



Retirement Plan Benchmarking

transcript

Chris Richardson at IZALE hosts Mike Fennessy from Duke Financial Partners, specialists in qualified plan implementation and management.

Well, hello, everyone.

Thanks for taking some time out of your day to join us for this overview. I'm Chris Richardson, the senior consultant with IZALE Financial Group. At IZALE, our core function is the design, implementation, and management of executive and director benefit programs for credit unions and community banks. During our conversations with many of our clients, we often got asked about our ability to provide 401K plans. In the past, we really didn't have a good option to offer our clients.

Fortunately, today we now have a great option for our clients. Duke Financial Partners. Specialists in 401K Plan Implementation and Management. Duke Financial Partners. Specialists in 401K Plan Implementation and Management. Joining us on the webinar today from Duke Financial Partners is Mike Fennessy. Mike will be providing an overview of his process for completing a benchmark of your 401k plan.

Mike, thanks for sharing your expertise with us today. Over to you.

MIKE: Great. Thank you, Chris. Good morning, everyone. We've been really excited about our partnership with IZALE Financial Group for almost five years now, where we've really been collaborating to help out great financial institution clients. Just to help them understand and educate them on what really is happening with retirement plans. Some of the unique responsibilities associated with them. But openly stay focused on the main goal, which is to make sure the employees have an outstanding experience... in all the resources that they need.

I will confess that as it comes to benchmarking of employee benefit plans, you're probably most common with the experience you have annually around your health insurance, where your benefits team sits down and tries to figure out what is going to be the increase in costs associated with benefits that maybe you discuss cost savings that are possible. How do you share cost sharing back and forth between the employee and your own organization.

Most employers are very used to having an annual experience about benchmarking. However, they frequently focus so much on health benefits because it's mandated you have to do this renewal, whereas retirement plans, you don't have to do a renewal. And so what happens over time is that plans just take longer and longer.

Through our team, we've consulted on over 3,000 retirement plans in the past 22 years. Very rarely when we first meet someone do they sit there and say, Gosh, we're so glad you called. The more typical response we get when talking about 401k consulting with someone is that no one complains.

While that may be true that no one is complaining, what you'll find is through our brief process of retirement plan benchmarking, you can educate yourself around all the different fiduciary obligations you need to meet, as well as making sure the fees and services that your employees are receiving are reasonable compared to what's available in the market today.

There is a lot of emphasis upon retirement plans. As more and more Americans are self-funding their own retirement through 401Ks and pension plans are really no longer all that common among private employers. There really isn't a great emphasis to making sure that these plans are operating as best they could.

You may be familiar that two different regulatory bodies oversee retirement plans, both the IRS on the taxation piece and the Department of Labor as it relates to the benefits. We are also going to talk about a lot of the Department of Labor aspects today. And you may be aware the Department of Labor has an enforcement arm called the EBSA. The Employee Benefits Security Administration. That is sort of like their version of the FBI. And if you are so inclined to visit Department Labor's website, you would find this information from the two brochures we're going to reference. But the first is that piece has been around for a decade regarding meeting your fiduciary responsibilities.

Most employers are shocked to find that they are legally liable for how their retirement plans operate. But most of the time, retirement plans look great when you first set them up without constant monitoring. And through case precedent, we have to find that to be five years. We just run up with wildly excessive fees and plans. So one of the main quotes we like to take out from this first brochure of meeting your fiduciary responsibilities is to bullet section I have. After evaluation during the initial selection, when you hired your service provider, the plan's fees and expenses should be monitored to determine whether they're continued to be reasonable. Again, defining reasonable is at least a minimum of every five years.

The EBSA goes further into creating a brochure. It talks about understanding retirement plan fees and expenses. And again, I have highlighted probably one of the more critical sections for here to take a look at, which is, is the plan fiduciary. You have the obligation under arrest to prudently select and monitor the plan investments and investment options made available to the plan participants and the person providing services to your plan. So I do like to make sure everyone understands a critical point in regards to offering a retirement plan to your employees. There is no way to completely eliminate the liability. A person, not a company a person brings on when offering a retirement plan. Yes, you can outsource investment liability.

You can outsource administrative liability. That has to be through a certain Orissa aspect and it has to be through a service contract that are such a very common assumption that we have a vendor and they're wonderful and they take care of all this for us. Most people find out, unfortunately, that is not the case, and I'll have some examples about that as we continue our conversation. People are always worried that this is going to be a super long process and I'll talk about our our impacts and how we do this. But for our team, we're really doing all of this work for you.

