
ERISA Fee Disclosure Evaluation & Recommendation Service Description

Independent Third Party Certification
for Plan Sponsors to Comply with
ERISA Fee Disclosure

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Federal Reserve Plaza
600 Atlantic Ave, FL 30
Boston, MA 02210
617.723.6400
www.dalbar.com

Summary

Offer

- A solution for employers who sponsor 401(k) or similar retirement plans (“Plan Sponsors”) who are required to respond to new fee disclosure regulations.
- Direct engagement with industry leading third party, expert DALBAR, to assess the reasonableness of service arrangements as required by Federal Law.

Results

- Proof for Plan Sponsor, employees and regulators that retirement plan is in compliance, costs are reasonable and no changes are necessary... or
- ...recommendations to make changes that comply with regulations, improve outcome for employees or lower costs.

Benefits

- Plan Sponsors avoid the problem of developing their own solution
- Plan Sponsors save time and gain efficiency by using the services of an expert
- Plan Sponsors gain the protection of an independent third party
- Plan Sponsors save many hours of valuable time

Process

- Plan Sponsor provides DALBAR access to required records
- DALBAR analyzes records
- DALBAR issues opinion, recommendations and suggestions
- Plan Sponsor implements solutions or engage expert to implement
- Plan Sponsor acts on results if necessary

Plan Sponsor Role

- Respond to issues that arise during analysis
- Review and discuss findings
- Notify participants of results

Turnaround Time

- Estimated timetable: 10 business days after all data is received

Next Steps

- Contact DALBAR for a specific price quote for your particular plan:

E-Mail: ERISAFeeDisclosure@DALBAR.com

Phone: 617-723-6400

Description of Service

Purpose of Fee Disclosure & Recommendation Service

Federal government regulations¹ now require Plan Sponsors to actively monitor and evaluate the reasonableness of services provided to their employees' retirement plans based on new specific guidelines. Failure to comply subjects Plan Sponsors to severe fines, taxes and penalties.

New Fee Disclosure regulations assign expanded duties to thousands of Plan Sponsors, although most lack the expertise to perform these duties. The service providers that have been the expert resource that Plan Sponsors rely on for regulatory compliance cannot assume that role here, simply because they themselves have become the target of the regulation.

The New Fee Disclosures explicitly requires Plan Sponsors to evaluate the need and cost effectiveness of current service providers.

Self-evaluation by current service providers would be non-compliant. Unlike other regulations, compliance for this cannot be delegated to a current service provider.

Plan Sponsors face the choice of obtaining the necessary skill and tools to perform the new duties on their own or engaging an independent expert to assist. See Appendix A -DALBAR Fee Disclosure Statement.

DALBAR provides a solution to Plan Sponsors who prefer not to undertake compliance with the New Fee Disclosure regulations on their own.

The DALBAR Fee Disclosure Evaluation & Recommendation ("Evaluation") service performs the required duties, documents compliance and makes recommendations when appropriate. Findings of reasonableness are confirmed in an opinion letter when applicable.

Why Engage an Independent Third Party?

The decision to engage an independent third party to perform the Evaluation protects the Plan Sponsor from the conflicts of interest that would be present in assistance from current providers. Additionally, Plan Sponsors avoid the risks of attempting to comply without expert guidance.

An independent third party also provides a number of added benefits to the Plan Sponsor:

- **Minimize impact on Plan Sponsor's current business activities.** Plan Sponsors will be required to provide access to the data and to decide whether to act on recommendations, but the Evaluation process relieves the Plan Sponsor from the tasks of performing the analysis and preparing the documentation and provides recommendations when necessary.

¹ The federal regulation referenced is ERISA 408(b)(2) final rule by Department of Labor release entitled "*Reasonable Contract or Arrangement Under Section 408(b)(2)--Fee Disclosure*".

- **Lower cost of compliance through efficiencies of scale.** The systems and tools developed explicitly to perform Evaluations for New Fee Disclosure regulations distribute the overhead of technology tools across multiple plans and reduces the cost to a level that is not achievable for any one plan. Additionally, the cost of the Evaluation will qualify as a valid plan expense in most plans² and may not have to be paid by the employer.
- **Preserve relationship with service provider by having an intermediary evaluator.** Plan Sponsors should be concerned about the potential damage that can be done to the ongoing relationship with service providers by the evaluation process. Using a third party insulates the people that have day-to-day contact from activities that could injure a harmonious relationship.
- **Maintain records that demonstrate Plan Sponsor’s best efforts to comply.** New Fee Disclosure regulations require Plan Sponsors to demonstrate “best efforts” to obtain complete and accurate disclosures that can be effectively used to assess reasonableness. The documentation provided by DALBAR’s Evaluation demonstrates such an effort.
- **Peace of mind.** Plan Sponsors can rely on experts to handle the intricacies of complying with the regulation.

