

Pitfalls, Traps, and Best of Practice Considerations in the 401(k) Front Lines

Alan Norris, CFP[®], AIF[®]

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Norris Wealth Management, LLC

Agenda

- 401(k) Front Lines, Observations and Opinions
- Covered Service Providers...Cast of Characters
- Insights
- Leadership and Trust
- Plan Level Best of Practice (reasonableness)
- Participant Level Best of Practice
- Marketing
- Thoughts, Conclusion, Q&A

401(k) Front Lines

- Micro and small 401(k) plans
- Investment professionals are considered the front end of the distribution channel
- Investment professionals servicing ERISA-governed retirement plans are evolving into a specialized industry

401(k) Front Lines

- ERISA 404(a)(I)(A)...fiduciaries discharging duties....act with complete and undivided loyalty to the beneficiaries and with an “eye single to the interests of the participants and beneficiaries”
- Prudence requirement of ERISA Section 404...Fiduciaries discharge duties “with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with like aims”
- *In other words ask yourself if every decision made is in the best interest of the plan participants and beneficiaries*

Covered Service Providers Configuration

- Marketing where covered service providers converge and...where it can all go wrong
- Plan service provider configuration...best interest of participants or conflict of interest
 - Investment Professionals
 - Financial Product Wholesalers
 - Third Party Administrators (TPA)

Covered Service Providers Investment Professionals

- Approximately 300,000 advisors engage with the public
 - Approximately 2% of advisors provide advice on 10 plans
 - Approximately 75% of advisors provide advice on 3 or fewer plans...do they have time to be knowledgeable and competent?
- Financial and insurance product solutions

Insights

- Sponsors of 401(k) plans and qualified plans are increasingly requiring advisors who specialize, due to new rules and regulations, to fulfill fiduciary duties and obligations. A huge shift is underway in the 401(k) dabbler space because they lack the depth of knowledge and competitiveness to meet the fiduciary responsibilities required of plan sponsors and trustees.

Michael E. Kitces, MSFS, MTAX, CFP®, CLU, ChFc, RHU, REBC, CASL, Pinnacle Advisory Group

- “Sometimes identifying the conflict is not immediately obvious, but it comes with experience. With the considerable Fiduciary responsibilities that come with ERISA-governed plans, Advisors will have no choice but to specialize or they will become obsolete. Advisors ought to be principal-based Fiduciaries (rather than rules-based) and open to continuous learning and improvement.”

Matthew Murphy, CFP®, Capital Advisors

Covered Service Providers

Fees and Expenses Issue

- *“Assume that you are an employee with 35 years until retirement and a current 401(k) account balance of \$25,000. If returns on investments in your account over the next 35 years average 7 percent and fees and expenses reduce your average returns by 0.5 percent, your account balance will grow to \$227,000 at retirement, even if there are no further contributions to your account. If fees and expenses are 1.5 percent, however, your account balance will grow to only \$163,000. The 1 percent difference in fees and expenses would reduce your account balance at retirement by 28 percent.”*
- The 1% difference
- Which would you prefer after 35 years \$227,000 or \$163,000 ?

Covered Service Providers

Financial / Insurance Product Wholesaler

- Let us help you leverage your practice...Just introduce us and we'll help close the sale
- Product, payout grid and fund list, we'll help you choose.
- Big brand names, lots of product cross selling opportunities...ancillary business

