

Best practices for **plan sponsors**

April 29

Webinar starts at noon CT

Continuing education credits available

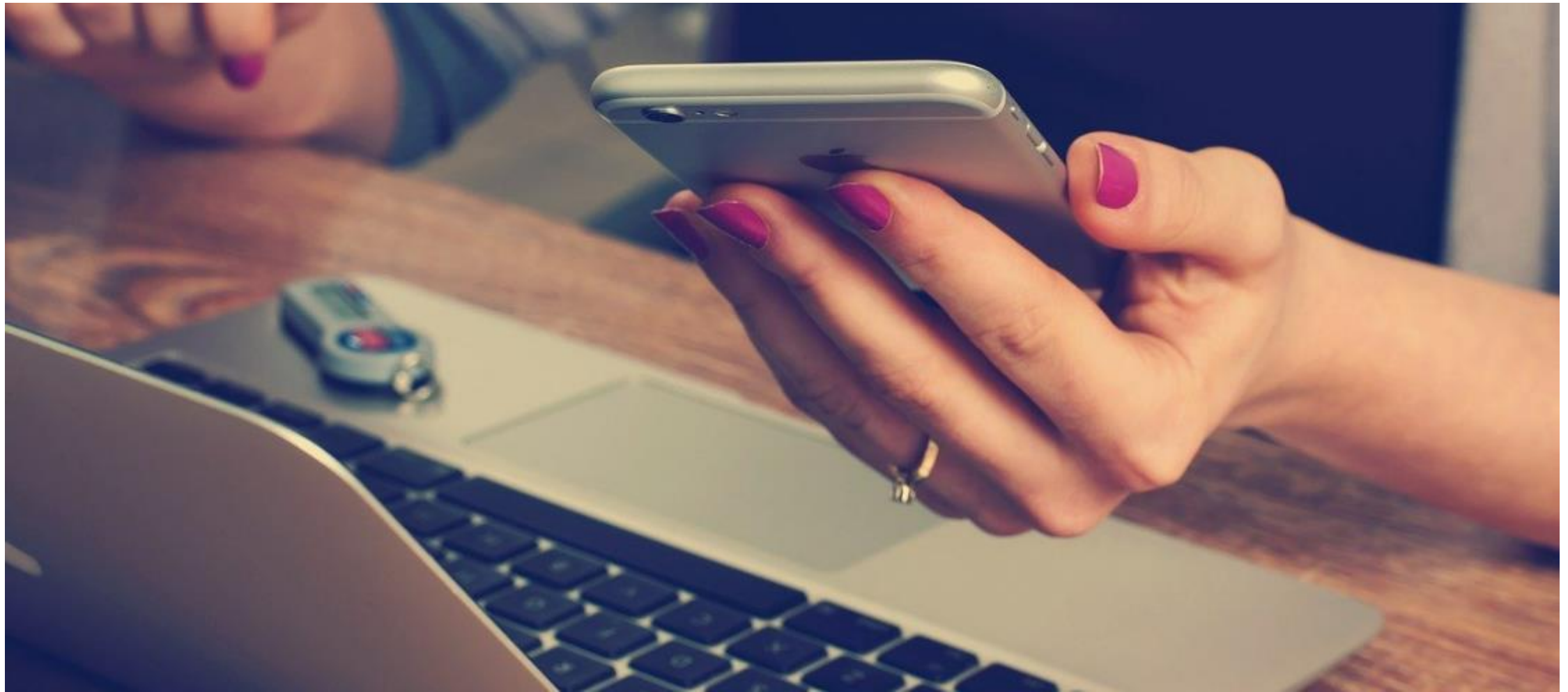
Please answer at least three polling questions.



Recording & slides will be available



For best audio quality, call in by phone



Questions? Ask away!



Don't forget our survey





Brad Bechtel

Senior Vice President, Employee Benefits Services

Leads employee benefit services team at AGH. His team provides accounting and consulting services for employee benefit plans.

Experienced in executive compensation planning involving non-qualified plans.

Served as consultant to numerous Fortune 500 corporations in the area of investment management and fiduciary due diligence.



Today's agenda



Learning objectives



Identify best practices to **maintain an effective and healthy retirement plan** for your employees.



Identify best practices to **ensure ongoing compliance** with governing codes, rules and regulations.



Identify best practices to **manage and mitigate fiduciary liability** for the organization.

A brief history of retirement plans

1875

American Express created first private defined benefit plans (pension plans)

1935

Social Security passes and first checks issued in 1940.

Workers that live to 65 have an expected 13 additional years left to live.

