

# Smart Plan Design Contains Plan Costs and Improves Outcomes



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**Case Study:**  
*Billy Bob and Bobby Jean Restaurants*

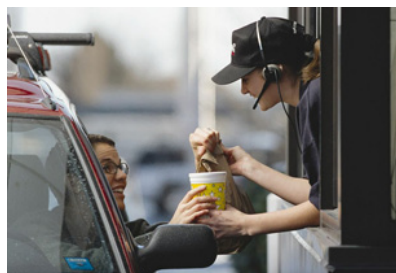


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Plan sponsors must continually balance the dual objectives of helping plan participants prepare financially for retirement and properly managing a fixed benefits budget within the constraints of fiduciary responsibility. A critical question in this endeavor is: Does the plan design itself fully support the sponsor's business objectives? Are the service features of the plan properly positioned to achieve the sponsor's business goals? By working closely with their Advisors, sponsors may be able to make strategic modifications in plan design that result in both improved retirement readiness for participants and reduced plan costs for the sponsor's organization.

Consider *Billy Bob and Bobby Jean Restaurants*<sup>1</sup>, a chain of dining establishments headquartered in Knoxville, TN. With 1,000 employees throughout the Southeastern United States, benefits communication presented a considerable challenge, and plan participation suffered. The plan included an employer match of \$.50 per \$1.00 of employee contributions up to 4% of pay, but the plan had only achieved a 50% participation rate and accumulated only \$6 million in plan assets. The average deferral rate and average account balance were in line with those of industry peers but lagged national standards. An annual employment satisfaction survey administered by the benefits staff showed that fewer than 10% of employees felt that they were "saving enough for retirement," but tight margins in the business made it impossible to increase the annual employer contribution budget of \$135,000.



<sup>1</sup> *Billy Bob and Bobby Jean Restaurants* is a fictitious company. Any resemblance to a real employer is purely coincidental.

Working closely with their Professional Retirement Plan Advisor, the benefits staff at *Billy Bob and Bobby Jean Restaurants* conducted a thorough review of the plan, benchmarking against other plans in the hospitality industry as well as other organizations in different industries. Sponsor and Advisor together sought to identify plan design changes that could be implemented quickly, resulting in better participation, higher contributions, more plan assets—and possible expense concessions from the service provider—all without disrupting the benefits budget. After careful consideration, the following changes were made:

“Keeping cost constant, doing the same things that we have always done, such as changing education, change investment options, and changing vendors, isn’t going to change outcomes. To effect change, plan sponsors need to fundamentally change plan design....A specialized Advisor can guide the plan sponsor on the right course of action for their specific situation.”

Jason Chepenik , AIF®, CFP®  
Chepenik Financial

#### **Automatic enrollment**

The sponsor implemented automatic enrollment for new and existing employees of the firm. A default deferral rate of 10% of pay that many recommend did not seem realistic for the workforce of *Billy Bob and Bobby Jean Restaurants*, and the 3% deferral rate that some plan sponsors adopt as a default is woefully inadequate to set them on the right course. The sponsor arrived at a default deferral rate of 5% as the appropriate number because the plan’s current opt-in deferral rate is near 5%. The analysis the Advisor provided showed it would have taken 10 years for the plan to enhance outcomes if automatic enrollment were offered only to new employees.

#### **Automatic deferral escalation**

To supplement automatic enrollment, and to ensure continued growth in participant accounts that would ultimately lead to improved retirement readiness, the sponsor implemented automatic deferral escalation as well: 1% per year, every year until the participant’s deferral rate reaches 10%.

#### **Smarter matching contribution**

Participants had heard the message about “contributing enough to maximize the employer match,” but the original match formula of \$.50 per \$1.00 up to 4% of pay had inadvertently led many participants to think 4% was the “suggested” contribution level and to limit their contributions accordingly. After careful review with the Advisor, the sponsor decided to change the match formula to \$.20 per \$1.00 up to 10% of pay, stretching the match.

#### **Employer contribution budget unchanged**

The restaurant business operates on paper-thin margins, and it was critical for *Billy Bob and Bobby Jean Restaurants* to contain employer contributions within the \$135,000 budget.





“What is the excuse for not taking the steps known to enhance outcomes for the plan if the budget allows it? Your Professional Retirement Plan Advisor can research plan designs that will generate superior outcomes, all other things being equal, adopt this new plan design, and implement it for everyone’s benefit.”

Steve Dimitriou AIF®, AAMS, PRP®,  
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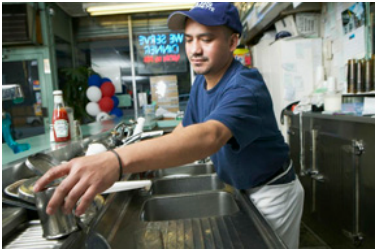
### Multiple loans eliminated

The sponsor had originally offered a plan loan feature as a way to encourage employees to join the plan. However, like many retirement professionals, the sponsor now considered plan loans to be a serious detriment to retirement preparedness. After debating elimination of the loan provision altogether, the sponsor decided—as an interim measure—to modify the plan to allow for only one existing loan at a time.

