



WHAT TO EXPECT FROM YOUR TPA FIRM

Retirement Plan Administration

by Steve Smith, MBA, ERPA, QPA, QKA, Retirement Plan Services Manager

If you offer a Qualified Retirement Plan benefit to your employees, you know you are able to:

- Claim deductions on both employer and employee-directed contributions to the plan
- Supplement your annual retirement funding through tax-advantageous means
- Remain competitive as a benefit-providing employer while enhancing current employee morale and loyalty
- Provide future retirement asset protection from potential creditor claims

Yet, as many of you have learned, administering a retirement plan is undeniably the most complicated business role you will ever assume. As the plan's fiduciary, you are bound by countless (and ever-changing) tax code regulations and the Employee Retirement Income Security Act (ERISA) requirements, not to mention stringent legal and ethical guidelines. The decision regarding to whom you should assign plan management responsibilities is not one to be made lightly.

There are a number of Third Party Administration (TPA) firms available to perform the record keeping and reporting duties associated with retirement plan administration. Many of these firms offer different levels of service. Therefore, when researching potential TPA firms, it is vitally important to conduct extensive due diligence, specifically focusing on the following areas of support:

Has the TPA firm partnered with a professional investment management firm to provide world-class returns for your employees?

Expert execution may increase a portfolio's long-term results considerably — this is equally true for

each participant's portfolio within your plan. The retirement plan options offered to your employees should correspond with distinct and varying levels of volatility (risk) tolerance, ranging from conservative to aggressive investment strategies. Providing options also supports your legal obligations as a fiduciary.

Advantages of a Mercer Advisors Retirement Plan:

- Plan participants have access to all Mercer Advisors investment portfolios. Each participant receives access to the same sophisticated world-class investment management and portfolio execution strategies available to our individual clients.
- As a Registered Investment Advisor (RIA), Mercer Advisors maintains full fiduciary responsibility for all actions taken on behalf of our clients. Our TPA Services abide by the same stringent requirements.
- A formal review of the plan design document is performed annually to ensure it remains current with all tax codes and consistent with the client's present and future vision and goals for retirement.
- A single team of experts collaborates on administration and oversight of both portfolio management and retirement plan services for the client.

By leveraging investment management expertise for your plan, you may increase your plan's expected rate of return as well as reduce its exposure to market risk. Further, by offering a professionally managed Qualified Retirement Plan to your employees, you can provide them with access to state-of-the-art portfolio design, sound investment advice and an education program that reinforces the value of saving and investing.

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Does the TPA firm assume full fiduciary responsibility for plan administration?

The majority of TPA firms have no interest in assuming any fiduciary responsibility for the retirement plans they administer. In fact, most will indicate that they do not serve as a fiduciary under any circumstance. Why? A fiduciary must establish and uphold stringent protections for plan members and their beneficiaries — the list of requirements and responsibilities is extensive and substantial. A fiduciary must:

- First and foremost, act solely on behalf of others, always with the client's best interests in mind and for the exclusive purpose of providing benefit to the client
- Perform all duties prudently and ethically — maintaining a written plan document that conforms to all current law, making timely contribution deposits and regular tax filings, managing the fund(s) holding the plan's assets, tracking all transaction activity into and out of the plan, etc.
- Follow the plan document design and directives explicitly — therefore, the fiduciary must be quite familiar with the plan document and able to ensure that it remains current
- Implement plan investment diversification in order to promote wise investment choices and monitor performance to minimize risk
- Manage ERISA Section 404(c) requirements efficiently including three categories of requirements

— investment menu options and alternatives, plan design and administrative obligations and information and disclosure schedules

- Monitor and assess all plan expenses, maintaining reasonable fee payment practices
- Be bonded at a level that insures at least 10% of a plan's assets
- Fulfill all applicable federal regulations including eligibility, plan compliance and non-discrimination testing

How frequently does the TPA firm review plan design documents and make updates as needed when business, personnel or tax regulation changes occur?

