



6 Criteria to Benchmark your Credit Union's 401(k) Plan

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Wade Connor



Regional Director

Skills

- Plan Design Strategies
- Fiduciary Outsourcing Solutions
- Qualified Retirement Plan Solutions
- Strategic Sales Development
- Relationship Management

Summary

Wade leads Pentegra's business development efforts across the Eastern Seaboard.

Experience

With more than 20 years of experience, Wade is an accomplished industry veteran. Prior to joining Pentegra, Wade worked as a financial advisor for Morgan Keegan where he consulted with both Commercial and Corporate lenders as well as Financial Advisors to help their clients find the best institutional solutions to meet their needs.

Education and Professional Credentials:
Wade earned a B.S. in Marketing, with a Minor in Finance from Clemson University. Additionally, Wade holds FINRA Series 6 and 63 securities licenses.

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Agenda

- What is benchmarking?
- Why do benchmarking?
- Fiduciary Roles and Obligations in ERISA
- When should you benchmark?
- What to benchmark – 6 criteria to follow
- Fiduciary outsourcing considerations
- How do I get a benchmark report?



What is Benchmarking?

Benchmarking is the process of evaluating if a retirement plan's services and fees are competitive with other plans of a similar size or type. Benchmarking measures retirement plans against their peers in terms of participant and plan demographics, plan types, and fees paid to ensure a true comparison of the plan against real industry data.

It's a chance to see where your 401(k) is and determine if you need to consider changing or switching it in order to get a better fit for your credit union.



Why Benchmark?

- **Fiduciary obligation**

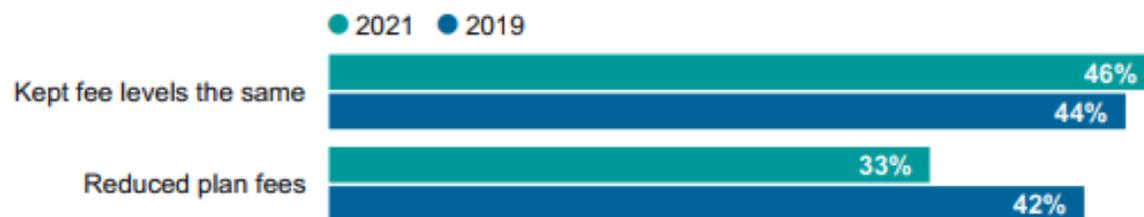
- According to Employee Retirement Income Security Act (ERISA), the **primary responsibility of plan fiduciaries** is to act in the best interest of their plan participants.

