



**PLAN DESIGN STRATEGIES
FOR SUCCESS**

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EXECUTIVE SUMMARY

In the past, many financial advisors centered their retirement plan service model around their investment expertise. Plan design issues were delegated to Employee Retirement Income Security Act (ERISA) attorneys and other drafting experts housed at third-party administrators, with minimal involvement by the financial advisor.

That paradigm has shifted. Financial advisors with successful retirement plan practices often see plan design as an avenue for deepening and broadening their relationship with retirement plan clients. While these advisors understand the value their investment expertise will have in driving successful retirement savings outcomes, they also understand combining that expertise with effective plan design will have an even more powerful impact on participant savings behavior.

There is no universal “best” plan design strategy. Each retirement plan should be tailored to meet the plan sponsor’s business objectives for establishing a plan and drive meaningful savings outcomes for participants.

1. A financial advisor’s plan design services often begin with helping plan sponsors understand and prioritize plan objectives.
2. Educating employers about how plan features affect participant involvement and savings behaviors is also a valuable component of plan design support.
3. Advisors often are the conduit to plan design experts like ERISA attorneys or third-party administrators who will create projections and model the impact of different plan options, as well as provide compliance support such as drafting the plan document and preparing the required notices and disclosures for employees.

As a financial advisor, you can play an important role in each phase of the plan design process. But you also have an opportunity to take plan design support to the next level by helping your clients evaluate how their plan features stack up against plans offered by their peers.

Virtus Investment Partners developed Plan Design Strategies for Success (the Guide) to help you incorporate plan design support, including benchmarking services, as a cornerstone of your retirement plan practice. The Guide:

- Familiarizes you with the advisor opportunity created by plan design
- Identifies some of the plan features that have the greatest impact on participant outcomes
- Provides a possible framework for delivering effective, scalable plan design and benchmarking support
- Introduces you to a Virtus benchmarking resource available to you on a complimentary basis – no licensing or report generation fees

SECTION 1: PLAN DESIGN OPPORTUNITIES

USING PLAN DESIGN TO DRIVE RETIREMENT SAVINGS OUTCOMES

- Most employers who adopt automatic enrollment features see a positive impact on participation rates and average contribution rates. Many also experience improvements in their nondiscrimination testing results.¹
- Even features as basic as the age and service eligibility requirements can have a bearing on a worker's ultimate retirement savings. A recent study by the U.S. Government Accountability Office (GAO) illustrated that delaying eligibility by one year could result in \$51,758 less at retirement. If an employer match is factored into the calculations, the loss rises to \$81,055.²

ALIGNING PLAN OBJECTIVES WITH PLAN DESIGN

¹Deloitte, Annual Defined Contribution Benchmarking Survey Ease of Use Drives Engagement in Saving for Retirement, 2015 Edition

²Government Accountability Office (GAO), GAO-17-69, 401(k) Plans Effects of Eligibility and Vesting Policies on Workers' Retirement Savings, October 2016

Plan sponsors' objectives for their retirement plans are the foundation of plan design. Different employers will have different objectives such as:

- Achieving high participation and savings rates
- Providing a competitive benefits package to attract new employees
- Rewarding longer term employees
- Supplementing other retirement savings plans offered by the employer such as a defined benefit plan
- Controlling costs associated with the plan
- Providing investment solutions that support inexperienced investors

Fortunately, the menu of plan features available today is extensive and flexible, enabling plan sponsors to tailor their plans to accomplish a broad range of plan objectives. Unfortunately, the array of choices can be overwhelming to a plan sponsor, making it challenging for them to understand which plan features are best for their business and their employees.

CAPITALIZING ON THE ADVISOR OPPORTUNITY

As an advisor, you are uniquely positioned to help plan sponsors prioritize plan objectives and identify plan features that will drive the desired retirement savings outcomes. As part of the plan design discussion, one of the most valuable services you can provide as an advisor is to help plan sponsors understand how their plan compares to plans offered by other businesses. Plan sponsors simply do not have the time, knowledge, or resources to manage these plan design and benchmarking responsibilities without your support. Effective plan design and benchmarking support can be a powerful tool in attracting and retaining retirement plan clients.

