

Participant Focused
Fiduciary Best Practices =
Improved Retirement Outcomes

Thursday May 6, 2010

Most 401(k) Plan Participants Will Fail
Using Current Tools and Strategy

The point of a retirement plan is to help people retire with an adequate benefit

The odds of the average participant retiring successfully from most employers are very small

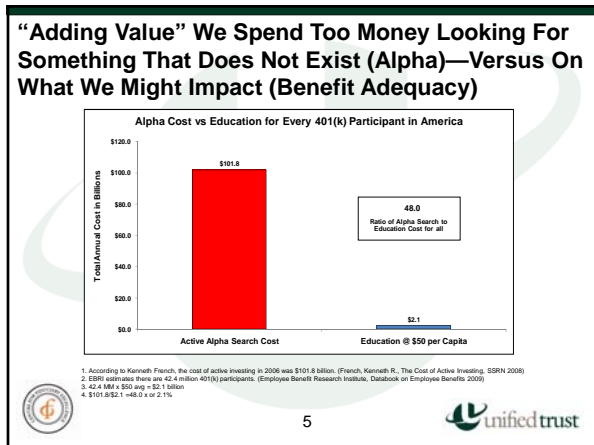
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Example--Robert Shively, Age 68, Works As a Golf Cart Mechanic, and Draws About Half as Much from His 401(k) as Compared to a Pension

© Time Magazine "Is it time to retire the 401(k)?" 2009

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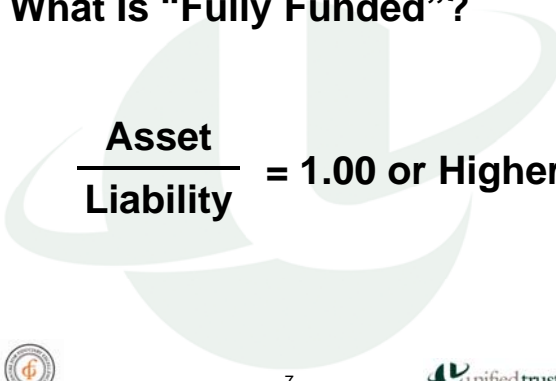




What Is a Liability?
What Is an Asset?

1. The liability is how much money you need to pay for your retirement.
2. The asset is how much money you are on track to have saved when your retirement starts.

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What Is “Fully Funded”?

$$\frac{\text{Asset}}{\text{Liability}} = 1.00 \text{ or Higher}$$


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**Target Date Funds:
A Reasonable Start—
But Are Not The
Individualized Solution**



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**Target Maturity Funds Base the Entire
Retirement Equation on Birthdate**



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No Single Solution Can Work for Every 40 Year Old Regardless of Need

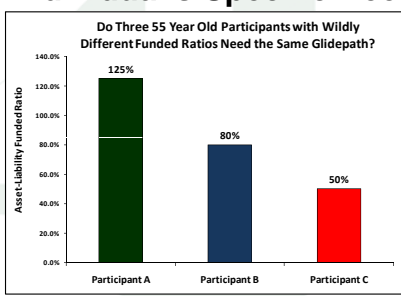


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Target Date Funds Fail to Solve For Each Individual's Specific Needs

Do Three 55 Year Old Participants with Wildly Different Funded Ratios Need the Same Glidepath?



Participant	Asset-Liability Funded Ratio
Participant A	125%
Participant B	80%
Participant C	50%

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A Target Date Fund Gives the Same Solution If You Have \$1 or \$10,000,000 In Your Account

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More Than A Single Data Point Is Needed for Success

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“Ideal” Funded Ratio Demographics To Utilize A Target Date Fund

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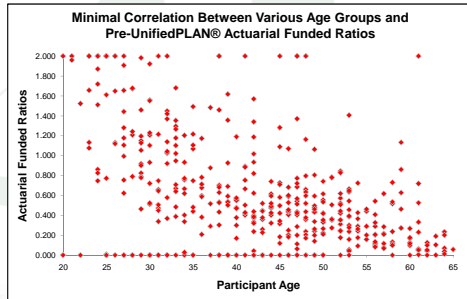
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“Ideal” Funded Ratio Demographics To Utilize A Target Date Fund

