



Our Mission Statement

- Supplemental Retirement Benefit
- Cost Effective Quality Investment Options
- Excellent Customer Service



WORDS OF WISDOM

- This seminar is not legal advice. Only your counsel can give you legal advice
- Good results may keep you out of court, but a carefully documented process may allow you to prevail
- Most governmental plan sponsor clients use ERISA as a best practices guideline



AGENDA

- Who is a Fiduciary?
- What are my duties?
- What is at risk?
- How do I protect myself and my employer from liability?
- Where do I go from here?



ERISA LAW: FIDUCIARY DUTIES SECTION 404

- 404(a): Act solely in the interest of the participants and beneficiaries
- 404(b): Trust is in United States jurisdiction
- 404(c): Individual account plan investment safe harbor
- 404(d): Plan termination rules for Fiduciaries



INDIVIDUAL ACCOUNT PLAN INVESTMENT SAFE HARBOR: 404(C)

- Relieves Fiduciary from the liability for any loss resulting from a participants exercise of control over their individual account
- General Requirements:
 - Participants exercise of control: Plan provides an opportunity for a participant or beneficiary to exercise control over assets in his/her individual account
 - Broad range of investment alternatives: Plan provides the participant an opportunity to choose among investment alternatives



WHO IS A FIDUCIARY?

Fiduciary:

- Has discretionary authority over Plan investments
- Exercises any control over Plan assets
- Gives investment advice for compensation
- Has any discretion over Plan management or administration



WHO IS A FIDUCIARY?

- Named Fiduciaries
- Fiduciaries by position:
 - Retirement Committee
 - Trustee
 - Investment Manager and Investment Advisor
- Functional definition of additional Fiduciaries



WHAT MUST I DO AS A FIDUCIARY?

- Duty of loyalty to Plan participants and beneficiaries
- Duty of prudence in carrying out responsibilities
- Duty of diversification for Plan investments
- Duty to follow Plan documents



FIDUCIARY RESPONSIBILITIES: ACT SOLELY IN THE INTEREST OF THE PARTICIPANT

- Discharging of duties with respect to the Plan solely in the interest of participants, and
- For the exclusive purpose of:
 - Providing benefits to the participants and beneficiaries
 - Defraying reasonable expenses of administering the Plan



FIDUCIARY RESPONSIBILITIES: ACT WITH PRUDENCE

- Prudent Expert Rule
 - “With the care, skill, prudence, and diligence...that a prudent man acting in a like capacity and familiar with such matters would use...” *

* ERISA 404(a)(I)(B)



FIDUCIARY RESPONSIBILITIES: OFFER BROAD RANGE OF INVESTMENTS

- Diversify the assets of the Plan so as to minimize the risk of large losses
- At least three materially different options
- Act in accordance with Plan Document, Investment Policy Statement, and applicable law



FIDUCIARY RESPONSIBILITIES: OFFER BROAD RANGE OF INVESTMENTS

- Providing too many options may lead to 'Paralysis of Choice' as participants become overwhelmed
- "The vast majority of participants choose a small number of funds, with the median between three and four funds, and there is a strong tendency to divide assets equally among the funds chosen." – *Thaler & Benartzi 2007*
- Committee oversight and due diligence also becomes increasingly challenging as the numbers of options increases



FIDUCIARY RESPONSIBILITIES: DUTY TO FOLLOW PLAN DOCUMENTS

- Plan Fiduciaries must oversee the Plan in compliance with the Plan Document, Trust Agreement, and other documents
- Fiduciaries must therefore be familiar with the documents that govern their duties
- Fiduciaries must also be familiar enough with the laws to know what it required in case there is a conflict



FIDUCIARY LIABILITY

- A Fiduciary may be personally liable for any losses to the Plan resulting from a breach of Fiduciary duty
- Breaches:
 - Failure to fulfill Prudent Man standard
 - Failure to monitor or act
 - Prohibited transactions (excise / penalty taxes)



FIDUCIARY LIABILITY

- Indemnification
- Delegation:
 - Responsibilities
 - Functions
 - Monitoring



FIDUCIARY STANDARDS

- Performance standard: Outcome or process based?
- Procedural prudence defined:
 - Giving appropriate consideration to those facts and circumstances that the Fiduciary knows or should know, are relevant to the particular investment or course/action involved
 - Acting accordingly



