

DEFINED CONTRIBUTION PLANS

Getting Your Employees Ready for Retirement

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RETIREMENT PLAN ADVISORS

THE FUTURE IS BETTER THAN YOU THINK

AGENDA

- > Types of DC Plans
- > Retirement Readiness
- > How Do All the Pieces Fit Together
- > Participant Services
- > A Word on Fiduciary Responsibility
- > Take-Home Idea

TYPES OF DC PLANS

- > Individual Accounts (non-employer sponsored)
 - > Traditional IRA
 - > Roth IRA
- > 457 Deferred Compensation
 - > “Traditional” Pre-Tax
 - > Roth After-Tax
- > 401(a) Pension Plans



RETIREMENT READINESS





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INVESTMENTS AND FINANCIAL PLANNING



**“I retire on Friday and I haven’t saved a dime.
Here’s your chance to become a legend!”**

HOW MUCH IS ENOUGH?

How much should you have saved already?

- > At age 35, you should have saved an amount equal to your annual salary
- > At age 45, you should have saved three times your annual salary
- > At age 55, you should have saved five times your annual salary
- > When you retire at age 67, you should have saved eight times your annual pay

FINANCIAL PLANNING – FITTING THE PIECES TOGETHER

The Process

- > **Saving and Budgeting**
 - How much will you need to live on?
 - Am I saving enough?
- > **Creating an Income Stream**
 - How do I fund my retirement
 - How do the pieces fit together?
- > **Risk Management**
 - Am I taking appropriate risks for my retirement goals?
 - How do I manage my investment risk?
- > **Review the Plan Each Year**

FINANCIAL PLANNING – FITTING THE PIECES TOGETHER

Saving and Budgeting

- > **Know how you want your money to work.**
 - How much do you have to work with?
 - List financial goals and prioritize
 - Identify amount and time frame
- > **It's not easy, but well worth the time. Both you and your spouse have to agree on the goals and priorities.**
- > **Know the costs.**
 - Realize the benefits and costs
 - Recognize the difference between needs and wants
 - What is your ratio?

FINANCIAL PLANNING – FITTING THE PIECES TOGETHER

Saving and Budgeting

- > Use a top-down approach to calculate retirement income needs. For example:

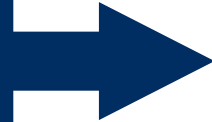
Gross Income
- FICA
- Retirement Savings
+ Retirement Insurance Premiums
+/- Other Adjustments
= Total Retirement Income Needed



