NAPAnet magazine

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NATIONAL ASSOCIATION OF PLAN ADVISORS

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SUMMER 2017 • NAPA-NET.ORG

NAPA Nation Rocks at 401(k) Summit

Helping Millennials Save More

NAPAnet the magazine
SUMMER 2017

COVER

FEATURES

COLUMNS

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National Association of Plan Advisors
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(How Can I) Get Involved!

Years ago I decided I wanted to move to the nation's capital because — as I told friends at the time — I was tired of "just" writing about what had happened with retirement policy… I wanted to make a difference.

Now that's not to say that writing doesn't make a difference — I hear from readers all the time about the impact of the news, information and insights that we provide.

That said, having made that move — and now having been here for half a decade — I can say that while it's not quite as bad as Otto van Bismarck said (though I've never actually watched sausage-making), it's clear that lawmaking is truly an art, not a science. It requires patience, the ability to not only see the forest rather than the trees, but often the forest beyond the forest. You have to be able to set personal egos (and agendas) aside, to not only keep your eye on the long game, but be willing (and able) to pivot on a moment's notice to take advantage of a fleeting window of opportunity.

It's not for the faint of heart or commitment — and it is hard (though I suppose not impossible) to do so successfully as a passing activity. It's one of the reasons that NAPA, and the American Retirement Association, have been so successful over the years in not only articulating our members' perspectives, but in helping ensure that the laws and regulations that build, and bind, the nation's retirement system take those perspectives into account.

Not that those efforts always bear fruit — but as anyone who has ever been to a NAPA event can attest, it does make a difference. Indeed, it's a rare NAPA event where anywhere from 10-20 attendees don't approach me to ask how they can get (more) involved.

Whether you are a seasoned professional looking to "give back" to the profession, a relative newcomer or somewhere in between, there are many ways that individuals can get more involved with the work of NAPA and make a difference.

Where to Start

Perhaps the most common entry point for NAPA volunteers is participation in our Government Affairs Committee, or GAC. NAPA GAC represents NAPA in communications with Congress and government agencies in shaping the retirement industry and protecting our members — communications that can include developing comment letters to the Department of Labor, the Treasury Department, IRS, SEC and FINRA, as well as testimony on Capitol Hill.

Those with a particular knowledge skillset, who have either a background in, or experience with, teaching might want to participate as a subject matter expert (SME), working with other dedicated retirement plan professionals to educate and train the next generation. As an expert in a particular area/specialty/topic, you will have the chance to share your knowledge and hone your skills — and you'll have the chance to accumulate continuing education credits for your work here as a volunteer.

CHECK OUT THE NAPA APP!

If you haven't checked it out, swing by your local online app store and download the NAPA app (search for NAPA Net). You'll find it a convenient way to access archived issues of *NAPA Net the Magazine*, as well as check out the wide variety of resources and industry lists at www.napa-net.org.

Those who are ready for a higher level of engagement might want to consider participation as a member of the agenda and/or steering committee for our various conferences, including NAPA Connect, NAPA DC Fly-In Forum or the NAPA 401(k) SUMMIT. Each event has its own structure, focus and responsibilities — and they all require a serious time commitment. These events are not only significant for their contributions to NAPA membership engagement and involvement, but for their contributions to NAPA's bottom line and continued advocacy efforts.

For those who don't have a lot of time to commit, there are other ways to get involved and have an impact. Participation in NAPA events matters — as a speaker, panelist or session facilitator — or even just helping to spread the word among your network(s) about the event. Reading and commenting on the posts on NAPA Net can spur engagement — as can responding to the weekly reader polls on NAPA Net.

One of the great privileges of my current position is that I get to meet and work with so many gifted and dedicated volunteers in so many different capacities pretty much every single day. If you're one of them, thank you for the impact you've already had and the difference that you have made.

If you're not (yet) one of them, and would like to be — there's no time like the present.

If you don't know where to start, a list of volunteer opportunities and an application form is available at http://www.napa-net.org/membership/volunteer/.

As always, let me know what you think — email me at nevin.adams@usaretirement.org.

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NAPA
YOUNG GUNS
TOP PLAN ADVISORS UNDER 40
2017

"Congratulations to the 2017 Young Guns. Their pursuit of excellence early in their careers will lead us into the future, helping pave the way toward a successful retirement for so many Americans."

– David Reich
Executive Vice President, Head of LPL Retirement Partners, High Net Worth, and The Private Trust Company

Join LPL in recognizing the achievement of the 21 advisors named to the 2017 NAPA Young Guns.

Jessica Ballin
Ryan Boutwell
Matt Byers
Jake Connors
Brady Dall
John Ehlers
Paul Etra
Derek Fiorenza
Geoffrey Forcino
Zach Hull
Jason Jeskey
Ronald Letaw*
Damon Marra
David Montgomery*
David Morehead
Patrick Morrell
Pete Peterson
John William Pomroy
Kevin Price
Todd Sink
Brent Teague

Nominated and voted on by industry peers and selected by a NAPA member committee based on business profile and future industry leadership potential.

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A Time of Transition

How will our industry be impacted by tax reform and other unfolding developments?

BY PAUL D'AIUTOLO

First and foremost, I want to say thank you to Sam Brandwein, NAPA's Immediate Past President, for his contributions to NAPA.

As NAPA President, there are significant responsibilities and oversight given to NAPA's conferences, thought capital, our government affairs work, our lobbying efforts on the Hill and many, many other time-consuming activities. Sam, like all of the past NAPA Presidents, managed these responsibilities with class and helped NAPA navigate many obstacles. Thank you, Sam, for all of your efforts!

Please welcome Jeff Acheson as President-Elect, and thanks to the entire Leadership Council for your contributions.

I also want to highlight the contributions of Lisa Smith and Melissa Cowan and the entire SUMMIT Steering Committee for an amazing experience at the NAPA 401(k) SUMMIT in March. What an incredible conference, combining the best speakers, content and our newest twist: "NAPA After Dark"! Thank you, Lisa, Melissa and the entire SUMMIT team!

In this, my first byline as President, I want to talk about the importance of member engagement and the importance of having an association like NAPA advocate for what we do.

I have been in the 401(k) industry since 1993. It is hard to believe that what started as a tax-deferred offering in the IRS code has morphed into a trillion-dollar industry now solving for retirement readiness for millions of Americans.

With the launch of NAPA, the American retirement industry provided something we plan advisors have never had — "cover" in Washington, DC. No conference, magazine, RIA, mutual fund manufacturer, insurance company, recordkeeper or broker-dealer is spending their time in DC or their PAC contributions to lobby to ensure that we plan advisors have a career tomorrow. That is exactly what NAPA does, and at our core, exactly what NAPA is.

Ensuring that we have careers tomorrow takes more than putting on a conference or *attending* a conference. Sure, acquiring technical expertise and honing best practices is an essential part of what we do, but making sure regulatory changes don't make us obsolete is a 24/7/365 effort. It is about our conferences — NAPA now offers three of them to provide different experiences for our members: the NAPA 401(k) SUMMIT, the NAPA DC Fly-In Forum and now NAPA Connect. We have the NAPA Net web portal and *NAPA Net the Magazine*, where thought capital is at your fingertips. We have our Government Affairs Committee (GAC), where we are constantly tweaking our stances on regulatory opinions. We have Steering Committees and Agenda Committees for each of our conferences. We have credentials that members can earn to demonstrate their expertise. We have a Leadership Council that provides governance to NAPA, and we have a PAC to ensure that we have a seat at the table to ensure that what we do will go on.

To make all of this happen, what is required most is member engagement. Each of our conferences and committees is managed by advisor members who volunteer their time and resources for the greater good of all of us. Every Hill visit and every meeting with the Department of Labor and IRS is done with advisor members.

As I enter into my year as President, my "ask" for every member is two-fold. First, spend some time learning about all that NAPA is and does. And second, find a way to become more engaged. You can start with baby steps: Spend some time on NAPA Net. If you are feeling more ambitious, volunteer to be on a committee. Attend a conference. Consider making small monthly contributions to the PAC.

The more our members get engaged, the greater our association is. With tax reform and the ongoing saga of the DOL fiduciary rule playing out, not only is what we do continually at risk, but the importance of what we do in helping millions of working Americans achieve financial security has never been greater.

I applaud our NAPA staff for their tireless efforts. I realize each of you can choose where you work, and I am extremely appreciative that you chose to work on behalf of plan advisors. Thanks again to all of the NAPA advisors who volunteer their time and invest in the PAC. And thanks to Brian Graff for his passion and to the NAPA Past Presidents who have led the way for me.

I am grateful to have the opportunity to serve all of you for the next year. Rest assured, I will do all that I can to ensure the future for plan advisors.

» Paul D'Aiutolo is the founding principal and lead consultant of the D'Aiutolo Institutional Consulting Team in Rochester, NY. He serves as NAPA's President for 2017-2018.

An Rx for Holistic Retirement and Health Care Savings

HSAs: The healthy savings choice.

BY BRIAN H. GRAFF

> "We believe HSAs will expand more rapidly in the market under the GOP plan, especially among smaller businesses."

The debate over our nation's health care policy has consumed the first few months of the 115th Congress and shows no signs of abating. While it may have faded from the headlines for the moment, House Republicans continue to debate different options for repealing and replacing the Affordable Care Act (ACA). One of the key pillars of the GOP's legislative attempts is the American Health Care Act (AHCA) — legislation that significantly expands and enhances health savings accounts (HSAs).

HSAs are "super" tax-advantaged accounts that eligible individuals can use for current and future health care expenses. "Super" in that contributions to an HSA are pre-tax (like a 401(k)) and earnings on those contributions are not subject to taxation (also like a 401(k)). Unlike a 401(k), however, owners of HSA accounts don't pay taxes on the withdrawal of those contributions and earnings, as long as they go entirely toward paying qualified medical expenses.

More than 18 million Americans already use HSAs, and health plans that allow for them are the fastest growing type of plan in the health insurance market. HSAs experienced 21% asset growth in 2016, and the average employer contribution is about $686 per year, according to Devenir Market Research.

The AHCA would nearly double the contribution limits for HSAs to $13,100 for a household with family health insurance coverage (with a $2,000 catch-up contribution for households age 55 or older). The bill would also broaden the range of items that HSA withdrawals can be used for, including purchases of over-the-counter medications, health insurance premiums, prescription drugs, co-pays, deductibles and other out-of-pocket health care expenses. These provisions expanding HSAs will be in the final deal if the AHCA is enacted.

We believe HSAs will expand more rapidly in the market under the GOP plan, especially among smaller businesses. HSA sellers and administrators will develop participant education and advice tools that integrate health and retirement savings more tax efficiently, especially for middle income savers. Top advisors are already looking at ways to incorporate HSAs in their offerings, frequently as part of an overall emphasis on financial wellness.

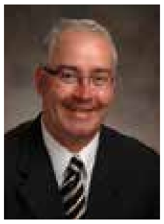
The answer to the question, "Where should I save — HSA or 401(k)?" is a "no brainer," especially with these expanded HSAs. First, participants will be advised to first save enough in their HSA to cover their out-of-pocket expenses and deductibles in their health plan — as much as $15,100 for a couple age 55 and older. Second, participants will be directed to save up to the match in their 401(k). And then, if there is anything left, to contribute more to their HSA. This approach maximizes the tax efficiency for participants across both programs.

Obviously we see this as a risk to our members who specialize in retirement plans. It's also a potential risk to retirement security, in that not every retirement expense is health-related — and the penalties for withdrawals from an HSA for expenses not related to health care are significant.

The American Retirement Association has developed a simple, common-sense legislative solution that not only resolves this potential savings conflict and complexity for employers, but also creates a new market for retirement plan advisors. Under the proposal, employers would be allowed (though not required) to add HSAs as a "sidecar" account to a 401(k) plan. Plan advisors would then be able to offer HSAs along with 401(k) plans and provide holistic education, advice and planning to employees who have both accounts. HSA holders would have access to the same kinds of retirement plan investments in their HSA that they do in their 401(k) — and the same professional advice. We are working aggressively to include the proposal in the AHCA or tax reform legislation, whichever moves first or presents the best opportunity.

We have reached out to a number of our NAPA members for help voicing support for the idea with members of Congress. If you are interested in helping us, please contact Alisa Wolking, who is spearheading out grassroots outreach, at awolking@usaretirement.org.

» Brian H. Graff, Esq., APM, is the Executive Director of NAPA and the CEO of the American Retirement Association.



HOW MUCH RETIREMENT WOULD YOU LIKE?

Asking the right retirement questions can build your business and profitability.

One of the seven habits of highly effective people is to "begin with the end in mind." And yet, the industry's focus remains the beginnings.

Consider automatic enrollment — that deferral rate that workers can afford, or will tolerate. While important — you have to be able to start the engine in order to make the trip, after all. But would you set off on a long journey without checking your gas gauge before just driving away? For all the talk about outcomes, and as important as those monthly income estimates can be as a discussion point, they relay data that isn't really information that participants can relate to. Even if they do see that number — and on the half dozen sheets of paper that, coupled with disclosures, often constitute today's 401(k) participant statement, the odds aren't good — they are likely to see a figure well short of their current monthly income — and no instruction on how to change it.

But, says Michael Kiley, Founder and President of PAi, "What if you told that 401(k) saver that, based on their current savings rate and investment allocation they would be able to maintain their current lifestyle in retirement for just six years?" Kiley maintains that participants can comfortably relate to the concept of how much retirement they want, though that is not how the retirement plan industry presents the choice. "After all, retirement isn't about money, it's about time."

The Rolling Stones once opined that "time is on my side," and while that's true for savers, it's only after they are savers. The key to that, of course, is to create savers by getting their account established. Kiley notes that advisors have access to encourage, to quantify and communicate gaps, to help those "do it for me" savers, whether individuals or small businesses.

Lead with People, Not Product

In trying to persuade a plan sponsor — potential or current — about making a change, Kiley says that the right place to start is by making the employer "participant #1." That personalizes the

"What if you told that 401(k) saver that they would be able to maintain their current lifestyle in retirement for just six years?"

plan design discussion, and allows the focus to be on delivering value. "If you want to shut off a plan sponsor's brain, talk about investments," he cautions — and yet that's the topic with which many advisors open. People — including those business owners — are first worried about things like food, shelter — and, somewhere down that list — that "ticket to quit." The question for business owners looking ahead to that day is: "Can you, save enough for retirement with an IRA?"

For advisors looking to provide a better solution at a profit for their business, the speed and efficiency of establishing the plan on a platform can make a big difference. And yet, Kiley explains, a "non-traditional" sale — one that doesn't involve an advisor — sells six times faster than those sold by an advisor.

Platform Paralysis

A big impediment to efficiency, notes Kiley, is that an average retirement plan advisor is keeping up with approximately 50 plans — on 12 different platforms. Why so many platforms? Kiley explains that behavioral finance principles — specifically inertia — reign even among advisors, who tend to leave the plans where they are. He maintains, however, that it is not efficient to maintain multiple platforms and investment menus. "It can drown an advisor with platform-driven fund analysis," he says.

While everyone talks about "big data" — enormous data sets that may be analyzed to reveal patterns, trends and associations — Kiley suggests a better focus for advisors is "little data" — knowledge about what individuals are doing, and not doing, alerts tied to changes in their family status, compensation or age. "When a 45-year-old gets a pay raise, he or she also gets a retirement income cut if we don't accelerate their contribution levels to keep up," he explains.

More than that, automation with a directed focus on that "little" data allows an advisor to spend time on the right things, the things that matter in achieving retirement income security, not to mention an improved financial wellness while still working. For an advisor, that makes for a more effective — and efficient focus.

And "efficiency," concludes Kiley, "leads to more income — for the advisor, and for those he or she helps along the way."

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To learn more, visit copilotretire.com/advisor or give us a call: 800.236.7400.

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The Years of Retirement calculator is for illustrative purposes only. The estimates provided through this calculator are inherently uncertain and are not, in any way, a guarantee of future results.

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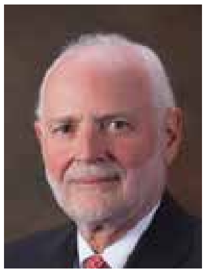

'Invisible' Costs: A Drag on Investor Return?

Internal expenses matter, especially when utilizing an active manager.

BY JERRY BRAMLETT

In making fund fee comparisons, most plan advisors only focus on a fund's total expense ratio (external costs), while failing to calculate a fund's trading costs (internal costs) — commissions, bid/ask spreads and market impact costs. This focus on external expenses is understandable given that funds don't publish internal expenses and not everyone agrees on the right methodology to calculate them.

Despite the fact that internal expenses are not readily available, two important questions need to be answered: How do internal costs compare to external costs and, more importantly, do they have a negative impact on investment return? "Shedding Light on 'Invisible' Costs: Trading Costs and Mutual Fund Performance," an article by Roger Edelen, Richard Evans and Gregory Kadlec published in the *Financial Analysts Journal*, provides some answers to these questions. The article takes a close look at both internal costs compared to external costs and the correlation between internal costs and fund return.

The authors also provide a method for approximating a fund's internal costs. The traditional proxy for internal costs has been a fund's turnover rate. The shortcoming of focusing only on fund turnover is that it does not capture the impact of fund size (*i.e.*, trade size) and stock liquidity (*i.e.*, small cap versus large cap). For example, a small cap fund may have half the turnover of a large cap fund and still have higher internal costs. The authors offer a methodology they call "position-adjusted turnover" that makes allowances for fund size and stock liquidity. It is a helpful tool to approximate internal fund costs that are otherwise hidden.

The article provides a great deal of detail about the methodology the authors utilized for estimating internal fund costs. They applied this cost analysis to a sample of 1,758 domestic equity funds over the period 1995-2006, and found that:

- Funds' annual expenditures on trading costs (*i.e.*, aggregate trading cost) were comparable in magnitude to the expense ratio (1.44% a year versus 1.19%, respectively).
- Sorting funds based on their aggregate trading-cost estimate yielded a clear monotonic pattern of decreasing risk-adjusted performance as fund trading costs increase. The difference in average annual return for funds in the highest and lowest quintiles of aggregate trading cost was –1.78 percentage points.