RISK MANAGEMENT TOOLS

- Documentation
- Delegation/expert assistance
- Fiduciary insurance and bonding
- ERISA Section 404(c)



DOCUMENTATION

- Documentation and maintenance of good records:
 - Charter
 - Investment Policy Statement
 - Minutes of actions or decisions
 - Supporting documents and data



DOCUMENTATION

- Keep a due diligence file of information used to make decisions, including notes from Committee meetings
 - Consider relevant facts and circumstances
 - Follow a prudent process (Investment Policy Statement)
 - Implement results of the process
 - Liability usually comes from bad processes, not bad decisions



INVESTMENT POLICY CONTENT

- Introduction and purpose
- Responsibilities
- Committee process
- Investment criteria and benchmarks
- Investment selection and monitoring
- How does the Committee deal with underperformance and terminations?



ADDITIONAL DISCUSSION / QUESTIONS?

Future Training Session:

- Investment Menu Decision Making



NDC Plan Background – Recent History



Presented by:
NDC Staff
December 13, 2011



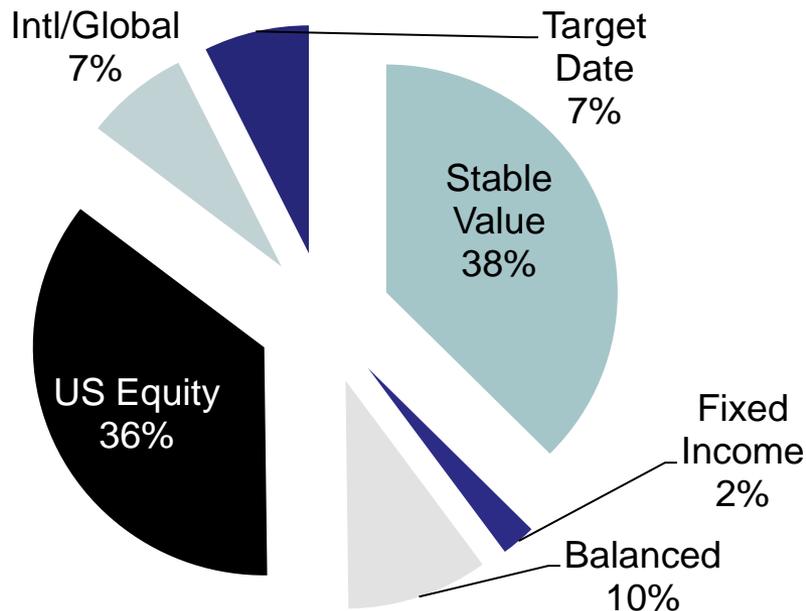
Now Versus Then

- Plan Statistics
- Provider Services & Usage
- Plan Design
- Participant Enhancements

