

Advisors and Record keepers with Model Portfolios at a Cross Road!

Recent regulations have Advisors and Record keepers taking a second look at the feasibility and legal responsibilities of Models on Record keeping systems facing the July 1, 2012 effective date for compliance with 408(b)2 and participant level fee disclosures under 404(a)(5) by August 30, 2012 for calendar plan years.

“We began to get concerned some time ago over how Models would survive under not only the new 408(b)(2) and 404(a)(5) regulations, but had overriding concerns over them as a Qualified Default Investment Alternative (QDIA)”, said David Hand of Hand Benefits & Trust (a BPAS company).

“We worked with Hand Benefits & Trust (a BPAS company) to write a White Paper, as a result of our Advisors not only asking questions, but some replacing the Models with Collective Trust Arrangements”, stated Marcia Wagner.

“The result of the White Paper was more far reaching than we first expected and after the final 408(b)(2) regulations confirmed that certain Models were subject to the Designated Investment Alternative (“DIA”) requirements. We expanded the White Paper to look at all the different types of Models (educational, non discretionary, discretionary, managed accounts”), stated Marcia Wagner.

According to David Hand, “advisors also ask: ‘how do we get paid and how do we disclose?’ This is a big issue given the alternative ways to disclose fees effective July 1, 2012. Most Advisors do not want to calculate each quarter the “hard dollar” fee and disclose to the participants (Explicit Quarterly Fee Disclosure), but favor annual expense ratio reporting (annual percent of assets) disclosure given only once a year disclosed similar to a Mutual Fund Expense in dollars per thousand. So we started to have discussions around a “unitized account” arrangement, where we simply daily valued the asset allocation model as a single account and rolled up all the expenses and fees into a single unit value. But the “unitized” account did not provide the proper legal and operating structure for multiple plans, multiple trading platforms, revenue sharing and fully audited investment funds. “Unlike the other alternatives for models, collective funds are prepared for the new participant disclosure requirements, which go into effect in August, soon after the 408(b)(2) regulations take effect. Providing the required investment data such as the fees, objective, strategy, principle risks, turnover calculation, performance and benchmark comparison is something that collective funds are best positioned for. Additionally, the Collective funds provided to recordkeepers the ideal solution with an NSCC registered CUSIP through Standard & Poor’s for T-1 settlement across all platforms”, stated David Hand.

“We made the transition from Models to Collective Funds three years ago as a result of PPA 2006. Our clients were very pleased with the results; our firm has grown as well as the Collective Funds. It has the most successful way to bundle QDIA’s”, stated Bob Blair, of Retirement Alliance.

“Three years ago we had very high expectations when forming the collective investment funds (CIFs) and those expectations have been exceeded. The operational efficiencies have been tremendous and because our record keeper charged a fee for the models we have managed to lower expenses. The CIFs have been a critical component of our business strategy and are far superior to model portfolios”, stated Craig Watanabe of Penniall & Associates, Inc.

**For: A White Paper Prepared by The Wagner Law Group
On Behalf of Hand Benefits & Trust Company (a BPAS company)**

http://www.bpas.com/media/hbt/Models_Wagner_WhitePaper.pdf