1921

Revenue Act established profit-sharing plans

1974

Employee Retirement Income Security Act (ERISA) signed into law

A brief history of retirement plans

1978

Revenue Act introduces code section 401k and defined contribution plans (pre-tax contributions)

2001

401k catch-up features introduced

1996

401k safe harbor features introduced

2006

401k Roth deferrals introduced

Retirement plans today

4% of workers covered by a pension plan

\$65T in retirement assets

\$31T in 401k plans; 580,000 plans in US

Average balance of worker:

- In their 40s: \$38,000
- In their 60s: \$287,000

Who is saving?

- 2/3 of Americans say their spouse has nothing saved.
- 24% of workers aged 55+ have nothing saved.



Polling question #1



Role of the **plan sponsor**

What can be done? Start by making your company's retirement plan the best it can be.





Change your **mindset**

Move from “If we build it, they will come” to “**If not us, then who?**”

Matthew Gnabasik, “A Guide for plan sponsors”

Role of the plan sponsor

Plan sponsors have considerable influence

Rather than an “attitude of neutral detachment, consider benign paternalism tilting in favor of retirement success.”

Matthew Gnabasik “A Guide for Plan Sponsors”

- How plans are designed
- Encouraging participation
- Discouraging loans and hardship withdrawals
- Discourage cash-out distributions

Polling question #2

What makes a great retirement plan?

Benchmarking: Retirement readiness measures

- Current participation rate
- Percentage of employee receiving full match
- Percentage of those deferring 10% or more
- Percentage of those using target date funds or lifestyle strategy funds



What makes a great retirement plan?

Benchmarking: Plan design measures

- Roth deferral available
- Employer matching contributions
- Employer profit sharing contributions
- Auto features like auto-enroll and auto-increase in deferrals



What makes a great retirement plan?

Plan designs using “auto” features

Auto-enrollment

3% versus 6%

Auto-escalation

1% per year up to 6%

How about higher?

Maximize the match

Re-enrollment

Consider re-enrolling everyone



What makes a great retirement plan?

Stretch the match over higher deferral rates

Match offers	Effective match
\$1.00 for \$1.00 to 3%	3%
\$0.75 up to 4%	3%
\$0.50 up to 6%	3%
\$0.33 up to 9%	3%
\$0.25 up to 12%	3%



What makes a great retirement plan?

Benchmarking: Investments measures

- Monitor and evaluate
Use a benchmarking tool
- Investment policy statement (“IPS”)
- Utilize a default fund
Qualified Default Investment Alternative (“QDIA”)
Target Date Funds or other balanced/life strategy funds
- Asset class representation
- Lowest cost share class investment options



What makes a great retirement plan?

Benchmarking: Provider management measures

- **Recordkeeper/TPA**

- Value of services provided for cost
- Headcount fee rather than asset-based fee
- Consulting on plan features & document design
- Promptness & accuracy of reporting
- Flexibility of platform for investments
- Annual fee & benchmarking service

- **Investment advisor**

- Value of services provided for cost
- Recommendation or advice on investments
- Regularity of investment reviews
- Documentation of discussion & outcomes
- Enrollment & educational services
- Focus on retirement readiness



What makes a great retirement plan?

Benchmarking: Provider management measures (cont.)

- Document provider

- Value of services provided for cost
- Attorney versus Recordkeeper document

- Independent plan auditor

- Independence
- Qualifications & number of audits per year
- Experience & tenure of audit team



What makes a great retirement plan?

Benchmarking: Fiduciary governance measures

Brokerage

- Commissions and transactional costs

Advisory

- Asset base fee / fiduciary
- ERISA 3(21) - Co-fiduciary on investment
- ERISA 3(38) - Discretionary fiduciary on investments

Trustees

- Nondiscretionary “directed” trustee/custodian
- Discretionary bank trustee/custodian
- Full discretionary trustee services on investments and custody of assets



What makes a great retirement plan?

Benchmarking: Fiduciary governance measures (fees)

- Mandate full transparency of fees
- Fees should be reasonable and fair -- “Prudent”
 - Lowest cost is not a requirement
 - Consider the cost-for-value ratio
- Fees should be assessed reasonably and equitably
 - Flat fees for recordkeeping
 - Asset-based fees for investment services/custody
- Monitor use of revenue sharing closely



What makes a great retirement plan?