But if you were to look at this brochure, it's going to have a couple of different bullet points. I'm highlighting the process. Step one is just trying to figure out how are you going to conduct your RFP? The second point and the third point are probably the most important. The second point talks about before negotiating with your perspective service provider. Think about the services you would like from that service provider. Let

me give you a really important example of how that's happening today. There are a lot of vendors that are online and digital, and so one of the fiduciary obligations most employers forget about is that there is no fulfillment that has to go to every employee, regardless of their own participation, and it has to go to terminated employees that still have bad answers within that plan. So former employees.

And every November you're required to send several different notices to them. And if you fail to do so and are caught, there is a daily fine of \$450 per notice that they do not receive. So we had a client that was recently considering an online digital vendor because it seemed like it was cheap and integrated with payroll and everything should be great. And so during that interview I asked the question, So what do we do with terminated employees that don't have an email address? And the vendor looked at me and said, Well, that's impossible. I said, Well, it's not my clients. How therefore, when they plan for nine years, there are 27 employees in this plan who are no longer employed and do not check their work. Email. How do we solve this? And that digital provider said, Well, this we won't work for you. That we have no way of communicating required notices except to a employee email address.

So I bring up that story to know that you may want to have a conversation specifically about which provisions and services are being provided and how this common one about notification to terminate employees is turning out to be a quite a bit of an issue. That third bullet point I referenced previously about considering the level of responsibility you want your perspective service provider to engage in.

I don't know many employers who are looking to have add a lot more work. So most of the time we are looking to outsource for one K responsibilities and administrative tasks to our engaged vendor, which is great. We just need to make sure they're actually doing it. And are they taking a fiduciary position to that service? The final two bullet points, just making sure you all are aware of them that top one fees need to be reasonable. We'll explain how you determine reasonableness and then making sure you get an annual statement. So to the employer. That is called a408b to statement to the participants, your employees. That is a forum for a statement. Some vendors even they're required by law to produce annually. Just don't. So I just want to be very clear about that.

You have to be reviewing the statement and understand it. And then following that last bullet point, again, making sure you determine your fees are reasonable during a certain period of time. Again, we're saying that every five years is the case. Precedence standard has been established to benchmark fees for your retirement plan. So I don't like to dwell too much on this point, but litigation in retirement plans is occurring on a really frequent basis, and it started in 2005. It continues to this day. And originally most of that litigation was focused on really large, significant plans, plans with billions of dollars or hundreds of millions of dollars. And that is certainly true because from the Plaintiffs Bar Association, when they can create a class action lawsuit and sue a variety of Fortune 500 companies, they typically won and they wound up settling for large amounts of money that that employer paid. One litigation piece that I really like to talk about was about a pharmaceutical company called AB, and the Committee for AB was relatively cavalier, saying, well, we bought insurance.

We have directors and officers insurance and we have a risk fiduciary insurance. And the insurance company will pay out the claim because we have committed several breaches of liability in our plan, not only regarding fees, but engaging services outside the planned payroll that were using the plan assets to subsidize it. However, what happened was that ultimate judgment was \$37 million and they only had coverage for ten. So those individual directors on the 401k committee had to come up with \$27 million to pay back the employees.

I've seen litigation around fees at plans as small as \$3 million. So regardless of the fee impact and yes, that can be concerning if there's litigation exposure. And as a preview to future slides, there's always litigation exposure, retirement plans. You still want to make sure these fees are reasonable because, again, that makes sure the employees are paying less in fees and more money is going towards their retirement. So the thesis of why we want to have lower fees while making sure the services are all aligned is to make sure people have more money at retirement.

So I want to give you a sense for our process. What you're seeing right now is our standard one-page reference guide that we use to help employers understand where their fees exist today in relation to the market of what is available. So we're going to use our first example, which was a \$3 million plan for a credit union with 110 employees. They were with CUNA Mutual, which is obviously a very common vendor to credit unions. And you can see that that far left-hand chart, CUNA Mutual, was deducting .95 percent, 95 basis points, or if I was to be so bold, to roll up 1% from each employee's account on an annual basis to provide plan services.

