Is your retirement plan sick

Derek Bailey, CRPS, AIF
Retirement Plan Consultant
dbailey@marcotteins.com
Since 1927

Omaha

Kearney
A Broad Spectrum of Services

- Wealth Management
- Estate Planning / Personal Insurance
- Retirement Plan Consulting
- Employee Benefits
- Succession Planning
- HR Consulting
- Personal Risk Management
- Business Insurance
- Executive Benefits
- Risk Control & Safety
Marcotte Retirement Plans

$1.8 B
In Assets Under Influence

80+
Retirement Plans Serviced

3
Plan Consultants

1 Vision

1. Assets Under Influence number is calculated collectively for all plan consultants.
2. Recognitions and awards are not representative of investment performance or returns of advisors.

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Investment Advisory Services offered through Cambridge Investment Research Advisors, Inc., a Registered Investment Advisor.
Marcotte Wealth Management, LLC and Cambridge are not affiliated companies.
Q: Audience Members – I am:

• On our retirement plan committee
• Not on our retirement plan committee
• I want to be on the committee
• We don’t have a committee
• I am just here to avoid the other sessions
Q: We offer a

- 401k
- 403b
- 401a
- 457b
- Combo of the above
Q: Our total retirement plan assets are

<$5M
$5-25M
$25-75M
Over $75M
Q: Total number of employees

• Less than 100
• 100-250
• More than 250
Is your retirement plan sick
Diagnosing an unhealthy plan

12% Retirement Ready
65% Retirement Ready
45% Retirement Ready
70% Retirement Ready
<table>
<thead>
<tr>
<th>Age 80</th>
<th>Men: 63%</th>
<th>Women: 73%</th>
<th>Couple: 90%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age 90</td>
<td>Men: 23%</td>
<td>Women: 34%</td>
<td>Couple: 49%</td>
</tr>
</tbody>
</table>

EBRI survey was conducted from January 6, 2017 to January 13, 2017 through online interviews with 1,671 individuals (1,082 workers and 589 retirees) ages 25 and older in the United States. 
The most dangerous phrase in business...

“We have always done it this way”
Diagnosis #5: Improper Investing

Other Known Symptoms:

- I am smarter than Wall Street
- I know a guy
- This one looks good
- What did you do, ok I will do that too

Possible side affects

- May have all your eggs in the wrong basket
- At work, but not “at work”
Age: 40
Salary: $60,000
Salary Increase: 2%
Retirement Age: 67
Current Balance: $50,000
Total Contribution: 10%

Long Term Side Affects

<table>
<thead>
<tr>
<th>Rate of Return</th>
<th>$0</th>
<th>$200,000</th>
<th>$400,000</th>
<th>$600,000</th>
<th>$800,000</th>
<th>$1,000,000</th>
<th>$1,200,000</th>
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</thead>
<tbody>
<tr>
<td>4%</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>6%</td>
<td>$0</td>
<td>$200,000</td>
<td>$400,000</td>
<td>$600,000</td>
<td>$800,000</td>
<td>$1,000,000</td>
<td>$1,200,000</td>
</tr>
<tr>
<td>8%</td>
<td>$0</td>
<td>$200,000</td>
<td>$400,000</td>
<td>$600,000</td>
<td>$800,000</td>
<td>$1,000,000</td>
<td>$1,200,000</td>
</tr>
</tbody>
</table>

$507,714
Time, diversification and the volatility of returns

Range of stock, bond and blended total returns

Annual total returns, 1950-2018

<table>
<thead>
<tr>
<th>1-yr.</th>
<th>5-yr. rolling</th>
<th>10-yr. rolling</th>
<th>20-yr. rolling</th>
</tr>
</thead>
<tbody>
<tr>
<td>47%</td>
<td>-8%</td>
<td>1%</td>
<td>17%</td>
</tr>
<tr>
<td>43%</td>
<td>28%</td>
<td>16%</td>
<td>12%</td>
</tr>
<tr>
<td>33%</td>
<td>1%</td>
<td>16%</td>
<td>14%</td>
</tr>
<tr>
<td>-39%</td>
<td>-3%</td>
<td>-1%</td>
<td>5%</td>
</tr>
<tr>
<td>-15%</td>
<td>-2%</td>
<td>2%</td>
<td></td>
</tr>
</tbody>
</table>


Returns shown are based on calendar year returns from 1950 to 2018. Stocks represent the S&P 500 Shiller Composite and Bonds represent Strategas/Ibbotson for periods from 1950 to 2010 and Bloomberg Barclays Aggregate thereafter. Growth of $100,000 is based on annual average total returns from 1950 to 2018.

