401K Specialist

Issue 4, 2017 | 401kSpecialist.com

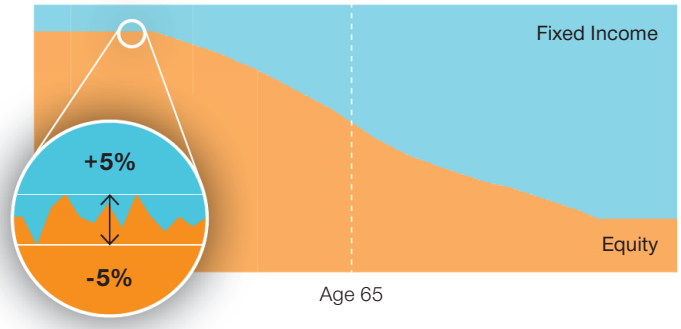
Fiduciary | Rollovers | Client Acquisition | Practice | Investments | HSA | Top Advisor

THIS GUY'S COMING FOR YOUR 401(K) BUSINESS

T.RowePrice®
INVEST WITH CONFIDENCE

THE SMALLEST ADJUSTMENT

CAN BRING THE WHOLE WORLD INTO BALANCE



Our dynamic, active approach allows us to make modest adjustments that vary from our neutral allocation by +/-5% to support our goal of enhancing long-term outcomes.

Our Target Date Solutions are anything but static

It looks elegant. Effortless even. But the key to a strong performance is a series of small, dynamic adjustments that keep things artfully aligned.

At T. Rowe Price, the strength of our Target Date Solutions relies on these adjustments. Our Asset Allocation Committee meets monthly to discuss making tactical tilts to our glide path, allowing us to stay responsive to market conditions. Whether measured against benchmarks or peers, we think you'll see the strength in our results.

Call a representative at 1-800-371-4613 or visit us at troweprice.com/adjustments to learn how to put the power of adjustments to work for your clients.

CONTENT

VOLUME 3 — ISSUE 4 2017

Features

12 **401(K) FIDUCIARY: This Guy's Coming for Your 401(k) Business**
And he really doesn't like brokers (or 401(k)-advisor 'wannabees'). Defending yourself from disruptive competitors like Tom Zgainer and America's Best 401k isn't easy, and involves a hard look at long-held industry practices and processes. Here's how to fend him off.

18 **401(K) INVESTMENTS: Are Target Date Funds Missing the Mark?**
Sequence-of-return risk and the use of proprietary funds in underlying glide path offerings are two areas of attack for target date critics. How is the industry responding (if at all)?

24 **401(K) TOP ADVISORS BY PARTICIPANT OUTCOMES: And the 2017 TAPO is …**
Las Vegas and Excel 401(k): The Advisors' Conference combined education and excitement in the run-up to the big announcement.

26 **401(K) PRACTICE: A Whole Bunch of Reasons to Use More 401(k) FinTech**
Technology's cool and compelling, yet far too many advisors rely on innovation of old. They're not helping their participants, or themselves, by doing so. What's to be done?

32 **401(K) CLIENT ACQUISITION: Why Small Business 401(k)s Matter Now**
This underserved market has a whole lot to offer advisors who do it right (the key being 'do it right').

38 **401(k) HEALTH SAVINGS ACCOUNT: A Critical HSA Liability (And Opportunity)**
The funds in which health savings accounts invest have very different liabilities than 401(k)s. Simply replacing one with the other just won't do.

Columns

17 **401(k) Client Connection**
So, you're thinking about writing a blog article–great! You absolutely should. 401(k) Marketing's Rebecca Hourihan shows us how in order to get the maximum response for your time and effort.

22 **401(k) Advisor Voice**
Have you ever thought about the single biggest obstacle to the success of plan participants in meeting their financial and retirement goals? Todd Timmerman certainly has, and clues us in.

23 **401(k) Investment Insight**
Boring, old collective investment trusts are suddenly hot. GRPAA's Christopher Giles tells us why it's such a big deal, and gets some help from LL Cool J in doing so.

30 **401(k) Provider Perspective**
One word best describes health savings accounts? Matt Clarkin, president of Access Point HSA, explains what it is.

44 **401(k) Close**
What should be done about 'missing' 401k participants? It's a problem, and one that's increasing in importance. Thomas Hawkins, vice president of sales and marketing with Retirement Clearinghouse, has a solution.

Departments

4 Editor's letter
6 401(k) News You Can Use
12 The Fiduciary File
36 Coach's (K)orner
40 Product Watch

ONLINE

401(k)Specialist Online

Don't forget to check out 401kSpecialist.com for more resources, stories, and inspiration. In fact, every time you see the symbol at left, that means we've got more for you online. You can also sign up for the 401(k)Specialist e-newsletter to receive updates from the 401(k) community.

401(K) CLIENT ACQUISITION

Women Project Investment Confidence, Receive Condescension

"Don't you worry your pretty, little head." It's an attitude far too many women still (still!) receive when it comes to their investing prowess.

Not only is it wrong morally, it's wrong on the merits, according to a new study from Capital Group. The home to American Funds finds women investors "are highly engaged in financial decisions, contribute meaningfully to household income and assets, and expect their investments to work hard for them."

Despite this, 81 percent of women investors say they have personally experienced negative stereotypes regarding finances, including their investing acumen, income, role in making financial decisions and appetite for risk.

"American women are a powerful economic force with $11 trillion of assets," Heather Lord, senior vice president and head of strategy and innovation at Capital Group, said in a statement. "Women are a complex and varied group of investors, and they have a clear vision for their investing goals. They want enough money to retire and to take care of children or aging family members. They want investments that outpace the market over time and show resilience in market downturns."

401(K) MARKETING

How to Market Through The 401(k) Noise

Lawsuits, regulations, white papers, new studies, government changes …the 401(k) and retirement plan industry is reeling from information overload. Every day, something new and BIG hits the newsroom.

While this is great for our talented editors and industry writers, it's very challenging for retirement plan advisors, and especially plan sponsors, to keep on top of the changes.

However, it's also an opportunity for you to rise above the noise and stand out as your target market's retirement plan expert.

Each quarter, identify one topic. Focus your marketing efforts on that specific topic and do it really well. For example, right now some hot topics are:

- Financial Wellness
- Legislative and Regulatory Updates
- Automated Plan Design Features
- Active vs Passive Investment Line-ups and Selection …*just to name a few*

401(K) INVESTMENTS

Americans Want Annuities (Wait, What?) In Retirement Plans

Only a third of workers have access to retirement plans that offer a "secure income stream for life," and more than 70 percent support legislation to make it easier for workplace plans to offer lifetime income products like annuities.

The findings from the 2017 TIAA Lifetime Income Survey note that given a choice between receiving a $500,000 lump sum at retirement or getting $2,700/month for life, almost two-thirds would go with the latter.

Among those who don't have access to guaranteed products or aren't sure if they have access to such products, half would like such an option.

401kSpecialist

A 401K Properties, LLC Publication
Subscriber Customer Service: (844) 807-3918
subscribe@401kspecialistmag.com

6334 South Racine Circle, Suite 200
Centennial, CO 80111 (303) 502-2515
401kSpecialistMag.com
customerservice@401kspecialistmag.com

Laura Fallbach – Publisher
lfallbach@401kspecialistmag.com
303-502-2517

Amy Hamm –
Vice President, Production & Design
ahamm@401kspecialistmag.com
303-502-2520

John Sullivan – Editor–in-Chief
jsullivan@401kspecialistmag.com
303-502-2521

MARKETING/DESIGN/PRODUCTION:
Brian Gilbert – Creative Director
Ashley Gonzales – Director of Digital Marketing/Circulation

CONTRIBUTING WRITERS
Matt Clarkin, Thomas Hawkins, Rebecca Hourihan, Christopher Giles, Lynn Brackpool Giles, David Snyder, Todd Timmerman

ADVISORY BOARD MEMBERS
Roger Levy, Cambridge Fiduciary Services
Ann Schleck, Ann Schleck & Co.
Skip Schweiss, TD Ameritrade Institutional
Bill Thomas, ActiveETF Partners, LLC.
Bud Verfaillie, Victory Fiduciary Consulting
Ashley Verfaillie-Rosser, Victory Asset Management
Victory Fiduciary Consulting
Don Trone, Founder and CEO, 3ethos

OUR MISSION
401(k) Specialist is exclusively dedicated to equipping retirement plan advisors with the vision, specialized knowledge and cutting-edge technology that are vital to their success in a dynamic marketplace, in order to ensure a secure retirement for hardworking Americans through the 401(k).

SUBSCRIBER RESOURCES
To update your delivery address, purchase additional copies of this issue or for other customer service questions, please email customerservice@401kspecialistmag.com
Subscribe or renew online at 401kSpecialistMag.com/subscribe

Point of Clarification

WE'RE A MAGAZINE, NOT A CATALOGUE. We feature people and topics because of their potential impact—good and bad—on you, your business and the clients you serve.

Yet readers sometimes mistake editorial coverage for endorsement. "Why hype that guy?" is one of the (milder) questions we get; more often it's shouts of "shill, hack, traitor" or any variation thus.

We got it with Tony Robbins, we got it with Jerry Schlichter, we (really!) got it with Anthony Scaramucci and if history is any guide, we'll get it with Tom Zgainer.

And so what?

We exist to spotlight opportunities and threats for 401(k) advisors, and in this regard Zgainer's a lot of both.

Whip smart and wound up over fees, his passion plays well in the current fiduciary frenzy. For better or worse (we'll let readers decide), he's a major disruptor in the defined contribution space, an area in desperate need of disruption if there ever was one.

Advisors might not like Zgainer or the company he heads, America's Best 401k, for any number of reasons, but it's the message, not the methods (or even the man), on which they should focus.

It's one discussed ad nauseum, that of lower fees, superior service, ERISA responsibility, practice efficiency and doing right by the client overall. Few would take issue with any of it if it came from anyone else. Indeed, it's something advisors constantly hear, but are they listening?

Zgainer, chief strategy officer Josh Robbins and the rest of the team have packaged the message in a way that makes sense—their simple, web-based fee comparison tool immediately comes to mind. It's meant to identify and expose long-held industry practices in order to gain a competitive advantage, and it's working.

Put simply, if there weren't mistakes to exploit, Zgainer wouldn't be so successful. It's not to say the industry isn't doing well and something of which we should all be proud, but view this month's cover story as a call for all to do better.

We never want to make great the enemy of good, but when it comes to the incredibly serious topic of participant outcomes and people's retirement, we'll make an exception.

ONLINE EXTRA

John Sullivan
Editor-in-Chief, *401(k) Specialist*

‘Let the Government Do It for Us’

SHOULD GOVERNMENT GET (MORE) INVOLVED in retirement planning? Yes, if a new survey from The Pew Charitable Trusts is any indication. The organization found that workers generally like the state-sponsored auto-IRA concept.

Workers were asked about such programs both early in the survey and then after hearing critical details. The largely positive responses were little changed.

Only 13 percent said they would opt out of an auto-IRA.

Still, a quarter said they are unsure whether they would take part, although they would be automatically enrolled by default if they remained undecided, according to the survey, meaning they would start saving, but these workers might be more likely than others to opt out later.

The findings mirror those of a similar AARP survey from last March, which showed that showed an “overwhelming percentage” (84 percent) of American private sector workers strongly, or somewhat, agree that officials should back legislation to enable workers “to save their own money for retirement.”

A Nobel Prize in 401(k)s

RICHARD THALER’S RECENT NOBEL PRIZE was celebrated industry-wide, specifically because of the University of Chicago’s 401(k) work when developing the concepts that led to the win. The behavioral economist routinely notes that the discipline’s impact is primarily felt in retirement plan participation and administration. Thaler graced the pages of *401(k) Specialist* in our inaugural issue in 2015, an interview we reposted in the wake of the committee’s announcement, and can be found at 401kspecialist.com. Here’s an excerpt:

Q: 401(k) auto-enrollment and auto-escalation have been a major boon to 401(k) participation rates. Is there something similar that policymakers should enact that they’re missing?

A: Yes, we need to make it easier for small businesses to offer a payroll-based retirement plan. The Obama administration has proposed a sensible plan but it is stalled in Congress. The state of Illinois has adopted its own plan, and I urge other states to do likewise unless Congress unexpectedly acts. The plan would impose virtually no costs on any employer that uses a payroll servicing company such as Paychex.

Q: In your book Misbehaving, you reference football. Can you provide a brief description of your findings in relation to NFL draft picks and the mistakes made in how they are chosen? Do the Patriots still rank No.1 in the quality of their picks?

