The Grant Thornton and Plan Sponsor Advisors
Retirement Plan Survey

Grant Thornton

PLAN SPONSOR ADVISORS, LLC
RETIREMENT PLAN CONSULTANTS

Contents

Glossary of terms

ERISA - Employee Retirement Income Security Act of 1974. Title I of this Act, which covers vesting, funding and fiduciary standards applicable to employee benefit plans, is enforced by the U.S. Department of Labor.

Fiduciary - Any person who has discretionary authority over the administration of a plan or the management of plan assets, or who renders investment advice to a plan for a fee.

404(c) - a section of Title I of ERISA that allows plan fiduciaries to absolve themselves of liability for the results of investment decisions made by participants who have the ability to direct the investment of their own accounts. 404(c) does not relieve fiduciaries of their responsibility to make suitable investment options available to plan participants.

Investment Policy - A written policy which is used to guide the investment-related decisions of a plan's fiduciaries. Provides general instructions or guidelines applicable to investment situations, and may address issues such as the identification of acceptable classes or types of investments, or limitations on investment categories as a percentage of the plan's portfolio.

Sarbanes-Oxley - Sweeping legislation enacted in the summer of 2002 that sets forth many new and/or greatly expanded requirements concerning corporate governance, financial disclosure and the practice of public accounting.

Major findings

Investments-The survey revealed that a majority of plan sponsors have a written investment policy statement (IPS).

Fees-Most plan sponsors understand explicit fees of their plans such as billed record keeping fees, compliance reporting, and fund expense ratios, but most don't understand (or in many cases don't know) the revenue streams received by vendors through revenue sharing.

Administration-Most plan sponsors now have a process for reviewing and monitoring outsourced functions such as record keeping.

The survey presents mixed perspectives of how plan sponsors are executing their fiduciary responsibilities. The percentage of plan sponsors implementing and following written investment policies continues to grow significantly as plan sponsors have become more aware of investment performance in recent years.

Fees continue to be more difficult for plan sponsors to get a handle on, particularly fees that are non-disclosed or are not explicit. Plan sponsors are often unaware of the total revenue being generated by vendors through asset-based fees and therefore have no basis for determining their reasonableness. Since fees have a major impact on how much money participants will ultimately have for retirement, this represents a major area of potential exposure for plan sponsors and has sometimes provided vendors with a financial windfall.

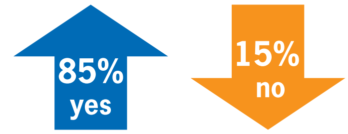
Investments

Investment policy

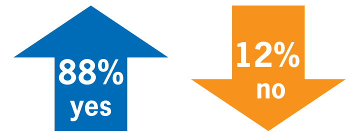
Eighty-five percent of respondents have a written investment policy statement (IPS). This was a substantial increase over last year's 68 percent response and is indicative of plan sponsor's recognition of the need to demonstrate that they have a process for the selection and monitoring of investments. Of those respondents with a written policy, 75 percent indicated they maintain clear records of decision making about the selection or de-selection of funds and even more (88%) are sure they are in compliance with the policy.

Interestingly, 20 percent indicated they kept less complete records but did make some effort to document their decisions, while 5 percent maintained no records. Plan sponsors that don't keep clear records of investment decisions that tie directly to their IPS may be increasing their risk if participants determine their failure to reach their goals is due to investment (or lack of) performance.

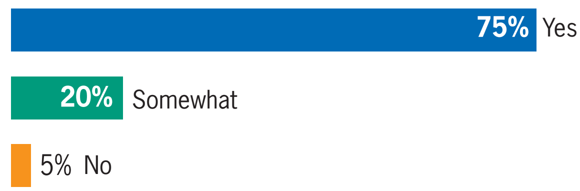
Do you have a written Investment Policy Statement (IPS) ERISA §402(b) (1)?



Is the plan currently in compliance with the IPS?



Do you maintain records to clearly explain how decisions are/have been made to choose or remove plan investment options?



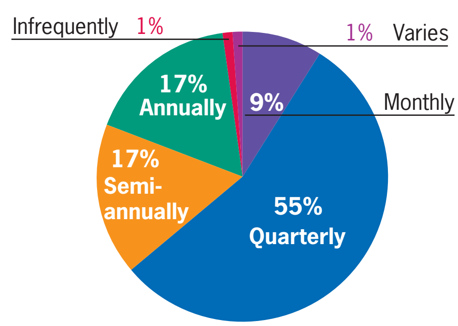
Investment monitoring

Last year we asked plan sponsors what attributes they measure when monitoring their funds (style, performance, etc.). This year we decided to see how often they monitored and who was the primary party responsible for monitoring. Best practices would be monitoring investments quarterly or more frequently if circumstances allowed. More than half monitor quarterly, with 34 percent monitoring annually or semi-annually. Surprisingly, 9 percent said they monitor monthly.

