RETIREMENT PLAN PERSPECTIVES

Insights for Your Plan and Employees

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Give Your Retirement Plan a Health Assessment

Complicated machines—automobiles, the human body—need regular checkups. A clean bill of health certifies that periodic maintenance has been performed, that things are working as they should, and that you can reasonably expect them to work in the future.

Retirement plans, with their various rules, regulations, and moving parts, are really no different. As such, conducting an annual 401(k) plan health assessment is a critical exercise for retirement plan sponsors.

What Is a Plan Health Assessment?

In short, a plan health assessment is a diagnostic analysis of your firm's 401(k) plan. It includes both operational (e.g., documentation, plan objectives, fee due diligence) and functional (e.g., healthy participation and savings rates, plan design, communication effectiveness) aspects. Performing a plan health assessment can be as simple as running through a checklist, but for those looking for something more in depth, tools are available. (Ask your retirement plan advisor for recommendations.)

For those getting ready to conduct their inaugural plan health assessment, here's some good news: You're taking the pivotal first step of establishing a baseline diagnosis for future assessments. To help you get started, here are some key steps to consider.

Lift the hood on plan design. A plan's design is its heartbeat—definitely not something to "set and forget." Over time, the objectives of your firm, employee needs, demographics, and populations may shift, rendering an outdated plan design less effective. To assess whether your plan design is meeting the needs of participants, ask yourself these important questions:

- **Does your plan use auto-deferrals or an auto-escalation feature?** Surveys have found that a majority of plans—69 percent—offer an automatic-enrollment feature, with the most common default rate being 3 percent. Are you worried about employee pushback? Don't be! Research found that 85 percent of participants *stayed* in their 401(k) plans after being automatically enrolled. That's compared with a 44 percent participation rate for plans with voluntary enrollment (which requires employees to opt in).
- **Is your formula for matching allocations attractive?** Your matching allocation formula should encourage employees to save for retirement and give business owners and key employees the ability to maximize their own contributions.
- **Are eligibility standards appropriate to the ages and job statuses of your workforce?** You shouldn't make recently hired employees wait too long to join the plan.

What Is a Plan Health Assessment? *(continued)*

- **Have you considered employee demographics?** The qualified default investment alternative (QDIA) and target-date fund (TDF) suite require an objective analyzation process, taking employee demographics into consideration.
- **Have you benchmarked your plan's investment options for reasonable cost and performance in the past 12 months?** Knowing how much your company's plan costs isn't just good business sense, it's a fiduciary responsibility.

Plan investment X-ray. As you know, investments within a 401(k) plan draw considerable scrutiny from regulators. Therefore, it's imperative for you to continually gauge the investment options your plan offers and ensure that a prudent, documented process is in place for assessing these investment decisions.

Perform a stress test of savings rates. A retirement plan is, essentially, a mechanism that helps working Americans achieve financial security in retirement. As such, any plan health assessment should include an analysis to affirm that the plan is meeting that meaningful objective.

Compare the plan's participation and savings rates with those of the prior year. Healthy plans experience year-over-year improvement. Here, you'll want to cover crucial indicators that the retirement plan is serving its purpose:

- Are more employees choosing to participate in the plan?
- Have employees elected to defer more from their paychecks than they did last year?
- Have average balances increased?
- Have hardship withdrawal and loan requests decreased?

Education. Most of your employees will rely on you (and, by extension, your plan advisor) for relevant, engaging retirement plan education. If participation or deferral rates are down or flat compared with rates of prior years, a retirement education strategy tune-up might be in order.

Exercise proper plan governance. Just like rotating tires or getting regular oil changes for your car, exercising plan governance is not particularly glamorous, but it is an important preventative measure. Following administrative procedures for your plan is an integral aspect of fulfilling your fiduciary responsibility. Consider these key areas:

- **The investment policy statement (IPS).** The IPS is the blueprint for the way plan assets are invested. It establishes guidelines for the selection, monitoring, and replacement of investments. Be sure that your plan has an IPS and that the terms have been followed.
- **Documentation.** Ensure that all plan-related decisions—including investment choices, distribution authorizations, service provider due diligence, and more—have been documented. Further, this documentation should be stored (either virtually or in hard copy) in a centralized location that can be accessed at a moment's notice.
- **Plan terms.** The terms of the plan document are, in essence, the schematics for the plan's administration. As part of plan governance, you should assess whether these terms have been rigorously followed.
- **Cybersecurity.** A critical but often overlooked aspect of a plan sponsor's fiduciary oversight is how its recordkeeper or third-party administrator protects employees' sensitive personal data. But cybersecurity should be near the top of any retirement plan fiduciary's priority list.

You might be thinking that these tasks seem like a lot for one person to handle—and they are! A best practice is to rely on service providers, such as your retirement plan advisor or consultant, to help you put your plan through its paces and whip it into shape.

Plan Sponsors Ask: Our Employees Are Financially Stressed! What Can We Do to Help?

Q: Our company strives to create an environment that allows our employees to thrive. We know that the pandemic, domestic and global events, and other circumstances have contributed to their everyday stress and worry. What can we do to help them feel more at ease about their financial futures?

A: You're absolutely right to think that you, as an employer, can make a difference in reducing your employees' financial stress. According to recent research from John Hancock Retirement Services, 58 percent of workers feel stress about their finances—whether it's about credit card debt, student loan repayments, or everyday essential expenses. And 40 percent of respondents say they'd be more productive if they didn't worry about their finances while at work.

So, what can you do? Having a solid retirement plan is a great start. Offering a gentle nudge to save early and often for retirement is crucial. But more education is also needed. Indeed, 74 percent of respondents in the John Hancock survey believe getting financial advice at work would help reduce their stress and 57 percent said it would increase their productivity. Introducing advice programs on financial topics such as debt management, health care planning, social security, and budgeting could be just what your employees need to alleviate stress in their personal and professional lives.

To help you get started, most 401(k) service providers offer online tools and resources designed to help employees save for retirement and make positive financial choices. Reach out to your service provider—or your company's retirement plan advisor or consultant—to see what resources could work for you.

Numbers Game: Deciphering 401(k) Codes

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 common 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 any poor investment choices plan participants make.

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

404(a)(5). All plan participants (including noneligible participants) must receive this fee disclosure document from 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 best practices for performing a 401(k) plan health assessment, providing tools and resources to help financially stressed employees, and deciphering 401(k) terms. We're ready and willing to help.