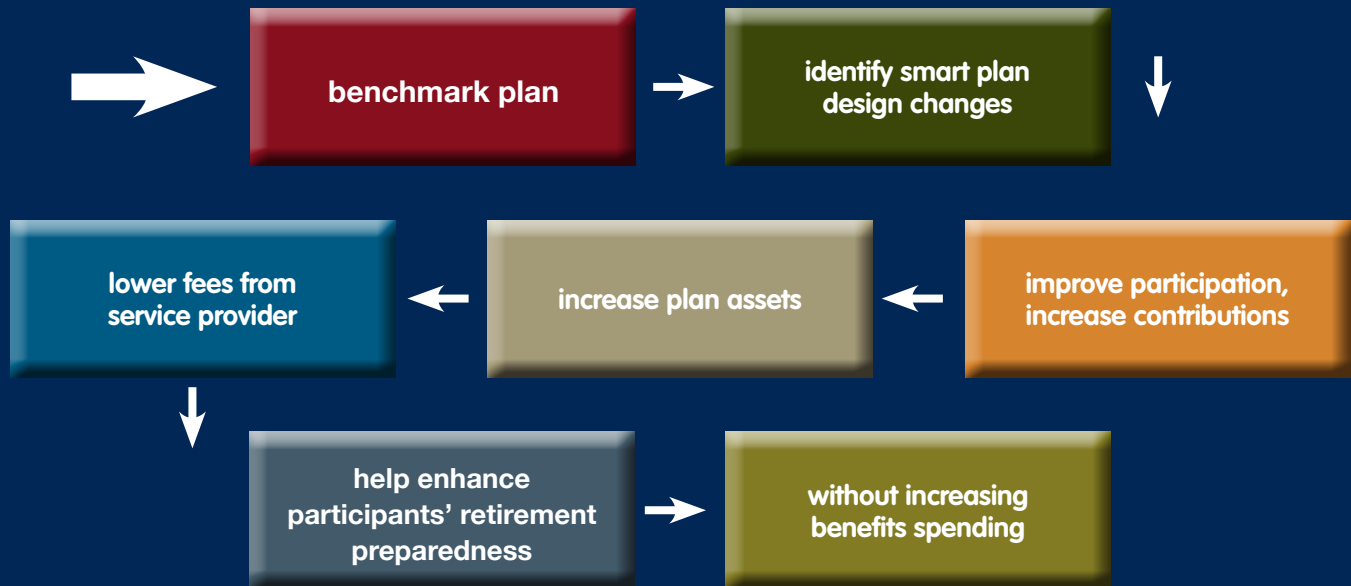
*Billy Bob and Bobby Jean Restaurants* has already experienced dramatic improvement in many of the plan’s success measures—and additional increases are expected to be fully experienced in the months and years to come. Participation increased from 50% to 83% in two years. The average deferral rate increased from 4.6% to 6.0%. Average employee contributions nearly doubled. The most recent employee satisfaction survey indicated the percent of employees who agree they are saving enough for retirement increased from less than 10% to 32%. Obviously there is room for continual improvement, but the benefits staff and senior financial management are confident the benchmarked metrics are moving steadily in the right direction.

And the benefits budget? Zero increase over this time period. In fact, employer contributions came out \$1,000 under budget this year. Financial management personnel at *Billy Bob and Bobby Jean Restaurants* are now beginning negotiations with their service provider for a lower fee package, reflective of the significant growth in plan assets and the positive trends indicating additional growth in the near future.

Plan Success Metrics	Before	After
Participation	50%	83%
Average Contribution (% pay)	4.6%	6.0%
Average employee contribution	\$621	\$810
Perceived Retirement Readiness (% employees)	9%	32%
Employer Contribution Budget	\$135,000	\$134,000
Plan Assets	\$6 million	\$7.7 million



# Work closely with Advisor



Founded in 1973, **Chepenik Financial** is a long-standing family business that has served as a thought-leader and outspoken advocate for the retirement industry. In 2010, **Jason Chepenik** was named "Top Advisor for Mid-Market - Defined Contributions Plans" by *401kWire*, and in 2012 was named a "Top 50 Advisor for Retirement Plans" and "Top 10 for Large Plans." Mr. Chepenik is a Professional Retirement Plan Advisor and a founding member of the Retirement Advisor Council.

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From employee education, to plan documentation and design consulting to relationship management, **Mayflower Advisors LLC** is distinguished by their dedication to plan participants. In 2009, **Steven Dimitriou** was named "Retirement Plan Advisor of the Year" by *PLANSPONSOR Magazine*, and in 2010 *401kWire* recognized Mr. Dimitriou as one of the "40 Most Influential Advisors in Defined Contribution Plans." Mr. Dimitriou is a Professional Retirement Plan Advisor and a founding member of the Retirement Advisor Council.

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### 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:

- Identification of duties, responsibilities and attributes of the Professional Retirement Plan Advisor
- Sharing our professional standards with plan sponsors who are responsible for the success of their plans
- Providing collective thought capital to decision makers, product providers, legislators and the public
- Giving voice to the Retirement Plan Advisor community
- Tools to evaluate Advisors, ensuring the quality of services needed for successful retirement outcomes.



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