

# LIFT RETIREMENT

NEWS AND INFORMATION  
FOR EMPLOYERS



Retirement and  
Benefit Partners

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Out with the old, refresh with the new. With the start of the new year, why should you benchmark your company 401(k) plan?



Benchmarking for 2018:  
Do Your 401(k) Plan Design  
and Recordkeepers  
Need a Refresh?



**#Benchmarking401k**  
**#EmployerResponsibility**  
**#401k #Fiduciary**



Simply stated, benchmarking is the process of reviewing and evaluating your company retirement plan. It involves taking a look at what you are offering your employees today and deciding if it's appropriate or needs some updating. There are four main areas to focus on when assessing your retirement plan:

1. **Plan Design**
2. **Service Providers**
3. **Funds**
4. **Fees**

Each aspect of your plan requires a slightly different set of questions and documented responses. To go into detail about each section, we will break this into a two-part series, beginning with Plan Design and Service Providers; but don't worry, we will discuss Funds and Fees in a separate article. Below we are going to share some best practice questions to help you get started on your benchmarking analysis.

## PLAN DESIGN

When you think about it, plan design is your plan's framework; it is like the chassis of the vehicle. Do you think all car frames are the same? Probably not. They vary depending on the type of the vehicle (pickup truck, SUV, cargo van, 18-wheeler, or sports car). The same is true for your retirement plan, the frame (or plan design) must be able to support your end goal. When it comes to 401(k) plan design, some important considerations include:

### Q: Who is **eligible** to join the plan?

- Age?
- Length of employment?
- Are employees automatically enrolled?

### Q: What **type of accounts** can employees use for savings?

- Pre-tax
- Roth

- Q: Is there a **company contribution** to employees?**
- Which employees?
  - How is the company sharing the money?
    - » Required?
    - » Not required?
    - » Encouraged, based on employee savings?
- Q: If an employee leaves, what happens to their account?**
- What is the **vesting schedule**?
  - If their account is under a \$1,000, does the employee receive an automatic distribution?
  - If their account is between \$1 – 5k, is it automatically rolled into an IRA?
  - If the account is over \$5k, what procedures are in place to keep track of the former employee?
- Q: What about the required **Form 5500 tests**?**
- Did we pass?
    - » Great! But, could we be more efficient?
  - Did we fail?
    - » Next time, how can we avoid corrective distributions?
- Q: How can use the 401(k) plan be used to **reward, retain, and recruit** top employee talent?**



Once the plan design is aligned to meet the needs of the company and provide a competitive offering to employees, the chassis is set. But don't worry, no matter what your plan design framework is like today, it can always be updated – it just may take some professional retooling.

## SERVICE PROVIDERS

Staying with the car analogy, your recordkeeper is like the make or name brand of the car. Is it a Honda, BMW, Lexus, Toyota, Ford, Audi, Chevy, Porsche, or another vehicle brand? We are saying it's the brand because most of the time when an employer is asked, "where is your plan?" they respond with the name of the recordkeeper. For example, "where is your plan?" "It's at John Hancock." "It's at Voya." "It's at Fidelity" just to name a few recordkeeper examples.

Just as car manufacturers produce different models of vehicles, the same is true of recordkeepers. Just because two employers have two retirement plans with John Hancock does not mean that they are the same. Instead, they could have different platforms, investments, costs, service models, advisors, plan design and more. The same recordkeeper name does not mean the same plan. Which is why, it is important for employers to ask questions and find out more information about what is available.

### QUESTIONS TO ASK:

- Q: What products and platforms do you offer?**
- Q: Are there price breaks or concessions based on our plan size?**
- Q: What services are we paying for? Could you provide a list?**
- Q: Have you made any technological enhancements to your service?:**
- Uploading contribution files
  - Seamless payroll integration
  - Online account access
  - Cybersecurity, encryption, and fraud prevention
- Q: What other interesting advancements has your firm made that we should be aware of?**

This is not a complete list of questions to ask your recordkeeper; however, it is a start. The important thing to remember is that if you don't like the responses – just like shopping for a new car – you can always walk down to the next lot and see what else is available.

