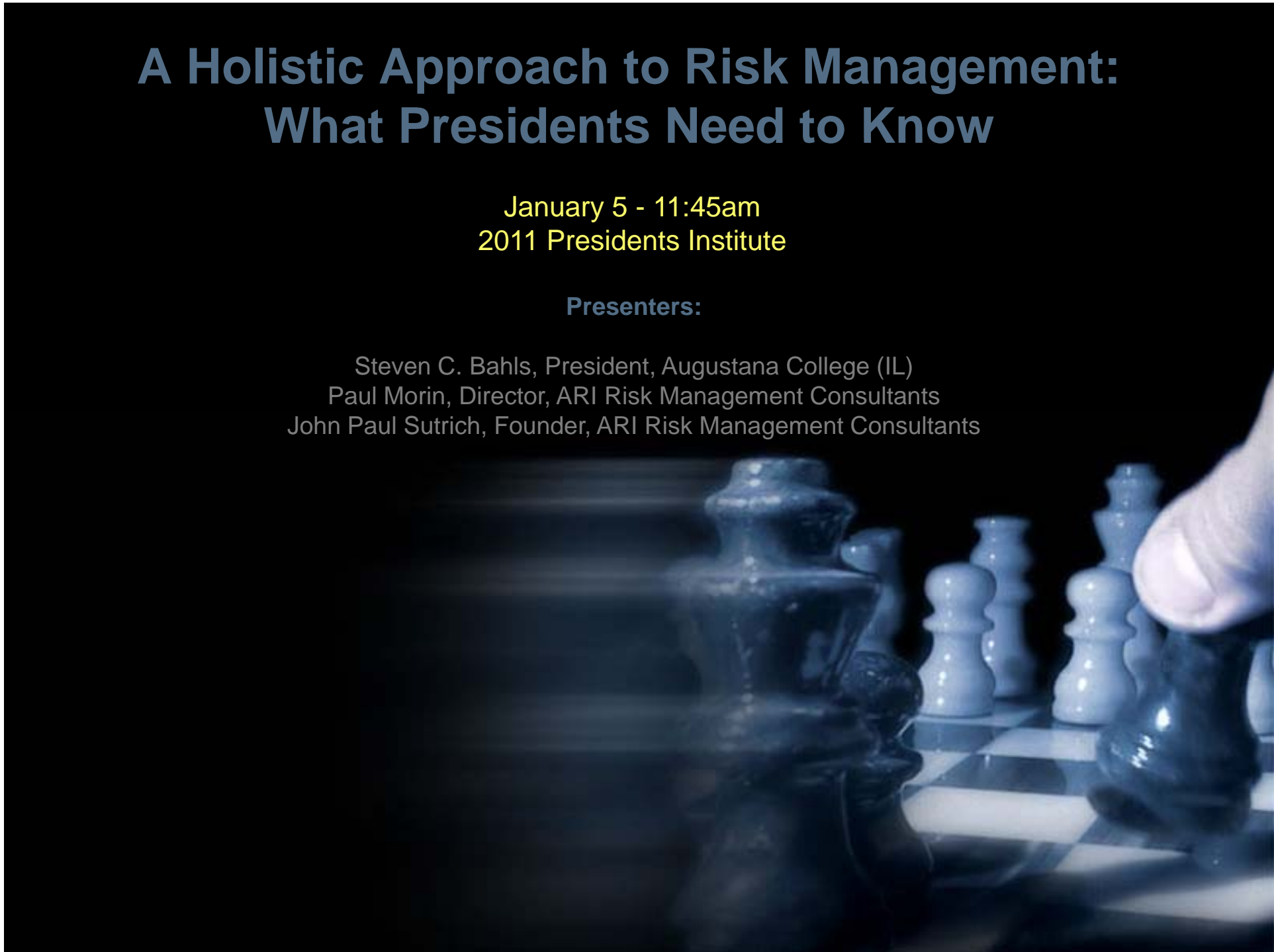


A Holistic Approach to Risk Management: What Presidents Need to Know

January 5 - 11:45am
2011 Presidents Institute

Presenters:

Steven C. Bahls, President, Augustana College (IL)
Paul Morin, Director, ARI Risk Management Consultants
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What is Holistic Risk Management?

- Common Terms Are Enterprise or Holistic Risk Management
- It's A Journey, Not A Destination
- In Order To Address Risks Holistically, You Must First:
 - Identify Them
 - Measure Them
 - Understand How They Are Correlated
 - Develop A Common Unit of Measurement
 - Set Organization's Risk Appetite
- For The Management To Be Holistic and Enterprise-wide, Need Change In Culture

