

Strong Designs that Work and Last

A note from the Madison Management Team

We are committed to delivering to you a quality Newsletter each quarter, full of information that is directly relevant to you and your individual retirement planning needs as well as those needs associated with sponsoring and running a retirement plan for your employees. The information contained in this Newsletter is prepared with care and insight from our executive management team and is distributed to all of our TPA clients, Investment Advisory clients as well as our professional friends and centers of influence. We hope that you find it a useful tool in keeping current with the latest legislative trends and compliant when it comes to running your retirement plans.

Upcoming Deadlines for the Second half of 2008:

September 15, 2008: The minimum funding deadline for contributions to a 2007 calendar plan year defined benefit or money purchase plan. It is also the extended deductible contribution deadline for employer profit sharing and matching contributions for 2007 calendar year corporations on extension.

September 30, 2008: Summary Annual Report of Form 5500 covering the 2007 plan year for filers not on extension. Copies of this report should be distributed to each plan participant no later than September 30, 2008 (i.e. 2 months after the Form 5500 filing deadline). It is also the deadline to convert an existing Profit Sharing Plan to a Safe Harbor 401(k) Plan (or establish a brand new 401(k) Safe Harbor Plan) for 2008.

October 15, 2008: 2007 Form 5500 (Annual Return of Employee Benefit Plan) is due for calendar plan year filers on extension. It is also the extended deductible contribution deadline for employer profit sharing and matching contributions for 2007 calendar year partnerships and sole proprietors on extension.

December 1, 2008: 401(k) Safe Harbor Notice for 2009 calendar plan year must be distributed to participants by this date. If you distributed a maybe notice by 12/1/2007 and you would like to amend the Plan for the 2008 plan year to a Safe Harbor Plan, this is the deadline by which (i) the plan needs to be amended and (ii) a notice of amendment of the plan to safe harbor status for 2008 plan year needs to be distributed to plan participants.

December 15, 2008: Summary Annual Report of Form 5500 covering the 2007 plan year for filers on extension. Copies of this report should be distributed to each plan participant no later than December 15, 2008 (i.e. 2 months after the extended Form 5500 filing deadline).

December 31, 2008: This is the extended deadline to correct any 2007 ADP/ACP failures (would include both an excise tax as well as earnings calculation on any 401(k) refunds). It is also the deadline to adopt a brand new qualified retirement plan for 2008.

IMPORTANT CHANGES: Please note a change in the extended due date of Employer tax returns for partnerships, LLPs & LLCs. Previously, partnership, LLP & LLC tax returns were due by 4/15 (without an extension) and 10/15 (with an extension). With the change, the extended due date will be one month earlier (i.e. by 9/15). The reason for the change is to give individual tax payers a one month lag time to file their personal returns by 10/15. **This change will take effect for partnership, LLP & LLC returns due in 2009 and later.** The 2008 calendar year PBGC filing due date has been changed as a result of PPA (the Pension Protection Act of 2006). Generally, for calendar year plans with under 100 participants, the due date is 4/30/09 for 1/1/08 plan year beginning filers; for plans with 100-499 participants, generally, the due date remains 10/15/08. You should verify the specific due date with your Madison Consultant with respect to your plan details.

Feature Article:

What drives fees in a 401(k) plan?

What Drives Fees in a 401 (k) Plan?

Think fees in 401(k) plans don't matter? Think everyone charges about the same? Think it's not worth drilling into a 1% difference in provider fees? Think again! According to testimony at a hearing of the House Education and Labor Committee, a one-percentage point fee hike reduces retirement benefits over a 20-year period by 17%. To compensate for this lost investment income, employees must postpone retirement for three years. 401(k) plan fees are not the most exciting topic, but as you can see, even the smallest overcharge adds up.

Your plan is nothing more than the total of all of the participants' account balances. It is the participants that pay the fees, not the plan. When employees are overcharged without their knowledge, sooner or later the government takes notice. It's happening as I write this. Legislation is being written in Washington that will force plan sponsors and providers to pay closer attention to 401(k) fees, or face serious consequences. It's your job as the plan sponsor to make sure that you're in full compliance with the latest legislation, as well as ensuring that your employees have an opportunity to maximize their retirement plans. It is our job here at Madison to help you do that.

So what drives 401(k) plan fees? Is it the number of participants? Is it the overall value of assets in the plan? Are there other factors? The answer is Yes, Yes, and Yes!

The cost drivers in 401(k) plans are comprised of the following:

- Consulting and Administrative Fees
- Service Provider Fees
- Fund Fees and their Accompanying Expenses [12b-(1) fees, Sub Transfer Agent Fees, Custodial and Trading Fees, Etc.]
- Broker Commissions and/or Investment Advisor Fees

Let's look at each one:

80% of all 401(k) investors don't know how much they pay to participate in their company plan

Consulting and Administrative Fees – These services include such things as designing or modifying the plan. For example, should it be a safe harbor plan, would automatic enrollment help, what should the plan's eligibility rules be, what about vesting, etc?

On an ongoing basis, the plan requires discrimination testing. Form 5500 must be filed annually by the Plan Sponsor. Madison makes sure that your plan remains in compliance with all of the Internal Revenue Service and Department of Labor rules and regulations. Furthermore, as the rules and regulations change, your Madison consultant helps you sort through your options. This is important because the IRS requires that Plan Sponsors pay close attention to these issues.

Service Provider Fees – Service Providers are generally financial institutions that provide what are known as daily recordkeeping platforms. Two of their critical functions are accepting and allocating the remittances from the plan sponsor. They also maintain all of the employee accounts and properly allocate all of the loan repayments as well as employer matching contributions to each participant. Service Providers are responsible to maintain *three* separate websites for the plan:

A participant website

A Plan Sponsor website

A broker and investment advisor website

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As a fiduciary, have you identified all the fees in your plan?