Benchmarking: Fiduciary governance measures (fees)

Fund lineup	Investments	Expense ratio	Revenue sharing bps	Revenue sharing \$	Number of participants in the fund
Fund 1 (passive)	\$250,000	8 bps	0 bps	\$0	10
Fund 2 (active)	\$250,000	50 bps	25 bps	\$625	15



What makes a great retirement plan?

Benchmarking: Fiduciary governance measures

- Committee charter
- Formal meeting minutes
- Formal review of providers & fees
- Fiduciary file system
- Timely deposits of deferrals & loan payments
- Fiduciary training
- Fiduciary insurance



What makes a great retirement plan?

Investments historically

- Impact largely over-emphasized
- Too much focus on quantity of funds
- Lacks understanding of behavioral finance
- Over-emphasis on “filling the style boxes”
- Use of expense share classes



“Do it for me” Crowd

80-90% of participants

Lack time, desire and knowledge to sort through large list of investment options.



What makes a great retirement plan?

Investments: “Do it with me” crowd

- 5-10% of participants
- Desire to select from 10-15 core offerings
- Passive & active
- US/International equity, fixed income and money market or stable value investment options



What makes a great retirement plan?

Investments: “Do it myself” crowd

- Less than 5% of participants
- Generally sophisticated investors
- Looking for wide variety of investment options
- Self-directed brokerage accounts (“SDBA”)



What makes a great retirement plan?

Investments: Building a multi-tiered investment lineup

Tier 1 - Default fund (“QDIA”)

Target date funds or
target risk funds

Consider how they perform in
up & down cycles

Consider cost vs. value

Consider active vs.
passive



What makes a great retirement plan?

Investments: Building a multi-tiered investment lineup

Tier 1 - Default fund (“QDIA”)

Target date funds or
target risk funds

Consider how they perform in
up & down cycles

Consider cost vs. value

Consider active vs.
passive

Tier 2 - Core portfolio

10-12 basic asset classes

Capital preservation (money
market or stable value)

Fixed income (high grade
corp. bond fund, etc.)

Equity (US domestic,
value/growth, international)



What makes a great retirement plan?

Investments: Building a multi-tiered investment lineup

Tier 1 - Default fund (“QDIA”)

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target risk funds

Consider how they perform in
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Consider cost vs. value

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Tier 3 - Self-Directed Brokerage Accounts

