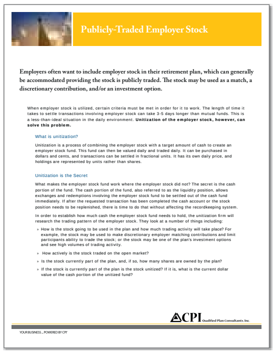
RETIREMENT PLANS — INVESTMENT OPTIONS


Publicly-Traded Employer Stock

Employers often want to include employer stock in their retirement plan, which can generally be accommodated providing the stock is publicly traded. The stock may be used as a match, a discretionary contribution, and/or an investment option.

When employer stock is utilized, certain criteria must be met in order for it to work. The length of time it takes to settle transactions involving employer stock can take 3-5 days longer than mutual funds. This is a less-than-ideal situation in the daily environment. **Unitization of the employer stock, however, can solve this problem.**

What is unitization?

Unitization is a process of combining the employer stock with a target amount of cash to create an employer stock fund. This fund can then be valued daily and traded daily. It can be purchased in dollars and cents, and transactions can be settled in fractional units. It has its own daily price, and holdings are represented by units rather than shares.

Unitization is the Secret

What makes the employer stock fund work where the employer stock did not? The secret is the cash portion of the fund. The cash portion of the fund, also referred to as the liquidity position, allows exchanges and redemptions involving the employer stock fund to be settled out of the cash fund immediately. If after the requested transaction has been completed the cash account or the stock position needs to be replenished, there is time to do that without affecting the recordkeeping system.

In order to establish how much cash the employer stock fund needs to hold, the unitization firm will research the trading pattern of the employer stock. They look at a number of things including:

- How is the stock going to be used in the plan and how much trading activity will take place? For example, the stock may be used to make discretionary employer matching contributions and limit participants ability to trade the stock; or the stock may be one of the plan's investment options and see high volumes of trading activity.
- How actively is the stock traded on the open market?
- Is the stock currently part of the plan, and, if so, how many shares are owned by the plan?
- If the stock is currently part of the plan is the stock unitized? If it is, what is the current dollar value of the cash portion of the unitized fund?

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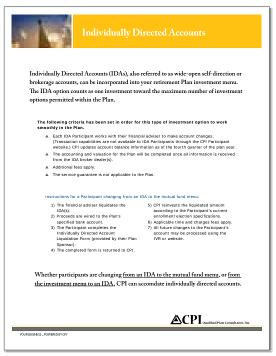
Employer Stock

Employers often want to include employer stock in their retirement plan, which can generally be accommodated providing the stock is publicly traded. The stock may be used as a match, a discretionary contribution, and/or an investment option. When employer stock is utilized, unitization is necessary to resolve the length of time it takes to settle transactions involving employer stock verses mutual funds.


Individually Directed Accounts

Individually Directed Accounts (IDAs), also referred to as wide-open self-direction or brokerage accounts, can be incorporated into your retirement Plan investment menu. The IDA option counts as one investment toward the maximum number of investment options permitted within the Plan.

The following criteria has been set in order for this type of investment option to work smoothly in the Plan.

- Each IDA Participant works with their financial adviser to make account changes. (Transaction capabilities are not available to IDA Participants through the CPI Participant website.) CPI updates account balance information as of the fourth quarter of the plan year.
- The accounting and valuation for the Plan will be completed once all information is received from the IDA broker dealer(s).
- Additional fees apply.
- The service guarantee is not applicable to the Plan.

Instructions for a Participant changing from an IDA to the mutual fund menu:

1) The financial adviser liquidates the IDA(s).
2) Proceeds are wired to the Plan's specified bank account.
3) The Participant completes the Individually Directed Account Liquidation Form (provided by their Plan Sponsor).
4) The completed form is returned to CPI.
5) CPI reinvests the liquidated amount according to the Participant's current enrollment election specifications.
6) Applicable time and charges fees apply.
7) All future changes to the Participant's account may be processed using the IVR or website.

Whether participants are changing from an IDA to the mutual fund menu, or from the investment menu to an IDA, CPI can accomdate individually directed accounts.

