

**STAFF REPORT CONCERNING
EXAMINATIONS OF
SELECT PENSION CONSULTANTS**

May 16, 2005



<http://www.sec.gov/news/studies/pensionexamstudy.pdf>

SEC EXAMINATION INTO INVESTMENT CONSULTANTS

1. More than half had on-going conflicts of interests.
2. Many did not acknowledge their fiduciary duties.
3. Many more did not have defined practice standards, and/or advance education and training requirements on fiduciary responsibility.



U.S. Securities and Exchange Commission

Selecting and Monitoring Pension Consultants: Tips for Plan Fiduciaries

The Employee Retirement Income Security Act (ERISA) requires that fiduciaries of employee benefit plans administer and manage their plans prudently and in the interest of the plan's participants and beneficiaries. In carrying out these responsibilities, plan fiduciaries often rely heavily on pension consultants and other professionals for help. Findings included in a report by the staff of the U.S. Securities and Exchange Commission released in May 2005, however, raise serious questions concerning whether some pension consultants are fully disclosing potential conflicts of interest that may affect the objectivity of the advice they are providing to their pension plan clients.

<http://www.sec.gov/investor/pubs/sponsortips.htm>

INDUSTRY SCANDALS: SOFT DOLLARS/12b-1

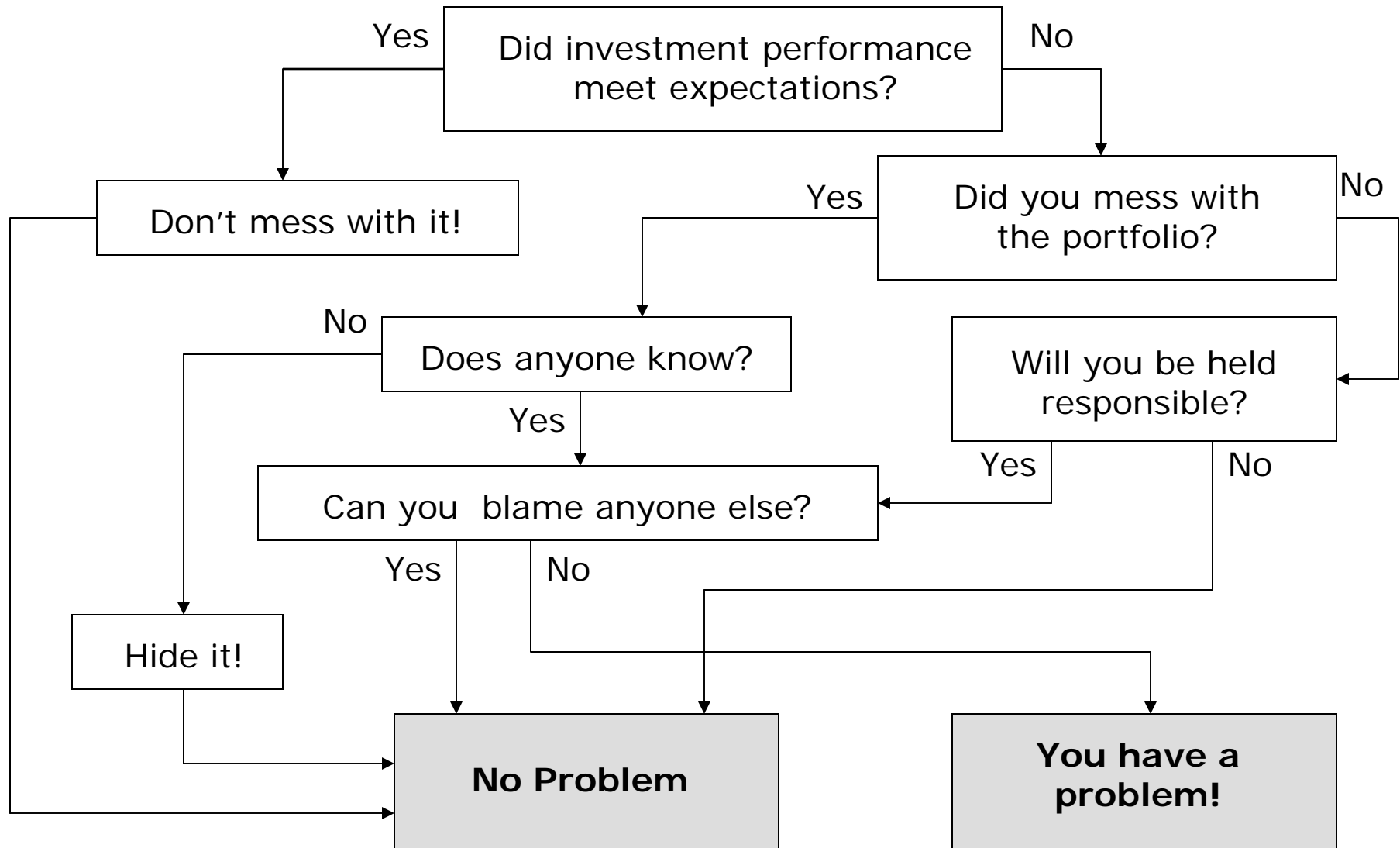
Through the lens of fiduciary practices ...