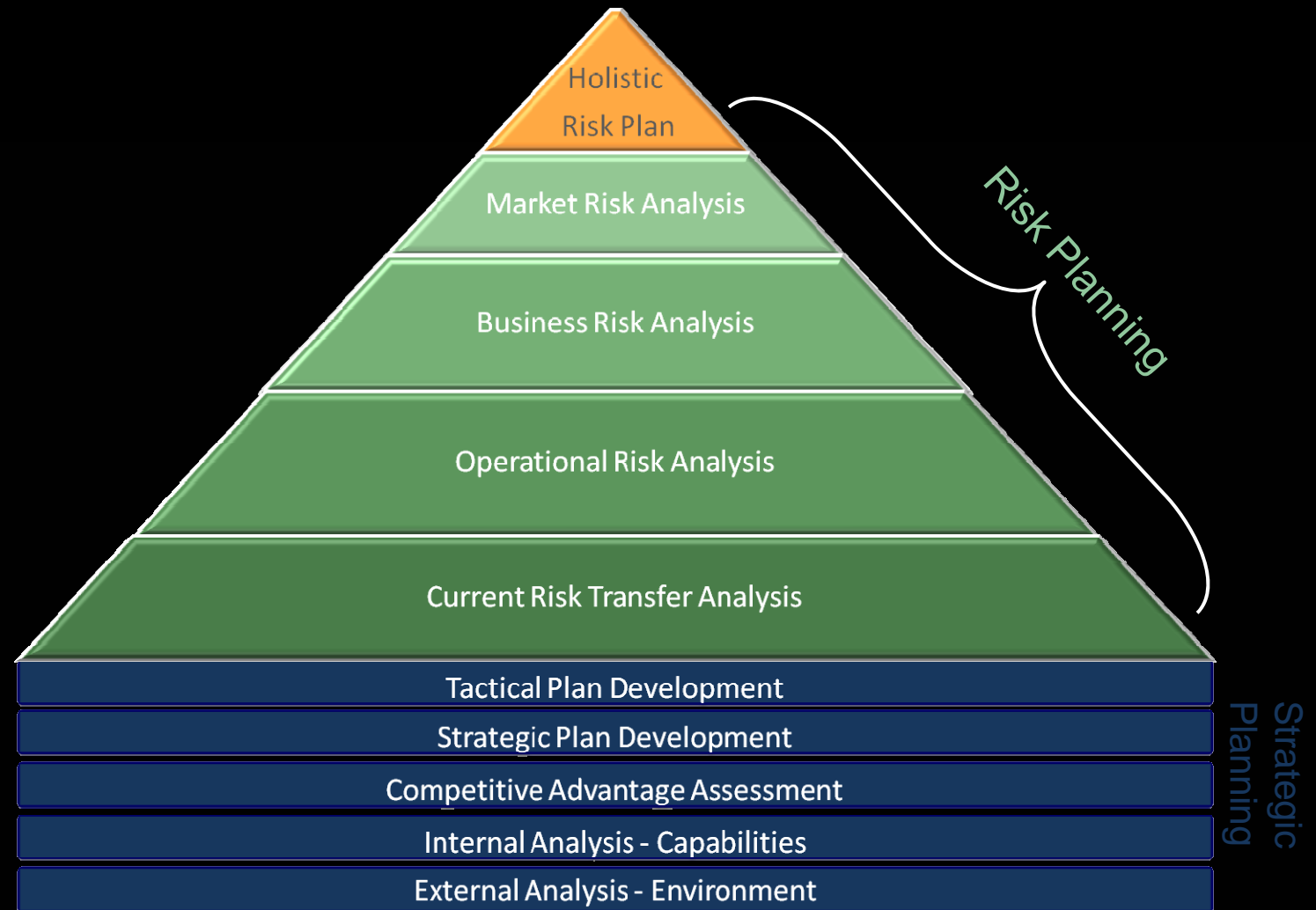
Holistic Risk Management

The Experience at Augustana College

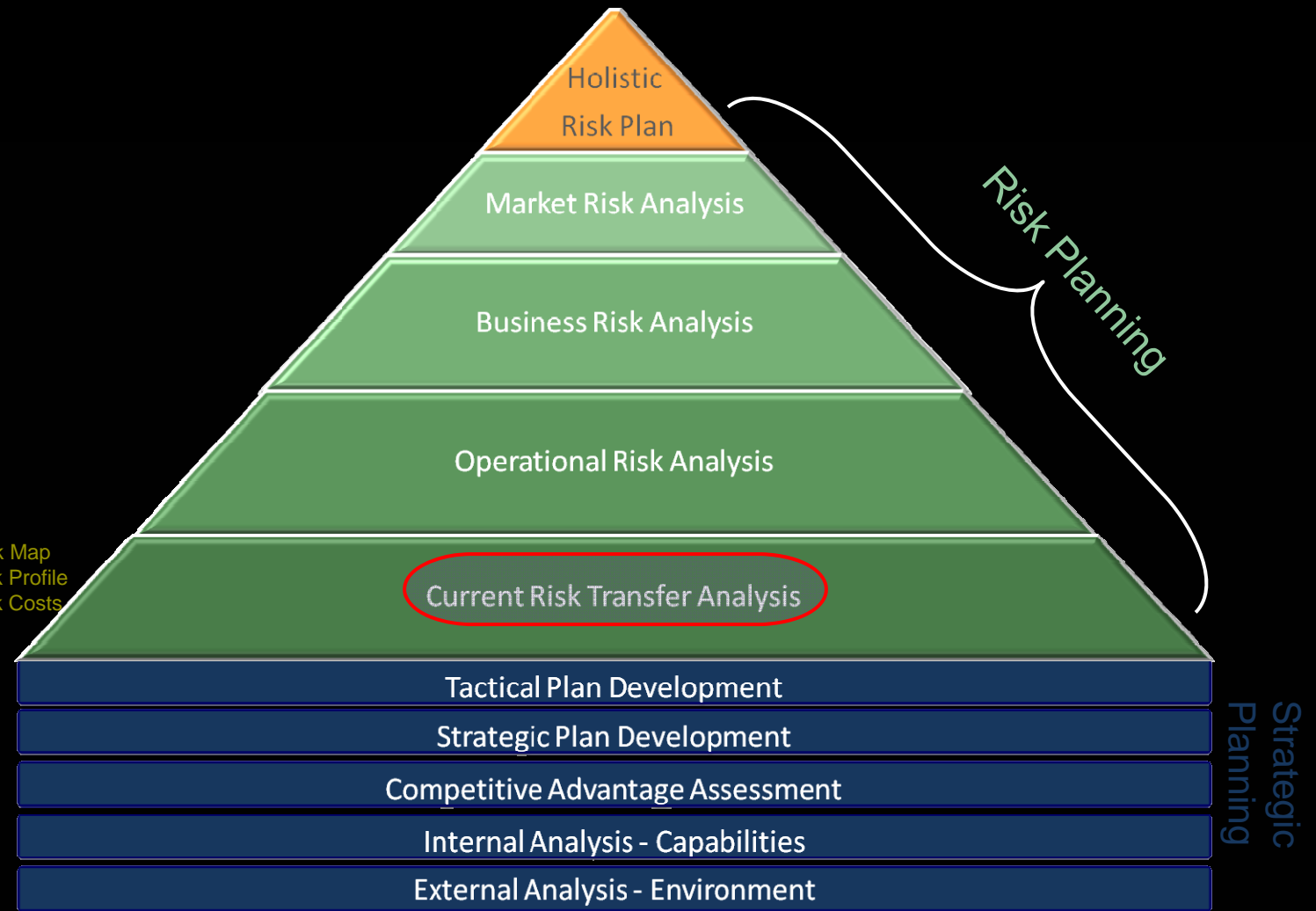
- The Swiss Cheese Model
- Creating a Culture of Safety
 - Reorganization of Safety Group
- Examples
 - Injuries on the Athletic Field
 - Mental Health Issues
- Other...



