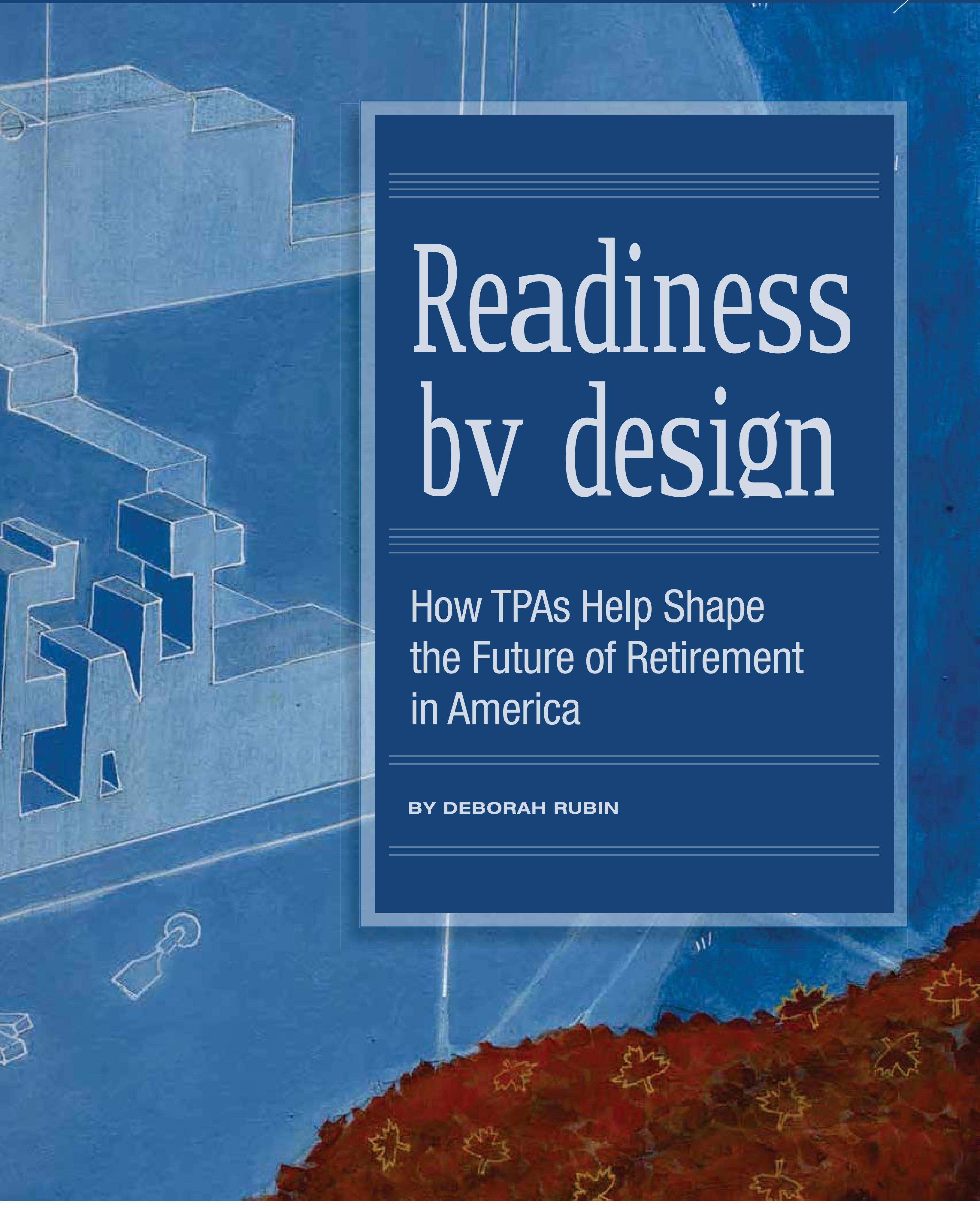

RETIREM



Readiness by design

How TPAs Help Shape the Future of Retirement in America

BY DEBORAH RUBIN

Early in my career, I worked as a retirement plan wholesaler, occasionally conducting enrollment meetings for new participants. One such meeting took place at a nursing home nearly 20 years ago, where the 7:00 a.m. session was very lightly attended. However, I had the undivided attention of a young nursing assistant named Emily who asked to speak with me afterward.

Emily explained how she was from a humble background and was the first in her family to go to college, paying her own way by working nights at the nursing home. I was truly inspired by her work ethic, enthusiasm about what I had to share, and the genuine spark I saw in her eyes when I explained the simple yet staggering effects of compound earnings. I left our meeting confident that Emily would be successful in her chosen career — and a successful life-long saver.

