Contents

I  The Need for Small Plan Consulting Services
II  Managing the Fiduciary Process
III  Partnering with Appropriate Platforms
IV  Building a Streamlined Fund Lineup
V  Ongoing Advice and Relationships
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.
The Need for Small Plan Consulting Services
## Size of the Small Business Market

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

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

A. [https://www.sba.gov/sites/default/files/advocacy/United_States.pdf](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 | @sarahgobrien
Published 11:16 AM ET Mon, 17 July 2017 | Updated 11:32 AM ET Mon, 17 July 2017

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

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

<table>
<thead>
<tr>
<th>Plan Design Elements</th>
<th>All Micro</th>
<th>&lt;$1MM</th>
<th>$1MM–$5MM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Automatic enrollment</td>
<td>20%</td>
<td>16%</td>
<td>21%</td>
</tr>
<tr>
<td>Automatic escalation</td>
<td>13%</td>
<td>12%</td>
<td>14%</td>
</tr>
<tr>
<td>Investment policy statement</td>
<td>42%</td>
<td>29%</td>
<td>48%</td>
</tr>
<tr>
<td>Loan provision</td>
<td>73%</td>
<td>67%</td>
<td>75%</td>
</tr>
<tr>
<td>Safe harbor</td>
<td>66%</td>
<td>75%</td>
<td>63%</td>
</tr>
<tr>
<td>Roth feature</td>
<td>62%</td>
<td>58%</td>
<td>63%</td>
</tr>
<tr>
<td>Fee equalization policy</td>
<td>15%</td>
<td>17%</td>
<td>14%</td>
</tr>
</tbody>
</table>

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 participant
  - 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
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

![Graph showing security selection based on total return and standard deviation](image)
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
**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
<table>
<thead>
<tr>
<th>INVESTMENT NAME</th>
<th>PEER GROUP</th>
<th>EXPENSE RATIO %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Columbia Mid Cap Index Inst 2</td>
<td>Mid-Cap Blend</td>
<td>0.2 (8) 0.27</td>
</tr>
<tr>
<td>USA Large Company Index Inst</td>
<td>Large Blend</td>
<td>0.09 (4) 0.67 0.08</td>
</tr>
<tr>
<td>Principal SmallCap S&amp;P 500 Index Inst</td>
<td>Small Blend</td>
<td>0.21 (7) 1.12 0.11</td>
</tr>
<tr>
<td>TIAA CREF S&amp;P 500 Index Inst</td>
<td>Large Blend</td>
<td>0.05 (4) 0.67 0.05</td>
</tr>
<tr>
<td>American Funds New Perspective R6</td>
<td>World Large Stock</td>
<td>0.45 (5) 1.1 0.45</td>
</tr>
<tr>
<td>DFA Global Equity Index</td>
<td>World Large Stock</td>
<td>0.2 (3) 1.1 0.58</td>
</tr>
<tr>
<td>DFA Global Real Estate Securities Port</td>
<td>Global Real Estate</td>
<td>0.24 (2) 1.17 0.38</td>
</tr>
<tr>
<td>Metropolitan West Total Return Bd Plan</td>
<td>Intermediate-Term Bond</td>
<td>0.38 (12) 0.68 0.38</td>
</tr>
</tbody>
</table>
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
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.
A Streamlined Process is Already Out There

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