Outside of plan
managed accounts

Access to wide variety of
investments

Consider the costs

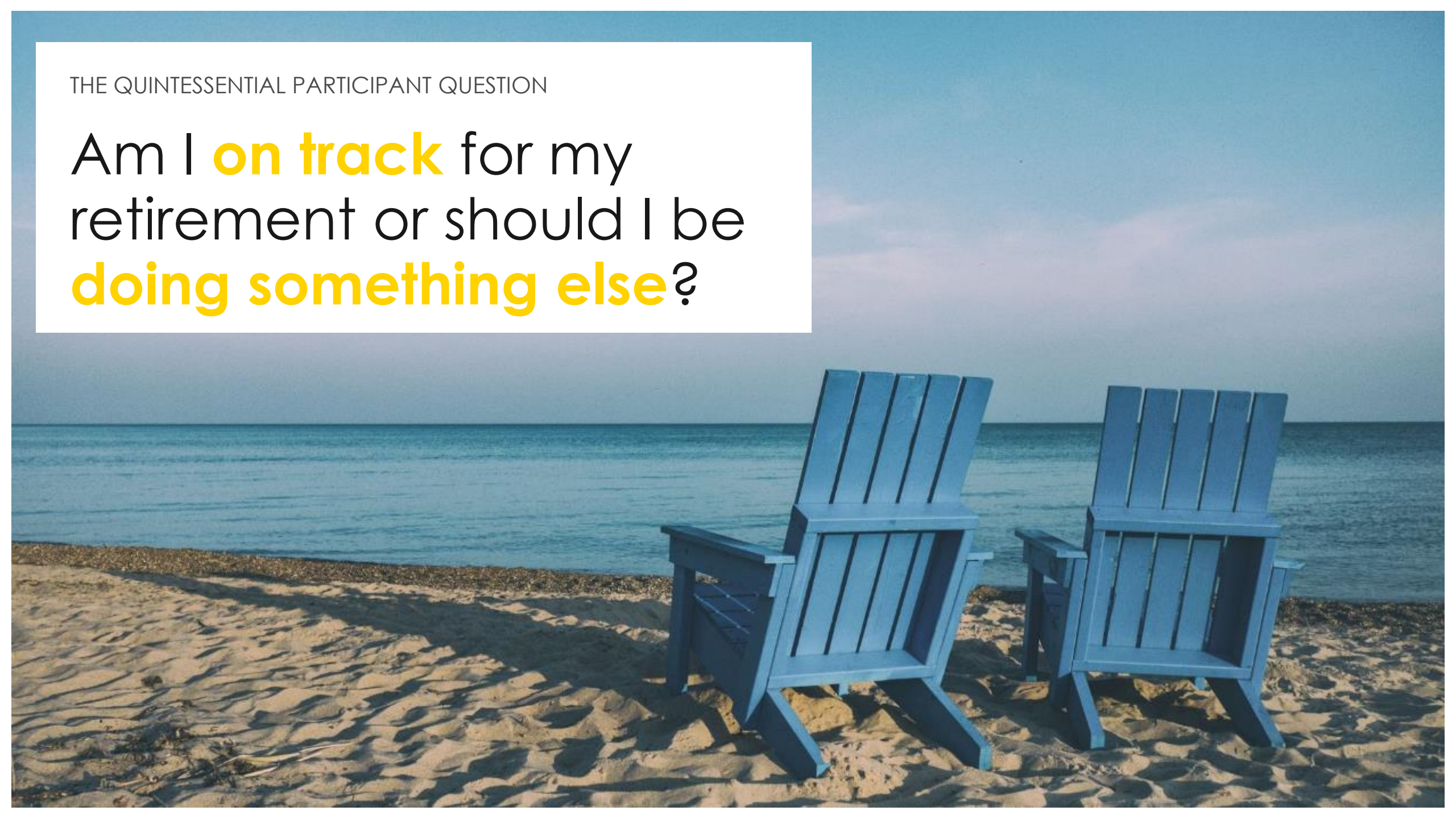
Generally available to all
participants



Polling question #3

THE QUINTESSENTIAL PARTICIPANT QUESTION

Am I **on track** for my
retirement or should I be
doing something else?



What makes a great retirement plan?

Financial education & wellness



Focus on retirement readiness

- Retirement income replacement
- Closing the “gap” -- needs vs. savings, social security & 401k



One-on-one with advisors

- Review of asset allocation
- Review of pre-tax vs. Roth
- Discussion of outside investments



Utilization of technology

- Participant statements -- monthly income
- Online calculators & modeling tools
- Financial planning tools



What makes a great retirement plan?

Fiduciary governance: Minimizing your organization risk

- Select & monitor service providers
- Select, monitor & diversify investments
- Follow the plan document
- Verify plan expenses are reasonable & prudent
- Make informed decisions & document decisions



What makes a great retirement plan?

Fiduciary governance: Minimizing your organization risk

- Create a retirement plan committee charter
- Form a retirement plan committee (2-4 individuals)
- Provide fiduciary training to members
- Establish an Investment Policy Statement (“IPS”)
- Meet regularly (at least annually)
- Document discussions & decisions



What makes a great retirement plan?

Fiduciary governance: Minimizing your organization risk

- Review of last meeting minutes (2-3 minutes)
- Review investment policy statement (5-7 minutes)
- Review investments (20 minutes)
- Review fee benchmarking (10 minutes)
- Review provider performance (10 minutes)
- Discuss next steps (10 minutes)



What makes a great retirement plan?

Fiduciary governance: Minimizing your organization risk

- Plan document, amendments, summary plan description, “IPS”
- Committee meeting minutes
- Investment monitoring reports
- Service provider contracts & fee disclosures - 408(b)(2)
- Fee disclosures to participants - 404(a)(5)



What makes a great retirement plan?

Fiduciary governance: Minimizing your organization risk

- Trust accounting & statement of assets
- Participant accounting reports
- Participant notices & forms (enrollment, loans, notices, etc.)
- Form 5500 with schedules and plan audit as necessary
- Fidelity bond and fiduciary bond policies

Consider online value or storage on a server rather than paper



Polling question #4



Getting help

- ERISA allows plan sponsors to engage providers
- Work with experienced professionals
- Quality professionals focus on:
 - Best practices
 - Plan design
 - Vendor management
 - Retirement readiness
 - Investments
 - Fiduciary risks

A photograph of a business meeting. In the foreground, a person's hand is pointing at a tablet displaying a bar chart with green bars. On the table, there is a calculator, a pen, and some papers with charts. In the background, another person in a suit is gesturing with their hands.

Getting help

Quality professionals have:

- Extensive experience with qualified plans of your size
- Advisors that assume investment fiduciary liability
- Properly scoped engagement agreements
- Well-defined service delivery standard
- Competitive & transparent fees
- Quality references

Today's agenda





Thank you!

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