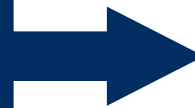
CREATING AN INCOME STREAM – FITTING THE PIECES TOGETHER

Recurring Income Sources

- Social Security
- DB Pension (Lagers)
- Part-Time Job
- Annual Gifts



- Defined Contribution
- IRAs & Other Investments
- Inheritance



**Primary Income
Stream**



Supplemental Income

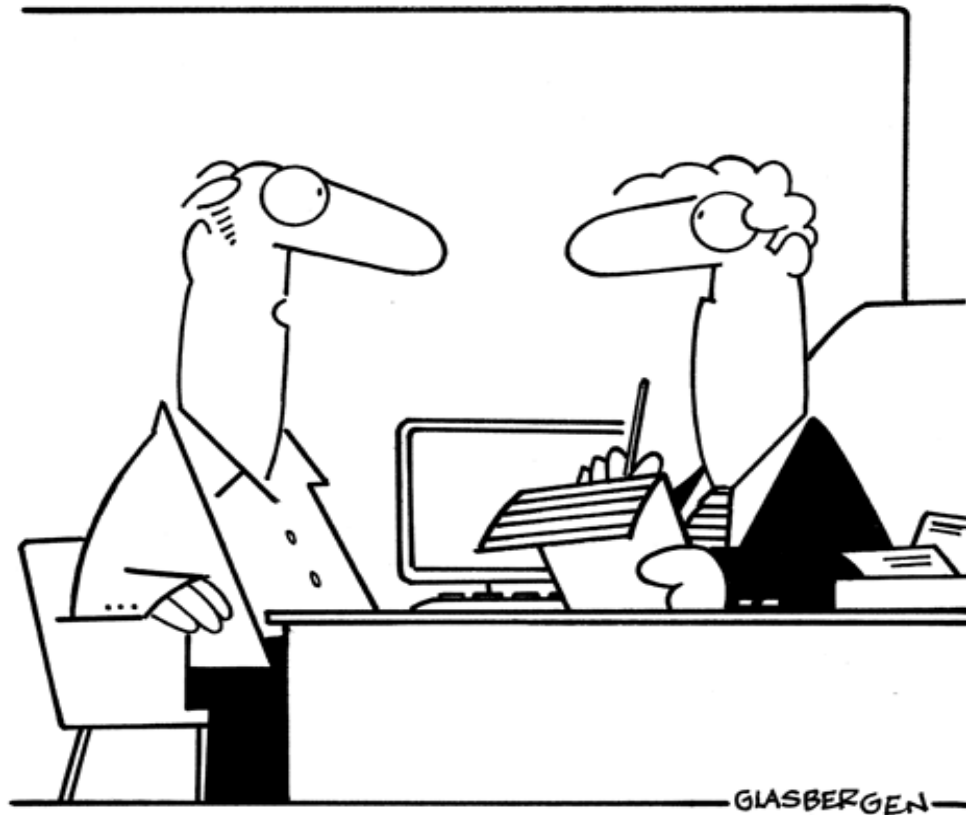


**RETIREMENT
READY!!!**



PARTICIPANT SERVICES

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**"I do have a diversified retirement plan:
30% hopes, 30% wishes, 40% prayers."**

