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401(k) plan client

White paper

Best practices when working with your 401(k) plan clients

Best Practices Summary

- Set expectations
- Develop a retirement plan strategy
- Perform plan design consulting
- Assist in designing an investment policy statement
- Provide ongoing investment and plan reviews
- Offer benchmarking assistance
- Offer vendor management assistance
- Provide fiduciary compliance assistance
- Provide fiduciary education
- Provide ongoing legislative and regulatory updates
- Manage employee communications and education
- Be the go-to retirement plan resource

Are you providing all of the services that your 401(k) clients need and expect from you? Consider these best practices to ensure that you remain the go-to resource for their 401(k) questions.

Whether you provide some of the services may depend on whether you intend to serve the plan in a fiduciary capacity by providing investment advice to the plan or participants.

Set expectations

The best results will come if the advisor sets clear and reasonable expectations at the onset of the relationship. The 401(k) plan advisor can play an important role in helping plan sponsors get the most out of their retirement plans both for the plan participants and for the plan sponsors.

As with all service relationships, **both parties will likely get satisfaction out of the relationship when each has a clear understanding of what services will and won't be provided.**

Advisors should view themselves as the quarterback of the retirement plan "team." Based on the plan sponsor's direction, the advisor can implement the plan sponsor's vision and help to lead the retirement plan's team to a successful outcome. The retirement plan team will likely include all or almost all of the following individuals:

> Employer/plan sponsor
> ERISA attorney
> Plan administrator
> Third party administrator
> Trustee/custodian
> Investment manager
> Insurance company/mutual fund partner
> Financial advisor
> Accountant

Each team member has a specific role to play in the successful establishment and operation of a 401(k) plan, but the same person/entity can assume multiple roles. Some roles are fiduciary in nature and some are not. It is usually a good idea to utilize written service provider agreements, and all service providers should comply with the ERISA[1] sec. 408(b)(2) regulations. Successful retirement plan outcomes are more likely to be achieved through teamwork rather than one person trying to be all things to all people.

Develop a retirement plan strategy

Many 401(k) plan sponsors have a basic, but limited understanding of 401(k) plans, their responsibilities with respect to the plans, and best practices for success. The 401(k) advisor can play an important role in helping plan sponsors get the most out of their 401(k) plans both for the plan participants and for the plan sponsors. Success is more likely if the advisor and plan sponsor develop an overall retirement plan strategy. The strategy should have specific goals that focus on not only plan sponsor success, but also plan participant success. In addition, the strategy should assign roles for accomplishing these goals.

Each plan sponsor will have different goals and needs and different circumstances; **therefore, no two retirement plan strategies will be exactly the same.**

Retirement strategies should be customized for specific plan sponsors. However, there are several topics that should be considered for inclusion in the strategy. These include:

> Plan design

> Investment performance

> Increased plan participation

> Cost saving strategies

> Efficient and effective administration

> Fiduciary education and liability protection tools

> Plan sponsor and participant education

The advisor can assist the plan sponsor in identifying all of these topics for consideration in developing the strategy. Most are areas where the advisor can provide insight and resources.

Perform plan design consulting

The advisor may also provide valuable guidance on plan design options for plan sponsors. This guidance can be especially helpful to smaller employers who are often establishing or maintaining a retirement plan to maximize tax savings and retirement deferrals for owners or key employees of the company. Employers may want to know what other employers are doing. Providing industry statistics on matching formulas or other forms of employer contributions will likely be appreciated.

Introducing plan sponsors to the many plan design options available to them and sharing concrete examples of how the different options impact retirement savings will be a valuable service for plan sponsors. These options may include: a safe harbor plan, which allows the company's highly compensated employees to maximize salary deferrals at the cost of mandated employer contributions; permitted disparity/Social Security integration, which allows highly compensated employees to receive additional contributions on amounts above the Social Security wage base; and cross testing/new comparability, which allows discrimination testing to be done on a projected benefits basis.

[1]The Employee Retirement Income Security Act of 1974.

The plan's third party administrator will be a valuable resource for providing specific plan design scenarios based on the company's census information including ages, salaries and years of service.

When discussing plan design, it is important to remember that many plan designs fail because the clients have not clearly defined what they expect to achieve with a retirement plan. Critical to defining client expectations is understanding who the plan is intended to benefit, how much the owner expects to receive, and does the financial condition of the company allow the employer to reasonably expect to achieve these goals.

