worked in the retirement plan arena. Ron has a Qualified 401(k) Administrator (QKA) credential and a Qualified Plan Financial Consultant (QPFC) credential offered by ASPPA. Ron has a Bachelor of Arts from William Paterson University with a major in communications and is FINRA Series 6 licensed. (rhayunga@mhco.com)



Enrolled Retirement Plan Agent (ERPA) Exam Preparation Tools

Winter 2012 Examinations: January 6 - February 17

Registration closes January 5, 2012.

ERPA Study Guide

Expanded syllabus that complements the official exam syllabus with cite references to *The ERISA Outline Book*.

Practice Examinations

Downloadable PDFs containing 75 questions each and answer keys. Test your knowledge today!

Online Review Courses

Updated review courses now available! Overview of the most challenging topics covered on the corresponding exam parts.

For additional information, visit www.airellc.org.

ERPA preparatory tools can be ordered at www.airellc.org.

Register for the Enrolled Retirement Plan Agent-Special Enrollment Examination (ERPA-SEE) at www.erpaexam.org.

Navigating FASB Accounting Standards Codification

by Daveyne C. Totten, MSPA

In 2009, the Financial Accounting Standards Board (FASB) rolled out its new Accounting Standards Codification. The main objective of the codification was to simplify access to all US generally accepted accounting principles (US GAAP). The simplification resulted in a structural overhaul, changing from a standards-based model to a topically-based model.

As a result, the old Statements of Financial Accounting Standards with which Enrolled Actuaries had been working for years no longer existed, and working through the new codification to locate the appropriate standards that apply to pension plans has proven to be challenging.

Basic Website Navigation and Codification Organization

Access to the new codification is gained through FASB's home webpage: **www.fasb.org**. Once there, if you click on the "Standards" tab at the top of the home page, you will be taken to a screen where you can log in if you have already subscribed for access. If you haven't already subscribed, you have two choices: You can pay $850 per year for the "Professional View," or you can pay $0 for the "Basic View." Unfortunately, when they say basic, they really mean basic. Getting what you need from "Basic View" can be tedious, but given that the majority of the codification is not applicable to Enrolled Actuaries, paying for the "Professional View" is probably not going to be worth it in most cases.

The first screen that you come to after logging in offers a "Cross Reference" option (last option listed on right side). Clicking on this option takes you to a screen where you can enter the old FAS statement number in order to generate a cross-reference table between the old statement paragraph numbers and the new codification section numbers. This cross reference table is useful in finding the location of specific provisions in the new codification, assuming that you know the old statement paragraph number. You can also enter the new codification topic, subtopic or section numbers in order to locate where the codification provisions were originally located in the old statements. This cross-reference feature can also be accessed from most of the Accounting Standards Codification screens by clicking on the "Cross Reference" tab at the top of the screen.

The new codification is organized into topics, under which there is a hierarchy of subtopics, sections and paragraphs. References to specific paragraphs are made by hyphenating this sequence. For example, paragraph 1 of section 00 of subtopic 20 under topic 715 is identified as FASB ASC 715-20-00-1. To get to a specific topic from the Accounting Standards Codification screens using "Basic View," you must use the list of general categories located in the side bar on the left hand side of the screen. Although a "go to" box (for entering specific sections) is also present in this side bar (above this list), this feature is not available with "Basic View." You will find that most of the features that would make it easier to navigate and use the codification are not available with "Basic View."

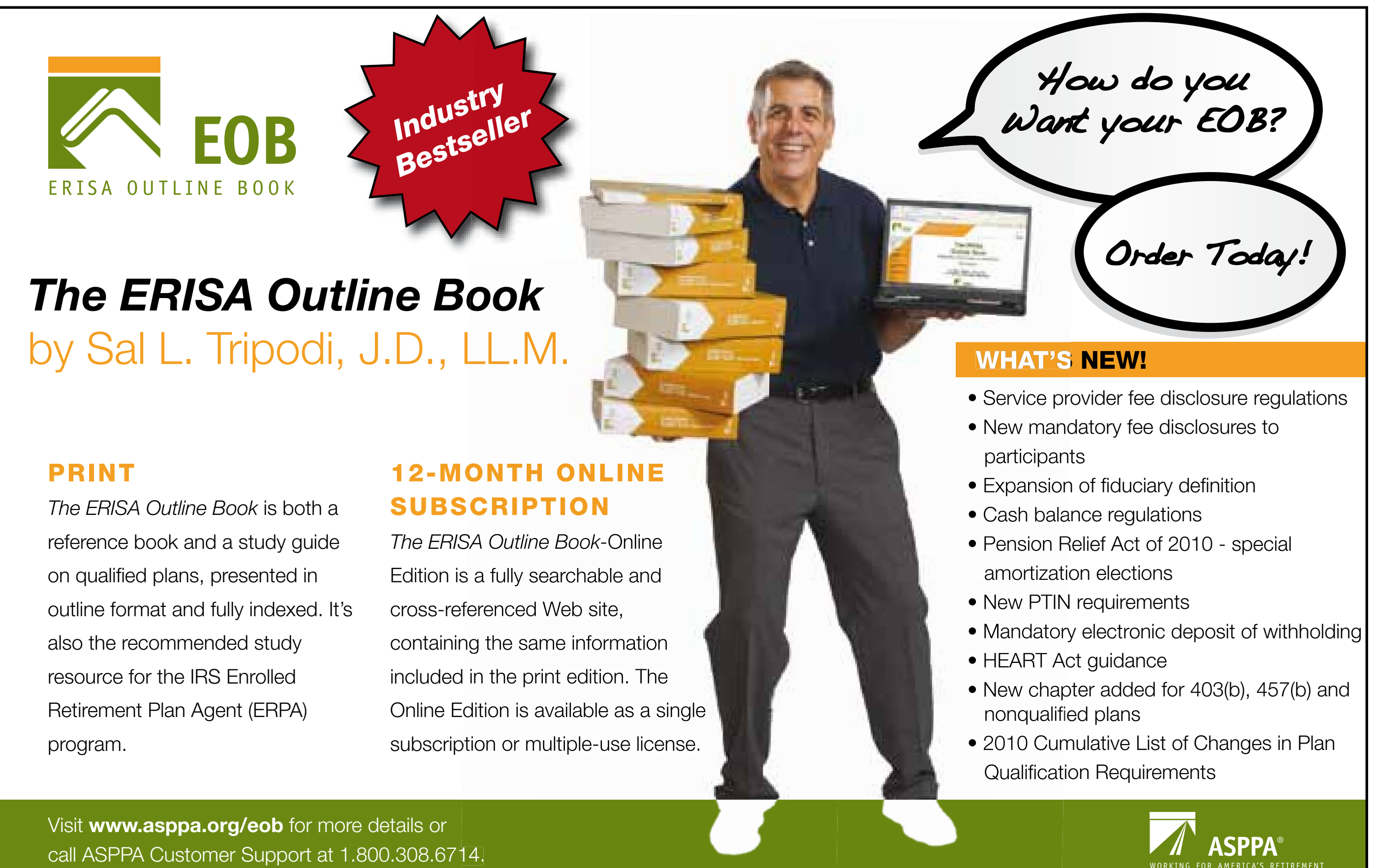
Under the codification subtopics, each section number is assigned a specific purpose. For example, section number "00" for each subtopic is the "Status" section, and its purpose is to identify changes made to the subtopic by Accounting Standards Updates. Under the new structure, all changes made to the codification are communicated through Accounting Standards Updates. As noted on the FASB website, an Accounting Standards Update "summarizes the key provisions of the project that led to the Update, details the specific amendments to the FASB Codification and explains the basis for the Board's decisions." The "Status" section can be particularly helpful in staying up to date with regard to the codification. If changes have been made to a subtopic, the Status section will include a list of the paragraphs that have been amended and will contain a link to the Accounting Standards Update that details the amendment. You can also access Accounting Standards Updates by number directly from FASB's home page by selecting "Accounting Standard Updates" under the "Standards" tab. Unlike the codification itself, the Accounting Standards Updates are in downloadable pdf format.

One particularly useful feature of the online codification is that whenever the text contains a term defined in the glossary, a direct link to the definition of the term is embedded in the text. Direct links to specific paragraphs referenced in the text are also embedded.

Where's the Beef?

Enrolled Actuaries are most familiar with the standards set forth in FAS Statements No. 35, 87, 88, 132R, 158 and 106. The FAS 35 standards are included under Topic 960 in the codification. The FAS 87 and 88 standards, as amended by FAS 132R and FAS 158, including the guidance and illustrations previously provided in separate publications, are included under Topic 715. The FAS 106 standards, including the guidance and illustrations previously provided in separate publications, are also included under Topic 715. To get to these topics from the list of general categories located in the side bar on the left-hand side of the Accounting Standards Codification screens, select the following:

- To get to Topic 715 (FAS 87/88/132R/158/106)
  Select: Expenses→ 71X-Compensation→ 715-Compensation-Retirement Benefits
- To get to Topic 960 (FAS 35)
  Select: Industry→ 96X-Plan Accounting→ 960-Plan Accounting-Defined Benefit Pension Plans



Navigating Topic 715 (Related to former FAS Statement Nos. 87, 88, 132R, 158 and 106)

There are six subtopics[1] under Topic 715:

- 10 Overall
- 20 Defined Benefit Plans-General
- 30 Defined Benefit Plans-Pension
- 60 Defined Benefit Plans-Other Postretirement
- 70 Defined Contribution Plans
- 80 Multiemployer Plans

Subtopic 20 contains provisions relating to defined benefit plans generally and includes most of the provisions that were formerly included in FAS 132R and 158, along with some provisions formerly included in FAS 87, 88 and 106. Subtopic 30 generally contains most of the provisions relating to pension benefits that were formerly included in FAS 87 and 88. Subtopic 60 generally contains most of the provisions relating to postretirement benefits other than pensions that were formerly included in FAS 106.

The required disclosures for all defined benefit plans under Topic 715 are included in the "Disclosure" section under subtopic 20 (715-20-50). The purpose of the "Disclosure" sections is to provide guidance regarding required disclosures in the notes to financial statements relating to the subtopic. The meat of the defined benefit plan disclosure requirements for public entities is found in paragraph 715-20-50-1, and the meat for nonpublic entities is found in paragraph 715-20-50-5.

You will notice that both of these paragraphs include "Pending Content" boxes. The content in Pending Content boxes includes changes that have been made to the paragraph that will eventually replace the content in the codification that immediately precedes it. Pending Content boxes include a general transition date for the Pending Content, and a link to transition guidance, which provides more detailed information relating to the effective date for the Pending Content. For both 715-20-50-1 and 715-20-50-5, the "Pending Content" section is applicable to fiscal years beginning after December 15, 2009, and would generally be applicable to most of the Topic 715 work currently being done.

The requirement to recognize the pension asset (liability) associated with defined benefit pension plans in the financial statements can be found in the "General" part of the "Recognition" section under subtopic 30 (715-30-25, paragraphs 1 through 6). The purpose of the "Recognition" sections is to provide guidance on the required criteria, timing and location (within the financial statements) for recording particular items in the financial statements. The "Settlements, Curtailments, and Certain Termination Benefits" part of this section (715-30-25, paragraphs 8 through 13) describes recognition requirements related to certain termination benefits.

