FEATURE

A SoCal Summit

In chilly March, the 2015 NAPA 401(k) SUMMIT landed in sunny southern California.

BY JOHN ORTMAN AND JOHN IEKEL
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Ah, *San Diego*. Perfect weather year-round. Palm trees and ocean breezes. Navy town. The Gaslamp District and Coronado Island. Word-class sailing. And for three days last March, home of NAPA Nation.

The 2015 NAPA 401(k) SUMMIT — the largest annual gathering of 401k) advisors, service providers, industry insiders and thought leaders in the industry — drew newly 1,500 attendees for its general sessions, workshops and networking opportunities. Let's take a look at some of the highlights of this year's SUMMIT.

State Role in Expanding Coverage Doesn't Have To Be Partisan

It has been said that states are laboratories of democracy. If that's true, then the effort to expand participation in retirement plans is one of the latest subjects of our great experiment in federalism.

A discussion by NAPA executive director Brian Graff and Illinois State Sen. Daniel Biss (D) at the NAPA 401(k) SUMMIT centered on one of those most recent efforts, Illinois' establishment of the first state-based IRA.

The Illinois Secure Choice Savings Program does not supplant private-sector, employer-provided retirement plans. Rather, it requires private employers with 25 or more employees that have been in business for at least two years and that have not offered a qualified retirement plan to employees in the last two years to provide a workplace retirement savings plan for all employees over age 18. Under the plan, employers can adopt a private plan at any time or enroll in the state program.

Employers that participate in the state plan auto-enroll eligible employees at 3% of pay. Employees may opt out; those who do may re-enroll during the annual enrollment period. Participating employers are responsible only for withholding and remitting funds, and providing information to employees. The employees' accounts are Roth IRAs, and the funds in them can be invested in a variety of ways.

The plan builds on the critically important involvement of employers in facilitating employees' saving for retirement. Graff called workplace plans a "critical gateway," citing statistics showing that 90% of Americans who do not participate in a work-based retirement plan have less than $10,000 saved for retirement.

Biss, the architect of the Illinois plan, buys into that premise. "We haven't talked nearly enough about the number of people with no access to a plan at work," he said. He added that analysts believe workplace plans are critically important, but that politicians are "two steps behind on that."

Still, there may be hope — Biss noted that state budgets are very sensitive about the needs of older citizens, and that there is a "direct bottom-line reason for states to encourage retirement savings."

The matter transcends politics and ideology, Biss and Graff indicated. "I don't think this concept needs to be a partisan concept," said Biss. Graff added, "No one has designed it so that the state plan is the only option. It's clear that the private sector must continue to have a role."

How to Transform Your Practice Into a Business

Do you want to just build a job for yourself? Or do you want to create something valuable that outlasts, or even outlives, you?

According to David Grau, founder and president of FP Transitions, choosing the "build a job" answer puts you among 70% of the people who serve the workplace retirement market. If you choose the "create lasting value" answer, says Grau, you're among either the 25% who have built (or will build) a practice or the 5% who have built (or will build) a business.

Leading a workshop session on transforming a practice into a business, Grau outlined a long-term strategy to build equity via a carefully planned and executed succession plan. "A succession plan is not about selling [the business]," Grau declared, "it's about building equity." A different take on the same issue was offered by James Mars, QPFC, CFP, managing partner at VisionPoint Advisory Group (and client of Grau's firm), who co-presented the session. "It's about bridging the

Illinois State Sen. Daniel Biss (left) and Brian Graff explored Illinois' groundbreaking auto-IRA legislation.

ABOVE: A panel of HR execs Deb Gualtieri, Ellen Ford and Mike Tanner (right to left) led by Ann Schleck shared their experiences working with advisors.

LEFT: The advisory team at Retirement Resources in Peabody, Mass., represented by Jim Phillips (center left) and Patrick McGinn (center right), is the winner of the 2015 NAPA 401(k) Advisor Leadership Award. Joseph F. DeNoyior (left) and Brian Graff (right) presented the award.

gap from 'eat what you kill' to 'grow the pie' — or building a partnership that will be the foundation of a true business."

For an advisor, said Grau, the process of creating true equity in the retirement plan industry is as simple as this: "If you have a job, make it a practice. If you have a practice, make it a business." But while the process may be simple, the optimal strategy — stretching over 20 years or more — is a complex mix of business financials, tax strategy, asset building and the right structure to maximize profits and value. And a strategy that, by the way, will also allow the founder to exit the business with maximum assets and compensation.

