Conduct small plan business more efficiently and profitably.

magii pension services

Helping you hit the right note with small retirement plan clients.

With more than half (55%) of U.S. workers employed by small businesses[1], the small retirement plan market is not only large, it can also be lucrative – as long as you manage your client block efficiently. The Principal Financial Group® is committed to helping financial professionals like you capitalize on opportunities in the small plan market.

> "In my experience, small businesses can be underserved in the retirement plan market, and this provides a great opportunity for me to expand my practice. But, in order to be successful, my block needs to run smoothly. These tips gave me great ideas to make this part of my practice more efficient."
>
> Colorado Financial Professional

The key to success with this opportunity is efficiently serving your clients – and we've outlined five specific best practice recommendations to help you:

- Maximize your profitability
- Increase client satisfaction and retention
- Dedicate more time to prospecting and cross-selling

[1] U.S. Small Business Administration Office of Advocacy, September 2013 (www.sba.gov).

Best practices to serve the small plan market efficiently and profitably:

01 | Select two or three primary service providers

02 | Work with a few carefully selected third party administrators

03 | Streamline investment option decisions

04 | Implement automated features

05 | Formalize servicing approach for existing block of clients

Best practices to serve the small plan market efficiently and profitably.

TIP *Select service providers that help position you in a consultative role by providing the support and knowledge that plan sponsors seek and can also streamline your day-to-day responsibilities. For example, working with providers that can assist with developing retirement plan investment reviews can help save you 10-15 hours per review.*

[2] 2012 Cogent Retirement PlanScape.

TIP *Feel more confident in recommending service providers by choosing to work with those offering a service guarantee promising to fix a problem or waive the fee if they fail to perform.*

01 SELECT TWO OR THREE PRIMARY SERVICE PROVIDERS

When you work with a limited number of providers, you can get to know them better and make sure they are offering what your plan sponsor clients really want.

Your small plan clients rely on your recommendations about providers. At a minimum, those plan sponsors expect providers to have[2]:

- Strong brand recognition with participants
- Investment options with strong performance
- A reputation of being easy to do business with
- Financial stability

However, you can **truly differentiate your services and increase client satisfaction** by selecting providers that also offer [2]:

BEST-IN-CLASS PLAN SPONSOR SERVICE AND SUPPORT

PRECISE AND TIMELY RECORDKEEPING

BEST-IN-CLASS PARTICIPANT SERVICE

TRANSPARENCY OF FEES

02 WORK WITH A FEW CAREFULLY SELECTED THIRD PARTY ADMINISTRATORS (TPAS)

Expert TPAs will help you **increase efficiency and profitability while expanding your offerings.**

TPAs can help reduce your time commitment by working directly with clients on plan administration, compliance testing, government filings and more.

Working with TPAs also offers the following advantages:

Increase market opportunity:

Nearly half of new business opportunities in the start-up to $5 million retirement plan market use a TPA service model.[3] And, TPAs' influence may soon approach $1 trillion in 401(k) and 403(b) plan assets.[4]

Boost your close ratios:

TPAs can add an additional level of confidence in sales meetings due to their niche expertise and industry experience. This can help build credibility, fill your pipeline and improve close ratios.

Receive referrals and feedback:

Due to their trusted adviser status, there are also times when plan sponsors ask the TPA for a financial professional referral. TPAs can also be valuable sources of client feedback, helping you fine-tune your skills and improve retention.

TIP *Leveraging TPAs to handle complex plan designs, unique investment options, customized reporting or processes like payroll submission can mean more time for you to attract new clients or expand your relationships with current clients.*

[3] Retirement Research, Inc., *Doing Business with Today's Retirement Plan TPAs*, 2013.

[4] Cerulli Quantitative Update: U.S. Retirement Markets 2013, January 2014.

03 STREAMLINE INVESTMENT OPTION DECISIONS

TIP *Work with service providers with a range of investment offerings – such as sub-advised investment options, mutual funds, target date and target risk asset allocation options and investment advice service – that allow them to adapt to your business model and help support the investment value you provide to your plan sponsor clients.*

Asset allocation and diversification do not ensure a profit or protect against a loss.

