HHM WEALTH ADVISORS MAY 2018

RETIREMENT TIMES

Have You Conducted a Fee Equalization/Levelization?

Fees in defined contribution (DC) plans can be complicated. Historically, fees have not been fully and simply disclosed, but the industry is changing towards greater and more understandable disclosure.

Simply put, there are two basic types of fees: administrative and investment-related. The investment-related fees are deducted from earnings on participant accounts and will vary from one investment to the next. These fees are paid to the firms that are making decisions about how the various funds are invested in the market. Participants will pay different investment-related fees, as the fees are based on where the participant chooses to invest their assets.

Administrative fees are also deducted from participant accounts. If the plan has not implemented a fee equalization (also known as fee levelization), administrative fees will also vary from one investment to the next. Administrative fees are designed to pay for administrative-related activities associated with recordkeeping participant accounts. Such activities can include marketing, statements, education, processing contributions and withdrawals, issuing required tax forms and meetings with local representatives.

Fee equalization addresses the equity of the administrative fees being charged to participants. Unlike the duties associated with investment management, duties associated with administering participant accounts do not change depending on where a participant has directed his or her investments. Arguments can easily be made that administrative fees should be the same for all participants because they have the same recordkeeping requirements. In our experience, regardless of investment selection,

account value, contribution level – the administrative duties are equal for all participants, so the administrative fees should also be equal.

We believe that every plan sponsor should consider a fee equalization structure in their plans, so participants share equally in the cost of administering this important benefit.

Evaluating Your Plan and Fees? Think More, Not Less.

Should you reduce your plan's fees to better serve participants? Many vocal experts speaking on behalf of investors and participants say "yes" – unequivocally. But what about the investors and participants themselves? What do they say?

Invesco Consulting teamed up with language experts Maslansky + partners to get the answer. The nine-month study included in-depth interviews with commission-based brokers and fee-based advisors, dial-session focus groups with 90 investors, and a North American survey of 1,000 investors in the U.S. and Canada.

Throughout the study, there were very few complaints from investors about high fees. Certainly, there were concerns about fees being a drag on returns. But investors were far more worried about overcoming their mounting financial obstacles. They talked about how the industry has grown more complicated – the markets, investment options, retirement liabilities, investment regulations and taxes. And they said they need help and are willing to pay for it, because they don't have the time or the inclination to do it themselves.

In the broader context, these investors wanted value – services, guidance and investments in exchange for fair and reasonable prices. Three distinct themes emerged from the research with investors and participants: be smart with our money, help us with more than investments and keep us on track. When you consider how to best serve today's investors, these are the three primary benefits to focus on.

1. "BE SMART WITH OUR MONEY."

In the absence of value, costs matter most. In the abundance of value, costs matter least.

Investors are not asking for low fees; they're asking for high value. They expect to pay a fair price for financial services, because anything of value costs something. As for the low-cost option? Low costs usually mean high risk. That cheap car, half-off shirt or discount plumber often remind consumers that they get what they pay for.

WHICH OF THE FOLLOWING IS MOST IMPORTANT TO YOU?

That my investments are…

a) Cost-efficient – 83%

b) High-value – 80%

c) Low-cost – 36%

IT MATTERS WHAT THEY PAY

How do you tell investors that you are being smart with their money?

In the study, several different approaches were dial-tested. The transcript below shows the results of one dial session where investors lis-

tened to a message about being smart with their money. The investors were each equipped with remote control dials and reacted to the message by dialing up when they liked what they were hearing and dialing down when they did not. All participants started their dials at 50. When dials reached 70 and above, the messaging worked. When dials fell to 35 or below, the messaging failed. The numbers below, in **red,** indicate how investors reacted to the messaging.

DIAL TEST

50 When it comes to your finances, it's only natural to want to get the best value possible for the money you are paying. And my firm and I believe that what you pay matters. **61**

It's our duty to provide you with advice, investments and services at fair and reasonable prices, and we don't take that responsibility lightly. Part of establishing a fair and reasonable price is making sure you get the most value possible out of the fee you pay. **68**

That's why now more than ever, the firm and I are working to offer you a greater level of service without increasing the costs you pay. We're expanding the range of services under the umbrella of financial planning, like minimizing the taxes you pay on investments, planning for financial milestones and ensuring you're on the right track to achieving the retirement you want. **81**

2. "WE NEED HELP WITH MORE THAN JUST INVESTMENTS."

It's not about a product; it's about a partnership. Investors are asking for more help. The trend from commission-based brokers to fee-based advisors is not just due to the regulators. Investors want comprehensive and all-inclusive help that is coordinated by a long-term financial plan.

A good financial advisor does more than just execute trades.

a) Strongly agree – 66%
b) Agree – 29%
c) Neither agree/disagree – 4%
d) Disagree – 1%
e) Strongly disagree – 0%

3. "MAKE US FEEL CONFIDENT WE'RE ON THE RIGHT TRACK." It's not about a financial plan; it's about financial planning.

Finally, investors are asking for help tracking their progress toward their goals. They don't want the set-it-and-forget-it approach. Instead, they want to know where they stand at any given time.

WHICH FINANCIAL PLAN IS BEST? PLEASE SELECT YOUR TOP CHOICE.

a) Determines which investments are in your best interest – 25%
b) Helps you set goals for the future – 16%
c) Lays out – and keeps you on – a path to achieve your goals – 59%

Rebalancing Your Portfolio

As a participant in the company's retirement plan, you are committed to saving for your future. Whether you are retiring in a few weeks or a few decades, you may need to protect your investment. A healthy way to do this is to rebalance your portfolio.

WHAT IS REBALANCING?

Rebalancing is readjusting your portfolio back to the original asset allocation that took into account your risk tolerance and time horizon. Put another way, rebalancing forces you to adhere to your investment strategy.

You rebalance by selling assets that make up too much of your portfolio and use the proceeds to buy back those that now make up too little of your portfolio. The net effect is to "sell high and buy low." Ultimately, regular rebalancing can increase the overall return of your portfolio over time. An automatic rebalancing feature may be available through your current retirement plan provider. Visit your provider's website for more information.

KEEPING IN CHECK

Experts recommend you rebalance at least once a year and no more than four times a year.

Consider this a good opportunity to evaluate if your investment strategy is still in line with your original goals.

EXAMPLE:

Suppose you enrolled in the plan at the beginning of last year and allocated 40% of your portfolio to bond funds and 60% to equity funds. Further suppose that when you received your year-end statement, it shows that 70% of your assets are in equity funds and 30% are in bond funds.

To stay within your acceptable risk level (which is what you determined before entering into the plan), you should sell enough equity funds to bring that back to 60% of your assets and buy enough bond funds to bring them up to 40% of your assets.

Initial Investment Direction:
60% Equities, 40% Bonds
Investment Allocation After One Year:
70% Equities, 30% Bonds

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