

WINNING STRATEGIES FOR ATTRACTING AND RETAINING 401(K) CLIENTS

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Keeping ahead of the curve

- Changes around the corner
 - ▣ Fee disclosure
 - ▣ Increased Awareness
 - ▣ Design Options

Commit?

□ Why?

- Money is moving
- Will land where expertise resides
- Added value focused on you
- Sticky dollars with additional opportunities

Winning Strategies for Attracting & Retaining 401(k) Clients

4

- Handful of Specialized RIA's Likely to Win Middle Market 401(k) Plan Battle Says Cerulli <http://www.forbes.com/sites/riabiz/2011/04/14/handful-of-specialized-rias-likely-to-win-middle-market-401k-plan-battle-says-cerulli/>
- More than 30% of mid market plan sponsors are not satisfied with their current plan
- A Briskin Consulting Survey states; *For banks and wire houses, these findings should serve as a wake-up call. The commission-based sales model is losing favor in a market with an increasing demand for advice, lower costs, and greater fee transparency.*

□ How?

- Not too complex
- Talk to your clients
- Pick the right partners
- Avoid the pitfalls

Fee Disclosure

6

- DOL Final Regulations effective April 1, 2012
- Who must disclose?
 - ▣ Investment advisors to the plan
 - ▣ Plan record keepers
 - ▣ Brokers
 - ▣ Any other plan service providers that receive indirect compensation in connection with their services to the plan.

Fee Disclosure

7

- Who must receive disclosure?
 - ▣ ERISA retirement plans (e.g., 401(k) plans, pension plans, cash-balance plans, profit sharing plans, etc.)
 - ▣ Disclosure to the following plans is NOT required:
 - SEP
 - SIMPLE plans
 - IRAs

Comparative Fee Analysis

Total Plan Fees	Bundled 401(k) Plan	Sample RIA 401(k) Plan
<u>Investments</u>		
Fund Investment Expense (Tab 2)	135,415	62,396

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Investment Advisor Fee	0	24,730

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Total Cost of Plan Investments	135,415	87,126

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Plan recordkeeping	0	19,200

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Plan recordkeeping	0	19,200
Plan Testing, 5500 filing and documents	0	0

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Total Cost of Administration	0	19,200
Total Gross Plan Expenses	135,415	106,326

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less: Revenue Sharing Collected	0	-25,107

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Total Cost of Administration	0	19,200
Total Gross Plan Expenses	135,415	106,326
less: Revenue Sharing Collected	0	-25,107
Total Net Plan Expenses	135,415	81,219

Fiduciary Status

17

- Are you a fiduciary?
- If not, you may soon be.
- What does it mean to be a fiduciary?
 - ▣ Must act in the best interest of plan participants and beneficiaries.
 - ▣ Must exhibit the care, skill, prudence, and diligence that a prudent person acting in like capacity would use in similar circumstances.
- See, e.g., excessive fee cases.

