VERMONT

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Start your selection of a workplace retirement savings plan by first establishing an objective process that will guide you in your decision-making.

Above, the village store in Grafton, Vermont is open for business. Small businesses like this one offer important local employment opportunities. Both the business owner and employees benefit from workplace retirement plans. Photo courtesy of the State of Vermont, photographer Skye Chalmers.

Retirement Plans: Evaluating a Provider

It truly is an investment in the future. Workplace retirement savings plans provide both the business owner and employees with an important source of future income. New tax laws have provided businesses with more cost-effective options to consider in putting a plan in place. More stream-lined plans mean less paperwork and a simpler process for starting a retirement savings program. So, once you've made the decision to put a company-based retirement plan in place, what's next?

This financial education fact sheet will give you some pointers to help you select and evaluate a plan service provider. Also, all of the web sites mentioned in this fact sheet are available through the State Treasurer's web site at www.VermontTreasurer.gov. Click on the financial literacy link and go to the page on retirement plan resources for businesses. For a direct link, go to www.MoneyEd.Vermont.gov.

Begin by examining your financial goals and prepare a concise financial picture of your company. This information will be important in talking with potential retirement savings plan providers. Include in your profile your income, net worth, number of employees, and your personal retirement savings objectives.

Talk with several plan service providers. In Vermont, the Department of Banking, Insurance, Securities and Health Care (BISHCA) maintains a database of all broker-dealer agents and investment advisor representatives registered to sell investment-related products in the state. You can access that list through the State Treasurer's or BISCHA web sites. You can look through that database for a registered professional in your local area. As a business owner, you most likely utilize the expertise of a variety of financial professionals. Be sure and consult with those sources about what plans they may provide.

Business Owners Personally Benefit from a Workplace Plan

Both small business owners and their employees benefit from having a retirement savings plan available through the workplace. The demands of running a business and covering day-to-day costs have convinced many small business owners that they don't have the time or money to save for their own retirement. However, when a business owner puts an employee retirement savings plan in place, a national survey shows the owner is more likely to finally begin saving for his or her own personal retirement needs.

A 2007 nationwide survey of micro-businesses by the National Association for the Self-Employed (NASE) found that 90 percent of the business owners with a retirement plan through the workplace were saving for their own retirement. However, among those owners without such a workplace plan, only 57 percent reported saving for retirement. Micro-businesses employ ten or fewer people. Overall, small businesses are the fastest growing employment sector in the U.S. economy.

The good news is that there are a variety of tax-advantaged retirement programs available to business owners that are easy to put in place and administer, with little or no start-up costs. The survey showed a Simplified Employee Pension plan (SEP) was the most common form of plan micro-businesses offered. Five percent of the owners surveyed reported that they planned to offer a retirement program within the next 12 months.

More than 3,000 micro-business owners nationwide participated in the survey. To view the complete survey results, go to the NASE web site at www.nase.org.

Evaluate the retirement plan service provider's expertise and credentials.

- Gather information on the firm or individual provider including any affiliations; financial condition; experience with retirement savings plans; number of clients; and assets under their control.
- Ask for the specific types of retirement savings and pension plan products and services the provider offers.
- Check the disciplinary history of any brokerage firm and sales representative. You may first check on-line using the FINRA BrokerCheck (www.finra.org). BISCHA also is happy to answer your questions regarding complaints or actions related to a plan provider when you call their toll-free in Vermont number 1-877-550-3907.
- Ask how the provider is paid. (See more tips in the box at right.)
- Ask for references. If client confidentiality agreements prohibit the service provider from giving you the contact information of specific clients, ask for a professional reference. Talking with a professional reference will help you learn more about the abilities of the provider you are evaluating.

Ask about bonding and insurance. People handling plan funds or other plan property generally must be covered by a fidelity bond to protect the plan against fraud and dishonesty. If you are working with a brokerage firm, ask if they are a member of the Securities Investor Protection Corporation (SIPC). SIPC proves limited customer protection if a brokerage firm becomes insolvent. However, SIPC does not protect against losses due to a decline in the market value of your securities.

Don't be rushed into making a decision about which firm or financial professional you will work with. Taking time to carefully determine your options will help ensure that the retirement savings program you put in place will meet your short- and long-term goals for the future.

PENSION FACTS

According to the IRS, most private-sector retirement vehicles are either Individual Retirement Arrangements (IRAs), defined contribution (DC) plans, or defined benefit (DB) plans.

Individual Retirement Arrangements: Employers can help their employees set up and fund an IRA. The amount the employee receives at retirement will depend on the funding of the IRA and the earnings (or income) on those funds.

Defined Contribution Plans: Defined contribution plans are employer-established plans that do not promise a specific amount of benefit at retirement. Instead, employees or their employer (or both) contribute to employees' individual accounts under the plan -- sometimes at a set rate. At retirement, an employee receives the accumulated contributions plus earnings (or minus losses) on such invested contributions.

Defined Benefit Plans: Defined benefit plans promise a specific benefit at retirement, for example, $1200 a month at retirement. The amount of the benefit is often based on a set percentage of pay multiplied by the number of years the employee worked for the employer offering the plan. Employer contributions must be sufficient to fund the promised benefits.

Current trends in retirement benefits nationwide indicate that since 1980, the number of DB plans offered by companies have declined while the number of DC plans offered by employers have grown.

How do I evaluate a service provider's fee?

As you speak with businesses about helping you set up and maintain a workplace retirement savings plan, make sure you understand how the provider is getting paid. Below are some points to consider in soliciting quotes for services in a way that will allow you to fairly compare one provider with another.

√ Outline a process to follow in soliciting proposals. Try to ask each service provider the same questions and supply each provider with the same information on your company.

√ Make a list of the specific services you are seeking -- legal, accounting, trustee/custodian, recordkeeping, investment management, or advice.

√ As you speak with service providers, be sure and record any special or customized services being offered. By taking such services into account, you will be able to more fairly evaluate the overall proposal from each provider.

√ Ask providers to be specific about which services are covered for the estimated fees and which are not. In general, fees are calculated in four ways:

- *Asset-based:* expenses are based on the amount of assets in the plan and generally are expressed as percentages or basis points.
- *Per-person:* expenses are based upon the number of eligible employees or actual participants in the plan.
- *Transaction-based:* expenses are based on the execution of a particular plan service or transaction.
- *Flat rate:* fixed charge does not vary, regardless of plan size.

Fees may be calculated using one or any combination of these methods. Plan administration-related expenses can also be charged as one-time fees or ongoing expenses. One-time fees are typically related to start-ups, conversions (moving from one provider to another), and terminations of service. Ongoing fees are recurring expenses relating to continuing plan operation.

√ The service provider offering the lowest cost services is not necessarily the best choice for your plan. Other information to consider include the quality and type of services provided, the anticipated performance of the competing providers and their investment products, and other factors specific to your plan's needs.