Attracting and Retaining Key Employees with Company Retirement Plans

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"As the healthcare industry continues to experience clinical and nonclinical staff shortages, retaining the best possible team to power a medical practice is more important than ever."

- Halee Fischer-Wright, MD, President and CEO of MGMA

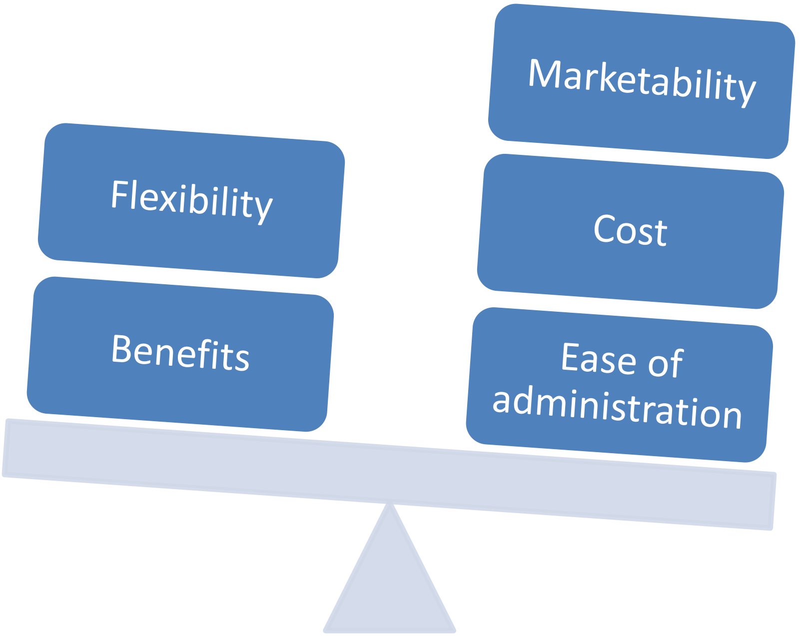
Agenda

1. Types of retirement plans and how they work
2. Roles and responsibilities
3. Designing a retirement plan to attract and retain talent
4. Managing a retirement plan as a Practice Manager
5. Understanding investments and fees

Types of retirement plans and how they work

Why a company sponsored retirement plan?

What type of plan is right for me?



Two families of retirement plans

Defined Contribution

- SIMPLE IRA and SEP
- 401(k)
- Profit Sharing

Benefits are based on money contributed today. The participant bears the investment risk.

Defined Benefit

- Traditional Defined Benefit
- Cash Balance

A level of benefit is guaranteed to the participants at retirement. The employer bears the investment risk.

Company-sponsored IRAs

SEP IRA

- Most basic plan
- Individual benefits limited to the lesser of 25% of pay or $55,000
- Uniform benefits
- Salary deferrals not allowed
- Eligibility requirements can be up to 3 years
- Deposits made to individual IRAs
- Low cost and easy to administer

SIMPLE IRA

- Salary deferrals limited to $13,000 ($16,000 if age 50 or above)
- Employer offers either a
  - 3% match
  - 2% non-elective contribution
- Eligibility requirements can be up to 2 years
- Low cost and easy to administer

401(k) and 401(k) Profit Sharing Plan

- More flexible than a SEP or SIMPLE
- Allows salary deferrals up to $19,000 ($25,000 if age 50 or above)
- Eligibility can require 1 year of service with 1000 hours.
- Can allow for loans
- Money sits in a trust rather than individual IRAs
- Requires government filings and compliance testing
- Salary deferral of the HCEs may be limited by those of the NHCE
- The plan can also include matching contributions and profit sharing contributions
- Match and profit sharing contributions may utilize a vesting schedule

Safe Harbor 401(k)

- Special kind of 401(k) that allows the highly compensated employees to make the maximum level of salary deferral without regard to how much the staff makes

  Requires:

  - The Plan Document to state the provisions
  - A mandatory annual contribution
    - 3% non-elective
    - Match up to 4%
  - An annual notice must be distributed
  - Must be 100% vested

Defined Benefit Plans

DB plans allow for much larger benefits/contributions

Traditional Defined Benefit

The employer guarantees a benefit at retirement equal to a percentage of average annual compensation. Benefits in the plan are all defined as Life Annuities at Retirement and the lump sum value is a "present value" of the annuity based on current (and changing) interest and mortality rates.