- **Plan growth**

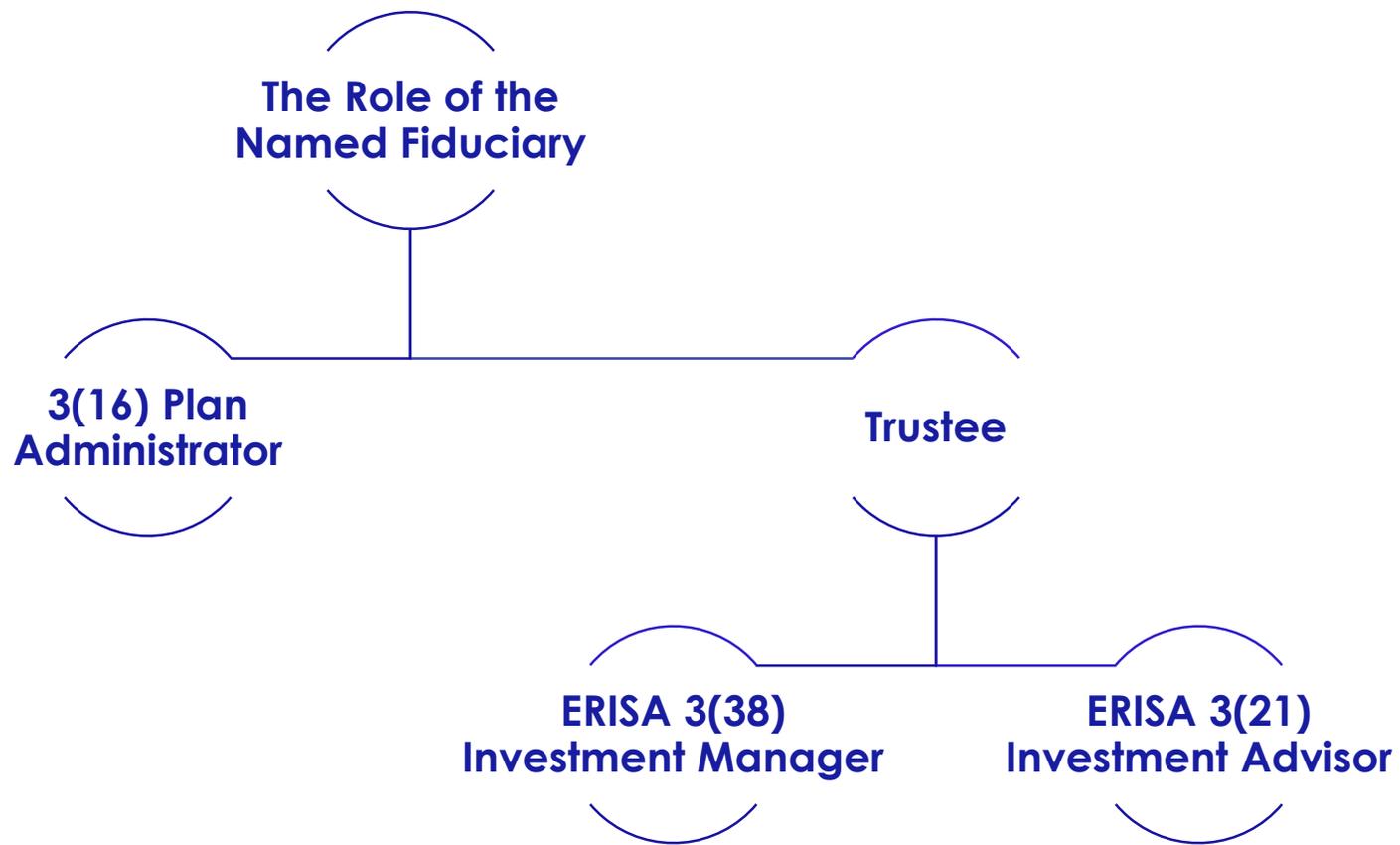
- Provides an opportunity to see where your 401 (k) is and determine if you need to consider any changes in order to get a better fit for your employees as well as meeting the changing needs of your credit union.