RX: Re-enrollment to QDIA
## Returns and valuations by style

### 2Q 2019

<table>
<thead>
<tr>
<th></th>
<th>Equities</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Value</td>
<td>Blend</td>
<td>Growth</td>
<td>Value</td>
</tr>
<tr>
<td>Large</td>
<td>3.8%</td>
<td>4.3%</td>
<td>4.6%</td>
<td></td>
</tr>
<tr>
<td>Mid</td>
<td>3.2%</td>
<td>4.1%</td>
<td>5.4%</td>
<td></td>
</tr>
<tr>
<td>Small</td>
<td>1.4%</td>
<td>2.1%</td>
<td>2.7%</td>
<td></td>
</tr>
</tbody>
</table>

### YTD

<table>
<thead>
<tr>
<th></th>
<th>Equities</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Value</td>
<td>Blend</td>
<td>Growth</td>
<td>Value</td>
</tr>
<tr>
<td>Large</td>
<td>16.2%</td>
<td>18.5%</td>
<td>21.5%</td>
<td></td>
</tr>
<tr>
<td>Mid</td>
<td>18.0%</td>
<td>21.3%</td>
<td>26.1%</td>
<td></td>
</tr>
<tr>
<td>Small</td>
<td>13.5%</td>
<td>17.0%</td>
<td>20.4%</td>
<td></td>
</tr>
</tbody>
</table>

### Since market peak (October 2007)

<table>
<thead>
<tr>
<th></th>
<th>Value</th>
<th>Blend</th>
<th>Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large</td>
<td>94.4%</td>
<td>141.4%</td>
<td>199.8%</td>
</tr>
<tr>
<td>Mid</td>
<td>125.8%</td>
<td>146.9%</td>
<td>173.2%</td>
</tr>
<tr>
<td>Small</td>
<td>92.5%</td>
<td>118.1%</td>
<td>144.0%</td>
</tr>
</tbody>
</table>

### Since market low (March 2009)

<table>
<thead>
<tr>
<th></th>
<th>Value</th>
<th>Blend</th>
<th>Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large</td>
<td>384.7%</td>
<td>439.5%</td>
<td>511.5%</td>
</tr>
<tr>
<td>Mid</td>
<td>476.7%</td>
<td>495.8%</td>
<td>531.7%</td>
</tr>
<tr>
<td>Small</td>
<td>376.0%</td>
<td>425.8%</td>
<td>475.8%</td>
</tr>
</tbody>
</table>

### Current P/E vs. 20-year avg. P/E

<table>
<thead>
<tr>
<th></th>
<th>Size</th>
<th>Value</th>
<th>Blend</th>
<th>Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large</td>
<td>103.3%</td>
<td>106.8%</td>
<td>107.7%</td>
<td></td>
</tr>
<tr>
<td>Mid</td>
<td>102.4%</td>
<td>106.0%</td>
<td>107.3%</td>
<td></td>
</tr>
<tr>
<td>Small</td>
<td>88.5%</td>
<td>103.7%</td>
<td>123.3%</td>
<td></td>
</tr>
</tbody>
</table>

Source: FactSet, Russell Investment Group, Standard & Poor’s, J.P. Morgan Asset Management.

All calculations are cumulative total return, including dividends reinvested for the stated period. Since Market Peak represents period 10/9/07 – 6/30/19, illustrating market returns since the S&P 500 Index high on 10/9/07. Since Market Low represents period 3/9/09 – 6/30/19, illustrating market returns since the S&P 500 Index low on 3/9/09. Returns are cumulative returns, not annualized. For all time periods, total return is based on Russell style indices with the exception of the large blend category, which is based on the S&P 500 Index. Past performance is not indicative of future returns. The price to earnings is a bottom-up calculation based on the most recent index price, divided by consensus estimates for earnings in the next 12 months (NTM), and is provided by FactSet Market Aggregates.

