

HICKS NOTES

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Legal and Pension Consultants
(800) 310-4975 | www.nhhicks.com

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By Tom Hicks, Attorney At Law

NOT ALL PROPOSALS ARE THE SAME

When reviewing a retirement plan proposal, the information contained will tell you the type of administrative services you may be receiving. It should give an employer the information needed to make an informed decision on plan design, fees and the services to be provided. Not all administration firms are the same and not all proposals are the same. Here's what to look for:

BASIC REVIEW OF THE COMPANY

A good proposal will begin with a statement about the prospect. A quick online review and a few questions should speak to the type of entity and what business the company is in. How long have they been in business, who are the owners and the services they provide? Is this company in a growth industry with prospects for rapid growth or is it cyclical where future income is uncertain? This shows the administrator has done their homework and has an understanding of potential future growth, cash flow, succession issues or other information needed to design a plan to fit the owner's needs.

MULTIPLE RUNS FOR MULTIPLE YEARS

An employer will need to know whether it's primarily installing a tax savings plan for the owners or an employee benefit plan for the employees. In the small plan market, we are typically designing plans for the owners and are working off a marginal dollar return analysis.

For example, an owner will often install a 3% Safe Harbor tiered benefit plan. This will allow the 50 year old owner to give his employees 3% of their pay and receive \$24,000 in deferral plus 9% of their pay for himself. If he gives employees another 2%, the owner can then get the maximum \$60,000 for himself. The 3% Safe Harbor contribution may give him 90% of all employer contributions. The additional 2% for the employees might lower the margin to 85%. Add another 3% more for employees and a Defined Benefit Plan, the owner gets an additional \$200,000 for himself. The margins are back up to 95% of all contributions, but the numbers and commitment to the employees is much greater. The ability to show tax savings versus employee costs versus fixed commitments is paramount to good business decision making.

Further, a discussion and illustration of adding and paying a working spouse can double the contributions for the owners and needs to be illustrated, if applicable.

A good proposal will show what happens to an employer cost in future years if the company is growing or shrinking. Should a large number of employees be entering the plan because of rapid growth, an employer should be made aware of the potential cost in future years.

FEES AND SERVICES MUST BE OUTLINED

Often, a bundled provider will provide boiler plate pages of service, but the services and fees are hidden or not disclosed. Is there one person who is actually doing the work or is it an 800 number to some unknown location to some unknown person? Payroll and investment companies are notorious for setting up plans and not providing proper plan design or service. The company's human resource person is often required to carry the burden of filing online forms, performing discrimination tests and reviewing reports when subpar service is given.

With regards to fees, they should be clearly outlined in the proposal. Most administrators are receiving third party payments from investment companies. Are these being offset at 100%? One of our competitors only offsets after they receive \$1,000 on new plans and \$3,000 on takeover plans. Some just say it's off their published fee schedule. These schedules are three pages long and clients are being nicked and dined for every test, reporting form and phone call.

Too often in a bundled approach, clients go with something that looks cheap, but turns out to be quite expensive. Many have hidden exit or other fees that are not easily disclosed until they are needed. An understanding of investment fees and how administration is offset is needed for clients to make an informed decision.

A STATEMENT ABOUT THE COMPANIES INVOLVED

A good proposal will allow an employer to do their due diligence by investigating the company doing the work. Do they have a lot of employee turnover? Can you have access to client reviews? YELP reviews and other online presence will give an employer a better understanding of the qualifications and the people they are dealing with. A small or incomplete website or internet presence may be a way of hiding substandard fees and services.

A review of the potential investment options and services in enrollment and fund choices needs to be illustrated, so the employer can make informed decisions on the entirety of the plan and people they are working with.

In conclusion, a good proposal is a valuable tool during the decision making process. It shouldn't be pages and pages of boiler plate language. It should be a concise document aimed at making good decisions with regard to top plan design, fees and services. For a review of our basic format, [click here](#).

Have questions or need help? CONTACT US [HERE](#).