- **Assessment of fees and expenses**

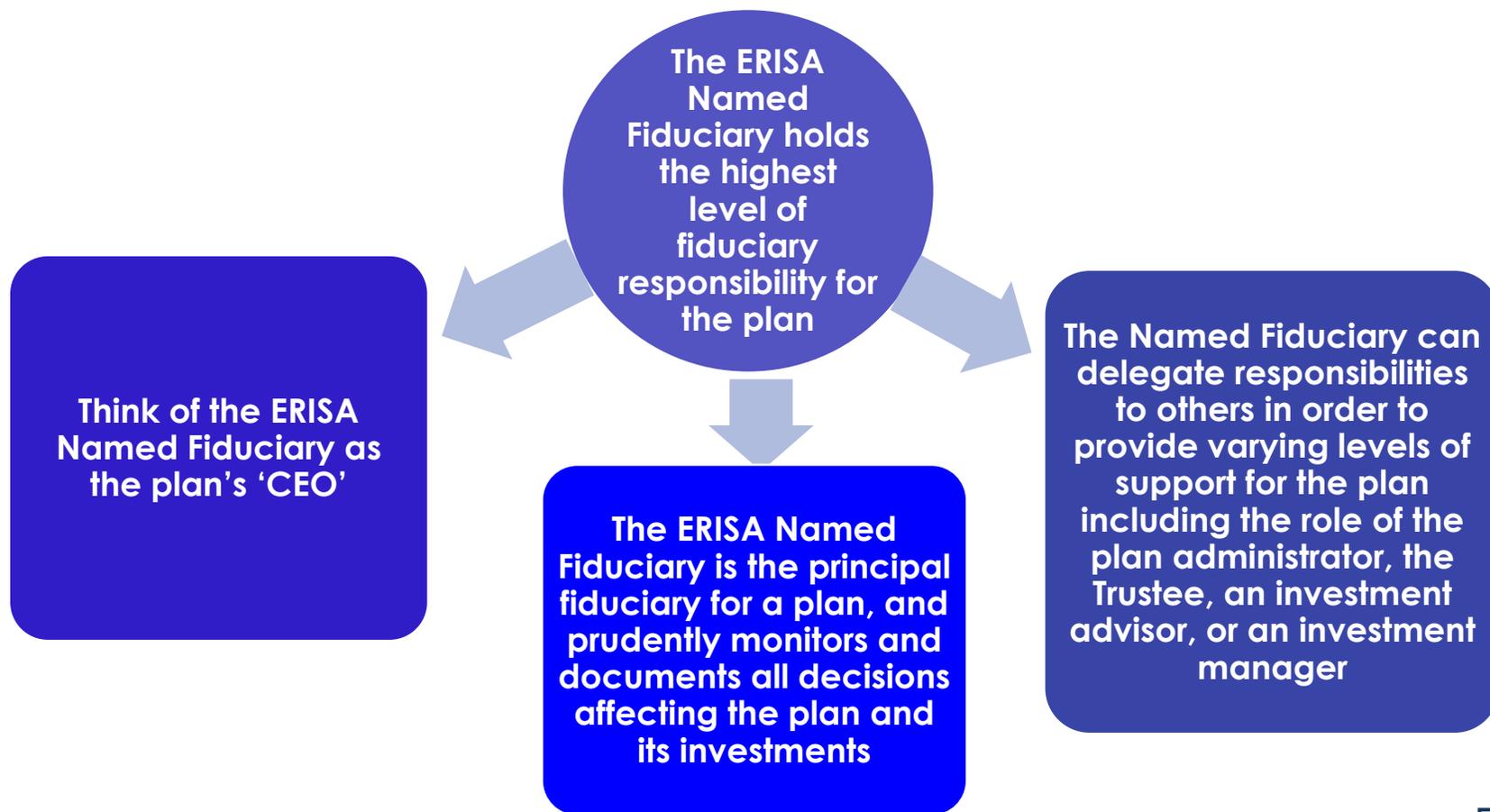
- Possibly reducing costs associated with providing an employee retirement plan



Fiduciary Roles Under ERISA



The Role of the ERISA Named Fiduciary



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Who is Benchmarking their Plan?

The **responsible plan fiduciary** follows the Department of Labor's advice when determining fee reasonableness by examining not only what they are paying, but also what they are receiving for what they are paying.*

- **62%** of plan sponsors plan to review plan fees in 2022**
- Review of plan fees has been the top focus for plan sponsors 2 out of the last 3 years**



*Source: DOL

**Source: 2022 Defined Contribution Trends, Callan Institute

When to Benchmark Your Plan?

In theory, you can—and should—benchmark each year. In doing so, you can help ensure you're doing your due diligence as a **fiduciary**.

- Understanding and evaluating plan fees, investment expenses, investment options, and services is an essential fiduciary responsibility—and according to the Department of Labor, it's an “**ongoing responsibility**.”
- The Department of Labor has stated in their own guidance on evaluating fees: "don't consider fees in a vacuum. They are only one part of the bigger picture including investment risk and returns and the extent and quality of services provided."