Information relating to the measurement of items to be disclosed under section 715-20-50 and recognized under 715-30-25 in connection with defined benefit pension plans, including detailed information regarding the measurement of benefit obligations and each component of the net periodic pension cost, can be found in the "General" part of the "Subsequent Measurement" section under subtopic 30 (715-30-35, paragraphs 1 through 73). The purpose of "Subsequent Measurement" sections is to provide guidance on an entity's subsequent measurement and subsequent recognition of items relating to the subtopic. The "Settlements, Curtailments, and Certain Termination Benefits" part of this section (715-30-35, paragraphs 74 through 96) provides detailed information relating to the measurement of gains and losses recognized as a result of settlements and curtailments.

As with subtopic 30, subtopic 60 includes a "Recognition" section (715-60-25) describing the requirement to recognize the postretirement benefit asset (liability) associated with defined benefit plans providing postretirement benefits other than pensions ("defined benefit postretirement plans"). Subtopic 60 also includes a "Subsequent Measurement" section (715-60-35), which provides information relating to the items to be disclosed under 715-20-50 and recognized under 715-60-25 in connection with defined benefit postretirement plans, including detailed information regarding the measurement of postretirement benefit obligations and each component of the net periodic postretirement benefit cost. This section also includes information regarding measurements relating to the Medicare Prescription Drug, Improvement & Modernization Act, settlements and curtailments and split dollar life insurance.

Each of the defined benefit plan subtopics includes an "Implementation Guidance and Illustrations" section (715-20-55, 715-30-55 and 715-60-55). The information provided in the Implementation Guidance and Illustrations section is considered an integral part of the subtopic to which it is related. Section 715-20-55 generally contains the guidance and illustrations originally found in FAS 132R and 158. Section 715-30-55 generally contains the guidance and illustrations originally found in FAS 87 and 88, as well as in the guides to implementation of those statements that were published separately by FASB as "special reports." Section 715-60-55 generally contains the guidance and illustrations originally found in FAS 106, as well as in the guide to implementation of FAS 106 that was originally published separately as a special report.

Each of these subtopics also includes a "Transition and Open Effective Date Information" section (715-20-65, 715-30-65 and 715-60-65). The "Transition and Open Effective Date Information" sections contain descriptions of any currently applicable transition provisions with regard to changes that have been made to the subtopic. The section will include the transition content only during the transition period applicable to the change. For example, section 715-20-65 currently includes information relating to the requirement to change the measurement date to the date of the employer's fiscal year end financial statements. Although this requirement was applicable

▲ ▲ ▲

1 You will notice four other items listed under Topic 715, which appear to be subtopics as well (numbered 912, 930, 958 & 980); however, these are actually separate topics for certain "industries." These separate topics include some Topic 715-related information specific to the industries noted, which may or may not be relevant if working on plans for these industries.

to fiscal years ending after December 15, 2008, FASB considers that some of the transition guidance may still be relevant to certain situations. Once FASB determines that the transition guidance is no longer relevant, it will be removed and moved to an archived version of the section. Unfortunately, archived content is not available with the "Basic View" subscription.

Navigating Topic 960 (Related to Former FAS Statement No. 35)

There are 8 subtopics under Topic 960:

- 10 Overall
- 20 Accumulated Plan Benefits
- 30 Net Assets Available for Plan Benefits
- 40 Terminating Plans
- 205 Presentation of Financial Statements
- 310 Receivables
- 325 Investments—Other
- 360 Property, Plant and Equipment

Most of the information needed by Enrolled Actuaries with regard to Topic 960 can be found in subtopic 20. The required disclosures with regard to accumulated plan benefits for defined benefit plans under Topic 960 can be found in the "Disclosure" section under subtopic 20 (960-20-50). Provisions relating to the measurement and presentation of accumulated plan benefits and changes in accumulated plan benefits can be found in the "Subsequent Measurement" and "Other Presentation Matters" sections under subtopic 20 (960-20-35 and 960-20-45). The "Implementation Guidance and Illustrations" section under subtopic 20 (960-20-55) contains the guidance and illustrations originally found in FAS 35 relating to the measurement of accumulated benefit obligations.

Daveyne C. Totten, EA, MSPA, MAAA, is a senior actuary for Actuarial Pension Analysts, Inc., a consulting firm with primary offices located in Fayetteville, NY. Daveyne worked in the New York metropolitan area as a consultant and manager for ten years before joining APA in 1989, and she currently manages APA's Middlebury, VT office. She is also president of the Vermont Enrolled Actuaries Club and an ACOPA volunteer, serving on the ASPPA CPE Subcommittee and coordinating ACOPA articles for The ASPPA Journal. *(**totten@sover.net**)*

Quick Reference Guide

(not intended to be all-inclusive)

Although the information that follows is not intended to be all inclusive, it will serve as a quick guide for many topics frequently accessed by Enrolled Actuaries and other pension professionals.

Useful FASB Website Resources

- **Cross-reference FAS statement standards & codification:** Access from "Cross Reference" tab at top of most of the Accounting Standards Codification screens
- **Accounting Standards Updates**: Access by number from "Standards" tab at top of FASB home page or by links embedded in subtopic "Status" sections
- **Pre-codification standards:** Available for free in downloadable pdf format from "FASB Store" tab at top of FASB home page

Useful Subtopic Sections for Keeping Current

- **Status section (Numbered "00"):** Information relating to any changes made to the subtopic
- **Transition & Open Effective Date Information section (Numbered "65"):** Description of transition provisions applicable to changes made to the subtopic

Key Codification Sections Related to FAS Statement Nos. 87, 88, 132R, 158

- **Defined benefit plan disclosure requirements:** 715-20-50
- **Key disclosure requirements for public entities:** 715-20-50-1
- **Key disclosure requirements for nonpublic entities:** 715-20-50-5
- **Requirement to recognize pension asset (liability):** 715-30-25-1 thru 715-30-25-6
- **Settlement, curtailment & termination benefit recognition requirements:** 715-30-25-8 thru 715-30-25-13
- **Measurement of benefit obligations and net periodic pension cost:** 715-30-35-1 thru 715-30-35-73
- **Measurements relating to settlements and curtailments:** 715-30-35-74 thru 715-30-35-96
- **Guidance & illustrations formerly found in FAS 132R and 158:** 715-20-55
- **Guidance & illustrations formerly found in FAS 87 and 88 (and related publications):** 715-30-55

Key Codification Sections Related to FAS Statement No. 106

- **Defined benefit plan disclosure requirements:** 715-20-50
- **Key disclosure requirements for public entities:** 715-20-50-1
- **Key disclosure requirements for nonpublic entities:** 715-20-50-5
- **Requirement to recognize postretirement benefit asset (liability):** 715-60-25
- **Measurement of postretirement benefit obligations and net periodic postretirement benefit cost:** 715-60-35-1 thru 715-60-35-132
- **Measurements relating to Medicare Prescription Drug, Improvement & Modernization Act:** 715-60-35-133 thru 715-60-35-148
- **Measurements relating to settlements and curtailments:** 715-60-35-149 thru 715-60-35-176
- **Measurements relating to split dollar life insurance:** 715-60-35-177 thru 715-60-35-185
- **Guidance and illustrations formerly found in FAS 106 (and related publications):** 715-60-55

Key Codification Sections Related to FAS Statement No. 35

- **Defined benefit plan disclosure requirements:** 960-20-50
- **Measurement and presentation of accumulated plan benefits and changes in accumulated plan benefits:** 960-20-35 and 960-20-45
- **Guidance and illustrations relating to accumulated plan benefits formerly found in FAS 35:** 960-20-55

Thank You to All of The ASPPA 401(k) SUMMIT 2011 Parti

Sponsors and Exhibitors

Official Marketing Sponsors

Morningstar, Inc.
SourceMedia

Diamond

Nationwide Financial

Titanium

ING

Platinum

DWS Investments
Franklin Templeton Investments
Lincoln Financial Group
MassMutual
The Standard

Gold

Columbia Management
Goldman Sachs Asset Management
Invesco
JP Morgan Asset Management
Mutual of Omaha
OppenheimerFunds, Inc.
Wells Fargo Institutional Retirement and Trust

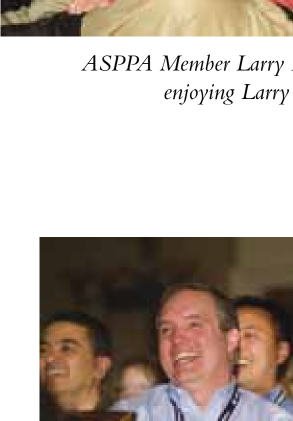
Silver

AllianceBernstein Defined Contribution Investments
Ameritas Retirement Plans
BPAS
Diversified Investment Advisors
DST Retirement Solutions
Matrix Financial Solutions
MetLife® Resources
Putnam Investments
RidgeWorth Investments
RSM McGladrey
TD AMERITRADE
The Hartford
Transamerica Retirement Services

Attendees checking in at the registration desk before the ceremonies begin.

ASPPA Member Larry L
enjoying Larry V

In "From the Hill to the SUMMIT," ASPPA Executive Director/CEO, Brian H. Graff, discusses the latest issues in Washington affecting your business, with Gregory J. Dean of the US Senate Committee on Health, Education, Labor and Pensions.



*Dirk Richardson, Lee Schme
taking in one of the many in
general se*

Larry Winget giving an irreverent presentation on his principles of success.

*The Exhibit Hall is the place to go when you want a
to eat, a taste of the new products and services out ther
chance to meet-and-greet with colleagues.*

icipants!

exow and others
Vinget.

ertzler and other attendees
formative and entertaining
ssions.

bite
e or a

Speakers

Gary Allen
Gregg H. Andonian
Alexander G. Assaley, III
Peter Bobick
James Brockelman
Dorann J. Cafaro
Brian Catanella
Thomas Clark, Jr.
Joe Connell
Jason Crane
Robert Cunningham
Paul D'Aiutolo
Gregory J. Dean
Gary DeMoss
Kevin Elko
Laura Gaynor
Amy Glynn
Brian H. Graff, Esq., APM
Jennifer Grazel
Kip Gregory
Brian Haendiges
James G. Hageney
Al Hammond
Scott Holsopple
Donald K. Jones
David M. Joy
Robert M. Kaplan, CPC, QPA
Susan Kelley
Thomas R. Kmak
Muriel Knapp
C. Todd Lacey
Lisa Lund Lattan
David Levine
Jennifer Lima
Lori Lucas
Edward M. Lynch, Jr.
Michael J. Malone, CPC
Joseph J. Masterson
Scott T. Matheson
Richard K. Matta
Jim O'Shaughnessy
James Paulsen
Greg Poplarski
Kevin Popovic
Adam C. Pozek, QPA, QKA, QPFC
Steven W. Pulley, CPC, QPA, QKA
James Pupillo
C. Frederick Reish, Esq., APM
Jason C. Roberts
Richard Schainker
Ann M. Schleck
Scott Senseney
Rick Shoff
John S. Simmers
David K. Stofer
Martha L. Tejera
Monika A. Templeman, Esq.
Sean M. Waters
Larry Winget
David L. Wolfe, Esq.