- 1.2** Fiduciaries are aware of their duties and responsibilities.
- 1.3** Fiduciaries and parties in interest are not involved in self-dealing.
- 3.6** The IPS defines procedures for controlling and accounting for investment expenses.
- 5.3** Control procedures are in place to periodically review policies for best execution, soft dollars, and proxy voting.
- 5.4** Fees for investment management are consistent with agreements and the law.
- 5.5** “Finders’ fees,” 12b-1 fees, or other forms of compensation that may have been paid for asset placement, are appropriately applied, utilized, and documented.

TYPES OF FIDUCIARY FUNDS

	Corporate Retirement	Public Retirement	Taft - Hartley	Foundation Endowment	Private Trusts
Legislation	ERISA	MPERS (Proposed)	ERISA	UPIA	UPIA
Oversight	DOL, IRS, PBGC	State Attorney General	DOL, IRS	State Attorney General	State Attorney General

FIDUCIARY FLOW CHART

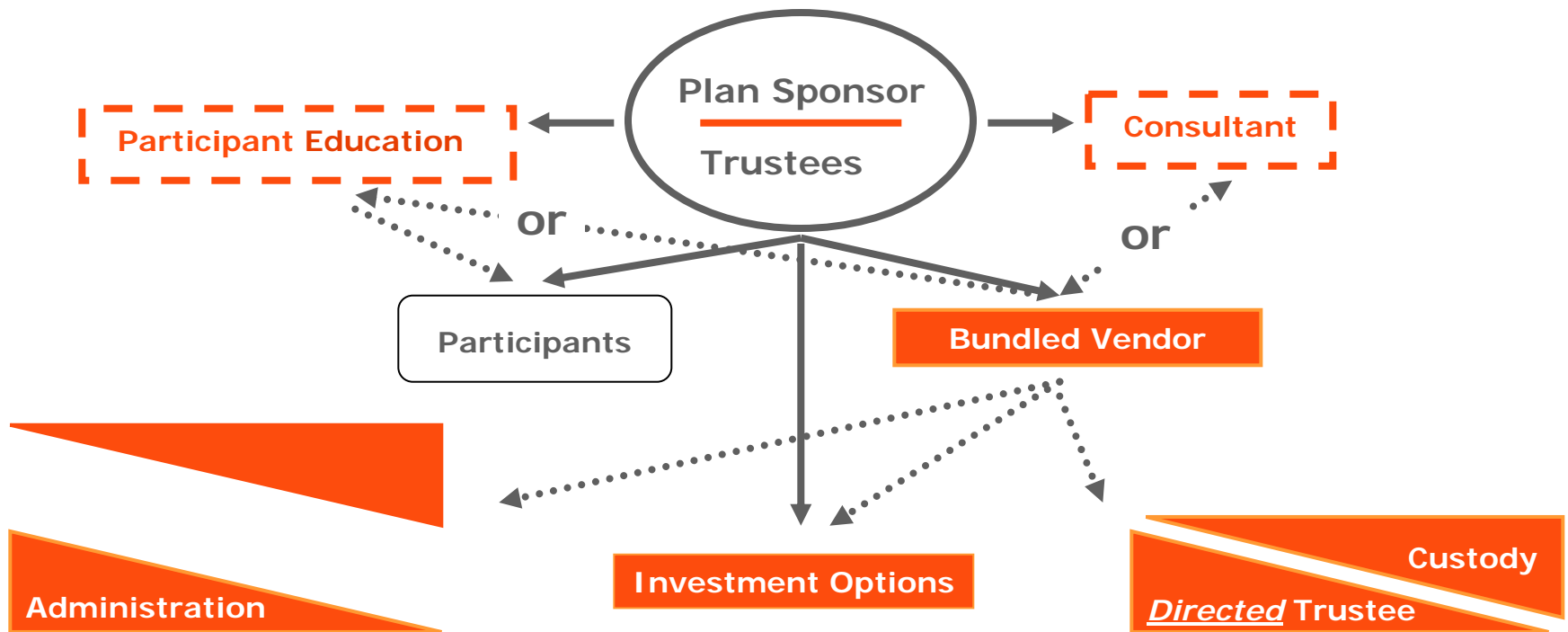


WHEN FIDUCIARY STATUS IS IN DOUBT

	NON-FIDUCIARY	FIDUCIARY
Scope of Services	Single Project	Full Retainer
Client Sophistication	Sophisticated	Unsophisticated
Investment Options	Multiple	Specific

BUNDLED SERVICES

401k “Bundled Services” should be broken down by fiduciary roles so that a proper determination can be made of specific responsibilities.