*Guide to the Markets – U.S. Data are as of June 30, 2019.*
Q: We have completed a re-enrollment into the QDIA or target date fund option in the past 5 years

• Yes
• No
• Never been offered
• Is not needed
Diagnosis #4 Starting Too Late or Too Little

Other Known Symptoms
- I will do it tomorrow
- I need to get this other debt paid off first
- I just don’t have the money right now

Possible side effects
- Lower income at retirement
- May have to work longer
- May have to save more
The cost of waiting

<table>
<thead>
<tr>
<th></th>
<th>SHELTON</th>
<th>LEONARD</th>
<th>HOWARD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Savings Rate</td>
<td>6%</td>
<td>9%</td>
<td>12%</td>
</tr>
<tr>
<td>Annual Contribution</td>
<td>$2400</td>
<td>$3600</td>
<td>$4800</td>
</tr>
<tr>
<td></td>
<td>(age 25)</td>
<td>(age 35)</td>
<td>(age 45)</td>
</tr>
<tr>
<td>Retirement Fund</td>
<td>$383,393</td>
<td>$293,777</td>
<td>$182,258</td>
</tr>
</tbody>
</table>

This illustration assumes all employees in example are earning $40,000 annually. This illustration is a hypothetical compounding calculation assuming a rate of return of 6% annually. It is not intended to serve as a projection or prediction of the investment results of any specific investments. Investments are not guaranteed. Depending on the underlying investments, returns may be higher or lower. If fees and expenses had been considered in this illustration, the return would have been less. Interest compounded annually based on beginning-of-year contributions.
How long will it last?

Retirement Fund:

HOWARD

$182,258

LEONARD

$293,777

SHELDON

$383,393

Let’s assume each needs $1500 per month to live on. How long will the balances last?

11 years

17 years

24 years

This illustration is a hypothetical compounding calculation assuming a rate of return of 4% per year and an inflation rate of 3%. It is not intended to serve as a projection or prediction of the investment results of any specific investments. Investments are not guaranteed. Depending on the underlying investments, returns may be higher or lower. If fees and expenses had been considered in this illustration, the return would have been less. Interest compounded annually based on beginning-of-year contributions.
Rx: Auto Enrollment and Auto Escalation

- 4% Auto Enroll
- 4% Match

Vs

- 4% Auto Enroll
- 4% Match
- Auto Increase to 10%
Accelerated contributions could increase your retirement savings by $527,405.

Age: 30
Salary: $60,000
Retire: 65
Current: $10,000
Annual Salary Increase 2%
Estimated Rate of Return: 7%
# Plan changes that matter

## Current Plan Health Readiness Distribution

<table>
<thead>
<tr>
<th>Degree of readiness</th>
<th>100</th>
<th>90</th>
<th>80</th>
<th>70</th>
<th>60</th>
<th>&lt; 60</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of employees</td>
<td>22%</td>
<td>11%</td>
<td>13%</td>
<td>13%</td>
<td>16%</td>
<td>26%</td>
</tr>
<tr>
<td>Expected retirement age</td>
<td>63.2</td>
<td>64.0</td>
<td>65.3</td>
<td>66.5</td>
<td>67.3</td>
<td>67.9</td>
</tr>
<tr>
<td>Headcounts by age band</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>All</td>
<td>221</td>
<td>106</td>
<td>128</td>
<td>126</td>
<td>158</td>
<td>261</td>
</tr>
<tr>
<td>Age &lt;25</td>
<td>81</td>
<td>7</td>
<td>2</td>
<td>1</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Age 26-30</td>
<td>87</td>
<td>13</td>
<td>9</td>
<td>6</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Age 31-35</td>
<td>26</td>
<td>50</td>
<td>12</td>
<td>3</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Age 36-40</td>
<td>15</td>
<td>16</td>
<td>50</td>
<td>12</td>
<td>6</td>
<td>3</td>
</tr>
<tr>
<td>Age 41-45</td>
<td>3</td>
<td>9</td>
<td>25</td>
<td>46</td>
<td>17</td>
<td>2</td>
</tr>
<tr>
<td>Age 46-50</td>
<td>3</td>
<td>5</td>
<td>15</td>
<td>60</td>
<td>18</td>
<td></td>
</tr>
<tr>
<td>Age 51-55</td>
<td>1</td>
<td>4</td>
<td>6</td>
<td>10</td>
<td>38</td>
<td>65</td>
</tr>
<tr>
<td>Age 56-61</td>
<td>0</td>
<td>0</td>
<td>2</td>
<td>8</td>
<td>22</td>
<td>87</td>
</tr>
<tr>
<td>Age 62-70</td>
<td>5</td>
<td>2</td>
<td>7</td>
<td>8</td>
<td>14</td>
<td>86</td>
</tr>
</tbody>
</table>

Based upon current plan design with an employer match of 100% to 4%, without auto-enrollment and auto-deferral increase.