Winning Strategies for Attracting & Retaining 401(k) Clients

18

Plan Design Illustration

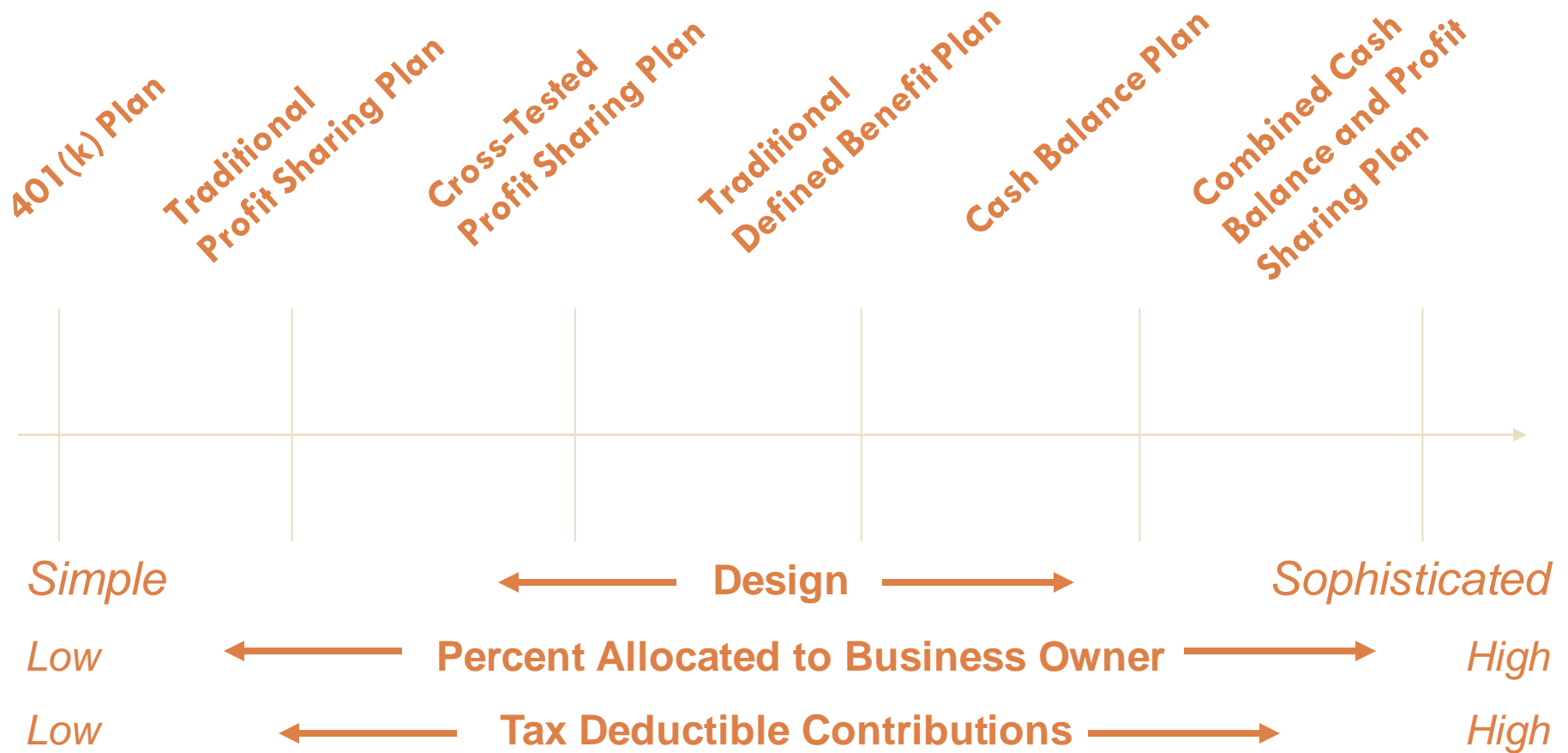
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Retirement Plan Continuum