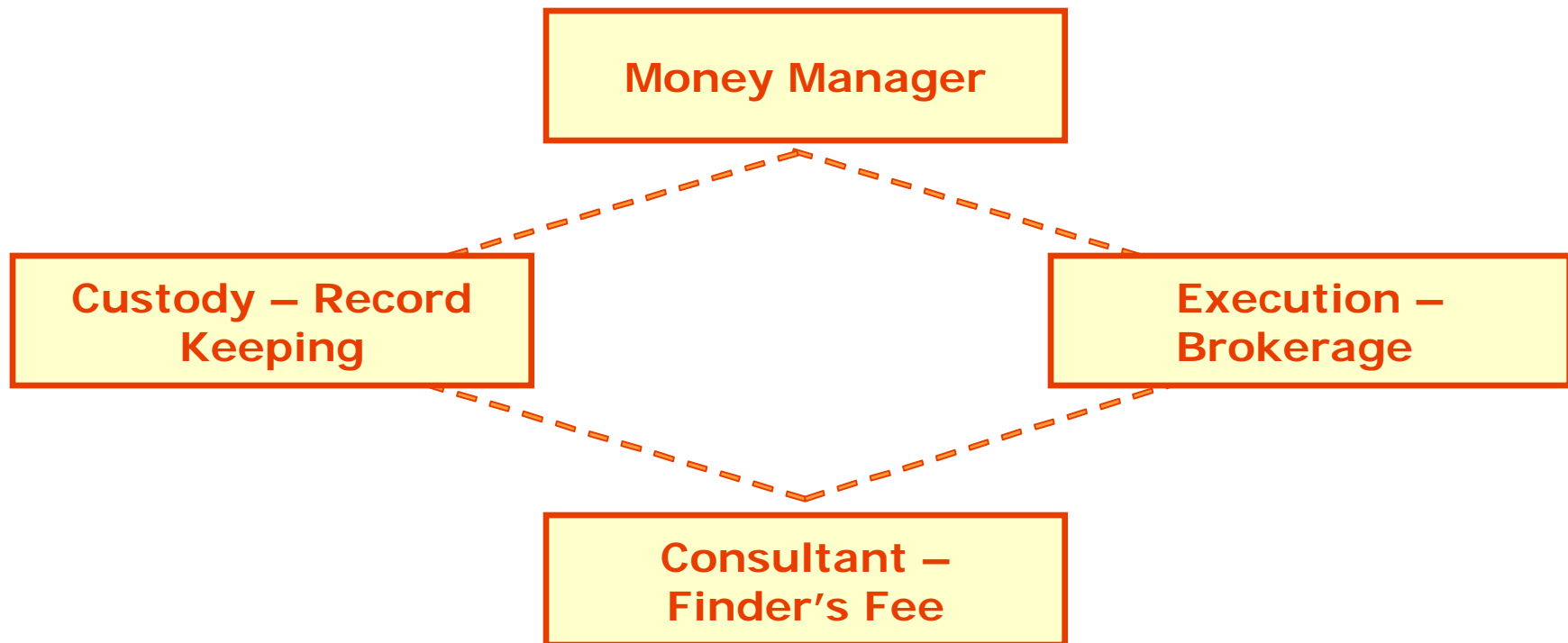
Legend

- Likely fiduciary responsibility of plan trustees
-→ Likely fiduciary responsibility of vendor