DALBAR is qualified to provide the Evaluation as a recognized independent third party with expertise in the area of ERISA fee disclosures and ability to issue opinions on the subject.

Engaging DALBAR will minimize the impact of these regulations on current business activities.

Saving Time Required to Comply

The following table shows an approximation of the time required for a person who is somewhat familiar with the subject to comply with the regulation.

Estimate of Time for Small Plan Sponsors Will Spend Complying		
Task	Hours if Unassisted	Hours with DALBAR Service
Learn requirements to comply	8	1
Secure information required to comply	3	2
Determine accuracy, completeness and usability of disclosures	4	0
Assess success of plan	2	0
Assess necessity of plan features	4	1
Assess benchmarks and comparison to plan cost	8	1
Assess the reasonableness of services and costs	8	1
Total	39	6
Time Saving with DALBAR	33	
Time required to act on results if necessary	12	12

² If payment for Evaluation services is to be made from an ERISA account, the Plan Sponsor is required to issue appropriate instructions. See sample payment directive in Appendix B.

Using the Results

While the obvious need is to comply with new Federal regulations, there are a number of ways that Plan Sponsors will use the results:

- **Proof of Compliance.** Results provide Federal regulators and auditors with evidence that the Plan Sponsor is in compliance with the new regulations. This evidence avoids the disruption and cost of non-compliance.
- **Answer Employees.** Most Plan Sponsors are also required to disclose plan fees to employees. The Evaluation results prepare Plan Sponsors to answer questions from employees who discover that fees are being deducted from their retirement plan.
- **Improve Plan.** Results will describe recent developments that can enhance the plan by:
 - Adding new features and technologies such as greater use of intelligent default investments, model investments, online tools, participant advice and electronic communications.
 - Gaining efficiencies from automatic enrollment, elimination of plan testing and recover time and cost of complex investment education.
 - Reducing Plan Sponsor risk of fiduciary liability by taking advantage of exemptions from prohibited transactions.
 - Lowering cost by selecting more appropriate share classes.
 - Improving benefits to employees without increasing costs.

Deliverables & Scope

The Evaluation produces documentation that is responsive to all aspects of the regulation, including an assessment of the required disclosures, necessity for the services, comparability of fees and expenses and potential conflicts of interest. In the event of deficiencies or unreasonableness, written recommendations are provided to the Plan Sponsor.

The scope of the Evaluation is limited to the review and recommendations. In order to eliminate any potential conflicts of interest, DALBAR does not implement recommendations but can recommend qualified professionals who do.

The Evaluation process consists of four phases:

- **Data Collection** - information is made available to DALBAR through access to a Website or entered online.
- **Analysis** - information is reviewed for compliance with regulations, completeness, accuracy and reasonableness.
- **Recommendation** - importance of deficiencies is assessed and a determination made as to whether it is necessary to present a recommendation.
- **Documentation** - findings of the analysis and recommendation phases are put into a report and delivered to and reviewed with the Plan Sponsor.

Plan Sponsors may revise information and repeat the analysis up to three times. Plan Sponsors also have the opportunity to respond to recommendations, indicating the action being taken or the reason for not taking action. Plan Sponsor response to recommendations are included in a final report.

An opinion letter is then issued if the service arrangement is considered to be necessary and reasonable, costs are reasonable and conflicts of interests do not materially injure the plan with respect to the services provided.

Requirements to Use Service

In order to take advantage of the Evaluation, Plan Sponsors are required to supply plan information and data received from service providers. This can take the form of providing access to secure Websites where the data is housed. Alternatively, data may be entered into DALBAR's secure Web based system. The following is required:

- Plan profile
- A checklist of features that Plan Sponsor considers to be essential
- Fee disclosure information obtained from service providers
- Acquired comparative data as needed/desired

While the Evaluation service relieves the Plan Sponsor of many of the tasks required to comply with the New Fee Disclosure regulations, there are a number of duties that remain for Plan Sponsors.