Cash Balance

A cash balance plan is a special type of defined benefit plan. It is designed to look like a profit sharing plan, but has the large allowable contributions like a defined benefit plan. Benefits are described as lump sums. A level of earnings is guaranteed.

Roles and responsibilities

Who are the players?

Plan Sponsor: Employer that offers retirement benefits

Business Owner/Plan Administrator & Trustee: Holds responsibility for the plan's functions and compliance

Human Resource Manager: Often delegated authority over retirement plan functions and compliance

Payroll Clerk: Often delegated authority over critical census data

Who are the players?

TPA (Third Party Administrator): Provides administration services to retirement plans. I like to explain this as like a CPA for retirements plans; we crunch the numbers, prepare the government filings, and keep the plan in compliance

Recordkeeper: Online platform that handles trading, and allows the participants to login and see there account balance on a daily basis

Financial Advisor: Chooses / assists in choosing plan investments, assists the Plan Sponsor in providing enrollment and education meetings for participants, often acts as quarterback to the plan

Actuary: Provides mathematic (actuarial) valuation for pension plans (signs actuarial valuation, calculates contributions, etc.)

CPA: Advises in regard to tax deductions

Designing a retirement plan to attract and retain top talent

Plan design features

401(k) with Automatic Enrollment:

1. 401(k) plans are well-known and expected
2. Automatic Enrollment sets employees for success with no decision making process necessary
3. Easy if not immediate entry allows saving to begin sooner
4. Maternal/Paternal in nature sends a message that saving is important

Plan design features

Employer Match:

1. Rewards those who participate / incentive
2. Match each pay period allows associates to see the generosity
3. Can have match based on years of service
4. Set a target for the match like 6%, 8%, or 10%
5. Relate match to the success of the practice and profitability

Plan design features

Profit Sharing / Non-elective:

1. Shares successes as contributions
2. More tax efficient than an annual bonus
3. May have flexibility to give different amounts by department, job class, or employee
4. Typically allows owners the opportunity for higher benefits than a match offers
5. Maternal/Paternal

Plan design features

Class Allocated Profit Sharing:

1. This type of profit sharing allocation allows different levels of contribution to different classes of employees (as long as the allocation passes nondiscrimination testing).

2. Cross-tested profit sharing: This type of profit sharing allocation allows contributions to be skewed based on age. This can often be used to benefit principals of the practice.

Plan design features

Pension / Cash Balance:

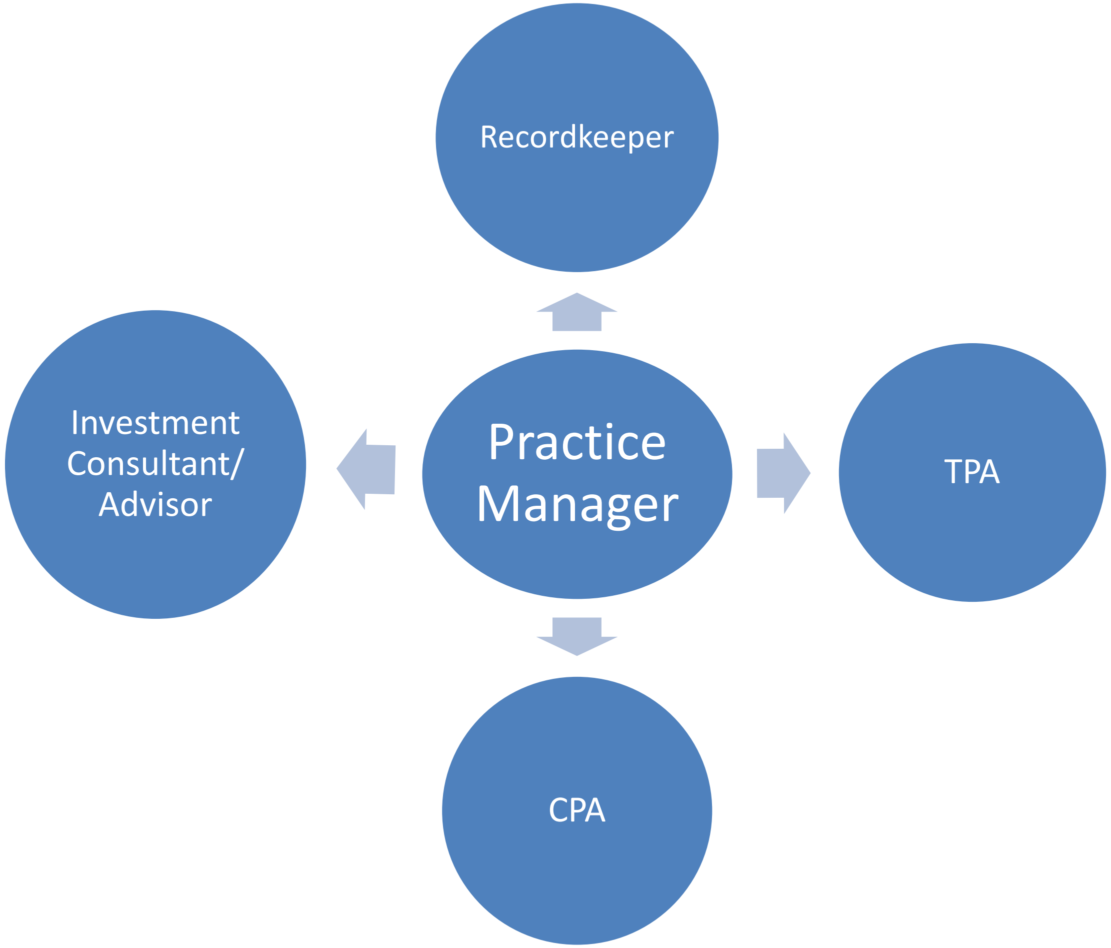
1. Primarily an owner's benefit
2. Allows higher limits and larger tax deductions
3. Staff contributions usually increase as a result of adding a pension plan
4. Benefits guaranteed by the practice
5. Maternal/Paternal