So we looked at several different vendors. But you can see when we're creating a benchmark, as you look at those plan fees, you can notice that most everyone was almost half, if not greater. And ultimately, for this particular client, they selected to work with Empower, who was going to charge the employees 19 basis points. So that is roughly a almost 70 basis point savings excuse me, almost 80 basis points of savings. And you really want to quantify that for you. You know, if you have an employee that's worked for you for ten or 15 years and they saved diligently and maybe you've match them along the way, let's say that they have saved \$200,000 for their retirement, which still is probably not an appropriate sum of money for them to live off. But through hard work and saving, they have amassed \$200,000 in the situation I presented to you, that employee was paying an extra 1600 dollars a year because no one had reviewed the fees over the past decade.

And so that can be heartbreaking sometimes when you think about that money compounding over time. So that is one of the main areas we do benchmarking. We also found out through this experience that the employer was assuming that CUNA Mutual was sending out annual notices to the employees and they were not. Here's another example of a credit union client for Exelon, Duke Financial Partners. This credit union had 127 employees and they had \$10 million of total planned assets. This credit union was with ADP. You can see in the box over in green on the left-hand side, employees were having 49 basis points, almost half a percent deducted from their accounts on an annual basis to pay for ADP services. In this particular situation, we had ADP rebid the plan and through changing things around, they were no longer directly having a soft fee from the employees.

They were going to pay all the employees \$14,447. But you can see the other fees from very common vendors used to dealing with principal Voya, MPower, Fidelity and Standard. And you can see that those fees were coming in significantly less, almost 70% savings at every single situation. So this particular client said, okay, thank you for educating on this. We're going to bring you in as an advisor. And let's just move to ADP for the year. Let's lock in these savings and then 2024, we'll do a more robust analysis. So again, I did want to point out that point that our advisory relationship is agnostic of whatever vendor you're currently working with. We just step in, we start doing our work and we if there's a situation where you like the vendor but their fees are unreasonable, we can certainly go back and renegotiate on your behalf in this situation.

We're really successful at that. We had another problem with this client though, that we discovered that how fee collecting was occurring had really been outlawed in the industry in 2012. But because this plan

had been set up prior to that and they didn't have an outside advisor monitoring that, we had a minor fiduciary breach. So in fixing this or moving to the old billing system, to the new billing system, I actually saved a really important fiduciary problem. In addition to, as you can see, lowering fees for the employees by almost 73%.

And these stories are common. We typically work on 20 to 25 engagements a year. I have never walked into a situation if you've been with a vendor for more than four years where there were not significant cost savings to be incurred by reviewing this. So although we showed you two examples of different credit unions today, again, one at 3,000,001 at 10 million, just know that if you had 50 million in your plan or 1 million in your plan, and this is not being proactively monitored on a regular basis, you're probably employees going to be spending more on fees than they should. And again, using this as an example, we can usually keep that vendor. But reduce the fees to be more in line. The second part of our benchmarking service starts really focusing less on fees and more on plan operations and services. As I mentioned, we've consulted on several thousand retirement plans. My specific background is working with plans that have severe compliance issues. So example you see in front of you is a typical standard letter that the Department of Labor sends when they're about to conduct an audit of a plan.

Typically a company this letter is 30 pages of documentation excuse me, 30 items of documentation that they want to see for their on site review of you. So as a follow up to this, if you're curious what a typical investigation letter looks like and what they're looking for, I'm happy to share that with you. I will preview for you probably the most important thing that an investigator is looking for is meeting minutes. They want to see that you care about your plan and have a documented process for oversight. If you're not working with a great consulting team and there are no meeting minutes, that is usually that first indicator to an investigator that we probably should be looking further into what's going on in this plan. If they're not taking the time to just look at it on a frequent basis. We do use a process called Hero7.

This takes about 50 minutes to conduct. It is a web based overview where a former Department of Labor administrator has written the questions. We go through and talk about your plan committee, how people were appointed, what existing documentation takes in place, what are the documentation around compliance testing and filings and everything along those lines? What I was going to mention is that we typically find through this process that there are several minor errors in plan administration where there's been a turnover and who is operating the plan and they're just not familiar with how the document is written.

So a common area to look at as part of this process is what are you reporting as the definition of compensation? Most people think that may include bonuses and commissions. It might exclude bonuses, commissions, and they make assumptions. And it's important that whatever your document says as your definition of compensation, that is what you're providing your service provider when they're doing their compliance testing. I will just give this to you. Your service provider who's doing your compliance testing is not asking, did you look at your definition of compensation? Make sure that it is accurate. And I've had to come in and consult on situations where employees were receiving smaller employer contributions than they were owed as a result of that employer using the wrong definition of compensation.