You can always get your questions answered at ASPPA's conferences. Tim Rosewicz was (un?)lucky enough to get photographed doing it.

From left: Brian Graff, nominee Joe Connell, winner Mike Malone, nominee Jim O'Shaughnessy and Morningstar's Will Marquis during the ASPPA 401(k) Advisor Leadership Award presentation.

Mutual of Omaha brought in its Animal Kingdom and attendees got up close and personal with a kinkajou in the Exhibit Hall.

Dr. Kevin Elko closes the SUMMIT with his secrets of success.

Did we mention SUMMIT was in Las Vegas?

TPA Partnerships—Consider the Opportunities

by Sarah Simoneaux, CPC

When some out of town friends invited us to take a vacation and stay with them in their home, I told my husband that I was worried we would be considered "parasites." My scientific-minded husband smiled and replied, "I promise you that we would not be parasites. That would mean we would benefit totally at their expense, and we would give nothing back in return. At the very least, we would be commensals – hopefully, we would be mutualists." My reply: "What? Commensals? Mutualists? Please explain."

And of course, he did. "A barnacle is an example of a commensal. It attaches itself to a scallop because it needs a place to live, but the scallop is not affected negatively by the fact that the barnacle is attached. When we visit, we pay our own way, buy food for everyone and help cook and clean, so they are not negatively affected. An example of a mutualist is the fish that hangs out around sharks and keeps the sharks' scales free of parasites. The shark stays clean and the fish gets protection from its predators by hanging out around the shark—a 'mutually beneficial' arrangement. I'd like to think of our visits as 'mutualistic' in nature. Both sides benefit." While "mutualistic" is my husband's scientific word for it, I like to think of a mutually beneficial relationship as a partnership. TPAs, in fact, make excellent partners in many situations and TPAs should look for opportunities to partner with other TPAs.

Focusing on the specifics of what the firm does well, rather than trying to be all things to all clients, is what a good partnership arrangement can support.

Background

As the TPA profession has matured, companies have learned the benefits of partnership. Local TPA firms provide administration and compliance services to their plans and advisors while partnering with national recordkeeping providers. Many defined contribution TPAs partner with TPA firms that offer defined benefit and cash balance plan design and administration. An emerging partnership area over the past few years has been larger open architecture TPA/recordkeepers partnering with TPAs that do not do daily valuation recordkeeping in-house. Focusing on the specifics of what the firm does well, rather than trying to be all things to all clients, is what a good partnership arrangement can support. With an effective partnership arrangement, your firm can *offer* all services to a client without having to *perform* all services independently.

TPA partnerships can allow firms operating in the same geographic market to work together strategically instead of competing with one another. Partnering firms can offer a broader range of services without the need for additional resources. Partnerships also allow firms to focus on what they do best while making administrators more client-focused and consultative in their specific areas of expertise and promoting ASPPA credentials for all client-facing staff to ensure quality performance. TPAs sometimes partner for reasons other than providing services to each other—perhaps for volume purchasing power, employee training or peer study groups. TPA partnerships can also play an important role in succession planning.

There are five essential considerations for TPA partnerships:

1. The plan should not be all in your head.

Both firms should be able to clearly articulate how the partnership will help their individual businesses. Each partner firm's business plan should state how the partnership fits into the firm's goals and strategies. The plan must be "out of the owners' heads," committed to writing and understood by each TPA's management team and staff. Not having clearly defined vision, goals and objectives for both firms can doom the relationship before it begins.

Example: A TPA partner that also performs open architecture recordkeeping services has "cutting edge technology" as a corporate value, along with a goal to "evaluate batch processing routines at least semi-annually." If the TPA/recordkeeper is currently partnering with one or more other TPAs, or intends to make partnerships part of its business model, the strategy and goals should not be a mystery to the staff. The employees are the engines of the TPA business, and their understanding of the business plan is essential to partnership success. How will batch processes need to change to accommodate the additional outside TPA business? Is additional technology needed to support the new arrangement?

2. Set goals and objectives and monitor progress.

Both partners should establish the goals of the partnership before they enter into the arrangement. If one firm is looking to grow and the other is looking for a succession plan, the agreement can be structured to have the growth firm ultimately purchase or merge with its TPA partner (or at least to have a right of first refusal in a sale). The partnership allows the two TPA's staffs to work together and retain advisor and client relationships that can be lost in an abrupt sale. The normal rules of succession planning still apply, however: both firms should have a clear understanding of the sale price and timing, method of payment and the roles and responsibilities of the selling TPA's owner post-sale.

If both firms have a growth model, the owners should discuss up front what each TPA brings to the table, what the growth expectations are for each partner and where the opportunities for partnering exist.

Example: TPA #1 works primarily with platform plans and is currently partnering with a high-volume national open architecture recordkeeping firm for their straightforward daily valuation plans. This firm is looking for a TPA recordkeeping partner that will handle more complex open architecture plans. TPA #2 is a daily valuation recordkeeping TPA that administers both open architecture and platform plans. If these two TPAs consider partnering, there are many questions that should be evaluated. Does TPA #2 realize the complexity of the plans they will be recordkeeping for TPA #1? Would TPA #2 be willing to move some of its platform plans to TPA #1 (perhaps a more "mutualistic" arrangement)? Do the system security and data transmission processes meet the requirements of both firms? Which firm will be responsible for compliance? Do both firms have measurable, realistic growth goals over a specific timeframe, taking into account expectations of the partnership? Etc., etc.

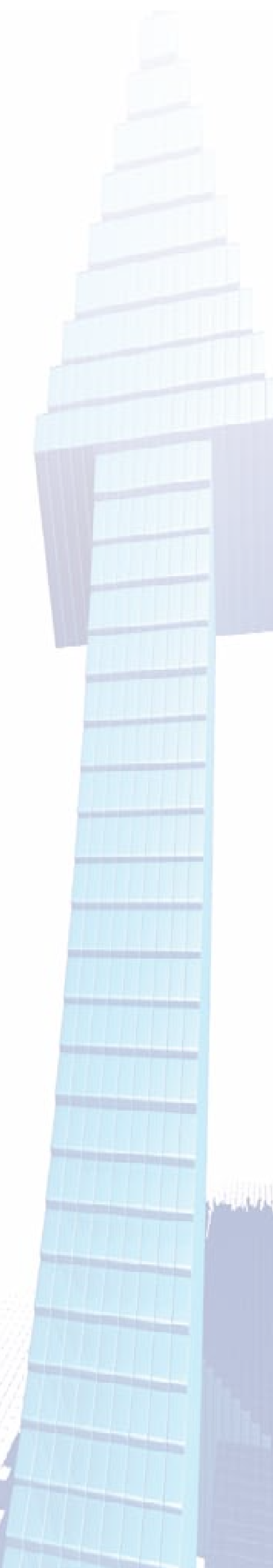
3. Personality matters more than process.

The traditional cliché about relationships that "opposites attract" does not hold true for TPA firm partnerships. As the retirement plan administration business has matured, there are many high quality TPAs who are experienced at partnering with other firms. One key to a successful partnership is to partner with a firm that shares similar corporate values and exhibits a similar firm "personality."

Example: A producing TPA wanted to offload its administration business so that it could focus solely on its investment and advisory business. The decision was made to partner with a non-producing TPA in order to phase out of the administration business. After undergoing an RFP search and diligently reviewing several potential partners, the producing TPA selected a boutique administration firm due to its similar "personality," its focus on customer service and its willingness to work with and train the producing TPA's employees. "We would have been a small part of a large cost-effective and efficient company," explained one of the producing TPA owners, referring to a larger high-volume firm that was initially considered. "Although it would have probably worked out, it just didn't feel right to us. [The boutique firm] saw right away that we were about customer service, and they will be able to support our growth without sacrificing our hallmark of consultative service."

4. The devil is (still) in the details.

Successful partnership models have clearly delineated agreements for both the primary firm and the partner firm, especially around the specifics of client contact, conflicts of interest with advisors



and plan sponsors, pricing, technology requirements, trading platforms, service standards, management, personnel and training.

The best structures also anticipate that the arrangement may not be permanent and negotiate up-front the process of dissolution (*e.g.,* data transfer and confidentiality, employment and non-compete agreements, length and renewability of contracted services and technology licenses).

5. Geography matters, but not as much you think.

The concern most commonly expressed by TPAs considering the partnership option is that if the two firms are located geographically close to one another, they will be cannibalizing each other's clients and advisors. The TPA partners we interviewed said a good reputation is paramount to their business model, and going after a partner's clients, referral sources or employees would put them out of business in short order. In fact, TPAs in the same geographic market can use a partnership to reverse the "race to the bottom" on administration fees as commoditization of TPA services continues to plague the industry. TPAs who agree to partner in their areas of specialty can work with the same referral sources to service different types of plans. They can work together with the referral source to clearly delineate services provided by each TPA. For example, when daily valuation services are needed, the TPA open architecture partner can perform recordkeeping services while the non-daily TPA partner can do the client contact work and compliance. Another example is when one partner has a low-cost "401(k) in a box" model and the other firm specializes in offering high-touch services to more complex plans. In each example, the TPAs can work together without infringing on the other's market.

Alternatively, in today's virtual world with state-of-the-art technology at our disposal, it is certainly not a requirement that TPA partners are in close proximity of each other. Highly successful partnership models can be supported from opposite ends of the country or any combination of regions. In most of these cases when TPAs in different geographic regions partner together, competing for the same business no longer becomes an issue. Other partnership strategies can also be pursued. For example, consider a Florida TPA partnering with a Kansas TPA. Florida is known for its hurricanes and Kansas is known for its tornadoes. These two firms could enter into a partnership arrangement where each partner could operate as a "satellite" office for the other in the case of a disaster if one partner was temporarily unable to run its business due to physical damage, lack of power, etc. This type of arrangement is especially efficient where both partners utilize the same software solutions. Data can be loaded onto the partner's system, plans could be administered remotely or employees could actually relocate temporarily and operate from the partner's firm.

Conclusion

TPA partnerships take advantage of firms' specializations and allow the two partners to grow more rapidly and become more successful. As Aristotle said many years ago, "The whole is greater than the sum of its parts." This saying has proven true in many TPA partnerships. Consider the opportunities!