While the owner may wish to maximize his or her own contributions, the owner must also understand that the company will have to provide a benefit to some, if not all, of its eligible employees. The cost to provide these benefits must be weighed against what the company's financial condition will allow. In addition, if the company has inconsistent cash flows, the owner may need the flexibility of making contributions on a discretionary basis so that in good years the company can make substantial contributions and, in lean years, make smaller or no employer contributions.

Provide insights on designing an investment policy statement

While retirement plans are not required to have an investment policy statement (IPS), an IPS is a valuable piece of the retirement plan portfolio and serves several important functions. All plan sponsors, whether the plan is small or large, should be encouraged to adopt one. The IPS provides the general investment goals and objectives of the plan sponsor and describes the strategies that should be employed to meet these objectives. If the advisor is serving the plan in a fiduciary capacity, he or she may assist the plan sponsor with drafting the IPS. A non-fiduciary advisor should not draft the IPS, but could provide resources to assist the plan sponsor in crafting the IPS.

The advisor can also help the plan sponsor understand that a well drafted IPS that is consistently followed will minimize fiduciary liability for the plan sponsor in its role as "Named Fiduciary" and/or investment fiduciary of the plan by helping to establish that procedural prudence has been followed with respect to the investment options offered by the plan.

It is important to remember, however, that if the plan sponsor adopts an IPS, it must be followed. Most experts believe it is worse to have one and not follow it than to not have one at all.

Provide ongoing plan performance reports

The IPS is a road map for the plan's investments that should be consulted and reviewed on at least an annual basis to ensure that the plan is still on the right course. The plan advisor should discuss with the plan sponsor whether the plan's fund selections still reflect the objectives set forth in the IPS or as expressed by the plan sponsor if there is no IPS. Most advisors likely already do this, but the advisor should also provide a performance analysis of the plan's funds at least annually. This is an excellent opportunity for the advisor to show he or she is adding value.

Investments are likely the plan sponsor's area of least knowledge, and where the plan sponsor will most appreciate an advisor's assistance.

While the advisor may meet with the plan sponsor annually to discuss the plan's performance in person, the advisor should provide written fund performance reports at least quarterly. The advisor may also want to discuss these reports in person or provide the plan sponsor opportunities to have a telephone conference to discuss. The quarterly reports and annual review should discuss the investments utilized by the plan's participants and compare them (and all plan investment options) to appropriate benchmarks for comparisons. If the plan's investment alternatives are determined by the plan's investment fiduciary to no longer be appropriate for the plan, either based on benchmarking, style drift, performance results, lack of utilization, etc., the advisor should identify possible investment alternatives for consideration that meet the objective investment criteria in the IPS to replace those underperforming or underutilized funds.

As part of the annual investment review, or at some other time during the year, the advisor should consider scheduling an annual plan review with the plan sponsor. Topics for discussion might include participation levels, deferral percentages, participant loans, non-discrimination testing and enrollment. If the numbers and amounts do not reflect the plan sponsor's expectations as previously discussed in the overall strategy, the advisor can discuss methods to improve the results. This might include automatic participant enrollment with automatic deferral escalation; changes to the matching formula to enhance participation; or additional or targeted participant meetings to encourage participation. The advisor should also consider discussing the effectiveness of prior communication efforts, and offer new or enhanced communication strategies that might also be effective.

Offer benchmarking assistance

This is evident from all the litigation that we are seeing claiming fiduciary breach by plan sponsors and their service providers. Benchmarking has been prevalent in investment decision making for many years as the DOL has expected plan fiduciaries to provide prudent investment options. In order to show that the plan fiduciary exercised prudence, the fiduciary could use benchmarking reports to demonstrate how the plan's current offerings compare to other product offerings in terms of cost and performance. Now with the DOL's push for documented prudence in the area of service provider compensation, benchmarking has moved into a new arena. Plan advisors should consider offering benchmarking reports for both investments and service provider fees for use by plan sponsors.

With the Department of Labor's (DOL's) ongoing focus on fiduciary responsibility, plan fiduciaries are being expected like never before to justify the decisions that they make.

Offer vendor evaluation assistance

The advisor should also consider helping the plan sponsor with vendor evaluations. The advisor's experience in the retirement plans space often puts him or her in a better position to provide perspective on services and costs of plan recordkeepers, administrators, outside trustees or custodians. This help might come in the form of receiving responses to a request for proposal (RFP) or requests for information (RFI) or a less formal means of soliciting vendors or documenting other analysis on maintaining the current relationship.