A: Our chief finding is that the earliest picks are overvalued. Teams can and do trade picks and the first pick in the draft could

(in principle) be traded for as many as five or six second-round picks, each of which could be more valuable in terms of the contribution to performance compared to their salary. Teams seem to be slowly learning part of the lesson, meaning that the offers for the first pick may have tailed off slightly, but the teams owning those picks won’t trade down because they are holding out for the previous outrageous prices. The Patriots do seem to understand the principles of our research better than most teams.

ONLINE EXTRA

Millennials Are Better at Hitting Retirement Benchmarks (No, seriously)

SPOILED, ENTITLED? MORE LIKE SMART.

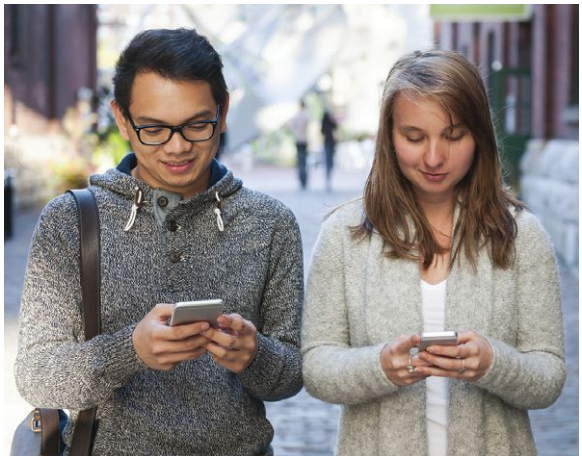
Over half of millennials are making contributions to 401(k) accounts and about four in 10 are contributing to personal savings.

They're saving at higher rates than the 46 percent of baby boomers and 36 percent of GenXers with no retirement savings, according to a new survey from the Insured Retirement Institute.

With a quarter century until the first of them turn 65, millennials very much view themselves as "on their own" with regard to retirement income, and are saving for what they see as the biggest benefit of being retired: freedom.

Millennial understanding and expectations for retirement are influenced by their lack of confidence in Social Security retirement benefits and the demise of the traditional defined benefit pension. Only a quarter of millennials are confident they will realize meaningful income generated from these sources.

ONLINE EXTRA



401(k) Assets Continue to Climb

ANOTHER RECORD HIGH. Investment Company Institute reports that total U.S. retirement assets were $26.6 trillion as of June 30, the latest data available, up 1.9 percent from March, accounting for 34 percent of all household financial assets.

IRA assets totaled $8.4 trillion, an increase of 2.3 percent, and defined contribution plan assets rose 2.2 percent to $7.5 trillion.

Government defined benefit plans held $5.7 trillion in assets, a 1.5 percent increase from the end of March.

Private-sector DB plans held $3 trillion in assets at the end of the second quarter, and annuity reserves outside of retirement accounts were $2.1 trillion.

Specific to defined contribution plans, Americans held $7.5 trillion in all employer-based DC retirement, of which $5.1 trillion was held in 401(k) plans.

What Are Business Owners Saying About Retirement Benefits?

A SUNNY OUTLOOK HAS BUSINESS OWNERS SINGING, at least about retirement benefits. The bosses claim a positive economic outlook and anticipated sales growth have many reconsidering their retirement benefits.

In fact, 50 percent of business owners who offer a 401(k) plan intend to increase retirement plan contributions, with 55 percent citing rising sales or revenue as the reason, according to a new Nationwide study.

Meanwhile, 36 percent of business owners who currently don't offer a plan but intend to offer one soon say it's because they expect sales revenue to increase in the next 12 to 24 months and will start offering retirement benefits as a result.

Additionally, nearly a third (30 percent) of business owners plan to introduce retirement benefits because of continued economic improvement.

ONLINE EXTRA

Top Reasons For 401(k) Plan Participation?

REPLACEMENT RATIOS AND RETIREMENT READINESS are all the rage, as 401(k) plan sponsors focus on fiduciary responsibilities and participant outcomes in the face of regulatory uncertainty and rising litigation, a Deloitte survey finds.

Little surprise, sponsors are using lower cost options, direct fees and simplified investment approaches to "help participants tackle future retirement income needs" with the "evolving legislative landscape, shifting fiduciary responsibilities and efforts to optimize human capital balance sheets" acting as driving factors.

"As contribution and investment decisions move from the hands of finance departments to individual participants, the expertise of plan sponsors has shifted from a financial management role to a keen attention on their fiduciary oversight role," according to Stacy Sandler, principal with Deloitte Consulting.

The survey also identified the top reasons for participation in a defined contribution plan, with "taking advantage of the company match" surpassing "a personal desire to save for retirement."

"Lack of awareness or understanding" was the leading reason that employees did not participate, while a past top-reason "uncertain economy/job market" continued its downward trend.

Gig Economy Wreaks Havoc with Retirement Saving

THE INNOVATION AND CONVENIENCE of the gig economy—the increasingly popular employment model where people work as independent contractors rather than employees of companies—are offset by its destabilizing effect on personal financial security.

A recent study from Prudential Financial finds the majority of respondents who work solely as temporary or contract workers don't have access to employer-sponsored retirement plans, and make 58 percent as much as those who hold traditional full-time jobs.

As the company notes, the gig economy may result in unintended economic consequences, as people turn to contract work without the protections of key benefits such as employer-sponsored savings and insurance plans.

Gig economy workers made up 16 percent of the U.S. workforce in 2015, up from 10 percent in 2005, according to a study by economists Lawrence Katz and Alan Krueger.

ONLINE EXTRA

You're Fired! 401(k) Plan Sponsor Satisfaction with Advisors

ALMOST A THIRD OF 401(K) PLAN SPONSORS are unhappy with their advisors and ripe for the picking, and providing expertise on income replacement and savings rates are keys to winning business.

Those are some of the results from Fidelity Investments *Annual Plan Sponsor Attitudes* survey, which finds that the large majority of plan sponsors are highly satisfied with their plan advisors, yet a record number are actively looking to switch their plan advisors (38 percent, up from 30 percent last year).

"This is not a time for plan advisors to rest on their laurels," Jordan Burgess, who has the unwieldy title as head of specialist field sales overseeing defined contribution investment only (DCIO) sales at Fidelity Institutional Asset Management, said in a statement. "While most plan sponsors remain satisfied with their advisors, they are raising their expectations. For some advisors, this could put their business at risk. For others, this could be an opportunity to win new clients."

University Victorious in Retirement Plan Fiduciary Battle

GO QUAKERS! The University of Pennsylvania beat back a court challenge to its 403(b) fiduciary practices, winning a dismissal of all counts contained in a lawsuit brought by its participants.

Plaintiffs had alleged excessive fees and fund underperformance in bringing the action, among other fiduciary-related claims, which District Judge Gene Pratter didn't buy.

The Plan participants brought the case, individually and as a class action, as beneficiaries in the University of Pennsylvania Matching Plan, against the University of Pennsylvania and its Vice President of Human Resources, for breach of fiduciary duties.

They alleged three main fiduciary failures on the part of the university.

First, they claimed that the defendants breached their fiduciary duty by "locking in" Plan investment options into two investment companies.

Second, they claimed that the administrative services and fees were unreasonably high due to the defendants' failure to seek competitive bids to decrease administrative costs.

Third, they argued that the fiduciaries charged unnecessary fees while the portfolio underperformed.

The Latest Fiduciary Rule Delay Will Cost Participants How Much?

Heidi Shierholz

WHAT'S A FEW BILLION DOLLARS between (fiduciary) friends?

The very left-leaning Economic Policy Institute estimates the Trump administration's proposed 18-month delay of key provisions of the fiduciary rule will cost retirement savers *$10.9 billion* over 30 years.

It's an increase in estimates from July, when EPI estimated further delays in full implementation of the DOL's Conflict of Interest Rule would cost retirement plan participants $7.3 billion over the same period.

This was on top of the $7.6 billion it estimated delays already put in place by the Trump Administration will cost participants over the same period.

In the latest comment letter submitted to the Department of Labor, EPI Policy Director Heidi Shierholz strongly opposed any further delay of the rule, and urged the DOL to allow the rule to go fully into effect as scheduled.

"Delaying this common-sense rule will cost working people who are saving for retirement billions of dollars—dollars that will end up in the pockets of unscrupulous financial advisers," Shierholz said in a statement. "Anyone who wants the American people to get a fair return on their hard work should oppose this delay."

While a little light on the math, EPI claimed that the $10.9 billion estimate assumed that, absent the full implementation of key enforcement provisions, there will be a 50 percent rate of compliance with the rule.

ONLINE EXTRA

Gucci's Slick, Expensive 401(k) Lawsuit

IT'S JUST NOT A GOOD LOOK.

Gucci America Inc. was recently sued over the fees associated with its retirement plan.

The lawsuit challenges Gucci's relationship with its 401(k)-service provider, Transamerica Retirement Solutions, Bloomberg BNA reports.

"Gucci allowed Transamerica to fill its $96.5 million plan with expensive, proprietary funds that earned fees for Transamerica at the expense of plan participants, according to the complaint filed Sept. 15 in a federal court in New Jersey," the news service notes.

"Gucci also failed to rein in the revenue-sharing payments that Transamerica received in connection with the plan, the lawsuit alleges. In targeting a 401(k) plan of modest size, this case is the latest example of how litigation over retirement plan fees is trickling down from jumbo plans to those with substantially fewer assets."

The suit alleges that the defendants were fiduciaries under ERISA; breached their fiduciary duties by failing to fully disclose to participants the expenses and risks of the plan's investment options; breached their fiduciary duties by allowing unreasonable expenses to be charged to participants for administration of the plan; and, breached their fiduciary duties by selecting and retaining opaque, high-cost, and poor-performing investments instead of other available and more prudent alternative investments.

Echoes of Enron, With A Twist

IT'S ALMOST AS IF they've never heard of the once high-flying Houston energy company.

We hate to make it all about lawsuits this month, but such is the current environment. A lawsuit filed against Kansas City-based DST Systems Inc. claims the company allowed a money manager to put concentrated positions of its employees' retirement assets in one company's stock.

Shares of Valeant Pharmaceuticals International Inc. fell from more than $260 a share to less than $15 a share in 15 months, and the concentrated investments of DST right along with it.

The lawsuit said DST employees saw nearly $400 million disappear from their retirement accounts, according to *The Kansas City Star.*

"They couldn't get out of it, and they couldn't control it," Ted Kapke, an attorney representing the former DST employee who sued, told the paper.

The incident is what the *Star* calls "a new twist on an old problem that has plagued many employees' 401(k) and similar retirement plans. They suffer stiff losses from a heavy investment in one stock, though that stock usually has been the employer's own shares."

For example, it notes the 401(k) plan at the former Aquila Inc. in Kansas City was stuffed with Aquila shares when the bottom dropped out of the stock's price in 2002.

Aquila's employees were locked into the Aquila investment and powerless to move that money into a safer mix of investments.

Similar situations led to big investment losses in employee retirement accounts at Enron. Such events led some companies to allow their employees to sell company shares that were held inside retirement plans.

ONLINE EXTRA

THIS GUY'S COMING FOR YOUR 401(K) BUSINESS

And he really doesn't like brokers (or 401(k)-advisor 'wannabees'). **Defending yourself from disruptive competitors** like Tom Zgainer and America's Best 401k isn't easy, and involves a hard look at long-held industry practices and processes. Here's how to fend him off.

BY EDITORIAL STAFF
PHOTOGRAPHY BY DAVID JOHNSON

Here's your newest threat. Tom Zgainer has identified and deftly exploited certain areas of 401(k) advisory failure, yet too many industry professionals are quick to dismiss his observations as either obvious or overblown. If so, why are tort terrors like Jerry Schlichter still busy suing the pants off every plan sponsor, and why is there the ongoing DC-plan deluge from active to passive management?

Thankfully, greater awareness and education about what ails the industry is finally getting through to the investing public, a game-changer that has practitioners that identify as "traditional" sizing their tombstones (metaphorically speaking).

That's one reason the firm Zgainer leads, America's Best 401k, is taking—haters would say stealing—clients and generally causing concern. Far from denying it, it's something he proudly proclaims, calling it a natural outgrowth of a "broken" retirement model.

Yet before anyone gets their britches in a bunch, he's quick to note that he doesn't have an issue with *every* 401(k) advisor, or any that truly act in the best interest of plan sponsors and participants, as he explains.

"There are two sides of the aisle," he professorially yet passionately begins. "We have to separate each to get at the meaning and nomenclature of the word 'advisor.'"

Evoking Merrill Rule madness of a decade ago, in which the venerable wirehouse lobbied to have brokers identified as advisors even if they performed decidedly non-advisory functions, he points to RIAs on one side, "who all along, in theory, should be putting the interests of clients first."