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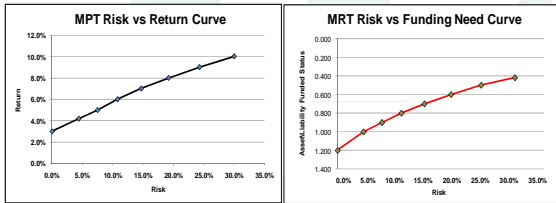
In Most Plans There Is No Correlation Between Funded Ratios and Age



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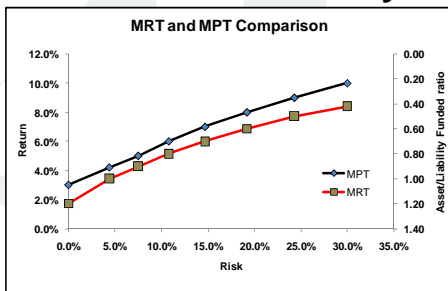
Can Modern Portfolio Theory Lead Us To “Modern Retirement Theory”



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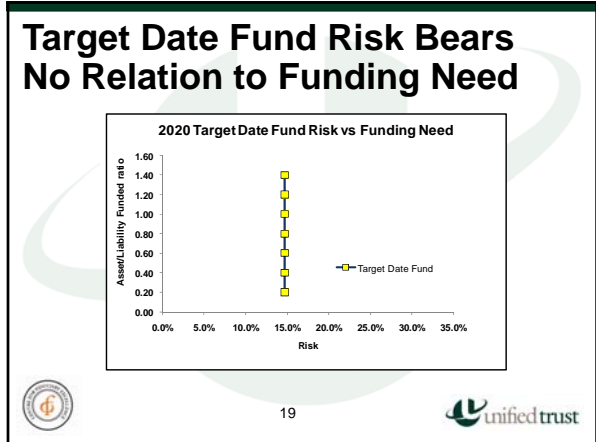


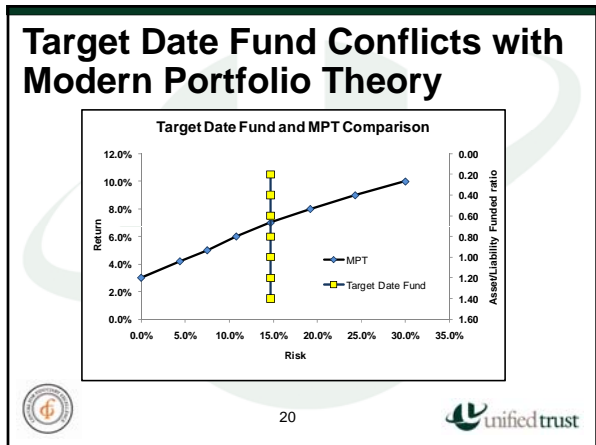
Modern Portfolio Theory = Modern Retirement Theory

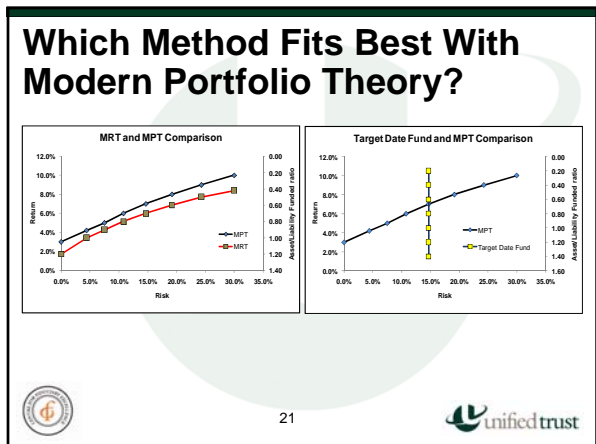


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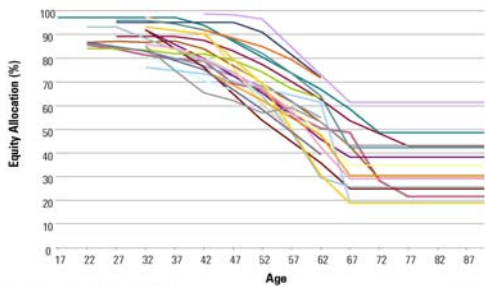








Target Date Asset Allocations Vary Greatly-- How Do You Pick One?