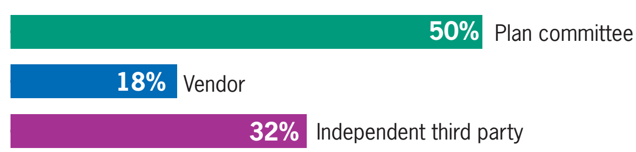
When asked who performs the monitoring, 82 percent indicated the plan committee or third party does, while 18 percent relied on their vendor. In our experience, smaller plans tend to rely more on the vendor, while larger plans are more skeptical of vendor data and commentary and often hire a third party.

We dug a little deeper by asking how the plan sponsor ensured adequate diversification. A study by NYU and Fordham* identified as a serious problem a lack of diversification (despite offering a large number of funds) by many plans, so we were curious how plan sponsors addressed the issue. Consistent with who does the monitoring, plan sponsors were twice as likely to depend on an outside consultant rather than the vendor to ensure diversification. Since ERISA holds those who monitor to a prudent expert standard, we caution those who monitor themselves using tools such as Morningstar or a correlation matrix of the funds.

How frequently do you monitor the plan's investment?



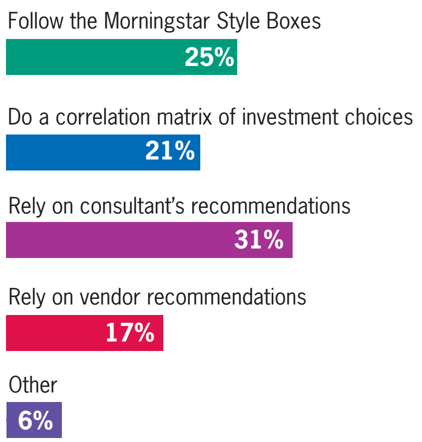
Who performs the monitoring function?



*Gruber, Martin, Elton, Edwin, and Christopher Blake. NYU Research Spring 2005: Vol. 1 No. 2.

Investment monitoring (continued)

How do you ensure that broad diversification is available to participants?

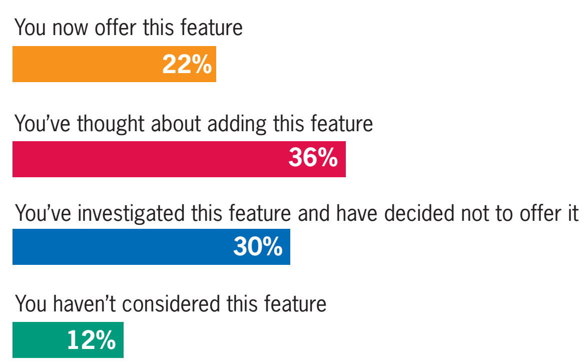


Default investments

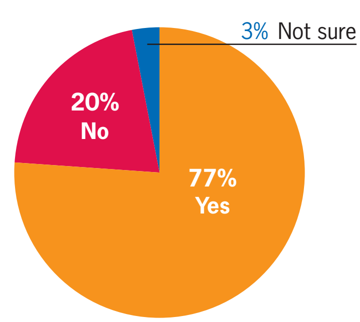
Plan sponsors struggle to create a process that ensures participant election. The risk inherent in this process is clear. The plaintiff's bar has indicated that determining the prudence of a default investment may be a fertile area for litigation.

Default funds are becoming a bigger issue as more plans adopt some of the "automatic" features such as auto enrollment. Last year, 59 percent indicated they do have a default fund, versus 77 percent this year. Just over 70 percent of respondents indicated they use a money market or stable value fund, while 17 percent use some type of asset allocation fund. Based on industry trends, money market or stable value funds may not be consistent with a participant's long-term goals for retirement. We expect the number of plans using some form of asset allocation fund to grow rapidly in future surveys. This would be consistent with the recognition by 76 percent of respondents that their selection of a default fund is a fiduciary decision. At the same time, it is concerning that 24 percent did not believe (or are not sure) it was a fiduciary act to choose a default fund for participant monies.

