

Morgan Stanley

There are 2 main topics to discuss-

- 1) Investment options
- 2) Plan Design

Investment options

If given the opportunity we will be holding the 401(k) Plan's assets and accounts in our Morgan Stanley branch, which is different from the norm who generally outsource the 401K plan to a vendor (examples: Paychex, Mass Mutual, etc.) By doing this our investment option menu is virtually unlimited. I believe one of these 3 investment strategies will work for each participant. (Passive, Age Weighted, or Actively Managed)

- 1) A share Load Waived Mutual Fund portfolio (Passive Portfolio)
 - A. We can invest in any mutual fund Morgan Stanley has an agreement with and in a 401K plan the load/commission is waived.
 - B. Example American Funds Balanced Fund Symbol ABALX
Note: example purposes only, we can invest in any fund(s) available to be purchased through Morgan Stanley
 1. No upfront load (load is waived)
 2. 5 star 1,3,5,10 years
 3. Expenses = 0.57% annually
 4. Can setup to auto-invest when deposits are made.
- 2) Target Date Portfolio(s)- (Age Weighted Portfolio)
 - A. CGCM- Firm discretionary portfolio- we design the risk profile for the client and setup a target date portfolio through a variety of money managers. Cost is 0.72% annually. See attached for materials about CGCM (titled CGCM).
 - i. As deposits come in they are automatically invested into the portfolio.
- 3) Exchange Traded Fund Managed account (Actvely managed portfolio)
 - A. 1% management fee plus average expense ratio of 0.07% (iShares/Vanguard ETF's)
 - B. Actively managed by our team

Current Paychex 401K Plan Investment Expenses

Currently the Paychex plan and its participants are utilizing the following investments:

Fidelity Advisor Equity Growth M	Expense Ratio 1.14%
Fidelity Advisor Growth Opportunities M	Expense Ratio 1.14%
Fidelity Advisor Balanced M	Expense Ratio 1.13%
Fidelity Advisor Freedom 2035 M	Expense Ratio 1.24%
Fidelity Advisor Government Income M	Expense Ratio 0.76%
Fidelity Advisor Total Bond M	Expense Ratio 0.76%

Average Expense Ratio: 1.03%

Recap: We can passively manage this 401(k) for approximately 46% less than the Paychex 401K and actively manage this for equal or less depending on each participant's individual preference.

Plan Design

At this point in time we will finish out the plan year under the plan's current adoption agreement/bylaws.

If, down the road, you wanted to identify ways to eliminate the Top Heavy Testing and make for a smoother and simpler 5500 preparation then we can review and discuss ways you could amend the 401(k) plan through the use of the Safe Harbor 401K. This would go into effect January 1st 2019 if you opted to do so.

Safe Harbor plans offer 2 types of employer contributions

A. Safe Harbor Match- Dollar for dollar match up to the first 4% saved.

1% ----→	1% company match
2%-----→	2% company match
3%-----→	3% company match
4% or more---→	4% company match

If an eligible participant does not contribute to the plan they do not get any matching funds.

B. Safe Harbor 3% Non-Elective Company Contribution

If an eligible participant does not contribute to the plan, or does contribute to the plan they would receive a 3% contribution regardless.

This would allow for equal employer deposits while allowing for the Safe Harbor 401K which is easier to administer and avoids the top heavy testing.

Third Party Administration for 5500/Top Heavy Testing

Third Party Administrator/Tax preparation: Aim Point Pension services located in Ft. Lauderdale. They would prepare the annual IRS form 5500.

Quote is as follows

Year 1= \$850 plan setup and \$1150 annual + \$20 per participant= \$1250 annually

Year 2 onward= \$1150 + \$20 per participant.

Note- I plan to help 2 former employees roll their funds into IRA accounts which would save \$40 annually

Also- I spoke with Mike Mulka who said he would waive the amendment fee of \$250 if you opted to change into a Safe Harbor 401K in 2019 while maintaining the plan document as is for the remainder of 2018.

Cost Comparison

Paychex

\$177/monthly = \$2,124 annually

AIM Point Pension

Year 1= \$850 setup + \$1,150 Admin + 5 participants * \$20 = \$100

Total cost year 1= \$2,100

Aim Point years 2+

\$1,150 Admin + \$20 per participant = **\$1,250** (if 5 participants) or \$1,210 if 3 participants.

Transition

I expect this process would take between 4-8 weeks depending on Paychex. I also believe they would charge a \$2,500 termination fee, but that could depend on how long ago the contract with signed with them.

We would like to have a letter on letterhead instructing Paychex to work with my team and I which would reduce the workload for Katha and Debbie and allow us to work with Paychex directly.

Thank you for the opportunity to review and discuss this 401(k) Plan with you. We hope this is the beginning of a great relationship!

Mike Kanner
Senior Vice President, Financial Advisor
Portfolio Management Director
Chartered Retirement Plans SpecialistSM, CRPS[®]
Morgan Stanley Wealth Management
3525 Ocean Drive
Vero Beach, FL 32963
(772) 234-1827 mike.kanner@morganstanley.com