

The PRS Report

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THE VALUE OF UNBUNDLED PENSION SERVICES

The Value of Unbundled Pension Services

The services required to establish and maintain a smoothly-run and compliant qualified plan are numerous: plan design, document and amendment drafting, communications to employees and participants, withholding from employees' salaries, remitting employee contributions to 401(k) plans, calculation of employer contributions, choosing investment selections, non-discrimination, coverage and top-heavy testing, preparation of Form 5500 and other required IRS filings, monitoring compliance, preparing forms for distributions and loans, and consulting.

Some pension plans, particularly 401(k) plans use the services of a bundled provider to handle and monitor the pension plan investments along with managing the administration and compliance needs of the plan -- a "soup to nuts" approach. The bundled approach offers convenience in dealing with just one firm, usually a large payroll, insurance, or investment company, often at what appears to be a lower cost. However, these costs may be hidden and often as assets increase, so do these costs.

Unbundled retirement solutions use a different approach operating under the premise that a one-stop shop can-

not possibly be an expert in investing, pension compliance, plan design and the many other services needed. Accordingly, an employer typically may hire one firm to design the plan and provide administrative services (a Third Party Administrator or TPA) and another firm to provide investment services (a Financial Advisor). With 401(k) plans, this is in addition to the company's payroll provider who will withhold 401(k) contributions from pay in much the same manner that it already withholds FICA or income taxes. Such an unbundled set-up enables the plan sponsor to reap the benefits of firms who have expertise in very specific areas.

We believe that the majority of small to medium-sized firms benefit from unbundled pension services from a TPA



The Value of Unbundled Pension Services (cont.)

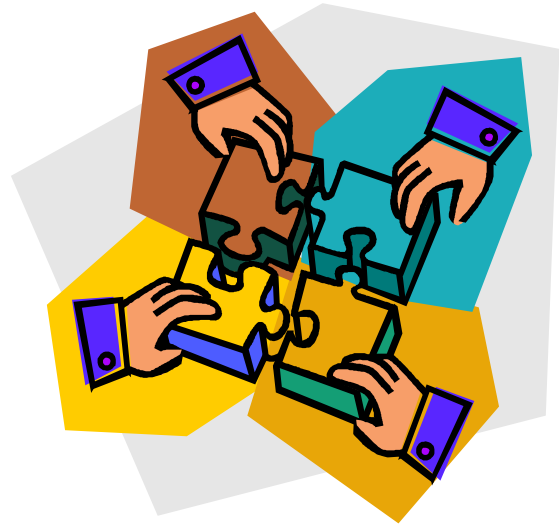
firm like Pension Review Services (PRS), and that the difference between the services manifests itself in several important ways. For ease of comparison in discussing these differences, we will refer to a fictitious firm called ABC, who provides bundled services, while PRS represents the unbundled services provider.

Service

At PRS, you have the same one or two people at the firm you can always turn to at a moment's notice with questions concerning your plan, people you have dealt with before and who know you and your business and the demographics of your firm. At ABC, you will most likely be connected to a different person each time you call, or you may be connected to a dedicated individual assigned to your account who will typically have to refer your pension question or request to another department. Chances of immediate response with ABC are slim.

Areas of Expertise

Most likely, ABC is either a payroll, insurance, or investment company, therefore specializing in payroll, withholding or investment services. Pension expertise is limited. If your business or plan is not "plain vanilla," the intricacies of pension law could be lost, putting the plan, participants and the sponsor in jeopardy. For example, the purchase of another business can have Controlled Group ramifications. PRS can provide prompt, reliable consulting about these issues.



Plan Design

PRS is able to provide more sophisticated plan designs than ABC would. We consider the employee and employer demographics and the needs of the employer so that a plan can be designed to optimize these factors within the strictures of current pension law. PRS can allow for far greater customization of plans so that the plans will satisfy the needs of and maximize the contributions for the client. Sometimes that means designing a plan which skews contributions in favor of the owners. Sometimes that means designing two plans, a defined benefit plan and a defined contribution plan, because without the second plan, the owners cannot achieve the contribution levels that they want. Some of our plan designs are quite complex and therefore administratively labor-intensive. ABC is not likely to devise such plan designs since their complexity does not fit into their business model of cookie-cutter templates.

The Value of Unbundled Pension Services (cont.)

Expenses

With bundled pension services, some individuals are under the impression that there is little or no cost for plan administration. But just because there is no bill received for administrative services does not mean there is no cost. The cost is hidden since the fees are normally buried in the asset charges. Some bundled arrangements include a charge of 1% to 3% of total plan assets, and these fees or a portion of them are used to cover administrative expenses.



So, the costs automatically increase as assets grow although the administrative effort remains the same.

Competency of Staff

PRS does not process payrolls; PRS does not sell investments; PRS does not sell insurance products. We do not perform these activities because these are not our areas of expertise. What we do is pension plan design, administration, and compliance work, and we have a depth of knowledge in those areas. Our dedicated staff, including an actuary, has over 75 years of combined experience in pension related areas. We are especially known for our expertise in assisting new clients who come to us with “problem” plans (which were not administered properly in the past or are not in compliance with current laws) and in the creation of cutting-edge plan designs.

Ultimately the decision lies with the Plan Sponsor regarding how to provide benefits in the best interest of the owner and the participants. This decision should be reviewed periodically.



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