On the other side are brokers trying to "fall under the wing of advisors. They're what we as an industry refer to as 'two-plan Tonys.'"

He's all for the former, having worked early in his career with a host of RIAs to help build successful practices, many of whom he still considers friends. As for the latter? Not so much.

Brokers "are not 401(k) or retirement plan experts, and they've sort of fallen into a plan here or there."

Yet multiply a plan "here or there" by the number of brokers (even peripherally) in the industry, and the problem quickly compounds itself.

"They're looking to get a little too wealthy on a couple of plans for our taste," Zgainer understatedly says, adding that 401(k) participants, over time, could give as much as 30 percent of a nest egg away in fees. "You have needless and unnecessary asset-based expenses that are charged in order to pay the provider, the broker-dealer and the registered rep, all with their hands in the jar."

Zgainer and chief strategy officer Josh Robbins.

What they're forgetting, he notes, his voice rising, is that there are "real people involved, saving for the future and their family's future, that are completely unknowledgeable about the effects of fees over time.

"We would love to see everybody simply put the interests of the participants ahead of their own needs and become 401(k) experts. And if they don't want to do it, that's okay, but then let someone else do it!"

All well and good, but arguing that advisors should put client interests first is like arguing cops should arrest criminals; it's pretty much a core job function that few (other than the criminals themselves) would oppose. So, moving on from the less experienced "Tonys," what about the more experienced 401(k) specialists?

"It's not what they're doing wrong, necessarily, it's just that we've created a national brand," he diplomatically hedges. "Your typical registered investment advisor, as a rule, is going to be working in a more geographical location central to where they themselves live. They have manufactured opportunities in their own communities, cross-working with CPAs and others in circles of influence and charitable pursuits and

have made a great name for themselves and have built a really great, nice, tidy business."

They're using low-cost funds, open architecture platforms and providers. They're crafting a core fund lineup and listing themselves as a named fiduciary, and they are providing advice to participants.

"I love those guys—that is not our competition at all," he argues. "In fact, we have close to 30 or 40 RIAs that contact us every month to ask us how we can work together. We have to gently and politely tell them we can't, because we serve as a 3(38) fiduciary on the plan, and therefore don't partner with external advisors."

The fact that they are interested in such a model, where all the components are tightly integrated, indicates it's one they're still having trouble replicating.

"If you're more of a wealth manager and you've taken on a few 401(k) plans maybe because you have business owners as private clients, participant calls from those plans could begin to significantly tax your business. We just had an advisor from Indiana call with just such an issue. So, find a solution like ours to point those clients to and focus then on the personal wealth management instead, which is their bread and butter anyway."

Not that we're necessarily trying to overhype his business, but a closer look provides important insight into why it's so successful, and why now. We can't help but remark that a "solution like theirs" is tagged America's Best 401k; a braggadocious, Martin Shkreli-like thumb of the nose not likely to endear Zgainer and his team to industry competitors and colleagues.

"In large measure, at the outset, [the name] was aspirational," he counters. "We wanted people to know exactly what business we were in, who it was for—plan participants in America—and that it was going to be the best."

Part of it was also to steer clear of confusion, Zgainer claims, as "there are so many companies in our business that if you asked a random person if they know what the company does, they haven't a clue. If you ask what America's Best 401k does, the person would say 'we think we're America's best 401k.'"

However, he likes the brand positioning the name affords.

"When our competitors present against us, the business owner will ask how they compare with America's Best 401k," he says with a laugh. "The competitor has to answer, 'but you can't be better than the best,' so it's kind of worked in our favor that way."

Speaking a bit more altruistically, he adds that it also reminds the team of the "important work they're doing" to fix the aforementioned broken retirement savings model.

"We are talking about the retirement savings of 88 million-plus Americans, which is often their largest investment outside of their home. The only reason we're doing this is to rescue those retirement savings."

Rescuing retirement savings and fixing a broken model may sound hyperbolic, but a significant portion of financial pundits, politicians and the investing public agree, not to mention many 401(k) advisors themselves.

So what else besides high fees is driving industry angst?

"Granted, you could have a poorly-designed 401(k) plan, bad customer service and no one-on-one participant help, which could offset any advantages of a low-fee plan."

However, if you can have those things, "then you have to ask yourself, as a plan sponsor, if my plan has total investment-related fees of 1.80 percent as opposed to a plan with investment fees of 0.60 percent, then the mathematical consequence of that difference could be hundreds of thousands if not millions of dollars over time."

It's that kind of fee mismanagement, long-known but until recently rarely discussed, that led Zgainer to start America's Best 401k.

In 2011, new fee disclosure rules—404(a)5 and 408(b)2—gained traction, and for "the first time in the over 30 years of the defined contribution retirement plan business, providers had to tell you what they were actually charging."

4 WAYS TO DEFEND AGAINST DIRECT-TO-CLIENT DISRUPTORS

So, how do you defend against guys like this?

Take a Break, Tony—So-called 'Two Plan Tonys,' financial professionals geared more towards wealth management that nonetheless take on a plan here and there for their business owner clients, no longer cut it. Advisors can't be a little in or a little out; the fiduciary stakes are just too great.

Low-Fee Fight—The need, and demand, for lower fees in retirement plans has been covered extensively in both the trade and consumer press, and yet some advisors still (still!) aren't getting it. 401(k) pariah Jerome Schlichter with the law firm of Schlichter, Bogard, and Denton has a full pipeline of pending cases and plenty to do. If that doesn't wake advisors up, nothing will.

No Place Like Home—A variation of the famous phrase, "All politics is local," there's little substitution for knowing a particular geographic area, specifically the one in which the advisor lives. Large, national brands will attract a certain type of plan and participant, as will advisors that can "manufacture opportunities in their own communities by cross-working with CPAs and others in circles of influence and charitable pursuits."

Kill the Conflicts of Interest—No mistakes to exploit means no plans lost to competitors. If the hard dollar fees are fair, and low-cost, well-performing, historically-strong fund companies are being used with no proprietary interest on the part of the advisor, Zgainer tells clients to stick with whom they're with. But it's a "sad fact" that it's often not the case. .

Calling it his one and only futuristic idea that came to fruition, he concluded (rightfully so) that the fee disclosures would cause widespread confusion.

"The business owner wouldn't know how to articulate them to employees [although they were required to do so], the plan participants rarely looked at their statements, and even if they did, too often [the statements are] hieroglyphics. So, I launched the company the exact same month that the disclosure rules were put into effect."

The low-fee focus was of course serendipitous, as it's now dominating industry discussion, as well as litigation, especially for those allegedly failing in their fiduciary duties.

"If you look at the large financial services companies, it's all the companies that have the blimps, stadiums, golf tournaments and big buildings that have to line a lot of pockets. Not all of them, of course, as you have some that through their advisors are really building their client base."

Even though he's attempting to disrupt long-held industry practices and upsetting quite a few 401(k) advisors in the process, he pushes back (hard) at our attempts at framing the interview in an us vs. them construct.

But there's something to be said for a nimble company like America's Best 401k, one that stays streamlined and focuses its firepower on what it claims is cutting-edge technology and superior customer service.

"Too many of those other companies are like an aircraft carrier moving through the Erie Canal, which is extremely narrow at some points and very tough to maneuver. We're designed more like a speedboat with room to move."

It's at this point we hit the hockey buzzer, understandably skeptical of how the company is supposedly doing so much yet keeping with the low-cost ethos that dictates today's defined contribution environment. The numbers just don't add up.

After a bit of back and forth over proprietary information and on- versus off-the-record, he agrees to give it up.

"We have no attrition and we're adding between 60 and 80 clients every single month," he says. "Here we are at the 20th of the month and we're at 52 new clients already. It's volume and no attrition, and we're going to be knocking on $1 billion at the end of the year. We added 20 plans in a 48- hour period just one week ago. And, again, we have zero attrition. We've lost 10 clients since we've been in business. Losing them had nothing to do with our service, but with the fact that the 401(k) plans were terminated. We're like the Hotel California; they never leave."

Yet even though he's attempting to disrupt long-held industry practices and upsetting quite a few 401(k) advisors in the process, he pushes back (hard) at our attempts at framing the interview in an us vs. them construct.

"I respect the model that many RIAs are building. In fact, we see those plans and we tell the plan sponsor, 'stay where you are, your advisor is and has done a great job. It looks like everything is buttoned up tight, your hard dollar fees are very fair, they're using low-cost, well-performing, historically-strong fund companies and they have no proprietary interest.' The sad fact of the matter is we can only say that three out of 100 times, because the other 97 plans are completely the opposite."

How to Write an Effective 401(k) Blog

SO, YOU'RE THINKING ABOUT writing a blog article–great! You absolutely should. If you're reading this article, chances are you're ready; however, you still may need a friendly nudge to get started. Here's what you need to know to create and then (more importantly) promote your blog.

Step 1

Pick a topic, any topic. Select a subject that you would like to discuss. Seems simple, right? It is and it should be. Current trends, common misconceptions, how-tos and suggested best practices are all good starting points for a topic.

Step 2

Research. Take a few moments and read about the topic. You probably have a good idea going into the article what you want to talk about. And maybe you have a concept that needs some refining.

Step 3

Just start writing. I can tell you from lots of personal experience that this is the hardest part. Where do you start? What if I lose focus? Just take a deep breath, find a comfortable place and start writing.

Step 4

Keep writing. About half of our clients say the first story was effortless. For the other half it's the opposite. Either way, even if you haven't written since college, don't worry about it. Just keep writing.

Step 5

Develop a queue. It's amazing how quickly you will write three blog articles, then poof! Life distraction and two months disappear. You're stuck panicking and wondering, "What am I going to write about?" By having a queue of 2 or 3 articles, a "blog bank," you've created some breathing room.

"ABOUT HALF OF OUR CLIENTS SAY THE FIRST STORY WAS EFFORTLESS. FOR THE OTHER HALF IT'S THE OPPOSITE. EITHER WAY, EVEN IF YOU HAVEN'T WRITTEN SINCE COLLEGE, DON'T WORRY ABOUT IT. JUST KEEP WRITING."

Step 6

Power of proofreading. Now that you've finished your piece, it's time for copy-editing. Yes, hire a copy-editor. Find someone who loves the English language and knows all the idiosyncratic syntax rules. Their editing will help your article flow to increase readability as well as save you from grammar embarrassment.

Step 7

Publish. Deep breath, hit that button. Publish your article on your website. Share it on social media. Send it via email to your contact list. Share, promote, and champion your work.

Step 8

Promote on social media. Post your article hyperlink to your social media profiles and share it. Add a comment about why your social followers should read the article. Then find the #hashtags that relate to your article. Tag your article with key search terms to optimize for search engines.

Step 9

Get social. Don't be shy. Send an email to your co-workers and trusted peers asking them to like, comment, and share your article. When people socially interact, your article takes on a life of its own.

Following these nine steps can help you create and promote a wow-worthy blog. It's going to take time to develop your natural voice and get your writing chops, but don't worry. Keep writing and eventually, you will.

About 401(k) Marketing

We believe the retirement plan industry can do better. Our clients are the best professional retirement plan advisors and TPAs in the business. They care deeply about saving America's retirement future. We are proud to share their voice through industry writings, professionally-designed marketing materials (including websites), and expert content collateral. We support in promoting their businesses through on-going awareness campaigns. 401(k) Marketing is based in San Diego, CA. Check us out at www.401k-marketing.com.

Are Target Date Funds MISSING *the* MARK?

Sequence-of-return risk and the use of proprietary funds in underlying glide path offerings are two areas of attack for target date critics. How is the industry responding (if at all)?

By Editorial Staff

Without a doubt, target date trends are headed (sharply) north.

Target date mutual fund assets grew almost 5 percent in the second quarter, topping $1 trillion at the end of June, according to the Investment Company Institute (ICI).

The bulk of the assets were held in retirement accounts, 87 percent of which were held through defined contribution plans (67 percent) and IRAs (20 percent).