Are you spending significant time monitoring investments, preparing and customizing investment reviews for each client? You can gain efficiencies in this key area of service by:

- **Creating a limited number of investment option lineups to leverage with each service provider you work with**, which means less prep time for investment reviews if you develop content to repurpose across your block of business rather than customizing for each client.
- **Implementing a standard investment policy for all plan sponsor clients** that can be modified, if necessary, at a future date. Differentiate yourself by incorporating a multi-managed, outcomes-based investment lineup strategy into your investment policy that strives to mitigate specific risks.
- **Using a target date investment as a qualified default investment alternative (QDIA)**, which provides more diversification, age-appropriate asset allocation and periodic rebalancing. A target date QDIA streamlines the participant asset allocation decision-making process, which can help change the education conversations from "How do I select an appropriate asset allocation?" to "Am I saving enough?"
- **Transitioning clients between service providers using a QDIA strategy**, which maps all participants who do not make their own investment option elections at transition to the plan's QDIA. Introducing a QDIA transition strategy can demonstrate your plan design and investment expertise while helping your plan sponsor clients meet some of their fiduciary obligations. It also saves time by eliminating the need to map to investments with similar risk/return characteristics and decreasing the number of participant decisions.

04 IMPLEMENT AUTOMATED FEATURES

By their very nature, automatic and electronic features make plan administration easier. More important, they often improve participant outcomes, which—depending on how you are compensated—could **increase your profitability and plan sponsor loyalty.**

In fact, plan support, including consulting on general plan design, services and features, tops the list of what drives plan sponsors' loyalty to their financial professional.[2]

Drive plan sponsor loyalty by conducting an annual plan evaluation and sharing with your clients the suggested plan design solutions, such as:

- **Automatic enrollment at a minimum of 6% salary deferral** *(89% stay in a plan when automatically enrolled)*[5]
- **Automatic escalation of at least 1% per year up to at least 10%** *(86% participate when it's a default feature vs. 6% when it is voluntary)*[5]
- **Automatically sweep all eligible employees deferring less than the automatic enrollment default into the plan**
- **Stretch the match to encourage employees to defer at higher levels**
- **Name a diversified investment option(s) as the QDIA**

TIP *Evaluate a plan by calculating retirement income replacement ratios. Service providers may help you get this information, and some even offer access to it on their website. For instance, The Principal offers a replacement ratio report for plan sponsors.*

In addition, work with service providers and TPAs that can help automate day-to-day responsibilities and transactions with electronic features such as online enrollment, loans, withdrawals, distributions and more to lower fees, help eliminate paper and reduce the chance for error.

TIP *Look for service providers that offer plan automation features for both bundled plans and those using a TPA so you can leverage the same features.*

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[5] The Principal Financial Group. Data based on a combination of 66,798 participants opting out of Automatic Enrollment or Automatic Increase as of December 31, 2013, and 72,030 opting in to Principal Step Ahead Retirement Option℠ as of December 31, 2013.

05 FORMALIZE SERVICING APPROACH FOR EXISTING BLOCK OF CLIENTS

By formalizing your servicing approach to spend more time on your best clients, you can **increase your profitability while more efficiently serving clients.**

The Principal® recommends this three-step process:

1. **Determine a clear value proposition**—why your offerings are different and better than the competition
2. **Segment clients** so you can spend more time on your most profitable clients and devote more time to new client opportunities
3. **Implement a relationship plan** based on that segmentation so you spend the right amount of time on each plan

The chart below provides a few suggestions for how you can break down your existing block of clients.

SEGMENTING YOUR BLOCK OF BUSINESS

	A Clients	B Clients	C Clients
Percentage of book	20%	30%	50%
Annual commissions/fees	Significant	Medium	Lower
Profitability	High	Medium to high	Low to medium
Sales potential	Very good	Good	Fair
Referral potential	Very good	Good	Fair

TIP *Segmenting your block of business is key to gaining servicing efficiencies. This chart provides segmentation suggestions. Take this format and customize it to fit your business model.*

magii pension services

490 Wheeler Rd., Suite 265
Hauppauge NY 11788
(631)434-8200
www.magii-pension.com