100% readiness is defined as the ability to replace 75% of projected income at age 65 through anticipated life expectancy.
Can employees retire on time?
Q: We Use Auto Enroll

• Yes
• No
• Considering
Q: We use Auto Increase

• Yes
• No
• Not offered by our vendor
Diagnosis #3: I Pay Too Much

Other Known Symptoms
• It looked good last time we checked
• I don’t have the time to look at fees
• I have too many fires to put out, this isn’t one of them

Possible side affects
• Lower income at retirement
• May have to work longer
• May have to work longer
Rx: Vendor Request for Proposal (RFP)

$18M Hospital plan

<table>
<thead>
<tr>
<th>Annual Fees</th>
<th>Estimated Total Plan Cost %</th>
<th>1.22%</th>
<th>0.69%</th>
<th>0.73%</th>
<th>0.55%</th>
<th>0.73%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estimated Total Plan Cost $</td>
<td>$216,931</td>
<td>$121,251</td>
<td>$128,587</td>
<td>$96,768</td>
<td>$129,075</td>
<td></td>
</tr>
</tbody>
</table>
What you need to know as a fiduciary

Net Recordkeeping & Admin Costs per Participant
What you need to know as a fiduciary

<table>
<thead>
<tr>
<th>Mutual Fund</th>
<th>Expense Ratio</th>
<th>Revenue Share</th>
<th>Asset Charge</th>
<th>Total Received By Provider</th>
</tr>
</thead>
<tbody>
<tr>
<td>ABC Large Growth A</td>
<td>1.25%</td>
<td>0.50%</td>
<td>0.25%</td>
<td>0.75%</td>
</tr>
<tr>
<td>EFG Mid Cap Value R6</td>
<td>0.60%</td>
<td>0.15%</td>
<td>0.25%</td>
<td>0.40%</td>
</tr>
<tr>
<td>XYZ International ADV</td>
<td>0.75%</td>
<td>0.00%</td>
<td>0.25%</td>
<td>0.25%</td>
</tr>
</tbody>
</table>
Q: We benchmark our retirement plan

- Annually
- Every 3 years
- Every 5 years
- More than 5 years
Q: We have conducted vendor interviews

- In the past 3 years
- In the past 5 years
- Between 5-10 years
- Over 10 years
Diagnosis #2 – Loans and Hardships

• Other Known Symptoms
  • Sure I got the money
  • This is quick and easy
  • Really I am just paying myself back so no big deal

• Possible side affects
  • Lower income at retirement
  • Double taxation of money
  • Possible tax problem on termination of employment
Top 5 reasons employees take a loan

1) Unplanned major expenses (e.g., home or car repair, etc.) (23%)
2) Paying off debt (23%)
3) Purchase of a vehicle (11%)
4) Home improvements (8%)
5) Medical bills (8%)

TransAmerica Center for Retirement Studies, 16th Annual Survey
### Summary

- **Initial Balance**: $75,000
- **Monthly Contribution**: $450
- **Loan Amount**: $10,000
- **Length of Loan**: 5 Years
- **Years Until Retirement**: 25
- **Payoff Loan First**: Yes

### Chart

<table>
<thead>
<tr>
<th>Amount</th>
<th>No Loan</th>
<th>With Loan</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0</td>
<td></td>
<td>($100,375)</td>
</tr>
<tr>
<td>$200,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$400,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$600,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$800,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$1,000,000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Lost Opportunity: ($100,375)

### Additional Information

Expected return of 7%. Past performance does not guarantee future returns.
Rx: Financial Wellness Program

