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A Retirement Plan Primer

By: Brian Haney, CLTC,
CFS, CIS, CFBS, LACP, CAE

How do you deliver the right Retirement Plan for your employees?

There's no doubt that the Retirement Plan landscape has changed in the last 10 years. No longer in cruise control, regulatory pressures combined with changes in the 401(k) industry have led to increased incidence of formal plan reviews, evidence of the intention to switch providers, and a need modify investment lineups to support fiduciary soundness. With many taking counsel from an external consultant or financial advisor, organizations are recognizing the need to benchmark their plans to ensure what they are offering their employees is competitively priced, provides high-quality choice in investment options and supports strong fiduciary practices. The bottom line remains the same: you need a retirement plan that attracts and retains great employees. To accomplish all of this, you need a plan provider that can:

- Provide your employees with diverse investment options and appropriate fiduciary support
- Help your employees retire on their own terms; and
- Free you up to spend more time on your company and the important work you're doing, and less on your retirement plan.

What does a company need to know?

Let's start with an easy question first: when was the last time you benchmarked your retirement plan? Depending on how easy of a question that was to answer, we recommend you start there.

When benchmarking a retirement plan it's important to assess how a plan stands up against alternative providers offering competitive platforms for a plan of similar size. Instead of sending out a blanket RFP, we recommend working with an independent retirement plan consultant, or financial advisor that specializes in Retirement plans. While there are many good financial advisors, seek one that is a retirement plan specialist, has a professional designation specific to retirement plans, or has a significant practice concentration in retirement plans. The right professional should do the heavy lifting for you, and depending on the nature of the engagement, they may either charge a flat fee for this service or perform it for free with the understanding that you select them as the plan's broker.

Alternative provider proposals should be requested based on your current plan's assets, annual contribution flows, and participation rates. That is why it's important to provide a summary of your current plan's assets in order for proposed investment lineups to be "mapped" accordingly, so an appropriate apple-to-apples analysis can be done.

Performing a plan market analysis should not inherently result in changing your current plan provider. If you have a good relationship with your provider and feel the platform they offer adequately supports your employees, then the audit may simply be a helpful way to keep the underlying plan fees in line with the market at large. The Market Analysis can also serve as a helpful summary for fiduciary support and due diligence. If, however, the analysis reveals clear deficiencies with your current provider and making a change is prudent, this should help make that transition considerably easier to rollout to employees as you'll have all the justifications for the change laid out succinctly.

4 primary areas of assessment

Plans costs (fees)

No one wants to pay too much to invest for retirement. Evaluating the costs of the underlying funds currently offered against those from alternate providers is an important step to take. What is the cost of participating in the plan (funds fees, and provider asset costs)? Measure both the primary tangible plan expenses (investment expenses), along with the optional plan expenses relating to special design (self-directed brokerage), consulting and voluntary participant expenses/fees, cost for any fiduciary services or protection, as well as the cost of the plan broker or advisor. This is not a race to the bottom where the cheapest plan wins. Each cost consideration may have a reasonable component behind it. It's important to understand what the cost is ***for*** and make the right determination as to whether or not its reasonable based on your unique plan design and the broader market at large. When assessing the investment options themselves, make this a performance-first analysis. First assess how the funds in a category perform, and then select the ones with the lowest cost. Simply selecting low cost funds isn't enough, especially if those funds' performance suffers. Cheap funds that underperform are not any better for employees, so be mindful of how this portion of the market analysis is done.

Plan Investments

Assessing the investment elements of a provider's lineup measures both the availability of options as well as the performance of those options. Investment choice and flexibility are important considerations. How many funds are permitted and how does the provider support you in building out the fund lineup? Since most retirement plan providers offer hundreds of fund options to choose from, so you'll want to pay special attention to the following:

- Are there proprietary fund requirements? If so, how does that suit the unique objectives of your plan? Not all providers have proprietary fund requirements but based on your plan's size there may be limitations on how much "open architecture" may be available.

- Are index funds readily available? These funds are important for a lineup because they have extremely low fees and are passively managed, providing a complimentary alternative to actively managed funds.

- What kind of Lifestyle fund options exist? There are many risk-managed funds available (considered *fund-of-funds*), and these funds may be important for employees looking to ensure their investments lineup with a particular risk profile.

- What fixed account options are offered? It's not uncommon for employees to have balances in the fixed account or money market fund option, so seeking one offering a better than average rate of return is important.

