



How to Streamline the Fiduciary Process to Make Small Plans a Profitable Business

April 27, 2018

Investment advisory services offered through Kaye Capital Management, a registered investment advisor registered with the Securities and Exchange Commission.

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Speaker Biographies



David W. Hilton, AIF®

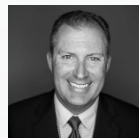
Principal and VP of Retirement Solutions Team

David Hilton is a Vice President and equity partner with Kaye Capital Management, a Los Angeles based wealth management firm. David is responsible for managing the firm's retirement services group and institutional client relations. In addition, he works with high net worth individuals providing them institutional service and support.

Prior to his current role, David was a Senior Vice President for Payden & Rygel, an institutional asset management firm. In that role he was responsible for the firm's retirement services team in addition to managing client relations with institutional consultants and plan sponsors, including pension funds, corporations, endowments, and foundations.

Hilton is actively involved in the Los Angeles community. He sits on the Board of Trustees for the Los Angeles Ronald McDonald House, the Alumni Committee for Loyola High School of Los Angeles, and the Treasurer for Encino Little League

David is an Accredited Investment Fiduciary (AIF®) and is currently enrolled in UCLA's Personal Financial Planning curriculum to earn his CFP® credential. He received a bachelor's degree in Economics from the University of Colorado.



Kevin E. Mahoney

QPA, QKA, QPFC, AIF®, ERPA, C(k)P®, TGPC
Business Development Officer

Kevin Mahoney is part owner of Financial Decisions, Inc. and serves as the Business Development Officer. His duties consist of new client development, client relationship management, and developing strategies to create successful retirement programs for plan sponsors clients of Financial Decisions, Inc.

Kevin started his career with Financial Decisions in 1993. Over the last 25 years, Kevin has built a client list of more than 400 retirement plans and has worked in plan administration, sales, management and consulting. Kevin knows and understands the complexities of plan design and merging with client needs.

Kevin has seven professional designations, has been a member of ASPPA since 1997, and has participated on many committees and advisory boards. Kevin received his bachelor's degree in Business Management from CSU Stanislaus in 1996.





I

The Need for Small Plan Consulting Services

Size of the Small Business Market

SMALL BUSINESS EMPLOYMENT BY INDUSTRY

Table 2: US Employment by Industry and Firm Size, 2013
(sorted by small firm employment)

 Industry	 Small Business Employment	 Total Private Employment	 Small Business Employment Share
Health Care and Social Assistance	8,515,106	18,598,711	45.8%
Accommodation and Food Services	7,454,788	12,395,387	60.1%
Retail Trade	5,370,419	15,023,362	35.7%
Manufacturing	5,059,759	11,276,438	44.9%
Professional, Scientific, and Technical Services	4,869,277	8,275,350	58.8%
Other Services (except Public Administration)	4,536,340	5,282,688	85.9%
Construction	4,526,389	5,470,181	82.7%
Administrative, Support, and Waste Management	3,523,802	10,185,297	34.6%
Wholesale Trade	3,463,622	5,908,763	58.6%
Finance and Insurance	1,918,122	6,063,761	31.6%
Transportation and Warehousing	1,585,539	4,287,236	37.0%
Educational Services	1,532,214	3,513,469	43.6%
Real Estate and Rental and Leasing	1,361,352	1,972,105	69.0%
Arts, Entertainment, and Recreation	1,315,721	2,112,000	62.3%
Information	871,065	3,266,084	26.7%
Mining, Quarrying, and Oil and Gas Extraction	288,789	732,186	39.4%
Agriculture, Forestry, Fishing and Hunting	132,812	154,496	86.0%
Utilities	110,352	638,575	17.3%
Total	56,435,468	115,156,089	49.0%

A. https://www.sba.gov/sites/default/files/advocacy/United_States.pdf

Why Small Plans Need Help

Excessive-fee Suits Target Smaller 401(k) Plans: A Harbinger for Small Business Owners?

