



# RETIREMENT PLANNING NEWSLETTER FOR PLAN FIDUCIARIES AND TRUSTEES

## The Fragasso Group, Inc.

*The Retirement Planning and Wealth Preservation Specialists*

*A Registered Investment Advisor*

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## What Are The Components Of A Good Retirement Plan?

No less an authority than the Department of Labor has given us some help with the answer to that question. Further, most textbooks on the subject recommend the same answer. Let's consider those opinions.



**First**, a retirement plan should begin with its *Investment Policy Statement*. That is a complete description of what the trustees hope to accomplish with the plan. (Hint: it's not just, "make a lot of money.") The Investment Policy Statement acts as a guide for the fiduciaries and the investment managers. The Policy Statement considers whom

the plan will benefit, how and when. It specifies the hoped for results and stands as a beacon to guide ongoing action.

**Second**, the Investment Policy Statement should be followed by the *Investment Guidelines*. They specify exactly what investments can be used for the plan and which are prohibited. The Guidelines include the desired asset allocation model, frequency of investment review, methods for making changes and who is responsible for managing and communicating with the trustees and other fiduciaries. Further, the Guidelines specify the desired returns within a set of parameters and the risk to be incurred in getting them. The comparable indices for benchmarking and evaluating those results are also a part of the Guidelines.



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## How Important Is Your Retirement Plan?

For most business owners and professionals, their retirement plan is their second most valuable asset – after the business itself. And, it certainly is their most valuable *liquid* asset. It is more readily converted to cash than a business and its fair market value is usually daily determinable. For employees, a plan is often their most valuable asset.

That makes a plan very important, but is it always treated as such? Sadly, it often commands short attention and plan investment decisions are not made nearly as methodically as other business decisions.

You will work upwards of 100,000 hours in your career. When it's over, your retirement plan will be the most tangible result of all of that labor. It deserves the best attention and decision making that you can direct to it. Your retirement security likely depends on it.

# Asset Allocation or Something Else?

Lots of theories exist on what is the best investment strategy. We have all heard, "Put your eggs in one basket and watch that basket closely." Others have purported to be able to divine the direction of future market movements and effect market timing as a result. Still others advise buying an index fund and letting it do all of your work for you. There are as many theories as there are professional and amateur theoreticians.

This article is too short to test and debunk the myths. Our adult education courses do a good job of that. Instead, let's accept the premise that no one can see the future, no matter how big his or her computer. Most investment management textbooks (as opposed to magazines) would give high marks to using *asset allocation strategies* in managing a portfolio. No less prestigious a body than the Noble Prize Committee awarded the prize in finance to work that demonstrated that more than 90% of a portfolio's reward and risk can be attributed

to the asset allocation model selected. Individual investment selections accounted for only 5% of the outcome in that analysis.

***Beware of the asset model that only covers the last few good years.***

But, two big cautions are raised. First, the longer the period considered in the asset allocation analysis, the more plannable the results. Beware of the asset model that only covers the last few good years. Second, asset allocation should not be a guise for predicting future market movements. When that happens, investment managers and fiduciaries select only those asset

categories that *they* think will do well. When that happens we have a market timer in asset allocator's clothing. That's wrong. Proper asset allocation requires that all appropriate asset categories be used, especially when they are out of current favor.

More information is available on this topic from the selection list. Look for *The Art of Retirement Plan Investing* brochure and audio tape.

## Good Retirement Plan (continued from page 1)

**Third** comes the selection of the investment manager(s) based on the Investment Policy Statement and Guidelines. The manager(s) could be investment management firms or mutual fund managers. Either way, they should be selected based on how their respective methodologies fulfill the mandates of the Policy and Guidelines.

Consider for a moment. What is the alternative to this business-like approach? Is it the tips - luck - rumor school of investing? Is it hitching your retirement wagon to only one mutual fund? Well, the Department of Labor has provided the answer. You *must* have an Investment Policy Statement and Guidelines according to the Employee Retirement Income Security Act (ERISA) that the DOL is charged with enforcing. Besides, prudent investment management would dictate such a business-like approach.

There is help. Select information from our ordering list in this newsletter to gain help in establishing your Policy Statement and Guidelines.



## Employee Financial Education a Must!

**E**mployees are bombarded with information today regarding the importance of their retirement plans. They are very interested in how their retirement security can be enhanced by proper retirement plan management. This is true if they are making the investment decisions in a 401(k) or 403(b) plan or if the trustees are making the investment decisions for them in a profit sharing, money purchase pension or other defined contribution plan.



allow a mutual fund fact sheet showing fund choices to constitute your entire educational effort for participants? Or, would you be more comfortable truly educating them as to the proper asset allocation strategies for their family's needs and as to how the various funds available might fit the strategy they have selected? Not only will the later course be better in court; it is the right thing to do for your employees! In the final decision, that last item should always be your guide.

Employees know that Social Security is a program in transition. They realize that it is dependent on the 30-year treasury bond yield and that the boomer generation is projected to make the whole program go tilt. They know the value and importance of investing in America's businesses. They are looking to their retirement plan(s) to keep them safe and secure in their later years. Employee financial education empowers the plan participants and makes them a knowledgeable partner in the process.

Further, ERISA mandates that you *educate* employees regarding their investment alternatives. However, ERISA is mute relative to the definition of "educate." That is left to case law. Do you wish it to be your court case that defines it? Considering that risk, should you

But more than that, consider that the employer-sponsor of a retirement plan puts considerable money into funding and administering the plan. If you put that much money into a product or service for your customers and clients, wouldn't you advertise it? That's exactly what employee financial education does. It informs your employees as to how valuable that fringe benefit really is to them. Why spend that much money and not promote its benefits? Educate your employees and reap the full reward for the benefits you have provided.

More information on employee financial education is available from this newsletter's ordering list.

### **Trustee and Fiduciary Education**

Look for inserts to these newsletters announcing various educational opportunities to help you become better in your fiduciary and plan management role. Our courses are available both through the University of Pittsburgh's PIP (adult education) program and through special courses we offer only for plan fiduciaries. Find those inserts with each edition. A bonus: CPAs receive CPE credits for our courses and Human Resource professionals earn re-certification points.

## Information Ordering List

Circle the item number desired

Item #	Name	Format
101	Investment Policy Statement and Guidelines worksheet	Work paper
102	<i>The Art of Retirement Plan Management</i>	Audio tape and brochure
103	<i>Employee Financial Education</i>	Audio tape and brochure
104	<i>Managing Expectations</i> (Understanding asset allocation)	White paper
<b>105 series</b>	Checklists:	
<b>105a</b>	Retirement Plan Management Preparedness (Trustee and Fiduciary Preparedness)	Checklist
<b>105b</b>	Can You Afford to Retire? Preparedness (Individual Preparedness)	Checklist
<b>105c</b>	Employee Financial Awareness Preparedness (Human Resource Management Preparedness)	Checklist
106	A Five Session Employee Financial Education Program	Brochure

**How to order.** *Clip or photocopy this section and mail to:*

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Pittsburgh, PA 15219-1818

Or, scan it and email it to: [fgi@fragassogroup.com](mailto:fgi@fragassogroup.com)

Your name \_\_\_\_\_

Your title \_\_\_\_\_

Company name \_\_\_\_\_

Company address \_\_\_\_\_

Daytime telephone (      ) \_\_\_\_\_



# The Fragasso Group, Inc.

Please note our corporate format, address and our telephone and fax numbers.

*Please include in your records.*

Thank you.

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