9
14
11
8

How Participants Are Using Target Date Funds

All hail (very) big data. Vanguard Institutional Investor Group released How America Saves 2017 over the summer, a detailed look at the state of the retirement plans it oversees. Target date analysis was of course included. Among the findings:

- Among plans offering the strategy, target-date options accounted for 29 percent of plan assets in 2016. In these plans, half of all contributions in 2016 were directed to target-date funds.
- Among participants using target-date funds, half of account balances were invested in these funds. These target-date participants directed 78 percent of their 2016 total contributions to target-date funds.
- Participants invest in target-date funds in one of two ways. "Pure" investors hold a single target date fund. They accounted for 65 percent of all target-date investors in 2016.
- The remaining target-date investors are "mixed" investors. They hold a target date fund in combination with other investments (or, less commonly, multiple target-date funds and/or other options).
- Pure target-date investors are more likely to be younger, lower-wage, shorter-tenured participants with lower 401(k) account balances than other investors.
- Meanwhile, mixed investors appear very much like non-target-date investors in terms of their demographic and portfolio characteristics. Sixty-three percent of single target-date fund investors were younger than 45, compared with only 44 percent of mixed investors.
- More than two-thirds of plan participants younger than 35 hold a single target-date fund.
- Automatic enrollment into a target-date fund default is one important factor explaining the increase in the fraction of pure target-date investors.
- However, a large fraction of pure investors select target-date options voluntarily. Of the 64 percent of participants who were pure investors in 2016, a large portion of participants were in plans not offering automatic enrollment. Half of pure investors were in plans where participants made the choice to select the fund.

Generally praised for keeping participants invested through the worst of 2008, their role in influencing positive outcomes is something that's resonating, especially now and with a Nobel win for Richard Thaler for behavioral insight into 401(k) saving.

But not all industry players are so enamored with the popular product, and they might have a point, noting that an evaluation of where we are in the TDF lifecycle is in order, as well as an examination of whether or not they're actually doing what they claim.

Count Dave Haviland, for one, as not all that impressed.

"Target date funds are not doing what they were designed to do, which is to keep people from losing money," Haviland, managing partner with Boston-based Beaumont Capital Management, bluntly states. "They do not take market shocks into account."

Despite claims from Morningstar's John Rekenthaler, among others, as to the efficacy of the product through the last major downturn, Haviland notes that assets invested in top TDF providers lost between 21 percent and 27 percent in their 2010 portfolios.

Granted, the Dow Jones lost over 50 percent of its value during the same period, so relative performance wasn't all that bad, but we get his point.

What's missing, he claims, is a component to deal with that most pressing and annoying of all risks, sequence-of-returns.

Put plainly, sequence-of-return risk is the danger of retiring into a down market, when lower returns are received early on and at a time when money is withdrawn to fund daily living expenses, among other things.

The investment portfolio is diminished at an exponential rate, as assets are no longer available to capitalize on the market recovery to come. It's too often a devastating situation from which many retirees never recover, diminishing their affordable quality of life in retirement.

So yeah, it's a problem, made more so by the fact that what's rapidly becoming the "go to" retirement savings product hasn't taken it into account, at least according to Haviland.

"If your client lost a quarter of their savings within two years of retirement, could they still afford to retire? For most, probably not."

Part of the issue, he adds, is that the industry is not actually listening to what participants want—instead relying on outdated stereotypes and misconceptions of what we *think* they want.

"The latest example is that the youngest investors [supposedly] want, and can handle, the most risk," Beaumont argues in a recent report. "This long-held belief is based only on the long recovery times your investors have," thereby dampening the sequence-of-return risk.

However, aggressive growth doesn't square with what millennial participants say they want when asked, at least according to Cerulli Associates.

The research and consulting firm reports that only 7 percent of millennials want aggressive growth early on in their careers.

"ALIGNING PORTFOLIO ALLOCATIONS WITH THE CURRENT MARKET ENVIRONMENT PROVIDES INVESTORS WITH A POTENTIALLY SUPERIOR RISK-RETURN PROFILE."

More importantly, and specific to the sequence-of-return discussion, is that two-thirds of those surveyed want to be more conservative in their allocations, and fully 77 percent said, "they would prefer to be protected from large losses even if it means underperformance."

Thankfully, the industry is responding, specifically with more "through" (as opposed to "to") glidepaths seen recently from major mutual fund families, and a general awareness overall of the actuarial Achilles heel.

For example, Putnam Investments addressed sequence-of-return risk in a September release, describing how its Retirement Advantage Funds address the issue.

"We believe it is important to consider this risk in the glide path," according to the company. "While many glide paths continue to emphasize equity exposure leading up to and through retirement in an effort to reduce possible shortfalls, we believe that they are exposing participants to unnecessary and potentially devastating sequence-of-returns risk."

Columbia Threadneedle is out with its Columbia Adaptive Retirement Series, which employs a rules-based "market state classification," designed to identify exceptions to normal market conditions and offers the ability to "reallocate risk systematically and meaningfully as market conditions change."

"Aligning portfolio allocations with the current market environment provides investors with a potentially superior risk-return profile," it notes.

And Beaumont, of course, has its Target Date Collective Investment Funds (the collective investment trust format being an added low-cost bonus), which combine strategic and tactical management, which helps "make bears more bearable" as the firm colorfully notes.

"The tactical allocation component can seek to preserve stock and bond allocations if either or both experience a down market," Haviland adds.

NAVs and Nepotism

In addition to sequence-of-return risk is another area of potential target date concern—the use of proprietary products in a fund family's underlying investment offerings.

The Department of Labor addressed the issue some time ago, offering the following "guidance" in its closely examined and widely-cited memorandum released in 2013, titled *Target Date Retirement Funds - Tips for ERISA Plan Fiduciaries*:

"Some TDF vendors may offer a pre-packaged product which uses only the vendor's proprietary funds as the TDF component investments. Alternatively, a 'custom' TDF may offer advantages to your plan participants by giving you the ability to incorporate the plan's existing core funds in the TDF. Nonproprietary TDFs could also offer advantages by including component funds that are managed by fund managers other than the TDF provider itself, thus diversifying participants' exposure to one investment provider. There are some costs and administrative tasks involved in creating a custom or nonproprietary TDF, and they may not be right for every plan, but you should ask your investment provider whether it offers them."

While proprietary fund use is a frequent source of target date fund criticism and a potential fiduciary nightmare for plan sponsors and advisors, that trend appears to be headed in the right direction as well (although there still seems to be a long way to go).

A recent study from retirement plan research firm BrightScope and AllianceBernstein reveals a "dramatically shifting target-date landscape where recordkeepers who offer their own target-date funds–known as 'proprietary' funds–are losing share of assets on their own platforms as plan sponsors are increasingly choosing funds from other providers."

Since 2009, it finds, plan sponsors have cut back on using recordkeepers' proprietary TDFs, with the share of recordkeepers' proprietary assets declining from 59 percent to 43 percent.

Conversely, the use of non-proprietary TDFs offered by outside asset managers increased by 16 percent.

"The trend depicts a very different landscape from that in 2006, after the Pension Protection Act was passed and led to a boon for recordkeepers who benefited from offering prepackaged, proprietary TDFs with prices bundled with the plans' administrative costs," according to BrightScope. "Today, however, large plans are leading the migration to TDFs other than their provider's offering."

Ultimately, while significant issues still exist in target date fund design and execution, their popularity (and effectiveness) in 401(k)s continues to rise. While concerns like those expressed above are worthy of discussion, it appears they're criticisms the industry is taking steps to address, resulting in better products for participants, and better protection for retirement plan professionals.

The Single Biggest Impediment to 401(k) Financial Success?

By Todd Timmerman

HAVE YOU EVER THOUGHT ABOUT THE single biggest obstacle to the success of plan participants in meeting their financial and retirement goals?

The best strategies take advantage of opportunities while overcoming obstacles. You can have the best-laid retirement plan, but employees won't be able to fully utilize it and become engaged unless you address the biggest block to your employee's financial success: debt.

The Wall Street Journal finds 70 percent of Americans are living paycheck to paycheck, with the U.S. Census reporting 24 percent of take-home pay is wasted on nonmortgage debt. More concerning, almost two-thirds of Americans can't cover a $1,000 emergency without borrowing, according to CNN Money.

It's an issue, and financial wellness is the answer.

Traditional retirement plan education focuses only on saving for retirement. But many employees are struggling with debt and how to manage their month to month expenses. To help meet this education gap, our firm has created a financial wellness solution to help better engage the plan participants we have the privilege to serve.

The first step (of course) involves planning. We partner with our clients to determine their key financial wellness benefit goals and how we can most effectively structure the benefit to ensure the largest impact possible.

The goal of the financial wellness benefit is to help plan participants address and overcome financial scarcity—supporting their journey from a struggle to make ends meet to financial security and a focus on the future financial goals. Our plan sponsor clients find it can lead to higher productivity, better benefits appreciation, lower turnover and more engagement.

"TRADITIONAL RETIREMENT PLAN EDUCATION FOCUSES ONLY ON SAVING FOR RETIREMENT. BUT MANY EMPLOYEES ARE STRUGGLING WITH DEBT AND HOW TO MANAGE THEIR MONTH TO MONTH EXPENSES."

The second step involves execution. There are ways in which a 401(k) advisor and plan sponsor client can implement a financial wellness benefit program to help improve employee financial health and support long-term behavioral change:

1. Each employee receives a personalized strategy with action items based on their key priorities and concerns through our online learning center;

2. Complementing the personalized strategies with custom education add-ons, including workshops/webcasts or videos focused on key life events; and

3. One-on-one meetings with a financial planner to receive personalized financial guidance and take positive action.

The third step is the review and measurement. Once the financial wellness benefit is implemented, committee meetings take place to review initial goals, show the relevant ROI and highlight the employee impact resulting from the financial wellness benefit program.

Once employees are confident with their current financial health, a dramatic improvement of matching utilization, increased deferrals, increased use of plan tools (outcome analysis) and fewer loans and withdrawals from the retirement plan are realized.

One of our greatest privileges as 401(k) advisors is working with organizations that view their role as a "steward" and truly desire to do everything possible to help their employees thrive. A financial wellness solution helps a retirement plan participant remove barriers and enables them to become just that—better financial stewards. This can make a huge impact in employees' lives and help impact our client's (meaning employer's) bottom line.

Todd Timmerman, CFS, CEBS, AIF, is managing director with Charlotte, North Carolina-based Retirement Plan Analytics.

Don't Call It a Comeback: Why CITs Are Suddenly Gaining Ground

By Christopher Giles

BORING OLD CITs are suddenly back. CITs are tax-exempt, commingled or "collective" funds maintained by a bank or trust company exclusively for qualified plans (including a 401(k)).

They're typically associated with larger plans, which in the past has given them a reputation for being largely unattainable for most plans. CITs offer structural flexibility, daily valuation, and broad availability on recordkeeping platforms. Those benefits exist along with affordable pricing.

How CITs Work (For Everyone)

In the last two years, there's been a trend toward firms working collectively to aggregate their assets, as well as aligning with trust companies and investment providers to create CITs that have lower minimum investments.

In some cases, there are options available now for CITs with no minimum investment. CITs often have lower administration, marketing, and distributions costs as compared to '40 Act mutual funds.

Ask yourself, why should an employee of Home Depot have significantly lower costs for the same retirement plan investments as an employee of a local mom and pop hardware store?

There's a tremendous opportunity for you to deliver value and differentiation to plans below $500 million in AUM. Separate yourself from the competition.

Why CITs Now?

CITs have been around a long time (90 years to be exact). Why the sudden interest? Because the game has essentially changed. Firms are now working together to pool their opportunities and bring mega plan benefits down market.

Callan's 2017 Defined Contribution Trends Survey highlights that CIT utilization in plans has grown 35 percent between 2012 and 2016 while mutual funds and separate accounts have fallen over the same timeframe.

The Callan research is skewed toward mega plans – nearly 46 percent of the 165 respondents being >$1 billion plans – yet it's very telling for what the future may hold for the <$1 billion marketplace.

The largest retirement plans are often the early adopters of innovative programs. There are opportunities to watch and learn from mega plans, shape a CIT program for the <$1 billion marketplace, and bring innovation to your clients.

The mega plan marketplace is changing line-up composition and embracing CITs. Why? While data vary depending on what you read and where, a simple assessment of current Morningstar data for 4,152 Large-Cap '40 Act mutual funds and 585 Large-Cap CITs yields an average net expense ratio of 106 bps v. 40 bps or 62 percent less expensive.

Understanding it's impossible to simply move a retirement plan's line-up entirely to CITs; it is important to think about what a reduction in investment expense means to an employee and their retirement savings.

Are CITs Right for Your Business?

Five things you can think about or do when you're considering CITs:

- Think about your smaller clients who have never benefitted from truly institutional pricing; you may have a real opportunity to delight your clients
- Review your client's investment line-up and look for positive pricing opportunities
- Consider using index CITs to lower costs on your '40 Act passive investment investments (including TDF)
- Consider CITs as part of a level pricing or fee-levelization exercise
- Ensure your largest clients have a well-priced investment lineup; your competition is looking and so should you

The CIT trend up-market is going to continue. The largest plans in America are sensitive to litigation risk, delivering value to their participants, and streamlining their retirement plans to help their employees retire on time. These are issues we all need to embrace for the benefit of our businesses and clients.