Clearly, the average fund's internal costs are significant (on average being larger than the external costs) and these costs have a deleterious impact on fund return. This could be due to the added cost being created by a hyperactive manager who has an ever-shifting investing strategy. Or perhaps this lower return could reflect forced turnover due to hot money moving in and out of a fund, thus driving up transaction costs. In many respects, it really doesn't matter why there is a correlation. It is important to simply note that a significant negative correlation exists between the level of a fund's internal expense and its ultimate return.

In addition to calculating these internal expenses, there are other ways advisors can sort out funds that are likely to have high internal costs:

- Select mangers who have a history of adhering to a well-defined process and philosophy, and so are more likely to make slight course corrections as opposed to making wholesale changes to their investment mix.
- Choose funds that have low demands on liquidity, such as those focused on institutional investors as opposed to "popular" funds held primarily by retail brokerage accounts. (In the DC world, this is one of the main attractions of collective investment trusts.)
- When it's practical to do so, choose custom indices as opposed to commercial indices. Custom index managers have greater latitude to trade in a patient manner without having to worry about "tracking error," and thus have greater flexibility when it comes to managing trading costs, especially bid/ask spreads.

Conclusion

Based on these findings by Edelen *et al.*, there is little doubt that internal expenses do matter since they tend to be higher than external expenses and, on average, have a negative impact on investment return. It is also possible to deploy a relatively simple formula for estimating these costs. Finally, there are ways to weed out the overactive managers and identify funds that contain too much "hot" money.

Advisors should take a hard look at the impact of internal expenses, especially when utilizing active managers. The plan advisor can be especially helpful to the plan sponsor by making the invisible, visible.

» Jerry Bramlett is the Managing Partner of Redstar Advisors, a boutique consulting firm focused on digital advice solutions. He has also served as the CEO of three full service DC providers: The 401(k) Company, BenefitStreet and NextStepDC.


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Trends Setting

Tracking the trends that will shape tomorrow's retirement plan landscape.

BY NEVIN E. ADAMS, JD

01 Plan 'Ahead'

The retirement plan advantage

It should come as no surprise that having a retirement plan at work makes a big difference — but you might be surprised at just how much.

According to the 27th Annual Retirement Confidence Survey (RCS) from the non-partisan Employee Benefit Research Institute (EBRI) and Greenwald & Associates, workers who participate in a retirement plan are 10 times — *10 times* — more likely to be currently saving for retirement (74% with a plan vs. 7% without). Moreover, these workers have significantly more in savings and investments than do those without a plan. While two-thirds of workers without a retirement plan (67%) report having less than $1,000 in savings and investments, that was the case for less than 10% among workers with a retirement plan.

Workers reporting they or their spouse participate in a DC plan are significantly more likely than those who do not participate in such a plan to have tried a calculation (49% vs. 15%).

> "About a third (30%) of workers say that they worry about their personal finances while at work."

Stressed 'Test'?

About a third (30%) of workers say that they worry about their personal finances while at work, and more than half of these workers believe they would be more productive at work if they didn't spend time worrying.

In addition, stressed workers (63%) are more than three times as likely as unstressed workers (17%) to report that they worry about their personal finances while at work.

However, just a quarter of workers with a retirement plan (26%) report feeling stressed about retirement preparation, compared with about 4 in 10 workers without a plan (43%) who feel stressed. In keeping with overall retirement confidence, workers who have a retirement plan are also more likely to feel they are financially secure; 7 in 10 workers with a retirement plan feel they are at least somewhat financially secure, while only a third of those without a plan feel financially secure.

Workers who have a retirement plan, whether a defined contribution plan, defined benefit plan or IRA, are far more likely to feel confident about having enough money for retirement. Workers reporting they or their spouse have money in a DC plan or IRA or have benefits in a DB plan from a current or previous employer are more than twice as likely as those without any of these plans to be at least somewhat confident (71% with a plan vs. 33% without a plan).

That said, apparently the mere process of preparing for retirement is stressful for some workers, as 3 in 10 workers report feeling very or somewhat mentally or emotionally stressed about preparing for retirement. By comparison, 22% of retirees recall being mentally or emotionally stressed about preparing for retirement before they retired. Not surprisingly, workers who feel stressed about retirement preparation are notably more likely to say that their debt level is a major problem (30% versus 12% of those who do not feel stressed).

02 Well Power
Survey finds healthy uptick in financial wellness

A recent survey finds that a growing number of employers have expanded their wellness programs to include employee financial security.

According to the 8th annual survey on corporate Health and Well-being from Fidelity Investments and the National Business Group on Health, 84% of large-and mid-sized company respondents now have financial security programs, such as access to debt management tools or student loan counseling, in their well-being strategies, up from 76% a year ago. Those financial security programs are the third most-popular offering, following physical well-being programs (95%) and emotional health programs (87%).

The most popular financial security programs are seminars and "lunch-and-learn" programs, with 82% of employers expected to offer these in 2017.

Nearly three-fourths (74%) will offer access to tools to support key financial decisions including mortgages, wills and income protection, and nearly as many (71%) expect to offer tools and resources to support emergency savings, debt management and budgeting.

A quarter of employers plan to offer student loan counseling or repayment assistance.

Incentives 'Ayed'

Three-quarters of employers (74%) include employee incentives, with the average employee incentive amount increasing to $742, compared with $651 in 2016 and $521 in 2013. Employers are also increasing incentives for spouses and domestic partners, with the average annual spouse/domestic partner incentive at $694, a hefty 47% increase over the 2016 average of $471.

The most popular physical well-being programs continue to be smoking cessation (91%), physical activities/challenges (86%) and weight management (79%).

The report also found a growing trend towards physical well-being programs that can have a healthy impact on employees at work. Currently, more than half (55%) of companies offer a "sit-to-stand" ergonomic desk or treadmill workstation, an increase from 43% a year ago. Additionally, nearly a third (30%) will offer subsidies or discounts on fitness wearables this year.

The 8th annual survey on corporate Health & Well-being includes responses from 141 large and mid-sized organizations. The online survey was fielded during November and December 2016 among National Business Group on Health members and clients of Fidelity Investments.

03 'Linked' Leverage
Survey finds social media builds profile, business

Nearly half of advisors say they have picked up business this year via social media, according to a new survey.

American Century Investments' Seventh Annual Financial Professionals Social Media Adoption Study found that 46% of the 302 financial advisors, brokers and registered investment advisors responding to the survey said they picked up business, up slightly from 43% a year ago. Roughly half of this year's pickups were valued at $1 million or more, though only 4% said they closed a deal valued at more than $5 million.

LinkedIn remains the social media platform of choice, with three-quarters (77%) saying they have increased their visibility on the platform. (Facebook was a distant second, though it was popular on a personal level.). However, only a quarter have upgraded to LinkedIn's premium service.

The uses for these platforms were varied, and included:

- Enhanced profile
- Attracted new clients
- Shared insights with clients
- Retained clients
- Enhanced business knowledge
- Increased visibility

Social media is a street that runs both ways, of course. Reading expert commentary topped the list of business uses, as it did in 2015. "Researching people" was ranked second highest this year, up from third place in the prior survey. And sharing content with clients — which ranked second in 2015 — was ranked third.

The study also found that 55% of financial professionals said they are more likely to do business with their social media connections — up slightly from the 2015 survey, when 52% expressed that opinion.

04 Cash 'Cache'?
HSA investment accounts continue to expand

More than a third of health savings accounts (HSAs) with investment assets beyond cash ended 2015 with a balance of $10,000 or more, according to a new report.

The report, by the non-partisan Employee Benefit Research Institute (EBRI), noted that while only about 3% of HSAs had invested assets (beyond cash), more than a third (36%) of HSAs with invested assets ended 2015 with a balance of $10,000 or more, compared with just 4% of HSAs without invested assets. The report was drawn from information in the EBRI HSA database, which contains four million accounts with total assets of $7.4 billion as of Dec. 31, 2015. It is estimated that in total, there were 16.7 million HSAs holding $30.2 billion in assets as of Dec. 31, 2015.

Among HSAs with investments in the EBRI database, accounts opened in 2015 ended the year with an average balance of $4,907, while those opened in 2005 had an average balance of $27,903 at the end of 2015.

HSAs can, of course, be invested in the same investment options that have been approved for individual retirement accounts (IRAs) — i.e., bank accounts, certificates of deposit (CDs), money market funds, stocks, bonds, and mutual funds. However, many HSA custodians require that an HSA have at least a minimum balance in order to invest HSA funds in options beyond cash or cash equivalents, and some HSA custodians do not offer investment options beyond cash.

As of the end of 2015, the average HSA balance in the EBRI database was $1,844, up from $1,332 at the beginning of the year. Average account balances increased with the age of the owner of the account, averaging $759 for owners under age 25 and $3,623 for owners ages 65 and older.

On average, individuals who made contributions in 2015 contributed $1,864 to their account in 2015. HSAs receiving employer contributions in 2015 received $948 on average.

Nearly 30% of employers offered an HSA-eligible health plan in 2015, and that percentage is expected to increase in the future both as a health plan option and as the only health plan option. The EBRI report notes that a survey by Mercer found that 25% of employers with 10-499 employees and 61% of employers with 500 or more employees offered an HSA-eligible health plan or HRA in 2016, while by 2019, 34% of employers with 10-499 employees and nearly three-fourths (72%) of employers with 500 or more employees say they are very likely to offer such a health plan. Indeed, is expected that 18% of employers with 500 or more workers will offer an HSA-eligible health plan or HRA as the only plan option by 2017.

What's driving the increases in health savings account adoption?

05 Savings 'Bonds'

Retirement revving up HSAs

According to the ConnectYourCare Consumer-Driven Health Plan Enrollment & Usage Trends Survey, more than 40% of the HSA participants interviewed said they enrolled in their HSAs in order to use the accounts as savings vehicles for future health care needs. That topped "tax savings," which 21% selected, and "lower premiums" offered by high-deductible health plans, named by 9.5% of survey respondents.

The survey asked more than 14,000 workers what their primary concern is when it comes to retirement. Nearly two-thirds (63%) selected health care expenses (such as insurance premiums, prescription costs, and other medical expenses) over lifestyle expenses (paying for housing, vehicles, vacations, etc.).

When deciding how much to contribute to an HSA and/or flexible savings account, 58% of those surveyed said that reviewing previous spending habits is the most useful activity. Just over one in five (22%) preferred reviewing potential savings and spending scenarios, while 8.5% relied on savings calculators, 4.7% sought out advice from friends, family members or financial advisors, and 6.1% chose "other."

Nearly 40% of employee participants surveyed indicated previous experience with a tax-advantaged account is the most valuable "tool" when deciding if they'll enroll in such an account going forward. Enrollment communications and savings calculators are likewise important to the decision-making process, as 22% and 17% of respondents, respectively, indicated these were the most valuable tools. Just under one in eight (11.7%) cited advice from friends, family members or financial advisors.

As the for top reasons workers don't enroll in HSAs, a separate survey of nearly 250 employers cited these factors:

- unaware of financial tax benefits (47.4%)
- previous experience (26.3%)
- cost (5.3%)
- unaware of offer (5.3%)
- other (15.8%)

ConnectYourCare's Consumer-Driven Health Plan Enrollment & Usage Trends Survey was conducted from October 2016 through January 2017 using a third-party survey platform.

05 'Think" Tank

Does confidence trump literacy in financial wellness engagement?

A new study suggests that financial wellness engagement isn't about what you know, but about what you think you know.

In the "Inside Employees' Minds – Financial Wellness" report, Mercer found that financial literacy or knowledge was not as important as is often thought, and that its more about helping individuals become more confident about engaging in financial issues – what Mercer calls "financial courage." "When employees have financial courage, they're more likely to engage with a financial wellness program when prompted," according to the report.

Not that a lack of financial wellness was all about income; Mercer found that 14% of those in the two lowest financial wellness groups had household incomes of more than $100,000. However, that income group also comprised 73% of the top two financial wellness groups.

As for those individuals who haven't acquired that courage, Mercer suggests employing greater support, "do it for me" solutions, and incremental "wins" — small financial decisions — that build confidence.

Engage Mien

Mercer also found that one's perceived financial literacy — their level of confidence, irrespective of actual financial knowledge — was a significant factor driving whether or not individuals engage with financial planning resources. Those with a more favorable self-rating were found to be more likely to engage with a financial advisor and to seek guidance in improving their financial well-being.

Mercer embraces the definition of financial wellness outlined by the Consumer Financial Protection Bureau (CFPB), specifically a state of being in which the individual has control over their day-to-day, month-to-month finances, has the capacity to absorb a financial shock, is on track to meet financial goals, and has the financial freedom to make choices that allow them to enjoy life.

Mercer noted that while retirement and "keeping up with monthly expenses" were prevalent financial concerns, but the latter was a larger concern (62%) for those with low financial wellness scores, while retirement was a greater focus for those with higher financial wellness scores.

SAVE the Date

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Hope for Millennials' Retirement?

BY LISA GREENWALD

It's time to bust the myth that for Millennials, retirement is just so far off that they aren't thinking about it.

Though the Retirement Confidence Survey, conducted annually by Greenwald & Associates and EBRI for the past 28 years, generally reveals how dire Americans' retirement preparations really are (and in many ways, they are), this year's RCS findings give me some hope that Millennials (or Gen Y) are perhaps learning from the missteps of prior generations.

Half of Millennials report that they have already started saving for retirement. Millennial savers are starting younger than their Boomer predecessors.

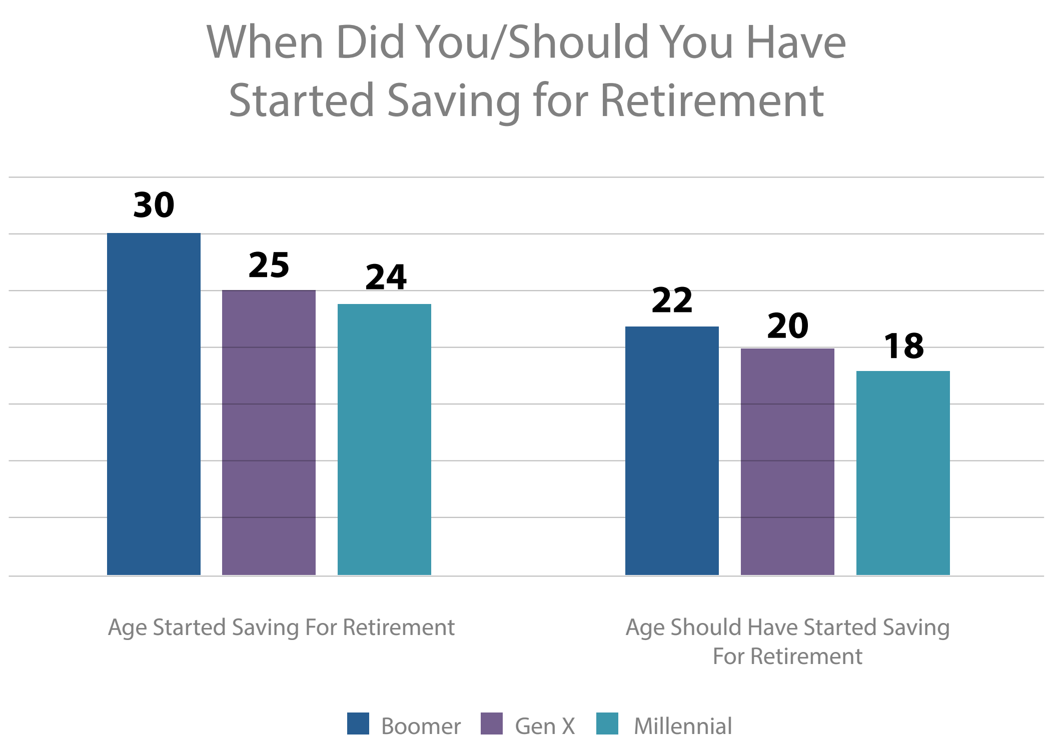
Millennial savers started at a median age of 24, compared to a median age of 30 among Boomers. Boomers, on the other hand, say if they got a "do over," they would have started saving for retirement at age 22, and Millennials suggest they really should have started saving as young as age 18. Many Millennials, though still not enough, listened when we said "start young."

Many Millennials, though still not enough, listened when we said "start young."

While Boomers struggle to find fixed investments with a good rate of return, according to the survey, Millennials are no doubt struggling to accumulate. Only 1 in 10 Millennials feel very financially secure, compared to 2 in 10 Boomers, and as we've all read before, Millennials are much more likely to have debt problems. Two-thirds of Millennials describe debt as a problem, compared to about 4 in 10 Boomers. The expected result is very low savings. Two out of every five Millennial workers have less than $10,000 saved, including a quarter with less than $1,000.

Millennials know it isn't enough. Nearly half suggest they aren't doing a good job preparing for retirement, though their overall confidence in their ability to have a secure retirement is about the same as everyone else: a paltry 18% of all workers in the 2017 Retirement Confidence Survey are very confident in their ability to live comfortably throughout retirement. And it's important to note that Millennial workers stress about retirement preparations the same as everyone else, even though retirement is a median 33 years away for them.

But as I said, I see reasons to be hopeful. Millennials have access to DC plans and they participate. Just shy of three in



four Millennial workers say their employer offers a DC plan, and fully 80% of those workers are currently contributing. That is statistically comparable to the 85% of Boomers who are currently contributing. In addition, a third of Millennials report IRA savings (again, the same as Boomers).

Millennials are, not surprisingly, less likely than Boomers to have taken concrete retirement planning steps, but these numbers are better than I would have expected given the competing financial priorities Millennials face and the buzz about them being overly focused on the present. Importantly, Millennials have *thought* about retirement and how they will occupy their time; a third have done this, compared to slightly more than half of Boomers.

> "Millennial workers stress about retirement preparations the same as everyone else, even though retirement is a median 33 years away for them."

Almost one in four have pondered moving or downsizing in retirement. In fact, I recently heard a group of Millennials discuss the places they could move to in retirement with a lower cost of living, in addition to warmer climates and houses on the beach. (We can thank all those retirement commercials for that unattainable-for-most vision of retirement.) However, the amount of thought they'd given to their retirement lifestyles and financial needs was impressive. If I could pass one critical thing along to my clients and others, it's that Millennials are thinking about retirement; we need to bust the myth that it's just so far off that they aren't thinking about it.

