RETIREMENT PLAN PERSPECTIVES

Insights for Your Plan and Employees

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"Copy" the Leaders to Improve Your Plan

We live in a copycat world. It's customary for us to mimic the styles and slang of celebrities and athletes, while successful business ideas and consumer products are eventually (and inevitably) replicated for the masses. So, when it comes to offering an outstanding retirement plan benefit to your valued employees, why not learn from the best? Financial data company BrightScope recently released its "Top 30 401k Plans." This research provides practical insight into the characteristics that many successful plans possess.

You'll notice that the BrightScope list features a "who's who" of America's corporate giants. Nonetheless, there are likely similarities between their benefits challenges and yours. As such, the traits that make these companies' retirement plans so effective can be replicated by companies of all sizes and profiles. Below you will find just some of the traits that define the top 401(k) plans, along with suggestions to help you reproduce those exceptional results for your own plan.

Ample company contributions

The average company contribution was more than $15,000 per participant.

Copy this idea. A retirement plan's design can offer an attractive benefit for employees—as well as help attract top talent. Does your plan's matching formula need to be recalibrated? If so, try focusing on percentages instead of dollars. For instance, if your plan currently matches 50 percent of your employees' salary deferrals (say, up to 4 percent), try upping that percentage to 100 percent. Another option is to increase the match formula to 50 percent with up to 6 percent of salary deferrals. For a relatively minimal contribution increase, your employees will earn a bump in their retirement savings plan. Plus, this move can help foster job satisfaction, and the business can qualify for a more substantial tax deduction.

No waiting period for plan eligibility

Twenty-six of the top 30 plans offered immediate plan eligibility for new employees.

Copy this idea. Most of us will agree that Americans need to save more for retirement—and almost 90 percent of workers view their 401(k) plan as very or somewhat important to their retirement savings goals. But how can newly hired workers begin to save when they must wait for months or even a year before contributing to a 401(k)? Eligibility (i.e., the amount of time an employee must wait before he or she is eligible to begin contributing) is a savings hurdle that makes sense to lower. Allowing employees to immediately begin deferring a portion of their paychecks gets them saving earlier and committed to the habit of investing in their futures.

"Copy" the Leaders to Improve Your Plan *(continued)*

Rising target-date funds and index funds usage

Target-date funds (TDFs) represent more than 13 percent of assets for the top 30 plans, and index funds represent 43 percent of assets on the list. Both of these numbers have increased since the prior year.

Copy this idea. TDFs are a professionally managed investment that appropriately allocates the investors' assets according to their projected retirement date. They are a simple, sensible solution for retirement savers of all ages and investment acumen. Index funds have become a more common offering in 401(k) plans due to their lower cost and lower susceptibility to market volatility (relative to actively managed mutual funds).

Just remember: the selection of retirement plan investments is a fiduciary act. Decisions to add, replace, or remove a fund should be made with prudence and diligence, and the decision-making process should be well documented.

Declining fees

Among plans featured on the top 30 list, the average total plan cost dropped 0.22 percent.

Copy this idea. Ensuring that costs are reasonable is a key function of a fiduciary. How do the top 401(k) plans keep costs in check? They regularly benchmark the fees they are paying to their service providers. And so should you!

According to industry experts, a benchmarking assessment should take place at *least* every two years and not more than three. Of course, the product, mutual fund, or service with the lowest fee is not always the most appropriate. It is the value that you and your employees receive in exchange for that fee that is the crucial part of the equation. Ask your retirement plan advisor to help you get the ball rolling with a comprehensive assessment of your retirement plan fees. You'll likely see the results in your bottom line.

High participation rates and salary deferrals

Participants in the top 30 plans boast a 97-percent participation rate and $14,100 average salary deferral.

Copy this idea. Getting your employees to save for retirement—starting with helping them over the enrollment hurdle—can be a delicate process. Your employees are likely battling internal forces, such as procrastination, inertia, and lack of confidence. These can serve as behavioral barriers for people who are faced with making important decisions.

Auto-enrollment (a feature that automatically enrolls employees into a retirement plan, unless they choose to opt out) could be the answer to help improve your plan's participation rates. You may also consider auto-escalation. For instance, you could automatically increase their salary deferral by 1 percent or more each year. Auto-enrollment and auto-escalation have proven to be significantly effective methods for nudging employees to take positive action toward their future retirement. This is a clear win/win for you and your employees!