Covered Service Providers Third Party Administrators

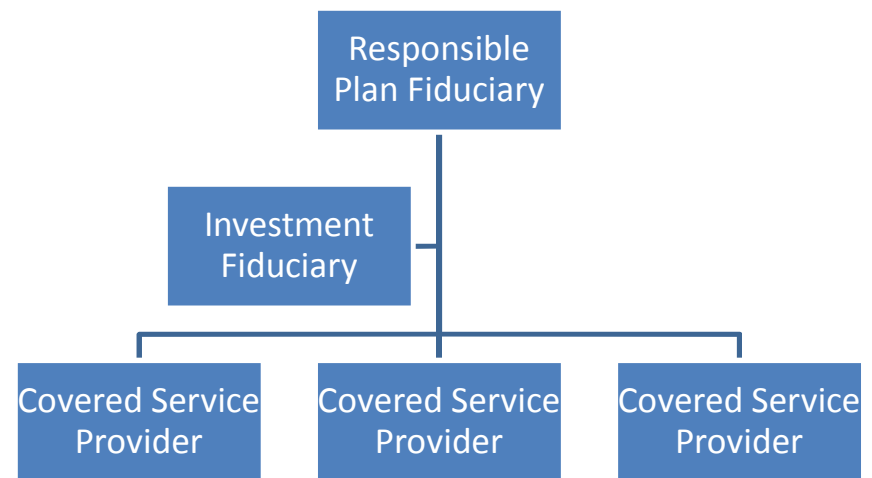
- Producing vs. non-producing TPA
- The five most dreaded words...we'll take it from here
- The referral door...it only swings one way
- When 3 or 5 mostly equals zero

Covered Service Providers

Without Fiduciary Overlay



With Fiduciary Overlay



Insights

Rules – vs. Principal-Based Standards

If disclosures worked, there would be no need for fiduciary duties
Professor Ron A. Rhoades, JD, CFP®

Arm's Length relationship
Caveat Emptor

Product Manufacturers



Salesperson



Customer

Fiduciary Relationship
Prudent Expert
Best Interest

The Client

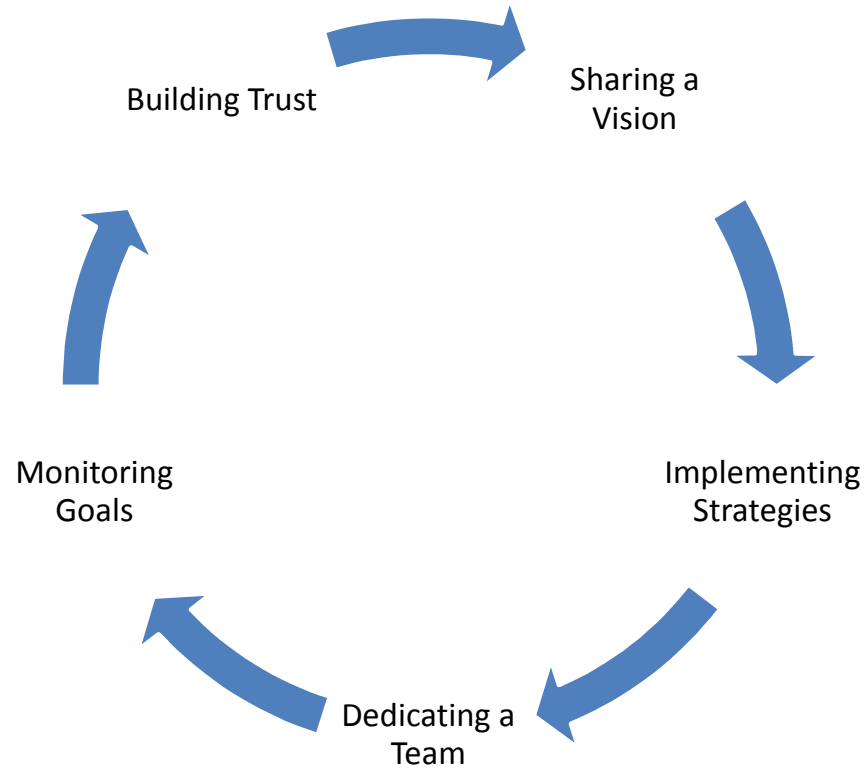


Purchaser's Representative
(Fiduciary)



Product Manufacturers

Leadership and Trust



Plan Level Best of Practice

- First meeting with Responsible Plan Fiduciaries (RPF)
- Fiduciary overlay
 - The faces of participants
 - fi360 four step process...organize, formalize, implement, monitor
 - Fund line up...open architecture, institutional share class, absolutely nothing proprietary
- Level fee, pure advice model
- Transparency and disclosure discussion
 - Disclose advisors fee in dollar terms

Plan Level Best of Practice

- Formalize the Investment Committee
- Committee meeting agenda
 - *ERISA requires that plan sponsors engage in a prudent process to make any and all fiduciary decisions about their plans. A prudent process produces an informed and reasoned decision.*
 - *Trust but verify*
 - Legislative changes, administration, success measures, next step
 - Is plan approaching any stress levels
 - Are professional alliances still working
 - Any conflicts of interest to discuss
- Committee meeting minutes format: the Issue, the discussion, the decision.