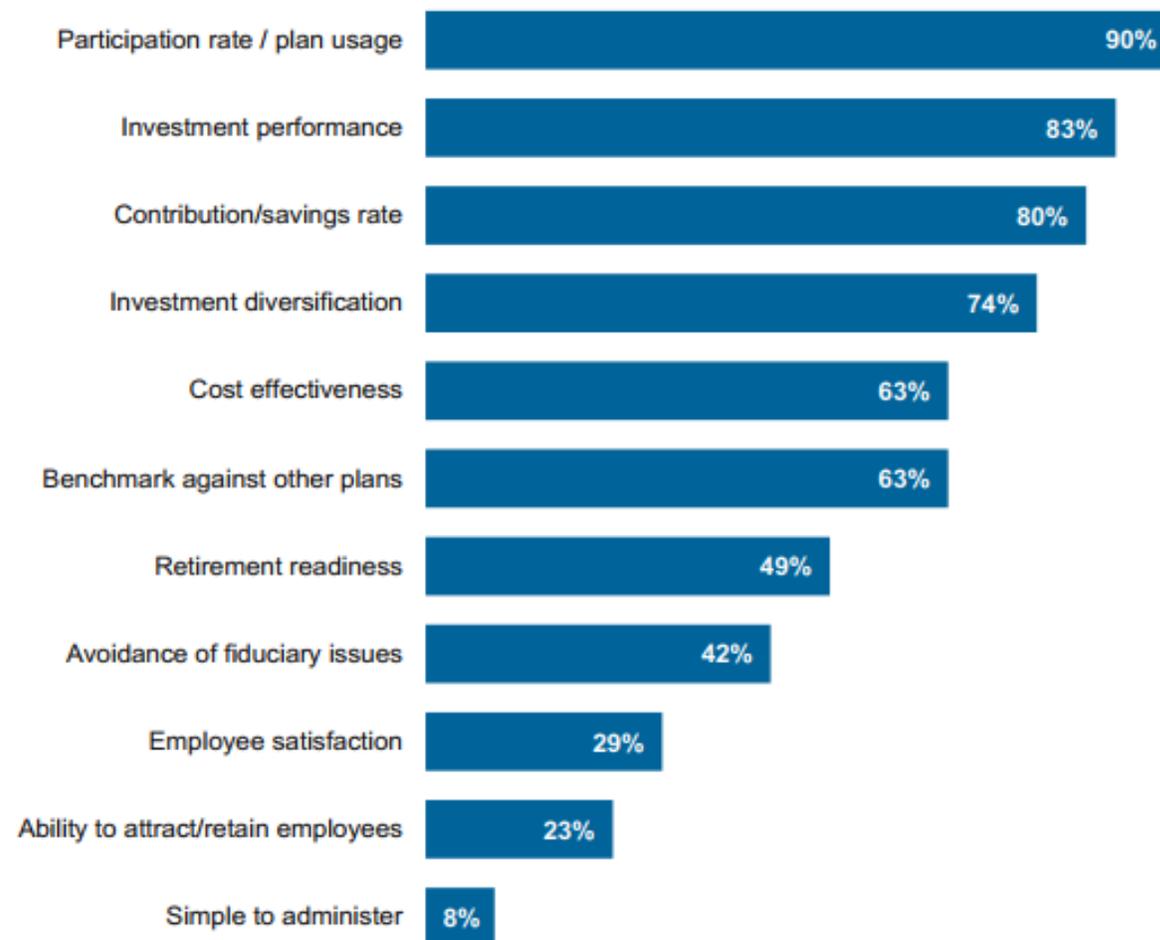
DC Plan Measurement

On average, plan sponsors use 6 metrics to measure the success of the DC plan.

Most plan sponsors use participation rate/plan usage to measure the success of their DC plan.

Contribution/savings rate and investment performance tied for the second most common metrics, followed by investment diversification.

Criteria used to measure plan success*



Additional 2021 categories: don't measure (1%); other (12%)

*Multiple responses allowed.

6 Criteria for Benchmarking

What should be benchmarked?

- Notification of any fiduciary administration red flags
- Plan Design - overall assets, expenses, participation rate, and contribution levels
- Analysis of your retirement plan to others of the same size and same industry
- Identification of funds that offer lower fees, and ways to simplify investment options
- A fiduciary rating for each investment fund based on expense and return
- Consideration of outsourcing any fiduciary responsibilities for the credit union?



The Credit Union Perspective

- Retirement plans are good for employees
- Retirement plans help attract, retain and reward employees
- Retirement plans are complicated
- I don't have—or want—the knowledge of how they work
- I don't have time to deal with managing plan details
- I need to focus on running my businesses
- Time spent on the plan is time not spent on the business
- **Make it easy for me!**



Some Of The Top Plan Mistakes

Plan document not updated to reflect law changes

Failure to follow plan terms

Not using the plan's definition of compensation for deferrals and allocations correctly

Employer matching contribution errors

Not satisfying non-discrimination tests (ADP & ACP)

Not notifying all eligible employees of their opportunity to defer

Not complying with IRC Section 402(g)