Concepts attributed to Steff Chalk

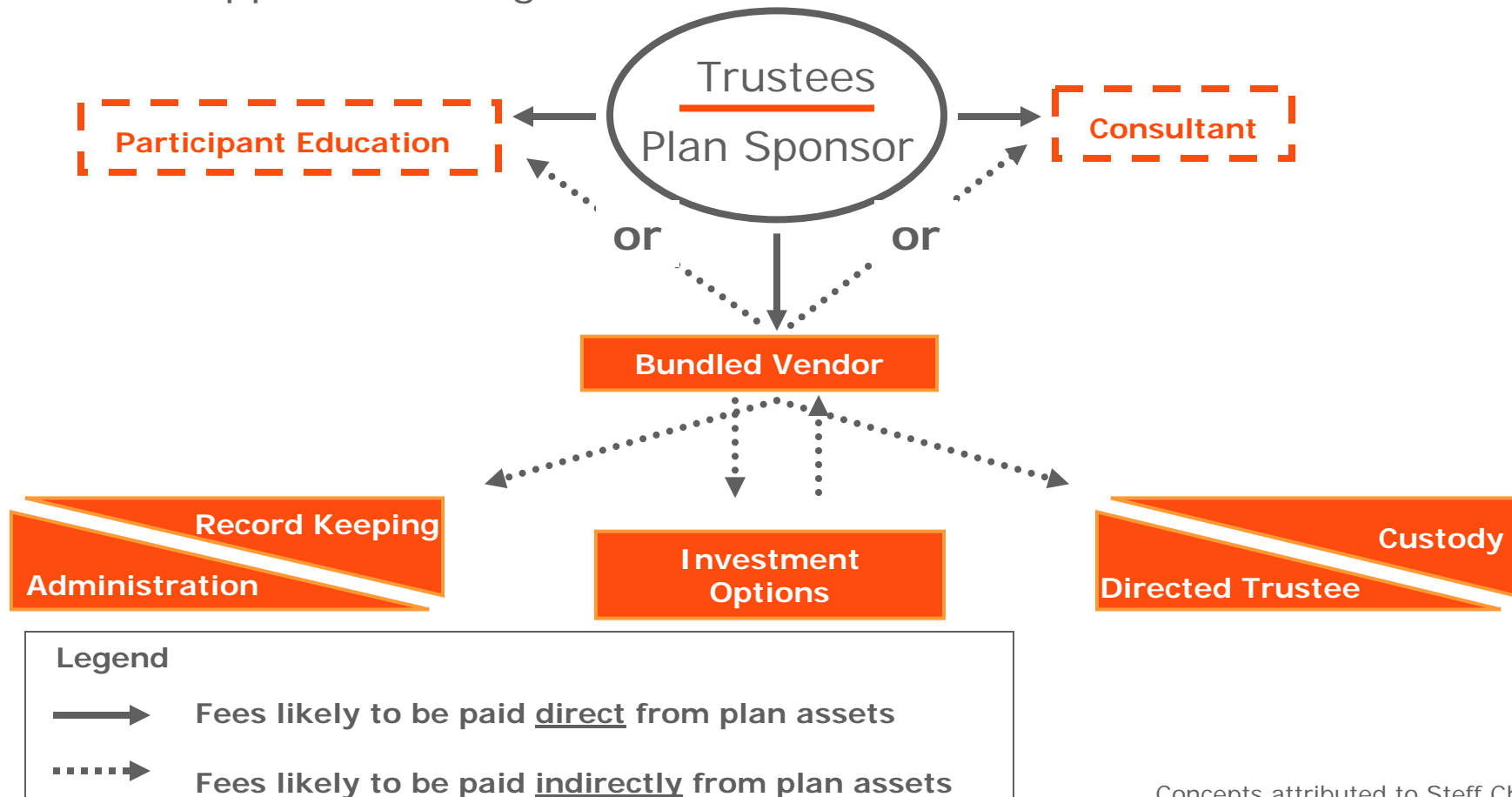
UNBUNDLING FEES AND EXPENSES

“Bundled fees” should be broken down into four categories so that a proper evaluation can be made – various costs can be obscured or moved to create apparent savings.



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CHASING TOP QUARTILE PERFORMANCE

For the three-year period
2002 – 2004

Universe of 6,344 Funds

200 (3.2%) Funds Survived

Data source: Morningstar Large, Mid, and Small equity funds.

As of December 31, 2004

CHASING TOP QUARTILE PERFORMANCE

For the five-year period
2000 – 2004

Universe of 5,080 Funds

57 (1.1%) Funds Survived

Data source: Morningstar Large, Mid, and Small equity funds.

As of December 31, 2004

CHASING TOP QUARTILE PERFORMANCE

For the three-year period
2001 – 2003

Universe of 4780 Funds

135 (2.8%) Funds Survived

Data source: Morningstar Large, Mid, and Small equity funds.