Plan Level Best of Practice

- Investment Policy Statement
- Smooth transition at plan takeover time
 - Conference call with dedicated transition manager and Responsible Plan Fiduciary
 - No one cares more than you do
 - Provide participant enrollment meetings
- Grow with the plan



Plan Fees Summary

This page provides an overall summary of the plan's fees, with comparisons to the Benchmark Group. It's important to consider plan services when assessing whether fees are reasonable. Please note that self directed account and participant level activity fees are not included in the information below.

FEES

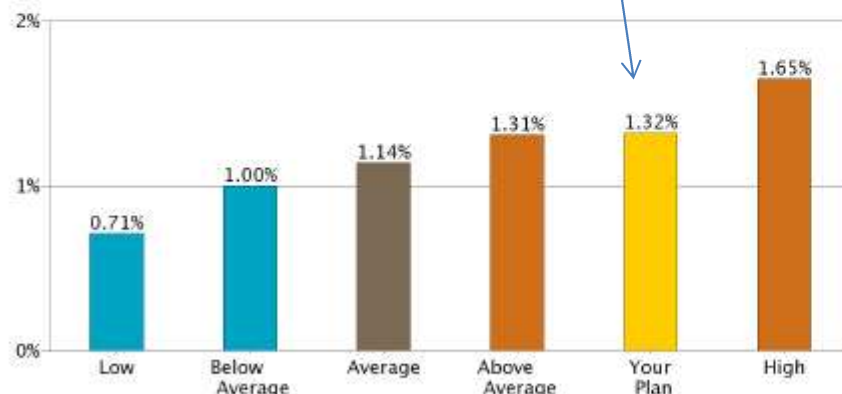
Distribution of Total Plan Fees by Source

	Plan Fee in Dollars	% of Total Fee
Investment Fees	\$82,823	94%
Commissions	-	0%
Finders' Fees	-	0%
Managed Account Fees	\$1,050	1%
Other Fees	\$4,244	5%
ERISA Spending Account Credit	\$(2,500)	-
Grand Total	\$85,417	100%

Distribution of Total Plan Fees by Service Provider

	Plan Fee in Dollars	% of Total Fee
Recordkeeper	\$38,795	43%
Advisor/Consultant	\$16,227	19%
Investment Managers	\$29,108	34%
Managed Accounts Provider	\$1,050	1%
Other Service Providers & Fees	\$2,237	3%
Grand Total	\$85,417	100%

Total Plan Fees vs. Benchmark Group in percent



HOW DO THE PLAN FEES COMPARE

to the average in the Benchmark Group?

- this plan's fees are approximately **1.32%** per year
- this is **0.18%** more per year
- this is equal to **\$11,690** more per year
- this is **\$63** more per participant per year



Service Providers' Fee Disclosure

This page summarizes the fees paid to the plan's primary service providers. It's important to consider plan services when assessing whether fees are reasonable. Please note that self directed account and participant level activity fees are not included in the information below.

INVESTMENT MANAGERS

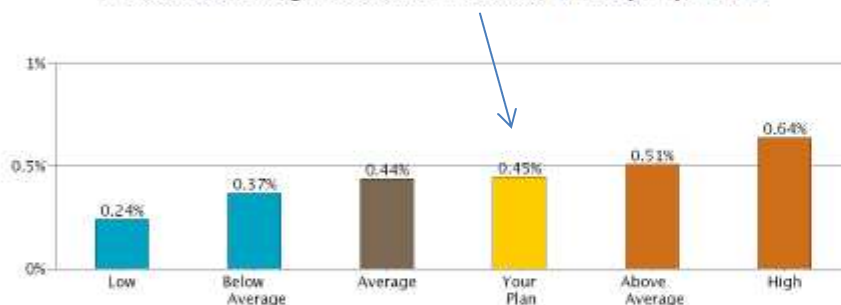
Disclosure of Investment Manager Fees

Investment Fees

Total Fees

Plan Fee in Dollars	% of Total Fee
\$29,108	100%
\$29,108	100%

Investment Manager's Fees vs. Benchmark Group in percent



HOW DO THE PLAN FEES COMPARE

to the average in the Benchmark Group?