Not depositing employee elective deferrals in a timely fashion

Hardship distribution issues

Not making required minimum contributions for top-heavy plans

Not filing a Form 5500 series return

Not distributing a Summary Annual Report to all participants

The Greatest Source of Plan Liabilities

- Most people assume the greatest source of retirement plan liability is plan investments.
- **The reality—the vast majority of lawsuits and regulatory actions involve plan administration issues.**
- 1,309 applications for the Voluntary Fiduciary Correction Program (VFCP)
- 19,624 applications for the Delinquent Filer Voluntary Compliance Program (DFVCP)
- 1,122 civil investigations closed
- 67% of civil investigations resulted in payment or other corrective action
- EBSA restored over \$3.124B to employee benefit plans, participants and beneficiaries
- 230 criminal investigations closed; indictment of 70 individuals—including plan officials, corporate officers and service providers for offenses related to employee benefit plans

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How Does 3(16) Fiduciary Outsourcing Work?

What 3(16) Fiduciary Outsourcing Does for Plan Sponsors



- Saves me time
- Takes work off my desk
- Reduces compliance burdens
- Minimizes risk & liability
- Eliminates complex responsibilities
- Saves money by saving time
- Helps ensure my business is competitive
- Improves plan outcomes

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Notification of Any Fiduciary Administration Red Flags

ABC Credit Union

\$24.44M Assets	140 Participants	Top 40% Participation Rate	\$186,571 Average Balance	3 Red Flags
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Plan Insights

-  Plan does not offer autoenrollment
-  Investment lineup contains 1 fund(s) with bottom quintile 3-year returns relative to Morningstar category
-  Investment lineup contains 16 fund(s) with a lower share class available including: REETX w/ RFETX, RECTX w/ FCCTX, REDTX w/ FDDTX, REJTX w/ RFJTX, RGAFX w/ RGAGX
- 404(c) compliant plan
- Plan does not offer participant-directed brokerage account
- No advisor listed on Schedule A or C
- Investment lineup has 7 highly correlated fund pairs that offer an opportunity for lineup simplification



ABC Credit Union 401(k) Retirement Plan Summary

ASSETS

Total Assets	\$24,440,789 (\$2,486,474 YoY Change)
Employer Contribution	\$458,288
Employer Contribution %	47%

Average Balance	\$186,571
Employee Contribution	\$522,570
Employee Contribution %	53%

PARTICIPANTS

Total Participants	140 (+5)
Active Participants	95
Total Participants w/ Balance	131

Active Participants w/ Balance	61%
Retired participants	32%
Participation Rate	94%

EXPENSES

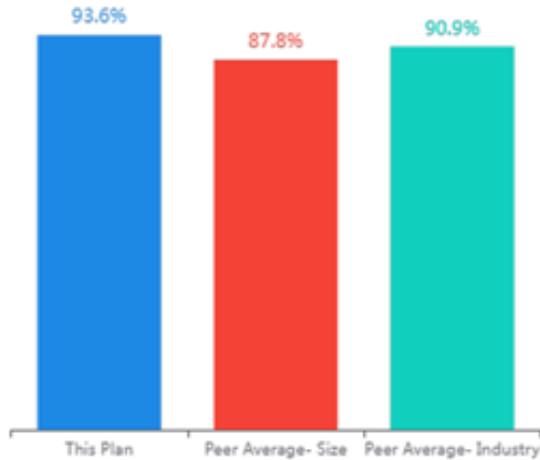
Direct Admin. Expenses(\$)	\$644
Direct Admin. Expenses(% of Assets)	0%

Direct Admin. Expenses Per Participant	\$5
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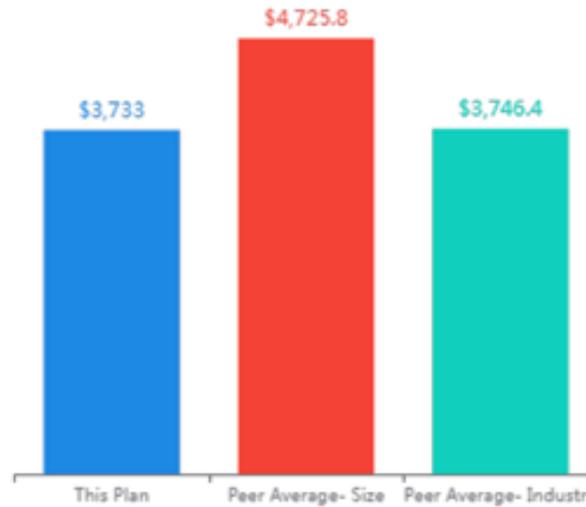