As of December 31, 2004

CHASING TOP QUARTILE PERFORMANCE

For the five-year period
2003 – 1999

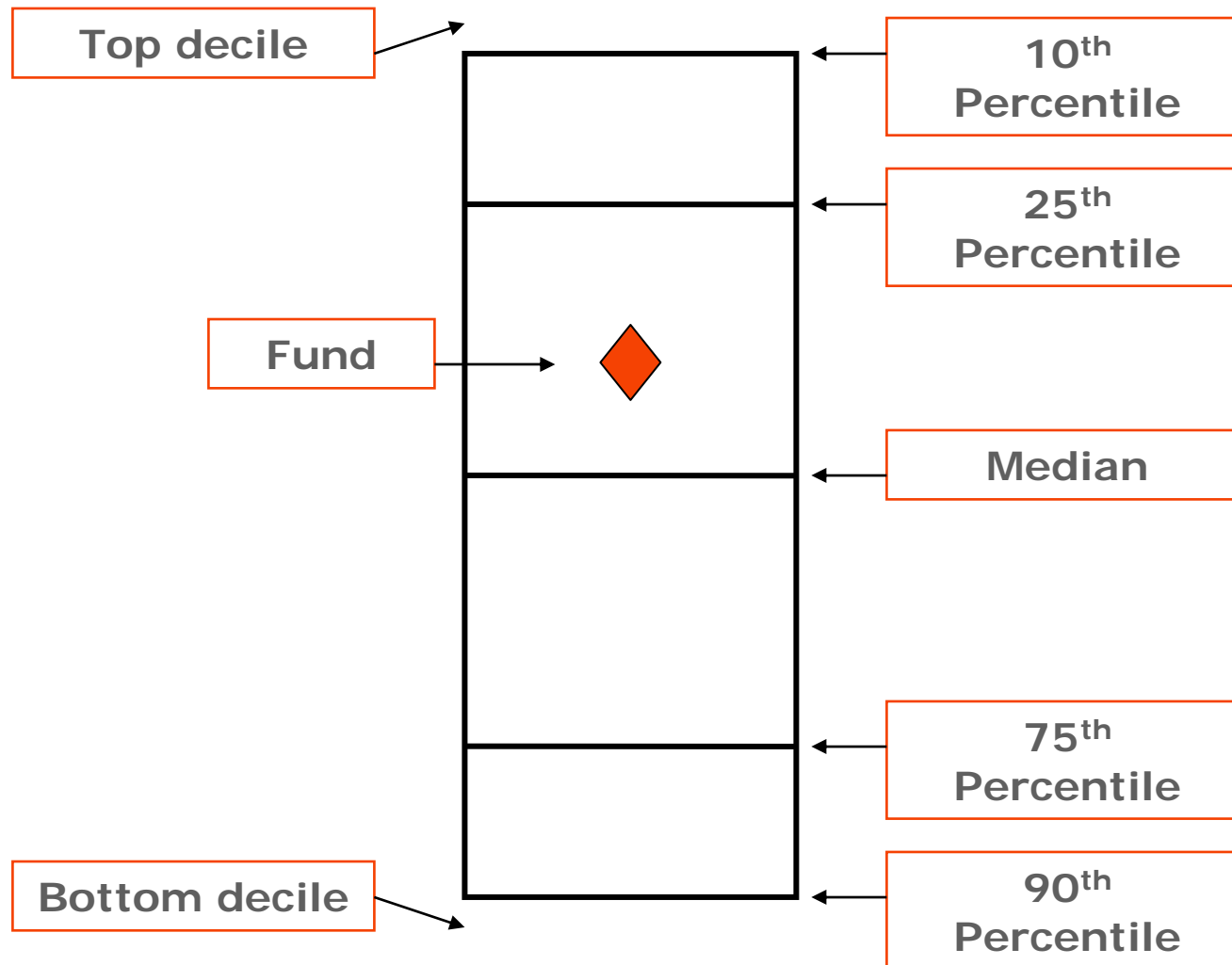
Universe of 3,306 Funds

13 (0.4%) Funds Survived

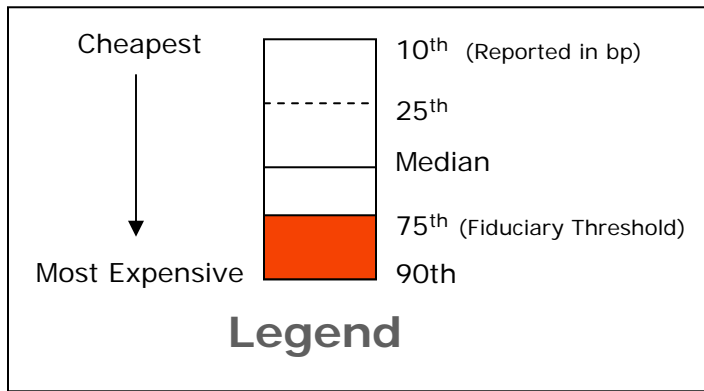
Data source: Morningstar Large, Mid, and Small equity funds.

As of December 31, 2004

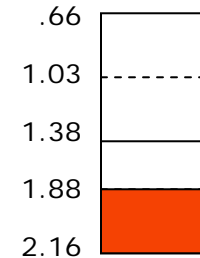
HOW TO READ A BAR CHART



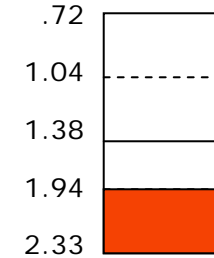
RANGE OF MUTUAL FUND EXPENSE RATIOS



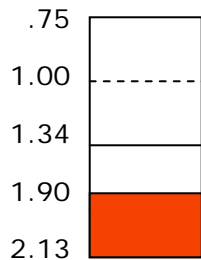
Large-Cap Blend



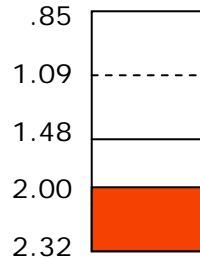
Mid-Cap Blend



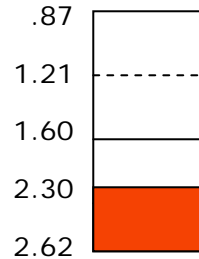
Small-Cap Blend



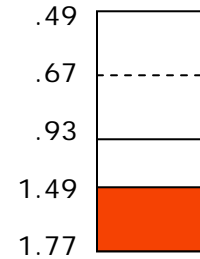
Large-Cap Value



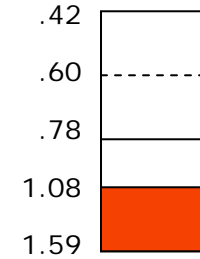
Large-Cap Growth



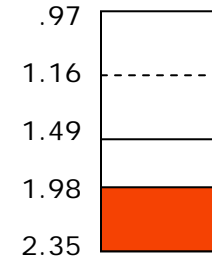
Foreign Large Blend



Intermediate F/I



Short-term F/I



REITs

As of December 31, 2004

FIDUCIARY SCORE™

Each field is given a numerical value and then ranked against other funds in its peer group.

Passed – Fiduciary Score 0

The fund has no fiduciary due diligence shortfalls.

Appropriate – Fiduciary Score 1 – 25

The fund may be an appropriate choice for use in a fiduciary account.