Source: Ibbotson Associates Target Maturity Report For illustration only.

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ibbotson

Why No Stable Value in Most Target Date Funds?

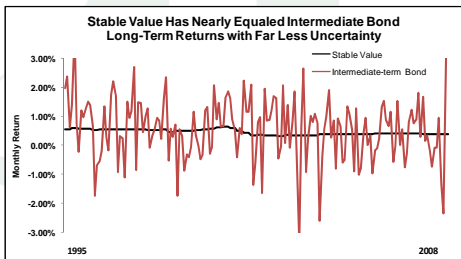
- Stable Value not available in any mutual fund
- No true open architecture
- Built from proprietary underlying funds
- Lack of critical thinking and fiduciary process



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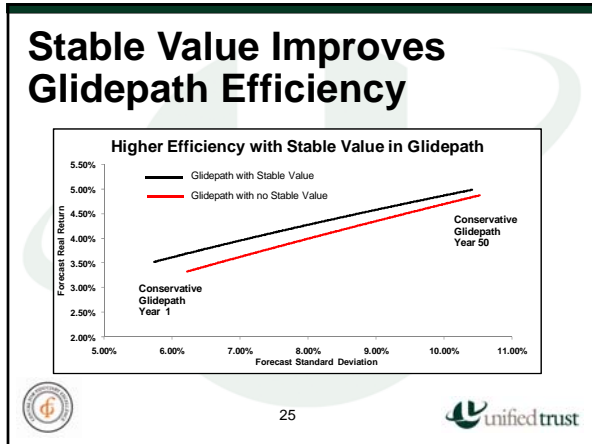
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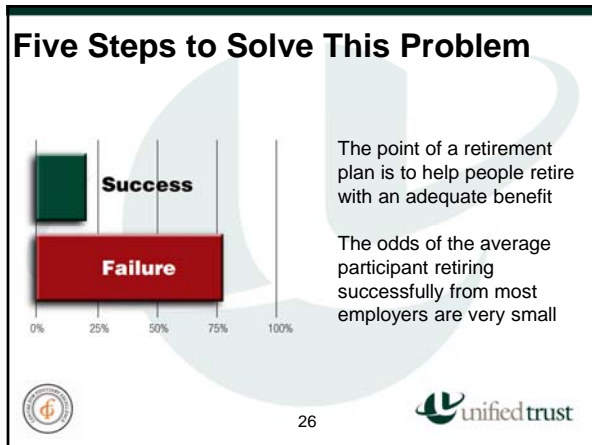
Stable Value Is Less Risky Than Intermediate Bonds



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Five Steps to Solve This Problem

1. Fiduciary duty of loyalty to participant

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The Duty of Loyalty Is to the Plan Participants and Their Beneficiaries

ERISA 404(a)(1)(A) requires that in discharging his fiduciary duties, the fiduciary's decisions....

“Must be made with an eye single to the interests of the participants and beneficiaries.”

Donovan v. Bierworth, 680 F.2d 263, 271 (2d Cir.), cert. denied, 459 U.S. 1069 (1982)



ERISA 404(a)(1) “Gold Standard”

...a fiduciary shall discharge his duties with respect to a plan **solely in the interest of the participants and beneficiaries** and –

(A) for the exclusive purpose of: (i) **providing benefits to participants and their beneficiaries**; and (ii) defraying reasonable expenses of administering the plan;



The US Supreme Court Ruled 9-0 in the LaRue Case that Plan Participants Have an Individual Right to Sue Plan Fiduciaries



401(k) Plan Sponsor Liability

In the LaRue Case Justice Stevens wrote.....

...Whether a fiduciary breach diminishes plan assets payable to all participants and beneficiaries, or **only to persons tied to particular individual accounts**, it creates the kind of harms that concerned the draftsmen of the ERISA's liability provisions."



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ERISA Requires the Highest Standard of Care

Fiduciary duties under ERISA....
"are the highest known to law."

Donovan v. Bierwirth, 680 F.2d 263, 272 (2d Cir. 1982).