Grau recommends planning for three generations of ownership, starting with the founding owner. The second generation — which could include the founder's children but does not have to — should be 10-15 years younger than the first. In turn, the third generation should also be 10-15 years younger than the second.

The first generation should hire the second, and the second generation should hire the third, Grau asserts. "At each generation, keep the ones who excel, and send the rest to your competitors," he advised.

To Mars, who is in the midst of a succession plan that is working smoothly, the plan's success derives from its alignment of thee elements: the scale that is necessary for growth, collaboration as the practice grows, and attention to bedrock business financials. Mars offered three critical drivers of a multigenerational succession plan: a shared vision (*i.e.*, the second and third generations must share the founder's vision for the enterprise), shared values, and getting the structure right from the outset.

Redefining Life — and Retirement

Sometime this year we'll pass a milestone: For the first time in history, there will be more Americans over 65 than there are under 15.

How do we plan for a society that has more old people than children? What does the combination of greater longevity and advances in efforts to stretch the human life span — perhaps to 120 years and beyond — mean for plan advisors?

Dr. Laura L. Carstensen, PhD, tackled these questions in her general session presentation at the 2015 NAPA 401(k) SUMMIT. Carstensen, a psychology profes-

Gabe Zichermann, author of *The Gamification Revolution*, offers his take on how game design, loyalty programs and behavioral economics can be used to heighten participant engagement.

sor, is the Farleigh S. Dickinson Jr. Professor in Public Policy at Stanford University and the founding director of the Stanford Center on Longevity.

Crediting a Stanford economics colleague, Carstensen offered a provocative question: Instead of measuring human life starting at birth, what if we measured it by the time we have left, actuarially speaking? "When you reach the point where there is a 2% chance you will die in the next two years, we'll call you old," she suggested. Carstensen traced the history of how that definition would have applied in the past: In 1970, on average, that point was reached at age 59; in 2000 it was age 65. And last year a German researcher estimated it at 70.

What does current research tell us about what old people are like today? The answer: They are well educated, healthy, knowledgeable and emotionally stable. Additionally, Carstensen noted, a recent Gallup poll found that levels of anger and stress drop off precipitously after 50.

"When it comes to cognition, though, the news is not so good," Carstensen continued. "Humans' capacity to learn begins to decline at about age 23. In fact, the drop from age 23 to age 30 is greater than from 70 to 80." Despite our diminished capacity to learn, however, our store of knowledge continues to grow because generally knowledge is not lost, and continues to accumulate.

As is widely recognized, work at an older age seems to help this because it provides much-needed cognitive stimulation. In fact, researchers are now trying to quantify how the presence of older workers affects productivity in different types of workplaces. Carstensen cited a study conducted at a BMW plant which found that among work teams made up of all young workers, all old workers and a combination of young and old workers, the latter teams were the most efficient — while they produced less product than the young teams, they made almost no mistakes.

"All this research will change how we think about working longer," Carstensen declared. "We know that the workforce will be older, better educated, more able, and more diverse in age and ethnicity," she noted.

In general, they will also be less financially able to retire. Carstensen noted that today, not many retirees are able to finance a retirement that lasts 20 years. "If people are living longer and retiring earlier, how will they finance even longer retirements?" she asked. The result: a retirement crisis.

What can plan advisors and other financial professionals do about to get ahead of that crisis? Carstensen offered three ideas:

- Continue to push and expand automatic plan features.
- Strive to better understand the psychological aspect of retirement saving. In particular, research has found that new technologies are very effective in helping participants relate to their future selves.
- Do a better job of telling younger participants about the good things about being old — transforming old age from a source of dread into something to look forward to, and thus to plan for.

Building Engagement Through Fun and Games

Are your clients having trouble building engagement with and participation in a retirement plan? Is your level of engagement with customers moribund? If so, have you considered what the processes you use are like? Are they…fun?

Speaking at a general session at the 2015 NAPA 401(k) SUMMIT, Gabe Zichermann, author of *The Gamification Revolution*, offered his take on how a non-traditional approach can help build engagement with customers and employees. Zichermann argues that game design, loyalty programs and behavioral economics can be used to heighten customer and employee engagement.

How non-traditional? Zichermann painted a stark picture. "It used to be that TV was the distraction. Now we need a distraction from the distraction," he said, referring to the ubiquity of hand-held devices and their habitual use.