Holistic Risk Management Builds on a Strong Strategic Foundation



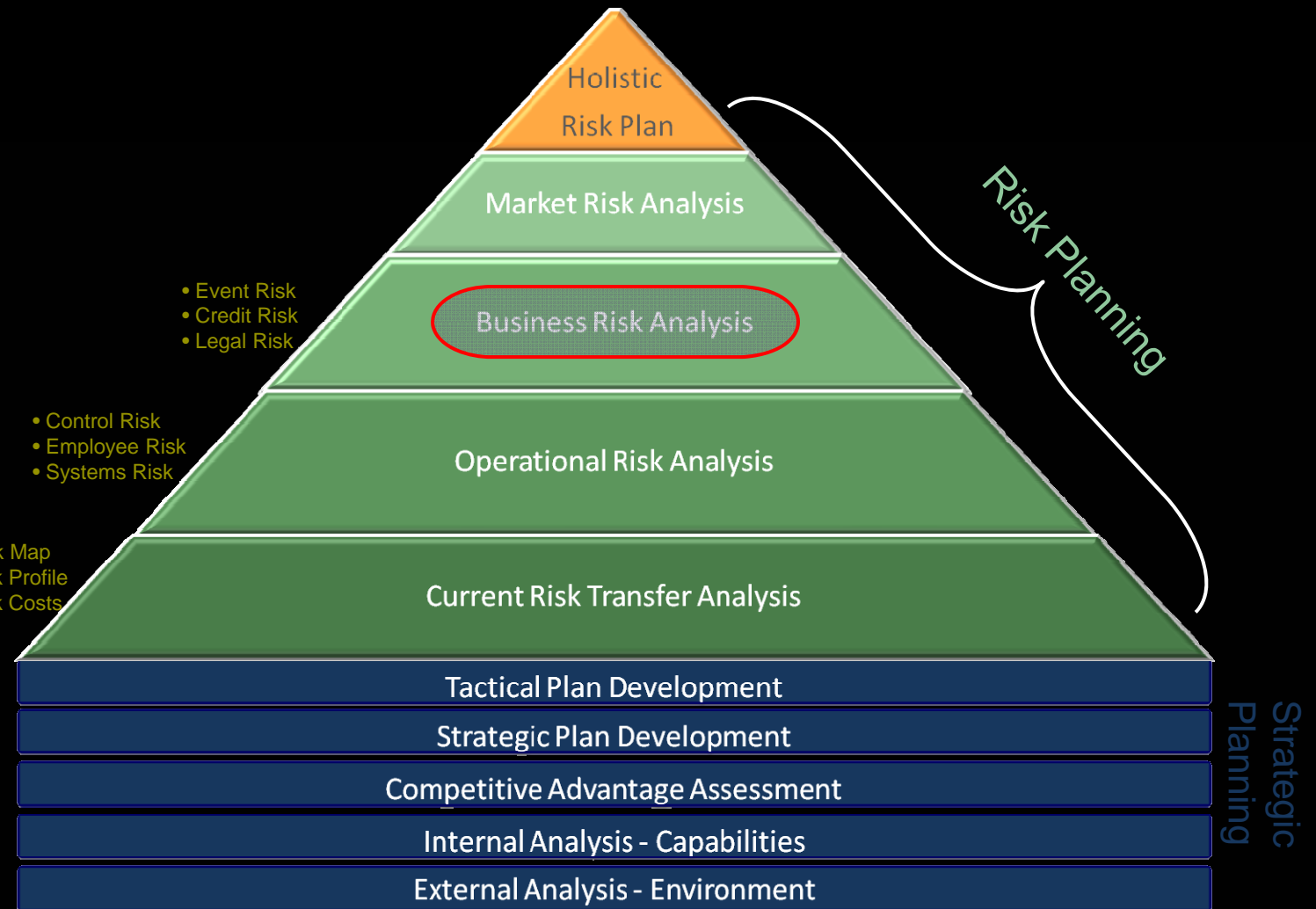
Current Risk Transfer Analysis



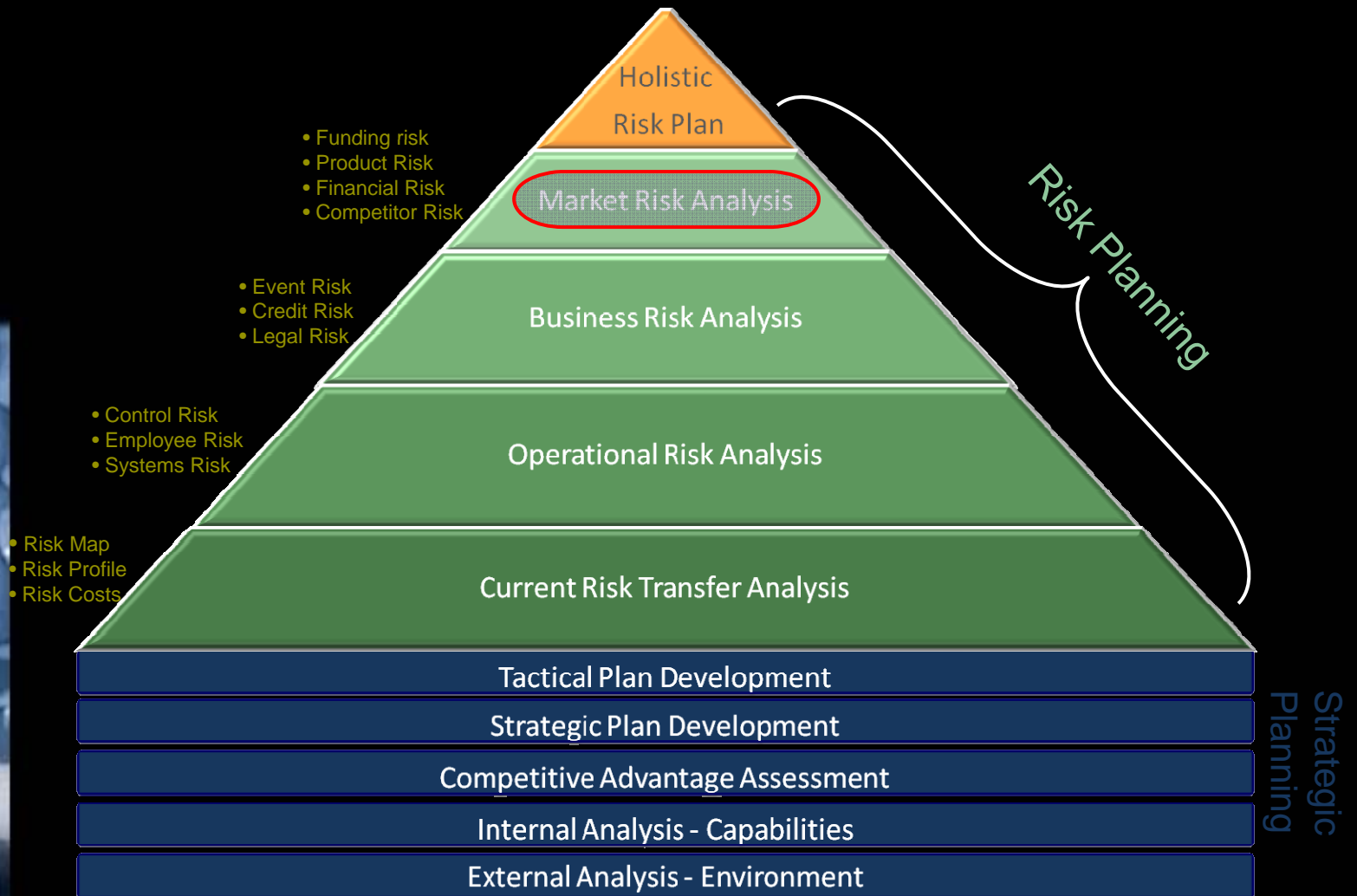
Operational Risk Analysis



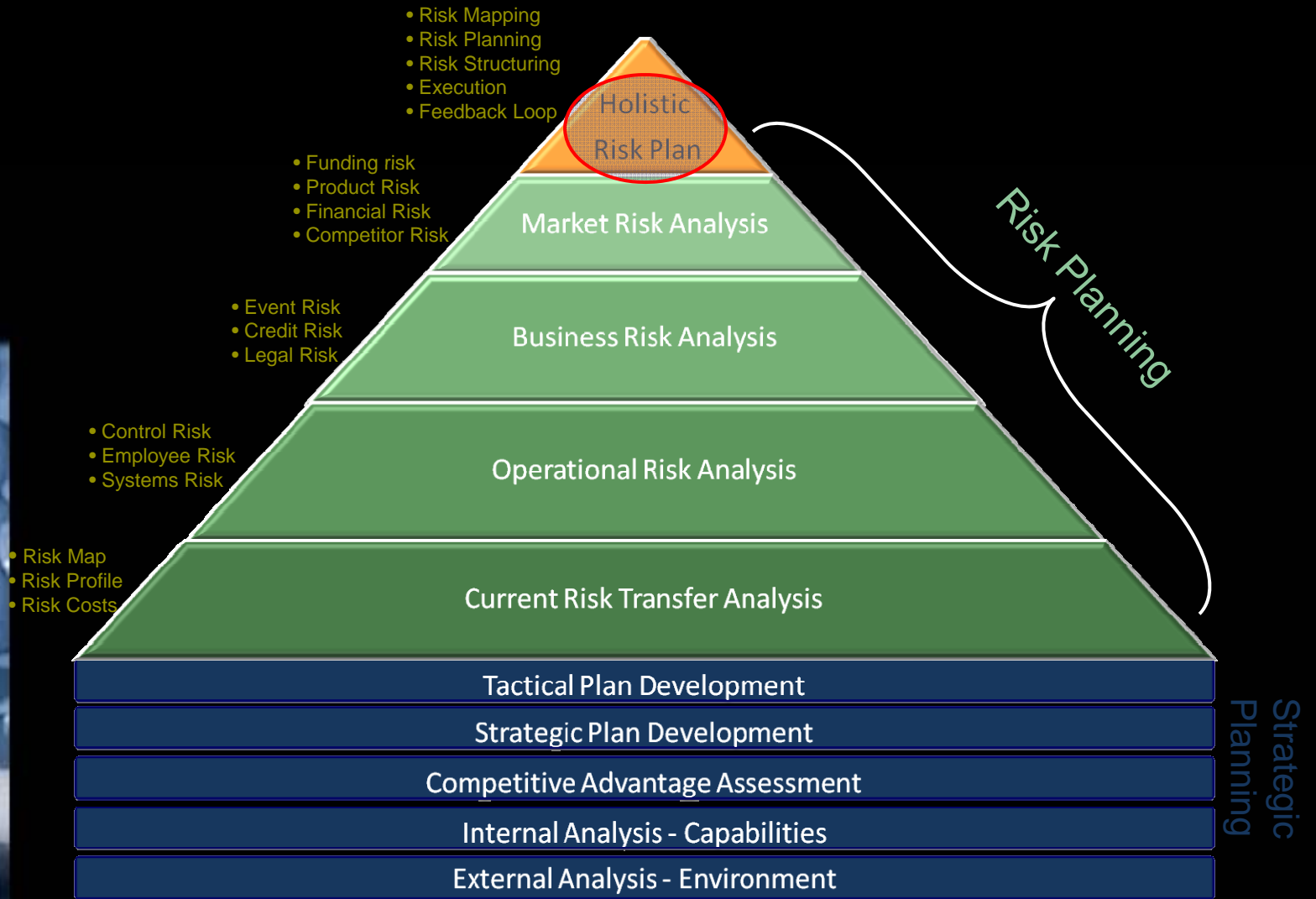
Business Risk Analysis



Market Risk Analysis



Holistic Risk Plan



A Single Grain Of Sand On The Beach Of Organizational Risk

In Order To Be A Leading Institution:

- You need to attract the best talent

In Order to Attract and Retain Top Talent:

- You should offer competitive compensation and employee benefits

In Order to Minimize Personal And Institutional Liability:

- You must ensure those responsible are fulfilling their fiduciary duties and meeting available “safe harbor” requirements



Legal Responsibilities of the Trustees

Trustees must be faithful to the organization's mission, exercise reasonable care, and always act in the best interests of the organization.

Basic Board Responsibilities

1. Determine the Organization's Mission and Purpose
2. Select the Executive
3. Support the Executive and Review His or Her Performance
4. Ensure Effective Organizational Planning
5. Ensure Adequate Resources
6. Manage Resources Effectively
7. **Determine and Monitor the Organization's Programs and Services**
8. Enhance the Organization's Public Image
9. Serve as a Court of Appeal
10. Assess Its Own Performance

