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Are auto features right for your 401(k) plan?

BY PHIL WEBB

WHAT MAKES A GOOD CLIENT...

A good client is someone who sees value in the solutions you provide.



RICHARD P. SLAUGHTER ASSOCIATES INC.

13809 Research Boulevard, Suite 905, Austin, TX 78750

512.918.0000

FEATURED ADVISOR

Phil Webb, CPFA, AIF®, Senior Plan Advisor, RPS Retirement Plan Advisors

ASSETS UNDER MANAGEMENT

\$400 million (as of 5/15)

LARGEST CLIENT NET WORTH

Confidential

MINIMUM FEE FOR INITIAL MEETING

None required

MINIMUM ASSET REQUIREMENT

\$500,000 (investment services)

COMPENSATION METHOD

Asset-based and hourly fees

PROFESSIONAL SERVICES PROVIDED

Planning, investment-advisory and money-management services; 3(38) fiduciary advisor

PRIMARY CUSTODIANS FOR INVESTOR ASSETS

Charles Schwab & Co. and TD Ameritrade

ASSOCIATION MEMBERSHIPS

CFA Institute, CFA Society of Austin, Financial Planning Association, The National Association of Personal Financial Advisors

EMAIL

phil@rpsplanadvisors.com

WEBSITE

www.rpsplanadvisors.com
www.slaughterinvest.com

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he lack of retirement readiness among much of the country's workforce is a growing concern, for both employees and their employers.

Ideally, workers should contribute regularly to retirement and other savings accounts, as well as have available pensions and Social Security. Additionally, they need adequate financial knowledge about how to spend those assets in retirement in a sustainable way.

However, a lack of savings and investment knowledge has contributed to what might well be called a retirement inadequacy trend. And when you have employees unprepared for retirement, that scenario can negatively affect your company's bottom line.

COMPANY-EMPLOYEE DISCONNECTS

There is also a growing disconnect between plan sponsors and the participants themselves about some of the key issues.

A recent survey by Blackrock found that 64 percent of 401(k) plan sponsors surveyed thought that their employees knew how much they should be saving for a comfortable retirement. In contrast, only 37 percent of the employees admitted they knew that amount.

A similar disconnect is revealed with investment knowledge. 67 percent of plan sponsors surveyed said they believed their employees understood the investment options in their plan. Conversely, only 43 percent of the employees said they understood those options.

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Poorly designed retirement plans assume all participants are disciplined enough to save and know where to invest their savings.

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This gap has led to poorly designed retirement plans that assume all participants are disciplined enough to save, and know where to invest their savings. And that's a problem. But, fortunately, there is a solution.

AUTOMATIC ENROLLMENT, ESCALATION AND DIVERSIFICATION

Over the last few years, automatic features in 401(k) plans have begun to catch on. The primary features here are automatic enrollment and automatic escalation.

With those features, employees are automatically enrolled into the plan at a default-contribution percentage, and contributions are automatically increased by a

pre-determined amount on an annual basis.

Combined, these features have improved overall contribution rates in the plans that adopt them.

And, to take things a step further, when a plan has a qualified default investment alternative (QDIA) in place, the participants who are automatically enrolled are also automatically invested in a well-diversified portfolio. In that case, participants still have the option of making investment elections on their own if they so choose.

One of the primary concerns among 401(k) plan sponsors thinking about implementing

these features is that their employees will push back against being automatically enrolled in the plan. However, participants can opt out, so they are not locked in. And, in reality, the opt-out rate in plans that have implemented these features has been less than 10 percent.

COMPANY CUSTOMIZATION IS KEY

While automatic enrollment and auto-escalation retirement-plan features go a long way toward improving worker retirement readiness, they are not perfect. Your own plan-demographics and employee population should be taken into consideration when you think about adding them.

Based on our experience, adding these features can benefit the plan in multiple ways:

- If your company has had issues passing annual nondiscrimination testing, and that has resulted in refunds to some of your executive team, the increased participation and deferral rates should help greatly.
- Having your employees saving more leads to less financial stress, which can increase productivity at the office.
- A workforce that is retirement ready can help improve your company's bottom line.

Talk with your wealth manager about the benefits of helping your workers better prepare for their retirement years. A carefully considered plan that meets your company and employee needs will ensure brighter futures for all. ●

ABOUT US

RICHARD P. SLAUGHTER ASSOCIATES IS A LEADING WEALTH MANAGEMENT AND FINANCIAL-PLANNING FIRM WHICH SPECIALIZES IN WORKING WITH HIGH NET WORTH INDIVIDUALS, FAMILIES AND BUSINESSES. Slaughter Associates cultivates a comprehensive financial relationship with its clients by delivering expertise in financial planning and asset management and coordinating with tax, insurance and estate professionals. The result is a holistic approach, which is unique in a financial industry that is often segmented and outsourced. By committing to each of these important components, Slaughter Associates charts a path to reach the individual financial goals of its clients.

Founded in 1991 in Austin, Texas, by Richard Slaughter, Slaughter Associates is one of the original fee-based firms in the nation. With offices in both Austin and the Dallas-Fort Worth Metroplex, Slaughter Associates has been recognized by NABCAP as a Premier Advisor and given Exemplary status for expertise in personal risk management. ●



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