ENGAGING PLAN DESIGN EXPERTS

Plan design experts like third-party administrators (TPAs) and ERISA attorneys can be strong allies when you are evaluating plan design options. With their deep regulatory knowledge and drafting expertise, they will also provide the compliance oversight your clients need when adopting new plan features. Their scope of services typically includes:

- Creating projections using an employer's demographic information to illustrate the impact of different plan features
- Helping educate plan sponsors about the administrative and compliance requirements associated with specific plan features
- Drafting plan documents and amendments
- Preparing the required employee notices and disclosures

Prospective Clients – For prospective clients that do not currently offer a retirement plan, introducing your plan design services can be a differentiator, showing the depth and breadth of support you can provide. If the prospective client has a retirement plan, benchmarking current plan features may reveal plan weaknesses and provide an avenue for you to introduce potential enhancements that you can help implement.

Existing Clients – As a business grows and evolves, or as new products become available, plan sponsors may benefit from adjustments in plan features. Reviewing plan design and benchmarking plan features periodically will help keep the plan on track to achieve the employer’s objectives. These reviews provide an opportunity to strengthen your relationship and to identify strategies to enhance plan performance.

SECTION 2: A PRIMER ON PLAN DESIGN

Plan sponsors today can choose from a large menu of plan features and investment options when designing their retirement plan. With your support and the support of plan design experts, they will be able to tailor their plan to their unique objectives and employee demographics. The following chart highlights some of the key plan design features that can impact plan performance.

ELIGIBILITY & PARTICIPATION	
Plan Positioning	<p>Begin by collecting information that will help you understand plan objectives and positioning. For example:</p> <ul style="list-style-type: none"> • Is this retirement savings the sole plan or is it paired with another plan (e.g., defined benefit plan)? • How many employees and former employees participate in the plan?
Eligibility Requirements	<p>A plan’s eligibility requirements should be aligned with the employer’s plan objectives. For example, if the plan sponsor’s objective is to recruit new employees or to help employees begin saving for retirement as soon as possible, immediate eligibility, at least for employee elective deferrals, may be desirable. An employer can set different eligibility requirements for different types of contributions, sometimes referred to as dual eligibility (i.e., immediate eligibility for elective deferrals or one year for matching contributions).</p>
Participation & Savings Rates	<p>Determine participation and savings rates. Delve deeper than plan-level averages to identify how savings rates vary across different age demographics or wage levels.</p>

Auto-enrollment	Automatic enrollment has become an increasingly popular option for improving plan participation rates, particularly among larger plans. Confirm the default deferral rate. A very low automatic deferral rate may increase participation, but at a low savings rate that does not generate meaningful retirement savings.
Re-Enrollment	There are a variety of ways to activate automatic enrollment within a plan. Some employers choose to “re-enroll” existing employees who are not participating or participating below the plan’s automatic enrollment savings rate. You can provide valuable support by outlining the benefits and any potential drawbacks of each re-enrollment option.

CONTRIBUTIONS

Employer Match	Rather than focusing solely on the amount and type of employer contributions, conduct a deeper level of analysis regarding participant impact. For example, the number of employees deferring at a rate that enables them to receive the maximum employer match is a valuable metric and provides a catalyst for discussing education, advice, and plan design options that may drive stronger results. To encourage higher deferral rates, but not increase the dollar amount of the matching contribution, some employers require a higher deferral percentage to receive the maximum employer match (e.g., 25% match on deferrals up to 12%, rather than 100% on deferrals up to 4%). This is sometimes referred to as a “stretch match.”
True-Up Matching Contribution	Employees who save aggressively and reach the contribution limit prior to year end may lose out on employer matching dollars if the employer calculates the contribution each pay period. A “true-up” match calculated at the end of the year is used by some plans to restore these lost matching contributions.
Safe Harbor 401(k) Plan	If a plan has the safe harbor 401(k) plan feature, the plan is deemed to pass certain nondiscrimination tests that would otherwise restrict the amount highly compensated employees may contribute to the plan relative to the amount contributed by non-highly compensated employees. You may want to introduce this feature to clients and prospects with a history of failed non-discrimination testing.
Auto-escalation	Automatic deferral increases (“auto-escalation”) enable a plan to set a relatively low deferral rate for automatically enrolled participants to reduce the risk that participants will opt out of the plan. The auto-escalation feature will gradually increase the deferral rate over time to provide more meaningful savings over time.

