

# Essential Plan Sponsor Tools for an Effective 401(k) Plan

Worksite Financial Solutions White Paper



a Michael M. Kane Company

# Executive Summary

## Table of Contents:

3	The Trouble with the Status Quo
3	Beginning-to-End Tools – Now You Have Them
4	Our Commitment: Technology, Support and People
5	Employee Engagement Solution
5	Employee Education Solution
6	Employee Advice Solution
6	Employee Transition Solution
6	Plan Termination Support
7	Worksite Financial Solutions: Why and How

The situation is dire: The traditional defined benefit plan is no longer available to most Americans. Instead, they must save on their own in a 401(k) or similar retirement plan. But they often don't know their savings target, or how to get there.

**The industry has placed regulatory and technological barriers between participants and the professional financial advice they so desperately need.**

LPL Financial is tearing down those barriers. A multimillion-dollar investment in **Worksite Financial Solutions** has resulted in a comprehensive program plan sponsors can use to give participants the advice, education and services they really need, in a matter that addresses compliance concerns.

Worksite Financial Solutions addresses every stage of participants' working lives. From initial plan entry, asset accumulation, job transitions and into retirement, plan sponsors can add value every step of the way.

In this white paper, we will introduce you to Worksite Financial Solutions, a beginning-to-end suite of tools for:

- Engaging employees to participate in their plans, seeking to improve their savings rates and investment tactics
- Educating employees about how to invest
- Providing advice to employees in a way that is consistent with current regulations
- Facilitating employee transitions, including rollover assistance
- Providing support for plans that terminate

The Worksite Financial Solutions tool suite will create opportunities for making your 401(k) or similar retirement plan more effective in helping your employees prepare for retirement.

## The Trouble with the Status Quo

At their core, plan sponsors want to help people retire successfully. Yet increasing complexity in the rules and regulations surrounding 401(k) and other retirement plans means that this can be a challenging goal.

There is plenty of frustration to go around.

Participants feel it —

- 61% report that their only or primary source of retirement savings is their 401(k) plan.<sup>1</sup>
- 52% say retirement benefits are even more confusing than healthcare benefits.<sup>1</sup>
- 36% feel confident that their investments are allocated appropriately, and just 17% know they are on track to retire.<sup>2</sup>

Employers feel it —

- Only 4% are “very confident” employees will have sufficient retirement assets,<sup>3</sup> down 30% from 2011.

As a plan sponsor, you *know* that the basics of paying off debt, joining the plan, saving an appropriate amount and investing well are the keys to retiring successfully. Yet, as participants avoid and ignore these basics, they fall farther and farther behind.

These days, the vast majority of plan participants understand and accept that they must rely on themselves to accumulate the assets they will need in retirement.<sup>4</sup> Yet few express confidence in their ability to do so. You can deliver the help they need.

<sup>1</sup> Online survey of U.S. 401(k) participants conducted by Koski Research for Schwab Retirement Plan Services, Inc., 08/15/13, [www.aboutschwab.com/press/research](http://www.aboutschwab.com/press/research)

<sup>2</sup> 2011 Research in Review, Financial Finesse (February 2012)

<sup>3</sup> 2012 Aon Hewitt Employee Benefits Study: April 6, 2012, [PLANSPONSOR.com](http://PLANSPONSOR.com)

<sup>4</sup> Online survey of U.S. 401(k) participants conducted by Koski Research for Schwab Retirement Plan Services, Inc., 08/15/13, [www.aboutschwab.com/press/research](http://www.aboutschwab.com/press/research)

## Beginning-to-End Tools – Now You Have Them

Employees who are stressed because they can’t pay their bills are wondering how to afford college or are facing a job loss may not fund their retirement.

Most employees have no idea where they stand in their efforts to retire: The Society for Human Resource Management reported in September 2011 that 57% of employees age 55 and up had never used a retirement calculator. The truth is that more than two-thirds of employees feel unequipped to manage their own retirement money—70% of them, according to Charles Schwab’s Advantage 2011 research, *401k Plans Under Pressure*.

“At LPL Financial, our advisors provide real opportunity to help people by reaching them through the workplace. We aren’t talking about the affluent; they have lots of advisors vying for their business. We want to help everyone else—the rank-and-file Americans whose 401(k) plan balance makes up the majority of their nest egg. They are the folks who haven’t been getting the advice they need. That’s what we are addressing with Worksite Financial Solutions.”, Adam Sokolic, SVP LPL Retirement Partners, Worksite Financial Solutions.