Now, you may say, well, that doesn't seem like a big deal. Well, if it occurs for a decade and those numbers compound along with market growth, such a enlightenment can be a several hundred thousand dollar contribution that's required to the plan on your behalf. So we just want everyone to take an overview. And again, thank you for your time of learning about our benchmarking process for retirement

plans. If you're curious about just fee benchmarking in general, hey, listen, how much are we paying and is it reasonable or not?

There are two items that we can suggest you provide to us. One is your Four-Way B2 Disclosure that is online, or you can often find it in an annual plan review and then a current asset statement. We have to look at the investments to see where are the funds currently invested and do we have a share class issue. Some plans still use funds that have revenue sharing in them now, so you may be used to the alphabet soup of share classes A, B, C, D, and the R's, which all have different levels of revenue built in. So, for example, if you're in an R three share that has 60 basis points of revenue built into that fund, that is going to your vendor. So that's why it's more so we can see the asset statement. But those two documents and again, we're always happy to hop on a quick screen, share to collaborate and find them for you are all as needed for a benchmark.

And then from there, if you give us 2 to 3 weeks, we're more than happy to create that reference guide that we shared with you. When a company has that reference guide is a standard Q&A that every vendor completes as part of our project so that there's really formal documentation of the process that occurred. And then if you're looking for the more robust, hey, can you help us understand and make sure we're operating our plan correctly? That requires a dialog of operations and how you function with the plan. But ultimately a review of your adoption agreement would also be necessary.

Now, a main point that you may have come to is, well, what is the cost for all this work you guys do? And we'll be candid with you. We do these services complimentary. We typically find that one of the best first ways we can demonstrate significant value to a prospective client is by performing this work. And again, across several thousand engagements, we've had over 22 years, we really have never been in a situation where we didn't find some sort of meaningful issue, whether it be on the fees or the plan, administrative perspective that we're able to come in and solve. Oftentimes, as stated previously, we don't have to actually change the vendor. We can just work with a current vendor to change around some plan operations and reduce the fees, which is really a minimal impact upon you and your employees.

And finally, this process is actually not that labor intensive. We have a lot of regulatory oversight regarding planned conversions that the typical plan conversion, if we do decide to change from your current vendor to a new vendor, it does take 75 days, but that's predominantly due to regulatory notification where we have to tell your employees at least 30 days, no longer than 60 days, that they are moving their money. If you've done this previously, you're from out of the group, a process called Blackout, where they can't access their funds for a certain time period. But most vendors have just migrated to the 75 day conversion process.

But over that 75 days, it's really only about 6 hours of time. There's a review of the plan documents their suggestions on revisions to the plan document. There are several check in meetings along the way, probably the hardest project is just going to be creating an employee census, which will be, you know, probably just modifying what you sent your your provider the prior year for compliance testing or cutting and pasting some forms out of payroll and your benefits to create it. We have found that after a conversion is the optimal time to conduct education meetings. And with each client we talk about whether that's going to be either on site or via a webinar.

But by conducting the education meetings, post the conversion process employees, are able to take action right away on the new information. So again, we do 20 to 25 engagement story a year, several thousand over the course of time. We've really got a process locked down. But I want to assure you that such a

process of conversion is not overwhelming in any way, shape or form. And IZALE and Duke Financial Partners really takes the lead in managing all that on your behalf.

Again, Chris and I are really grateful for your time today and our attention to learning the importance of benchmarking your 401k retirement plan and the process we go through to analyze both fees and plan operations. My email address is below.

Again, my name is Michael Fennessy. Email mfennessy@dukefinancialpartners.com. Again, Chris and I are very grateful for your time today. We look forward to hearing from you. CHRIS: Thanks so much.

Mike, this is Chris. I just want to sign off and hang out here just for a second, see if any questions come in. But I do want to thank you and appreciate you sharing this highlight of your process with folks today and see if benchmarking there for oneK plan is something they've been thinking about and that now they have a valuable partner to help them through that process. I don't see any questions coming in today. So what I'm going to do is go ahead and end the webinar. If questions pop up after you this is over, you can certainly send an email to either Mike and I, and we'll be happy to address those concerns again.

This is Chris from IZALE Financial Group with Duke Financial Partners. We appreciate your time today and I hope you enjoy the rest of this day and week. Thanks.