Small Businesses Overpaying for 401(k) Plans: Study

These 533,000 small plans are overlooked by many trend studies, America's Best 401k says

America's Best 401k Study: Small Businesses Overpay for 401(k) Plans

Small Plans Account for 90% of the 401(k) Market, but are Ignored by Most Studies

Why high 401(k) fees are likely to stick around

- Judges dismiss cases against Putnam and Wells Fargo, although similar cases are still being brought against investment managers.
- The average total cost of a 401(k) was 0.97 percent of assets in 2014, down from 1.02 percent in 2009.
- Smaller plans are the most expensive: an average of 1.25 percent of assets.

Sarah O'Brien | @sarahtgobrien

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<http://www.thinkadvisor.com/2017/12/27/small-businesses-overpaying-for-401k-plans-study?t=the-retireerefchannel-more-news>

<https://www.prnewswire.com/news-releases/americas-best-401k-study-small-businesses-overpay-for-401k-plans-300570863.html>

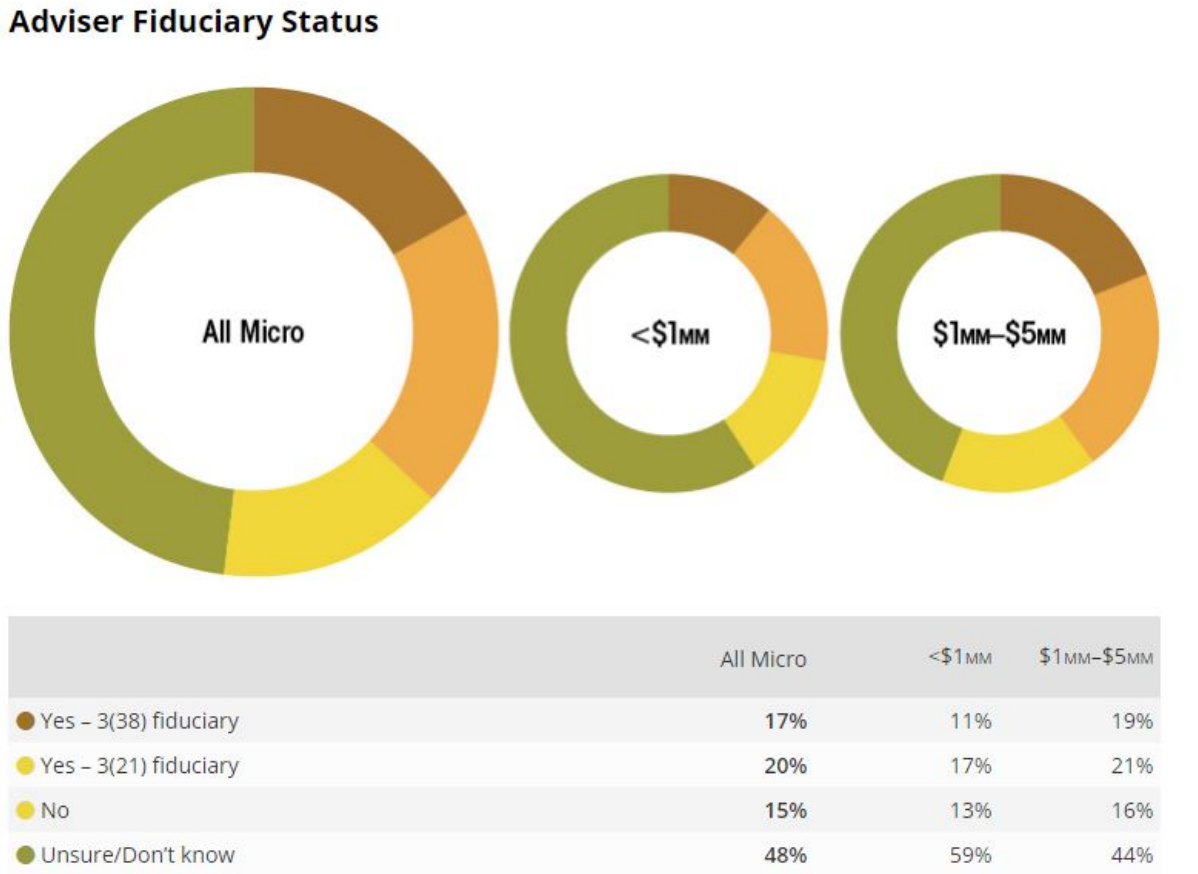
<https://optifour.com/excessive-fee-suits-target-smaller-401k-plans-harbinger-small-business-owners/>