Most TPA firms will assist in the plan design, prepare plan documents and administer the plan accordingly. Beyond that, they will take no initiative to review, modify or integrate newly validated theories into the plan design as new opportunities become available.

Change happens — tax codes change constantly, there can be turnover in personnel, changes in business growth and development strategies, economic forecasts and realities and business succession plans. Significant change can occur within the span of one year! Make sure your TPA firm offers a regularly scheduled review of your plan's design and the plan documents to ensure that it properly reflects any changes in company policy or operational procedures that may affect the plan's operation during the current plan year or any future plan year.

When you request a change to your plan or to a participant's status within the plan, your TPA team should ask the clarifying questions necessary to fully comprehend the intent behind your request. As the experts, it is their responsibility to seek to understand what it is you truly intend, rather than to accept the words at face value, in order to provide counsel prior to taking any action. Without context and active inquiry initiative, the potential for significant error is vast.

Does the TPA firm understand your business well enough to manage your retirement plan thoroughly and expeditiously?

Most TPA firms (after the initial setup) provide maintenance, reporting and administrative support only. They take action only upon specific directive from you — in essence, operating within a vacuum in order to protect themselves from any liability.

The alternative is a multi-disciplinary approach where there is a close association between your financial advisor and your retirement plan services personnel which helps to ensure that your business needs are addressed strategically and within the complete context of your vision. Firms that provide this comprehensive in-house support have the capacity for collaboration and interaction — delivering to you proactive and real-time attention to your plan issues, questions or modification needs.

An excerpt from our latest *Perspectives* newsletter:
Deficits, Debt Ceilings and Your Investments

by Gene Dongjeux, Chief Investment Officer

America's Ticking Bankruptcy Bomb
 – FOX NEWS

Economic Outlook Grim, Budget Watchdog Says
 – USA TODAY

Obama Warns of 2nd Financial Crisis
 – CBC

Recent headlines only reinforce that the United States has a staggering deficit problem. Let's look at some basic numbers. For 2011, U.S. revenues are slated to be 18% lower than the 50-year average, while spending is expected to be 19% higher. In order to maintain a 2011 balance sheet, the U.S. will be required to increase its borrowing by 37%.

This means that the U.S. deficit — if we continue along the same path — could easily rise to 87.4% of our Gross Domestic Product (GDP) within the current decade, a significant increase over this year's debt-to-GDP ratio of 69.1% and a complete departure from the 50-year average. GDP refers to the market value of all final goods and services produced within a country in a given period.

The numbers are not good. The most probable solution will involve program cuts, reduced spending and higher taxes. Simply stated, government revenues must increase at the same time its expenditures decrease. Reining in discretionary spending can no longer achieve a balanced budget. In fact, eliminating all non-defense discretionary spending would eradicate only half

the current U.S. deficit. To make matters worse, increasing the debt ceiling has become a political football.

How will this rising indebtedness impede our economy? How will this impact the investment returns on your savings? These questions are of foremost concern and weigh heavily on the minds of most investors today.

Will interest rates rise?

In a word — yes. Growing deficits cause interest rates to rise for a number of reasons:

1. As a country's borrowing needs escalate, a government must offer higher interest rates on its debt in order to remain competitive for capital.
2. As the public sector absorbs a greater portion of investment resources, the revenue pool that would otherwise be available to fuel private sector growth is diminished significantly.
3. As debt levels rise, so too do market concerns regarding higher default and inflation risks.

Each of these risk factors increases the upward pressure on interest rates. In order to move forward, in a competitive and sustainable fashion, U.S. interest rates must rise....

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When a plan amendment is necessary, the plan's investment manager and your TPA firm should convene to review Big Picture feasibility and potential downstream ramifications of the proposed modification before any action is taken. Decisions should not be made independently or from within a vacuum. Discussions should always be framed within the perspective and context of your vision for financial success.