With respect to automatic enrollment:

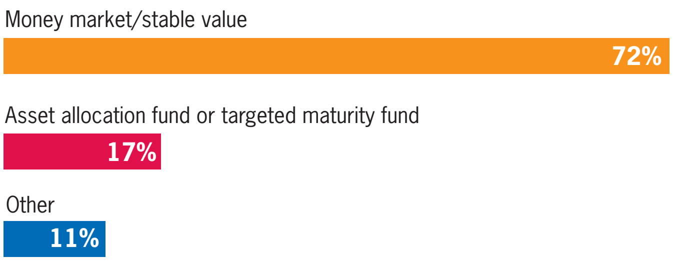


Are there assets in a default investment choice because a participant did not give you investment instructions?

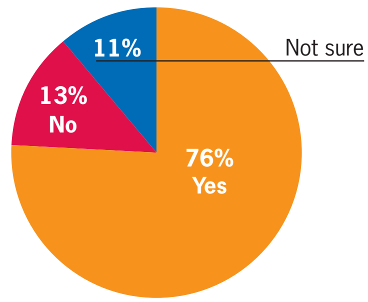


Default investments (continued)

If so, what do you use as a default choice?



Is the selection of a default investment choice a fiduciary decision?



ERISA 404(c)

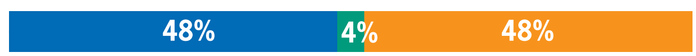
Seventy one percent indicated they would like to utilize 404(c)'s safe harbor. Interestingly, 29 percent said they did not want (or were not sure if they wanted) the protection offered by 404(c). We have to wonder why any plan sponsor would not want to take advantage of this opportunity to mitigate risk.

While many plan sponsors feel they were meeting the extensive list of requirements to be 404(c) compliant, over half either don't fulfill the requirements or are not sure. This represents a substantial risk for plan sponsors and like last year, we believe that many plan sponsors simply do not understand what 404(c) is intended to do and how to avail themselves of its protections. This is confirmed in a new question we asked about whether 404(c) protection from liability extended to default investments. Only 19 percent of respondents answered correctly that there is no 404(c) protection available for default investments.

Yes No Not sure

Do the plan's fiduciaries want to relieve themselves of liability for participants' investment decisions under ERISA §404(c)?

If so, does the plan comply with the 20-25 requirements under §404(c)?



If your plan is intended to be §404(c) compliant, have you conducted a review to determine if it actually is in compliance?

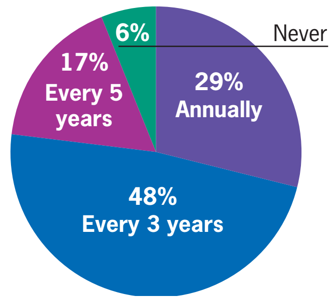
Are you of the opinion that ERISA §404(c) protection is available with respect to participants who are invested in the plan's default investment choice because they didn't give you instructions?

Fees

Plan expenses

Fees have been a frequent topic in the financial press over the past year, so we were surprised to find that only 29 percent of the current year respondents review vendor fees annually. The Department of Labor has identified fees as a major area of concern and probably the biggest factor affecting how much money participants will have at retirement. Additionally, we have found that due to changes within the industry, most plan sponsors who have not negotiated with their vendor in the past 3-5 years are paying more than they need to.

How often do you compare vendor fees?