Among other things, the Service Provider also prints and sends out quarterly statements, maintains a participant call center, upgrades its technology (whether driven by the market or changes in the law), etc. Many Service Providers provide enrollment and education services for the participants. These Service Providers are usually made up of large insurance companies or mutual funds: Fidelity, Principal, Prudential, American Funds, etc. are just a few of some of the more familiar names.

Service Providers are compensated in one of two ways: they may engage in revenue sharing arrangements with the respective fund families in their investment platform and/or, they may “wrap” an additional fee, in the form of basis points, around the fund fees. While revenue sharing (the payment of certain expenses or fees from a mutual fund to the Service Provider) has come under close scrutiny, it is a legitimate practice and it helps the Service Providers to defer some of their costs. The Service Provider oversees the account activity on a 24/7 basis, and their daily reconciliation must be 100% error free. Only institutions with the financial resources and commitment to the retirement field can meet such exacting standards.

Fund Fees and their Accompanying Expenses – As everyone knows or should know, all mutual funds charge management fees (generally known as expense ratios) to cover their overhead (research, portfolio management, booking new investments, processing purchases and redemptions, etc.). Mutual fund expense ratios may also contain things you probably never heard of such as 12-b (1) fees, Sub-Transfer Agent Fees, Custodial and Trading fees, etc.). All of the expenses attached to these various functions are netted out of the returns to the fund’s investors.

Broker Commissions and/or Investment Advisor Fees – There is one more important component that must be added to the mix. Many Service Providers have hundreds (some have *thousands*) of mutual fund options in their investment platform. Which funds should be chosen by the Plan Sponsor as the core investment lineup? Who will help the Plan Sponsor monitor the funds? Who will provide input so the Plan Sponsor can decide if lifestyle and/or lifecycle funds should be given as choices to the participants? How does the Plan Sponsor know when a fund is underperforming and should be eliminated? All of these services and more generally fall to the investment broker or advisor that the Plan Sponsor has chosen to work with. The role of the investment advisor is critical to the whole process.

Now that you have a better idea as to who is involved, how might you begin to get your arms around what you are actually paying for? How can transparency be achieved? As a registered representative and a member firm of National Retirement Partners, once we know the fund choices in your particular plan I can:

- List all of the fees at the fund level including expense ratios, wrap fees and revenue sharing (and some that you have never heard of)

- Summarize those fees in an easy to digest format

- List all of the parties getting paid by the plan and how much they are receiving for their services

- See if the plan can get back some of the revenue sharing and use it as an offset to some of the hard dollar fees paid. In some cases, the revenue sharing (if any is available) can be credited to participant accounts, thus serving to increase the overall return of the plan.

It is important to remember one doesn’t select an investment or a Service Provider just by looking at fees. The fund’s historical performance, the manager’s tenure and how much risk it has taken against its peers to achieve its investment results are just a few of the important factors when choosing funds for your plan. The difference is that these other factors (performance, manager tenure, etc.) can be quantified fairly easily. Identifying how much the plan is paying and why is a Byzantine maze that only professionals in the retirement field can navigate successfully because of their extensive retirement plan consulting experience.

If the fees in your plan have not been clearly identified, then give us a call at Madison. We’re here to make sure you’re in full compliance with all legislation as well as reduce costs.

If you wish to learn more about this topic, please contact David I. Gensler at: dgensler@madisonpension.com.

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E-Friendly and Eco-Friendly Solutions: In consideration of our environment as well as providing high end client service and cutting edge technology with respect to our document management system, Madison is in the final stage of its “paperless office” initiative. Document retrieval is simple, secure, efficient and electronic which cuts back on the paper that is generated from our office. Whenever possible, electronic correspondence is utilized and all of our documents are housed on our secure document management servers in Denver via Digiscribe/Digitech. We are also in the process of developing a more e-friendly solution to our clients’ annual valuation census requests which will make sending and receiving complete and accurate employee census more efficient and secure.

News From:

Heidi L. Goldstein-Sidley

Executive Vice President / Managing Director



Consultant Update: We have recently hired a new senior consultant, David DePasquale. David was previously the retirement manager at Deloitte Services LP in Wilton, Connecticut where he managed the daily administration of defined benefit plans as well as their defined contribution plans. David started his career at Hewitt Associates LLC as a business analyst in 2000 and studied Business Management at Franklin Pierce College. David is very knowledgeable about government regulations, has excellent vendor management skills, and strong communication skills. He is very thoughtful about his work and has an excellent understanding of processes. Being extremely approachable, organized and accurate, he is a great addition to our team.



Employee Outing: Madison, in recognition of a long and very busy tax season, sponsored a company outing to the Yankees vs. Toronto baseball game at Yankee Stadium in early June. Employees and their spouses and children enjoyed good company, food and a spectacular win in the bottom of the 9th inning when a home run pulled the Yankees ahead to win the game!

Salesforce CRM Database: As one of Madison’s 2008 Company Goals, we are implementing a sophisticated database to make our interactions with our clients and professional friends more efficient and to further improve our response times. Madison is currently working with a third party consultant to customize this CRM to meet our business needs and have a “kick-off” for the new system scheduled for early September.



If you are interested in any of the initiatives and news items mentioned above please contact your Madison consultant. We strive to always analyze the way we do business and to continually improve our processes in order to serve our clients better and more efficiently. If you have any suggestions on how we can improve, please contact us.