Watch (2) – Fiduciary Score 26 – 50

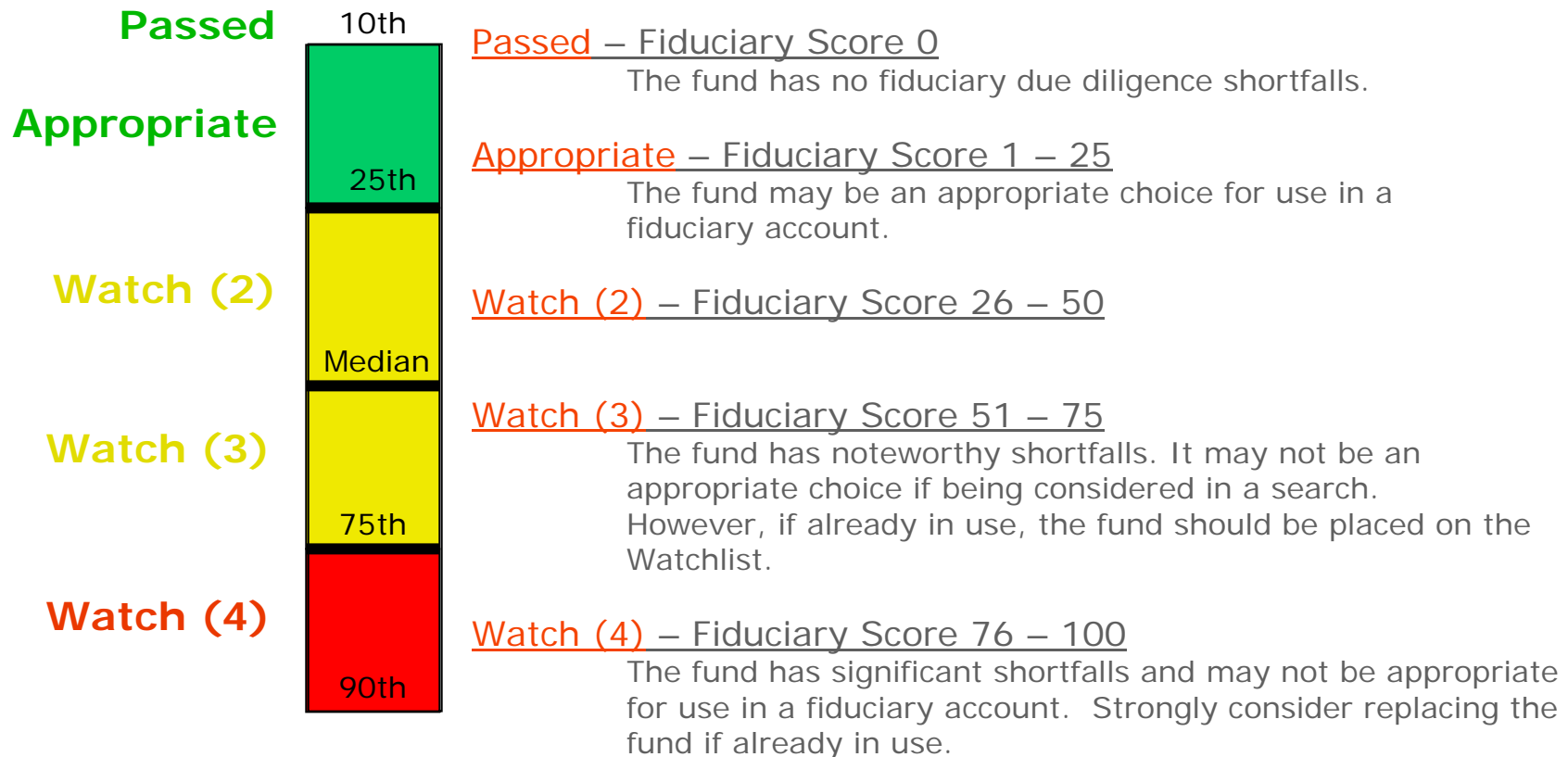
Watch (3) – Fiduciary Score 51 – 75

The fund has noteworthy shortfalls. It may not be an appropriate choice if being considered in a search. However, if already in use, the fund should be placed on the Watchlist.

Watch (4) – Fiduciary Score 76 – 100

The fund has significant shortfalls and may not be appropriate for use in a fiduciary account. Strongly consider replacing the fund if already in use.

