

Case Study

Smart Plan Design & Holistic View Guide Positive Change

Growing Regional Bank • 350 Employees • \$30,000,000 Assets in the Plan



Michael Gouldin



Daniel McCarthy

RETIREMENT
ADVISOR COUNCIL



The Situation

A rapidly growing regional bank was concerned about the impact of market volatility on its defined benefit plan, and potential rising costs. They were looking for guidance on how to close an existing DB plan while leveraging their DC plan to continue offering competitive benefits in a cost-effective manner. They were hoping to improve participation in the plan so that their employees could enjoy a level of retirement readiness. And they wanted to enhance their benefits as they grew and significantly increased staffing.

The Solution

The bank sought an advisor who would be familiar with their market and had significant experience in benefit planning and retirement plan design in particular. Mike Gouldin and Dan McCarthy of Gouldin & McCarthy, LLC were asked to address the challenge in a way that protected the bank while treating its employees fairly. “The bank wanted a solution that would keep the pension benefits intact as much as possible, while eliminating its market risk exposure,” Dan said.

“We recognized that to grow successfully, we needed a plan powerful enough to attract and retain outstanding employees without putting undue stress on earnings,” said the bank’s former chairman and CEO. “We wanted to take the huge gyrations out of our pension funding requirements, and we wanted our employees to know what they were working toward.

“We also knew we needed help in designing the new plan and transitioning out of the old one. Mike and Dan helped us through each step. They understood our objectives and were able to design a plan we were very comfortable with and played a vital role in communicating with our employees. They also had access to industry experts, and were able to bring them to the discussion.”

Gouldin & McCarthy reviewed all the options, including terminating the DB plan. Since one of the client’s primary concerns was to make sure their employees were protected in retirement, they felt that terminating the plan could leave the employees with a financial shortage. However, by assessing their client’s full benefits spending and using behavioral finance insights, Dan and Mike felt that closing the DB plan and enhancing the DC plan could significantly improve results.

They realized that plan design would be critical to the success of their solution. Working with Ted Benna, the benefits consultant who created the first 401(k) plan in 1980, they created an effective plan design.

“We bolstered their 401(k) with attention to participant age and years of service,” Dan noted. The revised plan defaulted participants into an asset allocation program with auto-rebalancing. The company matching contribution, which had been very limited initially, was expanded to a 50% match on the participant’s first 6% of pay. Auto enrollment, originally set up in 2007 at a 3% default contribution level, was bumped up to 6%.

“With the vast majority of employees already contributing 6% or more of their salary, we figured it no longer made sense to place people at a 3% level of saving,” said Dan. “If you’re willing to match 6% as an employer, why not default people into that level?”

Employee education was a key focus. The plan changes were communicated and efforts were made to ensure that employees understood the changes. As a best practice leading to improved retirement readiness, Gouldin & McCarthy strive to get participants to contribute 10% to 15% in their own salary deferral or through a combination of participant contributions and employer contributions. A 6% deferral with 3% company match plus another 3% profit sharing contribution gets participants up to 12%, the middle of that range.



“This is a highly technical area with a big regulatory overlay as well as a human component and a strategic piece,” the current bank CEO said. “Gouldin & McCarthy were able to merge our strategy with their technical knowledge.”

The Results

The plan design worked wonders. Participation rose from 71% in 2006 to more than 93% by 2014. The average deferral rate climbed from 4.8% to 6.4%. Participation in the automatic asset allocation program grew to 188 participants—almost half of all participants—from 26. And assets in that program grew more than tenfold.

“It was a perfect storm. The bank achieved its goal of removing market risk and funding gyrations for the DB plan. They now have a predictable benefit expense in the 401k plan that helps employees get to a savings level so they can retire with dignity,” Mike said. “And the bank executives deserve a lot of credit. Their heart was in the right place, and they agonized over finding a solution that didn’t hurt employees or the bank in the long run. In terms of helping improve the retirement readiness of employees, we pride ourselves on using all the different levers, including plan design and participant education. In this case, all the levers worked.”

The key was to take a holistic and creative view towards benefits that led to greater flexibility and efficiency in plan design and allowed the bank to introduce some non-qualified benefits for some key employees as well.

“Gouldin & McCarthy were much more strategic and proactive than most consultants in aligning plan design with our company goals,” the bank CEO commented. “They’ve been a true partner and have really earned their stripes. We really value the relationship.”

“By networking extensively over the past 20 years, we can serve clients with the resources of a much larger firm. In this case, we brought in the father of the 401(k).”

Conclusion

An experienced retirement plan advisor can apply the principles of behavioral finance to improve plan design and participant outcomes by:

- Applying a holistic approach to benefits
- Using benefit dollars more effectively
- Increasing participation
- Improving asset allocation
- Providing retirement preparedness

Dan McCarthy

	Before	After
Vulnerable DB plan	Unpredictable funding	Terminated
DC plan	Underutilized	Enhanced with predictable funding
DC participation	71%	93%
Average deferral rate	4.8%	6.4%
Asset allocation program use	26 participants, \$1 million assets	188 participants, \$11 million assets

About Gouldin & McCarthy*

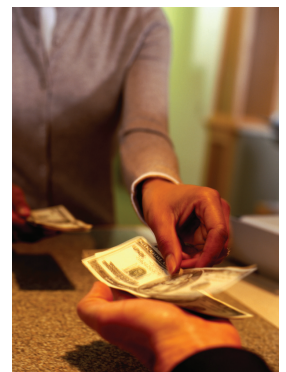
Dan McCarthy and Mike Gouldin began their business in 1999. They serve more than 40 retirement plan clients and 150 families in personal financial planning. Their external network includes experts in benefits, insurance, accounting and legal matters, allowing them to be a trusted one-stop resource for clients while keeping overhead low.

Philosophy: Goals-based financial planning. Ask why the plan exists: What is its purpose? Use behavioral finance and leading-edge thinking to create optimal plan design. Include automated features and employee education among other solutions.

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:

- Identifying duties, responsibilities and attributes of the Professional Retirement Plan Advisor
- Sharing our professional standards with plan sponsors
- Providing collective thought capital to decision makers, product providers, legislators and the public
- Giving voice to the Retirement Plan Advisor community
- Providing tools to evaluate Advisors, helpful in promoting successful retirement outcomes.



*Gouldin & McCarthy, LLC is a registered investment adviser in New Jersey. Mike Gouldin and Dan McCarthy are registered representatives of, and offer securities through, Comprehensive Asset Management and Servicing, Inc., a registered broker-dealer and member of FINRA/SIPC/MSRB. 2001 Hwy 46, Ste. 506, Parsippany, NJ 07054. (800) 637-3211

EACH
enterprise

61 Rainbow Road
East Granby, CT 06026

www.retirementadvisor.us