<https://www.cnbc.com/2017/07/17/why-high-401k-fees-are-likely-to-stick-around.html>

Plan Adviser Survey^A

Fiduciary Involvement in Small Plan Market

- “Nearly half (48%) of micro-plan sponsors are unsure whether their adviser is a fiduciary and, if so, what kind. Just one-fifth (20%) say their adviser is a 3(21) fiduciary, and 17% say he is a 3(38) fiduciary.”^A



A. <https://www.planadviser.com/research/2018-planadviser-micro-plan-survey/>

Plan Adviser Survey^A

Plan Design

- “The Micro Plan Survey indicates that a mere 20% of these plans automatically enroll participants, and just 13% use automatic escalation.”^A

Plan Design Elements

	All Micro	<\$1MM	\$1MM-\$5MM
Automatic enrollment	20%	16%	21%
Automatic escalation	13%	12%	14%
Investment policy statement	42%	29%	48%
Loan provision	73%	67%	75%
Safe harbor	66%	75%	63%
Roth feature	62%	58%	63%
Fee equalization policy	15%	17%	14%

A. <https://www.planadviser.com/research/2018-planadviser-micro-plan-survey/>

Who Services Micro and Small Retirement Plans?

Insurance Brokers

- Historically, small retirement plans were primarily serviced by insurance brokers
 - Compensation through commission utilizing group annuity platforms
 - Did not employ a fiduciary process to protect clients
 - Large upfront commissions and small trails
 - Typically 3% upfront with a 0.25% trail
 - 7 year lockups still exist

Wirehouse Brokers/Advisers

- Wirehouse Brokers have great relationships with small business owners
 - Brokers are only allowed to use approved platforms for their clients
 - The only way to become an approved platform is to pay a high fee to the home office of the wirehouses



Managing the Fiduciary Process

Commitment to Retirement Plans

Is your practice scalable for retirement plans?

- Using the same funds over all plans
 - Custom fund line ups can cause unnecessary work
 - Add a fund to satisfy a participants
 - Running model portfolios or DIAs?

Staffing Appropriately

- Are you spending too much time with participants?
 - What level of involvement do you want with retirement plans?
- Potentially hiring a plan administration expert
- Follow a strict process for all retirement plans

Key is to be committed to the process – it takes patience

Fiduciary Standards and Practices

Need for a Process

- As a plan sponsor, understanding your fiduciary responsibility and the decisions that come along with it is no easy task.

5 Step Process

1. Establish an overarching framework that will govern all plan fiduciaries and their activities.
2. Complete a comprehensive review of the plan document, which is crucial to ensuring your ongoing fiduciary compliance.
3. Monitor all aspects of a plan's investments for continued suitability, adequate performance and reasonable fees.
4. Ensure all service providers are meeting their obligations and responsibilities to the plan.
5. Educate employees and make sure that all mandatory disclosures are distributed in a timely manner.

Fiduciary Process

Streamlined Fiduciary Process

- Create a repeatable process that can be used across multiple plans and platforms
 - Keep it the same:
 - IPS
 - Fund lineup
 - Education plan
 - Similar plan designs

Same Plan Design for All New Startups



Auto Enroll at 3%



Auto Escalate 1% per Year up to 10%



Auto Default to Target Dates



Partnering with Appropriate Platforms

Evaluating Service Provider Partners

Who are your potential service provider partners?

- Custodian
- TPA
- Record Keeper
- Other Services: 3(16), Managed Accounts, etc.
- Bundled vs Open Architecture?

What makes a good partner?

- Shares a common value proposition
- Meets the needs of your clients
- Works well with other members of your firm
- Primary Contact that understands your firm's goals
- Are they the right fit for your market?