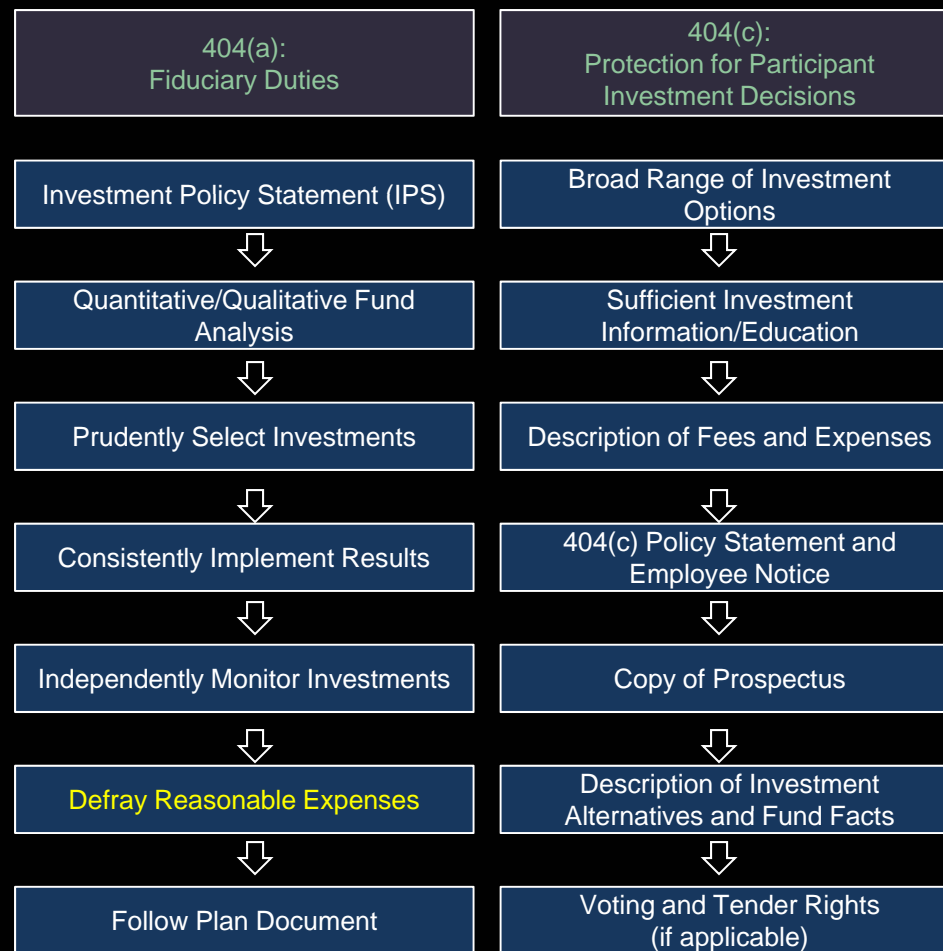
A Holistic Approach to Employee Risk

Fiduciary Duty in Employee Benefit Plans

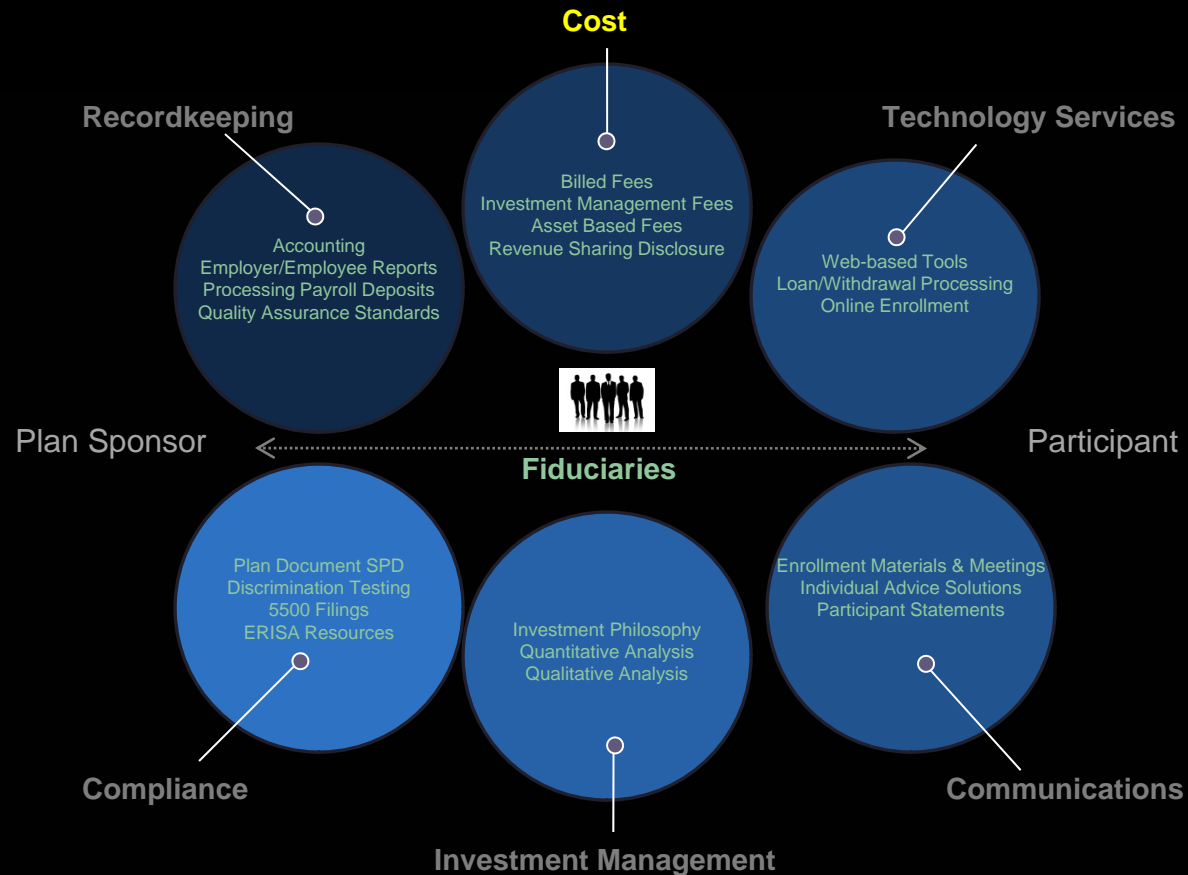
- Exclusive Benefit: A fiduciary shall discharge his/her duties with respect to a plan solely in the interest of the participants and beneficiaries
- Prudent Man: A fiduciary shall perform his duties with a high standard of care, skill, prudence, and diligence
- Diversification Requirement: A fiduciary shall diversify the investments of the plan so as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so
- Governance: Act in accordance with the governing Plan documents
- Procedural: Utilize an appropriate process

The Process: Comprehensive, Measurable & Documented

Fiduciaries have the obligation to select and monitor service providers to ensure decisions are made for the exclusive benefit of participants with the skill and prudence of an expert.