- What Target Date funds options are available? Target Date retirement funds are an important consideration since these funds are widely utilized by employees. Assessing these funds can be difficult, as not all have sufficient historical performance to measure. Additionally, there are distinct varying philosophies between providers to understand whether funds are managed “to” versus “through” retirement.
- What share classes are available? Most providers offer more than one share class of funds. Depending on the advisor you’re working with and the size of your plan, it’s important to determine what share class is available so you can select funds with low underlying expenses. It’s equally important to know how share classes are managed overtime, in the event you have one share class, but a lower-expense one becomes available after the plan assets reach a certain size threshold, does the provider automatically exchange for lower fee funds, or will you need to proactively monitor things and request that change.

Plan Administration

A Plan Administrator's job is to provide dedicated support services to make plan administration easier. This usually begins with understanding if the existing Plan Administration is "bundled" and being performed by the Plan Provider for a fee that is usually added to participant costs, or "unbundled" and being performed by a separate company from the plan provider. While plans built as bundled plans offer the appearance of convenience, we've found a growing amount of rationale supporting having this function provided by a separate company specializing in plan administration (unbundled). When evaluating a TPA you should first look for a high level of quality service. Annual plan testing and administration deals with the regulatory elements of a retirement plan, so working with a firm that makes this experience as easy as possible is important. Secondly, having the plan administration performed at a low or reasonable cost is essential. The market for Third Party Administrators is considerably larger than the market for Plan providers, and this works to your advantage because it compresses the cost range considerably. This is not about buying cheap, because you usually get what you pay for. It is about finding value at a reasonable price. If the current TPA's service starts to suffer, there are likely many more options at the same cost just waiting to take better care of you.

Participant experience

This is an assessment of what a provider does that is unique in delivering a high level of employee services, engagement and educational resources. We recommend looking at how providers support **Retirement Readiness** – The right kind of employee experience should give individuals access to holistic financial planning tools, education, guidance and support to help employees work toward becoming retirement ready. An effective employee engagement program requires more than just a lot of touchpoints. It has to connect the interactions so that each works together to nudge a person to take that next step. One employee may respond better to online resources, another may need more human interaction to make changes. When examining provider options, pay close attention to those offering integrated programs designed to raise the bar in every area to help your employees retire on their own terms.

The 2 most important deliverables are guidance and advice. Employees can be frozen with uncertainty when it comes to enrolling and managing their retirement accounts. Employees who need, but don't get, direction may put off retirement planning for years. Be sure you understand how each provider will deliver guidance and advice using innovation, to offer employees clarity to help them take the next step. It's not just what they offer, but how they deliver education across a variety of spectrums that's key. Determine which provider offers leading technology you can rely on to help increase plan participation and participant satisfaction.

Critical to Success: Employee engagement

We find that the key to a successful retirement program is **understanding**. Employees cannot fully appreciate benefits they do not understand and may not use or interact with. To effectively deliver retirement plan benefits, we recommend a comprehensive employee engagement strategy. This begins by establishing a calendar for employees to know what educational opportunities will exist for them throughout the year. Based on our experience, employee education is something that goes on for years, so consistency and persistency are key. When looking for Retirement Plan providers and the right financial professional partner, seek ones that will provide continuous learning opportunities until your employees leave or retire. Know who to call and know who the employees should call as well. The Financial advisor you work with should demonstrate a unique value proposition centered on supporting your company and your employees in a personal and meaningful way. Educational support should be done through a variety of formats, both virtual and in-person, to ensure employees receive the information necessary to make sound financial decisions. A marketing plan works best when the company partners with their advisor/providers to take advantage of all the materials needed for a successful program.

Retirement done right

Education improves workplace satisfaction, reinforces loyalty, and is a key driver of how companies and their employees can thrive together. A good retirement program is the creation of long-term value for an organization. A good plan audit is the first step towards lasting value and improved employee satisfaction.

About the author: Brian Haney is a Certified Family Business Specialist with expertise in helping privately-owned businesses plan and prepare for financial success. Founder of his firm, The Haney Company, with more than a decade of experience in Banking, Lending, Investments, Asset Management, and Insurance, Brian's expertise and keen insights provide businesses with unique and innovative strategies to get launched, protect themselves from risk, and achieve their financial goals. Brian Haney is a Registered Representative of Coastal Equities, Inc., and an Investment Advisor Representative of Coastal Investment Advisors, Inc. Neither Coastal Equities, Inc., nor Coastal Investment Advisors, Inc. is affiliated with The Haney Company. Investment Advisory services are offered through Coastal Investment Advisors, Inc. and securities are offered through Coastal Equities, Inc. Member FINRA/SIPC, 1201 N. Orange Street, Suite 729, Wilmington, DE. 19801