Worksite Financial Solutions is a beginning-to-end set of tools designed to help these employees meet their financial challenges. It offers something for every stage of financial life, from the first job and initial entry into a plan, through the asset-accumulation phase—and continuing as employees move through career transitions and into retirement.

For decades the retirement plan industry has tried to improve the retirement readiness of the average American, with disappointing results. Worksite Financial Solutions gives you, the plan sponsor, the missing piece of the puzzle. Through the program, participants have access to a qualified wealth management advisor to help them answer their important financial questions.

## Our Commitment: Technology, Support and People

Worksite Financial Solutions consists of five guidance and support modules:

- Employee Engagement Solution
- Employee Education Solution
- Employee Advice Solution
- Employee Transition Solution
- Plan Termination Support

You can work with one or all of them, based on your individual needs and goals.

LPL Financial's commitment to the program is evident in the substantial investment of both staff and resources that were required to bring it to fruition. Technology is, of course, an essential component of the program, and through your LPL plan advisor they bring you cutting-edge systems to ensure smooth delivery of these services.

## Employee Engagement Solution

Changing jobs can be one of the most stressful times in our lives. Employees sometimes need help enrolling in a new employer's retirement plan, but may not find that help because the HR department has many competing priorities. A significant number of people who change jobs leave their 401(k) account balances behind, very often losing track of them. When that occurs, the participant may miss out on potential growth based on the money they have already worked hard to save.

The Employee Engagement Solution gives employees access to a registered LPL Financial wealth management advisor who will provide in-person or online enrollment help. The program can be customized to your organization and employees, adding value to their overall benefits program.

By bringing the Employee Engagement Solution to your employees, you as the plan sponsor benefit as well. Plan enrollment may increase, along with average deferral rates and a corresponding increase in plan assets. All of these tools may help to improve retirement readiness for the group as a whole, without adding cost to the plan.

## Employee Education Solution

Employees who wonder how they're going to pay their bills each month are distracted. Many have not had access to financial education, and so have never learned the basics of debt, budgeting and saving. A qualified wealth management advisor can help, but some people are intimidated by the thought of contacting one on their own. They may fear they don't have enough money to interest an advisor, or they may be embarrassed by their lack of information on the topic of finances.

The Employee Education Solution makes it easy for you to bring employees the customized education they need. The program is delivered in four steps, including:

1. **Financial Wellness Assessment.** Employees are surveyed about their specific needs, making clear the areas where they need help.
2. **Education Modules.** Using both online and group employee meetings, the areas identified in Step 1 can be addressed. The program includes modules that speak to employees at different ages and stages of life, from Kids and Cash to The Retirement Zone.
3. **Marketing Support.** Through the program, you receive materials you can use to encourage employees to participate in the educational modules. The marketing materials in the program are turnkey, and include everything the employer needs to create an effective marketing campaign.
4. **Results Tracking Reports.** These let you know about the effectiveness of the program. The reports measure employee progress toward their financial goals, including retirement readiness.

The Employee Education Solution was developed in partnership with Financial Finesse,\* one of the foremost providers of financial education to *Fortune* 1000 firms. With their Financial Wellness Assessment and Online Learning center, coupled with LPL-created seminar content, this solution provides a way for even small companies to access the same quality information that has, until now, been available only within that elite group.

\* LPL Financial and Financial Finesse are not affiliated entities.

## Employee Advice Solution

Employees want and need the help of an investment professional, especially as they decide how to invest their 401(k) or similar retirement account. The Employee Advice Solution gives them access to personalized advice, helping them answer important questions, such as:

- How much should I save?
- How can I invest my assets wisely?
- How can I get out of debt?
- When can I retire?

Employees can access advice online, by phone or in person. The advice is unbiased, and provided by experienced professionals. Each participant in the Employee Advice Solution receives retirement progress reports, showing them how they're doing on the path toward retirement readiness. The progress reports include comparisons between their current status and where they were before, and estimates future income potential based on today's numbers.

The Employee Advice Solution provides the high-touch service that employees really want. Employees may enroll in the service at their own discretion and cost, so no further expense is added to the plan. You will receive an annual report that shows the progress that employees are making in the plan, with the assurance that you are managing the fiduciary risk associated with providing employee advice.