As for more tangible steps taken, one in three Millennials have tried to calculate how much they will need to save for retirement. A quarter have estimated their monthly income needs in retirement, and nearly as many have estimated their expenses in retirement. Compare that to 45% of Boomers who have done a retirement savings needs calculation, and about half who have estimated income and expenses for retirement. By comparison, Millennials don't seem so far behind, especially given their much longer time horizon.

But, Millennials still need help... a lot of help. They do not feel confident in their ability to make key savings and investment decisions. Just 13% feel very confident in their ability to determine how much to save and how to choose investment funds. They will seek help, and they are more interested in help provided through their employer. Millennials are more likely than Boomers to say they would seek advice on their retirement savings plan from a company retained by their employer to provide advice (64% vs. 49%) or from their employer directly (46% vs. 28%). Like Boomers, however, two-thirds would seek advice from an independent financial services company or adviser.

Few have spoken to a financial adviser already about retirement planning, however; 15% of Millennials have done this compared to a third of Boomers. While consumers remain largely unaware of the DOL fiduciary rule and potential changes, Millennials (and others) tend to believe that professional financial advisers are working in their best interest. In fact, 73% of Millennials believe the advice they receive from professional advisers is in their best interest.

Survey research continuously shows a lack of concern about conflict of interest, but focus group research I've conducted with younger workers suggests that Millennials have some serious trust issues when it comes to financial advisers. Many will only trust an adviser who comes from a personal referral — parents or that one friend who seems to have her act together — though it seems to me that the employer could also be the trusted referral. I believe these sought-after characteristics make plan advisors, both independent and available through the employer, a potentially ideal resource for Millennials.

> "73% of Millennials believe the advice they receive from professional advisers is in their best interest."

It's like picking the lesser of two evils: Which generation faces worse retirement prospects? Compared to the Boomers, some of these data points make me think Millennials aren't doing so bad. They are starting to save younger and are thinking about the realities of retirement, even though it's more than 30 years away. And while I see glimmers of hope for Millennials' retirement, the flip side of these findings paints a bleak picture for Boomers. As an industry, the focus seems to have shifted away from Boomers to these young, hip, non-traditional Millennials, but we should perhaps still be asking ourselves how to help the Boomers. Millennials face lower incomes and higher debts, and the result is lower account balances. Yet, many already know what has to be done as the money becomes available. Time *should* take care of some of that for them, but the Boomers are running out of time.

» Lisa Greenwald is an AVP at Greenwald & Associates, an independent research firm specializing in research for the retirement and financial services industries.

BY DONALD B. TRONE

We May Be Doing 'It' Wrong

Can a Myers-Briggs type of instrument assess the effectiveness of a fiduciary?

Consider this quote from management guru Ram Charan: "Seventy percent of strategic failures are due to poor execution of leadership. It's rarely for lack of smarts or vision." (*Execution: The Discipline of Getting Things Done*)

Can we draw parallels to the retirement industry? When you consider advisors or trustees who have failed to serve effectively as a fiduciary, what percentage of the time can the failure be attributed to one or more of these three causes?

- **Poor leadership** (lacking the ability to inspire, engage and serve others)
- **Poor stewardship** (lacking the passion and discipline to protect the long-term interests of others)
- **Poor governance** (lacking the ability manage the details of a procedurally prudent process)

We're just beginning to conduct formal surveys and research to help answer these questions. But we believe the research is going to reveal that fiduciaries fail far more often as a result of poor leadership and stewardship rather than poor governance.

If this construct is correct — that poor leadership and stewardship trumps poor governance — then we may be doing "it" wrong.

The "it" is our singular focus on fiduciary checklists and audits. It sounds like this:

Advisor: Do you have an IPS?

Plan Sponsor: Yep.

Advisor: Check.

Really? Maybe the IPS was copied from another plan sponsor and doesn't actually reflect the decision-making process of the trustees. Maybe a trustee signed the IPS, but then put it in a file drawer where it has sat for the past four years.

The traditional fiduciary checklist and audit does not provide sufficient insights as to whether a retirement advisor or plan sponsor actually "gets" what it means to serve in a fiduciary capacity.

The traditional approach to evaluating a fiduciary is one-dimensional. We only focus on the fiduciary's decision-making process — their governance. To conduct a more informed assessment, we need to look across three axes: the fiduciary's governance, stewardship and leadership (see Fig. 1).

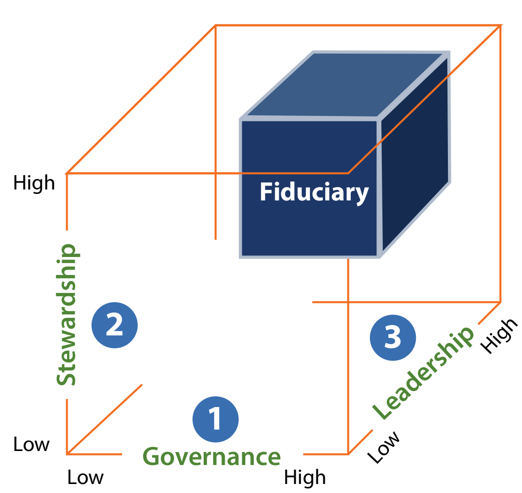
> "We believe the research is going to reveal that fiduciaries fail far more often as a result of poor leadership and stewardship, rather than poor governance."

Fig. 1: A Fiduciary's Governance, Stewardship and Leadership

1. Governance: The fiduciary's ability to manage the details of a procedurally prudent decision-making process.

2. Stewardship: The fiduciary's passion and discipline to judge wisely and objectively in order to protect the long-term interests of others.

3. Leadership: The fiduciary's capacity to inspire, engage, and serve others.



We define this 3-D framework as behavioral governance — a new body of research that parallels behavioral finance. [Warren Cormier deserves the credit for pointing out the similarities of our work to behavioral finance.] The difference between the two is that behavioral governance examines the conduct of fiduciaries, officers, advisors and directors, while behavioral finance puts the lens on plan participants and individual investors.

The same 3-D framework also enables us to have a better understanding of how to build client trust and loyalty. Neuroscientists have determined that trust develops along the same three axes as behavioral governance. We first evaluate whether the

> Behavioral governance examines the conduct of fiduciaries, officers, advisors and directors, while behavioral finance puts the lens on plan participants and individual investors."

person is competent and dependable (a good decision-maker). Then, if so, whether the person is benevolent, *i.e.*, willing to act in our best interests (a good steward). And if so, whether the person aligns with our core values, beliefs and principles (a good leader).

The next step in our research is to develop a Myers-Briggs-type instrument to assess a fiduciary's behavioral governance, including a 360° version for assessing boards or committees. What do retirement advisors and trustees "get"? What are they missing?

The results will provide insights into building much better fiduciary training programs. The data collected also could provide valuable information on the attributes of a great fiduciary — of the behaviors that actually improve retirement outcomes.

So… it's likely that we're doing "it" wrong and there is a much better approach out there to improving retirement outcomes. We need to start thinking in terms of three dimensions, not just one. We need to deepen our understanding of how leadership and stewardship has a material impact on the quality of a fiduciary standard of care.

» Don Trone is the founding CEO of 3ethos, founding president of the Foundation for Fiduciary Studies and founding CEO of fi360. He led the development of the AIF and AIFA designations and was the first person to direct the Institute for Leadership at the U.S. Coast Guard Academy.

BY REBECCA HOURIHAN

Don't Be the Ugly House in the Neighborhood

Every touch point either increases or decreases the credibility of your firm.

As a retirement plan advisor, you most likely have seen your fair share of finalist meetings. Well, have you noticed that lately, those "big W's" are getting harder? Want to know one of the secrets to closing more business and increasing your retirement plan business?

We'll give you a hint, it starts with your appearance.

Plan sponsors are going to research your firm, they will Google you, check out your LinkedIn profile, and of course, visit your website. Think of the results of that search as your digital storefront. At any point that decision maker can easily move their cursor to the top right of the page and simply — close out. However, if every time a plan sponsor visits your digital storefront and they find constant, engaging, interesting, and trusted information — not only will you have more inbound leads, you'll also experience a shorter sales cycle because you have digitally demonstrated experience and built trust. Simply stated, you'll gain more retirement plan clients.

Marketing Can Help or Hurt Your Brand

Every touch point either increases or decreases the credibility of your firm. Each time your prospect experiences your brand you are introducing them to what their professional experiences will be like and what it will be like for them to be your retirement plan client.

For example, if your website is 'older' looking, one might think that you don't embrace technology. If your Executive Overview is a Word document, one might think that you don't have pride in your business. If your finalist presentation is a mismatch of different slides mixed together, maybe the retirement plan committee is thinking you'll be disorganized. Each interaction is a direct reflection of your brand.

Your external image can work to open more doors, increase referrals, and boost your business — or it can hurt your business. The better you look, the better your clients and centers of influence look. So, why not look amazing?

Can You Charge a Premium?

Let's try an experiment. Below are websites from three real estate offices. They are all selling the same house and it's a home that you are interested in purchasing. Based on the websites alone, where would you book your appointment?

As we review the examples, notice how you associate a value with services based solely on the look of the website. Let's examine:

- **Website 1** (left): This web page has a lot going on. It's cluttered with distractions, which makes it difficult for leads to decipher what to do next; they might even forget why they came to the page.
- **Website 2** (middle): Decent and average. It still lacks enthusiasm, and it's difficult to find the call to action.
- **Website 3** (right): Wow, clean and professional! The image demonstrates a clean, open home, and the call to action button is in plain sight. Based on the look of the website, there is perceived *value* that they are a professional real estate firm, they take pride in their offerings, and you feel like they would provide you a great buying experience.

You may be surprised to learn that your website, marketing materials and digital presence are part of your value currency. The better you look, the higher your perceived value. Thus, the more plan sponsor prospects might be willing to pay you for your expert retirement plan and fiduciary services.

> "By investing in your professional image, you are working to strengthen the entire retirement plan industry."

Let's Not Cheapen Our Offering

Our industry is highly complex, with ERISA, DOL regulations, IRS rules, broker/dealer requirements, FINRA oversight, SEC oversight and RIA requirements, and now with the DOL conflict-of-interest rule, it continues to be more complex. Yet, as retirement plan experts, you have the knowledge, skills, and experience to genuinely help plan sponsors follow a prudent documented fiduciary process — and more important, increase participant outcomes.

By investing in your professional image, you are working to strengthen the entire retirement plan industry. You are elevating the expectations of plan sponsors. When your brand is on-point, you may find the ability to increase your fees. Plan sponsors recognize your value and they are willing to pay a premium to work with you, a professional retirement plan advisor.

If it's been a while since you have reviewed your professional image, take a moment and gather all of your current marketing materials. Then look at them. Or share them with a trusted professional (maybe your local regional VPs or your home office team) and ask their opinion. They have seen lots of marketing materials and most likely can give honest feedback. Lastly, if you find that your materials need a renovation, that's okay, the Internet is editable!

Even though the saying goes, "Buy the ugliest house in the nicest neighborhood," most people don't want to live in the ugliest house. Instead they want to buy that house (at a bargain) and then renovate it to be the nicest house.

When you have the nicest house in the neighborhood, more people will want to visit your home, view your offering, and ultimately, you'll command the best price. And therefore, when you have the best retirement plan advisory office in your neighborhood, more plan sponsors will want to visit your office, view your offering, and ultimately, you will gain more retirement plan clients.

» Rebecca Hourihan, AIF, PPC, is the Founder and CMO of 401(k) Marketing, which she founded to assist qualified experts operate a professional business with professional marketing materials and ongoing awareness campaigns. Previously she served as LPL Financial's East Region Manager for four years, where she consulted large institutional retirement plan offices on business development, client acquisition and prudent plan governance. With more than 10 years' experience, Rebecca has quickly become known as a recognized authority on marketing within the qualified plan industry. This is her debut column for *NAPA Net the Magazine*.

FEATURE

NAPA NATION ROCKS

The 2017 NAPA 401(k) SUMMIT set a new standard for the industry's annual convention for plan advisors — bigger, more advisor-centric, and a new level of after-hours entertainment.

BY JOHN ORTMAN AND JOHN IEKEL

Mark McGrath and his Royal Machines bandmates delivered a high-energy set at the inaugural "NAPA After Dark" event.

The 16th NAPA 401(k) SUMMIT, held March 19-21 in Las Vegas, got rave reviews from attendees, speakers and exhibitors alike. This year's attendance totaled nearly 2,000, including nearly 1,000 advisors — by far the biggest SUMMIT ever.

For a taste of the four general sessions, four "super sessions" (new this year), 16 workshop sessions, and evening entertainment that highlighted the 2017 SUMMIT, here's our wrapup.

Firms 'Putting Their Pencils Down' on Fiduciary Rule

The DOL fiduciary rule may be on the horizon. Or not. But regardless, there will be a need and role for advisors — it just may be different than it was beforehand, avowed a trio of industry execs.

Panelists at the "super session" included facilitator Joe Gill, Vice President, Retirement Solutions, Prudential Investments; William Chetney, GRP Advisor Alliance, GRP; and Edward O'Connor, Managing Director, Morgan Stanley.

The rule has certainly generated discussion, debate and angst for the better part of six years. And there's no end in sight — despite being in effect, the rule is not yet applicable. And just in time, a new administration arrived — one that is skeptical of, if not hostile to, the rule. And for advisors that spells frustration at best, and difficulty at worst.

"It's very problematic," said O'Connor, who expects that there will "very likely be a succession" of 60-day delays in the implementation of the rule. As a result of the current 60-day delay and the prospect that a protracted period of delay and confusion lies ahead, he said, "a lot of firms have just put their pencils down." He added, "we're very hunkered down to be ready."

But the debate, and the ultimate fate of the rule, may not matter, according to O'Connor. Morgan Stanley is looking beyond the DOL rule, he reported, which means embracing the spirit behind it. "We need to get to a higher standard of care regardless of where the DOL rule goes," O'Connor said, adding that the rule has already sparked product innovation.

Chetney agreed, but noted that if the precedent set by the six years it took to implement the 408(b)(2) regulation is any indication, the fiduciary rule could be delayed even more. "I wasn't overly concerned" about its application, he said.

Especially painful, said Gill, will be the rule's effect on rollovers. O'Connor sounded a similar note, remarking, "If you're primarily in the rollover business, you've really got to rethink that."

But, Chetney pointed out, there are questions about advice that concern more than rollovers. "This is where we broaden the services," said O'Connor, for instance through conversations about financial wellness. Even the DOL, he said, did not understand the value of those additional questions.

Another result of the rule: Generalists "are not going away," said O'Connor. He said he thinks they are here to stay, and suggested, "Think more about leveraging generalists."

Revenue sharing, in light of the rule, evokes the thought, "Let's get the handcuffs now," said O'Connor. He said that it is "not as transparent as it needs to be," but that doesn't mean an advisor can't make money, even under the rule. "It's not zero revenue, it's transparent revenues," he said. "We have to be comfortable with people knowing how much they pay us," he added.

Remember that "you're the advisor, pos-

POST-FIDUCIARY WORLD: Prudential's Joe Gill, Bill Chetney of GRP and Edward O'Connor of Morgan Stanley (L-R) shared their firms' approaches to compliance with the DOL rule.

UNDER SEIGE: "Tax reform is an exercise in making choices," NAPA Executive Director Brian Graff said in his Washington update kicking off the 2017 SUMMIT.

BEFI COMES TO FINTECH: Kristen Berman, cofounder and Head of Product at Common Cents Lab, explained how behavioral finance is revolutionizing financial wellness at fintech firms.

ing the questions and educating," O'Connor told attendees. He said that "we need to talk more broadly than what the DOL is talking about right now." And he recommended that advisors document what they do for their clients. "Many times, an advisor does things they don't get paid for. We have to do a better job of documenting that."

Graff: 'There Is a Way to Fix This'

With that resolute assessment, NAPA Executive Director Brian Graff apprised attendees at the opening session of this year's SUMMIT on the current high level of federal activity affecting retirement plans. Graff said that he is concerned "every waking moment" — but also that there are things that can be done.

Among the areas of constant and fevered activity are tax reform and the DOL's fiduciary rule. "I have never seen a level of activity like this," said Graff, adding "I wish I could tell you" where it's going.

Tax Reform

Tax reform was one of candidate Donald Trump's central campaign promises, and President Trump and the Republican-controlled Congress are discussing ways to oblige. And that could have implications for the retirement plan industry and those whom it serves.

"It's impossible to do tax reform without winners and losers," said Graff. He noted that Speaker of the House Paul Ryan (R-WI) remarked in a Dec. 4, 2016 broadcast of "60 Minutes" that the tax reform plan he was advocating "plugs loopholes" to pay for lower tax rates. "What does that mean?" asked Graff, adding, "One man's loophole is another man's incredibly important tax preference.

"At this point, if they do tax reform, there is no chance — no pathway — that we get through it unscathed," said Graff. "You have to understand, in the context of tax reform, everything is about tradeoffs. Tax reform is an exercise in making choices," he added, noting that the job is to get legislators to understand them. "There are people in Washington who do not understand the relative importance of retirement savings plans," he said.

There is good news, however, Graff said — legislators realize that cutting savings incentives is not good for economic growth, and are cognizant of the political consequences of tax incentives that are attuned largely to those with high incomes.

The Fiduciary Rule

What the Trump administration is trying to do is "figure out what the effect of the rule would be," said Bradford

OH, SNAP: Jania Stout with new BFFs Sebastian Bach and Donovan Leitch of the Royal Machines.

ROCKIN' IT: The Brooklyn Bowl's concert stage was ground zero for the first-ever NAPA After Dark event.

VIPs ONLY: The Brooklyn Bowl venue hosted the inaugural "NAPA After Dark" event featuring a concert by the Royal Machines.

STRIKE!: Yes, there's bowling at the Brooklyn Bowl.

LIVIN' IT UP: Limp Bizkit's Fred Durst fronted the Royal Machines for a set.

TECH-TONIC' SHIFT: Bukaty's Vincent Morris, Cynthia Loh of Betterment for Business and Chris Costello of blooom, inc. explored the intersection of human advice and robo-advice.