Profit Sharing	Determine whether the plan permits other types of contributions such as profit sharing. A discretionary profit sharing may be appealing to a start-up company or other enterprise with fluctuations in profits. Cross-tested profit sharing formulas (e.g., new comparability or age-weighted) typically allow a larger portion of the profit sharing contribution to be allocated to business owners and senior managers.
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DISTRIBUTIONS

In-Service Distributions	Many plans have begun to evaluate the level of plan leakage caused by distributions that occur during an employee’s working years through in-service distributions. Helping plan sponsors understand their plan metrics and benchmarking them against the metrics in other plans creates a valuable advisor support opportunity.
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Loans	Most plans permit loans. Employers concerned about plan leakage or the administrative burdens associated with loans have the option to limit plan loans (e.g., one loan outstanding at a time or one loan per year). Help plan sponsors analyze loan defaults (number and dollar amount) to identify plan leakage issues.
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Retirement Income Solutions	Help plan sponsors define their philosophy regarding the availability of retirement income products or services and benchmark the availability of these options among their peers.
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PLAN INVESTMENTS

Number & Types of Investments	Plans rely on their financial advisor to help them determine how many and what types of investments to offer in their retirement plan, weighing the need to provide a sufficiently broad lineup to meet diverse needs among their employees, without offering so many options less sophisticated investors become overwhelmed. Benchmarking the number of plan investments relative to a plan’s peer group is a good starting point for this consultative conversation.
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Investment Fees	Plan fiduciaries are under intense scrutiny by the Department of Labor (DOL) and plan participants regarding the fees paid for plan investments and other services. Begin by helping plans sponsors calculate and benchmark the average expense ratio for plan investments, then engage in a more in-depth analysis of each investment alternative.
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Target Date Funds	As target date funds (TDFs) attract a growing volume of retirement savings dollars, this is an important plan feature to evaluate and benchmark. In recent years, custom TDFs have been part of that conversation. The custom TDF option has been appealing to some larger plans that felt constrained by their inability to remove certain underperforming investments included in the TDF or to adjust the methodology used to adjust the mix of investments to become more conservative nearer the target retirement date (i.e., the “glide path”).
Investment Advice	Identify the investment advice services provided to the plan fiduciaries (e.g., plan committee) as well as any participant-level advice solutions. Evaluating these advice solutions relative to the plan’s peers provides you an opportunity to introduce both plan-level and participant-level investment advice services you can deliver, either directly or through a third party.

FIDUCIARY BEST PRACTICES

Fiduciary Best Practices	Helping plan sponsors manage their fiduciary responsibilities has become an increasingly important practice focus for retirement specialist advisors. Evaluating the plan’s current status relative to fiduciary compliance will help you identify opportunities for strengthening the plan’s committee and other governance practices.
Investment Due Diligence	Clearly defined policies and procedures for selecting and monitoring investments are essential for investment fiduciaries. An Investment Policy Statement (IPS) or other form of written document has emerged as a best practice. Most plans rely on their advisor to help them develop their investment due diligence process, including the timing for investment reviews and benchmarking fees associated with each investment.
Service Provider Due Diligence Process	Identify whether the plan has implemented a due diligence process for selecting and monitoring service providers, including benchmarking fees. Most plan sponsors rely on their advisor to help them build and manage their due diligence process.
ERISA	ERISA spending accounts, which collect revenue sharing payments, may be a source of payments to certain service providers. The plan’s recordkeeper is the best source to identify the amount of revenue sharing allocated to the plan annually.