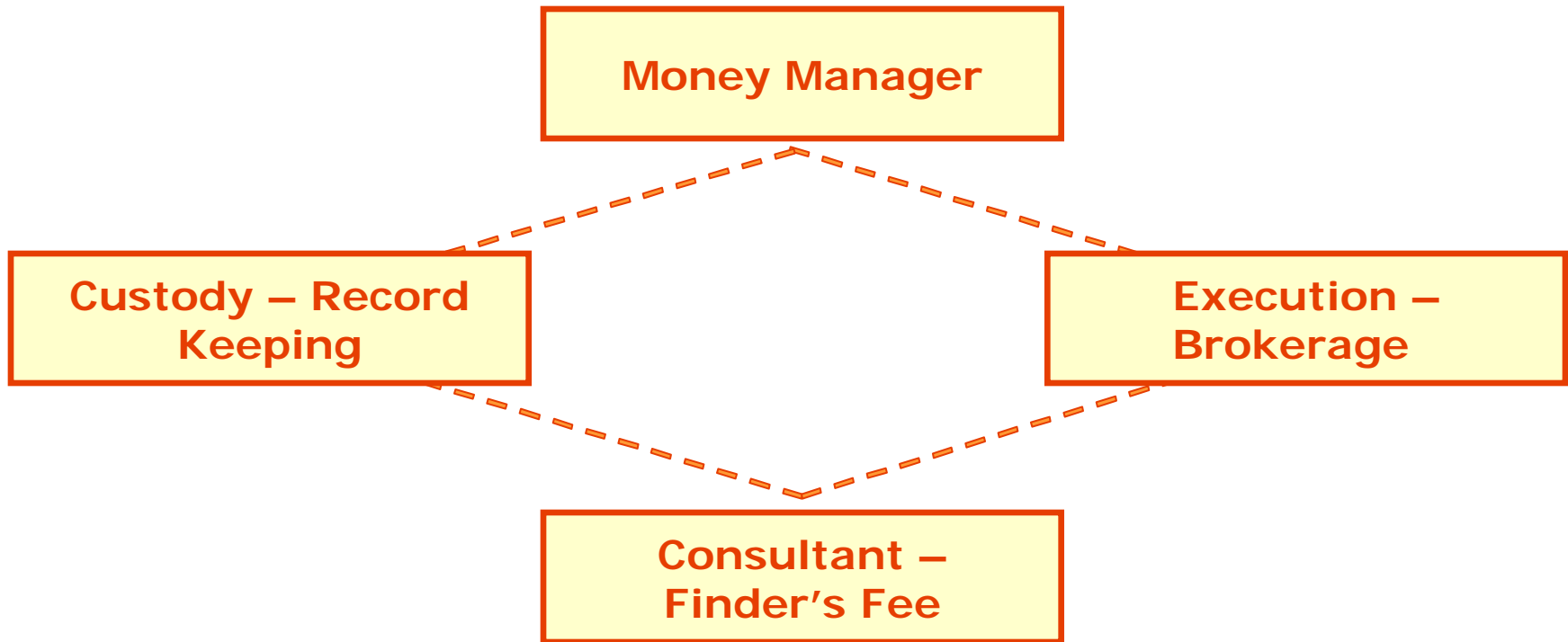
FIDUCIARY SCORE™



Source of raw mutual fund data: Morningstar

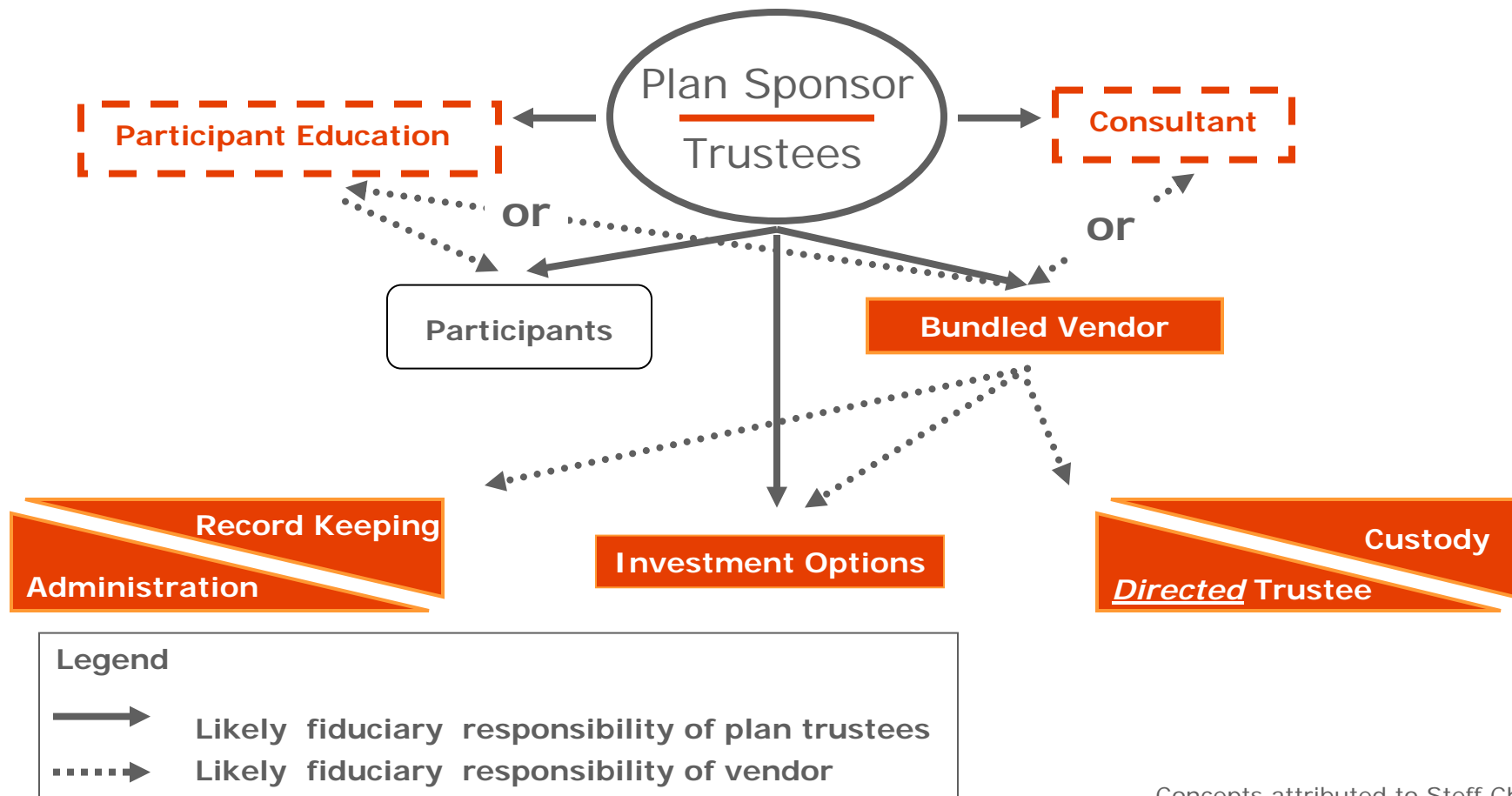
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UNBUNDLING FIDUCIARY RESPONSIBILITY