Campbell, partner at Drinker Biddle & Reath and former head of the EBSA. Graff added that the administration is trying to determine if real-world experience is proving that the Obama administration's calculations concerning the rule are incorrect.

"What I'm freaking out about," said Graff, "is that there would be a delay, then a comment period, then another delay." Worse, Campbell posited, would be if the industry was to start complying with the rule only to have changes made. That, he said, "would be a problem of Biblical proportions."

So what if that happened? Campbell observed that the DOL's March Field Assistance Bulletin provided some assurance that it would be okay to not comply with the rule if the delay of the rule is itself delayed, but it is an imperfect solution. He noted that the problem is that the DOL doesn't enforce provisions involving prohibited transactions.

And stopping the rule is not as simple as it may seem, Graff cautioned. "There is no button they can press" to just stop the rule, he said, adding, "The DOL can't just issue a piece of paper saying the rule will go away — the regulation is law." The only way to do it, he said, is to put in place a regulation that accomplishes that. But that entails economic and regulatory analysis, which "almost certainly" some consumer groups would challenge in court.

It is possible, they said, that Congress may intervene. "Congress is definitely interested in this," said Campbell, "but be careful what you wish for." Graff expressed skepticism that congressional action will be the answer, saying that "the other thing to keep in mind is the Senate. The idea that Elizabeth Warren and Bernie Sanders will not filibuster — no chance."

Campbell suggested that it may be better to pursue the matter through the DOL and not the legislative process. Graff considers that the most likely route; Campbell agreed, as long as the regulatory process is moving; but if it is not, Congress likely will get involved, he said.

"We're in the middle of it — I promise we're in the middle of it," Graff said of the efforts of NAPA and the American Retirement Association. "It's not going to be perfect," he cautioned. "There are no magic unicorns here."

PLAN SPONSORS: Execs from three plan sponsors shared their perspectives on and concerns about their advisors.

PEER-TO-PEER: This year's advisor-only roundtable discussion was bigger than ever.

BENCHMARKING: Ellen Lander, Principal and Founder of Renaissance Benefit Advisors Group, offered guidance on choosing the right benchmarks for a plan and monitoring them effectively.

What Do Plan Sponsors Really Want From Their Advisors?

What factors affect plan sponsor satisfaction with advisors and their services? A SUMMIT session offered some answers drawn from a brand new survey of plan sponsors conducted by NAPA and The Plan Sponsor University (TPSU).

Discussing the survey and the results were American Retirement Association Chief of Marketing and Communications Nevin Adams; Fred Barstein, founder and CEO of The Retirement Advisor University and TPSU; and Warren Cormier, CEO of Boston Research Technologies.

Why do plan sponsors hire advisors in the first place? By far the biggest criterion was industry training and credentials; 92% considered that at least somewhat important, and 63% said it was very important.

There was a bit of a divide between plans with $50 million in assets or more and those with less regarding how plan sponsors found their advisors. Requests for proposal (RFPs) were the most popular, but the former were almost twice as likely to use one; even so, only 38% of them used such a means.

That low figure is at least partially explained by widespread lack of understanding about RFPs and how to go about using one. But they see that changing. "We're seeing more sophisticated plans doing it," Barstein said, adding, "It's going to spread."

The question, he said, is who does it. He noted that advisors may consider crafting their own. "I think it's brilliant to create your own RFP" and give it to a potential client, he said.

And how satisfied are plan sponsors with the advisors they hire? The survey says 53% are satisfied overall with their advisor. Cormier noted that while that rating may sound okay, the last such rating showed 70% satisfaction. "That actually surprised me," Adams remarked; however, Barstein said he was not surprised.

Barstein contends that in this case, "plan sponsors don't even know what it means to be satisfied." He said that while the industry focus is on preparing people for retirement, "we forgot to bring our own clients with us" and that there is a need to educate employers on why preparing people for retirement is important to the company. "Remember the HR person and benefits person thinks about retirement plans the way you think of compliance. They don't like it," Barstein said.

Not only that, the panelists also said that plan sponsors showed a less-than-perfect grasp of how those qualifications are indicated. "Plan sponsors may not understand there are letters after your name and what you did to get them, but those letters after your name mean something," said Adams. Barstein sounded a similar note, telling attendees: "It's vastly important and vastly underrated" to have some indication of credentials and experience.

Though a strong majority kept the compensation they provided to their advisors the same as the year before, Adams indicated that they may not entirely grasp

PASSING THE TORCH: Paul D'Aiutolo (L), NAPA's incoming President for 2017-2018, praised predecessor Sam Brandwein.

what that money pays for. "They've got to know what they're getting for that money. You've got to be up front. You've got to help them," he said.

And Adams noted that the discussion of fees and the trend toward flat fees, which he said is already in motion, spells closer examination of the fees advisors charge. "They may be looking at your fees in a different light," he said.

The Department of Labor's fiduciary rule is double trouble, the survey found. Not only does it affect what an advisor does, their clients don't get it.

"Guys, plan sponsors don't care about this," said Adams. Barstein agreed, noting, "It's not something I would ignore, but it's just not on their radar now."

Despite scrutiny of fees, the satisfaction rating, and the lack of understanding of advisors' experience and what they offer, the survey still found only a 12% turnover rate. The main drivers of loyalty, they found, were the advisor anticipating clients' needs and advisors helping them to stay in compliance.

By far the biggest reason plan sponsors switched advisors was their perception that the plan outgrew the advisor; a distant second and close third were the cost of the advisor's services and the perception that the advisor was not responsive and did not help with critical services.

Barstein offered an antidote to being one of the advisors who is switched out of a client. "The most important thing is not what happened, it's what's going to happen. If you tell a client that, you'll never be fired."

The Trump Effect on the U.S. Economy

Claus te Wildt and Stephanie Link, two of today's top investment analysts, shared their takes on key trends, indicators and what the future may hold for the U.S. economy at one of the SUMMIT's four "super sessions."

Link, managing director of active portfolio management at TIAA Investments, listed a number of positive economic indicators in the U.S. economy:

- The consumer sector — 70% of GDP — is showing signs of life, led by a turnaround in consumer confidence. "Consumers are feeling better, especially about home values; housing valuations are at a decade's high," Link noted.
- "We're seeing cycle highs in consumer optimism," she said, including spending on experiences, electronic devices and cars.
- Manufacturing, at 12% of GDP (but with a significant multiplier effect), is poised for increased spending, though there is no increase yet.
- Bank lending is trending up.
- The dollar has stabilized, and interest rates are going up, but slowly.

"Add it all together," Link said, "and the U.S. economy is poised to accelerate."

The Trump Factor

Claus te Wildt, investment director at Fidelity Investments, offered an interesting view of President Trump. "I view Trump as a tech stock," he said. "He could fly high, or he could be a train wreck. We don't know yet which … Normally presidents don't matter much [to the economy], but I think

FUTURE RESULTS: TIAA's Stephanie Link (top) and Fidelity's Claus te Wildt shared their takes on a range of key economic and investment trends, and likely outcomes.

WHY YOU?: Keynoter Scott McKain, Chairman of the Distinction Institute, urged advisors to view customer experience as a key differentiator.

FIRST 100 DAYS: Keynote speaker Joey Coleman, Chief Experience Composer at Design Symphony, applied his "First 100 Days" customer experience methodology to onboarding new clients.

CLUBBING: Tuesday evening's social happening was held at Drais, Las Vegas' hottest nightclub, featuring stunning rooftop views of The Strip.

this one could be consequential."

In te Wildt's view, President Trump "is very lucky to be taking over the U.S. economy right now." Why? "Manufacturing has been coming back since 2011; we've worked out excess housing inventory; and companies have more cash than they know what to do with," he said. "Then Trump steps in to add more fuel to the fire — bringing back jobs and cash from overseas, and more spending on defense and infrastructure."

However, te Wildt sees three risk factors in Trump' approach to spurring a continuing recovery:

- **Geopolitical:** Threats from North Korea, ISIS, and the Middle East in general.
- **Execution:** Efforts to repeal Obamacare raise questions about the administration's ability to execute. "We don't know whether he can deliver on tax reform," te Wildt said.
- **Policy:** Trump's trade policies are not beneficial to the U.S., te Wildt declared. And if 3 million people are deported under a new immigration policy, there will be a severe impact on the U.S. economy, he noted.

All in all, this is a volatile time, te Wildt concluded. As a result, he said he is recommending investment grade corporate bonds for safety.

Looking ahead at Trump's legislative and regulatory agenda, Link said she foresees tax reform next year, and infrastructure spending in 2018 or 2019, but regulatory reform sooner, citing the enthusiasm for regulatory reform among businesses of all sizes in the wake of Trump's election. Te Wildt also emphasized the importance of the enthusiasm for Trump's plans for deregulation, especially among small businesses: "All went straight up after election," he said.

As the economy improves, Link expects cyclicals to outperform defensives, especially in the financial, tech, defense, experiences and energy sectors. She also touted expected earnings growth in niche sectors like construction cranes, truck engines and aero tech.

Te Wildt on Tax Reform

Te Wildt is not bullish on corporate tax reform. "If there are across-the-board corporate tax cuts, everybody wins," he explained. "But the danger is if those cuts must be revenue-neutral, because then you create winners and losers. Some industries do well and other pay the price. Then, in addition to political conflict — Democrats versus Republicans — you have conflicts between industries. That's why I'm not sure corporate tax reform or the proposed Border Adjustment Tax are doable."

How's Your Value Proposition?

In an era of fee compression, how can you escape the race to the bottom? While there are several answers to that question, basically they all focus on one thing: proving your value to prospects and clients.

How severe is advisor fee compression today? In a SUMMIT "super

VALUE PROP: Joined by Morgan Stanley/Greystone's Jim Detterick and Pat Oberlander of UBS, Fiduciary Benchmarks CEO Tom Kmak shared best practices in building a better value proposition.

session," Tom Kmak of Fiduciary Benchmarks used the conference app to poll the standing-room-only audience of nearly 400 advisors on eight questions over the course of the session, including these two:

- How severe is advisor fee compression? A total of 85% said either extreme (35%) or common (55%). Only 10% said it's a minor issue, and no one said it's nonexistent.
- How important is price in landing a new client? A total of 79% said either critical (9%) or a major factor (70%). Only 21% said it's a minor factor, and no one said it's not a factor.

Kmak served as facilitator of the session, joined by Jim Detterick of Morgan Stanley Wealth Management/Graystone Consulting and Pat Oberlander of UBS. The three shared their takes on three key differentiators for advisors: quality, service and value — and added a fourth: "extra credit."

Quality of You and Your Firm

How do you convince clients and prospects that ERISA requires that fees must be reasonable — not low? "Employers want to get the best deal they can," Oberlander observed. Quoting Warren Buffett — "Price is what you pay; value is what you get" — he noted that the key is to maximize value.

Oberlander's combined wealth management/retirement practice focuses on small businesses and their owners. For him, in serving the small business niche, the key differentiator is trust. Their secret sauce: "a concierge level of service." In both parts of the practice, he says, they strive to be "the first people the client calls" for help.

Transparency is a key to demonstrating your value, says Oberlander — "Here's what you pay, here's who's paying [sponsor and participants], and here's who gets the fees. Then use benchmarking tools to connect the services provided."

For Detterick, it's all about the metrics — backing up the firm's talk about their key differentiators with numbers showing their performance in moving the needle on retirement readiness, for example. "We also talk about our intellectual capital and bench strength, and how our service model differs from our peers," he said.

Services You Provide

Most advisors provide the same four essential services: investment advice, plan management, vendor management and participant services. Investment advice isn't really variable, which makes the variability of the other elements — especially vendor management and participant services like education — important ways to create differentiation, Oberlander noted. "In the sales process [for prospects], we transmit our "concierge" message," he said. "Plan takeovers are different; there's more emphasis on our fees. But both start with the same model." Detterick agreed, noting that, "Repeatability is an important key to building a practice" — an important consideration that constrains variability.

Value to Plan Sponsors and Participants

How do you measure value? To Detterick, the answer to that question must be on an individual client basis. "What's important to your company?" he asks clients. "How does that affect the choices you make with respect to your retirement plan?" With many services models now available, it's important to boil it all down to what's important to the client, "and help them get more bang for their buck."

For prospects, "at the end of the day, client references are the ultimate value message," Detterick noted. Of course, that can't be the sole focus. His firm also does research and analysis on prospects that they share with the prospect — in some instances where they really want to land the client, he indicated, a significant amount of research and analysis.

For Oberlander it's about pain points. "Listen to prospects." He said. "What are they striving for? Find that out and address it." For existing clients, he said, "it's all about delivering on your promises." He reported that in 2016 his firm began documenting the results they achieved for each client, with the intent of delivering a presentation annually showing metrics and other documentation in areas like outcomes and retirement readiness.

Extra Credit

"Extra" credit is a term Kmak uses to describe the extra work that every advisor provides to clients: extra work, extra meetings, extra reports, asset allocation models, fiduciary services, etc. The question is, how do you build all that extra work into what a client pays?

"How bad do we want a piece of business?" Oberlander asked. "The more we want it, the more we're going to do research on that prospect. But we do have a limit. We can always come back to that prospects when the opportunity arises in the future."

Who Cares About the Fiduciary Rule?

With that question, one of the panelists at a SUMMIT workshop session captured the discussion's import: There are matters fiduciaries must address regardless of what the fate of the fiduciary rule is.

Panelists included moderator Lisa Kottler, Senior Vice President of Retirement at NFP; Jason Roberts, founder and CEO of the Pension Resource Institute; Karen Scheffler, Senior ERISA Legal Counsel at AB; and David Levine, Principal at Groom Law Group.

LEGAL EAGLES: NFP's Lisa Kottler (L) hosted a discussion of the fiduciary rule featuring Jason Roberts of the Pension Resource Institute, AB Senior ERISA Legal Counsel Karen Scheffler and Groom Law Group's David Levine.

'Informed Speculation'

Panelists were unwilling to speculate about the rule itself. "Informed wild speculation" was how Roberts characterized it. "No one knows" about what will happen with the rule, Levine agreed, adding, "anyone who does — look askance."

Scheffler said that regardless of the rule's final disposition, "there are certain market changes that are afoot that aren't going to go away." For instance, said Scheffler, the current practice of considering 401(k) rollover plan assets to be ERISA plan assets is one of the "sorts of trends that will continue."

"My advice," said Levine, is "look at what you're doing, consider what you're doing. Don't get caught up in the nuances of the regulations."

Start with the Services

Roberts said that at his firm, "we say, 'Let's start with the services.'" He recommends looking at demand and considering what the needs of client sponsors are, what the market is and how to fulfill those needs.

"The biggest gaps I see," said Roberts, are in wealth management agreements that have been repurposed. "In those I find that if you're going to disclose that you're a fiduciary — with regard to what? Make sure that's clearly set out," adding, "You cannot contract around fiduciary duty."

Careful Is as Careful Does

"I think you should be careful. Don't lock yourself and your client in," said Levine. "The starting point you should be coming from," he said, is to ask yourself how you make money and where the money goes. "As a fiduciary, it is important to do things carefully," Levine said. "I have seen many times in which the Department of Labor asks if there is money behind the scenes."

Scheffler readily agreed, noting that when she worked at the DOL, they were "suspicious of everyone. There was always something to find." And she doesn't appear to think things are any different now. "There is going to be an approach of suspicion."

So how can advisors best gird themselves for that? "Being able to vet what you're doing against best practices is really vital," Scheffler said. She added that in her experience, she has learned most people want to do the right thing, "But they don't know how to do it."

Roberts, too, sounded a note of caution that not only is the DOL not backing down on enforcement, there is the market to consider. "When the market goes down, claims go up. Clients don't like to lose money," he said. Not only that, he cautioned, the DOL's been very clear that "QDIA protection evaporates" under certain circumstances.

POLLING APP: Many sessions utilized the instant-polling function built into this year's SUMMIT app.

Scheffler questioned how serious a risk of lawsuits advisors run. "If you look at the litigation out there, it's all against plan sponsors," she said. "You don't really see financial advisors named in lawsuits along with plan sponsors. It raises the question — how big is your risk, and what is your responsibility to assist plan sponsors regarding litigation?"

Still, Levine suggested, "You need to have resources so your business can keep going" in the event that you are involved in a lawsuit.

COVER STORY

STRAIGHT SHOOTERS

Ten NAPA "Young Guns" share lessons they've learned on building a successful career.

BY JUDY WARD


WANTED
5,000
REWARD
NAPA TOP ADVISORS UNDER 40

After Jared Benson and his colleagues at Orem, Utah-based First West Retirement Solutions started moving upmarket several years ago, they had a good shot at winning a large plan's business. The team's three members — all younger than any members of other advisory teams competing for the business — did a finalist presentation for the sponsor that clearly went well. But the sponsor chose another advisory firm.

"When we didn't win the business, we reached out to ask the sponsor why. The feedback we got was that they really liked our business model and our presentation — but that we 'didn't have enough grey hair,'" remembers Benson, director, investment management at NFP, which acquired First West in 2016. Asked about the takeaway from that conversation, he jokes, "I dyed my hair grey, and we haven't lost a new client since."

But more seriously, Benson says he walked away from the experience of being a finalist for a large plan's business feeling more upbeat about the advisory firm's team and business model. "That was humbling, but it also helped us build confidence," he says. "And having grey hair doesn't necessarily mean that you're an expert in this industry. Our expertise comes from our dedication to our craft, not how long we've been doing it."

Benson and nine other Young Guns talked about insights they've gained while building a career as a plan advisor.

> "Our expertise comes from our dedication to our craft, not how long we've been doing it."
>
> *— Jared Benson, NFP*

Match your business model to the right opportunities.

Jessica Fitzgerald started her career focusing on public defined benefit plans. "But then my mother, who had worked for a police department in Michigan for almost 30 years, was getting ready to retire and asked me to look at her retirement account," remembers Fitzgerald, now a Morgan Stanley senior vice president and financial advisor in Rochester, Michigan. "I reviewed the defined contribution plan for that city, and I noticed that the cost of the plan was extraordinarily high, and the investment performance was horrifically disappointing across the board. So I started looking at municipal defined contribution plans across Michigan, and I discovered that it was a very underserved area." That led her to shift her focus to working with municipal DC plans, a growing area as more public employers shift away from pension plans. "The timing was just right for me," she says.