*Sarah L. Simoneaux, CPC, provides consulting through Simoneaux & Stroud Consulting Services (SCS), specializing in business planning, business consulting, professional development, industry research and customized skill building workshops. Her firm also provides assistance to TPAs pursuing partnership arrangements, acquisitions or sale of business. She has worked in the employee benefits industry since 1981. Sarah was formerly vice president of Actuarial Systems Corporation (ASC). Prior to her position at ASC, she was a partner in JWT Associates, a qualified plan consulting firm in Los Angeles, CA. Sarah has volunteered her services in various capacities to assist ASPPA, and she served as the 2005-2006 ASPPA President. She currently works with the ASPPA Education and Examination Committee and she authored a book for the Qualified Plan Financial Consultant credentialing program. Sarah earned her Certified Pension Consultant (CPC) credential from ASPPA in 1988. (**sarah.simoneaux@scs-consultants.com**)*

Systemization and Automation

What came first, the chicken or the egg?

by Renee J. Conner, QPA

Although I loathe admitting it, I come from the timeframe where we learned to use computers at work! No fancy iPads or iPhones, no Internet access on airplanes. I remember booting up computers with two 8-inch floppy disks and signing up for computer time on the one computer we all shared in the office! Gen X and Yers are reading this thinking, "Wow, how old is she?" or "What's a f-l-o-p-p-y disk?"

While our automation has come a long way, for many TPAs, the systemization of our internal processes looks eerily familiar (*i.e.,* it hasn't changed since the mid 80s!). Many TPAs think the purchase of software will solve their operational issues internally, and, to some extent they are correct. But, let's try not to confuse the two things—systemization and automation. Systemization is what you do to prepare your processes for automation. Computer programs, for the most part, don't systemize anything—they simply automate what already exists. They can capture dates and times, store client data and run compliance programs. But systemization or *process standardization* is what happens inside your office, outside your automated programs. It involves your clients and your staff—whether administrators, billing clerks, sales representatives or the receptionist who opens your mail.

Process standardization sounds like a fairly boring topic—so, why bother? As a former TPA, I was committed to the establishment of process standardization within our office. It not only ensured service quality and mitigated business liability, but also relieved stress levels for our employees and, you guessed it, dramatically increased our profitability! It created service delivery consistency even if there were temporary or permanent personnel changes. With documented processes, work flows through your office more quickly, tasks don't fall through the cracks and billings for non-standard services are very easily identifiable. You might ask, "Doesn't this standardization take away employee creativity in their work?" That is a very valid point when discussing plan design, a very creative process done by very educated people. However, the administration of the plan that has left the design phase should be a very predictable, repeatable and explainable process. Administrators should perform the same steps, verify plan compliance in the same way and document those steps consistently. Imagine bringing a new employee into your firm who has both the technical knowledge to administer a plan and familiarity with your firm's chosen compliance software. A good "standard operating procedure" (SOP) would allow that individual to become immediately productive without needing to learn all the information that is just "known" in your office but not documented. For most TPAs, new employees have to be "assimilated" (yes, like the BORG!) in order to find their way around the office.

An SOP is a written set of instructions that documents a routine or repetitive activity that is followed by an organization. The development and use of SOPs are an integral part of a successful quality system as it provides individuals with the information to perform a job properly and facilitates consistency in the quality or integrity of the work. SOPs are intended to be very specific to your organization as they should detail both your firm's

commitment to quality assurance and customer service. Process documentation isn't anywhere near as difficult or as boring as you might think. It is an excellent exercise for the staff and gives the opportunity to not just document the process but streamline it as well. (Note that the term "streamline" is synonymous with increased "profitability!") Your staff will also tell you the sore points of your current processes so that you can improve their work environment along the way. SOPs are excellent team building tools. All you need is a white board, some colorful markers and a facilitator—and your staff will do the rest to create an effective SOP.

The logical next step to improving your profitability is to automate your SOPs. However, software isn't a magic wand! It is better to first have processes that are documented and tracked manually than to invest in software prematurely and be unsuccessful in its implementation due to a lack of SOPs. The process makes the most sense and the best use of your capital if done in the right order—systemization first, automation second, and yes, then the Holy Grail, *integration*.

What SOPs should a TPA business have?

That depends on the business model of the firm. If we look at a TPA model that does not offer investment services, the following list would reflect some basic SOPs the firm should establish (basically a list of all the things we do on a daily basis).

- Annual 401(k) Administration
- Annual Profit Sharing Administration
- Annual Money Purchase Administration
- Interim Valuations (Quarterly or Semi Annual)
- Annual Defined Benefit Administration
- Annual Cash Balance Administration
- AFTAP Certification
- Trust Accounting
- Participant Loans
- Distributions—Participant Instigated (separation from service, in-service withdrawals, hardships, etc.)
- Distributions—Plan Required (RMDs, mandatory cash outs, plan terminations, etc.)
- Plan Notices
- Plan Restatements
- Amendments
- New Client Establishment—Start Up Plan
- New Client Establishment—Takeover Plan (Probably the scariest process we have as TPAs!)
- Vendor Conversion
- Annual Billing Review (Don't forget this one!)
- De-conversion of an Existing Client
- Plan Termination

And the list goes on and on. Some processes touch several departments in your office (*e.g.,* New Client Establishment with a takeover plan). This one very broad process touches every department from billing to sales, and documents to compliance. Wouldn't it be wonderful if these processes could flow through your office, being handed off to all appropriate personnel like a well run relay race?

Let's talk about the basics of developing an SOP.

An SOP should be written in a very understandable format, that is, a format understandable by a new employee. It is also intended to be a step-by-step explanation of the subject. For example, if a step in your annual administration process is to run the reports that will ultimately comprise your annual report product, don't just say "Run Reports." A better way, much more helpful to a new employee, would be, "Run X,Y and Z reports to a .pdf file and save in the client folder \annual report\batch reports.pdf" (or whatever your naming convention may be). In the latter example, an employee doesn't have to be assimilated (remember the BORG) to understand what to do.

Don't make things overly complicated.

If your steps can't be flowcharted without looking like the graphic below, your process is too complicated. It may be that you are trying to combine too many SOPs into one. For example, many people develop

"DC Plan Administration" SOPs. Though similar in many respects, the "Contribution Calculation" portion is very different, both in the compliance issues and the amount of client preference that goes into the contribution decision. So, instead of having complicated answers for every possible option, you can ask only the questions that apply. The same is true for new clients. A start up and a takeover are very different; combining the two makes for a complicated SOP.

Reference good checklists.

If you have already developed excellent checklists that help administrators navigate the minefield or regulatory checkpoints, reference them or incorporate them into your SOPs. You need not discard good tools that have helped your staff in the past. In the absence of these tools, ask questions that help your staff to remember all the various steps that ensure quality in your product. For example, "Verify Compliance with IRC Section 416" is necessary, but breaking it into steps makes it easier to not make an error and far easier to review.

- Is this plan aggregated or disaggregated with another plan for top heavy purposes? No.
- Enter the top heavy percentage for the current year: 63%.
- Enter the amount of all key employee distributions in the five previous plan years: $120,000.
- Does the plan utilize different eligibility requirements for different contribution sources? Yes.
- Verify that top heavy minimums were allocated to all participants eligible for the most liberal contribution source. ☑

Obviously these steps were developed from items that may have slipped through the cracks in the past. A completed SOP is also easily reviewed by a peer and/or a manager.

You won't be perfect the first time.

Don't worry about perfection. Depending upon the stage of development of your firm, your SOPs could be ready for automation (the ultimate goal!) or still in their infancy. As you complete an SOP, work towards computer automation of that SOP. Just start somewhere and commit to the review of your SOPs on an annual basis. They will get better and better over time and will be revised whenever anything "slips through the cracks" (not that anything like that ever happened in my firm!).

Renée J. Conner, QPA, EA, is the owner of RJConner Consulting. A TPA for more than 25 years, Renée currently consults with TPAs in the area of "enhancing profitability through operational excellence and technology." She is also a principal of PensionPro Software, a firm that designs workflow software for the TPA industry. Renee is a current member of ASPPA's Board of Directors and ASPPA's Finance and Budget Committee. She is a frequent speaker on TPA operational and financial topics. (renee@reneejconner.com)

GAC Corner

ASPPA Government Affairs Committee Comment Letters and Testimony since February 2011

April 29, 2011
ASPPA submitted comments to the U.S. Department of Treasury in response to its request for recommendations on how it can improve its regulations. ASPPA's recommendations relate to: (1) safe harbor 401(k) plans; (2) electronic communications; (3) plan sponsor elections under the Pension Protection Act of 2006; (4) participant communications; and (5) interim amendments.
www.asppa.org/Document-Vault/pdfs/GAC/2011/0429-comm.aspx

April 20, 2011
ASPPA and ACOPA submitted comments to the PBGC in response to its request for recommendations on how it can improve its regulations. ASPPA and ACOPA's recommendations relate to: (1) reporting exemptions; (2) the premium filing deadline; (3) My PAA website functionality; and (4) PBGC's customer service.
www.asppa.org/Document-Vault/PDFs/ACOPA/2011-comments/ASPPA_ACOPA_PBGC_Reg_Burden_RFI.pdf.aspx

April 14, 2011
ASPPA and NTSAA submitted comments to the U.S. Securities and Exchange Commission regarding the registration of municipal advisors.
www.asppa.org/Document-Vault/pdfs/GAC/2011/0413-comm.aspx

March 31, 2011
ASPPA submitted comments to the U.S. Department of Labor in response to its request for comments on how it can improve its regulations. ASPPA's recommendations relate to: (1) the exclusion of 403(b) contracts prior to 2009; (2) electronic disclosure as the default option; and (3) a self-correction program for the Voluntary Fiduciary Correction Program.
www.asppa.org/Document-Vault/pdfs/GAC/2011/03312011-comm.aspx

March 1, 2011
Brian H. Graff, Executive Director/CEO of ASPPA, testified on behalf of ASPPA, NAIRPA, and CIKR at a U.S. Department of Labor hearing on the Definition of Fiduciary proposed regulation. Graff indicated that the organizations generally support the proposed change to the regulation and encouraged the Department not to apply the regulation to IRAs.
www.asppa.org/Document-Vault/pdfs/GAC/2011/test-3012011.aspx

February 17, 2011
ASPPA and NTSAA submitted supplemental comments to the U.S. Department of Labor requesting additional transitional relief with respect to the Form 5500 audit requirements for 403(b) plans.
www.asppa.org/Document-Vault/pdfs/GAC/2011/2172011-comm.aspx

For all GAC filed comments, visit **www.asppa.org/comments**.
For all GAC testimony, visit **www.asppa.org/testimony**.

WHAT'S NEW in ASPPA's Education & Examination Programs?

CERTIFICATES & CREDENTIALS

Advance your career. Enhance your knowledge. Earn valuable Continuing Professional Education (CPE) credits with ASPPA professional certificate programs and credentials.

Certificate Examinations

Industry education and training begins with certificate exams. Convenient. Open-Book. Online. Immediate Score Report.

- Retirement Plan Fundamentals Certificate (RPF-1 & RPF-2)
- Tax-Exempt & Governmental Plan Administration Certificate (TGPC-1)

Register today at **asppa.org/exams** and complete by December 15!