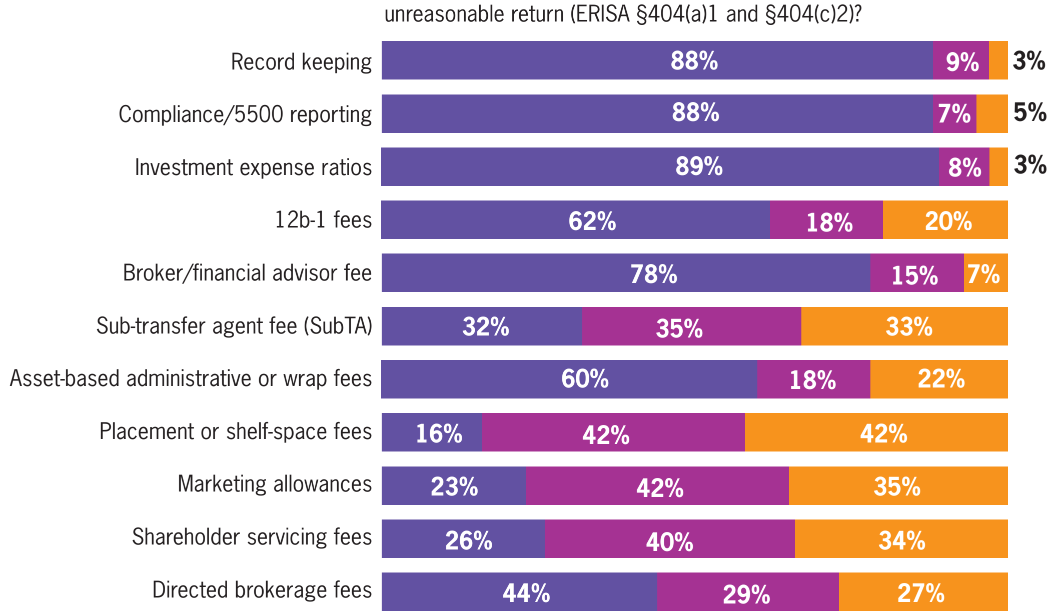
Revenue Sharing

While 61 percent indicated that a consultant or the internal committee determine whether the share class for the investment option was appropriate, 29 percent rely on the vendor to determine whether the shared classes are reasonable. We also noticed that when we asked about specific types of fees, many did not appear to be familiar to plan sponsors. For instance, only 16 percent of plan sponsors reviewed whether their plan paid placement fees, while 89 percent reviewed expense ratios. Sixty eight percent indicated that they did not know or were not sure what sub-transfer agent fees were paid, even though this is a major source of revenue sharing for record keepers and is a critical piece of information in determining the reasonableness of the record keeper's fees.

We added a new question concerning share classes as we have noted that many plan sponsors do not understand that the same fund may be available at different expense levels. Typically vendors don't disclose this to plan sponsors and in the case of annuity products, plan sponsors may find it difficult to determine whether there are other expense levels for the funds they have that may be more suitable for their plan.

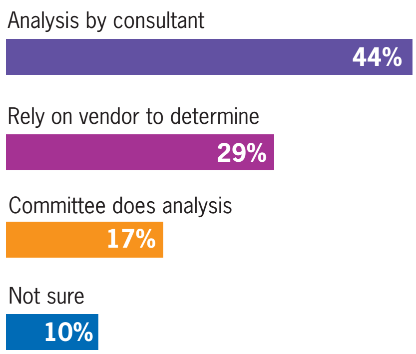
Yes No Not sure

Do you understand the revenue streams earned by the vendor so you can determine whether their fee provides them a reasonable/unreasonable return (ERISA §404(a)1 and §404(c)2)?



Revenue Sharing (continued)

How do you determine whether your plan's investment options are being offered using an appropriate share class (i.e., Class A, B, C, I, R, etc.)?

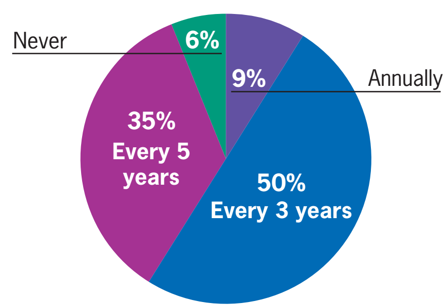


Administration

Vendor selection

In order to meet their fiduciary obligations and provide retirement benefits that will be valued by employees, plan sponsors need to know not only how well their current provider is handling plan administration and participant interaction, but also how the level of service they are receiving compares to that available from other vendors in the marketplace. A process for periodically reviewing overall vendor performance is critical to the long-term success of a retirement plan, since in many cases today the vendor has replaced HR as the primary point of contact for the average participant.

How often do you compare other vendors in the market?



The number of respondents that looked at other retirement plan service providers at least once every three years decreased from last years survey by 5 percent. Last year, 64 percent of respondents looked at other retirement plan vendors once every three years, while this year, 59 percent did. Six percent of the respondents have never taken the time to evaluate other vendors, which is an improvement from the 12 percent of respondents in last year's survey. Sponsors who have not undertaken a comprehensive vendor evaluation process within the past three years should consider doing so now, as a best practice. Their retirement plans could now qualify for much better service and pricing due to the competitive environment.

Process Documentation

Many plan sponsors are increasingly turning to outsourcing as a way to reduce costs and increase efficiencies. However, the plan sponsor still has a fiduciary duty to monitor the activities of the third party. Documentation of decisions (and processes) is important, and plan sponsors should consult with their plan legal counsel for interpretations of specific actions and how these may or may not be in accordance with their fiduciary responsibilities.