If you are not yet benefitting from the tax planning and savings advantages afforded to you through the creation of a Qualified Retirement Plan — when weighing your options, please consider the TPA services and support offered by Mercer Advisors. If you are considering our in-house, multi-disciplinary TPA services for your existing plan, your Strategic Advisor can provide a complimentary plan design analysis.

Just as we apply strategic and academically validated thought leadership to our wealth management and portfolio design methodologies, we approach your retirement plan design and administration from a position of knowledge and expertise and, most importantly, from within the all-encompassing context of your life vision. Our ultimate goal is to ensure that your retirement plan is qualified (in compliance with ERISA regulations), expertly executed and optimally designed to benefit and protect you, your business and your employees. ❖

OUR GUIDING PRINCIPLES

As a Mercer Advisors client, you have experienced our investment approach. Below is a list of the ten most influential principles we incorporate into our investment philosophy. These same principles are used to manage risk within your portfolio. These guiding principles govern our fiduciary actions; they empower us to provide our clients with a superior caliber of service and support.

1. An investor's primary objective should be to maximize return, minimize risk and maintain portfolio longevity.

The mathematical or reported return of individual investments is less indicative of a portfolio's actual performance than many might believe. Rather, it is the investment methodology used to design, manage and maintain a portfolio that has the greatest impact on how well returns are maximized, risk is minimized and longevity is maintained.

2. Successful investors maintain a clearly defined investment policy statement.

An investment policy statement outlines and identifies your objectives, risk tolerance and time horizon. It should be referenced regularly to ensure your portfolio remains aligned with your long-term objectives and is not driven solely by short-term results.

3. While risk and return are related, increased risk may not always lead to greater return.

Many portfolios assume more risk than is necessary to achieve the desired/required return. Consequently, they may endure excessive exposure to the negative effects of inflation, security or asset class concentration, interest rates, currencies or other market hazards.

4. Only significant asset class diversification reduces portfolio risk.

Asset classes respond differently to the influence of market factors. Owning thousands of investments across an ample range of asset classes

decreases the likelihood of any single market event devastating your portfolio.

5. Asset classes with a risk premium provide greater return for assuming greater risk.

A risk premium is the additional increment of return that an asset class can produce over its counterpart. Academic research has validated the risk premiums tied to stock vs. bonds, as well as small vs. large companies and value vs. growth stocks. Most recently, research has identified a risk premium associated with momentum, or upwardly trending, stocks. By strategically tilting a portfolio toward risk premium asset classes, returns can be optimized for a defined risk level.

6. Short-term, high quality bonds help to reduce portfolio risk.

Collectively, bonds are considered to be a relatively low-risk asset class; however, not all bonds carry the same level of risk. In general, the shorter a bond's timeframe is to maturity, the lower its risk. By managing bond risk levels, you free your portfolio to take on risk elsewhere in order to augment its overall performance.

7. Investing internationally helps to mitigate domestic risk.

Economic and political factors around the world are varied and fluctuate distinctly. Owning assets within multiple countries helps to minimize domestic risk (posed by economic and/or political factors) as these global assets are held in the denominational currency of the company's country of origin.

8. Investments are made in emerging markets to generate higher return.

Emerging markets include the fastest growing economies in the world. These markets enhance return because they have a higher rate of growth as compared to developed markets. However, their added risk must often be balanced by lower risk investments in order to maintain portfolio alignment with your objectives.

9. Systematically rebalancing a portfolio reduces risk and may increase return.

Over time, your portfolio's investments will diverge from its optimized allocation. Rebalancing brings your portfolio back to its preferred allocation in order to maintain your desired risk exposure. Rebalancing also creates opportunities to sell high and buy low.

10. Portfolio costs and taxes impact returns.

When evaluating costs, remember that there are more factors to weigh than merely the transaction costs or management fees included within your account statement. There may be hidden costs associated with your investments including front-end or back-end loads as well as investment-level operational costs, management fees and transaction costs. For taxable accounts, tax expenses will also impact a portfolio's costs.

To read more, go to www.merceradvisors.com/library. Under Research Reports, click on Guiding Principles for Investing.