These remaining Plan Sponsor duties fall into three categories:

- Provide required data
- Review documentation
- Act on recommendations, if necessary

The Plan Sponsor has the authority to obtain the required data from service providers and may exercise that authority if needed. Plan Sponsors may use the procedure defined in the regulation to obtain data. The procedure consists of making requests in writing and if not received after 90 days, Plan Sponsor reports the problem to the Department of Labor and obtains an exemption from failing to comply with the regulations.

The Evaluation process requires the following data from the Plan Sponsor:

- **Plan profile** is a summary of the plan size and other pre-existing knowledge about plan and plan costs.
- **Checklist of essential features** in which the Plan Sponsor selects the features considered to be essential to the plan and rates the quality of each service.
- **Applicable disclosure information** received from service providers in compliance with New Fee Disclosure Regulations.
- **Comparative data** is obtained by the Plan Sponsor from existing service providers or other source as applicable.
- **Enhancers and detractors** are the economic value and explanation of factors that increase or decrease the value of the plan to Participants.

Methodology

Information provided by the Plan Sponsor is evaluated and a determination made as to whether the services provided to that plan are necessary and reasonable and that compensation paid for the services is reasonable. The assessment process described here is intended to demonstrate compliance with ERISA § 408(b)(2).

Assessment of Completeness, Accuracy and Usability

This assessment is done in three separate categories by comparing the disclosure to other sources:

- **Completeness:** Compare to regulatory requirements, plan documents and other 408(b)(2) disclosures.
- **Accuracy:** Compare to Schedule C and 404(a)(5) disclosures and/or proposals, Websites and contracts.
- **Usability:** Compare to 401(k) Plan Fee Disclosures Form issued by the Department of Labor.

Assessment of Plan's Success

The plan's success as a whole is assessed by three measures and the specific service provider's contribution to that success. These measures of success are compared to national or industry norms. The measures are:

- **Participation Rate**
- **Deferral Rate**
- **% of Participants Projected to Achieve Goal or % of Goal Average Participant is Projected to Achieve**

Assessment of Necessity of Plan Services

The necessity for each service to the plan is assessed in three categories:

- **Needed Services**
- **Need for Service Quality**
- **Need for a Fiduciary**

Assessment of Comparability of Costs

Comparing costs requires the use of benchmarks to determine if fees are in a range that can be considered reasonable. The steps are:

- **Select the benchmark source and obtain the benchmark (if necessary)**
- **Adjust the benchmark to reflect the needed services, specific circumstances and service quality**
- **Calculate the difference between the costs and the benchmarks**