As Eric Endress began his career, "I was really trying to be a sponge, and soak up everything I could about the business," as he says. "Over time, I found I was drawn to the more technical side of being an advisor, and I got my CFA (chartered financial analyst) credential, so that I could have a detailed approach to investment analysis."

As target date funds saw rapid 401(k) growth during his career's first years, Endress — now vice president and senior investment consultant at CBIZ Retirement Plan Services in Cleveland — developed a particular interest in TDF analysis. "At CBIZ we did our own research on glide paths, and from there, we built proprietary tools for analyzing target date funds," he says. "It seems like a lot of sponsors pick target data funds just based on performance. But we've worked with them to also think about other factors like employee demographics."

In the first years of his career, Shaun Eskamani figured out that he should narrow his target geographic area. "At CAPTRUST we don't have geographic territories, so the country is your oyster," says Eskamani, now a Raleigh, North Carolina-based senior vice president at CAPTRUST. "After a while, I realized that to be more cost-effective and not spread myself too thin, I needed to eliminate some geographies that were more difficult for me to travel to," he says. He decided to focus mostly on employers in the Carolinas and in East Coast cities that are short flights for him.

As he narrowed his target service area, Eskamani also gravitated to two main types of clients with lots of potential in that area: professional services firms like law and accounting firms, and 403(b) sponsors, including universities/colleges and private K-12 schools. "My best advice is to establish a business plan, be disciplined in implementation, and be willing to pivot and adapt your business plan as needed," he says.

Find the best advisory-firm fit.

Benson felt drawn to helping build a plan advisory practice at First West (now NFP). "The idea of being just a face in the crowd at a larger firm is not as appealing to me as being involved in something that has a lot of potential," he says. "I saw this as an exciting opportunity where I would provide immediate value. The biggest factor was the huge opportunity this gave me to create and develop our own processes."

After the insurance broker where he worked as a plan advisor got bought out, Benaiah Burnich met with Randall Long, founder and managing partner at SageView Advisory Group. As they talked, the idea of joining the mid-sized, well-established firm clicked with Burnich. He liked SageView's willingness to take on fiduciary status and its fee transparency, as well as its extensive in-house resources, such as an internal investment committee. "At SageView, everything we do is geared toward retirement plans," says Burnich, now an Overland Park, Kansas-based retirement plan consultant. "It was a breath of fresh air. When you work on retirement plans at an insurance broker, you are like an add-on — kind of like a red-headed stepchild."

For Fitzgerald, her career track of working with municipal DC plan meshes well with Morgan Stanley's interest in developing its public plan business. As a very large company, Morgan Stanley has lots of resources to help her: For instance, she went through a government plan specialist advisor-training program the wirehouse offers. And being in Morgan Stanley's national strategic-partnership program for its advisors has helped her find many of her public DC plan clients. "With more than 15,000 advisors at the firm, it gives me lots of opportunities to partner with other advisors who don't do that type of business," she says. "I wouldn't have that opportunity if I was at a small RIA firm."

Nurture professional connections.

Pete Peterson found new clients mostly by making connections with professionals who work closely with employers, such as accountants, benefits brokers and attorneys. "I networked with anybody that I could refer business to, and who could refer business to me," says Peterson, partner and retirement plan consultant at Dallas-based VisionPoint Advisory Group, LLC. "When I first moved to Dallas, I started a monthly lunch for professionals. I said, 'Let's get together and talk.' And once I got to know them, and they got to know me, they started to refer clients to me."

In her career's first years, Natasha Bonelli says she spent a lot of time "hitting the pavement" to meet other area professionals. "I went to networking-group meetings. And I didn't mind picking up the phone or sending someone an email, asking to meet," says Bonelli, Woodland Hills, California-based vice president and senior financial advisor at Merrill Lynch Global Wealth Management. To identify those people, she did Google research to find the top retirement professionals in the Los Angeles area. "Do your homework on who is most respected in the industry, in your area," she suggests. "And then be bold enough to pick up the phone and call them." She didn't bring up potential client referrals in those first contacts. "I'd say, 'I'd like to sit down and learn more about your business,'" she says.

> "This is not a business where you can just jump in and be successful. You have to plant a lot of seeds."
>
> — *Craig Stanley, The Summit Group of Virginia LLP*

David Montgomery has found he gets most new clients through centers of influence, such as DCIO wholesalers, recordkeeping wholesalers and TPAs. Montgomery, president and co-founder of Tampa-based Fidelis Fiduciary Management as well as vice president at Montgomery Retirement Plan Advisors, has made a lot of those connections when chatting informally at industry conferences.

"Hallway time at conferences is excellent. It is amazing the people you can meet, when you run out to get a water," Montgomery says. "And what's important is showing a genuine interest in these folks. It's not about, 'How can I use this person to get somewhere in my career?' Try to get to know these people. I would learn things from talking to them like their kids' names and ages, and then I would jot that down later. So the next time I saw someone I could ask, 'How is your son John?'" That made him more memorable, he says.

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CONGRATULATIONS

YOUNG GUNS

Established in 2014, the 2017 Top Retirement Plan Advisors Under 40 were drawn from nominations provided by NAPA broker-dealer/RIA Firm Partners, vetted by a blue ribbon panel of senior advisor industry experts based on a combination of quantitative and qualitative data submitted by the nominees. These "Young Guns" are widely seen as the future leaders of the retirement plan advisor industry.

This year we received more than 500 nominations (a 20% increase from a year ago), and received nearly 23,000 votes, compared with approximately 20,600 a year ago – both are records for this prestigious list. While each year's nominations contain an inspiring pool of potential candidates, due to both the size and quantity of qualifying advisors this year, we have expanded this year's list to 75.

Our thanks to all who participated in the nomination and voting process, the hundreds of nominees, and our panel of judges, who gave selflessly of their time and energy to make this year's process another resounding success.

Most importantly, our heartiest congratulations to this year's Top Retirement Plan Advisors – and all you have done, and will continue to do, for the many plans, plan sponsors, and plan participants you support.

NAPA YOUNG GUNS TOP PLAN ADVISORS UNDER 40 2017

ADVISOR	FIRM NAME	BROKER-DEALER/RIA NAME
Alexander Assaley	AFS 401(k) Retirement Services, LLC	**Commonwealth Financial Network**
Derek Bailey	Marcotte	**Cambridge Investment Research**
Jessica Ballin	401(k) Plan Professionals	**LPL Financial**
Andrew Bayliss	Marsh & McLennan Agency	**MMA Securities**
Mark Beaton	Bukaty Companies Financial Services	**Resources Investment Advisors**
Michael Jared Benson	NFP	**Kestra**
Eric Blofsky	(k)ornerstone	**(k)ornerstone 401k Services**
Natasha Bonelli	Merrill Lynch	**Bank of America Merrill Lynch**
Ryan Boutwell	Associated Financial Group	**LPL Financial**
Julie Braun	Morgan Stanley	**Morgan Stanley Wealth Management**
Benaiah Burnich	SageView Advisory Group	**SageView Advisory Group**
Matt Byers	Eminent Wealth Strategies	**LPL Financial**
Matt Callan	First Landing Financial, LLC	**Raymond James Financial Services**
John Clark	Heffernan Retirement Services	**Global Retirement Partners**
Jake Connors	Compass Financial Partners	**LPL Financial**
Brady Dall	401k Advisors Intermountain	**LPL Financial**
Steven D'Amico	Morgan Stanley	**Morgan Stanley Wealth Management**
John Davenport	CAPTRUST Financial Advisors	**CAPTRUST**
Michael Down	The Meltzer Group / NFP	**Kestra**
John Ehlers	Foundations Retirement Consulting	**LPL Financial**

NAPA YOUNG GUNS
TOP PLAN ADVISORS UNDER 40
2017

ADVISOR	FIRM NAME	BROKER-DEALER/RIA NAME
Eric Endress	CBIZ Retirement Plan Services	**CBIZ Financial Solutions**
Shaun Eskamani	CAPTRUST	**CAPTRUST**
Paul Etra	PRB Wealth Management	**LPL Financial**
Derek Fiorenza	Summit Group Retirement Planners, Inc.	**LPL Financial**
Jessica Fitzgerald	Morgan Stanley	**Morgan Stanley Wealth Management**
Geoffrey Forcino	Kathmere Capital Management	**LPL Financial**
Steven Gibson	Plante Moran Financial Advisors	**Plante Moran Financial Advisors**
Harris Gignilliat	UBS Financial Services, Inc.	**UBS Financial Services, Inc.**
Graham Goldwasser	Merrill Lynch	**Bank of America Merrill Lynch**
Tyler Gupton	CAPTRUST	**CAPTRUST**
Austin Gwilliam	Global Retirement Partners	**Global Retirement Partners**
Brett Henderson	UBS Financial Services, Inc.	**UBS Financial Services, Inc.**
Zach Hull	Compass Financial Partners	**LPL Financial**
Jason Jeskey	Global Retirement Partners	**LPL/Global Retirement Partners**
Mike Kasecamp	CBIZ Retirement Plan Services	**CBIZ Financial Solutions**
Krystle Kaufman	Bukaty Companies Financial Services	**Resources Investment Advisors**
Amber Kendrick	CIG Retirement Plan Consulting	**Commonwealth Financial Network**
Jamie Kertis	Grinkmeyer Leonard Financial	**Commonwealth Financial Network**
Cameron Kleinheksel	Plante Moran Financial Advisors	**Plante Moran Financial Advisors**
Josh Kopec	Connor & Gallagher OneSource	**Global Retirement Partners**

NAPA YOUNG GUNS
TOP PLAN ADVISORS UNDER 40
2017

ADVISOR	FIRM NAME	BROKER-DEALER/RIA NAME
Christopher Kulick	CAPTRUST	**CAPTRUST**
Shale Latter	CapTrust Advisors, LLC	**WF Advisors/CapTrust Advisors, LLC**
Ronald Letaw	Montgomery Retirement Plan Advisors	**Independent Financial Partners (IFP)**
Justin Londergan	LPL Financial	**LPL Financial**
Damon Marra	Retirement Plan Consulting Group	**LPL Financial**
Joseph Matis	Morgan Stanley	**Morgan Stanley Wealth Management**
David Montgomery	Fidelis Fiduciary Management	**Independent Financial Partners (IFP)**
David Morehead	Retirement Benefits Group	**LPL Financial**
Patrick Morrell	Ingham Retirement Group	**LPL Financial/Ingham Russell Investment Advisors**
James Moyes	RedStone Advisors/Pensionmark	**Pensionmark Financial Group, LLC.**
Michael Paris	Paris International	**NPC / ACI Partners**
Jason Colin Patrick	Fiduciary Advisors, LLC	**Kestra Investment Services, LLC/Kestra Advisory Services, LLC**
Pete Peterson	VisionPoint Advisory Group	**LPL Financial**
Neil Plein	Aldrich Wealth LP	**Aldrich Wealth LP**
John William Pomroy	Florida Pension Group	**LPL/ Independent Financial Partners**
Aaron Pottichen	CLS Partners Retirement Services	**CLSRS, L.L.C.**
Kevin Price	Insight Financial Solutions	**LPL Financial**
Kimberly Pruitt	NFP Retirement	**Kestra/NFP Retirement**
Shaun Ratay	Morgan Stanley Wealth Management	**Morgan Stanley Wealth Management**
Brett Reardon	Plante Moran Financial Advisors	**Plante Moran Financial Advisors**

ADVISOR	FIRM NAME	BROKER-DEALER/RIA NAME
Michael Ribich	Merrill Lynch	**Bank of America Merrill Lynch**
Jesus Rodriguez	Pensionmark	**Pensionmark Financial Group, LLC.**
Joey Rose	The Noble Group	**Raymond James Financial Services**
W. Dean Salyer	WD Pensionmark	**Pensionmark Financial Group, LLC.**
Todd Sink	Garnett Retirement Group	**LPL/ Independent Financial Partners**
Craig Stanley	Summit Group of Virginia LLP	**Ameritas Investment Corp.**
Chris Strother	AssuredPartners Colorado	**Pensionmark Financial Group, LLC.**
Alex Sylvester	Assured Partners	**LPL Financial**
Brent Teague	Oswald Financial	**LPL / Global Retirement Partners**
Joshua Ulmer	Morgan Stanley	**Morgan Stanley Wealth Management**
Brian Whinnery	Hays Financial Group	**Global Retirement Partners**
Brian Wiese	Morgan Stanley	**Morgan Stanley Wealth Management**
Steven Wilkinson	Monarch Corporate Advisors	**Cambridge Investment Research**
Heather Wonderly	Aldrich Wealth	**Aldrich Wealth**
Andrew Zito	LAMCO Advisory Services, Inc.	**LAMCO Advisory Services, Inc.**

Continued from page 37

Listen, listen, listen.

When meeting with potential new clients, focus mostly on listening, recommends Craig Stanley, lead partner, retirement plan consulting at The Summit Group of Virginia LLP in Virginia Beach, Virginia. "It's a people business, and as advisors we need to read and understand people — not try to force our ideas on them," he says. "Early on in this business, you go into meetings with a mindset of, 'This is what I'm going to speak about, and this is what I'm going to accomplish in this meeting.' However, over time I learned that you always need to go in trying to understand what the sponsor's goals for the plan are, and what the sponsor's ideals are. Use that as your starting point, rather than going in with the conversation already totally planned."

Bonelli has learned to listen more to sponsors she's getting to know. "When I started, because I was younger, I felt that I had to spew out a lot of information, so the sponsor would know that I was an expert," she says. "I wish I would have spent more time asking informed questions, and listening to sponsors' responses. If I spent more time listening to what they needed, or wanted to create with their 401(k) plan, I could have done a better job."

Be a resource for potential clients.

Think about ways to provide substantive information that helps potential sponsor clients. "I started as a CPA, so sales is not really my forte," Stanley says. "But being a thought leader — and a nerd, in some respects — worked for me. I sold through education, and positioned myself as the retirement content expert in my area."

Stanley started giving talks to local groups of HR professionals. But his ini-

THE IMPORTANCE OF MENTORS

Working as part of a team helped Kathmere Capital Management's Geoffrey Forcino more than anything in his first years as a plan advisor, he says. He especially learned a lot by working alongside Kathmere President Michael McDermott.

From watching McDermott — who Forcino first met growing up, playing junior golf in the Philadelphia area — he saw how to explain complex information clearly to sponsors. "In the retirement plan business, there are so many confusing terms and analytics," he says. "I saw how he could take all that information and relay it to employers in an easy-to-understand manner."

Forcino also learned to listen closely to sponsors and committees. "You have to understand what is top-of-mind for sponsors and committees," he says. "It's important to first understand what plan sponsors have to say about their company, employees, and top priorities for the retirement plan. From there, we can develop a strategy that aligns with their company culture and makes their retirement benefits stronger."

David Montgomery has had two major mentors in his career as a plan advisor. One is his father Michael Montgomery, the managing principal of Montgomery Retirement Plan Advisors, with whom he still works. From his dad, he learned the importance of always working with integrity and clients' best interests in mind. "In watching him I saw how far it brings you in your career, when people know that they can truly trust you," he says.

Montgomery also learned a lot about the retirement industry from John McGuire, a Florida-based regional vice president-retirement plans for Securian Retirement Group. "When he had nothing to gain from me — because I was brand-new in the industry — he still took the time to show me things like articles on being a 3(21) or 3(38) fiduciary advisor. He said, 'Hey, this is going to be a big thing,'" says Montgomery, who went on to found Fidelis Fiduciary Management to do 3(21) and 3(38) work. "And he came to me proactively. He would say, 'Hey Dave, did you see this article? Do you want me to explain this to you?'"

Now that he's gained more experience, Montgomery mentors junior advisors himself. "A big piece of it is patience, patience, patience," he says. "It is a very complicated industry, and you can get 'in the weeds' very quickly. It's important to take the time to explain things to junior advisors. And it's important to have patience in them as they build up their book of business."

Senior advisors also can help by trusting junior advisors, NFP's Jared Benson says. "When I started, I had a lot of benefits experience, but not a ton of knowledge in the 401(k) world. What I learned then, I did by 'getting my feet wet,'" he says. "Now, I've learned that the more I try to micro-manage and step in with our team, the less I'm providing the rest of the team with an opportunity to grow. I've learned that they will do something in a way that's different — and probably better — than how I would do it."

tial talks about fiduciary requirements and investments didn't seem to leave much of an impression. "So I came up with content more around the theme of helping people," he says. "I talked about things like how to use behavioral finance in plan design to have a positive impact on participants." That resonated much more with the HR professionals.

When Fitzgerald started trying to meet potential public DC sponsor clients in Michigan, she reached out and offered them a free plan fee review. "We looked at these plans' fees, and 9 of out 10 were being dramatically overcharged," she says. "So I called the city managers to ask for a 20-minute meeting and said, 'I can find the hidden costs in your plan and outline them for you.'" The findings she shared in those meetings helped to gain city officials' interest and trust.

And Peterson figured out quickly that it's worthwhile to spend time being an ongoing resource for potential sponsor clients he'd already met. "The sales 'tail' in the retirement plan business is long," he says. "We just sold a plan last year where we had been a resource for that sponsor for the previous three years."

Patience is a virtue in waiting for sponsors to hire a new advisor, Stanley says. "You have to continue to be a resource for them, and let them hit that 'pain point' with their retirement plan," he says. "It is hard to be patient, because we're all go-getters. But this is not a business where you can just jump in and be successful. You have to plant a lot of seeds."

Over time, become the quarterback.

As he gained more advisory experience, Burnich still collaborated with very seasoned advisors, but he increasingly positioned himself with sponsors as the team's quarterback. "I brought in senior, established team members to gain the confidence of the plan sponsors," he says. "But in those meetings, I would probably do 60% to 75% of the talking. I wanted to make sure the sponsors knew that I was the lead consultant."

Gaining sponsors' confidence "was a matter of getting clients comfortable with me as the starting quarterback of the relationship," Eskamani says. To do that, he learned to use the energy of youth as a plus. "I had no choice, and needed to show command of the issues. Unfortunately, I don't have any grey hair, and I don't wear glasses. So that's two strikes against me,'"

> One thing that helped me build relationships with clients is that I did a tremendous amount of reading and research on industry developments."
>
> — *David Montgomery, Fidelis Fiduciary Management*

he says jokingly. "I had to use my youth and energy to my advantage."