Analysis – Your Plan to Similar Size & Industry

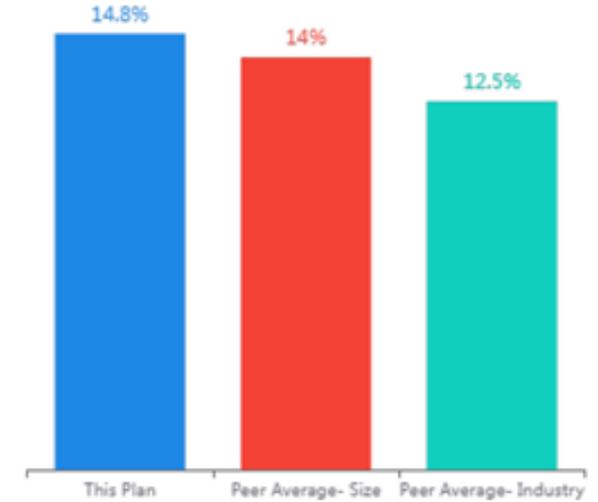
Participation Rate



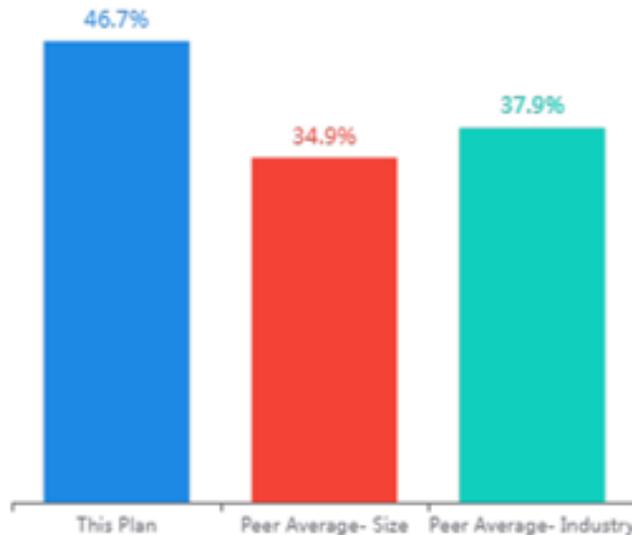
Average Participant Contribution



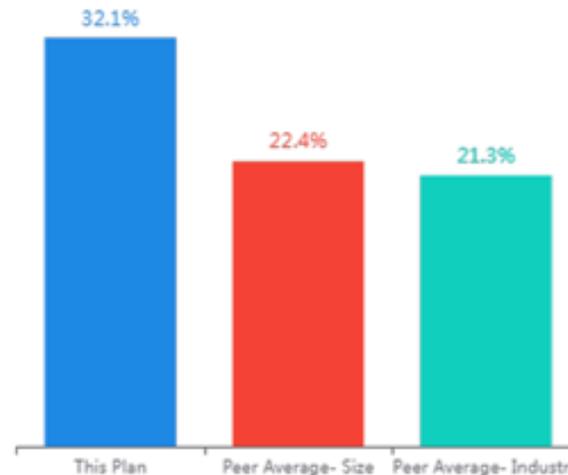
Rate of Return



Employer Contribution



Percent of Retirees



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Current Plan Investments

Ticker	Fund	Current Value	Category	Track Record	Fund Size	Expenses	3-Year Return	3-Year Sharpe Ratio	Fiduciary Rating
REETX	American Funds 2030 Target Date Retirement Fund	\$6,604,269	Target-Date 2030	Pass	Pass	A	A	A	A
RECTX	American Funds 2020 Target Date Retirement Fund	\$4,386,458	Target-Date 2020	Pass	Pass	A	B	A	A
REDTX	American Funds 2025 Target Date Retirement Fund	\$3,382,463	Target-Date 2025	Pass	Pass	A	B	A	A
WFSPX	iShares S&P 500 Index Fund	\$2,590,236	Large Blend	Pass	Pass	A	B	B	A
	Stable Value	\$1,098,981	Stable Value						
REJTX	American Funds 2015 Target Date Retirement Fund	\$720,376	Target-Date 2015	Pass	Pass	A	C	A	A
RGAFX	Growth Fund of America	\$709,970	Large Growth	Pass	Pass	A	D	D	B