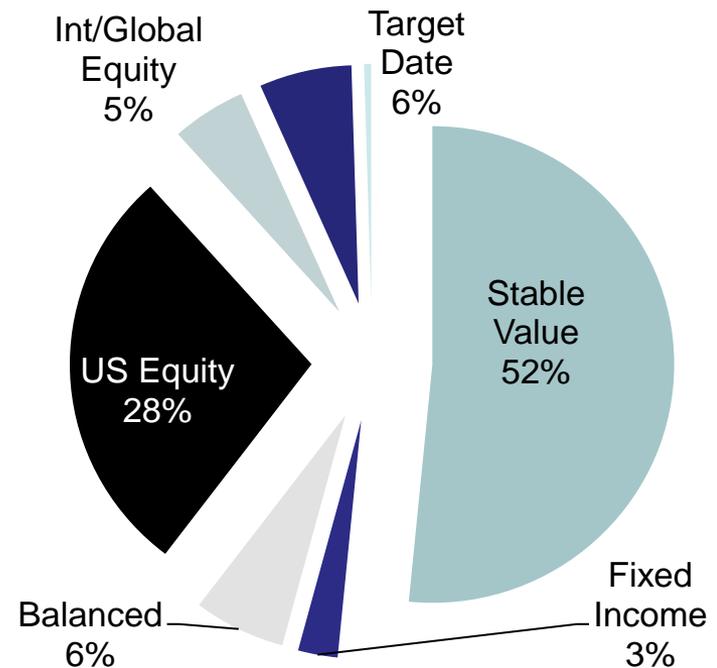


Asset Allocation

\$455.4 Million
As of 12/31/07

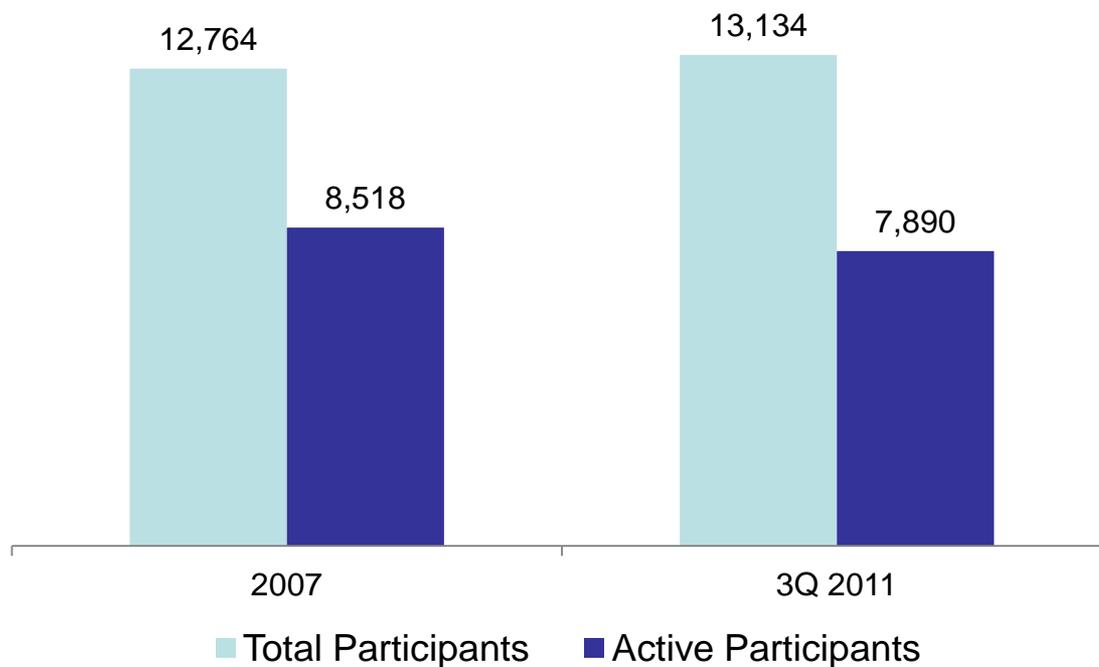


\$517.4 Million
As of 9/30/11





Participant Growth

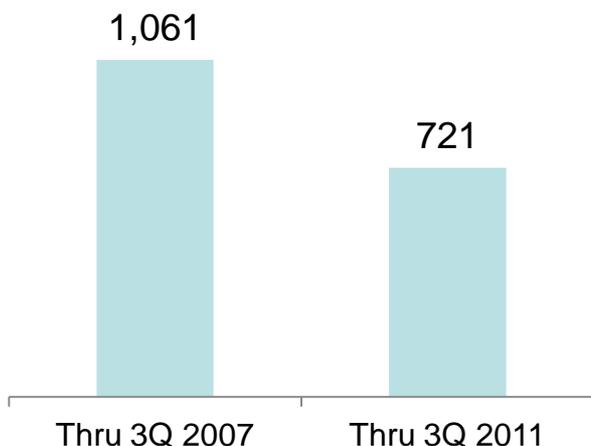


All time periods are ending 12.31 unless otherwise noted.