Eskamani utilized his high energy level as a cornerstone of his client-service approach. "I tried to make every prospect and client feel like they were my only client," he says. "Small details matter, such as being very proactive in my advice and service. For example, when I receive an email or call from a client, my personal philosophy is to always respond within 24 hours."

Make complexities simple.

Advisors can become more valuable to sponsors by helping them understand the barrage of new developments that impact retirement plans. "There is so much information out there: from recordkeepers, to broker/dealers, to all the industry resources," says Geoffrey Forcino, director of 401(k) & retirement plan services at Kathmere Capital Management in King of Prussia, Pennsylvania. "As an advisor, you need to be able to take all that information, figure out the important things, and then explain them to a sponsor in a simple and efficient way."

Montgomery has found sponsors appreciate getting his help in understanding complicated subjects such as fee disclosures, new fiduciary rules from the U.S. Department of Labor, and behavioral finance research findings. "One thing that helped me build relationships with clients is that I did a tremendous amount of reading and research on industry developments, and asked a lot of questions of people very knowledgeable about those topics — and then with clients, I figured out ways to explain it to them in simple terms," he says.

Don't try to do everything for sponsors.

In his career's first years, Benson was inclined to position his practice as something just short of an outsourced retirement plan management department. "I felt this urge to be everything for our clients," he says now. "But in retrospect, I started to understand that there is a balancing act between overcommitting yourself to clients and trying to do everything for them, and making sure that they understand that there are roles and responsibilities that they need to understand and play as a sponsor," he says.

Benson realized he needed to trust his sponsor clients to do their jobs. "I learned more about how to manage my client relationships, so that I'm not doing everything," he says. "And I also learned to trust their recordkeepers. Early on, I felt like I needed to micromanage that sponsor/recordkeeper relationship. That may have prevented my recordkeeping partners from performing their jobs to the best of their abilities, if they felt that they always needed to work through me."

Don't be afraid to say, "I don't know."

After he got more experience working with sponsors, Endress realized that advisors don't have to be the instant expert on every topic. "It is okay to say that you don't know the answer to something," he says. "It's okay to show clients that vulnerability — that you are a real person. But also give them the confidence that you will follow up with them. In those first years I learned a lot about how to manage expectations, and to follow through," he says.

It's more important to give an accurate answer to sponsors than a really fast one, Peterson came to understand. "I realized that I don't need to have the answer to every question right away," he says. "It's okay to say, 'I'm pretty sure that I know what the answer is, but I need to get back to you to make sure that I don't give you the wrong answer.'"

» Judy Ward is a freelance writer who specializes in writing about retirement plans.

FEATURE

Bridging the Gap

From six NAPA Young Guns, here are five tips for helping Millennial participants save more.

BY JUDY WARD

"I am a Millennial, and I do think that there are a lot of misconceptions about this generation," says Krystle Kaufman, retirement plan consultant at Bukaty Companies Financial Services in Davie, FL. "A lot of it is that very often the Baby Boomer generation blames Millennials: They say that Millennials are lazy, demanding, impatient, and have poor communication skills. It's so bad that I sometimes shy away from identifying myself as a Millennial: I say, 'I'm on the cusp of Generation X.'"

For Kaufman, understanding Millennial participants and helping them stay on track with their retirement savings has become one of her passions as an advisor.

With 53.5 million workers, Millennials — those ages 20 to 36 this year — surpassed Generation Xers in 2015 as the largest generation in the American workforce, according to a Pew Research Center analysis of U.S. Census Bureau data. A year earlier, Millennials became a larger share of the workforce than Baby Boomers.

Kaufman and five other Young Guns talked about helping Millennials save for retirement.

> "It definitely is in a lot of Millennials' heads that they will have to work into their 70s."
>
> — *Cameron Kleinheksel, Plante Moran Financial Advisors, LLC*

'Student Loans Are Insane'

Most Millennials actually see the effort required for their own retirement realistically, believes Cameron Kleinheksel, senior consultant at Plante Moran Financial Advisors, LLC in Grand Rapids, MI. "I definitely don't think that the Millennial generation is so naïve that we all think we will be able to retire early," he says. "It definitely is in a lot of Millennials' heads that they will have to work into their 70s. And then the outlook for Social Security adds to uncertainty about retirement."

Unlike their parents, Millennials entered the workforce recently enough to realize that they cannot depend on pension plan-style benefits. "I think that Millennials ultimately are going to be in good shape, because this is the first generation that has seen its parents not be able to retire," Kaufman says. "We're experiencing people close to us struggling to retire."

In Joey Rose's experience, Millennials understand their own need to save for retirement more than older generations. "You typically see Baby Boomers who are not as prepared as they need to be. But it's not difficult to tell a Millennial to save for retirement," says Rose, vice president and financial consultant at The Noble Group in Sugar Land, TX. "If you tell them, 'It takes saving 15% of your paycheck to save adequately for retirement,' if you give them a goal like that, they take it and run with it."

On the flip side, many Millennials face challenges saving for retirement. "Millennials have such a long time horizon until retirement," says Amber Kendrick, director, retirement services at C.I.G. Retirement Plan Consulting, LLC in Glastonbury, CT. "And there are other financial stresses that they face *now*. They're experiencing financial pressures daily, and retirement is so far away."

The Millennial age group often faces a budget squeeze, Kaufman says. "When you first start working in your 20s, you're not making much money, so you don't have much money to put away," she says. "We're also the most educated generation, and our student loans are insane. When you start your career, you have to start paying off your student loans, while also paying your rent and other living expenses."

"By the time we get into our 30s, we still have the student loans, and for a couple that can be $500 a month or more," Kaufman continues. "Then you buy a house and have your mortgage payments, which average about $2,000 a month. Many Millennials also are starting a family, and child care can run $1,600 a month. We often have very little to save, because we have all these expenses."

Embracing Auto Features and Passive Funds

Fortunately, Millennials usually stick with auto design features more than Baby Boomers, says Aaron Pottichen, president, retirement services at CLS Partners in Austin, TX. "They don't know how much they need to save, so they tend to acquiesce to automatic enrollment at a very high rate," he says. But employers considering auto features sometimes worry about Millennials' responses. "We have worked with some companies where the employees are very coddled," he says. "So the employers were concerned about employees reacting badly. But when we did it, the response was (the sound of) crickets."

Kendrick also finds Millennials very open to auto features. "It's not that we're necessarily lazy," she says, "but when things are done for you, it's fantastic."

Automatically enrolled Millennials most likely remain in a target-date fund, but Kendrick says that Millennials at employers that don't do auto enrollment often pick overly conservative investment options. "We have heard horror stories from our parents and grandparents about what happened to their accounts when the market declined," she says. "But I tell them, 'At your age, you can't afford to not be in the market. And remember that you haven't lost money until you sell the investments.'"

Derek Fiorenza advises Millennials worried about stock market declines to see their 401(k) as a retirement savings account, not a bank account. "Rather than being concerned about what the market is doing today, I encourage them to keep in mind that this is a long-term investment, and over 40 years, you are going to have ups and downs in your account," says Fiorenza, chief operations officer and chief compliance officer at Summit Group Retirement Planners, Inc. in Exton, PA. "I tell them, 'With that much time, you can afford the volatility now. You should focus on appreciation, and as you get closer to retirement, then you can focus on preservation.'"

Millennials also frequently are very fee-conscious about their 401(k) investments, having been exposed to lots of media reports and advertising focused on investment fees, Rose says. "Many of the conversations I have with Millennial participants are around, 'What are my underlying costs?' They care about where all their money is going."

Millennials are more cognizant of investment fees than any other generation, Pottichen finds. "They have access to a lot of information. Millennials are more likely to look into it and think, 'Oh, active managers don't actually add value compared to passive investing,'" he says. "Passive investment vehicles are heavily requested by Millennials. And if the plan has active funds on the investment menu, they are more likely to want to know why. They are kind of falling into the 'religion' of index-only menus."

Making Education Relevant

The Young Guns offered five tips on how to educate Millennials about their retirement savings:

Tip #1: Take a Holistic View

For many Millennials to save for retirement, they need to first feel less unsure about their budgeting and finances overall. "Help identify their specific financial fears, and address their finances holistically," Kendrick suggests. Millennials need to understand more about basics like how to do a monthly budget. "Then, once they have more confidence about their expenses, they will feel more comfortable about saying, 'Okay, I *do* have $50 a paycheck that I can put aside for my 401(k) account,'" she says.

Millennials often spend more money on their social life than they realize, Pottichen says. "Here in Austin, Millennials spend a lot on social activities," he says. "We do a lot of education meetings and say, 'You can spend X amount of money drinking every night, or you can spend half of that on drinking and save the other half for retirement.' Human beings are pretty easy to predict: We don't want to put away money for a future benefit that takes away from our current pleasure."

Fiorenza helps participants start thinking of their spending in terms of different expense buckets. "I tell them, believe it or not, there are probably a lot of areas where you can tighten your budget," he says. Once they understand better where they're actually spending money, he says, "Then I make suggestions like, 'Do you think you can go to Starbucks one less time a week, and put that money into your 401(k) instead?'"

> "They don't know how much they need to save, so they tend to acquiesce to automatic enrollment at a very high rate."
>
> *— Aaron Pottichen, CLS Partners*

Tip #2: Customize the Message

Millennials get so much information from so many sources, such as texts, email, blogs, and social media. "It is important to grab their attention, and be concise. You have to rise to the top of the 'noise' that all Millennials receive on a daily basis," Kleinheksel says. Fortunately, he adds, providers now can do much more targeted, customized messages to participants.

"For example, one thing we've really seen positive feedback on is a Fidelity mobile app that allows participants to benchmark themselves on their retirement savings," Kleinheksel says. "Participants want to know, 'How is everyone else doing compared to me?' So they can punch in things like their zip code and their industry, and get benchmarking data on how they compare to peers. It's motivating — and if someone sees they are behind, they can increase their savings rate with one click."

Tip #3: Explain How Getting the Match Pays Off

Fiorenza looks at his own 401(k) and IRA accounts as mandatory "bills" that he has to pay every year. "But it's more difficult for a lot of people in my age bracket," he says. "They are so focused on self-gratification in the moment. Millennials are always asking, 'What is in it for me?'" He has gotten good results answering that question when Millennials work for an employer that offers a 401(k) match. He explains how getting a match of say, 4%, is essentially like getting a 4% boost in their salary. "Show them, 'This is an increase to your bottom line,'" he recommends.

Tip #4: Show the Power of Starting Early

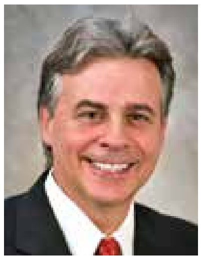
Millennials need a simple explanation of the power of compounding. Help Millennials understand that if they start saving in their early 20s and their 401(k) investments average a 7% annual return, they can double their money approximately every 10 years, Fiorenza suggests. "So if you are 25 years old and start saving now, by the time you are 65, you have a chance to double your money four times over those 40 years," he says. "If that happens, at the end of 40 years, that first $10 you put in at age 25 will be worth $160." It's important also to explain that those are estimates, not predictions or guarantees, he adds. That example illustrates the process of compounding by reinvesting dividends and capital gains over a period of time, he says.

Tip #5: Use Different Formats

Showing Millennials a slideshow or PowerPoint presentation in a group meeting likely will not hold their interest, Rose says. Think about other approaches, he recommends. For example, he has utilized a smartphone app to do a retirement savings quiz in meetings. "Everybody answers a (multiple choice) question on their phones, and then the correct answer pops up on the screen at the front of the room," he says. "They can compete for who gets the most points by answering the most questions correctly."

In her group meetings with Millennials, Kendrick finds that peer discussions keep attendees interested. "I like to make a circle with the chairs, and then say, 'Let's talk about your experiences with your 401(k),'" she says. Attendees start talking about experiences like taking a hardship withdrawal, then being disappointed to have to pay all the taxes on it. "It's one thing for them to hear that from someone like me," she says, "but if they hear it from their peers, it becomes very powerful."

»Judy Ward is a freelance writer who specializes in writing about retirement plans.



BY STEFF C. CHALK

The Certainty of Uncertainty…

…in transitioning to a new fiduciary standard.

Uncertainty continues to brew in the land of the qualified retirement plan, as plan advisors weigh their options and consider changing to a new business model — all thanks to the shifting timelines of the new fiduciary rule established by the Department of Labor over the last year.

But this uncertainty is not just for plan advisors. It exists for plan sponsors, recordkeepers, investment firms, politicians and even for the financial markets — all based upon what may or may not occur at the Department of Labor, the White House and the SEC.

Today, as advisors look to continuously improve and plan sponsors look to improve the benefits they offer, all must realize where our industry sits. Plan sponsors and plan participants are both stuck in an old paradigm, while retirement plan advisors at least have access to new research (even though they are not yet privy to it). In any event, a chasm separates the new research from those who need it.

Looking to the Futurists

In the field of artificial intelligence (AI), today there are thousands of people who call themselves "futurists." Researchers cite four AI technologies that are poised to advance the extension of life:

- Advanced robotics
- Biotechnology
- Genetics
- Nanotechnology

Advancements in these technologies are concentrating on brain emulation — storing data outside of the human brain to back up the brain's processing capacity. The next step will be to arrive at a point where the brain can be restored from the backup.

Knowing that this is where AI technology is heading, is it a stretch to assume that one day an investment house or a trustee might be able to offer plan participants the opportunity to incorporate artificial intelligence in the form of brain muscle memory? As a product overlay, could plan participants invest equities with the brainpower of Bill Miller or Peter Lynch? Or could plan participants invest fixed income using the brainpower of Bill Gross?

> "Could plan participants invest equities using the brainpower of Bill Miller or Peter Lynch?"

What We Know Today

In their book, *Investor Behavior: The Psychology of Financial Planning and Investing*, Lucia Fung and Robert Durand address the personality traits that place an investor in the bottom 30%, the top 30%, or somewhere in between. The authors conclude that by incorporating 41 questions, researchers can determine which of the "big five" personality traits (Extraversion, Agreeableness, Conscientiousness, Neuroticism and Openness to Expand/Openness to Intellect) an investor falls into. While there are five factors in total, two of them are dominant: Neuroticism and Extraversion.

The study identifies individuals scoring high in Neuroticism as being attracted to risk. They are drawn to risk due to the associated psychological distress, including depression, anxiety and anger. And they are impulsive and prone to making emotional financial decisions.

Individuals with higher Extraversion scores are identified as being normally social, talkative, enthusiastic and assertive. They normally take on more risk to fulfill a need for excitement. And they have a higher degree of risk tolerance. This can translate to higher returns, even after adjusting for risk.

Americans have heard for years that a good job, steady savings and a bit of luck can equate to stability and a comfortable retirement. Today, however, we're learning that savings and a good job are not a birthright or even easily obtainable. For example, economists Jonathan Morduch and Rachael Schneider documented the financial lives and patterns of 235 low-and moderate income families in their book, *U.S Financial Diaries: How American Families Cope in a World of Uncertainty.* The book chronicles the experiences of families who are going through financial uncertainty and how they react.

Today, financial wellness is front-and-center for all companies. However, the biggest challenge facing employers is that those individuals who are in need of financial wellness will not take the time to seek it. This raises a question: What is the benefit of the best artificial intelligence in the land if those who need it refuse to use it?

» Staff C. Chalk is the Executive Director of The Retirement Advisor University (TRAU), The Plan Sponsor University (TPSU) and 401kTV.

NAPA NET National Association of Plan Advisors

Industry Voices

Our columnists include some of the best-known thought leaders in the industry. Here's some recent commentary:

When discussing benefit restriction rules for defined benefit plans with your clients, do not forget the well-entrenched benefit restrictions that may apply for the High 25 HCEs in the plan.

— John Carl

A plan advisor who is focused on enhancing participant outcomes should hit the pause button when it comes to changing out a fund, especially when the move is being driven by short-term (3-5 years) performance. As noted by the legendary investor Warren Buffett, "Frequently, the best decision is to do nothing."

— Jerry Bramlett

Plaintiffs' attorneys already have advisors on their radar. This new [Form 5500] tool will provide them insight beyond what is now available before lawsuits begin, thus leading to further and more detailed litigation — and litigation risk.

— David Levine

Data has to be made sense of; when patterns emerge, data can be visualized to tell stories that make the intangible tangible, the invisible visible. How might we use data to tell the story of retirement savings for workers in a way that makes preparing for the future less scary, more knowable and more tangible?

— Warren Cormier

You know that old adage that you need to be in front of a prospect seven times before they become a client? Well, we believe with today's hyper-exposed marketing sensory stimulation, it's more like 20 times.

— Rebecca Hourihan

We may be entering into a prolonged period where product packaging has a greater impact on the buyer than an advisor's track record and years of experience.

— Steff Chalk

Right now everyone is focused on overcoming the complexity of the new [fiduciary] rules. However, our industry is resilient, and we'll ride out this goat rodeo. When we do, we're going to begin looking for a new professional standard of care, because fiduciary will merely define a *de minimis standard.*

— Don Trone

What's New

In April we launched the online edition of the NAPA Black Book, adding data-rich, customizable tables on recordkeepers, TPAs, DCIOs and broker-dealers. It's all on NAPA Net, in our "Industry Lists" section. Start by clicking on the Industry Intel tab in the top nav bar.

Engage!

NAPA Net readers engage with our news and commentary — and with each other. Here are a few recent comments:

IMHO, expert advice for a reasonable fee should be every advisor's goal. Simple concept, just "do it." It's your right and privilege to serve.

— Dan Fields

Until some plan sponsor can provide all their funds free of charge and guarantee that they will all exceed market returns, these suits will continue. There will always be trolls looking for a quick settlement. We must prepare for the eventual knock on the door.

— Mel Fleeman

I think the 401k industry and Republicans are short-sighted in opposing these state plans, because future budget hawks will have a good excuse to get rid of the tax expenditure for retirement savings if it's only reaching about half of the workforce (and mainly the highest-paid half of that half). Why tempt them?