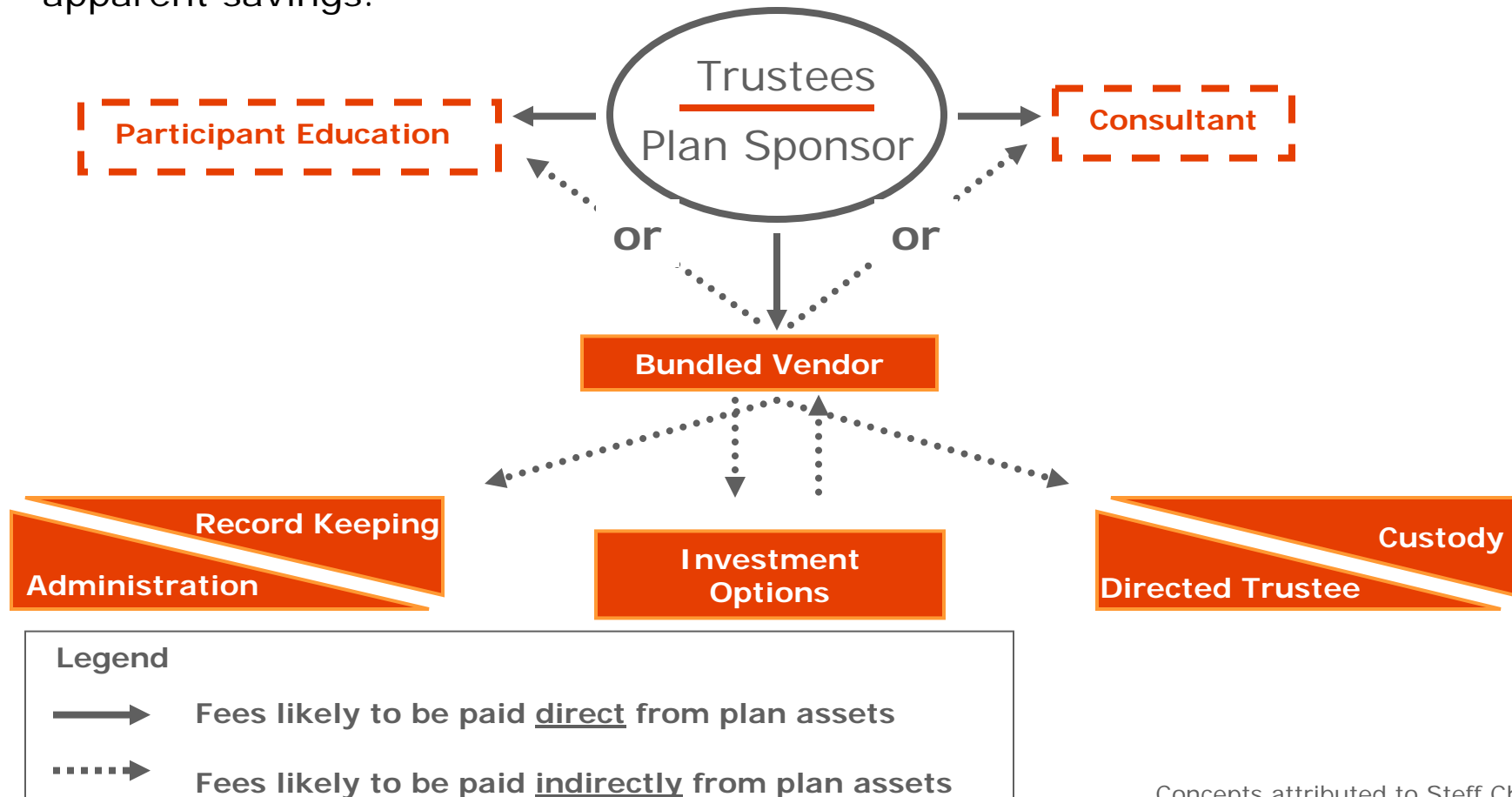
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WHAT IS REVENUE SHARING?

Mutual fund expenses normally charged to a retail investor that are paid by the fund company to a custodian, brokerage firm or record-keeper (in the case of a participant directed retirement plan) in lieu of services.

Types

- 12b-1 Fees
- Sub-Transfer Agency Fees
- Shareholder Servicing Fees
- Finder's Fees

CURRENT EVENTS AFFECTING REVENUE SHARING AND RETIREMENT PLANS

1. SEC Investigation – June & July, 2004
2. DOL Booklet – Understanding Fees and Expenses – May, 2004
3. DOL Cost Disclosure Sheet –
www.dol.gov/ebsa/pdf/401kfefm.pdf
4. ERISA Advisory Council's Final Working Reports – December, 2004
 - Report on Plan fees and Reporting on Form 5500
 - Fee and related disclosures to participants

CURRENT EVENTS AFFECTING REVENUE SHARING AND RETIREMENT PLANS

The Rules to Know:

1. "Exclusive Benefit Rule": ERISA Sections 404(a)(1)(a) and 403(C)
2. Prohibited Transactions: ERISA Sections 406(b)
3. DOL AO 97-15A: The Frost Letter
4. DOL AO 97-16A: The Aetna Letter
5. DOL AO 2003-09A: The ABN AMRO Letter

FIDUCIARY CODE OF CONDUCT

If you're going to do it –
Do it right.

As you manage investment decisions:
Document the process; Hire competent professionals; Monitor results;
and *Always remember you have been entrusted with someone else's
money.*

Never invest in something you don't understand or is difficult to value.
Know what you're paying for –
Don't hire the fox to count the chickens.

Understand that, when everyone is talking about making a killing –
The market already is dead.

Cautiously approach investments that promise superior results.
Believe in the statement –
The past is not necessarily indicative of future performance.

Relish the opportunity to be a steward of sound investment practices
for, in the end,
it's *procedural prudence*, not performance, that counts.