Christopher Giles is the Senior Managing Partner of GRP Advisor Alliance and Foundational Retirement Solutions and is responsible for ensuring strategic programs are designed, executed, and delivered to advisors and plan sponsors. Christopher has a Bachelor of Science in Business Management and Marketing from Cornell University in Ithaca, NY.

Top Advisor

by PARTICIPANT OUTCOMES

WHO WAS HONORED

as the 2017 Top Advisor By Participant Outcomes?

Excel 401(k): The Advisors' Conference combined education and excitement in the run-up to the big announcement

By Editorial Staff

Retirement Benefit Group's George Fraser.

Scenery, sunshine and parties on the strip were the perfect complement to the hard work and high-quality sessions at Excel 401(k): The Advisors' Conference at the Paris Las Vegas Hotel and Casino in late October.

Hosted by Ross Marino and Rekon Intelligence, the fast-paced nature of the event kept Sin City distractions to a minimum, and 401(k) advisors returned home with wallets and livers (somewhat) intact.

Opening night festivities included female 401(k) industry leaders at the Eiffel Tower Restaurant for a WiPN event and a general attendee swill-fest at the Beer Park.

Monday morning brought an opening general session on the future of the 401(k) marketplace, as well as the announcement of 401(k) Specialist's 2017 Top Advisor by Participant Outcome recipient.

With the monthly TAPO designees on hand to be recognized and celebrated, Retirement Benefit Group's George Fraser was named to the top honor for the care and creativity he displays in ensuring successful retirement outcomes for participants in the plans with whom he works.

An independent panel of judges—including Barbara March of Bridgepoint Group, Richard Carpenter of USVI Pensions, Tony Mingo of VWise and John Moody, most recently with Matrix Financial Solutions, a Broadridge Company—selected Fraser for the behavioral simplicity he employs.

"George's hands on approach with participants of all income levels is admirable and inspiring," wrote vWise's Mingo. "There is no shortage of advisors who care about, and make efforts to help, lower income participants save for retirement. However, there are few advisors who have been effective in leading those participants to take actions that result in long-term, positive behavior changes around saving for retirement. Well done, George!"

Pentegra Retirement Services senior vice president Pete Swisher then took over, noting that Americans have $24 trillion saved for retirement, a figure which is one-and-a-half times GDP and more than every country on earth, *combined*. He then led a highlight of the conference, which was a panel discussion on 401(k) industry change featuring Jim O'Shaughnessy of Sheridan Road Financial and Thomas Clark of The Wagner Law Group.

"Expect the fight (over the Fiduciary Rule) to go on for two to three more years," Clark starkly predicted.

"Advisors need to innovate or die because the change in technology is relentless," O'Shaughnessy added.

TD Ameritrade Institutional's Skip Schweiss then explored the opportunity in the retirement plan space.

"Retirement plans are the sweet spot for advisors," Schweiss said. "It's not rocket science."

Other conference standouts included Todd Timmerman's warning to attendees to "up their game" in the new fiduciary era.

RetireReady Solutions' (formerly TRAK) Ed Dressel took to a conference breakout to argue that despite the noise, technology, spreadsheets, and calculators, the single most important question to answer for clients is actually pretty simple: 'When can they retire?"

Financial wellness was, of course, a hot topic, with multiple sessions dedicated to what it is and how it's implemented, with GRP Advisor Alliance's Bill Chetney and Mark Singer with The Financial Literacy Toolbox both hosting separate sessions.

401(k) marketing was also front-and-center, with Rebecca Hourihan of (what else?) 401(k) Marketing presenting twice on the topic over the course of the event, with branding, advertising, blogging and social media, among other topics, all covered.

It's just the tip of the iceberg of all that happened over the two and a half days in Vegas. All-in-all it was a great event, thanks largely to the competence and dedication of the Rekon Intelligence staff, who organized and engineered the event. They'll do it all again next year at Caesars Palace. We'll see you there.

L-to-R: 401(k) Specialist editor-in-chief John Sullivan, Jim Marshall, Lisa Petronio, George Fraser, Dorann Cafaro, Mike Kane, Jamie Linkowski, 401(k) Specialist Publisher Laura Fallbach. Missing: Mario Giganti, Jason Chepenik.

Technology's cool and compelling, yet far too many advisors rely on innovation of old. Using an estimated 10 percent of their platforms' full capabilities on average at best, they're not helping their participants, or themselves. We ask the experts about what's being done.

A WHOLE BUNCH OF REASONS TO USE MORE

401(k) FINTECH

By Editorial Staff

"Advisors need to innovate or die, because the change in technology is relentless."

Jim O'Shaughnessy clearly (and thankfully) meant in a business sense, but the words chosen by the president of Sheridan Road Financial resonated with attendees of Excel 401(k): The Advisors' Conference in Las Vegas during a session dedicated to the future of the 401(k) space.

A discussion of the future of anything will of course involve technology, and retirement plans are no exception. It's something 401(k) advisors have heard a gazillion times before, but if so, why are so many still stuck on spreadsheets and calculators (abaci)?

A recent study from Boston-based investment big Fidelity found that only four in 10 advisors are considered tech savvy—or eAdvisors, as the company calls them.

More concerning is the fact that, despite rapid and ongoing increases in innovation, adoption is failing to keep pace, with the number of eAdvisors increasing by a relatively small 10 percent since the study's last iteration in 2014.

However, not only do tech-savvy advisors report using double the number of technology tools when compared with their more Luddite counterparts, they're also using said technology more deeply within their businesses. And it's paying off:

- eAdvisors report 42 percent higher assets under management than tech-indifferent advisors;
- They have 35 percent more AUM per client than tech-indifferent advisors (up from 14 percent more in 2014);
- They have more high-value clients than tech-indifferent advisors;
- On average, they see 24 percent higher compensation than tech-indifferent advisors; and
- They report higher satisfaction with their firm and career than tech-indifferent advisors.

So where does the technology "horse race" reside today? Where are fintech companies focusing their firepower to address 401(k) advisor—and therefore participant—needs to improve the overall experience and outcomes?

Here's what known providers had to say.

4 Future Fintech Areas to Watch

Terry Dunne of Millennium Trust Company recently pointed to 401(k) fintech trends just over the horizon. Employing research from Corporate Insight, he identified the following:

1) Responsive design—Just five years ago, responsive retirement plan web sites did not exist, according to an August 2016 Corporate Insight report, "...today, however, 55 percent feature some level of responsive design, and 50 percent provide a public or private DC participant site that incorporates responsive design throughout the majority of the key areas."

2) Comprehensive mobile, tablet, and wearables apps—While responsive design lets viewers see the same website on different devices, mobile apps offer different versions of websites, and that can make it easier to interact with the content. Some plan providers have developed mobile websites and applications that allow participants to manage account functions

3) Encouraging retirement readiness and financial wellness—Capturing the attention of employees is critical to retirement readiness, which may be the most popular topic in the industry currently (with the exception of the Department of Labor's Fiduciary Rule). Corporate Insight found that record keepers favor using retirement income projections to communicate retirement readiness to plan participants.

4) Personalized approach to retirement planning—When it comes to planning, context is important. Digital tools have the potential to help participants better understand what it will take to become prepared for retirement. A few cutting-edge tools offered by plan providers digitally synchronize retirement and non-retirement accounts, and employ personal information provided by participants to provide a more robust estimate of retirement readiness.

However, echoing Fluent's Zimmer, Dunne concludes, "Retirement platforms of the future are likely to be [only] as good as the data collected."

Discussions Over Data Delivery

"It's currently all about engagement with data-driven technology by advisors so they can do a better job on behalf of sponsors and participants to really prove their value," says Michael Zimmer, president of Fluent Technologies, a cloud-based solutions provider for 401(k) providers and advisors, when asked what's currently hitting in fintech.

"It's also about accessing data anywhere and at any time, at their fingertips, to make the information provided more meaningful to the audience that's receiving it," he adds.

Indeed, it's what's increasingly expected. And without data, most of the technology tools currently or about-to-be available won't be of much use anyway.

"We've been evangelizing for record keepers to unleash data to help with better advisor practice performance and participant outcomes, and more are now recognizing that the data is really owned by the plan sponsor," according to Zimmer. "We can release it in a way that does not give up any specific business information or violate privacy. It can be organized at the participant level and then rolled up to expose at the group level."

"When access to data is taken out of the equation, meaning it's ubiquitous and available to those authorized in the industry, it allows for more of a focus on the things that matter and where advisors can really make a difference, which include consulting, general support services and to illustrate a better outcome story through superior software."

Doing so, he claims, would result in better retention, as well as better business building and scalability, one reason he (and others) are calling for a "Switzerland account" where record keepers feel no conflict in sending plan level data.

"When access to data is taken out of the equation, meaning it's ubiquitous and available to those authorized in the industry, it allows for more of a focus on the things that matter and where advisors can really make a difference, which include consulting, general support services and to illustrate a better outcome story through superior software."

Not surprisingly, Fluent's flagship product, UtopiaAdvisor, is an advisor tool kit that's data-driven, all of which is derived from a single source across all plan review practices, something Zimmer says, "mitigates risk and simplifies processes."

"Our tools capture actions and activity, and expedite comments and meeting notes into aggregated records. It includes the conversation, and any imagery, which is reflected in reports. In today's litigious environment, now capped with the DOL fiduciary rule and with lawyers lining their pockets, this is the automation of evidence.

"Not to be George Orwell," he concludes, "but aggregated information of this type is good practice management."

The Problem with Patchwork

Of course, the lack of technology uptake might not be all advisors' fault, and Aaron Klein is almost as stark as Sheridan Road's O'Shaughnessy when describing the state of retirement plan offerings.

"I think the industry has been failing advisors in its delivery of 401(k) solutions," says Klein, CEO of Riskalyze, the California-based tech company built on behavioral finance precepts. "The current state of the 401(k) industry is a patchwork quilt, and it's such a hassle that many advisors have quit on advising on 401(k)s altogether."

While we might quibble with his conclusion, the offerings could always be better.

Last year, Riskalyze took it upon itself to develop and release Autopilot for Retirement Plans. It's a variation of its popular Autopilot platform that includes the "Risk Number" concept it routinely trumpets, meant to simplify and quantify the appropriate amount of risk for a given participant's portfolio.

The company says Autopilot for Retirement Plans is "the first risk alignment platform that advisors can use to automate the matching of 401(k), 457 and 403B participants with investment allocations." The service allows financial advisors to deliver "advice at scale" to the desktops and mobile devices of plan participants with just a few clicks.

More recently, the company announced a joint offering with investing and technology company Vestwell. The targeted team effort, which they dubbed Riskalyze Retirement Solutions, allows advisors to access a new version of Vestwell's retirement planning portal on the Riskalyze platform.

Advisors will be able to log in to generate 401(k) proposals and onboard clients electronically. In addition, 401(k) plan participants will have access to pinpoint their own "Risk Number" to help them get matched with the right asset allocation.

In addition to Vestwell's 3(38) investment management services, the new platform will include access to several of the asset managers in Riskalyze's Autopilot Partner Store.

"We created Vestwell with the sole intent of really enabling advisors, through technology, to better serve clients, and to do it with scale," says Aaron Schumm, the company's CEO.

Schumm certainly knows a bit about technology, having co-founded tech powerhouse FolioDynamix, which he sold in 2014.

In a nod to small businesses as the engine of the American economy, he argues that "If you look at a small-to-medium-size business space, 90 percent of defined contribution plans in the marketplace are at $5 million and below. Fully 98 percent are at $20 million to $25 million and down."

Which is why he so vehemently preaches the need for scale, and technology's role in achieving it. It's the reason Vestwell created a platform to engage advisors, plan sponsors and participants through one unified technology. The platform allows them to login and quickly design a customized retirement plan, sometimes in a matter of minutes, with known products with which participants feel comfortable.

"Part of the problem today is that people get scared, and they might worry about the quality of their advice. But to be able to do so with confidence, where they have fiduciary backing behind it through technology, it really changes the construct of the conversation." K

One Word to Describe Health Savings Accounts? Flexible

By Matt Clarkin

THE FLEXIBILITY OFFERED by a health savings account makes it a powerful financial tool for a variety of reasons.

An example of this flexibility is the ability for an individual to pay HSA-eligible medical expenses out-of-pocket, rather than through their HSA. This strategy allows for the individual to take maximum advantage of the tax-free growth of HSA assets via interest and investments.

For instance, an employee is in a financial position to pay medical expenses out-of-pocket rather than through her health savings account. This employee maintains a record of the HSA-qualified expenses that she paid out of pocket, which is made easier by many providers who offer an "electronic shoebox" feature with their HSA offering.