19



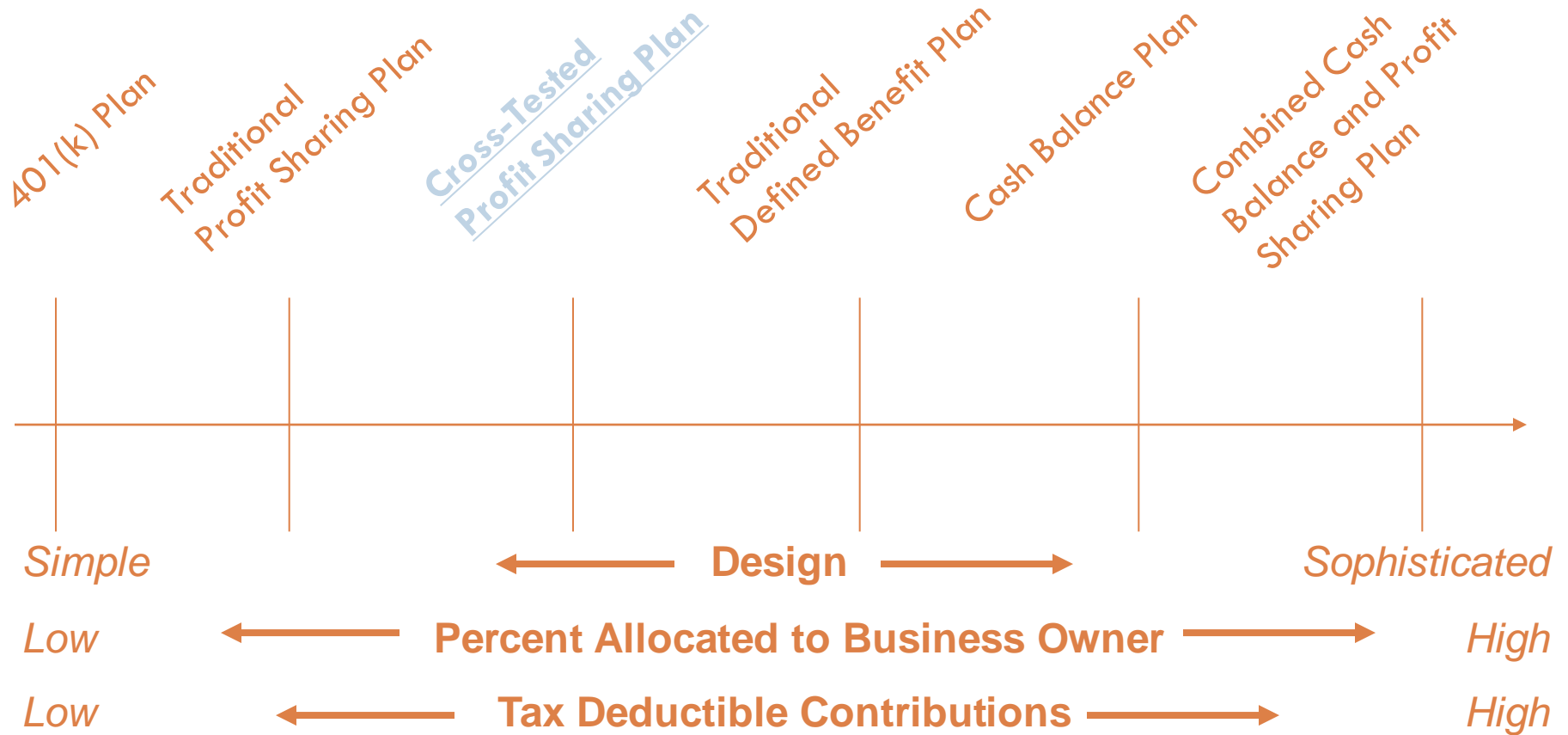
Retirement Plan Continuum

20

Case Study – Three Musketeers, Inc.

- **3 Owners**
 - **Ages 50, 55, and 60**
 - **Each with earned income over \$245,000**
- **7 employees**
 - **Total compensation = \$242,000**
- **Currently have a Safe Harbor 401(k) plan**
 - **3% profit sharing contribution**

Retirement Plan Continuum



Case Study – Three Musketeers, Inc.

Cross-Tested Profit Sharing Plan

<u>Employee</u>	<u>Annual Comp</u>	<u>Age</u>
Owner 1	\$245,000	60
Owner 2	245,000	55
Owner 3	<u>245,000</u>	50
Owner Totals	\$735,000	
Employee 1	\$25,000	31
Employee 2	22,000	21
Employee 3	40,000	41
Employee 4	25,000	24
Employee 5	35,000	29
Employee 6	60,000	51
Employee 7	<u>35,000</u>	32
Employee Totals	\$242,000	
Plan Totals	\$977,000	

Case Study – Three Musketeers, Inc.

Cross-Tested Profit Sharing Plan

Employee	Annual Comp	Age	401(k)		
			401(k)	Catch-Up	Match
Owner 1	\$245,000	60	\$16,500	\$5,500	\$0
Owner 2	245,000	55	16,500	5,500	0
Owner 3	<u>245,000</u>	50	<u>16,500</u>	<u>5,500</u>	<u>0</u>
Owner Totals	\$735,000		\$49,500	\$16,500	\$0
Employee 1	\$25,000	31	?	?	\$0
Employee 2	22,000	21	?	?	0
Employee 3	40,000	41	?	?	0
Employee 4	25,000	24	?	?	0
Employee 5	35,000	29	?	?	0
Employee 6	60,000	51	?	?	0
Employee 7	<u>35,000</u>	32	<u>?</u>	<u>?</u>	<u>0</u>
Employee Totals	\$242,000		?	?	\$0
Plan Totals	\$977,000		\$49,500	\$16,500	\$0

Case Study – Three Musketeers, Inc.

Cross-Tested Profit Sharing Plan

<u>Employee</u>	<u>Annual Comp</u>	<u>Age</u>	<u>401(k)</u>	<u>401(k) Catch- Up</u>	<u>Match</u>	<u>Profit Sharing Contrib</u>	<u>% of Comp</u>
Owner 1	\$245,000	60	\$16,500	\$5,500	\$0	\$32,500	13.27%
Owner 2	245,000	55	16,500	5,500	0	32,500	13.27%
Owner 3	<u>245,000</u>	50	<u>16,500</u>	<u>5,500</u>	<u>0</u>	<u>32,500</u>	13.27%
Owner Totals	\$735,000		\$49,500	\$16,500	\$0	\$97,500	
Employee 1	\$25,000	31	?	?	\$0	\$1,105	4.42%
Employee 2	22,000	21	?	?	0	973	4.42%
Employee 3	40,000	41	?	?	0	1,769	4.42%
Employee 4	25,000	24	?	?	0	1,105	4.42%
Employee 5	35,000	29	?	?	0	1,548	4.42%
Employee 6	60,000	51	?	?	0	2,653	4.42%
Employee 7	<u>35,000</u>	32	<u>?</u>	<u>?</u>	<u>0</u>	<u>1,548</u>	4.42%
Employee Totals	\$242,000		?	?	\$0	\$10,701	
Plan Totals	\$977,000		\$49,500	\$16,500	\$0	\$108,201	

Case Study – Three Musketeers, Inc.