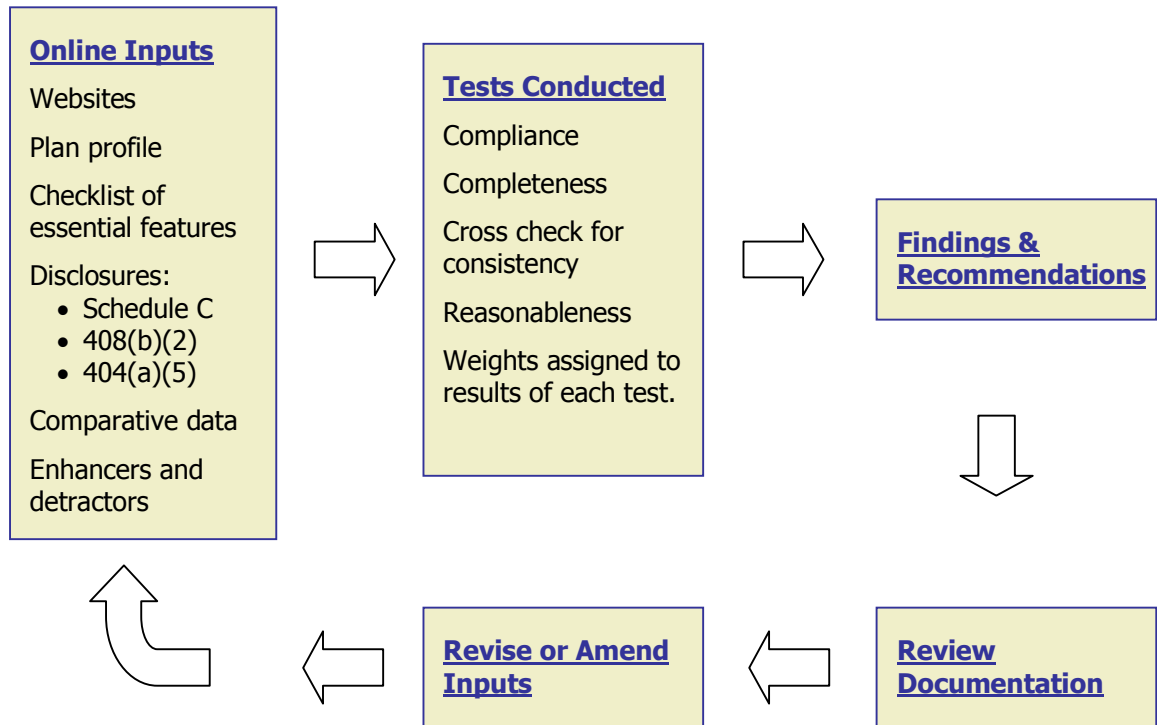
Judgment of Reasonableness

There are three categories of evaluation:

- **Other service providers referenced**
- **Potential conflicts of interest**
- **Reasonableness determination**

Recommendations are made if there is one or more severe deficiencies or if there are a large number of minor ones. Plan improvements are included in cases where certain changes can add to the effectiveness of the plan.

Evaluation Process



Timeframe & Cost

The turnaround time to complete an Evaluation for which there are no delaying issues is estimated at ten business days after all data is submitted.

The fee is based on the specific plan circumstance and services desired. Variables that determine the fee include:

- Support services to collect information for plan profile
- Presentation and explanation of findings of evaluation
- Size and scale of the plan

The typical fee ranges from \$375 for very small plan that use no support services and interpret results without assistance to \$15,000 for a very large plan that requires extensive support. The fee may be payable from an ERISA account (See Appendix B for a sample directive to make payment from an ERISA account).

Next Steps

Enrollment in the Evaluation service consists of:

1. Obtaining a price quote for your plan and circumstances. This requires describing the broad outline of your plan, information such as the type of plan, record keeper, investment managers, plan assets and any complicating factors.
2. Signing a non-disclosure service agreement to protect the plan information.
3. Provide access to plan data and answer necessary questions.
4. Respond to issues that arise and review results.

About DALBAR

Studies

Evaluations

Certifications

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

DALBAR offers a number of resources to the ERISA market:

ERISA Fee Disclosure Support (www.ERISAFEE DISCLOSURE.com)

- Fee Disclosure Training Modules with reading materials and Exam (Free)
- Covered Service Provider (CSP) Determinator (Free)
- Burdens of Knowledge Report
- 408(b)(2) Readiness Assessment Worksheet (Free)
- 404(a)(5) –A Game Changer report (Free)
- Fee Disclosure Evaluation and Recommendations Service Description

Registered Fiduciary Program (www.FiduciaryRegistry.com)



- "Who Is a Fiduciary?" consumer education program (free)
- Registered Fiduciary™ (RF™) Certification for investment professionals
- Certification of Qualified Training Organizations to do RF™ training

Pension Protection Act Support (www.DALBAR.com)

- QDIA Validation: Required due diligence for default investments
- Advice Model Certification: Required to qualify for ERISA exemption
- Annual ERISA 408(g) Audit: Required to qualify for ERISA exemption

401(k) Provider Data Base (www.CFO.DALBAR.com)

- 401(k) Record Keeper Features Capabilities (free)
- Fiduciary Risk Assessment tool for Plan Fiduciaries

For more information or free resources please visit the Websites listed or contact DALBAR at:

info@DALBAR.com

617-723-6400

Appendix A

DALBAR 408(B)(2) Fee Disclosure Statement

Introduction

This report is designed to help you to better understand the services provided by DALBAR, Inc. and the associated costs to you and your employees in your retirement plan. In order to achieve this goal the cost components are first presented, showing how the costs are paid. The specific services provided for those costs are shown followed by required disclosures.

Regulatory Requirements

In response to the need for improved clarity about the fees and expenses the United States Department of Labor ("DoL") has introduced the requirement³ for certain service providers that receive more than \$1,000 to make explicit disclosures to certain retirement plans that they service. These requirements take effect on January 1, 2012.

The DoL requires that the disclosure contain four essential elements:

- ✓ Who the service provider is
- ✓ A description of the services provided
- ✓ A declaration of the fiduciary status of the provider
- ✓ The fee or expense charged by the provider

What This Report Contains

Report sections are:

- Summary of Fee and Expense Estimate
- Explanation of Services Rendered
- Disclosures: Important facts to understand about business relationships among service providers

³ See DoL 408(b)(2) fee disclosure requirements

Summary of Fee and Expense Estimates

Estimates presented are based on expected costs in 2012 and on the following:

- Plan Assets at xx/xx/xxxx (as determined)
- Number of participants (as determined)

Annual Estimate reflects expected fees and expenses paid to DALBAR, Inc.