In the future, she can retroactively use these expenses to withdraw funds without penalty or tax from her HSA for any purpose. It's important to note that she can choose to take advantage of this option at any time without restriction and for any purpose.

It's certainly a great option for those individuals in a financial position to pay expenses with after-tax dollars to maximize the tax-free growth of their HSA funds. But what flexibility does an HSA offer to those who are not quite in the same financial position?

Many individuals use their HSA to pay today's qualified medical expenses on a tax-preferred basis, and the HSA offers those individuals with flexibility as well.

If an HSA is "established," which generally means that the account is funded with even a nominal amount of cash, an individual can retroactively fund their HSA to pay or reimburse themselves for qualified medical expenses on a tax-free basis.

One does not need to have adequate funds in their HSA to cover a medical expense at the time the expense is incurred.

"MANY INDIVIDUALS USE THEIR HSA TO PAY TODAY'S QUALIFIED MEDICAL EXPENSES ON A TAX-PREFERRED BASIS, AND THE HSA OFFERS THOSE INDIVIDUALS WITH FLEXIBILITY AS WELL."

For example, a different employee decides to take advantage of the lower premium available through his employer-sponsored high deductible health plan starting January 1. At the same time, he opens and funds an HSA with an initial $25 deposit but doesn't make any additional contributions.

He incurs a $1,500 qualified medical expense in June. Despite only having $25 in his account, he can retroactively deposit the additional $1,475 into his HSA to pay or reimburse himself for this medical expense.

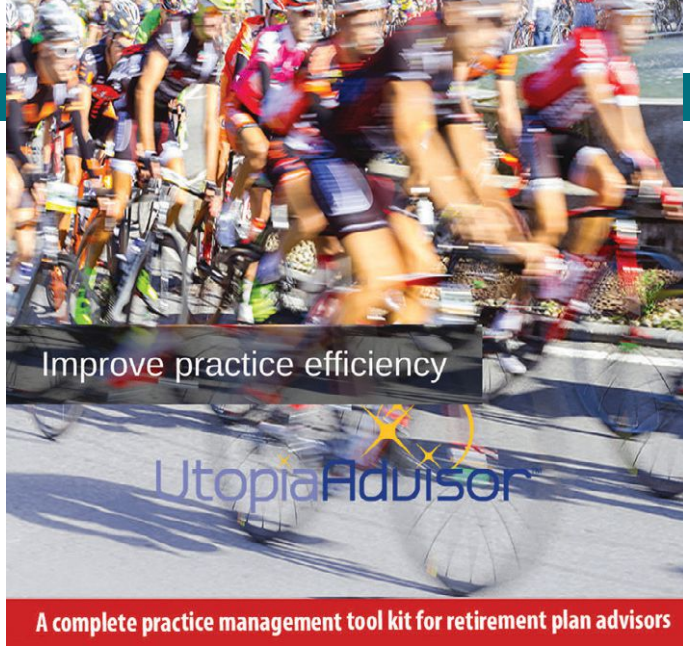
If he does not have the $1,475 readily available to deposit into his HSA, he can request that the medical provider place him on a payment plan and pay the expense over time through the HSA.

If a payment plan is not available to him, he can make the payment immediately via another method and retroactively reimburse himself over time through his HSA.

Everyone's financial situation is different, and the health savings account is designed with the flexibility necessary to respond to everyone's circumstance.

Matt Clarkin is president of Access Point HSA. Access Point HSA is a Rhode Island-based consulting firm serving all stakeholders in the HDHP/HSA marketplace. He can be reached at matt.clarkin@accesspointhsa.com.

How Technology Innovation Helps the Advisor Community Streamline Practices and Boost Profitability



Fluent™

Michael Zimmer, Founder and President of Fluent Technologies, sat with 401(k) Specialist to explain how the benefits of adopting technology will scale an advisors practice and make doing business easier.

Michael believes the answer lies in the latest technology. By optimizing your practice with the best tools, you can streamline plan practices and increase assets under management.

We asked Michael how technology can help plan providers and advisors grow their business.

401(k) Strategically, should plan providers build or buy technology?

MPZ Buy! Plan providers are inundated with pressure to "do more for less" and quickly transform to keep up with marketplace demands. Most throw resources and what little money is available at the problems. This approach has proven ineffective as evidenced by continued thinning margins, higher plan churn, greater need for new plan acquisition and slow time to market – each signaling instability.

The solution? **Simplification.** Buy, don't build. Teams can benefit from innovative front-office technologies that easily integrate with providers' core systems. To help streamline practices, cloud-based tools can extend data and resources to the providers' advisor community and to their own relationship management teams. Since the technology already exists, don't "recreate the wheel"—capitalize on the innovation from funded R&D that has created economies of scale, speed to market, flexibility and awesome client tools.

401(k) Can technology innovation help advisors get to a single tool kit?

MPZ Yes! Advisors graciously acknowledge and appreciate the efforts and resources offered by their plan provider partners. Yet, for many, their problem remains unresolved: the time and resources it takes to manage multiple vendor relationships stagnate their business. Advisors are overwhelmed with website portals, different data availability, variations of analytical tools and customer support approaches. Ask any advisor and they will tell you, this is the *single biggest strain on their business causing the greatest loss of revenue and time.*

Whether an advisor is practicing fiduciary investment recommendations, plan design and fund line-up proposals, fee due diligence, plan health or retirement readiness, they want a single login to an integrated suite of tools speaking to one data view of unified plan information across all their plan vendors. It's their dream. Today, innovations in technology have made this dream real. And, the tools can interface with their CRM and compliance systems, plus any compensation tracking and client billing.

401(k) Do today's innovations mitigate the risk broker/dealers and RIA alliance networks manage?

MPZ Yes! Platforms are most concerned with risk mitigation. With litigation, seemingly the only enforcement measure left since the recent DOL rulings, what happens beyond headquarters is concerning. Advisor solutions need to help headquarters improve compliance and documentation out in the field. Innovative technology enables key practices for documentation and interfaces with systems to confirm compliance.

401(k) How does Fluent's UtopiaAdvisor™ practice toolkit help the plan specialist community streamline practices and improve profitability?

MPZ Advisors are tasked to prove to the plan sponsor how well their retirement plan benefit is doing for its participants, and what it costs. UtopiaAdvisor™ allows the information to be efficiently derived and immediately transparent. It allows advisors to deliver on these goals and can transform the arduous task of client meeting preparations and follow up. In the face of suppressed fees and more regulations, UtopiaAdvisor' s complete practice management toolkit is the place to turn, to demonstrate value and transform practices.

About Fluent Technologies - Fluent is dedicated to the management, delivery and presentation of financial information. Fluent and its flagship product UtopiaAdvisor™ transform complex and disparate data into meaningful client experiences. As a leading software as a service provider in the industry, its focus is on the needs of retirement plan professionals. Its mission is to improve advisor practices and resources, so they can guide their sponsors and participants to informed decisions, actions and satisfaction. Its vision is that every plan provider, advisor and client is aware of their wellness position in a retirement plan benefit and can easily act to control their outcome. www.fluenttech.com.

Why Small Business 401(k)s MATTER NOW

By Lynn Brackpool Giles

The small business marketplace continues to grow and currently, 40 million employees work for companies that have a headcount of under 50, according to U.S. Census Bureau data. However, barely a third of those offer access to a retirement plan.

Most advisors would view these numbers as an underserved market that is primed for targeting.

Not so fast.

Small businesses can offer unique barriers to 401(k) plan adoption and a downright resistance to anything that might cause their often-stretched resources additional stress.

But experts say that there is plenty of opportunity for those advisors who do it right.

THIS UNDERSERVED MARKET HAS A WHOLE LOT TO OFFER ADVISORS WHO DO IT RIGHT (THE KEY BEING 'DO IT RIGHT')

Stuart Robertson, President of Capital One Advisors 401(k) Services, has been focused on the small business market for years. He led Sharebuilder 401k (bought by Capital One in 2012), which offers low-cost, all ETF online plans that simplified the process immensely.

He now oversees Capital One's 401(k) services, including Spark 401k which targets companies with less than 100 employees and leverages the same backbone of low cost plan offerings.

Robertson's premise is straightforward: how do we lead more Americans back to savings? The answer is equally easy, well, at least on paper.

"Small businesses are more mobile than ever and we've had to make 401(k) plans simpler and simpler," he says.

A simplified, online 401(k) solution is attractive to small business owners but there are a host of barriers that advisors have to address first.

Robertson says the number one reason owners cite for not having a plan is "I'm too small." From there, cost and complexity round out the top responses.

He adds, "owners will say that they are too small to afford a contribution match but they don't realize that's not a requirement."

The Pew Charitable Trusts conducted surveys and focus groups with small business owners and released a report of its findings earlier this year.

John Scott, the group's Director of the Retirement Savings Project, says that overall, employers want to offer a plan.

"They know they need to have a 401(k) plan but have other pressing needs. They want to see their employees do well and be financially fit," says Scott.

He thinks this altruistic bent is because in smaller shops, there isn't as much separation between employees and management.

"Owners see their employees frequently and they are invested in them doing well. They want to help people save and this can translate to offering a 401(k) plan."

But they need help framing how plans can help employees

Pew's report found three main barriers that stood in the way of a small business setting up a plan:

- 37 percent cited expense and pointed to the upfront fees that plan service providers charge
- 22 percent didn't have administrative resources to maintain and run a plan. Scott notes that many owners are wearing multiple hats already and they just don't have the bandwidth.
- Lastly, 17 percent perceived that there was no demand from employees to have a 401(k) plan.

These reasons are why advisors need to be ready to explain the options and advantages to small business owners according to Karen Shapiro, CEO of Dedicated Defined Benefit Services.

Her firm boasts 1,600 clients of which all are considered small businesses and range anywhere from one to 15 employees. And while many of her clients are medical practices and legal firms, she works with everyone from "farmers to funeral parlors."

Shapiro says advisors often don't know much about defined benefit plans, or cash balance plans in which her firm specializes. The knowledge gap was so noticeable that Shapiro has launched a webinar program specifically on cash balance plans that offers continuing education credit.

She also says that advisors need to approach the small business niche a bit differently.

"401(k) advisors are looking for a take-over of an existing business and plan—and the more assets the better!"

But for Shapiro, 95 percent of their business is new plans. She says advisors need to be patient and start with smaller companies that could eventually grow larger.

The good news is she says that they can get to $1 million to $2 million in assets quickly and the advisor is managing it all.

As importantly, she says "there's very little hassle and fewer participants to manage. You deal directly with the plan sponsor, who makes all the investment decisions, which is an easier sell."

She notes that advisors normally pride themselves on helping plan sponsors pick high yielding investments but when it's a cash balance plan, you go to investments that offer stability and 5 to 7 percent yield.

"This approach doesn't necessarily play to advisor expertise," she adds.

Tax benefits are another selling point for 401(k)s and this can be easily relatable to small business owners.

THREE MAIN BARRIERS THAT STOOD IN THE WAY OF A SMALL BUSINESS SETTING UP A PLAN:

37% cited expense and pointed to the upfront fees that plan service providers charge.

22% didn't have administrative resources to maintain and run a plan. Scott notes that many owners are wearing multiple hats already and they just don't have the bandwidth.

17% percent perceived that there was no demand from employees to have a 401(k) plan.

"The core driver is tax benefits," says Capital One's Robertson and notes there are a number of offers that advisors need to make aware to small business owners.

For example, businesses that set up a 401(k) plan for the first time and meet certain criteria can receive $500 in credits annually for the first three years.

Additionally, company matches to employee 401(k) contributions are tax deductible (up to applicable limits). While matching is optional, most small business owners with a fairly stable revenue stream choose to do so for three reasons, according to Robertson:

1. A "safe harbor" ensures any employee including the owner can give the maximum to the plan.

2. By matching, the owner benefits as well, since he/she is also an employee and therefore receive the match tax-deferred.

3. It avoids the hassles of government discrimination testing because when a company matches, it exempts them from two of the government's non-discrimination tests.

Robertson says many employers don't always recognize the tax benefits of a 401(k) plan but once they are educated, they realize that it can be not only beneficial to them, but their bottom line. At times, he says that saving can even allow them to drop down a tax bracket. Or, they could contribute after-tax to the Roth 401(k) no matter their earnings, which benefits owners who want to start hedging tax costs for the future.

The Fiduciary Rule and the related litigation has been a constant hum in the financial industry, but there's not a specific understanding by small business owners of its implications.

"There's a lot of noise around the rule and what does it mean for 'me'" says Robertson. "They just want to make sure they end up on the right side of the rule."

