

# Certification of Reasonableness of Plan Services

for

Sample Green Zone Plan

For the period ended  
March 30, 2012



Federal Reserve Plaza  
600 Atlantic Ave, FL 30  
Boston, MA 02210  
617.723.6400  
[www.dalbar.com](http://www.dalbar.com)

March 30, 2012

To: Charles I N Charge  
President  
Sample Green Zone, Inc.  
123 Main Street  
Kansas City, MO 77777

We have evaluated the services provided to Sample Green Zone Plan to determine if they meet the requirements of the Employee Retirement Income Security Act of 1974, as amended ["ERISA"] Section 408(b)(2) which requires that they be *"necessary for the establishment or operation of the plan and no more than reasonable compensation is paid therefor"*.

Based on evaluations concluded on March 30, 2012 it is our opinion that, services provided do meet the three standards of being 1) necessary 2) reasonable and 3) that compensation paid for these services is reasonable.

Detailed findings from our evaluations are included in the report that accompanies this letter. You should review these findings and if you concur with them make a note of that fact in the Acknowledgement below, describe any action you take and retain this report containing your acknowledgement in your permanent records. Please contact DALBAR if you disagree with the findings in this report.

Our opinion regarding the plan and its services is based on information provided by Sample Green Zone Plan and confirmed through public sources where feasible. Any material change or discrepancy in this information could change our opinion.

Very truly yours,

DALBAR, Inc.

**Acknowledgement**

I/We have reviewed the evaluations contained in this report and concur with its findings.

I/We have taken the following actions in response to these findings:

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See further information in attachments

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Date

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Date

## Introduction

This report demonstrates compliance with these regulations and presents the results of DALBAR's Fee Disclosure Evaluation & Recommendation ("Evaluation") process which is based on information provided by the responsible fiduciary as defined in ERISA ("Plan Sponsor"). The intent of the report is to document performance of duties required by ERISA §408(b)(2) fee disclosure regulations and make recommendations when appropriate.

Please see the "*Computations and Assumptions Guide*" for explanations of information reported here.

## Background

Federal government regulations now require Plan Sponsors to actively monitor and evaluate the reasonableness of their employees' retirement plans based on specific guidelines. Failure to comply subjects Plan Sponsors to severe fines, taxes and penalties.

## Methodology

Information used in this analysis was obtained from Sample Green Zone Plan.

The determination of reasonableness is performed by the calculation of the "Target Price" for the plan that incorporates a number of quantitative and qualitative variables (X-Factors). The calculation uses a statistical fee benchmark as its starting point and applies various X-Factor weightings based on the facts and circumstances applicable to this specific plan. There are more than fifty X-Factors that are grouped into three categories:

### ***Success in Achieving Retirement Goals***

These X-Factors lead to a secure retirement of employees and include the time until retirement, level of plan contributions, participation rates, investment quality and asset allocations. They influence the replacement income percentage at retirement.

### ***Meeting Plan Sponsor & Participant Needs/Preferences***

Plan sponsors are not required to offer a retirement plan nor are employees required to use one, if it is offered. The voluntary nature of the plan makes it necessary to be responsive to the needs and preferences of both plan sponsors and employees. This category of X-Factors consists of those that encourage plan sponsors to offer and support the retirement plan and those that encourage use by employees.

### ***Reducing Exposure to Risks and Liabilities***

These X-Factors protect plan sponsors from taking actions or failing to act in ways that cause a fiduciary breach or non-compliance.

## Assumptions

The following assumptions were used in calculating the target price for this plan:

<u>Retirement Related</u>		<u>Annual Investment Returns</u>	
Annual Income Inflation	3%	Equities	7%
% of Retirement \$ in Plan	75%	Fixed Income	4%
Expected Retirement Age	65	Stable Value	3%
Retirement Withdrawal Rate	5%	Cash Equiv.	2%
		Blended Investments	5%

## Plan Summary

Name and contact information for Plan Sponsor:

B. Buck Boss                      555-555-1234                      [BBuck@GreenZone.com](mailto:BBuck@GreenZone.com)  
 CFO  
 Sample Green Zone, Inc.  
 123 Main Street  
 Kansas City, MO 77777

Name of plan:	Sample Green Zone Plan
Type of plan	401(k)
Total number of participants in plan including beneficiaries:	100
Estimated or actual value assets in plan:	\$4,000,000
Estimated average participant age:	40
Estimated average deferral rate:	6%
Average annual income of participants:	\$40,000
Number of non-participating eligible employees	35

Service providers:

General Processing, Inc (Recordkeeper)  
 National Administrators, LLC (TPA)  
 Various Mutual Funds (Investment Manager)  
 Statewide Trust Co. (Custodian/Trustee)  
 Mark Twain Financial (Advisor)

## Computation of Target Price

**Statistical benchmark used \$44,800**

Summary of X-Factors:

Success Factors	+3%
Needs & Preferences	
Relationship Factors	-10% (trust, ease of doing business, etc.)
Service quality	+0%
Scope of services	100%
Risk Factors	+0%

**Target price for this plan \$41,464**

## Findings Summary

The following are the principal findings from the Evaluation. Further details are presented in the Recommendations, Plan Improvements and Test Results sections that follow.