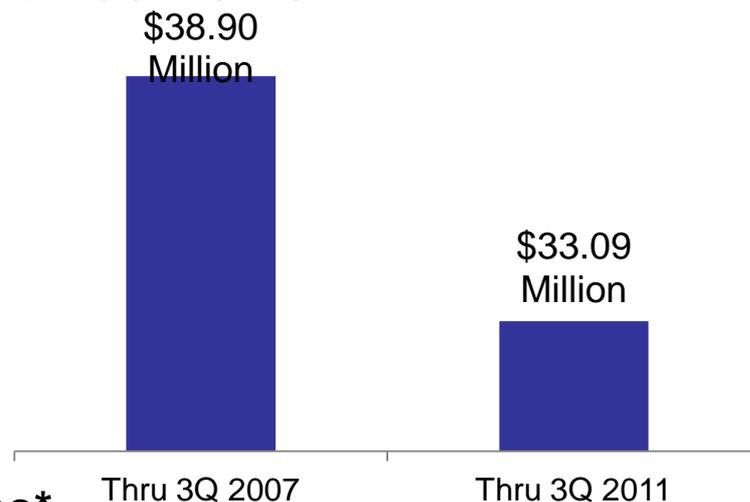


Enrollments and Contributions

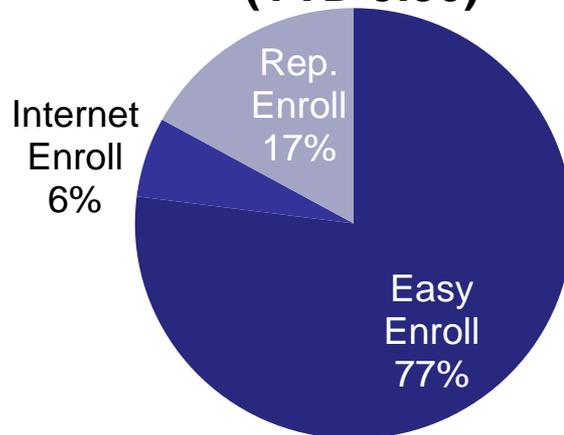
Enrollments



Contributions



Enrollments by Type* (YTD 9.30)

