

# RETIREMENT PLAN PERSPECTIVES

## Insights for Your Plan and Employees

Q2 2017



### Does Your Plan Have a Clean Bill of Health?

Complicated machines, like automobiles and the human body, need regular checkups. A clean bill of health certifies that periodic maintenance has been performed, nothing is broken, and things are working as they should.

Retirement plans, with their various rules, components, 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.

#### So, what is a plan health assessment?

In short, a plan health assessment is a diagnostic analysis of your firm's 401(k) plan "health." 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. A plan health assessment can be as simple as running through a checklist, but there are tools available if you're looking for something more in depth. (Ask your retirement plan advisor for recommendations.)

For those of you getting ready to conduct your inaugural plan health assessment, here's the good news: By doing so, you will be 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.** Plan design is the heartbeat of your plan—definitely not a “set it and forget it” function. Over time, the objectives of your firm, employee needs, demographics, and populations may shift, rendering an outdated plan design less effective.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:

- **Auto-deferrals and auto-escalation.** Does your plan use auto-deferrals or an auto-escalation feature? According to a [2016 survey](#), 57.5 percent of plans offer an automatic-enrollment feature, and more than half of those plans use a default deferral rate of more than 3 percent.
- **Matching allocation formula.** Is the matching allocation formula incentivizing employees to save for retirement? Does it give business owners and key employees the ability to maximize their own contributions?
- **Eligibility standards.** Are eligibility standards conducive to the ages and job statuses (such as full-time versus part-time) of your workforce?

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

- **QDIA and TDF analysis.** Has the qualified default investment alternative (QDIA) and target-date fund (TDF) suite undergone an objective analyzation process? Have your plan's employee demographics been considered in order to select the most appropriate QDIA and TDF investments?

## Does Your Plan Have a Clean Bill of Health? *(continued)*

- **Benchmark investment options.** Have your plan's investment options been benchmarked for reasonable cost and performance in the past 12 months?
- **Reenrollments.** Could your employees benefit from reenrollment? You're probably aware that reenrollment is a process where plan participants are given the opportunity to reselect their investment options. But what you may not know is that case studies have shown reenrollment to be an effective method for plan participants to reallocate their investments to professionally managed TDFs or the plan's QDIA, thus removing the guesswork for DIY investors who may otherwise choose an inappropriate investment allocation mix.

**Stress test 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.

- **Participation and savings rates.** Compare the plan's participation and savings rates with those of the prior year, as healthy plans experience year-over-year improvement. Here, you'll want to cover the 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) to provide them with 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.
  - Have you put your educational efforts under the microscope?
  - Are they hitting the mark?

**Exercise proper plan governance.** Just like rotating tires or getting regular oil changes for your car, exercising plan governance is not a particularly glamorous task. Following administrative procedures for your plan, however, 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—were 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 way the plan is administered. As part of plan governance, you should assess whether these terms have been rigorously adhered to.

You might be thinking that these tasks seem like a lot for one person to handle—and they are! 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.



## More Screen Time?

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When you were a student, did your teacher ever scrap the day's blackboard session and wheel in a TV (equipped with a VCR, of course) to play an educational video instead? Wasn't that a refreshing change? Now, wouldn't it be great to re-create that feeling of excitement with your plan participants? You can! Using video to communicate with employees about their benefits, including their retirement plan, may generate a similar excitement and, in turn, enhance the quality of employee engagement.

Think about it: YouTube, Netflix, and Snapchat are on-demand, at-your-fingertips video tools, all designed to engage and stimulate, sometimes in the blink of an eye. Isn't that what plan sponsors are trying to achieve with their benefits packages? Plus, it's likely that employees are familiar with these forms of information delivery and will be comfortable digesting information in video format.

So, the next time you need to communicate an important message to your workforce, try grabbing a smartphone and recording a message that can be uploaded to YouTube, e-mailed, or posted on a company intranet site. Or you might try creating inspirational, easy-to-digest videos to educate employees on the importance of saving for retirement. Your plan participants will be pleasantly surprised, and the simplicity of a "click" may be all that's needed to take your communication strategy to the next level!



## We Can Help

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If you would like to discuss your retirement plan health assessment, new ideas to motivate and engage employees, or any aspect of your plan, don't hesitate to contact us. We're ready and willing to help!

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