

Back to Retirement Basics

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For the last several years, many Americans have questioned, “Will I ever be able to retire?”

Recent economic challenges have resulted in reduced retirement plan portfolio sizes and increased employee confusion and anxiety. According to a recent survey from Callan Associates, one of the largest independently owned investment consulting firms in the country, during 2009, “plan sponsors were consumed with managing poorly performing investments and helping participants navigate the market collapse.” The survey went on to say that sponsors plan to spend 2010 focusing on “strategic initiatives, including review of plan design and investment.”

As a new decade arrives, given this scenario, we recommend all retirement plan sponsors go through a three-pronged review, step back before moving forward, and concentrate on the basics:

- **Purpose.** Why do you have a retirement plan? What was the original intended benefit of your plan(s) for the practice owners, the organization, your employees? In what ways have those original intentions changed, given the changing times?
- **Principles.** What stands behind your plan(s) in terms of alignment with the organization’s mission/vision/values? In what ways might your organization’s values suggest a change in plan design, investment policies and offerings, or advisor selection?
- **Processes.** Do you have a process that ensures your fiduciary obligations are met and plan goals are realized? Is the role of the investment committee clear and its decisions well-recorded? Are reviews conducted at planned intervals to make sure appropriate policies and procedures are in place to address fiduciary obligations? To meet the identified objectives, do you have an appropriate investment time horizon, an appropriate level of investment risk, and modeled return? Are the selected asset classes consistent with the identified time horizon, risk, and return?

Purpose

For most entities that offer retirement plans, two primary drivers in the plan’s creation and continuance stand out: (1) practice owners typically seek a way of maximizing their own contributions and deferring tax liability; and (2) owners/executives also see these plans as a way of helping their employees prepare for their financial futures.

Plan design has an impact on both owners and employees. So do the investment choices. Yet, in medical practice groups, it’s certainly possible that not all participants share the same ideas about investing.

During the last 10-20 years, the kinds of plans that are available have multiplied—and, become more complex. It’s important to note that retirement plans need not be static; in fact, most professionals recommend that sponsors periodically review their plans and make necessary changes in plan design as the business and its business model evolve. For example, while many health care organizations have a basic 401(k) (or a 403(b)) plan, there is opportunity for flexibility for owners and the highly compensated if a cash balance defined benefit plan is added. Keep in mind that this doesn’t have to be an either/or; it’s very possible to create a retirement program that has multiple plans.

When reviewing goals and the options available to meet them, there are numerous possibilities, as well as a multitude of federal tax and ERISA (Employee Retirement Income Security Act) requirements that must be satisfied. Engaging professionals—including qualified CPAs, plan design specialists, and independent, registered investment advisors—helps organizations consider those options more carefully.

Principles

Whatever your organization’s mission, vision, and values are, aligning your retirement plan structure, investments, and fiduciary responsibilities with them is critical to your program success. Many health care organization mission statements contain words like respect, discipline, trust, and accountability. Consider how your retirement plan can match up with your values.

Plan design will always be most effective when it balances the needs of all eligible participants in the organization, including employees. For example, if you are a doctor of a relatively advanced age, in your retirement plan you want to avoid risk and are looking for stability. A conservative, low-risk portfolio may be best for you. But what if all the other plan participants are under 30 years of age? Is that what is best for them? More aggressive investment options may be more appropriate. It is not that owner needs should not be included; it’s that they should not be the singular consideration. Designing a plan that considers the varying needs of all who are eligible to participate, and reviewing the design on an annual basis, demonstrates the willingness to be fair and inclusive, which in turn fuels **respect**.

Investment policy statements are documents that define the plan goals and guide the fiduciaries in selecting and monitoring the plan investments. The IPS formalizes the design of the plan; and adherence to the IPS ensures that the fiduciaries maintain the **discipline** to meet their plan objectives.

Advisor selection (and the resulting investment selection) is a crucial factor in plan success. If the investment advisor is the brother-in-law of one of the physician partners, and there was no visibility about the selection process, is it hard to imagine the absence of **trust**? An objective, independent investment advisor, who is also a

plan fiduciary, will assist the sponsors in selecting investments that are appropriate for the plan, that meet ERISA diversification requirements, and that are free from hidden costs. The right advisor will help plan participants to **trust** in their retirement plan.

Employee education is crucial to the success of the plan. Plan participants need to understand how much money they will need in retirement, how much they should invest to reach those goals, how they should invest their funds, and when (or if) adjustments should be made. Enrollment meetings, clear communication tools, easy access to answers, and frequent (at least quarterly) reporting ensure that the plan has **accountability** and meets the needs of the participants.