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New DOL Investment Advice Regs May Define Prudent Investing

1. What investment theories are generally accepted?
2. What investment practices are consistent or inconsistent with such theories?
3. Should the regulation specify certain practices as required by generally accepted investment theories?



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But Successful Retirement Needs More Than An IPS or Fund Analysis Report

Stock Analysis 02-28-2008

Stock Sectors	Percentage %	Weight %
Information	13.12	
Software	2.24	
Hardware	0.21	
Media	1.88	
Telecom	3.36	
Service Economy	42.78	
Healthcare Svcs	12.25	
Consumer Svcs	8.57	
Business Svcs	8.7	
Financial Svcs	15.7	

Performance 02-28-2008

Period	Return %	Target %
18.00 (Apr 03-Jun 03)	1.80	1.80
54.00 (Apr 03-Mar 04)	-14.40	-12.45
29.00 (Apr 03-Mar 06)	0.00	2.00
30.00 (Sep 06-Nov 06)	-12.45	-1.20
41.00 (Mar 06-Feb 07)	-14.40	-3.02
12.45 (Mar 06-Feb 07)	2.04	2.50

Objective Fiduciary Standards Must Be At the Participant Level

Practice A-1.2
Investments are managed in accordance with applicable laws, trust documents, and written investment policy statements (IPS).

Practice A-2.1
An investment time horizon has been identified for each client.

Practice A-2.2
A risk level has been identified for each client.

Practice A-2.3
An expected, modeled return to meet investment objectives has been identified.

Objective Fiduciary Standards Must Be At the Participant Level

Practice A-2.4
Selected asset classes are consistent with the risk, return, and time horizon.

Practice A-2.5
Selected asset classes are consistent with implementation and monitoring constraints.

Practice A-2.6
There is an IPS which contains the detail to define, implement, and monitor the client's investment strategy.

Practice A-3.1
Each client's investment strategy is implemented in compliance with the required level of prudence.

Five Steps to Solve This Problem

1. Fiduciary duty of loyalty to participant
2. Default each employee into a QDIA defined goal



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The Defined Goal Plan

Target income replacement is 70% of final average compensation.

As near as possible to the Social Security Normal Retirement Age.

Least amount of risk required to still meet goal.

BPS Specified Goal



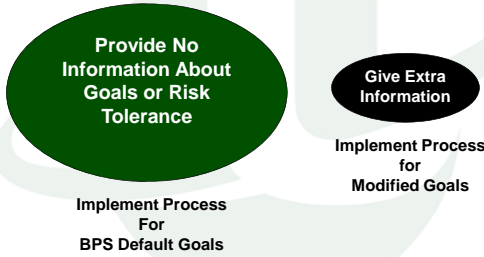
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The Benefit Policy Statement Outlines How the Discretionary Trustee Will Engineer the Benefit



The Benefit Modeling Must Be Flexible for Both Types of Plan Participants



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The Safest 401(k) Plan is 100% QDIA

Fred Reish, at Center for Due Diligence October 13, 2008:

"I believe the safest plan for a Plan Sponsor is one where 100% of employees are defaulted into a Qualified Default Investment Alternative".

"The QDIA provides a prudent portfolio delivered under guidelines established by the Department of Labor."



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Five Steps to Solve This Problem

1. Fiduciary duty of loyalty to participant
2. Default each employee into a QDIA defined goal
3. Actuarially solve for each participant a portfolio and time solution



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The Trustee Seeks to Engineer for All A Retirement Asset-Liability Match

Participant's Future Account Value (Asset)

Participant's Future Income Need (Liability)

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All Plan Participants Are Either Fully Funded or Underfunded

Fully Funded Participant

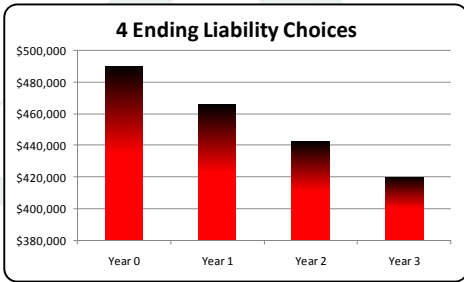
Underfunded Participant

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A Full Range Of Possible Outcomes Are Examined by the Trustee Using Proven, Tested and Rigorous Actuarial Methods

