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## MEMO

From: David Danziger

To: Clients Who Maintain Separate Participant Accounts at Vanguard

Re: ALTERNATIVES TO VANGUARD FBO ACCOUNTS

As you are aware, Vanguard will no longer allow retirement plans to maintain separate investment accounts for the benefit of ("FBO") each plan participant. We are rapidly approaching the December 2009 deadline by which you must select a new place to invest. If you have already selected a new investment vehicle, please let us know. If you are still undecided, this memo is designed to help with your decision.

Clients, generally, have used Vanguard FBO accounts for the following reasons:

- participants could self-direct how they would invest their retirement savings;
- the variety of investments was near-infinite;
- accounts could be maintained without investment advisors; and
- Vanguard's funds were reputed to have ultra-low expenses.

This raises the question, what alternatives are available to support self-direction of investments now?

The option that is most similar to FBO accounts at Vanguard is FBO accounts at other institutions. We understand that TD Ameritrade has partnered with Vanguard to support FBO accounts. However, we don't know their fees which could be costly when you consider annual maintenance, how many funds are available on their "no transaction fee" (NTF) list; and what commissions apply for purchases outside of their NTF list. At various times, Schwab and Fidelity competed for the longest list of NTF funds and greatest variety of No-Load funds. However, these firms may have minimum account value requirements, and they may not allow you to operate with the cutting edge plan document and contribution consulting services that we provide. Firms like Merrill Lynch and Smith Barney will allow you to open FBO accounts in conjunction with a licensed financial advisor.

A couple of non-fee issues to consider when selecting among firms offering FBO accounts include:

- Will they allow participants to gain online access to their accounts (this is difficult in some cases because all of the accounts will use the same tax id number).
- Will they provide other services that will help to link accounts for HR purposes such as (a) single check remittances, and (b) consolidated account records.

Finally, there is a way to provide for self-direction of investments without the need for separate accounts. This is referred to as a Daily Valuation Platform. In these arrangements, all Plan assets are held in a single account. The trustee designates a finite list of funds (or ETFs) among which participants can allocate their investments.

The Platform provides software that tracks each participant's investments; executes trades and updates values daily; hence the name "Daily Valuation."

The benefits of a Daily Valuation Platform include the opportunity to offer funds that are closed to new accounts or that benefit from institutional pricing such as Vanguard Admiral funds. Also, some funds share a small percentage of their management fee with the platform (to reimburse for their savings in not having to mail individual account statements). These payments can be credited against the platform's charges. If a plan is big enough and uses the right funds, the platform can be free of charge; or even produce income that is credited back to the plan.

There are other benefits to daily valuation systems such as user friendly online access for participants and a single online interface so the employer and TPA can view all accounts on one screen.

There are many excellent platforms that only work with the value added services of financial advisors who help with investment selection and participant education. These include John Hancock, American Funds and Mutual of Omaha among others. We will gladly refer you to an advisor who is experienced with 401(k) plans if you are interested in exploring this option.

Some clients have asked whether there are Daily Valuation Platforms that are accessible without a financial advisor. Professional Capital Services (PCS) and Klear(k) ETF trading platform are open to plans trustees with or without a financial advisor.

Wherever you decide to go, please remember that all accounts must be titled to the Plan and use the Plan's tax ID number. Our firm should be identified as an 'Interested Party' with authority to receive duplicate statement and 'view only' online access.

Please let us know if you have any questions or if you would like to receive referral information. Also, please keep us informed of where you will be moving your Plan's investments.

NOTE: Retirement plans are subject to a set of laws known as ERISA. ERISA creates numerous fiduciary duties and responsibilities. Our firm does not offer fiduciary or investment advice. However, we are available to discuss the mechanics of any investment option. Please call us if you have any questions about this, or if you would like a referral.