Managing a retirement plan as a Practice Manager

Plan management & administration

1. Monitor service providers
2. Provide proper and complete data
3. Sign-off on plan processing (distributions, loans, allocations, etc.)
4. Provide notices and disclosures to participants
5. Maintain documentation

Plan management & administration



Understanding investments and fees

What is a fiduciary?

General Definition: A person who owes a duty of care and trust to another and must act primarily for the benefit of the other in a particular activity.

For Retirement Plans: The law defines the actions that result in fiduciary duties and the extent of those duties.

It is important to either be aware of the duties required with company retirement plans or hire someone who is!

Types of fiduciaries

Plan Sponsor: The company who created the plan and whom the employees work for

3(16) Plan Administrator: Somewhat of a secretary to the plan who keeps, records, signs 5500, distributes notices, etc. (the third party administrator works on behalf of the plan administrator)

Plan Trustee: The person in charge of the investment accounts

(3(21)): A financial advisor who provides investment advice to the trustee (but trustee makes final decisions)

or

(3(38)): A financial advisor who makes the final decisions in regard to investments

Why work with a financial advisor?

1. To reduce the fiduciary liability risk to the practice
2. To work with the practice manager, TPA, and other team members to coordinate the design of the plan (to meet the goals of the practice), enrollment process, and ongoing management
3. To design a robust investment line up in the plan to benefit plan participants
4. To provide a general financial wellness resource to employees to help them better prepare for retirement

Investment structure for 401(k)s

- **Participant Directed (FBO)**: Each participant has their own investment account and directs their own investments. This can be done as individual brokerage accounts or on a recordkeeping platform.

- **Pooled Accounts (Balance Forward)**: All plan funds are invested in one account. The TPA then breaks the funds individual participant benefit amounts with the administration each year. Defined benefit plans (including cash balance plans) are ALWAYS pooled.

Managing investments in a plan

- **Pooled-Account Plan** – One asset allocation for all funds in the plan which is based on the "weighted-average age" of the participants
- **Participant-Led Plan** – Line up of investment options selected by plan trustee and/or financial advisor. Each employee participant can determine how to invest their money in the plan from the choices available in the plan investment line up.

Managing investments in a plan

Types of investments for an investment line-up:

- Mutual Funds
- Target Retirement Funds
- Managed Portfolios based on risk tolerance

It is important to have a default investment option in place in case a participant does not make an election!

401(k) Plan fee overview

1. Platform/record keeping fees
   a) Flat fee or fee based on assets in plan
   b) Revenue sharing with investments
2. Investment fees / annual expense ratios
3. Advisory fees
4. Third party administrator fees

Fees may be shared with participants at varying levels based on the design of the plan.

401(k) Plan fee audit

For a complimentary 401(k) Plan fee audit, please call your third party administrator or provider and ask for annual fee disclosures:

- Form 408(b)(2) and
- Form 404(a)(5)

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Questions?

Your Presenters

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