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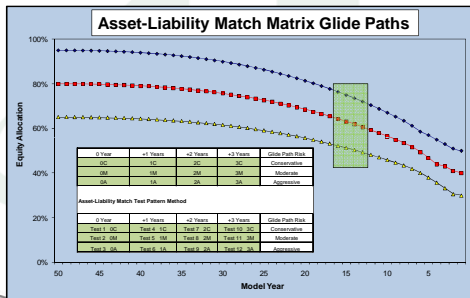
Controlling The Liability Helps More Participants Obtain an Asset-Liability Match



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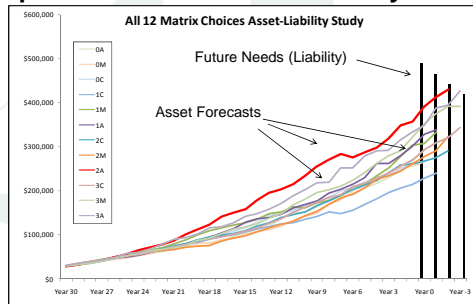
The Asset-Liability Match Matrix Estimates 12 Possible Ending Asset Values



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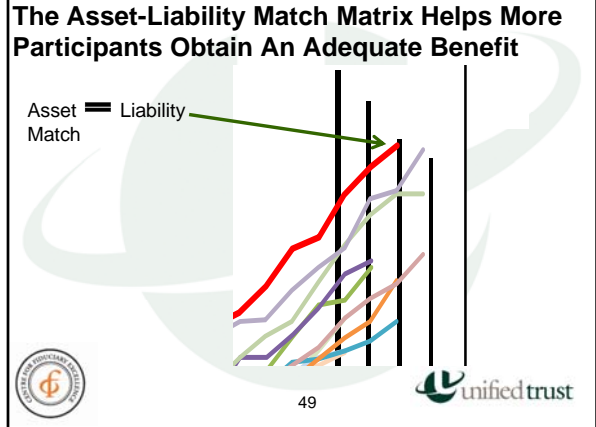


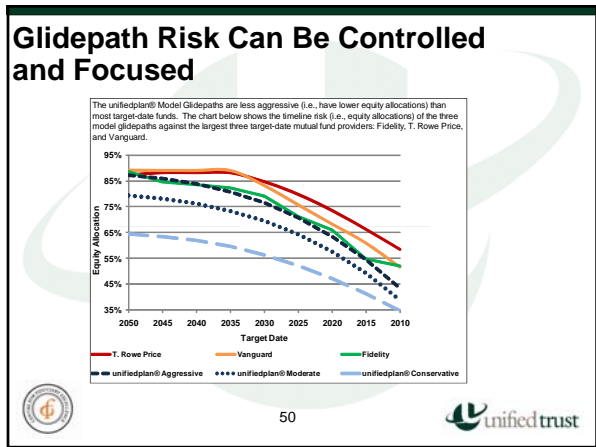
The Asset-Liability Matrix Helps More Participants Obtain an Asset-Liability Match



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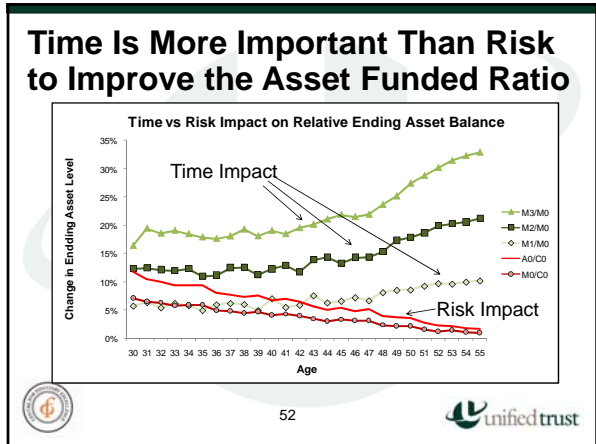