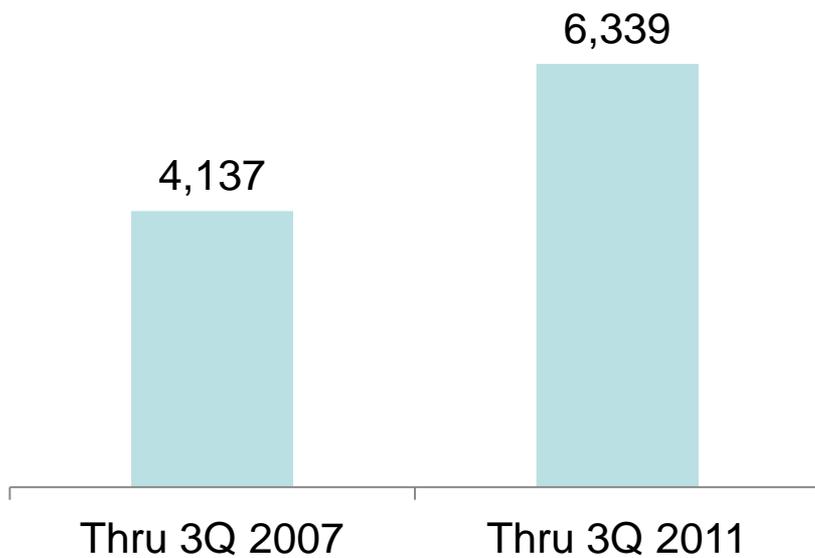


*ING Results Only; Hartford Not Available

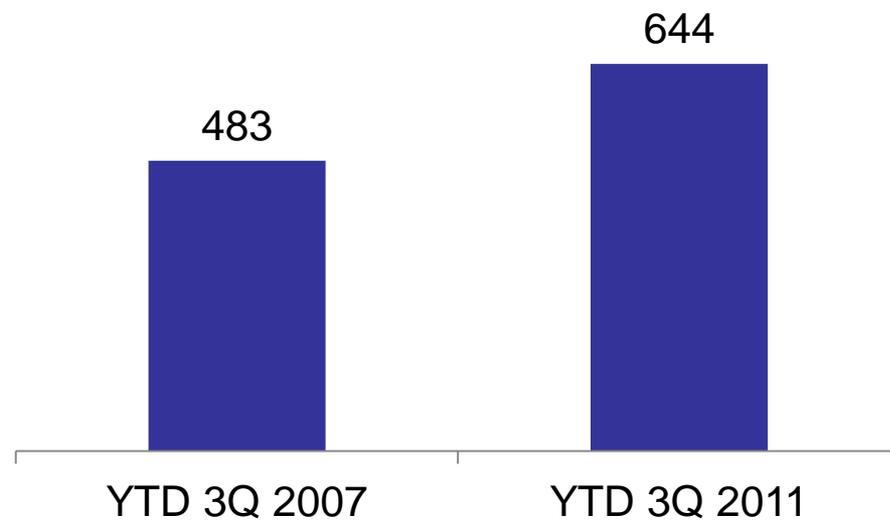


Provider Services

Provider One on One Mtgs



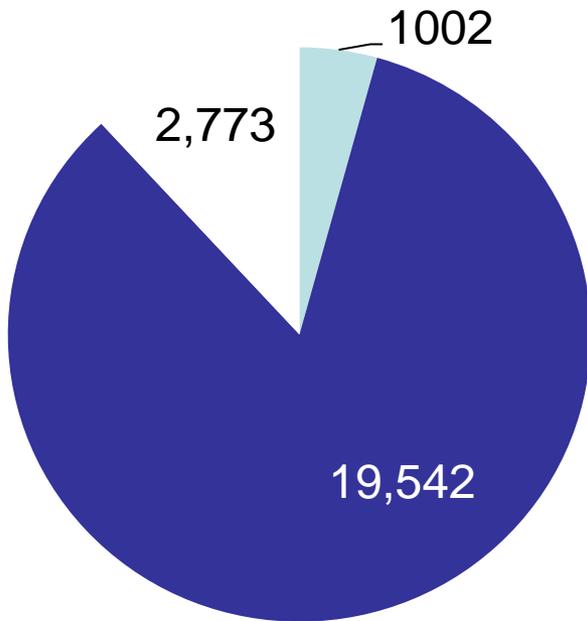
Provider Group Mtgs



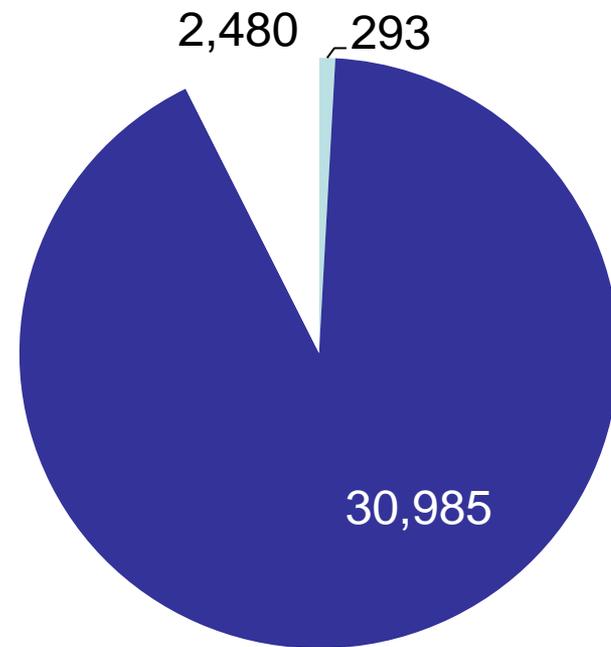


Participant Utilization of Services**

2007



2011



**ING Results Only; Hartford Not Available

*Voice Response Unit



Provider Services

Self-Directed Brokerage

- 2007 (as of 12.31)
 - Average Accounts
 - 20
- 2011 (as of 9.30)
 - Average Accounts
 - 47

135% Increase in Usage



Advisory Service

- 2007 (as of 12.31)
 - Average Quarterly Logins
 - 132
- 2011 (as of 9.30)
 - Average Quarterly Logins
 - 60

55% Decrease in Usage





Plan Design

As of Dec. 31, 2007

- One Passive Fund Option per Provider
- No Passive Target Date or Risk Funds
- General Account Only
- 31 Active Funds

As of Sept. 30, 2011

- Five Passive Fund Options per Provider
- Set of Passive Target Date Funds
- General Account and Stable Value fund
- 24 Active Funds



