

CASE STUDY

GROWING BANK'S
NEEDS NOT SO
SIMPLE
ANYMORE

MIDWESTERN
COMMUNITY BANK

70 EMPLOYEES

\$1,800,000
ASSETS IN THE PLAN



Keith Gredys



THE SITUATION

A growing community bank had outgrown its SIMPLE plan, which limited annual deferrals and lacked flexibility to meet the distinct needs of base-level employees, key personnel and owners. An overhaul was needed to continue offering a competitive, cost-efficient and tax advantaged plan that could address the needs of all employees.

THE SOLUTION

The bank hired Keith J. Gredys J.D., CTFA, AIF®, Chairman and CEO of Kidder Advisers, LLC, to assess the plan and recommend a solution. There was great room for improvement. To begin with, switching from a SIMPLE plan to a 401(k) plan would substantially increase the annual contribution limits for all employees, and allow for a profit sharing component tied to the company's strategic and financial needs and which could potentially lead to greater retirement security for all participants. A 401(k) plan would also present additional opportunities for highly compensated employees to increase their savings and would allow for further enhancements and customization of the overall plan design.

"Most business owners don't realize it, but you can customize a plan to fit your strategic needs," said Keith. "In the small and micro-sized plan space, we typically tailor plans to address the needs of all employees and that includes maximizing the benefit to the key group while keeping employee costs manageable. The goal is to increase the tax savings sufficiently to pay for the employer contributions made to the employees."

By redesigning the bank's retirement plan and adding a cash balance benefit, Kidder roughly doubled the average retirement contributions of base-level employees, and substantially increased the level of savings that key executives could receive.

"Let's say you earn \$200,000, but only keep 50% after taxes and other deductions, including FICA," Keith said. "The redesigned plan allows you to keep much more of your compensation while giving a bit more to the employees, and Uncle Sam receives less. You might receive 80 cents of every employer dollar contributed and give 10 cents to your employees. Everyone's ahead of the game."

Investment offerings were bolstered with a more robust platform and fund lineup, and a documented fiduciary process was introduced, leading to better due diligence and participant education and potential options.

The acquisition of another bank created an opportunity for further plan enhancements. *"During negotiations, we were involved in helping the bank analyze the plan of the acquired bank and whether the bank should assume or merge that plan with its own plan. After considering the potential financial and operational liabilities in the acquired bank's plan, it was determined that the bank wouldn't assume or merge that plan into theirs. Instead, we upgraded the existing plan and worked with the new employees to roll their assets into it."* Keith said. With more assets, they were also eligible for a broader selection of funds with better pricing.

A year later, an employee stock ownership plan (ESOP) was considered. However, for an S corporation, that would have been too onerous because the ownership group wouldn't have been eligible to participate due to tax and legal considerations. Instead, Kidder helped redesign the retirement benefits holistically, combining a cash balance plan with the 401(k) plan.



Just as employee needs differ, a benefits plan should attempt to address all employees through flexible design, which can be an important strategic asset.

The results were significant. The plan’s efficiency ratio, which measures the percentage of benefits that go to a targeted group, originally at 30% with the SIMPLE plan, was boosted to 70% with the first 401(k) design and then to about 91% with the combination plan

“As a growing banking organization, we knew we needed to revisit our retirement plan strategy,” the bank president said. “Kidder helped us improve the plan design with investments and lower costs. They educate our employees to help them achieve greater retirement readiness. And they provide fiduciary best practices to help us promote compliance. Kidder provides the most professional, knowledgeable and responsive service I’ve ever worked with.”

CONCLUSION

Customization is critical to the success of retirement plans for small and micro-sized companies, where owner/key executive benefits and tax savings drive the plan design for all employees. The plan must address a variety of needs, including:

- Flexibility to accommodate company growth
- Customization to adjust to evolving strategic needs
- Comprehensive ability to assess all benefits
- Dedicated structure to identify and address varied employee needs

	BEFORE	AFTER
Type of plan	SIMPLE	401(k)
Additional benefits	None	Cash balance
Benefits level	\$12,500 + 3% of salary for executives	Varied, from \$18,000 base to up to \$150,000 for owners/key executives
Investment options	Basic 10 retail front-end load funds	Expanded to 25 institutional/retirement class funds. Actively managed, index funds, asset allocation and target date funds, plus a fund window. Investment costs lowered significantly
Fiduciary process	No	Yes
Efficiency ratio	30%	91%
# employees	31	70
Annual Employee and employer contributions	\$110,000	\$510,000
Ave.% of pay for retirement	4% to 6%	12% to 20%

Kidder Advisers, LLC is a full-service, independent, investment advisor and consulting firm focused on the retirement plan needs of business and non-profit organizations, as well as their owners, managers, and employees.

“We want to be the resource and brain trust for clients to come to for better solutions,” Keith said.

ABOUT THE RETIREMENT ADVISOR COUNCIL

The Council advocates for successful qualified plan and participant retirement outcomes through the collaborative efforts of experienced, qualified Retirement Plan Advisors, investment firms and asset managers, and defined contribution plan service providers. The Council accomplishes this mission by its focus on:

- Identifying duties, responsibilities and attributes of the Professional Retirement Plan Advisor
- Sharing our professional standards with plan sponsors
- Providing collective thought capital to decision makers, product providers, legislators and the public
- Giving voice to the Retirement Plan Advisor community
- Providing tools to evaluate Advisors, helpful in promoting successful retirement outcomes.

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