

## **Retirement Plan Audits: Sharpening the Big Picture for Small Business Owners**

Through our relationship with the Columbia Management Learning Center, we recently have been consulting on a substantial number of cases with advisors who are working with owners of small- to mid-sized professional firms (e.g., doctors, lawyers, therapists, etc.) whose plan balances have been hit hard by the market declines of late. As a result, these small business owners are disappointed (to say the least) with the state of their retirement plans. In an effort to provide expert assistance, we have begun offering retirement plan audits to Columbia Management's financial advisor partners and their clients. The plan audit consists of

- an interview;
- a review of plan documentation;
- a review of the plan's investment menu (by the financial advisor); and
- a presentation of recommendations.

Our plan audit begins with an interview with the business owners to assess what their personal and corporate objectives are for their retirement plans. Once we have an understanding of their objectives, we then analyze their current retirement plan documents while the financial advisor examines the plan's investment menu to determine the gap between what the current plan design and investments can accommodate and the owners' overall objectives. Oftentimes there is a disconnect with the plan design, the selection of investments or both. Based on our analysis we recommend strategic plan changes that will help business owners achieve their objectives. Our financial advisor partners develop the investment recommendations, which may include modifying or introducing an investment policy statement, fund recommendations for changes, and/or reviewing, developing and/or documenting the qualified default investment alternative (QDIA) selection process.

A recent case in point comes from a UBS financial advisor in the Philadelphia area. The advisor has a large wealth management practice as part of UBS' DCA program. Consequently, he has developed relationships with several partners in a radiology practice. The partners were unhappy with their plan's investment choices and administration. When we offered to help him conduct a plan audit, he and his clients were elated. Here are some of our findings on the case.

### Owner's Plan Objectives

- Maximize the owners' contribution level
- Control costs
- Improve service

### Assessment and Recommendations

Assessment #1: The plan was not set up as safe harbor plan—so nondiscrimination and top-heavy testing failures were an issue.

Recommendation: Amend the plan to include a safe harbor plan design to automatically satisfy nondiscrimination and top-heavy tests. Provide required participant notices.

Assessment #2: The plan's default investment fund was a money market fund.

Recommendation: Adopt a Department-of-Labor-approved QDIA to provide the owners with additional fiduciary protection. Amend the investment policy statement to address the QDIA selection process.

Assessment #3: The business provided a generous (but costly) match.

Recommendation: Reduce the match to within safe harbor contribution levels. Add a profit sharing contribution using a new comparability allocation formula to maximize the partners' contributions. Moreover, since the radiology practice continues to do well financially, despite the tight economy, we recommend they set up a cash balance defined benefit plan. Finally, we suggest the addition of a nonqualified deferred compensation "top-hat" plan, which would be for the exclusive benefit of a select group of upper management.

We presented our plan analysis and recommendations to the financial advisor on the case and he combined it with his investment assessment, resulting in a comprehensive plan audit. He is in the process of taking these recommendations to the benefits committee at the radiology practice, and bidding out the plan as the new broker of record.

In the current financial environment, there is no better time to reach out and offer this type of soup-to-nuts retirement plan audit to business owners. At a minimum, the audit can serve as documentation for the business owner's ongoing fiduciary due diligence process. Ideally, the audit will result in improvements to the current plan design that will help the business owners achieve their personal and corporate objectives. In many cases, necessary or desired plan amendments can be made while maintaining the current recordkeeper relationship. Other times, a full search for new service providers is needed.