Studies have shown that when employee financial wellness is part of an overall benefits package, employees may be more productive, have fewer absences and may even suffer fewer health issues. The Employee Education Solution offers a holistic approach to help employees deal with their financial concerns as part of their overall wellness.

## Employee Transition Solution

When employees are terminated, they face a variety of stresses, personal and financial. Often, terminated employees cash out their retirement accounts—in fact, about 40% of the time, according to AON Hewitt's 2011 report, *Leakage of Participants' DC Assets: How Loans, Withdrawals and Cashouts Are Eroding Retirement Income*.

With the Employee Transition Solution, employees get the help they need to make good decisions about their existing retirement balances. With assistance from a registered financial advisor, they learn about options for their existing plan balances and how to maintain their investment strategy to keep them heading in the right direction. They are assisted in transferring their funds into a new employer plan or to an IRA, as appropriate. And they learn about the potential consequences of cashing out their plan accounts, along with the pros and cons of each distribution.

You may experience a reduction in the paperwork and recordkeeping necessary to track terminated employees, thus reducing administrative fees. The solution also allows you to manage fiduciary responsibilities in connection with “lost” participants by helping them move to other plans when appropriate.

## Plan Termination Support

The termination of a qualified retirement plan can be extremely time-consuming, distracting you and HR personnel from other pressing matters. Paying out account balances, documenting processes and maintaining contact with participants can be complicated.

The Worksite Financial Solutions Plan Termination Support tool facilitates some of the responsibilities associated with a plan termination. The outreach and notification process is streamlined, monitored and consistent with the Department of Labor's guidelines. Participants have an opportunity to speak with a registered financial advisor, who can help them decide how to stay on track toward retirement throughout this challenging event. And plan assets are appropriately disbursed from the terminated plan.

## Worksite Financial Solutions: Why and How

LPL Financial created Worksite Financial Solutions as a tool for your plan advisor to provide real help to plan participants—help that until now has often been inaccessible to them due to industry regulations and compliance issues.

- We wanted plan participants to confidently receive guidance about transition options from an experienced, trusted source with whom they already felt confident.
- We realized that the program had to be carefully crafted to help plan sponsors address fiduciary concerns and compliance issues, as well as provide high-quality services for plan sponsors and participants.

According to highly respected ERISA attorneys, The Wagner Law Group:

“It is important for plan sponsors to realize that their plans may be harboring significant and unnecessary risk from a fiduciary liability perspective if participants do not understand their plan and if their retirement savings are inadequate. By implementing... best practices..., plan sponsors can readily help their participants prepare for retirement and help them stay on track for a financially secure future. If a plan sponsor needs assistance implementing any of these best practices, it should consider engaging a financial advisor or another qualified provider of participant education services.”<sup>5</sup>

One of these “best practices” is providing access to qualified financial advice to individual participants. With Worksite Financial Solutions, you can help ensure that participants have access to the qualified financial advice they need, which will help them work toward retirement readiness. In so doing, fiduciary concerns over failing to help participants accumulate sufficient assets can be managed.

For example, the Employee Transition Solution allows employees to be informed about the options available for their plan accounts as they transition to a new employer. Armed with accurate information about their options, employees may be equipped to make better decisions about their retirement balances, potentially avoiding the long-term consequences of an inappropriate decision. At the same time, plan sponsors may gain confidence that regulatory issues are properly managed.

<sup>5</sup> See *A Plan Sponsor's Fiduciary Calling to Improve the Retirement Readiness of Plan Participants*, a white paper prepared by The Wagner Law Group on behalf of LPL Financial. The Wagner Law Group is not affiliated with LPL Financial.

## About LPL Financial

LPL Financial, a wholly owned subsidiary of LPL Financial Holdings Inc. (NASDAQ: LPLA), is the nation's largest independent broker/dealer (based on total revenues, *Financial Planning* magazine, June 1996–2014), a top RIA custodian,\* and a leading independent consultant to retirement plans. LPL Financial offers proprietary technology, comprehensive clearing and compliance services, practice management programs and training, and independent research to over 13,500 financial advisors and approximately 700 financial institutions. In addition, LPL Financial supports over 4,400 financial advisors licensed with insurance companies by providing customized clearing, advisory platforms and technology solutions. LPL Financial and its affiliates have approximately 3,000 employees with headquarters in Boston, Charlotte and San Diego.

\* Cerulli Associates: RIA Service Agent Survey Q1 2013



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