

B E N E F I T S B R I E F

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Use of Strict Quantitative Data on Funds Fuels Investor Mistakes

In an effort to commoditize investment advice to plan sponsors, national providers are relying heavily on quantitative measures to evaluate mutual fund managers in the retirement plans they offer. While these primarily quantitative measures instill an air of objectivity in the fund monitoring process they cannot discern results generated through skillful stock selection from those generated by luck. Worse, misused quantitative data may lead sponsors to remove strong funds at relative lows in favor of purchasing funds at relative highs and adversely harming participants. [Click here to learn of the limitations of historical data analysis.](#)

Pension Consultants Cannot Serve Two Masters

Commissioned pension consultants, who are gatekeepers between pension funds, 401k's, brokers and money managers, receive less government scrutiny than mutual funds. Though they are middlemen advising funds on some \$2.4 trillion in assets, they are poorly policed. A legal though troubling practice allows these consultants to pocket several fees from clients and managers. Yet do the pension funds and future retirees benefit from this arrangement? [Click here to learn the costs of bias in the pension consulting system.](#)

Broker Sold Retirement Plans May Increase Likelihood of Prohibited Transactions

There are currently a number of arbitrations under way between plan sponsors and the brokers they have historically worked with to assist in the selection and monitoring of investments. If those brokers are receiving varying levels of compensation from the funds they select there is an inherent conflict of interest and thereby a prohibited transaction if the broker is serving the plan in a fiduciary capacity. ERISA defines fiduciary as anyone who provides investment advice for a fee. While the brokerage industry has always asserted that the process of selling securities is not providing investment advice to the plan and its fiduciaries the line remains very murky.

2005 IRS Limits Released

2005 has seen increases in nearly all of the key ERISA testing and contribution limits. [Click here for the 2005 limits.](#)

Safe Harbor Notices Coming Due Soon

Sponsors of calendar year defined contribution plans have until December 2 to notify participants of their intent to pursue Safe Harbor status in 2005.

IRS to Reduce Cost of Making Omitted Employee Whole Under EPCRS

At a recent meeting with benefits practitioners, IRS officials previewed several changes to the Employee Plans Compliance Resolution System (EPCRS), which was most recently updated slightly over one year ago. The most significant of these prospective changes shows how to correct a plan's failure to let an eligible employee participate in a 401k plan. [Click here to read about the proposed IRS remedy.](#)

Retirement Plan Legislative Tracking Chart

This chart summarizes selected federal legislation that would affect retirement programs. The bills included on the charts are based on judgments regarding the prominence of the issue, the likelihood of enactment, and the influence of the sponsors. [Click here for the Towers Perrin Retirement Legislative Tracking Chart.](#)

Current Buyers Market for Retirement Plans May Change

Mergers in the retirement services marketplace have dramatically reduced the number of national retirement plan service providers in a sign that the industry has graduated from rapid growth to maturity. Typically in mature markets elsewhere we see declining costs of service as products become more similar and cost becomes an important determiner of value. Three critical questions remain...

1. Given the complexity of industry pricing models will economies be passed along to plan sponsors?
2. How will service providers differentiate services in an era of me too services?
3. If the current DC system is not producing retirement-ready retirees, is any vendor suited to transform the industry rather than playing in the margins?

[Click here for an article on vendor consolidation by Fred Barstein.](#)

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