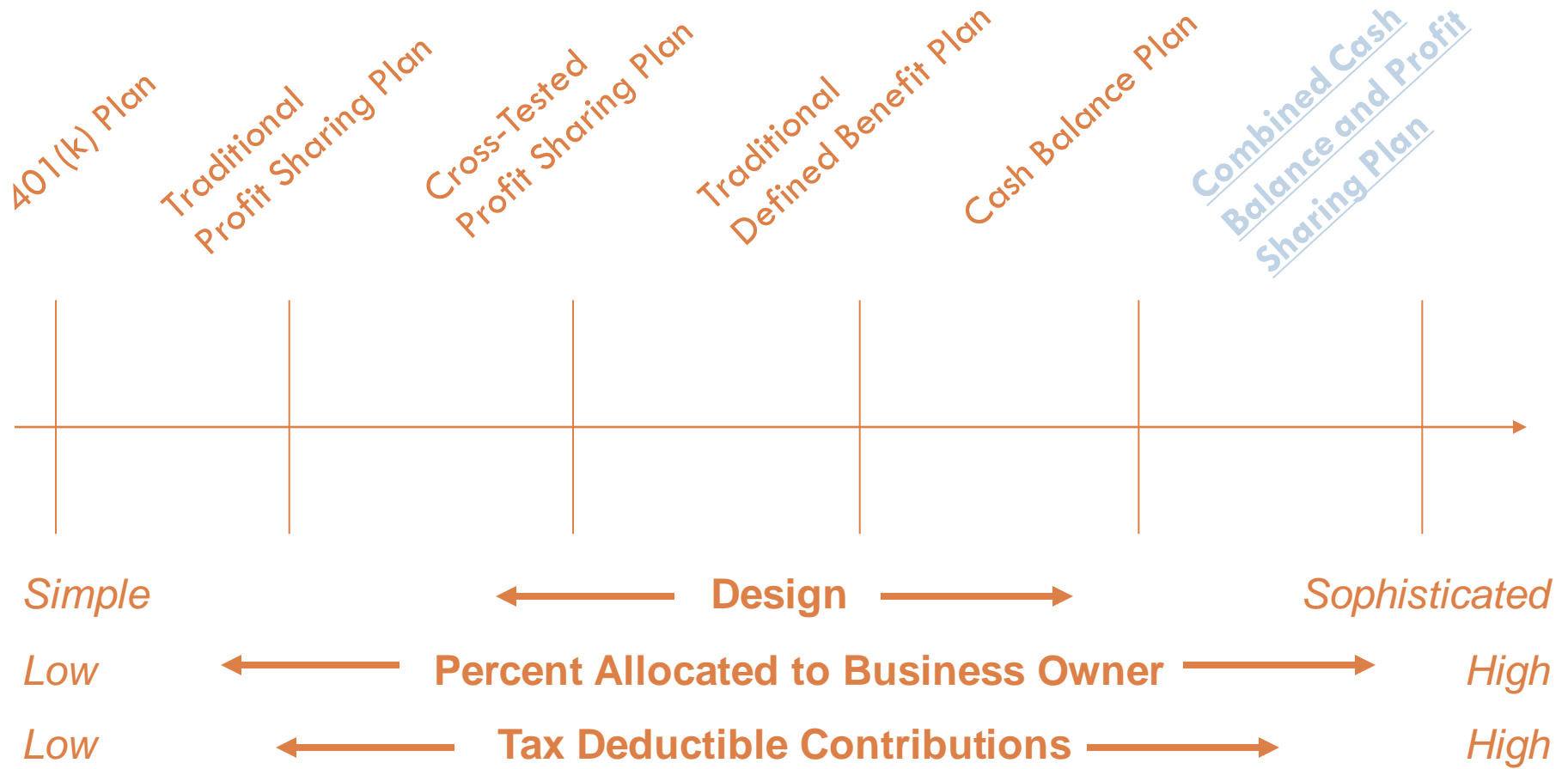
Cross-Tested Profit Sharing Plan

Employee	Annual Comp	Age	401(k)	401(k) Catch-Up	Match	Profit Sharing Contrib	% of Comp	Total Retirement Plan		
								Total Contrib	% of Contrib	Projected Lump Sum
Owner 1	\$245,000	60	\$16,500	\$5,500	\$0	\$32,500	13.27%	\$54,500	31.29%	\$752,996
Owner 2	245,000	55	16,500	5,500	0	32,500	13.27%	54,500	31.29%	752,996
Owner 3	<u>245,000</u>	50	<u>16,500</u>	<u>5,500</u>	0	32,500	13.27%	<u>54,500</u>	<u>31.29%</u>	974,921
Owner Totals	\$735,000		\$49,500	\$16,500	\$0	\$97,500	13.27%	\$163,500	93.86%	
Employee 1	\$25,000	31	?	?	0	1,105	4.42%	\$1,105	0.63%	\$112,836
Employee 2	22,000	21	?	?	0	973	4.42%	973	0.56%	208,770
Employee 3	40,000	41	?	?	0	1,769	4.42%	1,769	1.02%	79,353
Employee 4	25,000	24	?	?	0	1,105	4.42%	1,105	0.63%	190,756
Employee 5	35,000	29	?	?	0	1,548	4.42%	1,548	0.89%	184,064
Employee 6	60,000	51	?	?	0	2,653	4.42%	2,653	1.52%	41,875
Employee 7	<u>35,000</u>	32	<u>?</u>	<u>?</u>	0	1,548	4.42%	<u>1,548</u>	<u>0.89%</u>	146,189
Employee Totals	\$242,000		?	?	\$0	\$10,701	4.42%	\$10,701	6.14%	
Plan Totals	\$977,000		\$49,500	\$16,500	\$0	\$108,201	11.07%	\$174,201	100.00%	

Owners able to Contribute \$163,500

For contributions of \$10,701 to employees

Retirement Plan Continuum



Case Study – Three Musketeers, Inc.

Combined Cash Balance and Profit Sharing Plan

Employee	Annual Comp	Age	401(k)	Profit Sharing Contrib	% of Comp	Cash Balance Contrib	% of Comp	Total Retirement Plan		
								Total Contrib	% of Contrib	Total Benefits