— Kerry Pechter

Private litigation is not perfect, but it works far better for individual victims than relying on a government agency that is not adequately staffed or funded to conduct such litigation on its own.

— Michael Wolff

Living in California, I would say that "lower income" can extend to about $40,000. People in that income bracket are struggling to pay rent and commuter expenses. A change to Roth Only would be a disaster for lower income employees.

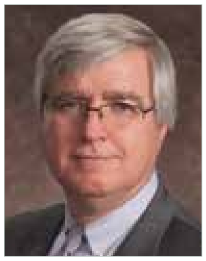
— Julie R. Tucker

Real life knowledge of products, alternatives, et al. has never been taught to a Series 7 or RIA. Simply because reps are licensed to offer advice reflects a breach by the very entities who have a duty to make sure agent/broker/RIA training is at least adequate.

— EF Moody

Maryland, Connecticut and Illinois are hardly paragons of fiscal responsibility and prudence. State-run retirement programs without ERISA-type oversight and accountability are the path to corruption, inefficiency and misallocation of resources.

— Robert Schwab



'After' Math

Could a switch to Roth be good for retirement security?

BY NEVIN E. ADAMS

There's been a lot of rumbling on and around Capitol Hill about a potential shift to Roth contributions for 401(k) plans as part of tax reform. So, how might that weigh on — or boost — retirement savings?

While the ultimate answer depends on a huge (and as yet) unknown variable — how workers would respond to a mandatory change — Jack VanDerhei, Research Director at the nonpartisan Employee Benefit Research Institute (EBRI), has modeled the potential impact on retirement savings shortfalls under a variety of scenarios.

The bottom line? The impact of a switch to Roth is less than one might think — and it could even close the nation's retirement savings shortfall.

Previous Roth Research

In a presentation to EBRI's Research Committee in May, VanDerhei noted that previous EBRI surveys had recently been cited by a media anxious to anticipate the prospects of a Roth switch. He cited the 2011 Retirement Confidence Survey, in which individuals were asked about the importance of their ability to deduct their retirement contributions as a factor in their decision to save. More than 6 in 10 (61.5%) said that was "very important," while another 27.8% said it was "somewhat important." However, VanDerhei cautioned that this was not specifically focused on the Roth issue on the table now, specifically that there was no mention of the potential for tax-free distributions at a later point in time.

Moreover, another question from that same survey that hasn't been cited was that, when asked how they would respond to no longer being able to deduct their contributions, more than half (56.2%) said they would continue to save what they do now. Indeed, just over 17% said they would increase the amount they are saving now, though one in five said they would reduce their contributions, and just under 5% said they would stop saving for retirement altogether.

The subject of employee contribution deductibility was also part of the 2012 Retirement Confidence Survey, though again it was in a slightly different context. Still, that survey found that lower income workers (those making $15,000 to $25,000) were far more likely to say they would reduce the amount they would save and to cite the importance of deductibility in their decision to save. This might be viewed as somewhat ironic since members of this group, because they are subject to lower tax rates, arguably garner less benefit than the higher-paid workers who did not respond as negatively to the proposal.

VanDerhei also acknowledged a 2015 study by John Beshears, James J. Choi, David Laibson and Brigitte C. Madrian that focused on 11 companies that added a Roth contribution option to their existing 401(k) plan between 2006 and 2010. That study found no decrease in employee contributions because of the introduction of a Roth feature — although, as VanDerhei explained, a lack of response to the addition of a voluntary choice really has no bearing on how individuals might respond to the imposition of Roth tax treatment.

Switch 'Plots'

Despite all the talk and concerns about a potential shift to Roth, with no specific proposal yet on the table, VanDerhei looked to consider the impact of a complete switch to Roth contributions in all 401(k) plans, effective in 2018.

Lacking any data upon which to extrapolate worker response to this Roth change, VanDerhei modeled assumptions in which all participants who have at least one more year of participation:

- Left contributions unchanged
- Reduced contributions 5%
- Reduced contributions 10%
- Reduced contributions 15%
- Reduced contributions 20%
- Reduced contributions 25%

Based on this analysis, VanDerhei reported that when no reduction in contributions is assumed, the aggregate retirement savings shortfall (for those who have at least one more year of participation) shrinks, by 1.4%. Similarly, even if a reduction in contributions of 5% is assumed, the retirement savings shortfall is reduced, by 0.6%. Said another way, at least for that range of assumptions (including the assumption that today's tax rates hold), those who are projected to run short of money in retirement are better off with a Roth account.

'Break' Points

As it turns out, the break-even point in terms of where the tax advantages of Roth at the back end in retirement largely equal out the advantages of deferral at the front end lies at a 9.1% reduction in contributions. Beyond that point, the Roth option (and the assumed reduction in retirement savings) worsens the retirement savings shortfall — though even assuming a 25% reduction, the shortfall deepens by a mere 2.6%.

Not included in this particular analysis, but on the radar for future development, is how the switch to Roth might affect the accumulations of participants, and how different tax rates assumption in the future might change the results.

The bottom line? A switch to Roth — even a 100% switch — could have a positive impact on retirement savings shortfalls, at least assuming workers don't respond too negatively. And that, for now, remains a key question.

Editor's note: EBRI launched a consumer survey in June to ascertain employee reactions to a Roth switch.

NAPA's Upcoming Industry Lists

NAPA's unique lists highlight three critical elements of the retirement industry:

"Wingmen," listing the DC industry's top wholesalers, "Young Guns," our list of the top plan advisors under 40, and NAPA's Top Women Advisors.

One of the things that sets these lists apart from other published lists is that they are based on a nominating/voting/selection process that taps the knowledge of NAPA's 10,000+ members. Look for more information about the upcoming editions of all three lists on the NAPA Net portal and in the *NAPA Net Daily.*

FALL 2017

Only plan advisors know how important their DC wholesaler can be in building, managing and growing their practice. We call them "DC Wingmen" because if they are doing their job, they have your back.

And only advisors know which Wingmen are really good and truly add value.

That's why NAPA set out to identify the top wholesalers who serve the DC market — the truly elite Wingmen. Our first annual Top DC Wholesalers list, published in March 2014, quickly became an industry staple.

You can find the lists of Top DC Wholesalers online at www.napa-net.org, under the "Industry Lists" tab.

The 2017 list of DC Top Industry Wholesalers will be published in the Fall 2017 issue of *NAPA Net the Magazine.*

WINTER 2017

In what has long been a male-dominated profession, a growing number of women are today making significant contributions to this field. In 2015, the editorial team here committed to an acknowledgment of those contributions with the launch of the newest NAPA Net list, NAPA's Top Women Advisors.

You can find the lists of Top Women Advisor All-Stars, Captains, and Rising Stars online at www.napa-net.org, under the "Industry Lists" tab.

The 2017 list of Top Women Advisors will be published in the Winter 2017 issue of *NAPA Net the Magazine.*

SUMMER 2018

Where is the next generation of plan advisors coming from?

To answer that question, NAPA set out to find the top young advisors — the profession's "Young Guns." The result of was our list of the "Top Plan Advisors Under 40," first published in 2014.

You can find our lists from 2014 through 2017 online at www.napa-net.org, under the "Industry Lists" tab.

The 2018 "Young Guns" list will be published in the Summer 2018 issue of *NAPA Net the Magazine.*

Questions about the process, timing, or eligibility for the lists should be directed to Nevin Adams at **nevin.adams@usaretirement.org.**

401(k) litigation continues to be an evolving area. In this issue, robo-advisor Financial Engines finds its (more precisely, its recordkeeper's) compensation models challenged; the first of the university 403(b) suits gets (and mostly survives) a hearing; a stable value fund suit falls short — for the third time — and the settlement struck in another strikes a judge as not enough… Read on!

BY NEVIN E. ADAMS, JD

MISS 'MANAGED'?

Advice arrangements draw several participant lawsuits

Financial Engines — or more precisely, the firm's financial arrangements with a recordkeeper — has once more found itself named in litigation.

The lawsuit, filed Jan. 27 in the U.S. District Court for the Northern District of Illinois (*Scott v. Aon Hewitt Financial Advisors* LLC, N.D. Ill., No. 1:17-cv-00679), claims that at defendant Hewitt Associates' urging, plaintiff Cheryl Scott, a retiree and participant in the Caterpillar Plan — "and thousands like her in the Caterpillar Plan and other similarly-situated retirement plans for which Hewitt provided recordkeeping services" purchased retirement investment advisory services for an additional fee. "Each quarter, Ms. Scott and other Plan participants paid a considerable service fee from their retirement accounts for this advice," according to the suit.

In fact, plaintiff Scott paid Financial Engines, and, after 2013, AFA, a "hefty fee" based on the size of her retirement account, according to the suit. That said, the suit claims that "…at no time during the period when Financial Engines was providing investment advice directly to Caterpillar Plan participants did Hewitt directly notify Ms. Scott or other similarly-situated Plan participants that Hewitt was taking a 20-25% kickback on the amounts paid to Financial Engines for 'managed services.'" However, the suit notes that in the annual report of the plan filed with the Labor Department it was revealed that Hewitt as receiving 25% of the advice fee paid, and 20-25% of the managed account fee paid to Financial Engines.

Structure Change

But then, the suit claims that Hewitt, out of concern that what it called "this kickback information," was at risk of being discovered through the required public disclosures that were increasingly becoming available in online repositories, Hewitt and Financial Engines in 2014 "changed the structure of their arrangement to hide from public scrutiny the kickback fees that Hewitt was receiving from Financial Engines," reconfiguring things such that Hewitt's newly incorporated sister company, AFA, purportedly became the entity that would provide the advisory services, though "…for all intents and purposes — Financial Engines continued to do all the actual work related to the investment advisory services that Ms. Scott and similarly-situated participants in the Plans were receiving." In support of this claim, the suit references AFA's Form ADV which said, "We (AFA) rely exclusively on the proprietary software systems and methodology developed and maintained by Financial Engines Advisors LLC… to create target allocations for participants."

"By having the Plans' sponsors 'hire' AFA in lieu of Financial Engines, and then having AFA enter into a sub-advisory agreement with Financial Engines … the Hewitt Defendants were no longer required to report the fees they received from Financial Engines. Instead, AFA simply skimmed 20-25% off that fee for the Hewitt Defendants and paid the balance to Financial Engines as a sub-advisory fee," according to the suit.

And while Caterpillar as plan sponsor picked Hewitt as recordkeeper, "…if a Plan sponsor wanted to take part in the participant-level investment advice and managed account programs from the suite of available services, it had no choice but to accept Financial Engines as the provider — together with the (undisclosed) unlawful fee-sharing arrangement complained of herein."

Fiduciary Claim

Recordkeepers, of course, are generally deemed to be agents of the plan sponsor/fiduciary, and not an independent fiduciary in their own right. However, the suit claims that since Hewitt picked Financial Engines, negotiated all of the terms and conditions of the agreement with Financial Engines, and because the selection of a plan service provider is a fiduciary function, "the Hewitt Defendants are fiduciaries to the Plans with respect to the investment advice services and the agreement with Financial Engines."

The suit goes on to argue that there "is no rational justification for an asset-based fee for the minimal fixed level of service the Hewitt Defendants provide in connection with Financial Engines' investment advice program" (which the suit says is "little more than simply making the program available"), and that even though those services do not increase when that participant's account has grown through additional contributions or investment gains, the fee AFA receives does, in proportion to the increase in the value of the account, even though, according to the suit, "…the interface of Financial Engines' advice program with Hewitt's recordkeeping system does nothing more than implement investment instructions on behalf of participants." Said more simply, the plaintiffs allege that "an asset-based fee for a fixed level of service is unreasonable."

This is not the first time the arrangement between Financial Engines and a recordkeeper has been challenged — similar arrangements have been noted in several recent lawsuits, including ones involving Aon Hewitt, Xerox HR Solutions and Voya. Additionally, at least one ERISA litigation firm has gone public with its interest in filing litigation against similar arrangements with Financial Engines.

'OPPORTUNITIES' KNOCKED?

University excessive fee suit gets a hearing

There's apparently no such thing as too many funds in a plan, at least according to a judge in the first of the university excess fee lawsuits to get a hearing.

This one (*Henderson v. Emory Univ.*, N.D. Ga., No. 1:16-cv-02920-CAP, 5/10/17), brought against the Emory University Retirement Plan and the Emory Healthcare, Inc. Retirement Savings and Matching Plan, accused the Emory trustees of allowing "unreasonable expenses to be charged to participants for administration of the Plans, and retained high cost and poor-performing investments compared to available alternatives."

For the very most part the defendants' motion to dismiss was — well, dismissed, either because the judge felt the facts alleged were sufficient to state a claim, or were sufficient because in considering a motion to dismiss the judge "must take the facts alleged in the complaint as true and construe them in the light most favorable to the plaintiff."

With that in mind, the suit that was brought last August against the $3 billion plans ($2.6 billion in one, $1.06 billion in the other, as of Dec. 31, 2014) with more than 40,000 participants, will proceed largely intact, with Judge Charles A. Pannell, Jr. of the U.S. District Court for the Northern District of Georgia, ruling that facts had been alleged sufficient to "state a claim for relief" on allegations that the trustee/defendants:

- Used mutual funds — and retail mutual funds at that ("identical in every respect to institutional share class funds, except for much higher fees") — rather than collective investment funds or separately managed accounts.
- Offered active management solutions rather than passive ones.
- Charged fees that were excessive and/or provided a benefit to TIAA but not to the benefit of the participants.
- Imprudently retained underperforming funds. ("The plaintiffs' allegations sufficiently state that the defendants failed to remove the CREF Stock Account and TIAA Real Estate Account after periods of underperformance and higher costs compared to similar funds.")
- Used revenue-sharing. ("At this point, the plaintiffs' do not have the burden "to rule out every possible lawful explanation" for the allegedly overcharged recordkeepers' fees used in the Plan.")
- Used three separate recordkeepers: Fidelity, TIAA-CREF and Vanguard. ("The plaintiffs' allegation that a prudent fiduciary would have chosen one recordkeeper instead of three is sufficient to state a claim for relief.")
- Did not use a competitive bidding process for recordkeeping services. (…[T]he defendants argue that nothing in ERISA requires competitive bidding. However, the plaintiffs' allegation of the absence of competitive bidding for the recordkeeping services was imprudent; therefore, the plaintiffs' claim is sufficient to state a claim for relief.")
- Forced the use of the CREF stock account and CREF money market account and imposing restrictions on those options (at least to the extent that the challenged actions occurred less than six years prior to the filing of the complaint).

The defendants were successful in rebuffing one of the claims: having (too?) many investment choices in the plan (111). Here plaintiffs charged that the "litany" of funds (rather than the "dizzying" array alleged in other suits) led to "decision paralysis."

Instead Judge Pannell wrote that, "Having too many options does not hurt the Plans' participants, but instead provides them opportunities to choose the investments that they prefer."

THREE PEAT?

Third time no charm for stable value fund suit

A suit that alleged a stable value investment was imprudent has been dismissed by a federal judge.

The suit, *Barchock* v. *CVS Health Corp.,* (2017 BL 127046, D.R.I., No. 1:16-cv-00061-ML-PAS, 4/18/17), alleged that fund manager Galliard failed to exercise appropriate prudence with respect to the investment allocation in the stable value fund, one of the investment options in the CVS plan, and that CVS failed in its duty to monitor Galliard's investment management.

Previous Attempts

Plaintiffs in the case had already fallen short twice before. The plaintiffs' first pleading (in the words of the court) offered "…nothing from which to conclude that the Stable Value Fund's short-term fixed income holdings were unreasonable in view of all the considerations a prudent fiduciary might have found relevant, much less that the Fund's fiduciaries failed to use appropriate methods to investigate and make those investment allocation decisions."

The plaintiffs objected, made a motion to amend their complaint, and were allowed to do so. "With this fleet of facts, navigating with far more precision than before," said Judge Sullivan, who also heard that case, the plaintiffs allege inference of a breach of the duty of prudent management that they say arises from an examination of three aspects of the CVS Stable Value Fund's asset allocation. They make those arguments with a complaint "…now loaded to the scuppers with factual allegations in support of each." In the amended complaint, the plaintiff argued that there was excessive liquidity in the fund's asset allocation and that the too-brief duration of the investments caused by an excessive percentage invested in short-term TIFs resulted in suppressed returns.

However, Judge Sullivan noted that, "While this Complaint contains far more ballast than its predecessor, I find that the new material adds little more than substantial factual support for the allegation found to be legally insufficient in the first go-round — that hindsight reveals that the Fund's allocation did not maximize returns." And, while she acknowledged that the new claims — that the fund's asset allocation, the duration of the fund's investments and the fund's performance deviated from industry averages — "…rest firmly on a substantial factual foundation," she found that they were "insufficient to permit an inference of imprudence." Moreover, she noted that a monitoring fiduciary does "not fail in the discharge of its duty to select and monitor" if the investment manager "did not commit a breach," that "with no plausible allegation that Galliard committed a breach of its duty as investment manager."

Third 'Strike'

In this third round, Senior Judge Mary M. Lisi of the U.S. District Court for the District of Rhode Island, noted that the plaintiffs "…suggest that the Stable Value Fund (1) was excessively concentrated in investments with ultra-short durations, and (2) maintained excessive liquidity far beyond any reasonable need for it," and that as a result they were injured "in the form of significantly lower crediting rates than they would have received had the Stable Value Fund been prudently managed in accordance with industry standards regarding duration and liquidity."

That said, she also cited the defendant's position was that "by plaintiffs' own account, the CVS Stable Value Fund was at all times structured to meet — and did in fact meet — its stated investment objectives: 'to preserve capital while generating a steady rate of return higher than money market funds provide.'" Moreover, the plaintiffs' contentions that the fund could have "predictably" earned higher returns by means of a different investment allocation, constitutes "improper hindsight critique." As for the plaintiffs' reliance on industry averages to support a claim of the defendants' imprudent investment in higher cash and cash-equivalent holdings, the defendants note that "the salient question is whether the [Fund]'s portfolio conformed to its investment objective," which it concededly did.

However, Judge Lisi noted that the plaintiffs in this case were not asserting that they incurred losses because Galliard deviated from the plan's disclosed investment objective; "rather, they have commenced this litigation because their investments, when considered in hindsight, might have yielded higher gains if Galliard had elected to allocate the Fund's investment more in line with the industry average."

