



CASE STUDY

The Curious Case of Mr. Smith and Dr. Jones: When focusing on cost has its own cost

With a troubled economy trying to find its legs, it feels ‘safe’ to purchase what we need, whether goods or services, from the lowest bidder. There are situations in life, however, that show us the downside of this approach and how indeed costly it can be...

“HOW DID I END UP HERE?!”

He looked around and realized he’d wondered that question aloud to no one in particular. John Smith*, successful entrepreneur, sat in his home office feeling frustrated and trapped by his predicament. All of a sudden – quite literally just today – it seemed as though his hard work and savings were not enough to retire on. He wondered where he’d gone wrong.

About 15 years ago John, owner of Smithco, Inc., set up a 401(k) plan through his payroll company. His payroll representative suggested a simple straightforward plan they’d called a “safe harbor” 401(k) plan. That word ‘safe’ seemed to cut him to the core today. Under the plan, Smithco would contribute 3% of pay for all employees, and Mr. Smith would be able to contribute \$22,000 per year to the 401(k) plan himself and also get a 3% safe harbor contribution. Sounded wonderful and all was well.

Now, at age 65 after contributing to the plan for 15 years, Mr. Smith has accumulated \$703,000 in the plan for himself. A nice amount compared to many he supposed. Now, however, this sole source of retirement for him and his family looked terribly small compared to the amount needed to continue his lifestyle, travel and enjoy his children and grandchildren.

Retirement, suddenly, looked a long way off. He called his life-long friend and local physician, Dan Jones.



* This story is based on real experiences. All names, numbers and facts have been changed and generalized to protect identities. Nothing in this piece should be construed as advice of any kind to anyone. Developing appropriate retirement solution depends on an evaluation of the specific information and situation of individuals and business(es) involved as well as the regulatory situation at that time.

...AND WHAT ABOUT DR. JONES?

After hearing John's story, Dan shared that right around the same time 15 years before, he'd been referred to a pension consultant who'd helped him set up a 401(k) plan. This plan was also a "safe harbor" set up with a 3% contribution. The consultant's evaluation also uncovered an opportunity to add a profit sharing component. Under the profit sharing arrangement, Dr. Jones was able to contribute an extra 6% of pay for himself.

Today at age 65, Dr. Jones has accumulated over one million dollars (\$1,005,000) in the plan for himself and he was able to contribute the same 3% of pay for his employees as did Smithco. He felt comfortable he could retire in a couple of years.

THE VALUE OF AN EXPERT

It's been shown over and over again that many of us are more like Smith than Jones when it comes to implementing a retirement plan – or anything else we don't deeply understand – we take the path of least resistance and buy on price. When we cannot easily assess "value", or clearly see the differences between two choices, we tend to use price as the deciding factor. This story shows the relative riskiness of that tendency.

You see, over the years Smithco, Inc. paid the payroll company about \$25,000 in fees to administer the plan. During the same 15 years Dr. Jones paid the pension consulting firm about \$33,000 in fees. By seeking out a retirement plan expert who partnered with his financial advisor, Dr. Jones created a very different future.

About United Retirement Plan Consultants

United Retirement Plan Consultants is a leader in retirement plan consulting, design, administration and pension actuarial services for small and medium-sized businesses throughout the United States. With approximately 10,000 plans, the Company's national scale enables delivery of customized retirement plan solutions with exceptional service and uncompromising accuracy through its affiliates. National network. Local experts. TM

United Retirement Plan Consultants is headquartered in Dublin, Ohio with affiliate offices in 15 states and employs over 340 people, including numerous credentialed plan administrators and retirement consultants with QKAs, QPAs, APAs, ERPAs and CPCs, enrolled actuaries, ERISA attorneys and CPAs.

Wholly-owned subsidiaries of United Retirement Plan Consultants are based in Anchorage, AK; Laguna Hills, CA; Marina Del Rey, CA; Denver, CO; Southington, CT; Lake Mary, FL; Timonium, MD; North Attleboro, MA; Haddonfield, NJ; New York City, NY; Yorktown Heights, NY; Beaverton, OR; Harrisburg, PA; Wayne, PA; Warwick, RI; Houston, TX; and Seattle, WA

WHAT DID DR. JONES GET FOR THE ADDITIONAL FEES...?

The additional \$8,000 in fees (which, by the way were tax deductible for his company, so net after tax cost was only around \$4,800), enabled Dr. Jones to...

- ...**contribute** an additional \$180,000 for himself.
- ...**save** \$72,000 in direct income taxes, and
- ...**accumulate** over \$300,000 (!!) more for his retirement by investing this savings in a tax-deferred plan.

Changing the ConversationSM

At United Retirement Plan Consultants we've seen stories like these play out for years and have made it our purpose to help plan sponsors reach their goals by designing tailored retirement plan savings solutions. The cookie cutter 'safe' solutions are fine...when they're fine. Many times, however, they do not maximize the opportunity for plan sponsors.

Let United Retirement design a different future with you.



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