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(800) 310-4975 | www.nhhicks.com

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By Tom Hicks, Attorney At Law

KNOW YOUR PLAN ADVISOR'S ROLE

While plan sponsors crave simplicity, having a competent team of advisors and understanding their various roles is crucial in the smooth operation of a 401(k) Retirement Plan. Typically, 401(k) plans are run using either a bundled or unbundled approach. A good sponsor will know who these people are, what function they perform and how much and by whom they are getting paid.

In a bundled approach, the investments and administrator appear to be the same company. This is typical of large plans and those offered by payroll companies. While there is some degree of ease in administration and the possibility of lower fees, often times service suffers because the point of contact, the broker, is not an expert in the payroll or administrative issues that arise. These plans often offer less investment choices and restricted plan design. The client never really knows who is being paid for what services because they are "bundled" into a one price package. I personally feel this is an inferior way of offering 401(k) plans because "simplicity" may actually cost you more in time and money in the long run.

In an unbundled approach, each component of the plan is shopped separately. By being engaged as a plan sponsor, you can gain the expertise needed from each party and benchmark them against others in their field. Here is a basic outline of the players and the roles they play.

PAYROLL DEPARTMENT

In a small company, usually the payroll is handled by the bookkeeper, in-house staff, or a payroll service. Because 401(k) plans require employee participation, it is critical that the payroll person understand how to deduct and report employee deferrals. This is often where these plans break down. All payroll softwares have a 401(k) deduction line in the employee withholding section and it is generally not a problem, however appointing a direct contact is critical when setting up this process.

Most mistakes are made at this level and generally this is the responsibility of the plan sponsor in an unbundled approach. Educating the payroll person is the job of the financial Planner and TPA when setting up these plans. If the time is spent setting it up right the first time, using outside payroll companies should not be a problem.

INVESTMENT BROKER OR FINANCIAL PLANNER

This person is often the first point of contact. They are responsible for presenting the investment alternatives to plan sponsors. They meet with the company owners to discuss what type of investments they want in the plan. It is their job to educate and enroll participants into the plan. They also act as a liaison between the plan and the investment company. They are generally paid by the investment company in the form of commissions; however some may act on a fee basis.

They are important because they can answer the day-to-day questions from plan participants. What's a mutual fund? What's a bond? How should I allocate my money? A good financial planner will also help participants with their personal financial situations. Good communication skills and expertise in investments alternatives are important in a good financial planner.

INVESTMENT COMPANY

These are the big insurance and brokerage companies that actually hold the money. They are often called Wholesalers because they offer their investments through financial planners. For a link to see who we work with, click here. They offer the investments and actually hold the accounts. Many have websites that allow participants to see and change their account allocations daily. They may also help the financial planner with enrollment and participant education. They may offer their own funds or use an "Open Platform" that allows the plan sponsor to add outside funds to the fund menu.

Often times, dealing with these big companies can be hectic as they each have their own forms, rules and procedures. By having a good financial Planner, administration is simplified by having that one contact. The investment company gets paid a percentage out of the investment account or other fees and also pays the financial planner. When shopping for investment companies, look at returns, fees, and ease of communication for the participants to determine which company best fits your needs.

THIRD PARTY ADMINISTRATORS (TPA)

The TPA is responsible for plan design, documents, compliance and government reporting. We are usually paid on a direct fee basis and may offset any dollar amounts the investment companies may pay us. We are important because we are the first line of defense against the Department of Labor and the IRS. By running proposals and plan design ideas and working with the Financial Planners and investment companies, we can design plans that best fit the company situation. Our fee schedule and service agreement are here.

Having a good TPA is critical to the smooth operation of the plan. The investment people don't have time to keep up on the constantly changing rules and regulations. We don't recommend or sell investments. Our sole focus is compliance and accuracy of the administration as well as plan design. A good TPA will save employers money by offering a sophisticated plan design instead of a cookie cutter approach of a bundled plan.

INDEPENDENT CPA AUDITOR

When a plan has more than 100 participants, regulations require the plan be audited by an independent CPA. They are paid a fee and check the work of the other parties. They are hired by the plan sponsor and charge a few thousand for their work. Their audit report must be attached to the Form 5500 at the time of filing. Timeliness, fees, and the ability to work with the other players is crucial in choosing an auditor.

INDEPENDENT TRUSTEE OR FIDUCIARY SERVICES

Large plans will often hire an independent trustee to act on the plan's behalf. These people are paid a fee for services and act as the trustee. They may shop the investment and TPA's and step into the position of trustee for the employer. I don't believe they are worth the money in small plans, but have a role in the large plan market. By having an expert handle your plan, a large company is potentially relieved of fiduciary liability with respect to the plan. There are 3(21) Co-fiduciaries and 3(38) Fiduciaries. For more information on what every fiduciary should be doing, click here.

BOTTOM LINE

If you are using a bundled approach, ask for the responsibilities and roles of each party and how much they are getting paid and by whom. In a unbundled approach, check fee schedules, plan design and the quality of service. These plans are excellent employee benefits and tax plans when all the parties are working together. We hope this basic outline will give you the knowledge to make your plan work. Need help? Contact us today.

Contact us with any questions or pension administration need.