Professional Credentialing Examinations

For administrators, consultants, advisors and actuaries.
TGPC • QPFC • QKA • QPA • CPC • FSPA

Upcoming Testing Window

TGPC-2, PFC-1, PFC-2, DC-1, DC-2, DC-3 & DB: November 1-December 14
CPC Exam: November 15
A-4 Exam: December 8

Register by October 31 at **asppa.org/exams.**

Consulting Modules & Training

2nd Semester modules offered July 1 - December 15. Use these valuable study materials and on-line exams for training employees or broadening your consulting knowledge. These modules are part of ASPPA's Certified Pension Consultant (CPC) credential curriculum, but can benefit current CPCs as well as those not currently pursuing an ASPPA credential.

Earn 3 CPE credits for only $125 while mastering topics such as:

New Cash Balance module now available!

- Distributions & Loans
- Fiduciary Topics
- Investments
- Related Groups
- Nonqualified Plans
- ESOPs
- Governmental & Tax-Exempt Plans

Save money by ordering the module package! Complete information available at **asppa.org/CPC-modules.**

Questions? Contact us via e-mail at education@asppa.org

PREPARATORY RESOURCES

Individual, Classroom, and Training Packages available!

Webcourses

Webcourses available for RPF-1, RPF-2, TGPC-1, TGPC-2, DC-1, DC-2, DC-3 & DB.

Use webcourses to prepare for exams, train staff, or as a great way to earn up to 7 CPE credits.

Self-paced, convenient online education with assessments to test comprehension.

Individual and Classroom viewing options available. Additional training packages with unlimited access for employees (multiple logins) also available.

Contact **training@asppa.org** for more information. For complete information, visit **asppa.org/webcourse.**

Practice Exams

ASPPA's most popular study tool for candidates, practice exams allow you to test your preparedness and identify weaknesses before taking an examination. They also expose you to the various formats of exam questions.

Multiple practice exams for most exams are available. A great value at $40! Order online at **asppa.org/practice-exams.**

Live Instruction

Enrolled Actuary EA-2A Examination Review Course
September 30 – October 3, 2011
Arlington, VA

Register early and receive discounted rate.

For more information visit **asppa.org/ea-review-courses.**

Ethics and Professionalism: How Do We Know?

Assembling and Monitoring a Plan's Investment Team

by Anne Comer, James H. Culbreth, Jr. and Patrick M. Dennis

Every day, each of us forms opinions regarding our friends, family, coworkers and every person we encounter. Can they be trusted? Who is dependable? For most of us, it is a trial and error process. Psychologists tell us that, at the most basic level, we form bonds of trust by receiving a variety of visual, auditory and olfactory cues. These clues combine to make us either comfortable, or wary, of others. But how do *entities* learn to form bonds of reliance and trust—especially when the consequences of being wrong make trial and error an unacceptable process?

The difficulty of this question is compounded when the bonds of reliance and trust are formed through business and financial guidance instead of personal advice. It is made even more complicated when the trust involves the well-being of others. This situation occurs when a plan sponsor reaches out to investment advisors to assist with a qualified retirement plan. The consequences of forming unreliable relationships fall on both the plan sponsor and the plan participants.

What to Look For

When a plan sponsor is seeking an advisor, one substitute for the sights, smells or sounds of a trusted advisor is to consider the academic and professional licenses held by the individual. However, unlike the legal, medical and accountancy professions, the investment advisory industry requires no defined criteria or specific educational requirements. Instead, a person can attain a license to sell investments or insurance products by qualifying for and passing one of the three licensing tests. Three of the most common securities licenses are:

- Insurance license, permitting the licensee to sell insurance products from authorized and regulated vendors;
- Stockbrokers, who are regulated by FINRA, hold a Series 7 license, which permits the licensee to sell stocks, bonds, mutual funds, etc., or a Series 6 license for which activities are limited to the sale of mutual funds and annuities; and
- Investment Adviser Representative (Series 65), which is regulated by US Securities and Exchange Commission (or, in the case of smaller firms, regulated by the state) and can provide investment advice on stocks, bonds mutual funds, etc.

The long-term value of relying upon the securities license is limited because once an individual becomes licensed as an Investment Adviser Representative, no formal continuing education or professional ethic updates are required.

Some plan sponsors rely upon the myriad of financial and professional designations that can be attained by financial advisors. There are more than 100 financial designations, most with at least academic or exam requirements but few providing ongoing oversight. The variety of professional designations, coupled with the lack of structured oversight among the designations, make it difficult for an investor to know who is qualified to manage money in any specific situation, including qualified retirement plans.

Within the unstructured context of the available designations, a person holding one or more of the following designations indicates that he or she is knowledgeable and has demonstrated commitment to the investment advisory profession:

- Certified Financial Planner ("CFP®") – advisers with three years of experience and a bachelor's degree, or five years of experience with no college degree. Requires passage of an exam, along with 30 hours of additional coursework every two years. [The CFP is conferred by the Certified Financial Planner Board of Standards, Inc. (CFP Board) in the United States.]
- Certified Financial Adviser ("CFA") – three six-hour exams, a bachelor's degree from an accredited institution and with four years of qualified, professional work experience. Must adhere to the CFA Code of Ethics governing their professional conduct. [The CFA is offered by the CFA Institute (formerly AIMR).]
- Certified Public Accountant ("CPA") – awarded by each state's board of accountancy requiring passage of the Uniform Certified Public Accountant Examination plus additional education (most states now require a masters degree) and experience requirements. A CPA can become a Personal Financial Specialist ("PFS"), a designation from the American Institute of Certified Public Accountants, by passing an additional exam. A minimum of 40 hours each year of professional education is required. CPAs must adhere to a strict Code of Ethics and Standards governing their professional conduct. [The Uniform CPA Exam is developed and maintained by the American Institute of Certified Public Accountants (AICPA) and is administered by the National Association of State Boards of Accountancy (NASBA).]
- Certified Investment Management Analyst ("CIMA") – two exams and independent study coursework is required. Three years of experience with no criminal history, regulatory violations, civil actions or formal customer complaints. [CIMA is conferred by the Investment Management Consultants Association (IMCA).]
- Chartered Financial Consultant ("ChFC®") – 75 hours of coursework and an exam on topics such as estates, taxes, portfolio management and financial planning. Commonly held by individuals working in the insurance industry. [The ChFC is conferred by The American College.]
- Accredited Investment Fiduciary ("AIF®") and Accredited Investment Fiduciary Analyst ("AIFA®") – focus on a comprehensive investment process, related fiduciary standards of care. Two-day course (one week of course work for the AIFA® designation), examination and ten hours of continuing education. [The AIF and AIFA marks are held by the Center for Fiduciary Studies, LLC, a Fiduciary360 (fi360) company.]

If a person holding one or more of the above licenses also obtains ASPPA's Qualified Plan Financial Consultant (QPFC) credential, that person shows a strong commitment not just to the investment consulting field, but also to the qualified plan industry. The QPFC credential focuses on plan design and consulting issues for qualified plans as well as fiduciary issues, investment issues and fee analysis. To obtain the QPFC, a candidate must pass two online open-book exams (unless waivers apply) and two proctored exams. QPFCs must also meet ASPPA's Continuing Professional Education requirements.

Is it Enough to Have a License or Professional Accreditations?

What a plan sponsor may not know is that the majority of those who hold themselves out as "financial advisors" or "financial planners" are not actually subject to a *fiduciary* obligation to the plan sponsor or plan participants[1]. Moving beyond the license and professional accreditations, the most important question a plan sponsor can ask of anyone offering to provide the plan with financial advice is, "Do you have a legal obligation to act in the best interests of the plan and its participants?"

What About Using a Standard That Transcends Licensing and Designations?

Under current rules, financial advisors operate under one of two broad standards of care: suitability standard and fiduciary standard. Plan sponsors and the investing public may not be aware of the difference and can be unpleasantly surprised to discover that the difference is significant.

Suitability Standard

This standard requires investment recommendations that are appropriate to a client's circumstances, without a requirement to put the client's interests first or an obligation to disclose conflicts of interest. Stockbrokers and insurance agents typically are held to the suitability standard. Even if this is disclosed, the stockbroker or insurance agent can sell products that maximize commissions if the product is suitable for the client, even though not in the client's overall best interest. This conflict is made clear if the financial advisor markets securities to a client that, although suitable, may primarily serve the interests of issuers rather than those of the client.

Fiduciary Standard

This standard obligates the advisor to act in the client's own best interest, not his or her own. Among the professional designations, Registered Investment Advisers are required to follow this standard. The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) gave the Securities and Exchange Commission ("SEC") the authority to extend the fiduciary standard of care to brokers or dealers who give personalized investment advice to retail customers. The fiduciary standard would require broker-dealers to act in the best interest of their clients, a higher standard than the suitability standard.

▲ ▲ ▲

1 Investment Adviser Representatives have a fiduciary obligation to put their client's interests ahead of their own interests.

What is a Fiduciary?

Even after the fiduciary standard is applied, the plan sponsor needs to know exactly what constitutes a fiduciary. The fiduciary role, as it currently exists, can be found in several areas, including the "common law," demonstrated by case law and the multiple state laws codifying the role of a fiduciary. Another source is federal laws such as the Investment Advisers Act of 1940 ("Advisers Act"), whose Section 206 prohibits an adviser from engaging in any practice that is "fraudulent, deceptive or manipulative," and federal litigation such as SEC v Capital Gains, which identified a duty to act with utmost good faith, full and fair disclosure of all material facts and reasonable care to avoid misleading clients.

In defining the fiduciary role, plan sponsors have a valuable ally in the Employee Retirement Income Security Act of 1974 ("ERISA"), which through statute, regulation and case law have created a fiduciary standard that is considered stricter than under the Advisers Act. For example, ERISA's Exclusive Benefit Rule under §404(a)(1)(B) requires a fiduciary to discharge his or her duties with respect to the plan *solely* in the interests of the participants and the beneficiaries. ERISA goes on to require that fiduciaries must use "the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims" (sometimes referred to as the "prudent expert rule").

Almost any person can be a fiduciary under the ERISA standard, including (depending upon state law) a bank or other financial institution. Regardless of whether the person or entity agrees to be a fiduciary, ERISA supplies a functional test, making a fiduciary anyone who: (i) exercises discretionary authority over the management of the plan or disposition of plan assets, or (ii) provides investment advice for compensation. In addition, ERISA provides that a plan sponsor and plan trustees are always considered fiduciaries to the related plan. The ERISA definition is a functional one, so even if a person is not specifically named in the plan document, he or she will be considered a fiduciary if he or she performs a fiduciary function.

Why a Plan Sponsor Should Engage a Fiduciary to Manage the Plan Investments

The plan sponsor is a fiduciary and therefore under ERISA must:

- Act solely in the interest of the plan participants and their beneficiaries;
- Carry out his or her duties prudently;
- Follow plan document unless inconsistent with ERISA;
- Diversify plan investments; and
- Pay only reasonable plan expenses.

Although fiduciaries are held to the standard of a knowledgeable investor, they are not required to have the experience or qualifications. The ERISA regulations state: "Unless they possess the necessary expertise to evaluate such factors, fiduciaries would need to obtain the advice of a qualified, independent expert." [DOL Reg. § 2509.95-1(c)(6)] In Liss v. Smith, the federal court said, "where the trustees lack the requisite knowledge, experience and expertise to make the necessary decisions with respect to investments, their fiduciary obligations require them to hire independent professional advisors."