- this plan's investment manager fees are approximately 0.45% per year
- this is 0.01% more per year
- this is equal to \$649 more per year
- this is \$3 more per participant per year



Advisor/Consultant Services

This section details a variety of key services that an Advisor/Consultant may be providing a plan. When assessing fees reasonableness, these services (and other services provided) should be considered - along with service quality, volume and associated impact on plan and participant success.

Select Service Delivery Items	Services Provided		This Plan's unit Cost or Incl'd in plan level fee	Benchmark Group Comparison of Fee (when additional fee is being paid)						% of plans paying added fee for service	
	This Plan	One-time or ongoing?		% of plans in Benchmark Group Receiving	Low	Below Average	Average	Above Average	High		Difference From Average
Plan Sponsor Services:											
Review Plan Governance Structure	No	-	13%	-	-	-	-	-	-	-	0%
Review 404(c) Protection	No	-	63%	-	-	-	-	-	-	-	6%
Analyze Plan Design Options	Yes	Once	38%	\$1,500.00	\$500.00	\$750.00	\$1,500.00	\$3,250.00	\$5,000.00	\$0.00	31%
Meet With Plan Committee	Yes	-	88%	Incl'd	-	-	-	-	-	-	0%
Plan Investment Services:											
Assess Plan's Investment Objectives	No	-	38%	-	-	-	-	-	-	-	0%
Design Overall Investment Structure	No	-	38%	-	-	-	-	-	-	-	0%
Review QDIA Option	No	-	13%	-	-	-	-	-	-	-	0%
Review Company Stock Option	No	-	5%	-	\$1,500.00	\$1,500.00	\$2,600.00	\$6,550.00	\$7,500.00	-	5%
Develop, Maintain & Monitor IPS	Yes	-	81%	Incl'd	\$500.00	\$850.00	\$2,150.00	\$3,375.00	\$3,700.00	-	25%
Implement Investment Structure	Yes	-	94%	Incl'd	-	-	-	-	-	-	0%
Build Model Portfolios	Yes	-	38%	Incl'd	-	-	-	-	-	-	25%
Provide & Review Performance Reporting	Yes	-	94%	Incl'd	-	-	-	-	-	-	0%
Search For New Investment Manager	Yes	-	44%	Incl'd	\$2,500.00	\$4,062.50	\$9,375.00	\$11,500.00	\$12,000.00	-	25%
Vendor Management:											
Monitor Service Provider	No	-	38%	-	-	-	-	-	-	-	0%
Ensure All Fees Are Disclosed	Yes	-	56%	Incl'd	\$225.00	\$262.50	\$437.50	\$1,062.50	\$1,250.00	-	25%
Benchmark Fees & Value For Reasonableness	Yes	-	50%	Incl'd	\$200.00	\$275.00	\$625.00	\$2,062.50	\$2,500.00	-	25%
Review Use Of ERISA Spending Accounts	No	-	6%	-	-	-	-	-	-	-	0%
Generate & Evaluate Service Provider RFP	Yes	Once	44%	\$8,000.00	\$3,750.00	\$4,687.50	\$7,750.00	\$10,250.00	\$12,500.00	\$250.00	38%
Generate & Evaluate Service Provider RFI	No	-	19%	-	-	-	-	-	-	-	0%
Support Contract Negotiation	Yes	-	6%	Incl'd	-	-	-	-	-	-	0%
Support Service Provider Transition	No	-	6%	-	-	-	-	-	-	-	0%
Fiduciary Status:											
No Fiduciary Status Acknowledged	No	-	50%	-	-	-	-	-	-	-	0%
Acts As A Fiduciary Under 1940 Act (RIA)	Yes	-	13%	Incl'd	-	-	-	-	-	-	0%
ERISA 3(21) Fiduciary (Limited Scope)	No	-	0%	-	-	-	-	-	-	-	0%
ERISA 3(38) Fiduciary (Discretionary)	No	-	31%	-	0.10%	0.10%	0.15%	0.16%	0.18%	-	25%
ERISA 3(16) Fiduciary (Full Scope)	No	-	6%	-	-	-	-	-	-	-	0%