Evaluating Service Provider Partners

How many service provider partners are appropriate?

- Certain service providers fit in certain markets
- Too many service providers can create confusion on processes
- Fund line up management can be overwhelming
- Typically 2-3 core providers is comfortable

Narrowing down the key providers

- Evaluate services offered
 - i.e. Mutual Funds vs. ETFs
- What is important to you?
- Does the personality of your firm match the service provider?
- Discuss with your peers
- How will the provider serve your plan sponsor demographics?

Evaluating Service Provider Partners

What tools are available from that partner?

- Web tools such as electronic data updates
- Reporting support for client review meetings
- On site support for participants

Outsourcing Certain Services

- Can you be an advisor to the owner only?
 - Utilize an outside firm to handle core line up and participant questions?
- Liability – how much can you transfer?

How does the service provider handle adversity?

How do I approach consolidating providers?

- Most plan sponsors will take your lead
- Review any potential fiduciary conflicts (stable value closure, share classes, etc.)
- Compare fees and services in easy to show presentation
- Demonstrate a combination of reasonable fees and value of service

IV

Building a Streamlined Fund Lineup

Act as a 3(38) Fiduciary ONLY

3(38) Fiduciary VS 3(21) Fiduciary

- Both act as a client advisor, advocate, relationship manager, investment manager, and quarterback
- Effectively takes the role of the plan sponsor in hiring and monitoring all service providers

Differences

- A 3(38) fiduciary has full investment discretion
- A 3(21) fiduciary is a non-discretionary engagement

Major Duties

- Selecting investment strategies for plan sponsor
- Monitoring those investments and replacing as appropriate
- Advising the plan sponsor in following a fiduciary process, including the Investment Policy Statement
- A 3(38) advisor provides counsel and guidance

Liability Transfer

- Outsourcing to an investment manager acting as a 3(38) fiduciary can transfer the fiduciary investment liability away from the plan sponsor
- Since the plan sponsor retains some discretion on investment choices if utilizing a 3(21) fiduciary advisor, they still retain partial fiduciary investment liability

Fund Due Diligence Process

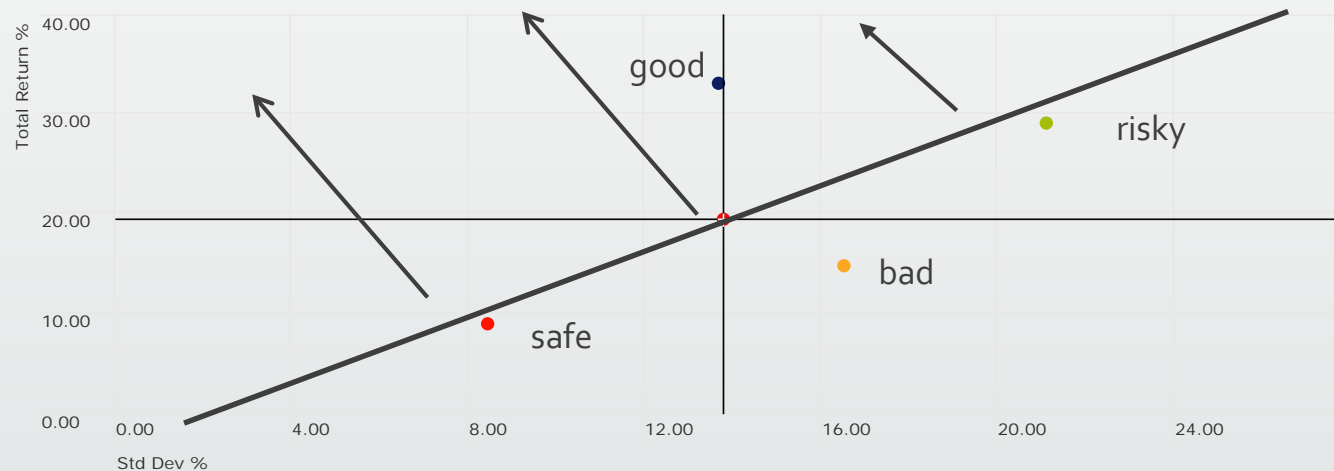
Monitoring Performance - Scoring Criteria