"It used to be that we divided our time. Now it's required time and optional time," Zichermann said, noting that the competition now is for people's attention during optional time.

And optional time is what some companies target in educating employees. For instance, he noted that Delta educat-

LEFT: Stanford's Dr. Laura L. Christensen profiled what an America with more people over 65 than under 15 will mean to the retirement industry.
MIDDLE: NAPA's 2014-2015 President Steven Dimitriou (left) accepts a special recognition award from successor Joseph F. DeNoyior.
RIGHT: Brad Campbell explains how to help clients avoid being sued over 401(k) fees.

ed customer service employees in one year using non-traditional, game-oriented means during employees' optional time; a program with the same material that had been conducted in a more traditional manner would have taken four years for the employees to complete.

Zichermann argued that the degree to which a program meets the "three Fs" — feedback, friends and fun — will determine the degree to which participants will be engaged in it. Making people care about something rather than just doing it in the fastest or cheapest way better engages them.

He also said that people have four behavioral limitations that affect engagement. They are:

- easily bored;
- easily distracted;
- hedonistic; and
- bad at predicting the future.

These limitations make it especially hard for those in the financial services and retirement industry to engage and build interest, Zichermann noted, since they advocate actions that are geared toward the future and not the present.

Roger Levy of Cambridge Fiduciary Services poses a question from the floor.

The answers? For one, use a game-oriented approach. "It's the mechanics behind a game that make a game fun," said Zichermann. Simply put, that means presenting a challenge, and providing an opportunity for achievement and the pleasure that results from that achievement.

A positive emphasis about retirement saving also is key. "Avoid warning people in a way that makes them feel as if they failed," Zichermann advised. "If they are fatalistic, they'll give up. Make them feel good about it; give positive reinforcement. Make decisions fun now. Don't defer their satisfaction."

Growing 3(16), 3(21) and 3(38) Practices

"Let's face it, the advisor community is changing." With that, David Levine, Principal, Groom Law Group, Chartered, captured the message and import of a workshop session on opportunities for growing 3(16), 3(21) and 3(38) practices.

The session looked at some of what administrators under ERISA Section 3(16), fiduciaries under Section 3(21) and investment managers under Section 3(38) have and are facing. Levine was joined by Fidelis Fiduciary Management CEO W. Michael Montgomery and Marc Roggenkamp, Institutional Consulting Director, Graystone Consulting, Morgan Stanley.

"To say that ERISA is a well-drafted law — not so much," said Levine. He observed that "a larger and larger part" of the advisor community are exercising fiduciary functions, and warned that "the proposed [fiduciary definition] rule will upend the situation even more."

NAPA Leadership Council members Steven Dimitriou and Jania Stout joined NAPA executive director Brian Graff (at right) to discuss today's hottest topic.

Some advisors are going beyond the letter of the law, according to Levine. "The catch is that what advisors offer is beyond what 3(16) says." Advisors have squeezed the margins of vendors and vendors are better now at managing their risk, he said, adding, "3(16) services have arisen and grown to fill the gap when vendors don't offer certain services. The trick is to understand the carve-in, carve-out responsibilities."

The functions of fiduciaries under ERISA Section 3(21) have many facets, too, said Levine. And as with advisors, functions under 3(21) also have expanded and lines have blurred. Montgomery joined Levine in striking a note of caution regarding some advisors not being able to take on a fiduciary role, and at a time in which there is an "increasing trend" of non-fiduciary advisors having to make decisions regarding the functions they will fulfill in order to stay in the business.

Montgomery noted that employers are "not always interested in fiduciary details," and are "mostly just concerned that fiduciary duties are taken care of." He added that "sometimes employers can be lulled into a false sense of security." But employers need to be careful, he warned, noting that they still may need to show where the fiduciary guidance they receive comes from.

Roggenkamp emphasized that it is very important to educate clients, help them develop investment policies, and report to the client concerning what was done. And he indicated that it's important to be proactive, remarking, "It's important that you start the conversation, or your competitors will."

Roggenkamp observed that in general, investment managers under 3(38) have two kinds of clients — those to whom one makes a recommendation which the client does not follow, and those that want to mitigate risk to such a degree that they may follow a recommendation but want to offload as much risk as possible. And interest in mitigating risk is not going away, he said.

Also critically important to functions performed under 3(21) and 3(38), according to Montgomery, is oversight. "Who's going to mind the minder?" he asked, a question that takes on added poignancy at a time in which the panelists noted that "everybody tries to do everybody's job in this industry."