PARTICIPANT SERVICES – MAIN PURPOSES

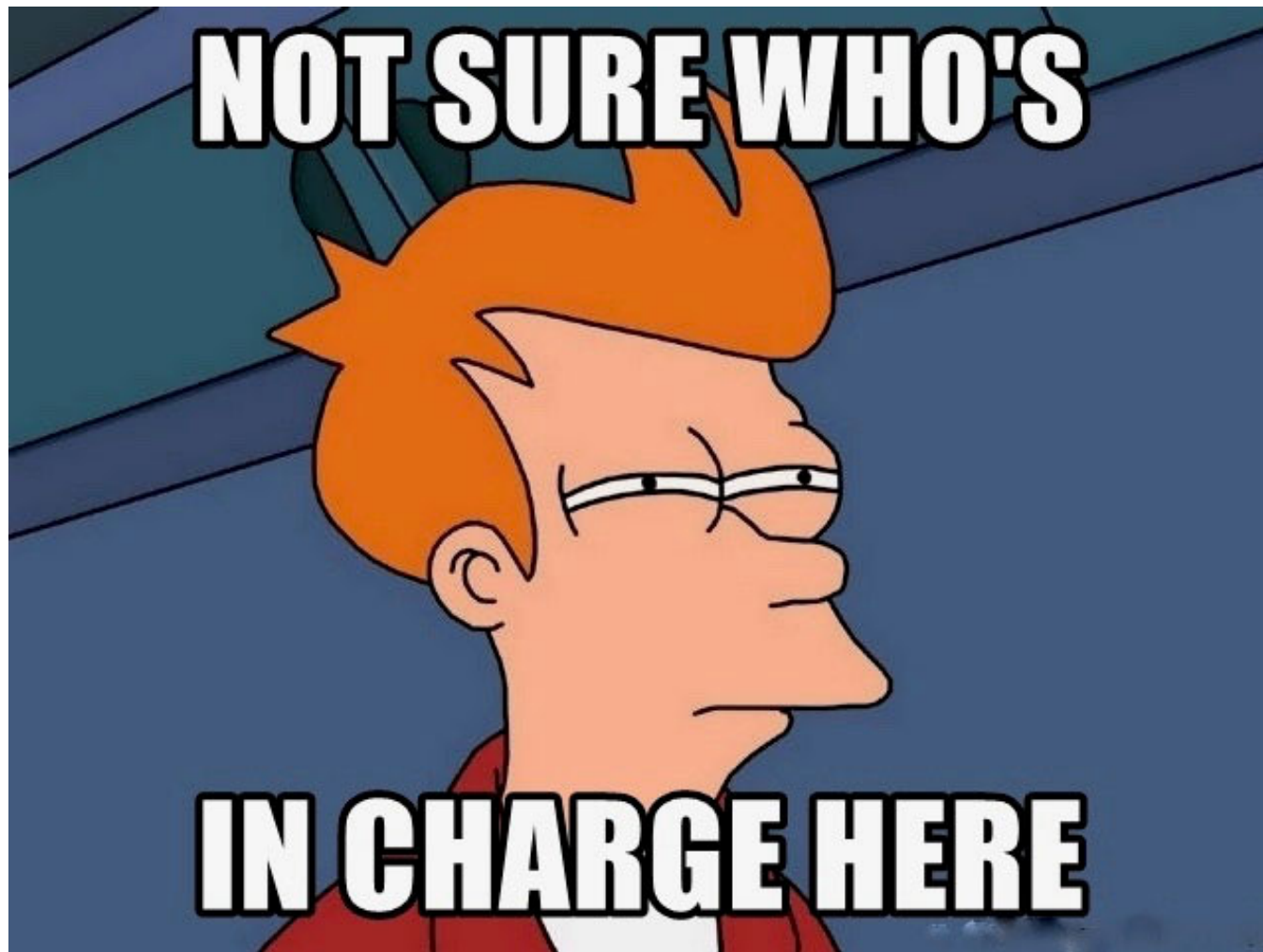
- > Allow easy access to plan benefits
- > Provide education for the participant
- > Encourage participation and action
- > Align participant goals with their actions
- > Coordinate all retirement benefits
- > **Increase financial literacy**
- > **Increase retirement readiness**

WHAT ARE PARTICIPANT SERVICES?

- > Website
 - > 800 phone number
 - > Online tools
- Do It Yourself – typical private sector 401(k) plan model
- > Onsite enrollment
 - > Face-to-face meetings
 - > Onsite seminars
- Basic Participant Services – higher touch, more education, typical public sector 457/403(b) plan model
- > Portfolio construction
 - > Mutual fund selection
- Investment Advice
- > Financial planning
 - > Benefits coordination
- Retirement Planning



A WORD ON FIDUCIARY RESPONSIBILITY



WHO IS A FIDUCIARY?

Many of the actions involved in operating a plan make the person or entity performing them a fiduciary. Using discretion in administering and managing a plan or controlling the plan's assets makes that person a fiduciary to the extent of that discretion or control. Thus, fiduciary status is based on the functions performed for the plan, not just a person's title.

A plan must have at least one fiduciary (a person or entity) named in the written plan, or through a process described in the plan, as having control over the plan's operation.

A FIDUCIARY SHOULD...

- > Act in the best interest of the plan participants at all times
- > Prepare, execute, and maintain an Investment Policy Statement
- > Provide sufficient asset class representation so a participant can prudently diversify his or her portfolio
- > Have investment decisions made by prudent experts
- > Monitor the activities of all investment-related service vendors
- > Control and account for all investment-related expenses and fees
- > Avoid conflicts of interest and prohibited transactions
- > Follow the Prudent Person Rule: *What would a prudent person do with someone else's money*

