PHD. Retirement Consulting Takes University Plan to the Head of the Class

RETIREMENT ADVISOR COUNCIL

The Challenge

The hard truth for many employer-sponsored retirement plans is that employees are not saving enough for a secure financial future. Far too often, the reason is that employees are uninformed, unprepared and unmotivated to take the necessary steps to achieve a better retirement. And, sometimes, the employers aren't prepared either.

The situation can be complicated for colleges when faculty and staff have deep loyalty to a service provider that is overdue for benchmarking and re-pricing.

This is exactly where one Oklahoma-based university stood…until they partnered with Troy Redstone and his team at PHD. Retirement Consulting. Now the plan receives an A+ for cost savings, building a prudent process, enhanced communications, and improved retirement readiness.

Here is their story.

The Solution

With an eye toward building a better retirement plan, the university hired PHD. Retirement Consulting in 2015 to manage their retirement program and processes. From the beginning, the school had always used the same recordkeeper with minimal benchmarking and re-pricing. They did not have a Retirement Plan Committee or a Due Diligence Process for regularly reviewing the plan. Full investment options were from one single fund family and some did not meet standard performance or cost benchmarks. Based on the plan's high enrollment numbers (85%), it could be argued that things were going well. After an initial review, Redstone and his team knew things could be even better.

"As PHD. pulled back the curtain to show more than just the plan's impressive enrollment numbers, we found a program that needed a lot of work," Redstone explains. PHD.'s evaluation revealed:

- The plan's participation rate did not tell the whole story. At one point the plan had implemented Mandatory Enrollment so participation was 100%. In response to that being too paternalistic they abandoned any default enrollments, meaning fewer and fewer new hires were participating. The 85% participation was a "blended" rate, and it was dropping further every year.
- The average savings rate was low at only 5%, both because the employer match was tied to a 5% contribution, but also because employees had to put anything beyond 5% in a "supplemental" plan (and few did).
- Diversification among those who were in the plan was less than ideal and only 9% of plan assets were invested in the professionally-managed portfolios (the target date funds).
- The fund fees might be viewed as high (a weighted expense ratio of 89 basis points on a $45 million plan meant costs exceeded $400,000 a year).

Turning around the plan would not be easy, but PHD. Retirement Consulting had been there before and knew exactly what needed to be done to help the plan and the employees.

Step One – A Thorough Review of the Entire Plan

After getting the trustees to agree that there were no "sacred cows" and everything was up for discussion, Redstone guided the school through a Fiduciary Audit Report, a Fee Benchmarking Report, an investment review, and a Plan Success Behavioral Audit Report. Eventually the findings of this analysis led to a full RFP as the school determined that it needed a complete overhaul of their retirement plans, from a plan design perspective as well as from a vendor perspective. The school's recordkeeper agreed to reduce fees and to drop any proprietary fund requirement, retaining the business and allowing for less disruption for the employees.

Step Two – A Better Investment Lineup

When the recordkeeper dropped a proprietary fund requirement, the newly formed Retirement Plan Committee was even allowed to select a different target date series that more closely matched their optimal glidepath given their risk tolerance and other demographic indicators.

PHD. Retirement Consulting revamped the investment lineup to offer a diverse portfolio of only best-in-class options across key asset classes. The fund families selected for inclusion have clear objectives and meet industry benchmarks for performance. Built from the understanding that many (if not most) participants lack the time, desire, and ability to make sound investment decisions, the plan objective became offering a broadly diversified list of Core Fund options for those who want to manage it themselves, but also a low-cost target date series for those who wanted that guidance.

Step Three – Improved Employee Education and Healthier Plan Design

With the guiding investment principles and revised lineup in place, it was onto the next critically important step...improving employee education. After seeing a huge drop in participation when abandoning the idea of Mandatory Enrollment, the trustees were encouraged to adopt Automatic Enrollment as a more helpful and less paternalistic nudge than Mandatory Enrollment. Redstone also urged them to add a Roth provision.

"At PHD., we believe a healthy retirement plan produces healthy retirement outcomes," Redstone explains. "To that end, we focus on building a participant-centric plan that produces happy and healthy employees who understand, appreciate, and participate in the company retirement plan."

With that goal in mind, PHD. offered one-on-one meetings for each employee, customized education modules focused on helping employees take control of their personal finances, and glide path models built for their unique employee population. Coupled with the appropriate defaults in place, the employees simply needed the proper education to gain the confidence about how to handle money and prepare for the future.

"We are very proud of the fact that we help every employee with their retirement planning, regardless of their account balance," Redstone explains. "Because we don't sell any products to our client's employees, our employee meetings are strictly focused on helping build better retirements outcomes...not selling additional stuff."

The Results

Even though the plan has been managed by PHD. Retirement Consulting for only one year, the results are already extremely encouraging:

- The plan now has a Retirement Plan Committee; the procedural prudence of a due diligence program; an Investment Policy Statement, Education Policy Statement and Disclosure Policy Statement; and the assistance of a Fiduciary Consultant.
- The participation rate rose to 97% from 85%;
- The average savings rate is now approaching 8.5% rather than 5%;
- 67.28% of plan participants are now using professionally-managed target date funds rather than 9%;
- And by dropping the Investment Fees from 88 basis points to 37 basis points, PHD. could reduce the overall plan fees from 88 basis points to 56 basis points even after adding the cost of an advisor.

"This is really just the beginning of great things for this university's retirement plan," Redstone asserts. "Reduced fees keep more money in the pockets of the employees, and the new committee and due diligence process helps to reduce the school's liability. With ongoing education for employees and stricter monitoring for the trustees, the plan participants and the plan sponsors should both experience growing confidence in their retirement plan. The staff and faculty had literally never heard that 5% wasn't enough, so their savings rate should increase over time the more we communicate that message. I see this plan's success story becoming even stronger as the years go by."

As a result of working with this client and other similar colleges, PHD. Retirement Consulting has also developed a Risk Assessment Tool with the help of ERISA counsel to help schools identify with a simple questionnaire where they might be at risk and where improvements might need to be made with their own plans.

About PHD. Retirement Consulting

Troy Redstone, AIF® CBFA® CFEI® CPFA® is the Founder and President of PHD. Retirement Consulting, a Fee-Only Fiduciary for employer-sponsored retirement plans. As a professional retirement plan advisory firm, 100% of the firm's clientele are institutional clients sponsoring 401(k), 403(b) and Governmental 457 plans. Redstone's experience and educational background is in Behavioral Finance, and PHD. frequently assists companies and colleges design and implement financial wellness programs as an employee benefit. Their objective is to help employees retire better while helping employers sleep better. www.planhealthdesign.com

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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