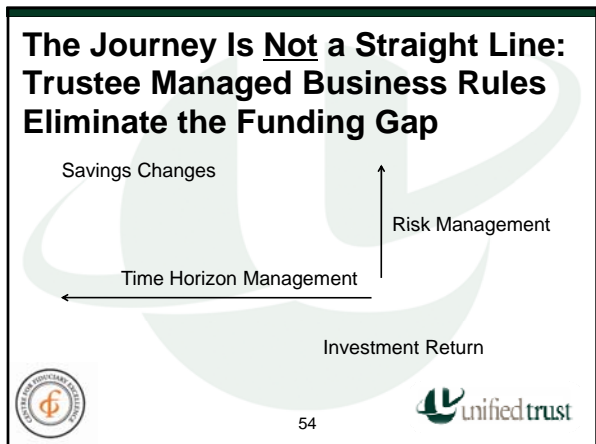


WARNING!
You Generally Cannot
Solve A Funding
Shortfall for Older
Participants With Riskier
Portfolios

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- ### Five Steps to Solve This Problem
1. Fiduciary duty of loyalty to participant
 2. Default each employee into a QDIA defined goal
 3. Actuarially solve for each participant a portfolio and time solution
 4. Implement corrective actions based upon BPS criteria to meet defined goal
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Ongoing Actuarial and Fiduciary Measures Benchmark Retirement Progress

PRUDENT PRACTICES FOR Investment Advisors

The Calculus of Retirement Income

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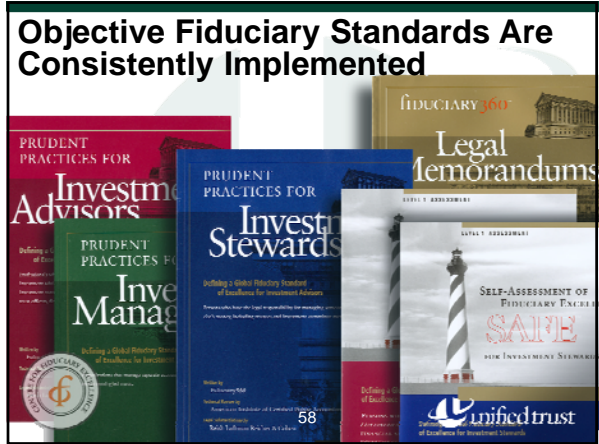
Example: Specific Benefit Policy Statement Fiduciary Measures Document The Process And Govern Implementation

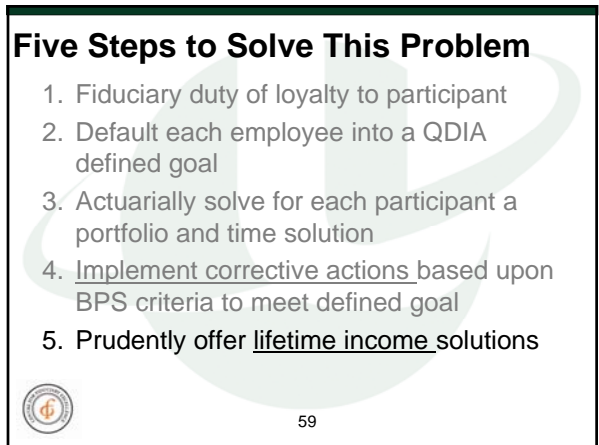
Projected Portfolio Volatility Risk Change Constraints

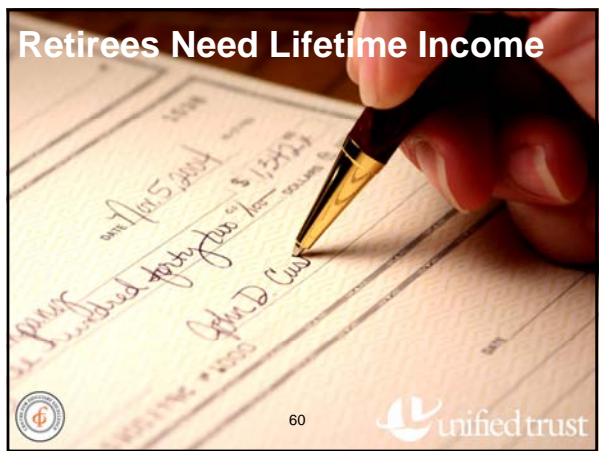
1. Standard Deviation may increase no more than 6.0% from most conservative (OC) of the 12 current solution possible choices in the solution matrix as forecast by Unified Trust.
2. Downside Deviation Risk may increase no more than 3.0% from most conservative (OC) of the 12 current solution possible choices in the solution matrix as forecast by Unified Trust.
3. Portfolio Modeled 99th Percentile Worst One Year Loss may be no worse than -10.0% from most conservative (OC) of the 12 possible current solution choices in the solution matrix as forecast by Unified Trust.