Advisor/Consultant Services

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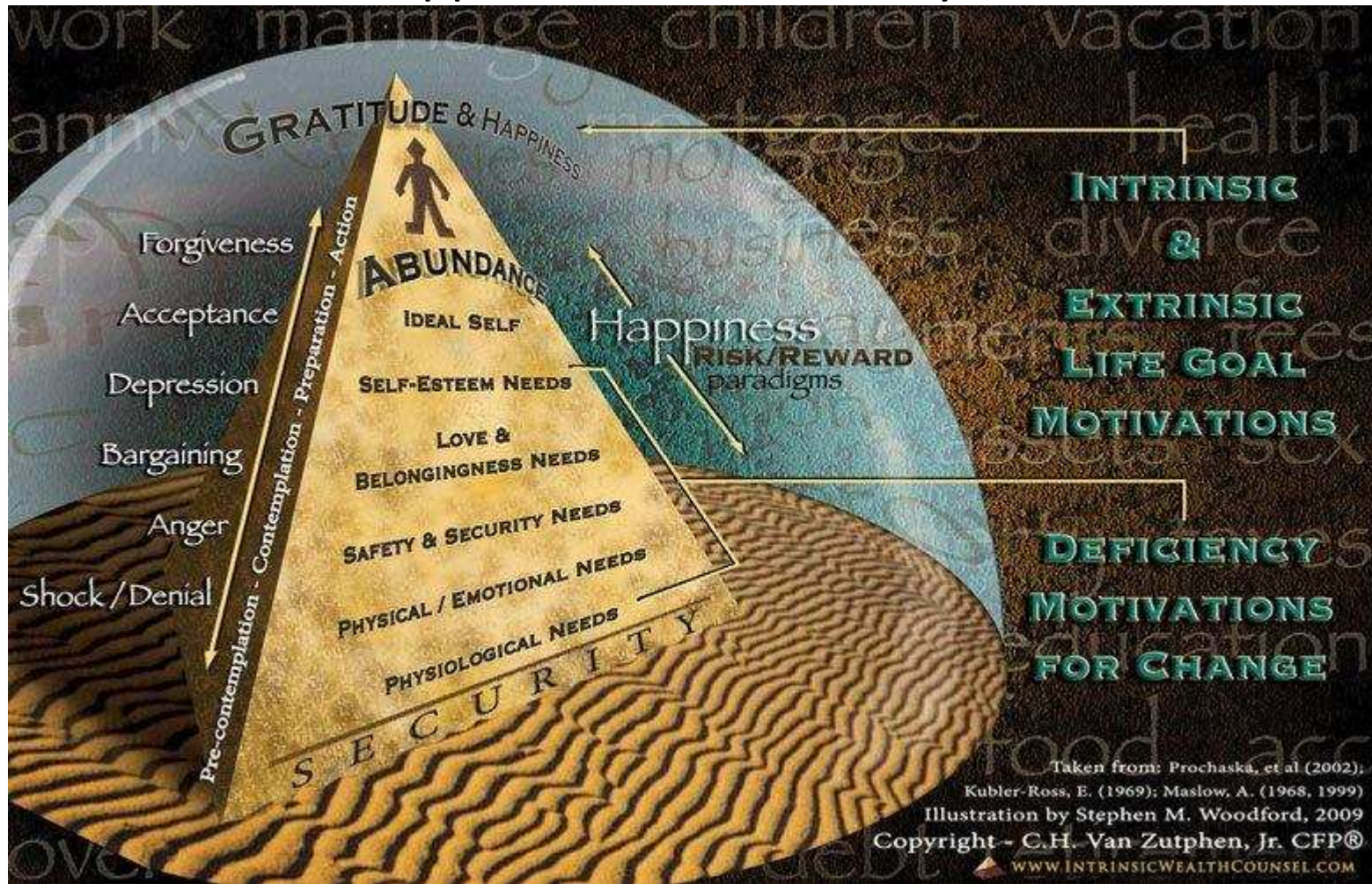
Select Service Delivery Items	Services Provided			This Plan's unit Cost or Incl'd in plan level fee	Benchmark Group Comparison of Fee (when additional fee is being paid)						% of plans paying added fee for service
	This Plan	One-time or ongoing?	% of plans in Benchmark Group Receiving		Low	Below Average	Average	Above Average	High	Difference From Average	
Participant Education Services:											
Review Of Education Strategy	No	-	13%	-	-	-	-	-	-	-	0%
Provide Group Meetings	Yes	-	63%	Incl'd	-	-	-	-	-	-	0%
Provide One-On-One Meetings	No	-	44%	-	-	-	-	-	-	-	6%
Provide Participant Phone/Email Support	No	-	25%	-	-	-	-	-	-	-	0%
Provide Financial Planning Services	No	-	38%	-	\$750.00	\$750.00	\$1,500.00	\$2,500.00	\$2,500.00	-	19%
Provide Participant Newsletter	No	-	6%	-	-	-	-	-	-	-	0%
Review Progress Against Goals	Yes	-	13%	Incl'd	-	-	-	-	-	-	0%
Rendering Of Participant Advice	No	-	0%	-	-	-	-	-	-	-	0%

