

HEARTSTONE A D V I S O R S

GUIDING YOUR RETIREMENT PLAN SINCE 1958



7 SIMPLE — TRUTHS

EVERY RETIREMENT PLAN
SPONSOR SHOULD KNOW

The Retirement Plan Industry Today

The industry wants to...

1. Sell retirement plans like they are PRODUCTS.
2. Use the complexity of their products to hide COSTS.

It doesn't have to be this way!

Shine a light on your plan by knowing these

SEVEN TRUTHS!

1. Yes, it is true. You are a FIDUCIARY!
2. You can delegate your fiduciary responsibilities.
3. You must understand your plan's fees. All of 'em!
4. Ask the right questions of your service providers.
5. Maintain a current Investment Policy Statement.
6. Form an investment committee and meet regularly.
7. Monitor your plan!

1

Yes, it is true. You are a FIDUCIARY!

ERISA (Employee Retirement Income Security Act of 1974) defines a fiduciary as:

- Any person who exercises discretionary authority regarding the management of the plan, or exercises any control regarding management or disposition of its assets.
- Renders investment advice regarding plan assets for a fee or other compensation.
- Has discretionary authority or discretionary responsibility in the administration of the plan.

What are your fiduciary duties?

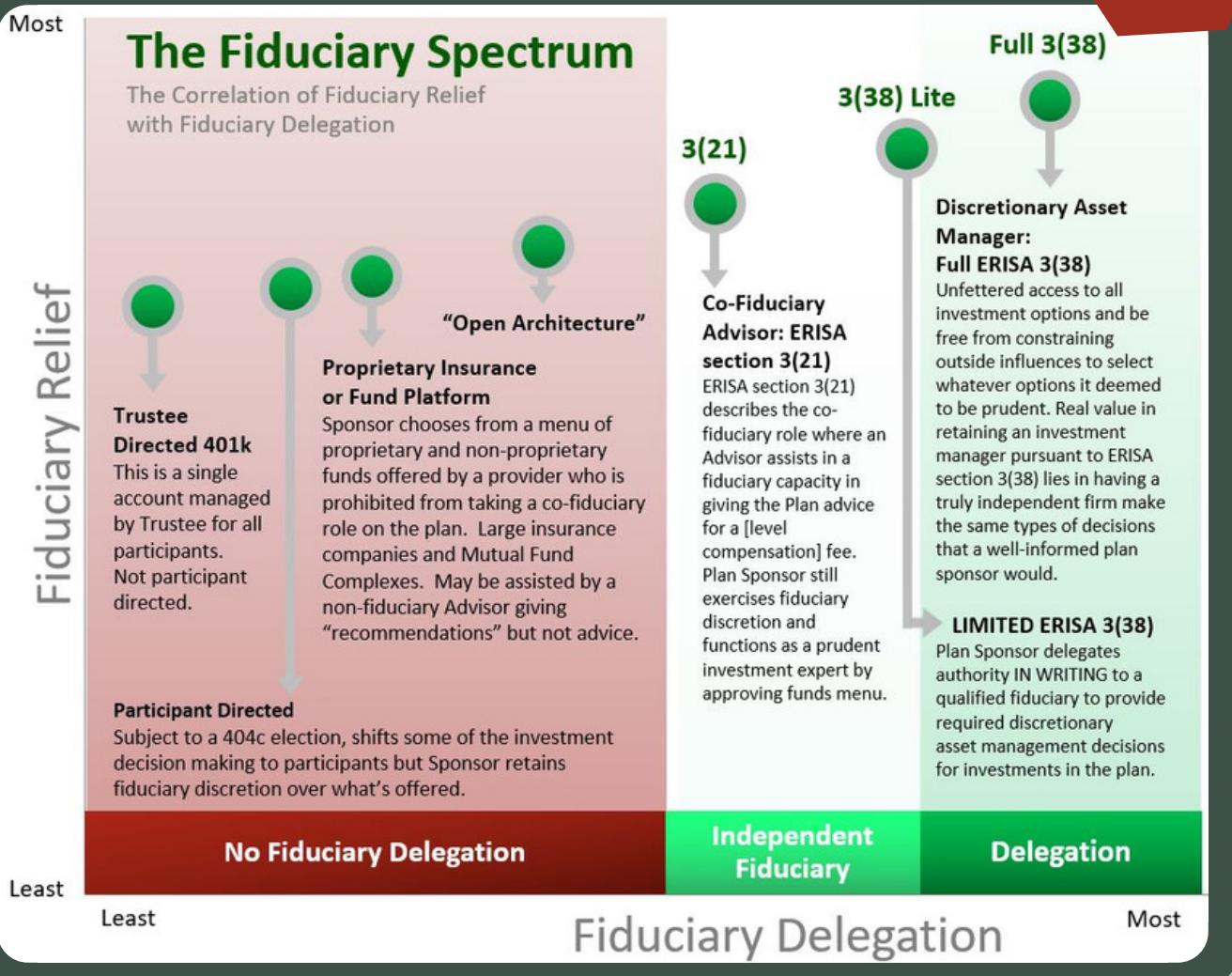
- Duty of Loyalty - a duty to act solely in the interest of plan participants and for the exclusive purpose of providing benefits and minimizing expenses.
- Duty to Act Prudently - A duty to act with care, skill, prudence, and diligence when managing the plan.
- Duty of Diversification - A duty to diversify the investments of the plan so as to minimize the risk of large losses.
- Duty to Follow Plan Documents - A duty to act in accordance with the documents and instruments governing the plan.