Frequently plans do not maintain independent accounting records of transactions executed by their service providers. As a result, sponsors should acquire and review reports prepared in accordance with SAS No. 70 (if available) to obtain a sufficient understanding of their service providers internal controls and to determine whether complementary user organization controls are required at the plan sponsor level. Just fewer than 70 percent of respondents request and review the SAS No. 70 reports, up from 43 percent of respondents in last year's survey. Perhaps sponsors are now more aware of the importance of reviewing records.

Remember, if the DOL was to audit your plan, they are typically not looking for a right or wrong decisions, but rather a documented trail of how decisions were made.

Yes Some No Not sure

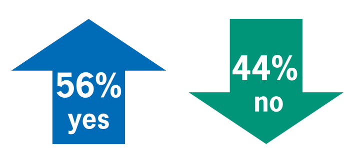
Are your day-to-day policies and procedures for administrating your plans formally documented?

Do you periodically request and review the SAS 70 reports for your external service providers that have them (SAS No. 70, reports on the processing of transactions by Service Organizations)?

Operational Compliance

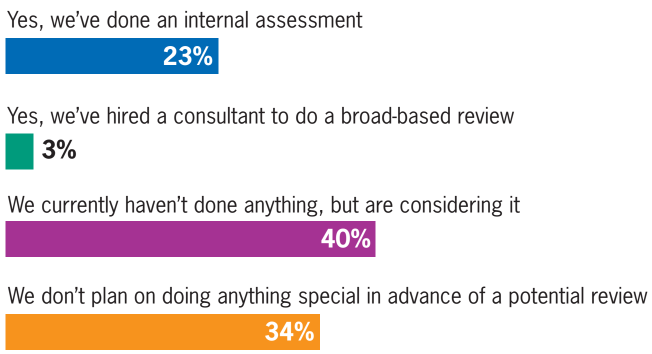
The Employee Plan Team Audit ("EPTA") Program is an IRS program of broad-scope examinations of large employer plans with a team of IRS specialists. Alarmingly, only 26 percent have done a readiness assessment - internal, or by an outside consultant. In the IRS pilot program, they found 75 percent of plans were out of compliance. We encourage employers to proactively identify and correct defects in their benefit plans.

Have you ever conducted an independent review of basic plan functions and operations to ensure compliance and consistent application with document or policies (loans, withdrawals, etc.)?



Operational Compliance (continued)

For plans with over 2,500 participants, have you assessed your "readiness" for an IRS audit under Employee Plans Team Audit ("EPTA") Program (the IRS program of broad-scope examination of large employer plans with a team of IRS specialists)?

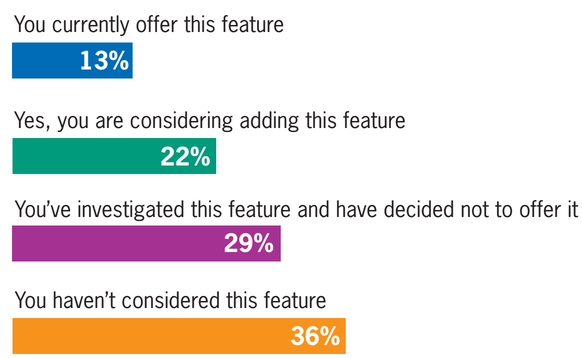


Other Matters

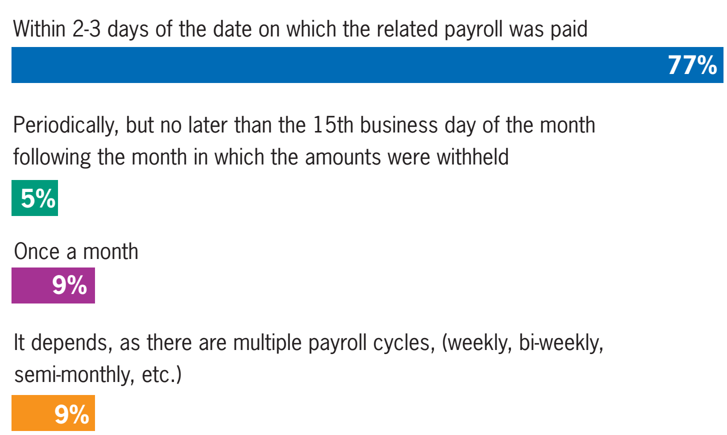
Rather than simply encourage employees to save more, more plan sponsors are using "automatic" features to achieve higher levels of employee savings. The survey shows that over one-third of employers have either implemented or are considering automatic increases in employee deferrals as a way to increase savings. We expect this percentage will continue to rise if, as expected, the Department of Labor and Congress get behind this approach recognizing that most participants are not saving enough to have a secure retirement.