Hiring a plan's investment advisor should be considered a fiduciary function. The process used for selection of the investment advisor should be documented. The advisor must be prudently selected and monitored, and the advice must be carefully evaluated before being relied upon. The courts have weighed in on this issue, as in Howard v. Shay, in which the court stated "The fiduciary must: (1) investigate the expert's qualifications ... (2) provide the expert with complete and accurate information ... and (3) make certain that reliance on the expert's advice is reasonably justified under the circumstances."

Asking Questions Permits the Plan Sponsor to Know

Plan sponsors need to have an adequate process and clearly document the selection and monitoring of advisers. In selecting service providers, the plan sponsor must engage in an objective process designed to assess the qualifications of the service provider, the quality of the work product and the reasonableness of the fees charged in light of the services provided. A plan sponsor demonstrates the deliberative process by asking questions that may be as broad as licensing, professional credentials, client references, past performance and fees. This process should also be as specific as the frequency of meetings, the level of errors and omissions insurance coverage. A plan sponsor can learn much from a financial advisor's sample documents, which may include a model Investment Policy Statement, a representative investment portfolio for a similar plan and a copy of recent quarterly reports. Finally, the plan sponsor can review the advisor at **www.sec.gov** and look at the investment adviser's: (i) ADV Part 1, (ii) ADV Part 2 and (iii) FINRA Broker Check Reports for firms and individuals.

What a Plan Sponsor Should Expect from the Investment Fiduciary

A plan sponsor is required to monitor the fiduciary to assure that the investment advisor is performing in accordance with the terms of the Investment Advisory Agreement. The plan sponsor should also establish a formal review process and monitor the fiduciary to assure the agreed upon services are being provided.

The Investment Advisory Agreement should clearly establish if the investment advisor is a "Limited Scope" fiduciary under ERISA §3(21), which requires the fiduciary to: (i) have a written agreement, (ii) render advice for a fee and (iii) select & monitor investments, but does not provide the investment fiduciary with investment "discretion." The limited scope fiduciary is contracted with the role of "Investment Manager" as that term is defined in ERISA §3(38) as a fiduciary who: (i) manages investments and is *solely responsible* for the selection, monitoring and replacement, (ii) acknowledges fiduciary status in writing and (iii) must be a Registered Investment Adviser, bank or insurance company.

What Should a Plan Sponsor do if a Fiduciary Fails to Perform His or Her Duties?

The plan sponsor should review, on a periodic basis, the performance of the plan's service providers to ensure that they are providing the services required by, and at a cost consistent with, the agreements. Part of this process involves reviewing participant comments or any complaints about the services. If there is a problem with a fiduciary, the plan sponsor, as the plan fiduciary, is compelled to act and is breaching its own fiduciary obligation by not doing so.

For example, the Employee Benefit Security Administration (EBSA) of the DOL monitors plan fiduciaries and advised in the case of the Madoff scandal that sponsors "… should address [potential Madoff-related losses] in a manner consistent with their fiduciary duties of prudence and loyalty to the plan's participants and beneficiaries." This recent statement further underscores the duty of a plan sponsor to be both involved in monitoring its appointed fiduciaries and active in correcting or replacing plan fiduciaries that fall short of their obligations.

The widespread increase in class actions and litigation involving corporate employee benefit plans reinforces the need for plan sponsors and fiduciaries to be vigilant in ensuring that employee benefit plans, and the governance of those plans, comply with ERISA, securities laws and tax laws. For example, the DOL recently brought suit against a business owner for failure to carry out his fiduciary duty to *monitor* the service provider of the company's 401(k) plan, in violation of ERISA. "Company executives are obligated by law to properly monitor the actions of those who provide services to employee benefit plans and to deter preventable losses to plans," said Paul Baumann, director of the Cincinnati Regional Office of the EBSA, which conducted the investigation leading to the EBSA lawsuit.

So, How Does a Plan Sponsor Know?

Obtaining financial advice for a retirement plan is not a "fire-and-forget" exercise in which the plan sponsor can be diligent in the selection process and detached thereafter. As President Reagan noted in his description of the Strategic Arms Limitation Treaty, a prudent person learns to "trust, but verify." A plan sponsor who first learns what to look for, and then follows President Reagan's adage throughout the selection and retention process and ongoing monitoring of the plan's financial advisors, will come to know what is best for the plan and its participants. Like in most human relationships, however, such knowledge is a process and not an event. For plan sponsors, a well documented process and monitoring of the investment advisor provides a level of risk management in these litigious times.

*Anne Comer is president of Presidium Retirement Advisers, a fee-only registered investment advisory firm that provides independent, objective investment advice and fiduciary oversight to institutional clients. Anne is a Certified Public Accountant (CPA) and an Accredited Investment Fiduciary Analyst (AIFA®). (**acomer@presidiumadvisers.com**)*

*James H. Culbreth, Jr. is a partner in the employee compensation and benefits practice group in the Charlotte, North Carolina office of Shumaker, Loop & Kendrick, LLP. His principal area of practice is employee benefits. James has more than 27 years of legal experience, focusing his practice on employee benefits law while representing private and public sector employers of all sizes. (**jculbreth@slk-law.com**)*

*Patrick M. Dennis, Esq. is a founding principal and managing director of Oyster Consulting, LLC. Oyster provides a variety of compliance, regulatory, financial, operational and technology consulting services to broker/dealers, investment advisers, hedge funds and mutual funds. (**patrick.dennis@oysterllc.com**)*

FROM THE PRESIDENT

You Know, I Have a Real Job Too!

by Thomas J. Finnegan, MSPA, CPC, QPA

The perils of being an ASPPA volunteer. For many years, we have been able to take unsuspecting volunteers, those who want to help their profession and the retirement system in the United States, and extract every ounce of available energy they have to write comment letters, or exam questions, or prepare textbooks, or recruit speakers, or any of a hundred other volunteer jobs at ASPPA. This system has been wildly successful.

Our conferences, organized and run by our volunteers (working side by side with the best conference staff in the business), are easily the industry standard, with the best programs, the best speakers, and the best locations.

Our education programs have triggered our tremendous growth. They are without peer in the retirement profession and have been the driving force in promoting increased professionalism in our industry. Again, the work of countless hours from our volunteers, along side an expert staff.

Government Affairs is the life's blood of ASPPA. The largest volunteer group, it has worked to influence legislative and regulatory policy, helping to preserve and enhance the employer-sponsored retirement system. This feat is accomplished through analysis of almost all legislative and regulatory actions, meetings with Congress and regulators, comment letters, issue briefs and white papers. The productivity of this group is amazing and their effectiveness is momentous.

Each of these groups (as well as the other ASPPA committees) has employed the same basic formula in its success … get a solid core of volunteers to devote a significant number of hours on a regular basis until the job is done. The model thrives on the basis of "more hours from fewer volunteers." This model was appropriate when ASPPA had fewer members. When we were only 3,000 members, we had the same goals and the same mission, but far fewer resources than we have now. The "more hours from fewer volunteers" model was the only way we could be successful.

Now our size is one of our greatest assets. We have more than 7,500 members and we continue to grow. We have to find a way to capitalize on our size. It is common in professional associations for slightly more than 10 percent of the members to volunteer. ASPPA hasn't achieved that level because we ask for too great a commitment from our volunteers. We are starting to change our model with the goal of attracting the more casual volunteer and also the goal of not burning out our existing volunteers.

Earlier this year, ASPPA asked the Government Affairs Committee to provide a model for their operations that would use a significantly greater number of volunteers but at a far reduced time commitment per volunteer. GAC leadership presented their model to the ASPPA Management Council at the June GAC meeting in Washington, DC. The new operational structure provides for significantly more volunteer opportunities, reduces the time commitment for most volunteers, sets up a pathway for growth as a GAC volunteer and greatly increases GAC's ability to survey membership. This structure was accomplished by creating a general GAC committee to complement the existing subject-based subcommittees. As individual projects arise in GAC, they will continue to be assigned to a subcommittee, but the subcommittee will also seek

the assistance of members of the general committee who have an interest in the topic. Those interested members will join the subcommittee for that specific task.

In addition to providing the additional volunteer opportunities, this model will allow the subcommittees to handle multiple projects and deadlines more readily and will allow leadership and the subcommittees the ability to identify the most talented/enthusiastic members of the general committee and recruit them into subcommittee service. It also allows subcommittee members who can no longer afford that level of time commitment to continue to make valuable contributions to GAC, but on a project-by-project basis, rather than a permanent basis.

The new GAC procedures will be rolled out more formally at the ASPPA Annual Conference. In the meantime, other committees are working to adapt the new GAC model to their operational structures. The goal is to create an overall volunteer structure that is scalable. We believe that ASPPA membership is an essential element for all retirement plan professionals and that ASPPA's membership will continue to grow in the coming years.

The new structures will allow a growing ASPPA to provide volunteer opportunities for all of our members who want to contribute. I encourage you to volunteer, if you have ever thought about getting involved. It is a tremendously rewarding experience. We can use whatever time you can give. We know … you have a real job too!

*Thomas J. Finnegan, MSPA, CPC, QPA, is a principal of The Savitz Organization in Philadelphia, PA, and holds a bachelors degree in mathematics from St. Joseph's University. Tom is an actuary with more than 20 years experience working with all types of qualified and non-qualified retirement plans. Prior to joining The Savitz Organization, Tom served as a senior actuary for a major employee benefits consulting firm and the director of retirement plan services for a mid-sized regional consulting firm. Tom is currently serving as ASPPA President. In addition to his involvement with ASPPA, he is a fellow of the Conference of Consulting Actuaries and a member of the American Academy of Actuaries. He is a frequent speaker at regional and national benefit and actuarial conferences and has authored articles for national actuarial publications as well as regional newsletters. Tom has also taught semester-long EA exam preparatory classes at Temple University as well as ASPPA exam courses. (**thomasfinnegan@savitz.com**)*

ASPPA PAC
EDUCATION, INFORMATION, ADVOCACY

Through the ASPPA Political Action Committee, we are able to help members of Congress who are committed to the protection of the employer-based retirement system. Help ASPPA PAC spread the word about the success of the system by contributing today.

Members of ASPPA can contribute to ASPPA PAC online at www.asppa.org/pac. Or you can mail a personal check to:

ASPPA PAC
Attn: Jennifer Perkins
4245 N. Fairfax Drive, Suite 750
Arlington VA 22203

For more information please contact Jennifer Perkins, Director of Congressional Affairs, at 703-516-9300 or jperkins@asppa.org or Larry Nigh at lnigh@asppa.org.

NextGen Capitol Hill Visit Experience

by Yannis P. Koumantaros, CPC, QPA, QKA, and Jennifer Gibbs Swets, ERPA, QPA, QKA

Every other year during the ASPPA Annual Conference a Visit to Capitol Hill is organized and completed by ASPPA members, staffers and lobbyist. The Visit to Capitol Hill provides an opportunity for face time with the Senators, Representatives and their staffs to discuss our industry, pending legislation, actions needed and ways that ASPPA and Washington can work together to strengthen America's retirement programs.