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Self-Directed Brokerage Accounts (SDBAs)
TD AMERITRADE, Inc.

Plan Sponsors can now offer their retirement plan participants a discount brokerage account as one of their 401(k) investment options. By adding a self-directed brokerage account option to their 401(k) plan they can offer flexibility and additional diversification to those participants who want access to the open market.

Plan Sponsors can attract and retain key employees who want additional diversification and online control over the retirement accounts within their 401(k). Plan Participants can choose from a wide variety of over 11,000 mutual funds, more than 1,100 no-transaction-fee mutual funds, as well as low-expense-ratio exchange traded funds. TD AMERITRADE's Self-directed Brokerage Accounts offer participants access to virtually any suitable retirement plan investment whether a mutual fund, stock, or bond. If the Plan Sponsor prefers, Individually Directed Accounts (IDAs) can be set up with the financial adviser's broker dealer.

TD AMERITRADE's Express Account Opening, Overnight Money Transfer, and Nightly Account Synchronization technologies are some of the most advanced in the industry. These technologies allow participants using the SDBA option to enjoy the fast and flexible account management associated with the daily valuation environment, while providing the financial adviser representing the plan's core mutual fund menu and CPI with the tools needed to maintain records and services for the plan as a whole. As part of the SDBA option, the participant website, myretirementfuture.com, will feature a hyperlink to the participant's Self-directed Brokerage Account at TD AMERITRADE. The hyperlink is installed upon request of the Plan Sponsor and the financial adviser.

DESIGNED TO COMPLY WITH ERISA REGULATIONS

- ERISA-prohibited investment practices, such as margin trading and uncovered option, have been eliminated from the website.
- To prevent inadvertent plan asset leakage, there are no options for unauthorized cash withdrawal through from the Self-directed Brokerage Account.
- Cross promotion to other products and marketing links have been removed so that the participant's Self-directed Brokerage Account is clean and efficient.

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Individually Directed Accounts or Self-directed Brokerage Accounts

Individually directed accounts, wide-open self-direction or brokerage accounts, can be incorporated into your retirement plan investment options. Whether participants are changing from an IDA to the mutual fund menu, or from the investment menu to an IDA, CPI can accommodate individually directed accounts.

Frozen Assets

Managing "frozen assets" in your retirement plan.

For a retirement plan operating in the daily valuation environment, a frozen asset could be any investment that cannot be valued or readily liquidated to cash on any given business day. Theses illiquid assets may not have reached maturity yet, or there may be penalties associated with early liquidation. As the Plan Sponsor, you may decide it is in the best interest of your Plan and your Plan Participants not to liquidate those assets, but rather have CPI treat them as frozen assets. Those assets stay with the current custodian until they can be liquidated with no penalties. Frozen assets are held outside of CPI's recordkeeping system by a custodian who is responsible for tracking and reporting the value of those assets to the Plan Sponsor and CPI.

Recordkeeping Frozen Assets

Future participant contributions cannot be invested in frozen assets; however, those assets will continue to experience gains and losses, and terminated employees can request distributions or transfers from their accounts that may contain illiquid assets. In many cases participant-requested transfers or distributions are still subject to contract provisions or liquidity restrictions associated with those assets.

CPI can accommodate the following types of frozen assets[1]:

- Group Guaranteed Investment Contracts (GICs)
- Group annuity contracts[2]
- Life insurance[3]

Since CPI cannot value GICs, group annuity contracts, or life insurance on a daily basis, the Plan Sponsor must provide, or request the outside custodian to provide, CPI the valuation statements on these frozen assets. At the agreed upon valuation cycle, CPI will input the valuation information into the recordkeeping system and include the value of the frozen assets on the participant benefit statements. The valuation must be received before benefit statements and overall plan testing can be completed at the end of the plan year.

Distributions

A distribution requested by terminated participants may or may not include the frozen assets held in their accounts. This all depends on the restrictions associated with the accounts. **Please keep in mind that distributions processed prior to the next year-end valuation will be**

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To order a supply of any of our materials, contact us today at 800.279.9916 ext. 765.

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