DALBAR, Inc. provides services to the plan and employees but does not act in a fiduciary capacity. Services provided are not fiduciary in nature as defined by ERISA rules and regulations.

Description of Service	Paid By	Annual Estimate
Fee Disclosure Evaluation and Recommendation Note: In order to avoid any possible conflicts of interest, this is the only service that is provided to your plan by DALBAR, Inc.	(as determined)	(as determined)
-Total Annual Net Cost Estimate		(as determined)
-Total Annual Estimate (as a percent of plan assets)		0.01%
Estimated Net Annual Cost per Participant		<u>(as determined)</u>

Explanation of Services

SERVICE COMPONENT	WHAT IS INCLUDED
Fee Disclosure Evaluation and Recommendation	
1.1 Data Collection	Access to required information is provided or is entered online.
1.2 Analysis	Information entered provided is reviewed for compliance with regulations, completeness and accuracy.
1.3 Recommendation	The importance of deficiencies is assessed and a determination made as to whether it is necessary to present a recommendation.
1.4 Documentation	The findings of the analysis and recommendation phases are put into a report and delivered to and reviewed with the Plan Sponsor.

Potential Conflicts of Interest

None

Appendix B Sample Payment Directive

The following is a template that may be used to instruct the plan’s trustee, custodian or third party administrator (“TPA”), whichever is applicable, to make payment for Evaluation services described in this proposal.

_____ (Date)

Name of Trustee, Custodian or TPA (as applicable)
Street Address
City, State Zip Code

Re: Payment of Fiduciary Advisers from Plan Assets of the
ABC 401(k) Plan

Ladies and Gentlemen:

The undersigned, as the Named Fiduciary of the ABC 401(k) Plan (the “Plan”), sponsored by _____ (insert name of Plan Sponsor) (“Plan Sponsor”), hereby authorizes and directs you, as the Plan _____ (insert one of the following: trustee, custodian, third party administrator), to pay or cause to be paid from Plan assets under your control the expenses incurred by the Plan, for evaluation of services provided to the Plan by as described below. The expenses that you are hereby authorized and directed to pay or cause to be paid are incurred by the Plan for evaluation services provided by Dalbar, Inc. You are directed to make such payment or cause such payment to be made within thirty (30) days of receiving an invoice from Dalbar, Inc. that has been duly approved by the Named Fiduciary or by person(s) designated by the Named Fiduciary.

The undersigned Named Fiduciary has determined that the evaluation services provided by Dalbar are necessary for compliance with section 408(b)(2) of the Employee Retirement Income Security Act of 1974, as amended (“ERISA”) and that the compensation is reasonable for the services provided, thereby enabling the payment to qualify for exemption from ERISA’s prohibited transaction rules that are applicable to payments to parties in interest.

The source of funds for payment under this directive shall be credits to which the Plan is entitled. Payments subject to this directive may be made by check or wire transfer. If payment is made by wire, appropriate security measures must be implemented. You are hereby directed to notify the undersigned Named Fiduciary within three (3) business days after payment that a payment authorized hereunder has been made. You are further directed to maintain records of the payments authorized hereunder, including the date of payment, the identity of the payee, and invoice number for a period no less than six (6) years from the date of payment.

The Plan Sponsor will indemnify you and hold you harmless against any actions, claims, demands, losses, damages, liabilities or expenses of any kind (including attorneys’ fees) that you may at any time sustain or incur that arise as a result of any act or failure to act by you pursuant to the directions given hereunder. The indemnity provided in the preceding sentence will not apply if such claims, demands, losses, damages, liabilities or expenses result from your gross negligence, misfeasance, malfeasance or fraud.

The contractual undertakings of the Plan Sponsor hereunder shall be governed and construed in accordance with the laws of the state of incorporation of the Plan Sponsor, unless and to the extent preempted by ERISA.

This direction is effective immediately and may be revoked at any time by the undersigned Named Fiduciary or by a duly authorized officer of the Plan Sponsor.

Sincerely,

Named Fiduciary of the
ABC 401(k) Plan

By: _____


Federal Reserve Plaza
600 Atlantic Ave, FL 30
Boston, MA 02210
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