At which point Judge Lisi noted that the well-established test of prudence is "one of conduct, and not a test of the result of the performance of the investment," that in this case the fund was invested in conformance with its stated objective and whether that strategy was prudent "cannot be measured in hindsight."

And thus, "Plaintiffs' Complaint is insufficient to withstand the Defendants' motion to dismiss."

'SHORT' FALL?

Judge says stable value settlement falls short

The parties in a 401(k) lawsuit regarding lack of access to a stable value fund came to terms — but the federal judge reviewing the $8.8 million settlement doesn't think it's enough.

The lawsuit filed in the U.S. District Court for the Northern District of Texas (*Ortiz v. Am. Airlines, Inc.*, 2016 BL 386004, N.D. Tex., No. 4:16-cv-00151-A, 11/18/16) alleged that American Airlines failed to fulfill its obligations as a plan fiduciary by allowing more than $1 billion to be invested in the AA Credit Union Fund (a credit union fund that plaintiffs alleged failed to outpace inflation).

Structural Relief

In addition to the monetary settlement, the defendants had also agreed on some "structural relief," specifically to retain the services of "an unaffiliated investment consultant to assist the American Airlines Pension Asset Administration Committee or its successor in selection of an appropriate 'stable value fund' which, for this purpose, shall be defined as a designated investment alternative in the Plan that will provide capital preservation, liquidity, and steady, positive returns that are expected to exceed the returns of money market investments over time."

In the process of negotiating the settlement, Judge McBryde noted that plaintiffs, through their counsel, estimate that the future monetary value to plan participants of the 'structural relief' described above "is between $30,000,000 to $48,000,000 for the three-year [period] following the implementation of the Structural Relief, based on certain assumptions."

Specifically, he noted that, if participants move half of the approximately $1 billion of their accounts currently invested in the American Airlines Credit Union Demand Deposit Option into the new stable value fund option, participants would earn an additional $10 million per year in investment return, and if participants move 80% of their accounts invested in the American Airlines Credit Union Demand Deposit Option, the increased investment return would equal $16 million per year, resulting in a range of value for the Structural Relief of $30-$48 million for the three-year period following implementation of the structural relief.

Limited Determination

The court noted that at this preliminary approval stage, it was limited to determinations as to "whether the court is satisfied that the proposed settlement appears to be the product of serious, informed, non-collusive negotiations, has no obvious deficiencies, and does not improperly grant preferential treatment to class representatives or segments of the class, and that there is good cause to order issuance of notice to the proposed settlement classes of the proposed settlement, and to proceed with a hearing to determine whether the proposed settlement should be approved as being fair, reasonable, and adequate to the members of the proposed classes…"

And while that would seem to be a pretty modest threshold, the court said it had "not been persuaded by the information it has received thus far that there is good cause for entry of such an order or to proceed with such a hearing."

Judge McBryde noted that using those same per-year numbers employed above, if a stable value fund option had been included as an income-producing, low-risk, liquid fund option, from February 2010 through this date, "the income the Plan participants would have lost by not having access to a stable value fund option would appear to have been between $55 million and $88 million." Furthermore, he said that, based on the information provided to the court, "if this action were to be pursued through litigation rather than by settlement, such an outcome would appear likely," and that consequently, "the court does not now have information that would allow it conclude that there is a realistic chance that after a hearing the court would determine that the proposed settlement, which contemplates a payment by defendants of only $8.8 million to certain of the putative class members, should be approved as being fair, reasonable, and adequate to the members of the proposed classes."

Indecent Proposals?

An uptick in advisor RFPs, but…

BY NEVIN E. ADAMS, JD

A new NAPA/TPSU plan sponsor survey noted that one out of five plan sponsor respondents, and nearly 4 out of 10 (38%) plans with $50 million or more in assets, had found their plan advisor through an RFP.

In April, we asked NAPA Net readers to weigh in.

Among the respondents, more than three-in-four (76.9%) have seen an increase in advisor RFPs, and another 15% have seen that increase, albeit only among larger plans.

More than half (53.8%) indicated they had been hired in response to a request for proposal, though another 38.5% said they hadn't.

Response Refusals

That said, more than two-thirds, nearly 70%, said that they had refused to respond to such an RFP, for a variety of reasons, including these:

- The questions were too invasive and not relevant to services being solicited.
- No control or ability to get to the decision maker, just a mass mailed piece.
- Inappropriate plan size for RFP.
- Either it was totally cold and we didn't know anyone at the organization, or it was not a good fit (e.g. Taft Harley plan).
- You kind of do a cost/benefit analysis on the RFP. How much time and effort is it going to take versus the potential fees and probability of getting the case. If the expected value of the fees (taking into consideration the probability of getting it) is less than cost of preparing the RFP, then you don't do the RFP. I admit it's more a "feel" calculation than actual math.
- The opportunity was outside that of the firm's target market.
- No chance they were leaving existing advisor.
- Too poorly written; not advisor focused.
- The requesting company is usually trying to benchmark their current fees and not looking to make a change in provider.
- The RFPs are usually "off the shelf" and not customized to provide meaning information.
- They take hours to complete and are generally a waste of time.

Another reader explained, "Unless we have personal contact with the client, they're not going to hire us based on information in an RFP."

Those concerns notwithstanding (or perhaps because of those concerns), nearly half (46.2%) of the respondents said they have developed an advisor RFP to use as a prospecting tool.

Best Questions

Several readers offered up what they considered to be a great question to include on those RFPs, including:

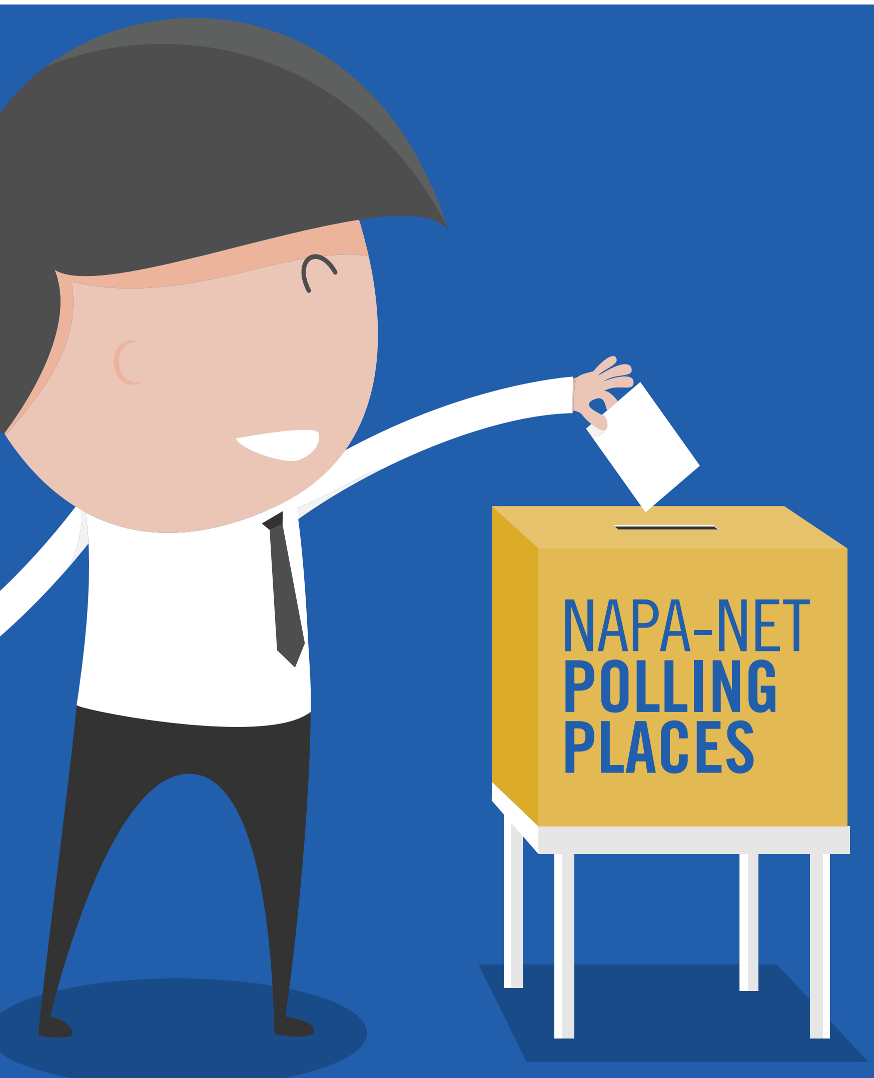
- Do you have a succession plan? A lot of advisors do not have one and if they leave or die their book gets split up over several advisors whether or not they have retirement plan experience.
- What makes you different than other advisors?
- What documentation can you provide with respect to plan sponsor and participant outcomes?
- Please list your team members assigned to our account along with their experience and responsibility to our plan.
- Why did you become, and continue to be a 401(k) advisor?
- How do you determine the correct share class to use and what are your thoughts regarding revenue sharing?

One reader commented, “I don’t think a single question makes a difference, what works is the methodical approach of service supply chain purchasing protocols to address due diligence, thus removing the intangible aspects and makes the hiring more defensible in court. This not only provides plan sponsors with excellent DD should they ever be sued, but it also places the advisor/firm that handles RFPs this way in a significant advantage to advisors that just rely on word of mouth and/or status.”

Other Comments

We also received a number of additional reader comments on the subject, including these:

- RFPs that go through a professional purchasing service/supply chain methodology built around quantitative and qualitative criteria help mitigate the information gap and vendor advantage, particularly for smaller plans. We have seen a rise in purchasing professionals being delegated the initial aspects of the RFP to help remove the relationship disadvantage, particularly with existing service provider reviews. Firms that can detail their services and prove not only compliance but service delivery mechanisms as well seem to be winning the day. The DOL (government agencies) and corporations clearly understanding purchasing protocols in most aspects of their company. Using these same methods would help reduce the industry chatter and elevate those firms that approach RFPs and service delivery in this manner.
- As with so many other “tools” in our industry, there is no standard. If a plan is looking for an independent advisor, as they should be, then the questions should pertain to the advisor skills, industry experience and knowledge, not questions about recordkeeping, TPA services, etc.
- One upsetting item with many RFPs are the organizations that know who their advisor (Two-Plan Tony, golf buddy or board member) will be going in, yet take all the great ideas from 401k pros and give them to him or her to use.
- Never got a case from one — it appears someone already has the inside track, but they are sending the RFP to make it look like they are doing a lot of due diligence.
- I feel that most RFPs miss the real questions/solutions that retirement plans answer/solve.
- An RFP service can help a company weed out advisors who are not retirement plan advisors, help the plan sponsor ask the right questions and help speed up the process for advisors to get hired. I get a lot of referrals from advisors who have been stuck with a group who needs to do an RFP but doesn’t have the time, resources or expertise to do it.



Thanks to everyone who participated in our NAPA Net reader poll! Got a question you'd like to run by the NAPA Net readership? Email me at nevin.adams@usaretirement.org

Regulatory Review

While much of the regulatory focus has been on the change in administrations, the looming application of the fiduciary regulation (in what form and when what would be applicable), the IRS provided some clarification on calculating maximum participant loan amounts, not to mention some guidance on hardship distributions and documentation that would be considered to support those requests. As for the SEC, well, it provided some new guidance on robo-advisors.

BY NEVIN E. ADAMS, JD

01 'Max' Headroom?

IRS provides clarity on auditing maximum loan amount

Plan sponsors and administrators got some good news from the IRS on April 20 regarding the calculation of maximum participant loan amounts.

There are several limitations imposed with regard to participant loans, including one that the total amount of the loan(s) outstanding cannot exceed $50,000 in the course of a year. The IRS memorandum notes that this $50,000 is reduced by the highest outstanding balance of loans during the 1-year period ending the day before the second loan, in turn reduced by the outstanding balance on the date of the second loan.

The reason for this adjustment was to "prevent an employee from effectively maintaining a permanent outstanding $50,000 loan balance."

In a Memorandum for Employee Plans (EP) Examinations employees, the IRS outlines the methodology that it expects its examinations staff to use in computing the maximum participant loan amount.

Sample Example

The IRS cites as an example a situation where a participant borrows $30,000 in February which was fully repaid in April, and $20,000 in May which was fully repaid in July, before applying for a third loan in December. Here the IRS says that the plan may determine that no further loan would be available, since $30,000 + $20,000 = $50,000. Alternatively, the IRS notes that the plan may identify "the highest outstanding balance" as $30,000, and permit the third loan in the amount of $20,000, acknowledging that, "at this time, the law does not clearly preclude either computation of the highest outstanding loan balance in the above example."

> "There are several limitations imposed with regard to participant loans, including one that the total amount of the loan(s) outstanding cannot exceed $50,000 in the course of a year."

The IRS instructs its agents that if during an examination they determine that a qualified plan made two or more loans to the same participant during a 1-year period, they are to determine whether the plan has computed "the highest outstanding balance" in one of the two ways described in the example. If it has, the IRS says the "requirement under section IRC § 72(p)(2)(A) is met and no further inquiry need be done."

Odds are that message will be of comfort to your plan administrator.

02 ‘Step’ Letters

IRS publishes new guidelines on hardship documentation

In February the Internal Revenue Service published new examination guidelines for documenting a hardship distribution.

Specifically, the memorandum sets forth substantiation guidelines for EP Examinations employees examining whether a section 401(k) plan hardship distribution is “deemed to be on account of an immediate and heavy financial need” for safe harbor distributions, and will now allow the use of a summary compiled from source documents, electronic documents or even call center records if certain requirements are met.

The memorandum instructs personnel looking to determine if those distributions are, in fact, made on account of “a deemed immediate and heavy financial need” to follow a two-step process.

Step 1: Determine whether the employer or third-party administrator, prior to making a distribution, obtains: (a) source documents (such as estimates, contracts, bills and statements from third parties); or (b) a summary (in paper, electronic format, or telephone records) of the information contained in source documents, and if so, determine whether the employer or third-party administrator provides the employee notifications required prior to making a hardship distribution, specifically:

- The hardship distribution is taxable and additional taxes could apply.
- The amount of the distribution cannot exceed the immediate and heavy financial need.
- Hardship distributions cannot be made from earnings on elective contributions or from QNEC or QMAC accounts, if applicable.
- The recipient agrees to preserve source documents and to make them available at any time, upon request, to the employer or administrator.

Step 2: If the employer or third-party administrator obtains source documents as note above, review the documents to determine if they substantiate the hardship distribution, check to make sure the summary contains the relevant items listed in the Attachment I.

The memorandum states that if the notification to employees or the substantiation information is incomplete or inconsistent on its face, the examiner may ask for source documents that substantiate the need, and that if it is complete and consistent but there are employees who have received more than two hardship distributions in a plan year, then, “in the absence of an adequate explanation for the multiple distributions and with managerial approval, you may ask for source documents from the employer or third-party administrator to substantiate the distributions.”

If a third-party administrator obtains a summary of information contained in source documents, the examiner is told to determine whether the third-party administrator provides a report or other access to data to the employer, at least annually, describing the hardship distributions made during the plan year. If the applicable requirements in Step 1 and Step 2 above are satisfied, the plan should be treated as satisfying the substantiation requirement for making hardship distributions deemed to be on account of an immediate and heavy financial need.

03 Robo ‘Tics’ ?

SEC updates guidance on robo-advisers

The Securities and Exchange Commission has published information and guidance on what it termed the “fast-growing” use of robo-advisers.

Because of what it described as the “unique issues” raised by robo-advisers, the Commission’s Division of Investment Management issued guidance for investment advisers with suggestions on meeting disclosure, suitability and compliance obligations under the Investment Advisers Act of 1940.

The guidance focuses on three distinct areas identified by SEC staff, including suggestions on how robo-advisers may address them:

- the substance and presentation of disclosures to clients about the robo-adviser and the investment advisory services it offers;
- the obligation to obtain information from clients to support the robo-adviser’s duty to provide suitable advice; and
- the adoption and implementation of effective compliance programs reasonably designed to address particular concerns relevant to providing automated advice.

Business Model

With regard to the first point, the SEC says that a robo-adviser should consider providing the following information as part of its explanation of business model:

- a statement that an algorithm is used to manage individual client accounts;
- a description of the algorithmic functions used to manage client accounts;
- a description of the assumptions and limitations of the algorithm used to manage client accounts;
- a description of the particular risks inherent in the use of an algorithm to manage client accounts;
- a description of any circumstances that might cause the robo-adviser to override the algorithm used to manage client accounts;
- a description of any involvement by a third party in the development, management or ownership of the algorithm

used to manage client accounts, including an explanation of any conflicts of interest such an arrangement may create;
- an explanation of any fees the client will be charged directly by the robo-adviser, and of any other costs that the client may bear either directly or indirectly;
- an explanation of the degree of human involvement in the oversight and management of individual client accounts;
- a description of how the robo-adviser uses the information gathered from a client to generate a recommended portfolio and any limitations; and
- an explanation of how and when a client should update information he or she has provided to the robo-adviser.

Effective Compliance Programs

Regarding compliance, the SEC notes that in addition to adopting and implementing written policies and procedures that address issues relevant to traditional investment advisers, robo-advisers should consider whether to adopt and implement written policies and procedures that address areas such as:

- the development, testing, and backtesting of the algorithmic code and the post-implementation monitoring of its performance;
- the questionnaire eliciting sufficient information to allow the robo-adviser to conclude that its initial recommendations and ongoing investment advice are suitable and appropriate for that client based on his or her financial situation and investment objectives;
- the disclosure to clients of changes to the algorithmic code that may materially affect their portfolios;
- the appropriate oversight of any third party that develops, owns, or manages the algorithmic code or software modules utilized by the robo-adviser;
- the prevention and detection of, and response to, cybersecurity threats;
- the use of social and other forms of electronic media in connection with the marketing of advisory services; and
- the protection of client accounts and key advisory systems.

A second publication, an Investor Bulletin issued by the SEC's Office of Investor Education and Advocacy, is intended to provide individual investors with information they may need to make informed decisions if they consider using robo-advisers, including the level of human interaction, the information the robo-adviser uses in formulating recommendations, the robo-adviser's approach to investing, and the fees and charges involved.