The decisions made in Washington impact us all, and the Visit to Capitol Hill provides the chance to educate our representatives and decision makers on the industry's issues and needs. Creating the biggest impact, the most convincing argument and celebrating the most successful Visit possible is dependent on ASPPA's membership's participation. Without our participation, support and commitment to the causes impacting our industry, the Visit serves as more of a field trip for a few rather than a catalyst for improvements and enhancements to America's retirement programs.

Whether a seasoned veteran or a first time conference attendee, your voice, energy and enthusiasm is welcomed and important! The Visit to Capitol Hill is an exciting and unique opportunity and you are the key to its ongoing success. Together we can continue to accomplish great things for ASPPA, the industry and America's retirees.

Been There, Done That (by Yannis P. Koumantaros)

To me, Washington, DC has always been "The Other Washington" — having been born, raised and still living in the Seattle/Tacoma area. The political process has always fascinated me; however, I would not consider myself very political. My first ASPPA Visit to Capitol Hill experience was at the 2005 ASPPA Annual Conference, and I have not missed one since.

Ignorance is definitely bliss, because as a young adult I signed up for the 2005 ASPPA Annual Conference assuming that everyone participated in the Visit to Capitol Hill. When I finally showed up to the Hollywood-esque pep rally the night before the Visit, led by Brian Graff and company, the experience kicked in. There was a ton of energy.

Packets with talking points were prepped for us, Congressional one-pagers, meeting attendees, resumes, contact information, maps and every piece of collateral one could want. Back in 2005, the theme was "Please Don't Take Away My 401(k)," which once again seems ironic today.

Meeting with politicians and Congressional aids is really quite simple when you consider that your voice and vote actually means a lot. Most of them are superficially concerned with your issues, but all of them are deeply concerned about re-elections. The last thing they want is a young pension professional going back to his/her hometown and telling all professional and social contacts how he/she was blown off regarding pension and 401(k) issues.

With all that being said, and in full disclosure being the ASPPA Political Action Committee Chair (so please make a contribution this year), I have run my business career with the notion that "People tend to support what they help to create." The more ASPPA members can get involved in the political process, through dollars, voice or both, the more of an effect we can have on America's retirement.

Doing it for the First Time (by Jennifer Gibbs Swets)

Having attended the ASPPA Annual Conference several times, I have been a bystander to the excitement and buzz surrounding the bi-annual Visit

to Capitol Hill. This Fall will once again bring about the opportunity to participate in this cool and very important event.

While many of us eagerly look forward to the ASPPA Annual Conference, anxious to hear the Washington Update, the Government Update, idea share and learn with others in the industry, far fewer attendees actually sign up and participate in the Visit to Capitol Hill. The attendee group is ripe with likely candidates for participation, those with careers and passion based in the retirement plan industry, but it seems I've not been alone in my hesitation to march.

A combination of concerns about preparation, time commitment, knowing what to say and what to do have kept me from marching in the past and yet the direction of the pension industry and Washington's impact is of great importance to me. As a professional, I dedicate time and energy to ongoing continuing education, efforts to stay abreast of pending regulation and legislation and have real opinions regarding the combination of changes and preservation needed to create and sustain a thriving pension industry for American retirees. Working on the ASPPA Annual Conference Committee this Winter I realized that I had an opportunity and, moreover, a responsibility to participate in the Visit to Capitol Hill. Rather than waiting and hoping for positive impact, the Visit to Capitol Hill provides an amazing chance to play an active role in defining the future of our industry.

Typically, opportunities for impact have great requirements of their participants. The Visit to Capitol Hill is unique in that sign-up and participation are easy! At the time you register for the ASPPA Annual Conference, you can simply indicate your intentions to join in the 2011 Visit. Once you arrive at the ASPPA Annual Conference, ASPPA staffers and lobbyists, like Brian Graff, will supply all the information you need for a successful march including: talking points, transportation, appointments with your Senator/Representative's office and lunch. The bus ride to the Capitol provides the time for briefing and discussion points and an opportunity to get to know others in your group (that's right, you're not expected to march alone).

So this year I'm participating in my inaugural march, still a little nervous but excited to share my voice, the concerns of ASPPA and create future opportunities for our industry. At this year's ASPPA Annual Conference, take a break from the beautiful Gaylord and consider joining me—I'd love to march together!

Take Action

- Register for the ASPPA Annual Conference.
- Sign up to participate in the Visit to Capitol Hill.
- Sit back, relax and enjoy the experience.

Yannis P. Koumantaros, CPC, QPA, QKA, is a shareholder with Spectrum Pension Consultants, Inc. in Tacoma, WA. He is a frequent speaker at national conferences, and is the editor of the Blog and Newsroom at ***www.spectrumpension.com****.* ***(yannis@spectrumpension.com)***

Jennifer Gibbs Swets, ERPA, QPA, QKA, is a senior manager of retirement plan services with Dixon Hughes Goodman LLP in Virginia Beach, VA. She is a frequent speaker at national conferences. ***(jennifer.gibbs@dhgllp.com)***

SAVE THE DATE!

Join Us for a Visit to Capitol Hill!

ASPPA Annual Conference

The Gaylord National Resort & Convention Center
National Harbor, MD • October 23-26, 2011

ASPPA®
WORKING FOR AMERICA'S RETIREMENT

Oct. 25, 2011!

Don't Miss
RALLY FOR DAY ON THE HILL
Mon., Oct. 24, 2011!

The ABCs are Going Strong

by Jennifer Cusick

Recognizing the need for local educational and networking opportunities in the industry, ASPPA began establishing ASPPA Benefits Councils (ABCs) in 1996. The ABC of Atlanta and the ABC of Cleveland were the first ABCs established in March 1996.

In recent years ABC leadership has been working diligently to enhance the ABC program. Today, the ABCs are flourishing with 18 chapters and continued new interest. The ABC of the Greater Twin Cities became a vibrant part of the ABC family in November 2010, and the ABC of Central Texas, which covers cities from San Antonio to Waco, was welcomed in February 2011. Both inaugural ABC meetings brought attendance of more than 80 professionals in the respective area.

"The transition from our prior ERISA Study Group in Austin, TX to an ABC was quick and relatively painless. ASPPA offers many more benefits for our Central Texas ABC such as help with meeting registrations, speaker lists and ASPPA member mailing lists. Laurie Mechler, President of the ABC of Central Texas, says "Participation in our group meetings has already grown, and we are very happy with our new organization!"

While many ABCs hold four regional meetings per year, some ABCs hold meetings as frequently as once a month, providing a cost effective venue to maintain CPE credits as well as networking opportunities.

Joanne O'Donnell, QPA, QKA, from Wayland, MA has attended most local meetings held by the ABC of New England. "What has impressed me most about the ASPPA Benefit Council meetings is the high quality of the speakers who have visited. The meetings have enabled me to keep current on so many issues, all in my own backyard."

The current list of ABCs follows:

- Atlanta
- Central Florida
- Central Texas
- Chicago
- Cleveland
- Dallas/Fort Worth
- Detroit
- Great Northwest
- Greater Cincinnati
- Greater Philadelphia
- Greater Twin Cities
- New England
- New York
- North Florida
- Northern Indiana
- South Florida
- Texas Gulf Coast
- Western Pennsylvania

Get to know your local ABC by visiting the ASPPA website! **www.asppa.org/Main-Menu/partners/ABCs.aspx**.

Interested in starting a new ABC? Contact Jennifer Cusick, ABC/NTSAA Manager, at **jcusick@asppa.org**.

*Jenny Cusick, ABC/NTSAA Manager with ASPPA, is the key liaison for the National Tax Sheltered Accounts Association (NTSAA) Leadership Council as well as the ASPPA Benefits Councils (ABCs). Jenny has provided support to professionals in the 403(b) and 457 marketplace for ten years. As an employee of the NTSAA, she cultivated member and Industry Partner relationships and planned conferences. Jenny and several other NTSAA members launched the first and highly successful NTSAA 403(b) Compliance Resolution Summit in 2009. When the NTSAA combined with ASPPA in 2010, she became the Co-chair of the ABC Committee. In this position, Jenny endeavors to enhance and expand the ABC program. Jenny studied Cultural Studies at The University of Kansas. (**jcusick@asppa.org**)*

ASPPA ANNUAL CONFERENCE

October 23-26 › National Harbor, MD

REGISTRATION NOW OPEN!

It's Never Been More Important to Attend!

March on Capitol Hill – *Protect Your Career!*
Hear Bob Reynolds – *"The American Promise"*
Keep Current – *Over 70 Expert Breakouts!*

Register Now and SAVE! **Early Bird Rate $995.**
www.asppa.org/annual

Welcome New Members and Recent Designees

MSPA

Daniel W. Boland, MSPA
Lawrence R. Greene, MSPA
Cindy L. McDonald, MSPA
Shelly Tillman, MSPA
Brandon Warner, MSPA

CPC

Paul W. Catton, CPC, QPA, QKA
Howard J. Collier, II, CPC, QPA, QKA
Kevin E. Hicks, CPC, QPA, QKA
Melissa N. Howard, CPC, QPA, QKA
Bethany Hulbert, CPC, QPA, QKA
Matthew C. Olson, CPC, QPA, QKA
Lily M. Taino, CPC, QPA, QKA

QPA

Kelly A. Anderson, QPA, QKA
Gary Baker, QPA, QKA
Rebecca Barnett, QPA, QKA
Lisa Bowser, QPA, QKA
Stacy Covella Brown, QPA, QKA
Michael J. Burlaka, QPA, QKA
Frank A. Castrofilippo, QPA, QKA
Michael B. Collins, QPA, QKA
Anthony Derry, QPA, QKA
John J. Donohue, QPA, QKA
Brian Downer, QPA, QKA
Jere W. El-Bakri, QPA
Nancy A. Gardner, QPA, QKA
Natalie Groeger, QPA, QKA
Susan Guck, QPA, QKA
Shannon Harrel, QPA, QKA
Timothy Hawke, QPA, QKA
Susan J. Hunger, QPA
Lisa Jordan, QPA, QKA
Jennifer Lee, QPA, QKA
Cyndi Bryanna McCrea, QPA, QKA
Gail Micheau, QPA
Tamara A. Mullally, QPA, QKA
Rosemarie M. Panico-Marino, QPA
Michael A. Pelkey, QPA, QKA
Morris M. Perera, QPA, QKA
Bonnie J. Post, QPA, QKA
Jodi B. Reiser, QPA, QKA
Leslie Reynolds, QPA
Kathleen H. Rice, QPA, QKA
Chad Ridgway, QPA, QKA
Theodore Roswell, QPA
Stephanie Sanchez, QPA, QKA
Danelle M. Saucier, QPA, QKA
Susan Snow, QPA
Laura Sobek, QPA, QKA
Patrick S. Tsai, QPA, QKA
Geraldine M. Wheeler, QPA
Lai Linda Xu, QPA, QKA