Process

It's often been said: "Disappointment typically stems from a poor process, not a poor outcome." In the retirement plan world, the fiduciary process may be the most critical. We hear the word fiduciary so often, most professionals are confident they know what it means, but do they really understand it?

Anyone who is authorized to exercise discretion in administering and managing a plan or controlling the plan's assets is considered a fiduciary. Typically, this includes the board/trustees/investment committee, an outside investment advisor, all members of a plan's administrative committee (if there is one), and others who are acting on behalf of retirement plan participants.

As a plan sponsor, you must keep the interests of the plan participants in mind. A fiduciary standard of care is the highest standard of care known to the law. That standard of care requires that investments in any plan must be suitable for the plan participants, not just the sponsor/trustee. A fiduciary must not put his/her personal interest before this duty. Failure to adhere to this fiduciary standard may expose you to personal liability.

How can you balance these potentially conflicting interests? As a fiduciary, you must take all plan participants into consideration when selecting a "suitable" investment strategy. (And don't forget the need to document that you have, in fact, done so.)

Are you aware that ERISA requirements for a plan require a diversity of investments? One good definition of diversity is that the plan investments are made using a variety of asset classes. The diversity requirement would not be satisfied if you have invested in five different stocks, all of which are domestic large cap even if they are five different kinds of businesses.

As a fiduciary, you must, on a consistent and regular basis, monitor your plan's performance and costs, make changes when appropriate, and then document all these actions. You need to give some thought to the appropriate measurements you will use to determine your plan's performance. You will need to know what are the real costs associated with the plan's investments, and this is often a complex calculation. In short, you must pay attention.

On the other hand, business decisions about whether or not to have a plan, what features to include in a plan, whether to match contributions, or whether to terminate a plan are just that—business decisions that are not governed by ERISA.

In many physician practices, all owners are included in the plan sponsor decision-making process and are therefore considered fiduciaries. Among other things, their fiduciary process needs to ensure that decisions are made on behalf of the plan participants, which translates into:

- Developing an Investment Policy Statement (IPS), which contains general criteria about how the fiduciaries select and monitor investments in the plan.
- Providing ongoing education to plan participants that explains how the plan works and what investment options are available to them.
- Making sure there is adequate diversification in the available investment options.
- Paying only reasonable plan expenses and being clear on what those expenses are.

If you have not had a qualified, outside professional assess the levels of fiduciary excellence in your plan, you may wish to consider that. Such an assessment answers questions like:

- Does the plan itself offer all of the characteristics desired by employees, including the ability to defer the desired amount and sufficient investment options for both accumulation and distribution phases?
- Is there an investment committee, with written procedures, scheduled meetings, and meeting notes?
- Does your IPS contain sufficient detail to implement a specific investment strategy? Does it define diversification and rebalancing guidelines and articulate monitoring criteria for investment options and service vendors? Is it formally reviewed at least once a year?
- Are there control procedures in place to periodically review all "finder's fees" or other compensation paid for asset placement?

Whether you are a physician-owner, a clinic administrator, a hospital CFO, or a senior facility executive, your retirement plans and investments are likely to involve some of the most important decisions you can make. The right plan and right investment platforms not only help attract and retain talented medical professionals, they also allow participants (including owners) to build personal wealth and reduce current tax obligations.

As you explore your comfort level in and confidence about your current plan's processes, principles, and purpose, we are here to help. As independent, registered investment advisors, we follow fiduciary standards of care and are committed to full transparency. A professional investment advisor can help you negotiate the responsibilities of a fiduciary, which in turn, can reduce your liability and enhance the value that your plan offers to the entire organization.

At Wipfli Hewins Investment Advisors, LLC, we use a system and structured process called Visual Interactive Planning (VIP). Sitting in front of a large screen with us, each partner can personally explore scenarios designed to answer questions like: Will I have enough?

Where will my “paycheck” come from after I retire? Do I have adequate estate planning to ensure that I’m not participating in “involuntary philanthropy” (paying too much in taxes)?

Most people think visually, so being able to look at charts and consider a variety of trade-offs opens up richer conversation and dialogue. Participants see clearly where they currently stand; see the problems, opportunities, and choices before them; and understand the issues better. This all leads to a higher level of engagement and participation. VIP has often been called “rehearsing” your financial future.

If it’s time for a review of your plan, we suggest that, before bringing all decision makers together, each individual partner first take advantage of this VIP process and review his/her expectations with a professional advisor.

When all decision makers have experienced this service individually, it’s then time to consider how well the current plan design meets the collective needs of that group, matched with the organization’s desire to help employees prepare for retirement.

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