He adds that he's a believer of 401(k) small business offerings like Capital One's that provide ERISA 3(38) services.

"In general, small business owners don't understand fiduciary risk so when we provide a product that also has 3(38), it takes the burden off. This is good for advisors, comes at a low cost and gives employers peace of mind. It's a win for everyone."

Scott says that their research found that while auto enrollment is appealing, only one-third of their respondents have it implemented. Even fewer—just one-sixth—of surveyed businesses are offering auto-escalation, compared to 80percent to 90 percent availability at large companies.

"My sense is that auto- features will be moving down to small companies. There's a bit of reluctance but they know they need to do it," says Scott.

"In general, small business owners don't understand fiduciary risk so when we provide a product that also has 3(38), it takes the burden off. This is good for advisors, comes at a low cost and gives employers peace of mind."

On another front, Scott references some state government programs that may in actuality end up nudging more small businesses to start their own 401(k) plan.

California is offering a program that targets employers with five or more employees and don't offer a retirement plan. These employers will be required to offer an employer sponsored retirement plan, or provide their employees with access to the state offering.

"There's a distrust and skepticism as to whether the government can pull this off," says Scott, and that support for an auto-IRA initiative proved highest if the plan would be sponsored by an insurance or mutual fund company.

"As a small employer, would you rather enroll in the state plan, or start your own?" He says 52 percent of owners are choosing the latter option. If their state implemented an auto-IRA plan, only 13 percent of businesses that already have plans said they would drop theirs and enroll their workers in the state program.

For those small business that are already offering plans, advisors can help boost participation rates.

While long-time experts like Robertson say the small business market is "a lot of work," he notes that there is definitely opportunity for advisors who focus on this important group.

"If I'm an advisor, I need to know what the right plan is to put in front of them. From a wealth management front, it allows an advisor to expand the customer base and help others."

Scott agrees that the market potential is there, but it will take education. After that, he says advisors must then figure out a product that will be attractive and profitable.

Finally, Shapiro says that the small business market offers plenty of diverse clientele. But every owner needs to know the value of offering a 401(k) plan for their own business.

"If it's a profitable business, tax breaks come into play; if it's in a competitive market, the retirement plan might be offered as an employee benefit; and lastly, there could be an altruistic element."

4 Steps to a Successful 401(k) Practice Brand Audit

Why are some plan pitches winners and others losers?

By Randy Fuss

'I CAN'T BELIEVE WE LOST THIS 401(K) PLAN!'

It's what one advisor told me about a final presentation his retirement team was convinced was theirs to win. To add salt on the wound, it was a good size 401(k) plan and they lost to an advisor team with their same broker dealer, one to which they had deemed themselves superior.

So how did it happen?

They questioned if it was their final deck. They wondered if they hadn't communicated their statement of services as effectively as they could have.

Despite being a very successful retirement plan practice, they were filled with self-doubt and looking for something more tangible than, "you win some, you lose some." It's about this time that I asked them if they had ever been though a brand audit. I received a rather blank stare in return.

As a Registered Corporate Coach running our Retirement Advisor Institute, our main focus is to partner with advisors to grow their plan business and run more efficient practices. Most advisors spend virtually all of their time working in their practice and rarely invest time working on their practice.

While there are many tools and several categories in the Institute that can be of help, branding is a natural starting point for working on your practice and yet often overlooked. But to understand a brand audit, one must first grasp the importance of establishing an effective brand.

Branding comes before marketing or selling. Without it, you have nothing to market or sell; thus, the importance of brand. Brand is the essence of who you are. It is your reputation.

Capturing this in words and communicating it can be a daunting task. Books have been written, but I prefer a much simpler approach.

It starts with asking an advisor to draw four quadrants on a blank piece of paper and labeling them: Who? What? How? Why?

The first two quadrants are asking the questions," Who are you?" and "What do you do?"

"Branding comes before marketing or selling. Without it, you have nothing to market or sell; thus, the importance of brand. Brand is the essence of who you are. It is your reputation."

I find most advisors do a decent job of answering. They typically can write down an adequate amount of information about their credentials and their list of capabilities.

The third quadrant asks the question, "How are you different?"

It causes hesitation and can be more difficult to answer. Sure, an advisor can have an impressive list of capabilities but is it really that much different than the advisor down the street who also has plan business?

The fourth quadrant, the "why?" question, is by far the most difficult.

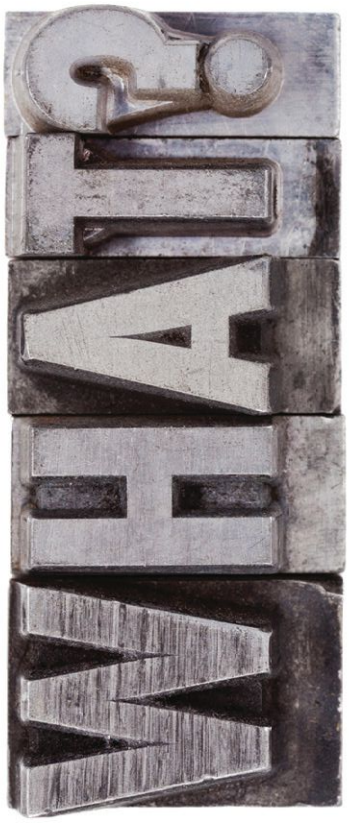
Why are you in the plan business? Why do you stay here? Why have plan sponsors chosen you in the past? Why do they stay with you? This four- quadrant approach when given some thought, especially completing the How? and Why? questions, is the starting point of creating and maintaining an effective brand.

The crucial next step is the brand audit, which in essence asks how well you articulate your brand, and in what mediums. Although there are multiple mediums, many can be categorized as either print or digital.

Print is everything one might put into a final presentation package: the deck, brochures, bios, statement of services and even a value proposition or mission statement.

By far, the more difficult part of the audit is the digital side or what we refer to as the digital footprint.

For an advisor, what does it say when their name is Googled? What presence do they have on Facebook or, more importantly, LinkedIn? What does their website communicate and how well is it organized?



The audit, to a large extent, is looking for effective answers to all the four quadrant questions. Being that we are a plan provider, the majority of advisors we work with are retirement plan experts; it is who they are and what they do.

Yet it is not uncommon to see that, through the various mediums and especially digital, retirement plans are barely mentioned. Even if they do articulate it extensively, there is a common pitfall of not placing a heavy enough emphasis on the "how are you different and why?"

I have asked many advisors how they are different and most can give me good reasons, yet it is does not appear anywhere else other than verbally.

Concerning the opening scenario, specifically, there are many resources that can provide feedback as to why a particular advisor was chosen or not chosen. For example, Chatham Partner's win/loss value-add, available through Franklin Templeton, can be extremely valuable.

In this case, a brand audit was performed and the results, especially the digital medium, were very revealing. LinkedIn and their website made no mention of how they were different than competitors and why they do what they do.

Even on the basic "what do you do?" there was quite a bit of information about their investment and wealth capabilities, but virtually none about their qualified retirement plan expertise, despite being very successful in that market.

Unfortunately, a quick glance at the competing practice (which won the business) revealed they would have successfully passed a brand audit. They had concisely answered all four of the questions that make for an effective brand. Was this the sole reason they lost the plan to this other practice? It's hard to know, but the lack of a digital presence and effective brand certainly didn't help them.

When choosing an advisor in today's market, plan sponsors obviously use more due diligence in their decision-making process. Even sponsors of small plans are employing methods previously only large plans were using. One of the quickest and easiest ways is to search the Internet to see what it reveals about an advisor's practice (and possibly their personal life). Does the search paint a good picture and someone with whom the plan sponsor wants to work? K

Randy Fuss is a practice management consultant at CUNA Mutual Retirement Solutions.

A CRITICAL HSA LIABILITY

(And Opportunity)

The funds in which health savings accounts invest have very different liabilities than 401(k)s. Simply replacing one with the other just won't do.

By David Snyder

IT

Too many 401(k) advisors instinctively overlay 401(k) menus onto advisor-friendly HSA platforms. It's not a surprise; advisors have sweated over fees, glide paths, performance, asset allocation, active vs. passive approaches and other technical details in building their menus.

If the advisor deems a given menu to be good enough for an ERISA 401(k) plan, why not use it as an HSA menu?

Because doing so ignores a fundamental consideration—HSAs fund very different liabilities than 401(k)s.

Advisors that help plan sponsors and their employees grasp this difference will not only do a better job with their fiduciary responsibilities but also create a rapidly-expanding line of business for themselves.

Healthcare liabilities vs. general retirement liabilities

401(k) assets are invested to fund a broad range of general retirement liabilities. HSA balances, beyond what's needed for immediate out-of-pocket expenses, are meant to fund long-term healthcare needs. These needs have several characteristics that distinguish them from general retirement liabilities.

Start with the reality that health care liabilities are growing much faster than general retirement liabilities.

According to the Bureau of Labor Statistics, medical care inflation has risen twice as fast as general inflation over the past 10 years. That overall trend is seen worldwide, and unlikely to end.

"The political tug-of-war over healthcare laws and entitlement programs could mean large, sudden increases in insurance costs, as well as new and unexpected costs not covered by insurance as laws change."

This inflationary tendency is compounded by the greater need for healthcare in later years. BLS data shows that healthcare represents 7.8 percent of all expenditures for the general population, but this share jumps to 12.9 percent for people aged 65 and over. And of course, health care expenses are often far less discretionary than other expenditures, like travel and entertainment.

Medical inflation is not only higher, but possibly more volatile. The political tug-of-war over healthcare laws and entitlement programs could mean large, sudden increases in insurance costs, as well as new and unexpected costs not covered by insurance as laws change.

Adding to the unpredictability is that actual healthcare costs are very specific to the individual. In each geographic location, a gallon of gas, cable TV, and dozen eggs will cost more or less the same for every retiree. Healthcare costs, however, can vary widely from person to person.

In short, compared to general retirement liabilities, health care liabilities are faster-growing, less elastic, and more unpredictable.

Closing the investment and liability gap

HSA balances are growing steadily, yet only 4 percent of HSA account holders invest in anything other than cash, and there is a defined gap between the nature of long-term healthcare liabilities and how people invest to meet these needs. Given the difference between general retirement liabilities and health care liabilities, if mimicking existing 401(k) products is not the ideal answer, what is?

Menu design for one, and HSAs should start to reflect choices geared specifically to address the nature of healthcare liabilities. This means more diversity of choice than in current HSA menus, in terms of both investment approaches and types of products.

More innovative examples might include a "target date" fund with a glide path pegged to projected rather than assumed life expectancy, or annuities designed specifically to provide liquidity in synch with future Medicare premiums. Some of today's HSA-IO (investment only) platforms support advisor-built models that hint at the possibilities.

Given the highly-individual nature of healthcare expenses, suitable options to meet those HSA menu-needs will arguably become more complicated. But decades of 401(k) experience have shown that complexity leads to unintended consequences; it's how behavioral finance works. It means HSA offerings also need smarter and more automated tools to facilitate the implementation of personalized HSA investment strategies.

After all, managing HSA deferrals and investments involves many moving parts, even with relatively simple menus. And it doesn't matter what the investment options are if the advantages of HSAs, especially vs. 401(k)s, are untapped.

HSA deferrals should be coordinated with 401(k) deferrals to maximize both the 401(k) match and the superior tax advantages of HSAs, and should be split to cover both near-term out-of-pocket costs, as well as retirement health care needs. When faced with much of this, most HSA account holders understandably punt and leave their investments in cash, but automated tools can manage these decision rules for them.

Beyond more enlightened investment menu design and user-friendly implementation tools, the final piece of the solution is the involvement of advisors who understand the nature of the liabilities that HSA investments will fund.

Advisors have a crucial role to play at the plan-architecture level, and in terms of ongoing engagement with employees to help them understand their potential future healthcare liabilities.

Advisors who are the fastest to make the link between the nature of health care liabilities and the tools needed by HSAs will be in the enviable positions of serving their clients well as fiduciaries, while seizing the new business initiative from those who still view HSA products as a clone of 401(k) products, or worse, as something to be left to healthcare brokers.

David Snyder, CEO of Perspective Partners, is passionate about bringing holistic financial wellness solutions to retirement plan advisors, sponsors, and participants. We've helped hundreds of plan advisors to differentiate with industry-leading retirement readiness reports and software. Recognizing the convergence of health and wealth and the changing priorities of the C-suite, we launched NestUp Managed Deferrals to improve retirement readiness and lower healthcare costs by giving participants holistic decision support and execution for 401(k) and HSA savings.

Why CIT Assets Are Booming

WHAT'S OLD IS NEW. Collective investment trusts continue to climb in popularity and assets, as CITs experienced double-digit growth for first time since 2012.