Benefit Policy Statement Fiduciary Measures Document The Process

Metric	Portfolio Change	BPS Allowable Limit
Standard Deviation	4.51%	6.00%
Downside Deviation Risk	2.22%	3.00%
99th Percentile Worst	-8.89%	-10.00%







The Distribution Phase Is Not the Reverse of the Accumulation Phase, and Contains Several New Risks

Risk

Sequence

Inflation

Longevity

Early Mid Late

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The Three Most Important Questions You Face

1. Will I have enough to retire?
2. Will my savings last all through my full retirement?
3. What if something goes wrong?

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The Dilemma

Many retirees will run out of money long before they die

Or

Other retirees will live too conservatively and not enjoy a better standard of living

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Participant Fiduciary Best Practices Outcome Improvement Results

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Solution Impact.... Retirement Income Focus

Your Projected Retirement Benefit Based Upon the unifiedPLAN®

Time Period	Retirement Plan Monthly Income	Social Security Monthly Income	Additional Income from Part Time Work	Additional Income from Other Assets	Monthly Income Required	Projected Monthly Surplus
Age 70-87	\$1,211	\$1,716	\$0	\$0	\$2,917	\$14

Current Age	45	Your Current Retirement Plan Balance	\$15,000
Retirement Target Age*	70	Projected Plan Balance at Retirement	\$156,817
Contribution Years Remaining	25	Your Current Savings Rate	4.00%
Estimated Current Annual Pay	\$50,000	Your Company Contribution Rate	2.00%
Total Target: 70% of Current Annual Pay*	\$35,000	Your Total Contribution Rate	6.00%
Target Monthly Income Required	\$2,917	Other Outside Assets: You Hold	Please Provide
Non-Social Security Monthly Income Required	\$1,201	Part Time Work Years Planned	Please Provide

*To learn more about how you can improve your probability for retirement success please visit: www.unifiedtrust.com/unifiedplan
#You will be sent a statement showing your exact dollar beginning balance.

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Participant Fiduciary Best Practices Very High Employee Acceptance Rates

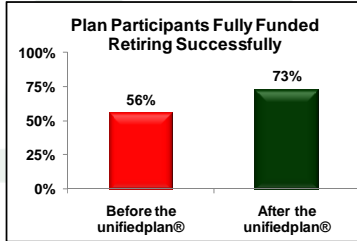
Most Plan Participants Remain Opted-In the unifiedplan®

Category	Percentage
Accept ("Opted In")	89%
Non Accept ("Opted Out")	11%

"Opted-in" means defaulted participants remaining in unifiedplan® after enrollment meeting.

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Participant Fiduciary Best Practices Positive Impact on Moving More Plan Participants to Fully Funded

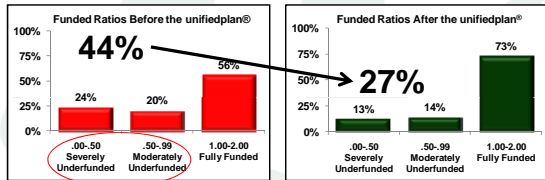


*Fully Funded means forecast Asset:Liability at least 1.00.
Only Opt-in participants studied.

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Participant Fiduciary Best Practices Improved Impact on Most Plan Participant Funded Ratios

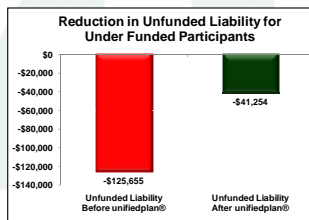


*Fully Funded means forecast Asset:Liability at least 1.00.
*Moderately Underfunded means forecast Asset:Liability 0.50 to 0.99.
*Severely Underfunded means forecast Asset:Liability 0.50 to 0.99.
Only Opt-in participants studied.