• Plan for emergency expenses
• Structure debt pay off
• Prioritize financial goals
• Analysis of Pre-Tax or Roth contributions
• Understand how to pay for medical expenses
  • H.S.A, Worksite Benefits, Emergency Savings
Q: We allow

- Loans
- Hardships
- Both
- Neither
Q: We offer Roth contribution

• Inside 403(b) or 401(k) plan
• Outside of the plan
• We do not offer a Roth contribution
Q: Financial Wellness Program

• We currently offer
• We do NOT offer
• We are looking into it
Q: Cost for Financial Wellness

• Free
• Pay for service
Diagnosis #1 - Assumption of responsibility

Other Known Symptoms
• I thought they were in charge
• What's a fiduciary

Possible side affects
• Liability to organization
• Liability to committee
• Unhealthy benefit plan
When is a “fiduciary” not a fiduciary

John Hopkins University
$14M Settlement

- Provide annual list of investments, fees and IPS to Plaintiff’s counsel
- Within 90 days, hire independent fiduciary to RFP recordkeeping services
- If they do not proceed with recommendation from independent fiduciary, must provide written documentation as to why recommendation was not approved
Types of Fiduciary Support

ERISA 3(21) Investment Advisor
• Investment recommendations are approved by committee

ERISA 3(38) Investment Manager
• Authorized to make investment changes without committee approval

ERISA 3(16) Fiduciary Administration
• Provider is responsible for administration of retirement plan
Fiduciary Liability

- Broker
- ERISA 3(21) Advisor
- ERISA 3(16) Administrator
- ERISA 3(38) Advisor
- 3(16) and 3(21)
- 3(16) and 3(38)

Higher Risk

Lower Risk
Rx: Evaluate Service Providers

• Discuss proper RFP for service providers
• Size and scope of business practice
• General practice or specialist
Q: We utilize

• 3(21) Advisor
• 3(38) Investment Manager
• Broker
• I am not sure
Q: We utilize

• 3(16) Administration
• I have never heard of this option
In the waiting room...

- Combo 401(a)/403(b) plans

- Secure Act and Retirement Employee Savings Act
  - Allow Collective Investment Trusts in 403(b) plans
  - Increasing catch up contributions to $10,000
  - Provides safe harbor for plan sponsors that want to offer lifetime income options
<table>
<thead>
<tr>
<th>Distribution Spectrum</th>
<th>Complexity for Plan Sponsors</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Systematic Withdrawals</td>
</tr>
<tr>
<td></td>
<td>- Uses existing plan investments</td>
</tr>
<tr>
<td></td>
<td>Stable Value/GIC</td>
</tr>
<tr>
<td></td>
<td>- Unique to retirement plans. Important role for in plan retirees</td>
</tr>
<tr>
<td></td>
<td>Bond Ladder</td>
</tr>
<tr>
<td></td>
<td>- Allows for precise income without an insurance component</td>
</tr>
<tr>
<td></td>
<td>Managed Account Services</td>
</tr>
<tr>
<td></td>
<td>- Provider selection</td>
</tr>
<tr>
<td></td>
<td>- Participant must have accurate household information</td>
</tr>
<tr>
<td></td>
<td>Managed Payout</td>
</tr>
<tr>
<td></td>
<td>- Integrated w/in target date fund or standalone option</td>
</tr>
<tr>
<td></td>
<td>Immediate Annuities, Qualified Longevity Annuity Contracts (QLAC)</td>
</tr>
<tr>
<td></td>
<td>- Provider selection</td>
</tr>
<tr>
<td></td>
<td>- Annuity puzzle</td>
</tr>
<tr>
<td></td>
<td>Guaranteed Lifetime Withdrawal Benefit (GLWB)</td>
</tr>
<tr>
<td></td>
<td>- Same considerations as annuity and QLAC</td>
</tr>
<tr>
<td></td>
<td>- Complexity and portability</td>
</tr>
</tbody>
</table>
Common factors that lead to unhealthy plans

• Improper Investing
• Starting too late
• Paying too much
• Employees financially challenged
• Employers not getting the proper guidance
How to improve your retirement plan

1) Evaluate your service providers
2) Look at your plan design and demographics
3) Understand your fees and how they are collected
4) Understand your liability
5) Educate your employees beyond the retirement plan
Thank you

Derek Bailey, CRPS, AIF
402-970-3338
dbailey@marcotteins.com

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