Overall, the goal of an employer-sponsored retirement vehicle is to get your employees into a suitable car with appropriate features that give them the gas and ability to drive towards a successful retirement destination.



**Be financially fit for the New Year:** Motivate your 401(k) plan participants with a meaningful financial wellness program! Here are some holistic ideas to help increase participation and savings rates.



**Being physically fit is a hot New Year's resolution...** what about being financially fit? Read how you can help motivate plan participants with a financial wellness program



**#NewYearsResolution**  
**#401kResolution**  
**#FinanciallyFit**



## MOTIVATING SAVINGS WITH FINANCIAL WELLNESS AND PLAN DESIGN

Resolution season is upon us. January through March are the peak motivation months. That special time of the year when people are eager to make positive strides toward physical, financial, professional, or personal goals. On average, 42% of Americans make money-related resolutions. However, in less than 6 months, half of the once dedicated forget about their goals.<sup>1</sup> But, as we all know, it takes longer than 6 months to reach a *meaningful* savings goal.

So, how can you, as a plan sponsor, use the resolution momentum to inspire your employees to save for retirement? This article we will discuss holistic ways to promote financial wellness among your employees as well as plan design tips aimed at increasing participation and savings rates.

### EMPLOYEE SAVINGS GOALS

We've all heard the saying, "if you don't know where you're going, any road will get you there." However, without a financial goal, many are left unprepared and money has a way of slipping away when there is no clear savings path.

As a retirement plan advisor, my job would be so much easier if every one of your employees were focused on saving for retirement; but the reality is, if they are financially stressed, retirement is the last thing on their minds. Depending on the age and financial situation of your workforce, top concerns may range from meeting monthly expenses, to paying off debt or saving for college, to caring for aging parents. It's important to understand that saving

<sup>1</sup> Statistic Brain. "New Year's Resolution Statistics." Jan. 2017.

is a journey and even though each of your employees may be in a different spot, however, the act of saving needs to be constant.

**TIP:** Encourage your employees to maintain an active list of financial goals. This will help them set a savings path and may help you to determine a more focused financial wellness program or specific education topics.

## SAVINGS BUCKETS

The term savings bucket is not new to you as a plan sponsor, as you may have regular conversations with your recordkeeper about them. However, it may be a brand-new concept for your employees. The three-bucket principal is a way of simplifying the art of saving. First you fill bucket #1 and once it is full, savings begin pouring into bucket #2, then it is on to the final bucket. Each bucket holds savings for a specific goal: BUCKET #1 is reserved for **Emergency Funds**; BUCKET #2: **The Middle Bucket**; BUCKET #3: **Retirement Bucket**.



## PLAN GOALS

Beyond the holistic efforts of financial wellness that address the financial hurdles your employees face, there are steps you can take from a plan level that can motivate positive savings habits. Automatic features such as auto-enrollment

and auto-escalation are two plan design features that can help you pursue goals of increasing participation and deferral rates.

Auto-enrollment is an excellent plan design feature to help get new hires saving from the get-go. In fact, Vanguard research shows that plans with auto-enrollment boast participation rates reaching 90% whereas plans with voluntary enrollment fall short at 63% participation.<sup>2</sup> You may also consider adding features that enroll (or back-sweep) workers who may not have been previously enrolled in your 401(k) plan.

Participating in the plan is great, but you want your employees to be saving at the highest possible rate. One way to help is by implementing an auto-escalation feature. Consider enrolling (or re-enrolling) employees into the plan at a modest 5% savings rate, then increase the deferral by a set percentage each year until a more meaningful rate is reached. Optional formulas:

DEFERRAL GOAL	STARTING DEFERRAL	ANNUAL INCREASE	YEARS TO ACCOMPLISH
10%	5%	1%	5 years
10%	5%	2%	2.5 years
15%	5%	2%	5 years

## ALWAYS MOVING FORWARD

Creating a culture for your employees to save begins with a dialog; we are happy to help with that conversation. At Retirement and Benefit Partners we feel that employee education and empowerment starts with the plan sponsor. Thus, we aim to provide resources and tools that help you help your employees move toward their savings goals.

