HICKS NOTES

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WHY CHOOSE A RETIREMENT PLAN

Many employers need basic education on the advantages of utilizing retirement plans for savings and employee retention purposes. Given the myriad of plan options, a good financial advisor should understand the basic pros and cons for each type of plan and how they can help any client situation.

The Internal Revenue Service and the Department of Labor jointly put together a useful guide outlining each plan available and how it might work for your clients. It outline reasons for saving, tax advantages and other incentives for setting up a plan. Many times we are so focused on the technical aspects of retirement plans that we forget to explain the big picture. This guide will help you with the basics. Click here.

The guide is set up into 3 basic plan types: IRAs, Defined Contribution Plans and Defined Benefit Plans. For IRA based plans, they cover the Payroll Deduction IRA, SEP and Simple IRA. For Defined Contribution plans, there are Profit Sharing, Safe Harbor 401(k), Automatic Enrollment 401(k) and Traditional 401(k). There is also a chart for Defined Benefit plans.

Knowing the basics can help you better communicate why a retirement plan is right for your clients. As third party administrators (TPA), we are the experts on all of these plans and will help you and the client decide on the best plan design. Need help or want a proposal, contact us here.

WHY CHOOSE AN UNBUNDLED PROVIDER

There is a great debate in our industry on whether a plan should use a “bundled” or “unbundled” approach to retirement plan selection and administration.

Retirement plans have different parties performing different functions. There is the administrator, investment provider, financial advisor, recordkeeper, payroll, and often a lawyer for legal compliance. Each of these functions is unique, and communication among the parties is critical. I addressed the roles of each advisor here.

In a bundle approach, the plan preparation, design and investments are “bundled” under one provider. They are sold as ‘easy to administer’ because the various parties are under “one roof”. While this may sound good, the parties and their functions are not under one roof, but outsourced to various subcontractors.

Fees are billed to the client and taken from the accounts. It is often difficult to know who is being paid how much and for which functions. In addition, the service you get may be substandard because the individual who sold the plan is not an expert in retirement planning. The plan design and investments are cookie cutters as the bundler tries to make it easy on themselves.

Let’s review the issues in this debate.

Plan Design: In most cases, the bundled plan is sold by payroll companies. The financial institution is looking for standardized plans for ease of administration. This often results in inferior plan designs for clients. By using class allocations, an independent TPA can design a plan to better fit an owner’s desire to get more benefits for themselves.

Costs: While these plans appear to have reasonable fees, the hidden costs are not readily disclosed. By using an unbundled approach, you can fire the poor performing parties while maintaining the parties that you like. In a bundled approach, it’s all or nothing.

Service: Time and again, we see a payroll provider set up the boiler plate plan and disappear. There is no local consultant or party to call to get answers. The administrator is hidden at some other office and is not available for meetings or calls. Poor service is the hallmark of bundled plans because there is no accountability for these other parties. In an unbundled approach, you know exactly who you pay and how they are performing. Don’t like your administrator, fire them. Love you administrator, but don’t like you financial advisor, you get rid of them. Accountability is important for service and only given in the unbundled approach.

Fiduciary Issues: New regulations require Trustees to review fees and services, and benchmark against standards in the industry. It can be very difficult to know who is being paid what in a bundled approach. If there are limited investment choices and no real competition in running your plan, how can it be the best? Unbundled solves this problem by full disclosure and the ability to change substandard areas.

In conclusion, we believe the unbundled approach is best. We see it every day and want the industry to give the best available, providing employer incentives and retirement security. Need help or want to further this debate, contact us here!