Owner 1	\$245,000	60	\$22,000	\$32,500	13.27 %	\$215,600	88.00%	\$270,100	39.00%	\$3,528,923
Owner 2	245,000	55	22,000	32,500	13.27 %	166,600	68.00%	221,100	31.92%	2,898,030
Owner 3	245,000	50	22,000	32,500	13.27 %	126,543	51.5%	181,043	26.14%	3,048,394
Owner Totals	\$735,000		\$66,000	\$ 97,500				\$672,243	97.06%	
Employee 1	\$25,000	31	?	\$1,725	6.90%	\$375	1.50%	\$2,100	0.30%	\$205,108
Employee 2	22,000	21	?	1,518	6.90%	330	1.50%	1,848	0.27%	373,667
Employee 3	40,000	41	?	2,760	6.90%	600	1.50%	3,360	0.49%	146,500
Employee 4	25,000	24	?	1,725	6.90%	375	1.50%	2,100	0.30%	343,001
Employee 5	35,000	29	?	2,415	6.90%	525	1.50%	2,940	0.42%	333,542
Employee 6	60,000	51	?	4,140	6.90%	900	1.50%	5,040	0.73%	78,469
Employee 7	35,000	32	?	2,415	6.90%	525	1.50%	2,940	0.42%	266,151
Employee Totals	\$242,000		?	\$16,698				\$20,328	2.94%	
Plan Totals	\$977,000		\$66,000	\$114,198		\$512,373		\$692,571	100.00%	

Owners increased their contributions by an additional \$508,743

For an additional \$9,627 contribution on behalf of the employees

Winning Strategies for Attracting & Retaining 401(k) Clients

28

- Once the sponsor has adopted and implemented the plan, what's next?
- A retirement plan should be a benefit, not a liability.
- Errors and problems are common and costly.
 - ▣ Employee contribution deposits
 - ▣ Documentation of plan decisions
 - ▣ Proper correction of plan errors
 - ▣ Fiduciary insurance coverage
 - ▣ Investment policy statement
 - ▣ Periodic fee review (see, e.g., *Tibble*)

Contact

29

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