Need help starting the conversation with your employees? We have educational materials that introduce timeline focused goal setting, budgeting tips and savings buckets.

<sup>2</sup> Vanguard. "How America Saves." June 2017.



## ITEMS YOUR ANNUAL RETIREMENT PLAN REVIEW MAY BE MISSING



It only comes once a year, so make it count! Your annual retirement plan review is due for a checkup to evaluate the health of your plan. There are five major areas to review with your retirement plan committee.



Five major areas to review with your retirement plan committee for your Annual 401(k) Review



**#EmployerResponsibilities**  
**#RetirementPlan #401k**  
**#AnnualPlanReview**

As a plan sponsor, you are no stranger to the annual retirement plan review. And believe it or not, it is that time of year again! Although you may meet quarterly or semi-annually with your advisor, a yearly plan assessment is an opportunity to evaluate the health of your plan.

Many times, the focus of an annual review has to do with investments and fund line-ups; and while this is important and should absolutely be addressed, your review should go further. In this article, we are going to discuss a few not-so-common items to add to your annual plan review checklist. Your review should assess five major areas: plan design, retirement readiness, fiduciary oversight, service provider due diligence, and investment due diligence.

### PLAN DESIGN

When discussing plan design, it is important to evaluate 3 key demographics: participation rate, deferral rate and diversification. If your plan suffers from low participation and deferral rates, as well as poor participant driven investment decisions, you are not alone.

#### PARTICIPATION RATES<sup>3</sup>

**90%**

(Auto-enrollment)

**79%**

(Voluntary Enrollment)

#### DEFERRAL RATES<sup>3</sup>

**10-15%**

(Industry recommendation)

**6.2%**

(Average Deferral Rate)

#### DIVERSIFICATION<sup>3</sup>

**90%**

(Balanced Investment Strategy)\*

\*For those Auto-enrolled

Assessing your company's annual rates could shine light on auto features that may enhance your plan design. Implementing options such as auto-enrollment, auto-escalation, and target-date or QDIA defaults may combat the common obstacles mentioned above.

<sup>3</sup> Vanguard. "How America Saves." June 2017.



### RETIREMENT READINESS

At the end of the day, the purpose of your plan is to prepare your employees for their ultimate goal of retirement. The design of your plan can help your participants prepare via defaults and automatic features, but can you do more to motivate and educate them?

### FIDUCIARY OVERSIGHT

Your annual review is a great opportunity to pop open your fiduciary vault to organize, review and update your plan documents. The documents may include:

- Investment Policy Statement (IPS)
- Education Policy Statement (EPS)
- Retirement Plan Charter
- Plan Documents and Annual Filings
- Service Agreements

### SERVICE PROVIDER DUE DILIGENCE

While assessing the fees and services that each service provider offers, don't forget to ask about new services and technologies. Tech develops quickly these days and your service providers may have updated websites, mobile apps and reporting software. Ask what is new and developing and if it has an impact on plan fees.

Another question you may consider is how the fiduciary rule may affect your vendor relationships and if there are any conflicts of interest they need to disclose. Although the date for the rule's implementation hangs in the balance, as a fiduciary, these are questions you should be asking.

### INVESTMENT DUE DILIGENCE

One of the costliest fiduciary missteps you can make is having an Investment Policy Statement (IPS) but not following it. It was listed previously in the fiduciary oversight section, but is well worth another mention.

A, I, R, S, B, C, F. Listing the options for investment share classes may look like the letters you select during a Wheel of Fortune bonus round; but, they do matter and should be discussed during your annual meeting.

### LOOKING AHEAD

It is just as important to look ahead during your annual review as it is to look back on the previous year. Use this opportunity to set goals for the plan and put them on a timeline. Consider adding them to your quarterly or semi-annually meeting agendas to help you stay on track.

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This information was developed as a general guide to educate plan sponsors and is not intended as authoritative guidance or tax/legal advice. Each plan has unique requirements and you should consult your attorney or tax advisor for guidance on your specific situation.

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