- Regulatory Oversight
- Minimum Track Record
- Stability of Organization
- Assets in Investment
- Composition Consistency
- Style Consistency
- Expense Ratio relative to Peers
- Performance Relative to Peers
- Risk Adjusted Performance Relative to Peers

Fund Due Diligence Process

Security Selection

- Select securities with the highest risk adjusted return
- Sharpe ratio measures excess return over volatility



Fund Due Diligence Process

Eugene Fama

- Market Efficiency
- Asset Pricing
- Efficient-Market Hypothesis
- Impossible to beat markets with perfect information
- Weak, Semi-Strong, and Strong
- 2013 Nobel Memorial Prize in Economics



Fund Due Diligence Process

Market Efficiency

- If you can't beat 'em, join 'em!
- U.S. Equity markets are extremely efficient
 - Use Index Funds:
 - Large Cap Equity
 - Small Cap Equity
 - Global Equity
- Not all markets efficient.
 - Use Active Management
 - Fixed Income
 - Real Estate
 - Global Equity (Small Cap)
 - Emerging Markets

Active/Passive Fund Lineup – Avg Fee = 0.19%

	INVESTMENT NAME	PEER GROUP	EXPENSE RATIO %			
			NET	PEER MED.	GROSS	MAX 12B-1
CPXRX	Columbia Mid Cap Index Inst2	Mid-Cap Blend	0.2 (8)	1	0.27	0
Columbia Management Investment Advisers, LLC and certain of its affiliates have contractually agreed to waive transaction costs and certain other investment related expenses, interest, taxes, acquired fund fees and expense through June 30, 2018, unless sooner terminated at the sole discretion of the Fund's Board of Trustees. Under expenses, subject to applicable exclusions, will not exceed the annual rates of 0.45% for Class A, 0.200% for Class Z.						
DFUSX	DFA US Large Company I	Large Blend	0.08 (4)	0.87	0.08	-
PSSIX	Principal SmallCap S&P 600 Index Inst	Small Blend	0.21 (7)	1.12	0.21	-
TISPX	TIAA-CREF S&P 500 Index Instl	Large Blend	0.05 (4)	0.87	0.05	-

INTERNATIONAL EQUITY

	INVESTMENT NAME	PEER GROUP	EXPENSE RATIO %			
			NET	PEER MED.	GROSS	MAX 12B-1
RNPCX	American Funds New Perspective R6	World Large Stock	0.45 (5)	1.1	0.45	-
DGEIX	DFA Global Equity I	World Large Stock	0.3 (3)	1.1	0.58	-
Dimensional Fund Advisors LP (the "Advisor") has agreed to waive certain fees of the Portfolio. The Fee Waiver effect through February 28, 2018, and may only be terminated by the Fund's Board of Directors prior to that date. The Advisor retains the right to seek reimbursement for any fees previously waived up to thirty-six months after such fee waiver.						

SECTOR EQUITY

	INVESTMENT NAME	PEER GROUP	EXPENSE RATIO %			
			NET	PEER MED.	GROSS	MAX 12B-1
DFCXX	DFA Global Real Estate Securities Port	Global Real Estate	0.24 (2)	1.17	0.38	-
Dimensional Fund Advisors LP (the "Advisor") has agreed to waive certain fees and in certain instances, assure Waiver and Expense Assumption Agreement for the Portfolio will remain in effect through February 28, 2018 of Directors prior to that date. Under certain circumstances, the Advisor retains the right to seek reimbursement previously assumed up to thirty-six months after such fee waiver and/or expense assumption.						