Some respondents appear to be at risk of not remitting participant contributions as timely as they should. The EBSA (Employee Benefits Security Administration) continues to focus on the timeliness of remittance of participant contributions. Participant contributions to a defined contribution plan are plan assets on the earliest date that they can reasonably be segregated from the employer's general assets, but in no event later than the 15th business day of the month following the month in which the participant contributions are withheld or received by the employer. The 15th business day is not a Safe Harbor, and untimely remittance of participant contributions constitutes a prohibited transaction under ERISA, regardless of materiality, thereby requiring reporting on the plan's Form 5500 (and the plan administrator should correct the prohibited transaction with the IRS by filing a Form 5330 and paying any applicable excise taxes).

Have you considered an automatic increase function with respect to participant contributions?



How frequently do you typically fund participant contributions (choose the response that best applies)?



Appendix

About the Survey

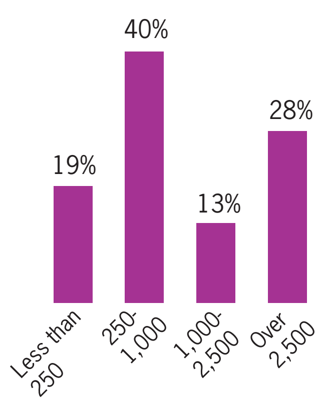
Grant Thornton LLP and Plan Sponsors Advisors, LLC conducted a confidential survey to gain a general assessment of the level of understanding of investments, fees and administrative practices in the area of retirement plans. This publication presents the findings of the Grant Thornton and Plan Sponsors Advisors Retirement Plan Survey of plan sponsors. The survey was conducted online from July 2005 through September 2005, with a variety of 79 independent plan sponsors participating. Survey topics include investments, fees, administration and other industry issues. The majority of the participants, 51%, came from the manufacturing, wholesale, or distribution industry, with the remainder being in the not-for-profit (17%), financial institutions (12%), and technology (6%) industry. Participants of the survey primarily held the position of Benefits Manager (29%), CFO (18%), and VP of Human Resources (16%), with the remainder holding finance and other human resources positions.

Inquiries about this survey may be directed to:

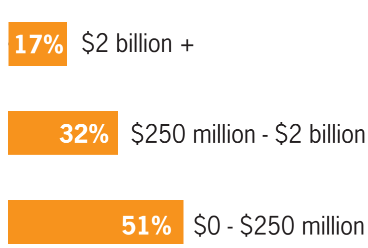
Debbie Smith
Partner
Grant Thornton LLP
630.873.2518
debbie.smith@gt.com

Don Stone
President
Plan Sponsor Advisors LLC
312.214.1500
dstone@psaretire.com

Number of employees



Annual company revenue



About Grant Thornton

Grant Thornton International is the world's leading accounting, tax and business advisory organization dedicated to mid-size companies. Through its network of 540 offices in 111 countries, including 50 offices in the US, partners of the member firms of Grant Thornton provide personal attention and seamless service delivery to public and private clients around the globe. Grant Thornton LLP's website is www.GrantThornton.com. The goal of the Employee Benefits Practice of Grant Thornton LLP is to ensure that our client's benefit plans are: 1) compliant; 2) a tool to attract and retain talent; 3) cost effective; and 4) easy to administer.

About Plan Sponsor Advisors

Plan Sponsor Advisors, LLC (PSA) is an independent, Chicago-based Registered Investment Advisor (RIA) and retirement plan consulting firm. With over 40 years of retirement and investment experience, PSA helps companies improve investment performance and employee communication while reducing fiduciary risks, and often reducing costs. PSA provides clients with a number of services including fiduciary audits, customized investment policy statements, investment selection and monitoring, fee benchmarking, vendor search and participant education. Please visit our Website at: www.psaretire.com.

Grant Thornton

Plan Sponsor Advisors, LLC
Retirement Plan Consultants

www.plansponsoradvisors.com

www.grantthornton.com

Grant Thornton LLP
US member of
Grant Thornton International