If the plan sponsor does not want to issue RFPs or RFIs, the advisor could provide assistance with less formal means of soliciting vendors by ensuring that plan sponsors analyze and document vendor decisions.

It is important to remember the DOL has made clear that satisfaction with the status quo when it comes to vendor services is not enough in discharging fiduciary responsibility. The plan fiduciary must make continued and ongoing determinations that the plan's then current service providers are providing necessary services for reasonable compensation. In fact, according to the NEPC 2016 Defined Contribution Plan Fee Survey, 82% of defined contribution plan executives reported that they have renegotiated their record-keeping fees since 2013. This is consistent with the preamble to the DOL's ERISA section 408(b)(2) regulations which states that the DOL assumes plans normally conduct RFPs every 3 to 5 years.

Provide compliance assistance

Plan fiduciaries have numerous ongoing responsibilities. Advisors can help them keep track of some of these requirements including annual notices that must be distributed to participants. The advisor may also follow up with third party administrators to coordinate the distribution of notices and the adoption of required plan document amendments. If the plan is new or if significant changes have been made to the plan, the advisor may help coordinate the drafting and distribution of a summary plan description or summary of material modifications to all plan participants, as appropriate.

Plan sponsors should consider periodic self audits by an independent third party to ensure that the plan is in compliance with applicable laws. The plan's advisor can help facilitate such an audit. The audit can identify needed corrections prior to an actual audit by the IRS or DOL, but it can also provide an opportunity to improve benefits or reduce administrative costs. The plan sponsor may want to consider using the IRS's self correction program, known as EPCRS, to self correct any identified errors that are approved for correction through the program.

Provide fiduciary education

When is a plan sponsor also a plan fiduciary? Who else is a plan fiduciary? Can the plan sponsor delegate any or all of its fiduciary responsibilities? What are these duties? What happens if these duties are breached? Plan sponsors may have these, along with many other questions about their fiduciary responsibilities and the consequences of violating those responsibilities. The advisor can provide the plan sponsor initial and ongoing education on fiduciary issues. Many plan sponsors do not properly understand these rules, so this is another area where the advisor's help can be of valuable assistance.

Provide ongoing legislative and regulatory updates

There is that universal truth that everything changes, and nothing stays the same. This is especially true in Washington. The advisor can be a valuable resource for plan sponsors to stay abreast of new and pending legislation from Congress as well as new regulations from the DOL or IRS that may impact the administration of the plan. Helping the plan sponsor stay compliant with new regulatory requirements will be appreciated by plan sponsors who probably have no interest in or access to information about retirement plan regulation.

Facilitate employee communications and education

Communication is often the plan advisor's greatest skill. These meetings can be a great opportunity for a plan advisor to influence participant actions to improve plan participation and contribution levels and to provide education needed to help enable participants to make sound investment choices. The advisor should view every meeting and communication as a vehicle to share the message of retirement readiness.

Value-added information

Offer value-added information such as responsible investing options. The advisor can build client loyalty by offering education with responsible investing options and strategies for those plan sponsors who are interested in adding them to their retirement plan.

Consider these findings from a recent TIAA Global Asset Management ("TIAA") survey[2]:

> 76% of investors would like their investments to deliver competitive returns while also promoting positive social and environmental outcomes. This number increases to 90% with Millennial investors.

> 74% would be more likely to work with an advisor who could give them competitive investment returns from investments that also made a positive impact on society.

> 65% would be more likely to stay with an advisor who could discuss principle-based investing with them.

This is a means for advisors to differentiate themselves that many plan sponsors will appreciate as the TIAA survey suggests.

[2] Second Annual Practice Management Study, 2016, TIAA Global Asset Management.

Bottom line — be the go-to retirement plan resource

To become the plan sponsor's most valuable retirement plan partner, the advisor should be the first person the plan sponsor thinks of in connection with the company's retirement plan.

The advisor will become the plan sponsor's go-to resource for all things plan-related if he or she believes the advisor understands the company's plan and has the knowledge to troubleshoot plan problems. Some third party administrators have so many plans for which they provide plan administration services that a plan sponsor can feel like just another number. By serving as the liaison for the plan sponsor and other service providers, the advisor can coordinate the plan actors so that the plan sponsor receives a better overall experience.

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