ERISA Section 409(a) imposes PERSONAL liability on fiduciaries that breach their duties!

2

You can delegate your fiduciary responsibilities.

- ERISA's original intent was for retirement plan investments to be managed and run by experts (just like a traditional pension.)
- Delegating investment responsibility to experts insulates a plan sponsor from liability.
- If investment discretion is taken away from a plan sponsor, they are no longer responsible for investment decisions.



You are required to understand your plan's fees.

3

- The law does not prescribe a specific level of fees, but it does require that fees be "reasonable."
- Know what you are paying for and how these costs compare with the market for "reasonableness."
- Types of fees include administrative costs, recordkeeping fees, custody fees, brokerage fees, and investment costs.
- Investment costs may include investment management fees, fund expense ratios, bid-ask spread cost, and short term trading fees.
- You should be able to account for all of these expenses distinctly!

Most recent 401(k) plan litigation has focused on fees!

4 Ask the right questions of your service providers.

- Ask the right questions of all service providers including insurance companies, mutual fund companies, investment professionals, banks, and third party administrators.
- Benchmark and review all fees, investments, plan provisions, and participant needs. Compare these to similar plans within your industry.

"A pure heart and an empty head are not enough to defend against fiduciary breach."

-Donovan V. Cunningham, 716 F. 2d 1455 (5th Cir. 1983), cert. Denied, 467 US 1251 (1984)

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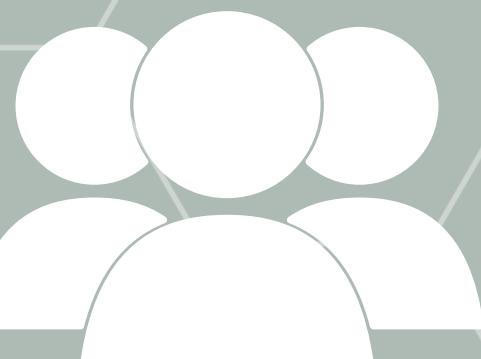
Maintain your Investment Policy Statement

Your IPS should include the following:

- Evaluation of the needs of the plan and its participants
- Investment objectives and goals of the plan
- Definition of duties and responsibilities of all parties involved
- Defined due diligence criteria for investment options
- Classes and styles of investments authorized
- Benchmarks of performance to which assets will be compared
- Procedures for hiring, monitoring, and replacement of investment managers
- Procedures for monitoring and controlling investment expenses

Meet regularly with the investment committee.

6



- The purpose of the committee is to establish, execute, and interpret the IPS.
- Committee selects the investment managers, custodians, and advisors to the plan. They delegate.
- Formalize the process. Establish these procedures in writing.
- Document everything in case of litigation!

7

Monitor your plan!

The following items should be reviewed periodically to ensure your plan is free of flaws.

The Plan Sponsor Checklist	
x	Plan & Trust Documents
	Summary Plan Description
	Adoption Agreement
	Summary Annual Reports
	Trustee Reports
	Resolutions
	Form 5500
	Journal , Ledgers, Account Statements
	Copy of Fidelity Bond Policy
	401(k) Plan Promotional Materials
	Investment Options
	Participant Communications
	Prospectus
	Account Statements
	Safe Harbor Notices
	Qualified Default Investment Alternative Notices
	Executed IPS
The Plan Sponsor Checklist	
	Investment Management Agreements
	Third Party Service Providers
	Investment Management Agreements
	Due Diligence Documentation
	Investment Manager Reports
	Plan Sponsors Periodic Review
	Request for Proposals
	Competitive Bid Documentation
	Copies All Service Agreements
	Investment Committee Meeting Minutes
	Investment Committee Charter
	Investment Committee Member Acceptance Letters
	Administrative Committee Meeting Minutes
	Enrollment Forms & Procedures
	Loan & Hardship Withdrawal
	QDRO & Claim Procedures
	Audited Financial Statements

... It's a big list, but sponsoring a retirement plan is a big responsibility!



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