### Condition of the Plan

The level of participation and contribution, plan costs, diversity of investments, plan features and compliance with regulations indicate that the plan condition is:

- **Good**

### Fee Disclosure Compliance

Compliance with regulations to obtain fee disclosures from all covered service providers is:

- **Not yet available**

### Other Observations

In conducting the Evaluation, the following observations were made:

- None

## Recommendations

The Evaluation has identified the need to take the following actions:

- None

## Plan Improvements

Adopting or eliminating the features indicated below should be considered in order to improve the effectiveness of the plan:

Plan Feature	Currently In Plan	Consider this Action	For this Reason
Automatic Enrollment	Yes	Re-enrollment	Increase participation
Automatic Escalation of Contributions	Yes	Increase default	Raise contributions
Electronic Document Delivery	Yes	No Action	
Safe Harbor (eliminates ADP & ACP testing)	Yes	No Action	
Loans	Yes	No Action	
Hardship Withdrawals	Yes	No Action	
Self Directed Brokerage	Yes	No Action	
Roth (taxable contributions)	Yes	No Action	
Participant Advice by Computer Model	Yes	No Action	
Face to Face Participant Advice	Yes	No Action	
Catch-up Contributions	Yes	No Action	
In-service Distributions	Yes	No Action	
Pre-retirement Counseling	Yes	No Action	
Matching Contributions	Yes	No Action	
Enrollment/Education Meetings	Yes	No Action	
Automatic Rollovers (for terminated employees)	Yes	No Action	

## Test Results

Tests are conducted in five broad categories. These categories represent the information necessary to determine if service arrangements are reasonable.

**Note:** The numbers in parentheses (6.1) following the title of each category identifies the section of the *Computations and Assumptions Guide* where method of determination is described.

The basis for establishing each of these categories are:

- **Completeness, Accuracy and Usability**

Completeness -408(b)(2)(c)(1)(i) prohibits use of Covered Service Providers unless proper disclosures are made.

Accuracy -408(b)(2)(c)(vii) requires that errors or omissions are corrected within 30 days.

Usability -404 and 408(b)(2) require a Plan Sponsor to decide whether it has enough information to determine whether the cost of services paid for by the plan is reasonable.

- **Plan's Success**

A plan that cannot be reasonably expected to meet the overarching goal of employee retirement security is by definition unreasonable.

- **Necessity of Plan Services**

408(b)(2) requires that services used by a plan are necessary.

- **Comparability of Costs**

408(b)(2) requires that no more than reasonable compensation is paid for services.

- **Judgment of Reasonableness**

The ability to exercise this judgment is the stated goal of the regulation.

### Completeness, Accuracy and Usability

Service Provider	Disclosure Received <sup>(1)</sup>	Required Information	Consistency	Information Accessibility

<sup>(1)</sup> Disclosure not yet received, required by July 1, 2012

### Plan's Success

Plan Success Factor	This Plan	Normal Level
Participation Rate <sup>(1)</sup>	68%	87%
Deferral Rate <sup>(2)</sup>	6%	6.8%
Replacement Income %	32%	22%

<sup>(1)</sup> Steps should be taken to increase participation

<sup>(2)</sup> Steps should be taken to increase deferral rates

### Necessity of Plan Services

Service Provider	Service	Quality	Fiduciary	Necessary	Basis for Necessity*
General Processing, Inc	Recordkeeper	Good	No	Yes	A, B, D
National Administrators, LLC	TPA	Fair	No	Yes	A, D
Various Mutual Funds	Investment Manager	Good	No	Yes	B, C
Statewide Trust Co.	Custodian/Trustee	Fair	No	Yes	A, D
Mark Twain Financial	Advisor	Good	No	Yes	B
* <b>A</b> -Establish or Operate the Plan		<b>B</b> -Produce Successful Results for Participants			
<b>C</b> -Respond to Participants' Demand		<b>D</b> -Comply with Regulations			

### Comparability of Costs

Service Provider	Current Estimate	Proposal Estimate	% Difference	Target Price	% Difference
All	\$46,000	N/A	N/A	\$41,664	10% <sup>(1)</sup>
Total	\$46,000	N/A	N/A	\$41,664	10%

<sup>(1)</sup> Current estimate does not materially exceed the target price

### Judgment of Reasonableness

Consideration	Finding	Conclusion
Potential Conflicts of Interest	None were identified.	Satisfactory
Resolution Method	N/A	N/A
Completeness, Accuracy, Usability	Disclosures have not yet been delivered.	N/A
Plan Success	Participation and deferral rates are below normal levels.	Attention is required
Necessity	All services are necessary.	Satisfactory
Comparability	Costs are marginally above the target price but not so much so as to incur the cost of converting to other service providers.	Satisfactory



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