		Benchmark Group - Range of Service Volumes					
<u>Select Service Delivery Volumes</u>	This Plan's Service Volume	Low	Below Average	Average	Above Average	High	Difference From Average
Plan Sponsor Support:							
Number Of Retirement Plan Committee/Board Meetings Attended	4	1	1	2	5	7	2
Participant Education Volumes							
Number Of Locations Served	3	1	1	2	4	7	1
Number Of Group Participant Meetings	16	5	7	15	20	24	1
Number Of One-On-One Participant Meetings	-	9	10	16	34	38	-
Number Of Financial Plans	-	1	1	2	4	4	-
Number Of Hours Spent Per Year On Participant Issues (E.g. Phone Calls, Emails)	-	6	7	11	17	18	-
Plan Investment Volumes:							
Number Of Investment Manager Searches	3	1	1	3	4	5	0
Vendor Management Volumes:							
Number Of Vendor Requests For Information (RFIs) Conducted	0	1	1	1	2	2	-1
Number Of Vendor Requests For Proposal (RFPs) Conducted	1	1	1	1	1	1	0

Participant Level Best of Practice

- Empathy and unique personal financial circumstances
- Enrollment meetings, group and one on one
 - participants paying themselves first, pre-tax payroll deductions, matching contributions
- IRA rollovers, advice, and conflicts of interest

Happiness Risk/Reward Pyramid



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Insights

“The financial literacy of Americans is all over the board, which means a substantial segment of the 401k public needs guidance through education. We don’t learn about these topics in the school system, yet we are required to make key financial decisions on our own throughout life – not just regarding 401k investments but in other areas such as credit cards, mortgages, bank accounts and more. In the 401k area, manifestations of poor education include situations where participants leave matching funds on the table, take out too many loans, cash out early through hardship withdrawals, or choose inappropriate investments, especially overly conservative choices by young adults. There is a natural resistance among many people to learn about financial topics on their own. That’s where a financial adviser can make a big difference.”

Russ Wiles, Personal Finance Writer, The Arizona Republic

Participant Level Best of Practice

5 Diligence questions to ask any financial advisor

- **Are you a fiduciary**
- How are you compensated
 - Fee Only
 - Fee Based (fee and commission)
 - Commission
- Are you legally obligated to make all decisions in my best interest
- What licenses and registrations do you have
- What designations do you have



Participant Success Measures

Participant Success Measures refers to 10 recognized industry statistics that measure how well a plan helps participants prepare for retirement. This page lists each of these 10 statistics and compares them to the Benchmark Group. Few areas are more central to reviewing fees from the perspective of "what you get for what you pay." Here, small changes can make big differences for participants.