	INVESTMENT NAME	PEER GROUP	EXPENSE RATIO %			
			NET	PEER MED.	GROSS	MAX 12B-1
VTXVX	Vanguard Target Retirement 2015 Inv	Target-Date 2015	0.14 (6)	0.65	0.14	-
VTWNX	Vanguard Target Retirement 2020 Inv	Target-Date 2020	0.14 (4)	0.72	0.14	-
VTTVX	Vanguard Target Retirement 2025 Inv	Target-Date 2025	0.14 (4)	0.72	0.14	-
VTHRX	Vanguard Target Retirement 2030 Inv	Target-Date 2030	0.15 (4)	0.77	0.15	-
VTHX	Vanguard Target Retirement 2035 Inv	Target-Date 2035	0.15 (4)	0.74	0.15	-
VFORX	Vanguard Target Retirement 2040 Inv	Target-Date 2040	0.16 (4)	0.79	0.16	-
VTIVX	Vanguard Target Retirement 2045 Inv	Target-Date 2045	0.16 (5)	0.75	0.16	-
VFIFX	Vanguard Target Retirement 2050 Inv	Target-Date 2050	0.16 (4)	0.8	0.16	-
VFFVX	Vanguard Target Retirement 2055 Inv	Target-Date 2055	0.16 (5)	0.75	0.16	-
VTINX	Vanguard Target Retirement Income Inv	Target-Date Retirement	0.13 (4)	0.72	0.13	-

TAXABLE BOND

	INVESTMENT NAME	PEER GROUP	EXPENSE RATIO %			
			NET	PEER MED.	GROSS	MAX 12B-1
MWTSX	Metropolitan West Total Return Bd Plan	Intermediate-Term Bond	0.38 (12)	0.68	0.38	-

V

Ongoing Advice and Relationships

Monitoring Plan Costs

Semi – Annual Plan Fee Study

- Small plans grow big and big plans grow small
 - These plans continually grow and require provider benchmarking

Continually Review Share Classes

- Review models quarterly to ensure clients are in the lowest priced share class

Quarterly Investment Review

- Utilize partners that integrate with the fi360 software package for streamlined reporting
- Create a web portal for all client data so they can access their reports at any time

Prepare for an Audit

- Process must be documented and streamlined. Small plans grow bigger. Bigger plans = Audit risk



fi360® Toolkit for Retirement Plan Advisors

Boost your efficiency. Streamline your process.

Given the highly regulated requirements for selecting and monitoring plan investments, having ready access to a reliable solution to perform these functions is critical. The fi360 Toolkit, now integrated with Schwab, can help you manage and present the fiduciary process and significantly reduce the amount of time you spend on administrative updates. What's more, this customized platform gives you objective, data-driven guidance to help you make more informed investment decisions for your clients.

ELEVATE YOUR STANDARD OF CARE

Schwab helps you thrive in an increasingly competitive market:

- A customized platform with embedded fiduciary standard-of-care principles and industry best practices that demonstrate compliance with current regulations—and that is designed to remain up to date as regulations change.

EASILY ACCESS EXPERT SUPPORT

With Schwab, you always have access to the support you need:

- On-demand technical support is available by phone or through webinars and tutorials.
- The fi360 Toolkit is accessible 24/7.

STREAMLINE RECORD MANAGEMENT AND REPORTING

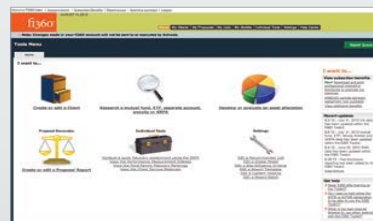
If your clients are on the Charles Schwab Trust and Custody platform, data integration is simple:

- Quickly generate reports that contain the specific content you need, such as investment fees, policy statements, or revenue-sharing rates.
- Create your firm's own 408(b)(2) disclosure.
- Produce an annual 404(a)(5)-compliant report for plan participants.

COMPARE AND CONTRAST INVESTMENT HOLDINGS

Advanced features can help you and your clients make better investment decisions:

- Easily evaluate and compare current investment holdings to proposed fund lineups.
- Analyze asset allocation, investment performance, and style analysis—and share those insights with clients.
- Generate proposals or leverage existing proposals to help current and prospective clients.



Now integrated with Schwab, the fi360 Toolkit can help you elevate your standard of care.

A Streamlined Process is Already Out There



https://www.linkedin.com/in/tomzgainer/detail/photo/?locale=de_DE