Quality & Costs of Investments

As of Dec. 31, 2007

- Investment Quality
 - 48% were 4 and 5 star Morningstar funds
- Investment Expenses
 - 0.82% weighted average annual expenses*
 - \$8.20 on \$1,000
 - \$82 on \$10,000
 - \$205 on \$25,000
 - \$820 on \$100,000

As of Sept. 30, 2011

- Investment Quality
 - 54% were 4 and 5 star Morningstar funds
- Investment Expenses
 - 0.60% weighted average annual expenses*
 - \$6.00 on \$1,000
 - \$60 on \$10,000
 - \$150 on \$15,000
 - \$600 on \$100,000

*Variable funds only



Provider Revenue

As of Dec. 31, 2007

- Provider Revenue*
 - \$1,417,783
 - Per Participant
Avg. Annual Cost:
\$111

As of Sept. 30, 2011

- Provider Revenue*
 - \$1,101,996
 - Per Participant
Avg. Annual Cost:
\$84



Deferred Compensation
YOUR PLAN...YOUR FUTURE

*Provider revenue comparison differs due to move from general account to stable value fund on the ING platform and 2007 consultant did not report revenue and expenses associated with Hartford General Account or ING Fixed Account.



Participant Statistics

- 2007 (as of 12.31.07)

- Average Account Balance

- Hartford: \$40,837
- ING: \$20,873
- **Plan: \$35,678**

- Average Contribution

- Hartford: \$213
- ING: \$179
- **Plan: \$234**

- 2011 (as of 9.30.11)

- Average Account Balance

- Hartford: \$45,869
- ING: \$23,687
- **Plan: \$39,394**

- Average Contribution

- Hartford: \$207
- ING: \$201
- **Plan: \$210**



Have we 'advanced' the ball'?

• Assets:		14%
• Average Account Balances		10%
• Average Contribution		10%
• Total Participants:		3%
• Expenses:		27%
• Provider Revenue:		24%



Strategic Planning Questions

- NDC Mission
- Strengths of Plan
- Weaknesses of Plan
- 3 Strategic Issues to consider over 3 – 5 yrs.



Goals of RFP

- Consider Goals of RFP
 - Reduce Participant Fees
 - Simplify Plan to Increase Participation
 - Enhance Participant Services
 - Managed Accounts
 - Loans
 - Technology
 - Diversify Investment Options
 - Improve Plan Leakage
 - Expand Participating Employers
 - Expand Plan Branding (social media & mobile apps)



Case Studies

- Case Study
 - County moved to single provider from dual in January 2011
 - Increased Quality of Investment Options
 - To 81% 4 -5 Morningstar Stars from 32%
 - Lower participant costs by 28%
 - As of July 31, 2011
 - 40% Increase in New Enrollments (versus 2010 totals)
 - 23% Increase in Active Participants (versus 2010 totals)



Considerations

- Single Provider
- Open Investment Architecture
- Provider Service Model
- Primary RFP Categories and Scoring
- Contract Length
- FICA-Alternative Plan
- Participant Services



Plan Cost Considerations

- Record-keeping Fees
 - Paid by Participants (Revenue Sharing)
 - Fewer Participants – Higher Cost
 - Greater Number of Participants - Lower Cost
- Fees and Plan Size
 - Smaller plans – Higher fees
 - Larger plans – Lower fees
- Investment Option Fees
 - Share Classes

Fees	Share Class 1	Share Class 2	Share Class 3
Admin. & Management Fee	0.30%	0.30%	0.30%
Revenue to Record keeper	0.35%	0.25%	0.05%
Total Expense Ratio	0.65%	0.55%	0.35%



Consider Participant Costs

- **Plan Costs and Participants**

- Vanguard Institutional Index Fund

- Hartford: 0.04% (4 basis points)
- ING: 0.23% (23 basis points)

- Vanguard Small Cap Index Fund

- Hartford: 0.17% (17 basis points)
- ING: 0.36% (36 basis points)

19 basis points @ 7.00% = Difference of \$11,970



Consider RFP Categories

- Organizational & Financial Strength
- Participant Services
- Investment Flexibility
- Fees & Expenses
- Plan Sponsor Services
- References



Next Steps

- Review Members' Comments, Concerns, Suggestions
- Staff and Arnerich Incorporate in Draft RFP
- Provide Committee with Draft Prior to February Meeting