Participant Success Measures	This Plan's Participant Success Measures vs. The Benchmark Group							Difference from Average
	% of Plans Measuring	This Plan	Low	Below Average	Average	Above Average	High	
Plan's Current Participation Rate	84%	68%	31%	59%	72%	83%	95%	-4%
Average Deferral Percentage for Non-Highly Compensated Employees	75%	6.1%	1.8%	3.5%	4.5%	5.8%	6.6%	1.6%
Average Deferral Percentage for Highly Compensated Employees	75%	7.2%	2.5%	5.9%	6.6%	7.3%	9.4%	0.6%
% of Participants Maximizing Company Match	24%	59%	17%	31%	55%	65%	92%	4%
% of Plan Assets in Automatically Diversified Options	98%	34%	1%	12%	22%	41%	87%	13%
% of Eligible Participants Making Catch-up Contributions	18%	11%	1%	2%	11%	23%	36%	1%
% of Participants Using Auto-Rebalance Option	11%	22%	2%	3%	24%	46%	74%	-2%
% of Terminated Participants NOT "Cashing Out"	25%	61%	2%	44%	67%	83%	97%	-8%
% of Participants with a Personal Retirement Goal	4%	77%	3%	3%	40%	77%	77%	37%
% of Participants On Track to Achieve That Goal	4%	28%	13%	13%	21%	28%	28%	8%

* Includes balanced funds, risk or target-based retirement choices, model portfolios, and managed accounts.

- = N/A or not available.

# of Participant Success Measures Average or Better	0 for 10	1 for 10	2 for 10	3 for 10	4 for 10	5 for 10	6 for 10	7 or more for 10
Percentage of Plans in Benchmark Group	11%	31%	22%	22%	9%	0%	0%	5%

HOW DOES THE PLAN COMPARE

to the Benchmark Group with respect to these 10 important participant success measures?

- This plan ranks average or better in 7 out of 10 categories
- 95% of plans rank lower than this plan
- NO PLAN ranks above this plan
- 5% of plans rank average or better in more than 6 categories

Marketing

- High barriers to entry... no easy answer
- Focus on complementary industries
- Form 5500 search
 - Advisor compensation, covered service provider configuration, large fund lineup
- First meeting: high level overview of how non-fiduciary services are being delivered, responsible plan fiduciary obligations, your fiduciary commitment and process (see prior diagrams)
- It may be the RPF's first exposure to the real deal... (you), persistence, long time frames, multiple meetings... and it still may not work out. Life!
- Request from covered service providers a referral door that swings both ways

Thoughts, Conclusions, Q&A

- First it's a matter of caring about plan participants and then doing what's right
- This is a specialized industry. Participants should be able to turn to their plan advisors for independent, objective advice in making financial decisions that are in their best interest
- Consider working with micro and small 401(k) plans, it may just make the difference in the retirement lifestyles the plan participants would have chosen

Be the change that you want to see in the world

Mahatma Gandhi

Sources

Slide 6: Financial Advisors Turn to the 401(k) Market for More Business, Elizabeth Wine,
September 1, 2012, onwallstreet

Slide 7: Interview, Michael E. Kitces, MSFS, MTAX, CFP®, CLU, ChFc, RHU, REBC, CASL, Pinnacle Advisory
Group, 3/5/13
Interview, Matthew Murphy, CFP®, Capital Advisors, 3/5/13

Slide 8: Department of Labor

Slide 12: Professor Ron A. Rhoades, JD, CFP® July 11 fi360 Presentation

Slide 23: Interview, Russ Wiles personal finance writer, The Arizona Republic, 3/4/13

Slides 17,18,19,20,25: Fiduciary Benchmark Inc.

Slide 22: Neal Van Zutphen, CFP®, M.S., Intrinsic Wealth Counsel

Important Disclosures

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602-404-2449

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