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Fees

Reducing fees could save this plan **\$1,180,479** over 10 years. This represents a **78%** decrease in fees

Horizon (Years) :

10

Annual Contribution :

\$980,858

Annual Rate of Return :

5.5%

Plan Fee Change :

0%

Current Plan Investments

Low Fee Alternative

Fee Saving

TICKER	FUND	CURRENT VALUE	EXPENSE RATIO	TICKER	LOW FEE ALTERNATIVE	CORRELATION	EXPENSE RATIO	SAVING (\$)
REETX	American Funds 2030 Target Date Retirement Fund	\$6,604,269	0.40%	SWYEX	Schwab Target 2030 Index Fund	0.98	0.08%	\$399,174.71
RECTX	American Funds 2020 Target Date Retirement Fund	\$4,386,458	0.36%	SWYLY	Schwab Target 2020 Index Fund	0.97	0.08%	\$232,369.41
REDTX	American Funds 2025 Target Date Retirement Fund	\$3,382,463	0.38%	SWYDX	Schwab Target 2025 Index Fund	0.96	0.08%	\$191,823.36
REFTX	American Funds 2035 Target Date Retirement Fund	\$671,977	0.42%	SWYFX	Schwab Target 2035 Index Fund	0.98	0.08%	\$43,120.96
RGAFX	Growth Fund of America	\$709,970	0.35%	SCHG	Schwab US Large-Cap Growth ETF	0.98	0.04%	\$41,712.60
REJTX	American Funds 2015 Target Date Retirement Fund	\$720,376	0.35%	SWYBX	Schwab Target 2015 Index Fund	0.97	0.08%	\$36,817.65
REITX	American Funds 2050 Target Date Retirement Fund	\$468,753	0.44%	SWYMX	Schwab Target 2050 Index Fund	0.98	0.08%	\$31,828.08

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Diversification

This plan scores a **B**. for diversification (minimization of investment risk). There is/are **7** highly correlated fund pair(s) that offer an opportunity to simplify decisions for participants.

- F** Little diversification benefit
- D** Medium diversification benefit
- C** Medium diversification benefit
- B** High diversification benefit
- A** High diversification benefit

	MASKX	PEMXX	RMFFX	RGAFX	WFSFX	RSLFX	RERFX	RNWFx	FGADX	RIDFX	RITFX	PRIPX	TGBAX	USGXX	JERIX	RWIFX	PBDIX	RAEXX
MASKX																		
PEMXX	F																	
RMFFX	D	D																
RGAFX	C	D	D															
WFSFX	D	D	F	D														
RSLFX	D	D	D	D	D													
RERFX	B	B	C	D	C	D												
RNWFx	B	B	C	C	C	D	F											
FGADX	A	A	A	A	A	A	A	A										
RIDFX	C	D	F	D	D	D	D	D	A									
RITFX	C	C	C	D	D	D	D	C	A	D								
PRIPX	A	A	A	A	A	A	A	A	B	A	A							
TGBAX	B	B	B	A	B	A	B	B	A	B	B	A						
USGXX	A	A	A	A	A	A	A	A	B	A	A	D	A					
JERIX	B	B	B	B	B	B	B	C	A	B	B	C	A	B				
RWIFX	C	C	D	D	D	D	F	D	A	D	D	A	B	A	B			
PBDIX	A	A	A	A	A	A	A	A	B	A	A	D	A	D	B	A		
RAEXX	A	A	A	A	A	A	A	A	B	A	A	D	A	F	B	A	D	



Summary

- Understanding the fiduciary duty of Plan Sponsor to review and benchmark retirement plan services providers periodically
- Looking out for the best interests of the plan participants
- Benchmarking can be stored in your fiduciary file in case of audit
- Potential to reduce investment and administrative expenses impacting the plan sponsor and participants
- Too overburdened with fiduciary and administrative tasks? Consider hiring a 3(16) administrator

Pentegra offers a free benchmarking report to NAFCU members.

Contact Wade Connor

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Questions?



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