QKA

Ghousia Ahmed, QKA
Christina Ajavananda, QKA
John A. Alcaro, QKA
Jennifer Athoe, QKA
Brandon J. Bader, QKA
Rebecca Barnett, QPA, QKA
Kathy Begyn, QKA
Kristina L. Blair, QKA
Tara Brooks, QKA
Elizabeth Brown, QKA
Matthew A. Brown, QKA
Betty M. Caldwell, QKA
Andrew Charbonneau, QKA
Brandon J. Check, QKA
Kevin B. Cheezum, QKA, QPFC
Jenny Christiansen, QKA
Ashley B. Cluley, QKA
Nena T. Conlu, QKA
Michael Cooley, QKA
Mira Copeland, QKA
Angela Demas, QKA
Michael Deming, QKA
Anthony S. Doble, QKA
Margaret M. Donovan, QKA
Brian Downer, QPA, QKA
Stacey Edwards, QKA
Jessica L. Ehresman, QKA
Paul A. Federico, QKA
Tracy Fenske, QKA
Shannon File, QKA
Sara Foote, QKA
Jesse Gandee, QKA
Sarah R. Gilmore, CPC, QPA, QKA
Ben C. Gomoll, QKA
Nicole Haley, QKA
Peter Reed Harrington, QKA
Kimberly Hicks, QKA
Kevin Hilmer, QKA
Michael Kasecamp, QKA
Tom A. Krusic, QKA
Lucas Lettieri, QKA
Lory A. Liberty, QKA
Carrie A. Lucas, QKA
Matthew D. McCarty, QKA
Kevin McDonald, QKA
Daniel S. Menna, QKA
Lisa A. Meyer, QKA
Anthony Milano, QKA
Sherrie L. Murphy, QKA
Kathleen M. O'Sullivan-Zona, QKA
Brian Oberlander, QKA
Brett M. Oberman, QKA
Sara J. Olson, QKA
Christopher L. Parker, QKA
Tammie Plummer, QKA
Victoria Richebacher, QKA
Kathryn F. Roberts, QKA
Karen L. Schneider, QKA
Elizabeth Seiter, QKA
Nancy Seroogy, QKA
Beverly M. Thomas, QKA
Suzanne Thompson, QKA
Sara Trujillo, QKA
Patrick S. Tsai, QPA, QKA
Michael F. Van Heusen, QKA
Jennifer L. Wallace, QKA
Ian W. Weatherbee, QKA
Julie T. Westervelt, QKA
Sean Wiggin, QKA
Huw O. Williams, QKA
Jule P. Woody, QKA
Shi Yan, QKA
Natasha Zdobylak, QKA

QPFC

Connie Bergstrom, QPFC
Kevin Dyreson, QPFC
Frank Gambardella, QPFC
Fred M. Lee, QPA, QKA, QPFC
Karen J. Merrell, QPFC

TGPC

Edward T. Angello, CPC, QPA, QKA, TGPC
Molly E. Balkey, CPC, QPA, TGPC
Grant Brown, QPA, QKA, TGPC
Ruth E. Delaney, TGPC
Clifford Gould, TGPC
Thomas A. Jordan, TGPC
Lisa A. Murphy, QKA, TGPC
Michael L. Rogers, CPC, QPA, QKA, QPFC, TGPC
Susan L. Williams, QPA, QKA, TGPC

APM

Stacey Austin, APM
Michael J. Conkey, APM
Kristi L. Griffin, APM
Carole M. Kelley, APM
Paul H. Malesick, APM
Jill J. Rendeiro, APM
Christopher W. Shankle, APM
Phillip J. Troyer, APM

AFFILIATE

Cassie Aragon
Bradley S. Araki
James D. Archer
Adam N. Barker
Andrew Basch
Louisa S. Beckman
Mark Benson
Steven Benson
Eric S. Bildt
David Brasfield
Joseph Burt
Frank A. Busalacchi
Patrick Carter
Karlton Castle
Betty Anne Catalino
Vincent Cavallo
Christopher D. Cervantes
Gina M. Cizek
Ryan W. Clark
Thomas Clark, Jr.
Paul M. Coates
Anne Comer
Leslie B. Corso
James Cowles
Chris Croke
Paul D'Aiutolo
David F. Dodds
James Dorton
Robert Doss
Jonathon Dues
Carol A. Dunbar
Christopher J. Egoville
Deborah Ernst
Christopher R. Fee
Linda T. Fisher
Robert L. Francis
Paul J. Gallagher
Nicole R. Gardner
Lisa S. Gelon
Henry Giano
Frank Giglio
Frank Green
Phillip W. Guske
D. Kevin Hensley
Aaron L. Hodgson
Greg Houck
Peggy Hutchinson
Wayne A. Isaacs
Stephen V. Jackson
Todd Jones
Tarra A. Joseph
Chris Karam
Matthew King
Cheri Landin
Barbara A. Lane
Margaret Lewis
Craig Lind
Grant R. Long
Kari Lusby
Edward M. Lynch, Jr.
Don MacQuattie
Hayden J. Main
Tom T. Makeever
David P. Marshall
Joseph J. Masterson
Brian McCarthy
Edward R. McKeown
Daniel McReynolds
Paul L. Moffat
Richard Moser
Sean S. Murray
Richard C. Nolin
Christopher O'Neill
Jim O'Shaughnessy
Gwenn Paness
Brian C. Paoli
Matthew Patten
Tiziana Polizio
Jasonn Potter
Jerry Ripperger
Sonya V. Robinson
James Schulz
David J. Segarra
Brandon Shea
Eric T. Singer
Eric W. Smith
Adam Sokolic
Keith Soranno
Sandra D. Stewart
Susan M. Stiles
Laurissa Stokes
Cortney C. White
Colleen Williams
Ashley M. Wilson
Michael J. Winn
Christopher J. Zingaro

Calendar of Events

ASPPA

Date*	Description	CPE Credits**
Jul 1 – Dec 30	Second semester webcourse access period	
Jul 1 – Dec 15	Second semester CPC modules	
Jul 11	Northeast Area Benefits Conference – Boston, MA	8
Jul 12	Northeast Area Benefits Conference – New York, NY	8
Jul 24-27	Western Benefits Conference – Las Vegas, NV	20.5
Aug 12-13	ACOPA Actuarial Symposium – Boston, MA	15
Aug 31	Early registration deadline for EA-2A examination review course	
Sep 30 – Oct 3	EA-2A examination review course	
Oct 4	Early registration deadline for fall examinations	
Oct 23 – 26	ASPPA Annual Conference – National Harbor, MD	25
Oct 31	Final registration deadline for fall examinations	
Nov 1 – Dec 14	Fall examination window	
Nov 8	Postponement deadline for CPC examination	
Nov 9	EA-2A examination (administered by the Society of Actuaries)	
Nov 14 – 15	The ASPPA Cincinnati Pension Conference – Covington, KY	TBD
Nov 15	CPC examination	
Nov 29	Postponement deadline for A-4 examination	
Nov 30	Postponement deadline for fall examinations	
Dec 1	Registration deadline for second semester CPC modules	
Dec 8	A-4 examination	
Dec 15	Second semester CPC modules submission deadline	
Dec 15	RPF-1, RPF-2 and TGPC-1 online examinations submission deadline	
Dec 30	Second semester webcourse access period ends	

* Please note that when a deadline date falls on a weekend, the official date shall be the first business day following the weekend.
** Please note that listed CPE credit information for conferences is subject to change.

AIRE & ERPA

Jul 7 – Aug 31
ERPA–SEE Summer 2011 Examination Window

Aug 15
ERPA–SEE Examination Postponement Deadline

ABC Meetings

For a current listing of ABC meetings, visit **www.asppa.org/abc**.

August | TBD
ABC of Atlanta
Excise Tax—Prohibited Transactions
Katrina Moody, QPA, QKA; Joni L. Jennings; and Gina Farmer

Tuesday | August 16
ABC of Greater Cincinnati
I'm an Affiliated Service Group so What
S. Derrin Watson, Esq., APM
7:30 a.m. – 10:30 a.m.
Metropolitan Club

September | TBD
ABC of Atlanta
Richard Hochman Presents EPCRS
Richard A. Hochman, APM

Wednesday | September 14
ABC of Greater Philadelphia
A Full-day Seminar with Sal Tripodi
Sal L. Tripodi, APM
7:30 a.m. – 4:00 p.m.
DoubleTree Hotel Philadelphia

Tuesday | September 20
ABC of Northern Indiana
1/2-day Seminar with Janice Wegesin
Janice M. Wegesin, CPC, QPA
JMW Consulting, Inc.

Wednesday | September 21
ABC of Cleveland
A Full-day Seminar with Sal Tripodi
Sal L. Tripodi, APM

November | TBD
ABC of Atlanta
PTIN—How to Pass the Exam if not a CPA

Wednesday | November 2
ABC of Northern Indiana
1/2-day Seminar with Adam Pozek
Adam C. Pozek, QPA, QKA, QPFC

Wednesday | November 9
ABC of Greater Philadelphia
Ethics
Lauren Bloom
DoubleTree Hotel Philadelphia

Thursday | November 17
ABC of New York
1/2-day Washington Update
Craig P. Hoffman, APM

December | TBD
ABC of Atlanta
Legislative Update—All-day Seminar with Sal Tripodi
Sal L. Tripodi, APM

Fun-da-Mentals

Every digit from 1 to 9 must appear:

- **In each of the columns,**
- **in each of the rows,**
- **and in each of the nine mini-boxes**

						2	8	
7		2						
	9		2			1	3	
5			1				7	
					5			6
1	3			9	7	8		
	5	6			4			
9			3					2
						5		

Level = Difficult

Answers will be posted at www.asppa.org/taj.

"Product development says it's based on the latest technology."

Word Scramble

Unscramble these four puzzles—one letter to each space—to reveal four pension-related words.

TURF USE □ □ □ _ _ _ □

USE REAM _ □ □ _ □ _ □

END BLED □ □ _ □ □ _ _

TAIL LOVE □ _ □ □ _ _ _ _

BONUS: Arrange the boxed letters to form the Mystery Answer as suggested by the cartoon.

Mystery Answer:

He thought it was a "_ _ _ _ _ _ _ _ _ _ _ _ _ _ _ _ _ _."

Answers will be posted at www.asppa.org/taj.

Why the plan sponsor decided to invest in horses.

ftwilliam.com

YOU'VE SEEN IT IN OUR

Form 5500 & Administration Software.

You'll love what we've done with our document and goverment forms software.

Our ftwPortal is here...

We're always looking for ways to make your services more effective for your clients. We were the first in the industry to create an automated system to allow your clients to download and sign 5500 forms online, and our administrative software allows users to transmit census data and annual questionnaires via a secure web portal. Now, we have expanded this capability to our document and government forms software applications. The way you work with your clients can now be integrated, automated and faster than ever.

Contact us for details at 800.596.0714 or visit us online at www.ftwilliam.com

(888) 328-2474 www.datair.com

Your one-stop shop for
401(k), Pension and Cafeteria software:
Administration ◆ Proposals
Documents ◆ 5500s and more!