The reason, according to global research and consulting firm Cerulli Associates, is "that many defined benefit and defined contribution plans are increasingly using CITs in their investment portfolios. This shift in investor preferences has been traced to fee sensitivity, the threat of litigation, and increased awareness of CITs as an investment vehicle."

"As of 2016, CIT assets were almost $2.8 trillion, which is a major increase from 2011, when assets had yet to cross the $2 trillion mark," said Christopher Mason, a senior analyst at Cerulli. "This increase in assets reflects an 11.6 percent increase from 2015 to 2016, which is the first year of double-digit year-over-year growth."

The primary source of growth can be explained by the fact that CITs often are priced lower as compared to mutual funds of similar strategies, he added.

"However, when examining the driving forces behind the demand more closely, we see that the threat of litigation is putting pressure on plan sponsors to ensure that related fees paid reflect the best interest of the plan participants."

Increasing awareness and education of CITs is another major driving force behind CIT adoption. The Cerulli survey found that 81 percent of CIT managers perceive consultants to be very knowledgeable about CITs, with the remaining 19 percent indicating that they are somewhat knowledgeable.

ONLINE EXTRA

Mutual Funds Still Matter In 401(k)s

THEY'RE MALIGNED, MOCKED AND MISTREATED anytime a "hot, new thing" comes along promising lower fees, better transparency and tax efficiency, but mutual funds are still the mainstay for most American investors, including 401(k) participants.

The Investment Company Institute finds that among the 56.2 million mutual fund-owning households in the United States, 81 percent purchased their funds through employer-sponsored retirement plans, such as 401(k) plans.

Sixty-four percent held mutual funds outside employer-sponsored retirement plans, and 45 percent held mutual funds both inside and outside such plans.

Shareholders purchasing funds outside of employer-sponsored retirement plans use a wide variety of financial services providers. In mid-2017, 50 percent of mutual fund-owning households had purchased mutual funds from an investment professional, such as a full-service broker, independent financial planner, or bank or insurance company representative.

Thirty-six percent of mutual fund-owning households held their funds directly through discount brokers or mutual fund companies.

Overall, the clear majority of American mutual fund shareholders are confident in mutual funds' ability to help them meet their financial goals, with the number of mutual fund shareholders in the United States at 100 million, representing 44.5 percent of all households.

A Fee-based Sea Change?

THIS IS INTERESTING. Fidelity International, the overseas arm of the Boston-based investing behemoth, said that it will charge more for benchmark outperformance and less for underperformance on the funds it manages.

More in tune with the fee-based movement and an effort to "sit on the same side of the table" as their clients and shareholders, the company gave no indication of when (or if) it would happen with its U.S.-based business.

"We have listened to the criticism of the asset management industry and rethought our approach to charging clients," Fidelity International President Brian Conroy told reporters. "In the future, we believe the vast majority of funds will charge on a variable basis as well."

Reuters reported that the company "would discuss its plans with clients and regulators in the coming weeks and months, although [Conroy] hoped the first new share classes using this fee structure would be available to clients in early 2018."

"The changes would see the management fee, which is charged annually as a percentage of assets invested, set on a sliding scale," the news service notes. "Where a fund beats its benchmark, net of fees, the management fee will rise. If it meets or lags the benchmark, the fee falls."

Given the breadth of its current fee range, as well as a need to model the impact of the changes and talk to clients, Fidelity said it could not give firm guidance on the specifics of its pricing scale.

ONLINE EXTRA

Important Finding About HSA Savers

GREAT NEWS. HSA participants are saving and not spending, with the clear majority of health savings account owners rolling over money at the end of last year.

Specifically, the latest results from the Employee Benefit Research Institute HSA Database show that over 90 percent of HSAs with individual or employer contributions ended 2016 with funds to roll over for future health care expenses.

Two-thirds of account holders ended 2016 with positive net contributions, meaning annual contributions were higher than annual distributions, EBRI found.

As of the end of 2016, the average HSA balance among account holders with individual or employer contributions in 2016 was $2,532, up from $1,604 at the beginning of the year.

"In 2016, 66 percent of account holders had positive net contributions, meaning their annual contributions were higher than their annual distributions," said Paul Fronstin, director of EBRI's Health Research and Education program and author of the report. "While it is plausible that account holders overestimated the expenses they would have during the year, it is equally possible that individuals intentionally hoped to build up savings in their account."

United Nations Gets in on 'Responsible' 401(k) Investing Movement

BLOOMBERG SAID it's the first U.S.-domiciled corporate retirement plan sponsor to join the "Principles for Responsible Investment," a United Nations initiative.

There is currently a total of 1,823 global signatories to the principles. Sixty-eight other signatories are also categorized as corporate pension or retirement providers. These are either based in Europe, Australia, Brazil, Canada, Japan, Mexico or South Africa. As a signatory, Bloomberg will submit a yearly transparency report to PRI outlining its approach to integrating ESG factors.

"The principles align closely with Bloomberg's commitment as a financial data provider to integrate sustainable business and finance considerations into its operations, products and services."

Bloomberg reviewed opportunities to integrate environmental, social and governance (ESG) considerations into the company's global retirement plans. This included adding an ESG-themed equity fund to its U.S. 401(k) plan options and updating the plan's investment policy statement to integrate ESG considerations into plan management and monitoring decisions.

401(k)s Now a 'Must Have' for Younger Workers

WE KNOW THE VALUE 401(k)s provide in attracting and retaining top professional talent, and despite a reputation as a selfie-taking, immediate-gratification cohort, nine out of 10 millennials are saving for retirement.

When it comes to their choices of employers and investments, they're looking for new workforce benefits and companies that deliver financial and social value, according to Capital Group (American Funds).

As the company notes, millennials are now the largest generation of working Americans.

"Their attitudes on work, investing and retirement will shape our future," Heather Lord, senior vice president and head of strategy and innovation at Capital Group, said in a statement. "Millennials grew up as digital natives, and they are now the new workforce natives—exploring a very different labor market than generations before them and seeking benefits that align with their lifestyles and values."

As a result, a 401(k) is "table stakes" for a millennial job seeker, and they want new and advanced job benefits from employers like tuition reimbursement and a 529 college savings plan.

Eighty percent of Millennials believe that all employers should be expected to provide a retirement savings option. All three generations surveyed (millennial, baby boomer and generation X) agree on the top three "must-have" benefits: health insurance, a matching 401(k) plan and vacation time.

Fully 91 percent of millennial investors surveyed are contributing to a 401(k) or IRA, and 83 percent say it's easy to transfer retirement savings from their prior plan; good news since they change jobs often and embrace nontraditional career paths.

ONLINE EXTRA

What to Do About 'Missing' 401(k) Participants

By Tom Hawkins

IN EARLY OCTOBER, the American Benefits Council delivered a letter to the Department of Labor, urging the DOL to act on the problem of unresponsive or missing participants, an issue that has proven to be a significant pain point for plan sponsors.

The central focus of the council's letter is the need for comprehensive and consistent guidance for plan sponsors in locating missing participants, a critical process necessary to satisfy the DOL's goal of ensuring that all participants receive their retirement benefits.

In seeking clarity and consistency, the council seems to have hit their mark, laying out a series of recommendations for an adaptive framework, based on the lifecycle of terminated, vested employees that includes the periods before, just prior to, and following distribution events.

If adopted, the recommendations would supply desperately needed direction to fiduciaries of ongoing retirement plans, as well as providing a predictable framework for the DOL's enforcement actions.

As importantly, a careful read of the letter indicates the council also grasps the larger dynamics of the missing participant problem, correctly identifying its underlying root causes.

In the council's letter is a simple, yet stunningly profound statement that, if acted upon, would serve to greatly minimize the overall incidence of missing participants in defined contribution plans:

"Because of changing workforce demographics and the rise of automatic enrollment, an employer's responsibility for dealing with retirement benefits and accounts left behind by former employees has become even more demanding. During career transitions, employees often do not consider how their immediate change in employment will affect their long-term retirement goals. Many employees do not roll over a benefit under a former employer's plan into their new employer's plan."

"SIMPLY PUT, THE MISSING PARTICIPANT PROBLEM OCCURS BECAUSE THE AMERICAN WORKER IS HIGHLY-MOBILE, BUT THEIR DEFINED CONTRIBUTION BALANCES ARE NOT. "

Simply put, the missing participant problem occurs because the American worker is highly-mobile, but their defined contribution balances are not. Consequently, too many will strand their retirement savings balances, leaving their former employers holding the bag.

As the council's letter suggests, the missing participant problem has accelerated as participation in 401(k) plans has expanded, through features such as automatic enrollment.

Automatic enrollment has not only increased cash out leakage, but has resulted in an explosion of small accounts, and for many industries with high turnover, this negative outcome has curtailed further adoption of the otherwise highly-beneficial feature.

Meanwhile, at career transition, most participants receive little in the way of education or assistance in moving their retirement savings forward, and are confronted with a daunting "do-it-yourself" approach to consolidating their account balances.

Consequently, most small-balance terminated participants cash out or leave their savings stranded, swelling the ranks of missing participants and spawning the systemic issue that sponsors face today.

It doesn't have to be this way. What's really "missing" in our defined contribution system is retirement savings portability.

In 2013, a study by Boston Research Group found that cash outs could be reduced by over 50 percent and stranded accounts could be dramatically decreased, simply by providing participants with access to portability services.

In 2015, a follow-on, comprehensive survey of America's mobile workforce revealed that participants highly-valued portability assistance and would utilize these services, if offered.

But perhaps most importantly, auto portability has now emerged as a viable means to address the small account problem, and in so doing, minimize the burden of missing participants.

Tom Hawkins is vice president of sales and marketing with Retirement Clearinghouse.

401(k) Plan Solutions

Retirement Benefits

To meet the workplace needs of your clients.

No two clients are alike. That's why you need a retirement plan provider that has the flexibility to fit the demands of your clients. ADP has a legacy of delivering successful retirement plans that create long-term value, are easy to manage and provide a wide range of investment choices.

To learn how ADP can help you build better retirement plans for your clients, contact us at 1-844-ADP-ELITE, or visit www.adp.com/partners/financial-advisors.aspx

A more human resource.℠

Managed by the portfolio team at John Hancock Asset Management

Robert M. Boyda
Nathan W. Thooft, CFA
Marcelle Daher, CFA

Ranked #1 by top DC plan advisors for open architecture

When it comes to addressing the unprecedented challenges faced by today's retirement savers, we believe a one-size-fits-all approach to target-date funds is not enough. That's why our three target-date suites offer multiple glide paths, over 20 elite asset managers, and a choice of active or passive underlying strategies—all for less than the cost of the average target-date fund. **We think it's a better way to invest.**

Discover our multimanager approach at jhinvestments.com/targetdate.

John Hancock® INVESTMENTS

John Hancock Multimanager Target-Date Portfolios

Multimanager Lifetime Portfolios
Multi-Index Lifetime Portfolios
Multi-Index Preservation Portfolios

Over 20 specialized teams

Barrow, Hanley, Mewhinney & Strauss
BlackRock
Boston Partners
Dimensional Fund Advisors
Epoch Investment Partners
First Quadrant
Franklin Templeton
Jennison Associates
John Hancock Asset Management
PIMCO
Standard Life Investments
Stone Harbor Investment Partners
T. Rowe Price
Vanguard
Wellington Management
Wells Capital Management
Western Asset Management Company

Representative list of asset managers as of 9/30/17.

"Opportunities in Target Date Funds," Ignites Retirement Research, March 2016. The #1 ranking is for John Hancock Multimanager Lifetime Portfolios and is based on a survey of 225 DC plan advisors.

Diversification does not guarantee a profit or eliminate the risk of a loss.

The portfolio's performance depends on the advisor's skill in determining asset class allocations, the mix of underlying funds, and the performance of those underlying funds. The portfolio is subject to the same risks as the underlying funds and exchange-traded funds in which it invests. The portfolios with dates further off initially allocate more aggressively to stock funds. As a portfolio approaches and passes its target date, the allocation will gradually migrate to more conservative, fixed-income funds. The principal value of each portfolio is not guaranteed and you could lose money at any time, including at, or after, the target date. Please see the portfolios' prospectuses for additional risks.

Request a prospectus or summary prospectus from your financial advisor, by visiting jhinvestments.com, or by calling us at 800-225-5291. The prospectus includes investment objectives, risks, fees, expenses, and other information that you should consider carefully before investing.

NOT FDIC INSURED. MAY LOSE VALUE. NO BANK GUARANTEE. NOT INSURED BY ANY GOVERNMENT AGENCY.