Putting Plan Fees Under the Microscope

Business owners, executives, and stakeholders regularly think about effective cost management for their businesses. Sometimes, however, the costs associated with a workplace retirement plan may get overlooked. Being conscious of retirement plan fees—and having a process to rein them in—is a good business practice that can save you money. It is also one of the most important functions of a retirement plan fiduciary under the Employee Retirement Income Security Act of 1974 (ERISA).

In general, retirement plan fees can be divided into two categories: investment-related fees and administrative-related fees. Let's take a look at both, highlighting some best practices to help you build your own process for evaluating your company's retirement plan fees.

Investment fees

- Ensure that your plan's investment policy statement (IPS) includes guidelines for evaluating your plan's investment expenses. (If you don't have an IPS, start the process of creating one with the help of your plan advisor or another service provider.)
- Collect and organize information pertaining to each investment in the plan (e.g., manager qualifications, investment objectives, investment performance, and the fund's annual operating expenses).
- Periodically (no longer than annually) review the fund manager's qualifications and past performance, and ensure that the fund in question adheres to the terms prescribed in the IPS.
- Evaluate the fund's operating expenses for reasonableness. Your evaluation should include a comparison of other investment products to ensure that your plan's current funds are competitive with the cost of available alternatives.

Administrative fees

- Examine the services, tools, technology, and other resources that your plan's service providers (e.g., recordkeeper, third-party administrator [TPA], plan advisor, etc.) are offering. Is there a service or technology that a current provider offers that you are not taking advantage of?
- Determine how much you and your employees are paying for the services that you are receiving. (You may be furnished with a fee disclosure. Read on for more on what to look for.)
- Periodically (about every two years, no longer than three) compare the fees of your service providers by asking their competitors to tell you how much they would charge for the same services. Are fees reasonable, relative to the services you and your employees are receiving? Can another service provider offer you the same (or better) services for a more competitive fee?

Key takeaway

When evaluating investment or administrative fees, everything should tie back to a thoughtful, well-documented process. Your plan's IPS should guide you through the steps for an effective evaluation. You may also consider establishing a fee policy statement (FPS)—a guide to help plan fiduciaries carry out their duty to prudently evaluate and monitor the reasonableness of service provider fees, including how they will be communicated to plan participants.

The retirement plan marketplace has become ultra-competitive in recent years. As a result, industry fee averages have become significantly compressed. Conducting regular analysis to ensure that your plan fees are reasonable (not necessarily the lowest) could benefit your plan and your employees. Often, retirement plan sponsors feel overwhelmed when it comes to analyzing their retirement plan fees. If you need help, contact your retirement plan advisor, who can help you establish an effective, repeatable fiduciary process.

Four-Oh . . . Huh?

Have you ever felt like 401(k) regulations are written in a foreign language? You're not alone! Various abbreviations, phrases, and numerical codes dominate everyday ERISA vernacular. Here are just a few numerical terms you may have heard, explained in plain language:

404(c). Section 404(c) of ERISA permits employees to direct their own plan investments. Plan sponsors and fiduciaries who comply with 404(c) may shield themselves from liability for the poor investment choices made by plan participants.

408(b)(2). The 408(b)(2) is a required fee disclosure that is furnished by service providers (e.g., recordkeepers, custodians, TPAs) to retirement plan sponsors and fiduciaries of ERISA plans. The disclosure should include a description of the services being provided, as well as the compensation the service provider is receiving for those services.

404(a)(5). This fee disclosure document must be provided to all plan participants (including noneligible participants) by plan sponsors of ERISA plans. It should detail all fees, expenses, and investment-related information. **Please note:** In most cases, your service provider will generate and deliver participant fee disclosures. Check with your recordkeeper or TPA to determine the specific process.

We Can Help

Contact us to learn more about helpful hints for improving your company's retirement plan and implementing effective cost-evaluation methods, as well as to discuss any other aspect of your plan. We're ready and willing to help.

Investments are subject to risk, including the loss of principal. Some investments are not suitable for all investors, and there is no guarantee that any investing goal will be met. Past performance is no guarantee of future results. Talk to your financial advisor before making any investing decisions.

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