PLAN DESIGN – INVESTMENT DUE DILIGENCE

- > A retirement plan advisor can serve in either a 3(21) or 3(38) fiduciary capacity, and in some cases both
- > The needs and desires of the plan sponsor typically dictate the specific arrangement, which is predicated upon the subject of risk mitigation
- > Some plan sponsors want assistance with their fiduciary responsibilities but still want to maintain discretion and control of their plan's investment menus
- > Others want to shift the fiduciary responsibilities to a third party to further reduce their liability

PLAN DESIGN – 3(21) ADVISOR

ERISA 3(21) Investment Fiduciary Services

Fund Selection and Monitoring

- > Monitor your provider(s)
- > Create an Investment Policy Statement (IPS)
- > Recommend funds to be used by the plan
- > Monitor funds for continued compliance with IPS
- > Report fund performance and give advice on change – but not given discretion
- > Monitor and negotiate fees

PLAN DESIGN – 3(38) ADVISOR

ERISA 3(38) Investment Fiduciary Services

- > All of the services listed previously for 3(21) advisor
- > The difference: a 3(38) advisor is given ***discretion*** over the investments
- > Determine when it's necessary to replace a fund used by the plan
- > Select replacement fund(s) for the plan, and notify the plan sponsor and employees of the changes

TAKE-HOME IDEA – MATCHING FORMULA

Matching Contributions = Free Money!

- > Dollar match up to \$25 = EE contributes \$25 pre-tax with the ER matching \$25
- > Pre-tax \$25 nets out approximately \$19 from the EE's take-home pay
- > Resulting in a \$50 investment for the EE that costs them \$19 out of pocket – an immediate 163% increase in value on the \$19 “out-of-pocket EE cost”

TAKE-HOME IDEA – MATCHING FORMULA

Employer Receives Discount

- > There is no FICA taxes payment on an ER 401(a) contribution
- > Pay increase of 3% on EE that earns \$50,000 would result in a total ER cost of \$1,614.75

vs.

Pay increase of 2% with a 1% match contribution results in a total ER cost of \$1,586.50

TAKE-HOME IDEA – MATCHING FORMULA

Cost to the Employer: 3% Pay Raise vs. 2% Pay Raise + 1% Match		
	3% Pay Increase	2% Pay Increase + 1% Match
Pay Increase	\$1,500.00	\$1,000.00
FICA Cost on Increase	\$114.75	\$76.50
401(a) Contribution	–	\$510.00
Total	\$1,614.75	\$1,586.50
Cost Differential		\$28.25



TAKE-HOME IDEA – MATCHING FORMULA

Employee Benefits of a 3% Pay Increase vs. 2% Pay Increase + 1% Match				
	Employee Before Enhancements	3% Pay Increase	2% Pay Increase + 1% Match	
Gross Pay	\$50,000.00	\$51,500.00	\$51,000.00	
FICA	(\$3,825.00)	(\$3,939.75)	(\$3,901.50)	
State and Fed Taxes	(\$10,000.00)	(\$10,300.00)	(\$10,098.00)	
457 Deduction	-	-	(\$510.00)	
Net Take-Home	\$36,175.00	\$37,260.25	\$36,490.50	
		\$1,085.25	\$315.50	Net Take Home Increase
		N/A	\$510.00	457 Contribution
		N/A	\$510.00	401(a) Contribution
		\$1,085.25	\$1,335.50	Total Economic Outcome
			\$250.25	Difference

- > The match scenario would result in the EE receiving \$1,335.50 of total economic value vs. only \$1,085.25 in the 3% pay increase only scenario

TAKE HOME IDEA = MATCHING 401(A)

401(a) Defined Contribution Plans

- > Immediate eligibility vs. year of service
- > Friendlier vesting schedules
- > Easy-to-understand contribution formulas
- > Consider creating a matching plan
 - > 457 and 401(a) combo
 - > Dollar for dollar or %
 - > Different formulas for different EE groups or for length of service
 - > Encourages employee contribution = free money
 - > Employer receives discount

RPA 
RETIREMENT PLAN ADVISORS

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THE FUTURE IS BETTER THAN YOU THINK
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