RTD Employer Retirement Plan Solutions

Who's Paying for the Plan?

A prospective client, a manufacturing company with a 33% participation rate in the company 401(k) plan. The owner was also not participating and wonders if it was worth keeping the plan.

1 WE LISTENED

- Learned about the company history, culture and demographics.
- Gained an understanding of overall employee benefits and retirement plan objectives.
- Determined what efforts were being made to educate employees.
- Understood plan fees were being paid by the participants.

2 WE ANALYZED

- Most employees not participating in the plan spoke Spanish. Although a Spanish enrollment kit was available, it was not effective as the sole means of communication with that population.
- The owner was not participating because the service provider told him he was ineligible to contribute since he did not have W-2 income. A sole proprietor's net Schedule C income is considered "plan compensation" eligible for 401(k) deferrals.
- The all-in cost of fees to maintain the plan was reasonable in the aggregate. But fees were not transparent or equitable. A participant who contributed $4,000 per year paid $3,000 in fees!

3 WE STRATEGIZED

- The way fees were being charged to participants became the business owner's first concern. We recommended moving the plan to another provider which allowed for a different fee structure, one that would allow the company to pay some or all of the maintenance fees to lessen the burden on the participants.
- The owner could begin making 401(k) deferrals up to an amount that would allow the plan to pass non-discrimination testing and if able to fund a Safe Harbor contribution, he could maximize his deferral.
- Conducting on-site employee meetings with a Spanish speaking specialist would be more effective in helping that segment of the employee population understand the benefits of participating in the plan.

4 WE IMPLEMENTED

The owner followed our recommendations to:

- Engage RTD as a 3(38) investment fiduciary to shift liability for the investment decisions to RTD.
- Move the plan to a new provider with transparent fees and flexible payment options.
- RTD selected a best-in-class investment lineup, lowering fund expenses by 50%.
- The company paid 25% of the plan fees and restructured the participants' share resulting in a more equitable allocation of expenses.
- The company added a Safe Harbor Matching contribution allowing the owner to maximize his 401(k) deferral and increase retirement savings for his employees.
- Our re-enrollment and ongoing education meetings with a Spanish speaking specialist increased participation from 33% to 60% participation rate.

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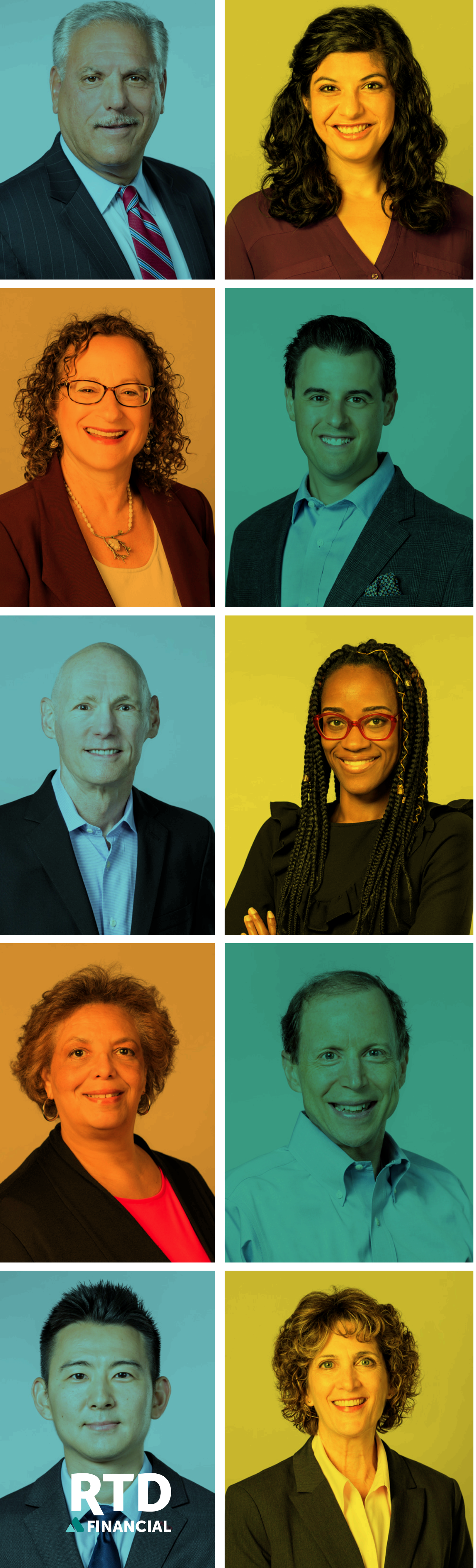

Would You Rather Pay Uncle Sam or Your Employees?

An RTD client with a large medical practice had a Safe Harbor 401(k) Plan with employees receiving a 3% Safe Harbor contribution. The two shareholders maximized their 401(k) deferrals and received 9% in company funded contributions.

1 WE LISTENED

- The shareholders wanted to shelter more income for retirement.

- Many participants live paycheck-to-paycheck and do not appreciate the 3% contribution.

- The owners worry additional contributions for staff will only add to more plan loans and early withdrawals.

2 WE ANALYZED

- Given the age and service demographics, the two shareholders combined could shelter an additional $450,000 of income in a Cash Balance Pension Plan if they were willing to increase contributions for staff from 3% to 9% of pay.

- We illustrated the tax savings from the increased contributions for shareholders and staff, as well as the annual administration costs for the Cash Balance Pension Plan. The tax savings outweighed the additional costs. Pay federal and state taxes or fund retirement savings for the shareholders and employees? That is an easy question to answer, but what about other concerns?

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RTD conducted an employee education meeting promoting increased contributions by their employer.

3 WE STRATEGIZED

- The shareholders recognized that while their compensation would be reduced due to the cost of the additional 6% to staff, the after-tax impact resulted in a choice between paying taxes or increasing benefits for their employees. A win-win situation.
- A retirement plan does not have to permit loans and early withdrawals and a plan could limit what accounts are available for loans and withdrawals.
- Since the practice would start funding an additional 6% of pay, they opted to not allow loans or early withdrawals from employer funded accounts.

4 WE IMPLEMENTED

- RTD conducted an employee education meeting promoting the practice increasing their contributions from 3% to 9% of pay.
- We used this as an opportunity to remind employees of the importance of saving for retirement, preserving the money they and the practice save for them and tax implications for early withdrawals or loans that go into default.

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