SECTION 3: USING PLAN DESIGN SUPPORT & BENCHMARKING TO SET YOUR PRACTICE APART

DESIGNING AN EFFECTIVE PROCESS

Creating a service model that is efficient, scalable, and effective begins with defining the scope of your plan design support and then following a consistent process.

1 Focus on High Impact Plan Features

There is an expansive list of plan features that can be reviewed and benchmarked. Plan sponsor clients and prospective clients may find it easier to evaluate a smaller universe of issues rather than reviewing multiple facets of plan design, investments, and fiduciary best practices in one meeting. Focus on features that can have a big impact on the top priorities for the plan.

2 Gather the Right Data

For existing plan clients, contact the plan's recordkeeper for a summary of plan features or request a copy of the plan documents. For prospective clients, request copies of the plan documents, summary plan description, and related policies (e.g., loan policy). The plan's Form 5500, *Annual Return/Report of Employee Benefit Plan*, is another excellent source of information. When available, you will also want to collect plan reports that reflect current plan performance, such as plan participation and contribution rates and investment allocations.

3 Benchmark Plan Features Against an Appropriate Peer Group

Plan design features can vary significantly based on plan size, with larger plans generally offering a broader range of options and options that may present administrative challenges for smaller businesses. Benchmarking a plan against a peer group of similar size plans will provide more meaningful data when analyzing plan features and plan investments.

4 Tap into Plan Design Experts

As you work with the plan sponsor to discuss specific plan features, consider engaging the expertise of a plan design expert such as a third-party administrator who can model the impact of adding an auto feature on participation rates and plan costs (e.g., employer matching contributions), based on the plan's demographics.

5 Establish a Schedule for Periodic Reviews

Like most aspects of retirement plan support, plan design should be a dynamic process. As a business grows and evolves and employee demographics change, the plan features may need to be adjusted. It is a good idea to review plan features at least once a year.

IMPLEMENTING THE PLAN DESIGN STRATEGY

After discussing the benchmarking information and introducing options that could improve plan performance, be prepared to provide a list of potential action steps for your client or prospective client to consider. Some possible steps include:

- Introducing plan design resources such as a third-party administrator to model the impact of adding or changing certain plan features on plan performance and cost
- Serving as a gateway to plan design experts who can create plan amendments and participant notifications for new plan features
- Scheduling employee education to introduce new plan features
- Revising the investment policy or other investment due diligence process
- Delivering plan sponsor fiduciary education
- Helping the plan sponsor refine the plan's due diligence process for monitoring service providers and plan fees
- Exploring new service providers or new service models
- Setting a schedule for future review of plan features, including benchmarking

As with any fiduciary decisions, plan sponsors should keep copies of the benchmarking reports with other plan documentation, such as meeting minutes reflecting critical plan decisions.

VIRTUS PLAN DESIGN TOOL

The Plan Design Tool provides advisors a platform to conduct a comprehensive, detailed analysis of plan features and fiduciary best practices against plans of a similar size. Virtus ensures that the information is current and relevant through continuous updates to the database supporting the Plan Design Tool.

Four distinguishing features set the Plan Design Tool apart from other plan design benchmarking tools:



Simple & Intuitive Navigation – Easy to use, ability to create meaningful benchmarking reports with minimal data



Robust, Reliable Database – Large database built on survey of more than 5,100 plan sponsors, updated annually



Advisor Customization – Ability to select the plan features that will be benchmarked, and customize reports with the advisor's logo and commentary



Complimentary – No licensing or report generation fees

The database underlying the Plan Design Tool is provided by PLANSPONSOR Magazine®, based on its annual Defined Contribution (DC) survey. Characteristics of the database that make it uniquely suited to retirement plan benchmarking include its:

Reliability – contains responses collected directly from plan sponsors

Large size – includes data on more than 5,100 plans

Frequent updates – reflects changes in plan trends through annual updates

The information Virtus provides in its plan design reports will enable you to help your clients design retirement plans that are competitive and drive their business objectives for the plan.

To learn more about the Plan Design Tool or other advisor resources available from Virtus, visit planadvisortools.com.



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