Retirement Plan Components To Analyze

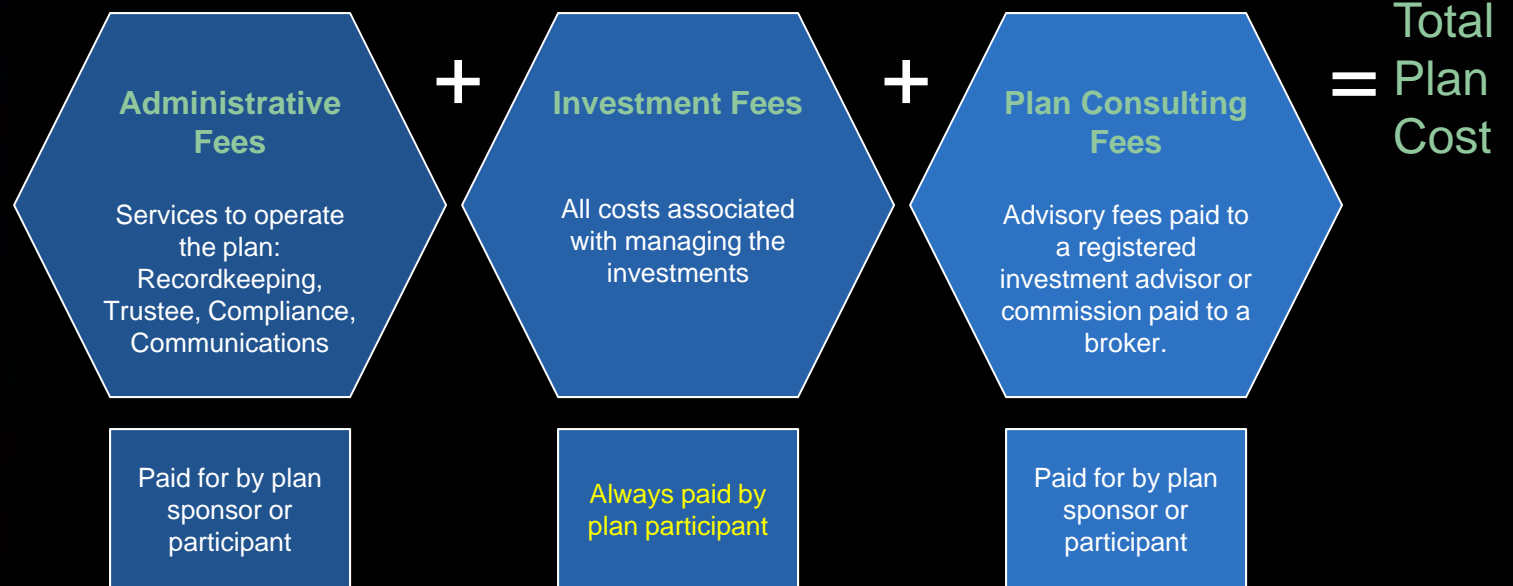


Total Plan Cost

The vast majority of total plan costs are paid for by participants through revenue sharing.

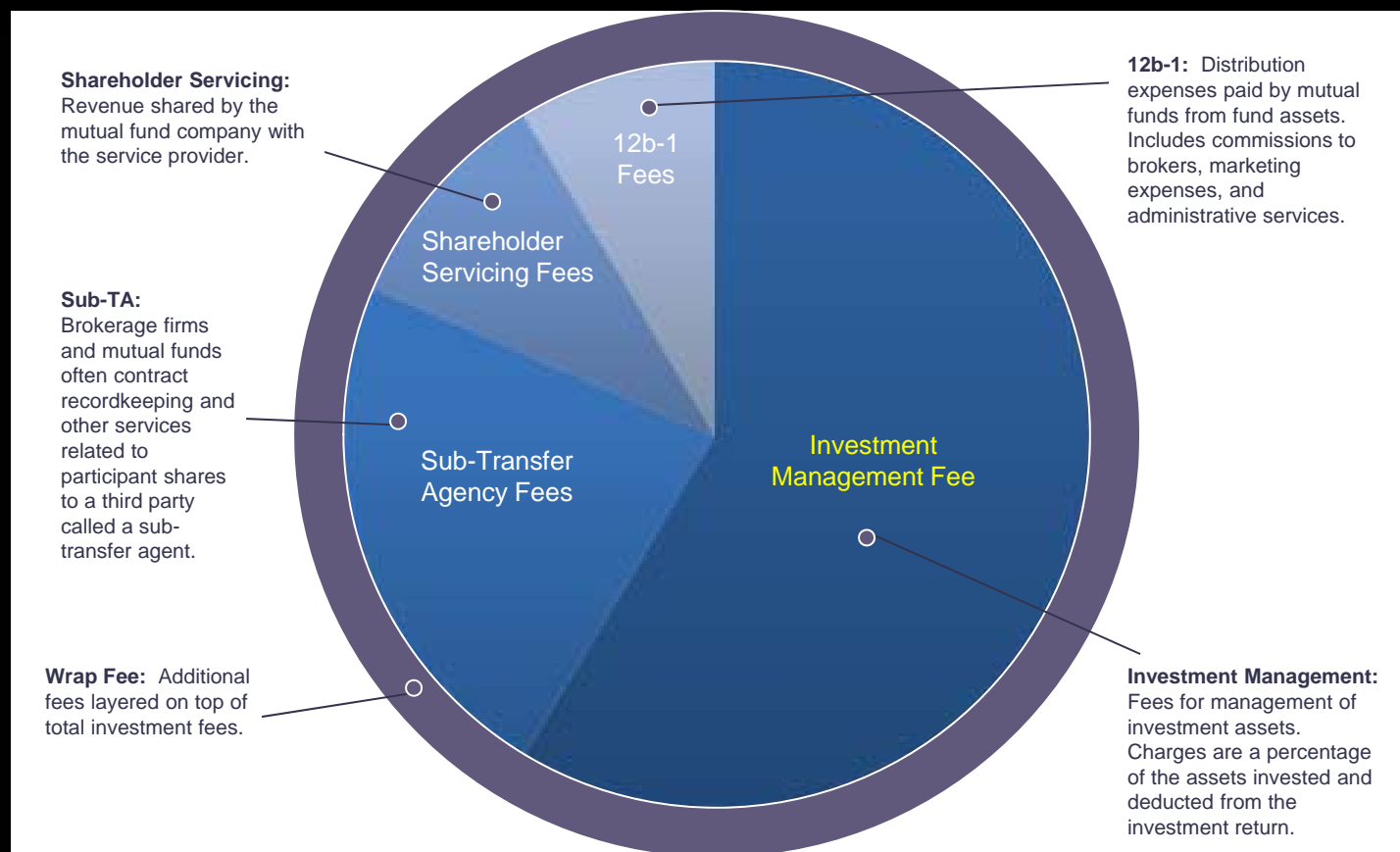
Plan pricing will vary significantly based on:

Plan Assets
Participants
Average Account Balance
Service Requirements



Revenue Sharing

Any investment fee or expense in excess of what is needed to manage the assets in the plan.



Share Classes Defined

Many mutual funds offer the identical money manager with varying investment management expense options which afford revenue sharing opportunities.

Name	Description
A	Standard share class. Might include 12(b)-1 fee. No loads or sales charges.
I	"I" = Institutional share class. Typically the next lowest expense class below "A"
B & C	Applies only to very small plans (<\$1M) and individual type investment accounts
R1 – R5	"R1" typically has the highest expense, decreasing with R2, R3, R4 and R5 share classes
Y, L, Z, K, N, S, etc.	Many investment providers have developed their own investment share class terminology that is <u>not</u> consistently applied across 403(b) industry products

Sample Cost Analysis With Revenue Sharing

It's imperative to create an “apples to apples” comparison of all the competing alternatives.

Total Cost Analysis: Incumbent							
Example - For Illustration Purposes Only							
Existing Plan Assets / Allocation			Incumbent				
Asset Class	Assets	Assets (%)	Fund	Expense Ratio	Cost (\$)	Revenue Sharing	Revenue Sharing (\$)
Small Blend	\$ 2,785,443	4.34%	NB Gen	1.02%	\$ 28,412	0.00%	\$ -
Small Value	\$ 1,367,885	2.13%	RT Rtn	1.08%	\$ 14,773	0.00%	\$ -
Int'l Stock	\$ 6,875,423	10.72%	Euro Pac	0.74%	\$ 50,878	0.25%	\$ 17,189
Fixed Income	\$ 5,086,798	7.93%	DC Income	0.44%	\$ 22,382	0.00%	\$ -
Large Blend	\$ 5,576,841	8.70%	S&P 500 Index	0.16%	\$ 8,923	0.07%	\$ 3,904
Large Blend	\$ 3,873,248	6.04%	D V	0.84%	\$ 32,535	0.25%	\$ 9,683
Large Growth	\$ 6,698,023	10.44%	GAmer	0.62%	\$ 41,528	0.25%	\$ 16,745
Mid Growth	\$ 2,674,322	4.17%	R S/M	1.16%	\$ 31,022	0.25%	\$ 6,686
Mid Value	\$ 4,532,776	7.07%	Gld Mid	1.16%	\$ 52,580	0.25%	\$ 11,332
Balanced	\$ 6,775,439	10.56%	DCB	0.53%	\$ 35,910	0.00%	\$ -
Cash	\$ 17,887,342	27.89%		0.32%	\$ 57,239	0.28%	\$ 50,085
Total Assets	\$ 64,133,540	100.00%					
Total Management Expense - Employee Paid				0.59%	\$ 376,182	0.18%	\$ 115,623
Asset Fee Expense - Employee Paid				0.00%			
Administration Fees - Employer Paid				0.25%	\$ 160,334		
Totals				0.84%	\$ 536,516	0.18%	\$ 115,623

Identified In The Risk Planning Process

Risk: Retirement Plan Cost Oversight

- Potential Allegations

- Excessive fees
- Failure to disclose
- Prohibited transaction
- Loss of investment return
- Failure to monitor appointed fiduciaries prudence & loyalty

- Possible Financial Ramifications

- Cost of investigation
- Cost of defense
- Penalties and fines (DOL)
- Participant investment losses
- Reputational

What You Need to Know

- Who is a fiduciary under ERISA Section 3(21) and coming July 2011 Section 408(b)(2)?
- Have trustees taken the safe harbor step of forming and delegating authority to the appropriate committee to address retirement plan issues?
- Unless protected by a safe harbor, fiduciaries can be liable for the difference between actual investment returns and what the returns would have been in the absence of excessive fees.
- Do the organization's bylaws or other contracts indemnify the Plan fiduciaries for their service?
- Has the Plan or the organization purchased insurance to cover its indemnification obligations and/or the personal assets of the fiduciaries?
- Revenue sharing can be built into the ERISA budget to offset Plan costs such as fee and investment benchmarking, education, and communications.

Overall Takeaways

- Holistic Risk Management Is A Journey, Not A Destination
- Change Will Not Happen Overnight
- Approach To Risk Must Be Proactive And Interdisciplinary
- Insurance Is Just One Approach To Addressing Risk
- A Risk Ignored Is A Risk Retained



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