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Participant Fiduciary Best Practices Significant Reduction on Unfunded Liability Underfunded Plan Participants



*Unfunded Liability is difference between future liability and future asset.
*Underfunded means forecast Asset:Liability < 1.00.
All dollars in inflation-adjusted (real) current dollars.
Only Opt-in participants studied.


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Disclosures

1. The unifiedplan® reporting tool helps investors understand whether they are on course to achieve a successful retirement. The unifiedplan® uses "asset liability" matching. The asset is the money forecast to be accumulated and the liability is the amount of money needed to pay for the retirement. For investors who are planning for retirement, the tool estimates the amount of funds required to meet their retirement spending goals and provides alternatives such as delaying retirement or lowering retirement spending for those who may not be able to save the required amount.
2. For investors who are already retired, the tool estimates the confidence that their portfolio will be able to sustain their desired spending throughout retirement. The tool uses a combination of deterministic methods and Monte Carlo simulation that consider factors that include saving and spending levels, long-term market expectations associated with the risk profile selected, pre- and in-retirement time horizons, and other sources of outside income.
3. The unifiedplan® limitations relate to the large number of assumptions used in the analysis. The accuracy of these assumptions directly impacts the quality of the tool's assessment. Potential problems may include, but are not limited to, the use of inaccurate financial data by the investor, the selection of a risk tolerance by the investor that does not represent how their portfolio is actually invested, long term market expectations of risk, return, and inflation that are not achieved in the modeled time frame, the inclusion of future income that is never received, and unforeseen life emergencies that require decreased saving before retirement, force an earlier retirement, or increase spending needs during retirement.
4. The unifiedplan® is highly dependent upon assumptions of annual income and annual savings. Any variances or changes in the figures used should be reported immediately by the plan participant. Unified Trust is not responsible for any discrepancies in the data, or output from the unifiedplan® tool.
5. All mutual fund and collective investment fund data was gathered from publicly available sources of information such as Standard & Poor's, Morningstar, Zephyr or vendors' own websites. We take reasonable care in collecting the data, and believe the data are accurate, but reserve the right to correct any errors. Individual mutual fund or collective fund performance data throughout the document are net of underlying fund expense ratios but gross of add-on expenses such as Trustee fees, administration fees, or advisory fees. The performance histories reported are simply dollar-weighted historical returns for the proposed funds and do not reflect the effects of rebalancing or fund replacements.


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Disclosures

6. Any past performance information for the illustrated investment selections is not indicative of future returns but is merely a snapshot of historical performance. Past performance is not a guarantee of future performance. The investments are not FDIC insured.
7. Differences will probably exist between prospective and your actual results because events and circumstances frequently do not occur as expected, and those differences may be material, especially when making estimates over extended time periods. All figures are shown in current (inflation adjusted) dollars. The estimated inflation rate used in this analysis may vary over time.
8. The unifiedplan® portfolio changes and time line changes for each participant are governed by the Plan Document, the Investment Policy Statement and the Benefit Policy Statement for their Plan.
9. The calculated 70% income replacement goal includes the estimated Social Security benefit. The actual Social Security benefit may be different from the estimated value.
10. Compensation in excess of the IRC 415 limit is excluded. All figures reported in current (inflation-adjusted) real dollars.
11. The projections or other information generated by the tool regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results, and are not guarantees of future results. Projected growth of assets is based on Unified Trust Company's Projected Future Modeled Returns and the asset allocation of your portfolio for this goal. The graphical representations are an approximation taken from the direct path between the pertinent events tied to your goal. Indices are unmanaged, do not incur management fees or expenses, and cannot be invested in directly.
12. Neither the Plan Sponsor nor Unified Trust can guarantee that any participant will achieve a successful retirement. 1. The unifiedplan® reporting tool helps investors understand whether they are on course to achieve a successful retirement. The unifiedplan® uses "asset liability" matching. The asset is the money forecast to be accumulated and the liability is the amount of money needed to pay for the retirement. For investors who are planning for retirement, the tool estimates the amount of funds required to meet their retirement spending goals and provides alternatives such as delaying retirement or lowering retirement spending for those who may not be able to save the required amount.
13. Projections are made based upon expected asset transfers. Actual transfer amounts may be different and may require a new retirement solution.

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Improved Retirement Outcomes**

Thursday May 6, 2010