"There's definitely still resistance out there."

Over the years, my brief meeting with Emily has stayed with me, though I tucked it away in the back of my mind. But lately, I think of her often as the news reminds us nearly every single day about our national retirement savings shortfall. In fact, a recent Senate study pegs the overall retirement savings deficit for Americans at an astronomical $6.6 trillion,[1] which means the average person is far from having an adequate nest egg. So, now I think about the millions of "Emilys" out there and what we can do as an industry to help improve their retirement outcomes.

Currently, I work closely with many TPAs across the nation. And because they work mostly with smaller plans, I believe TPAs can make a significant impact on retirement readiness. Their small-plan clients are the "boots on the ground" at their companies; they don't have large HR departments on which to rely.

Sponsors at small companies spend only a fraction of their time working on their retirement plans because they have so many other responsibilities. More times than not, they are looking for guidance from their TPA. I wondered what TPAs are currently telling their plan sponsor clients, and how open they would be to starting the retirement readiness conversation. So I reached out to a few of my trusted TPA partners to discuss retirement readiness from their unique perspective.

STRAIGHT TALK FROM THE TPA

"We need to better educate the plan sponsor. I think we have to start shifting our conversations with sponsors to focus a little less on the compliance testing and a little more on improving overall retire readiness," says Michelle Marsh, QKA, president and owner of Retirement Plan Concepts & Services, Inc.

This is exactly why TPAs are best positioned to influence retirement plan sponsors. "Employers looking to start a new retirement plan don't have a preset idea of what they want, they're open to suggestions about every aspect of plan design, including the automatic features," says Tommy Horst, vice president at ERISA Services.

The same goes for existing plans, no matter how long they've been in place. "We can improve retirement readiness if we work with our plan sponsors on plan design, whether that means installing a new plan or reviewing the design of an existing plan," says Theresa Conti, APR, QKA, who is president of Sunwest Pensions. "We have such incredible tools at our disposal now, such as automatic enrollment and automatic escalation. We need sponsors to offer a matching contribution because it will drive participation, not just so they pass discrimination testing."

If TPAs across the country can work closely with plan sponsors to drive up participation rates using automatic enrollment and automatic escalation, then participant deferrals increase, and as a result, the small business owners will be able to contribute more as well.

However, there's definitely still resistance out there. "Ten years ago auto enrollment was a fiasco for vendors and TPAs," says Marsh. We need to bring up the topic again and again with sponsors who might've written it off as infeasible. Marsh continues, "The obstacles that were there in the beginning are still perceived to be there today — but I know as a practitioner, they're not."

[1] Senator Tom Harkin, Chairman, US Senate Committee on Health, Education, Labor & Employment's report "The Retirement Crisis and a Plan to Solve It."

Three Things TPAs Can Do to Drive Retirement Readiness

1. Work with your financial advisors and plan providers to talk to your clients and prospects about participant retirement readiness and the purpose of their plan.
2. Encourage plan sponsors to design a plan that rewards participants for saving with matching contributions.
3. Suggest incorporating automatic enrollment and automatic escalation in all your plans. Aim for a total employee deferral rate of 10%.

"The truth is, auto enrollment makes some sponsors squirm. In five years, this is going to be the norm, so you need to be on the front end of this," adds Horst.

IS 'AUTO' THE ANSWER?

Making these automatic features the norm sounds like an excellent start, but we need to address sponsor concerns. The three primary objections from sponsors are that auto features are too complicated, or too costly, or the penalties are just too daunting. But TPAs can lead the way for sponsors as part of the hands-on guidance they already offer.

Horst describes the change he's seen since he has started focusing his client discussions on participant outcomes: "I'm having much more success when I help sponsors understand not only the cost and design of a plan, but the importance of defining how their retirement plan fits in with their the overall goal of running a successful business — the plan is there to benefit their employees' retirement readiness. And, of course, a good plan can also help with employee attraction and retention."

There's also what I like to call the "3% problem." Most plans with automatic enrollment top out at just 3%, which is a start, but may not be enough to get the average employee prepared for retirement. The 3% threshold was used as an example by the IRS in its regulations governing the default auto enrollment rate. And without other guidance, this 3% figure just stuck. However, there is nothing in the regulations that mandates a 3% contribution rate; it was just an example. Now, financial advisors and TPAs are having difficulty convincing plan sponsors it's insufficient.

"I have a big construction company [as a client] that adopted auto enroll about six or seven years ago, at 3%. Nobody opted out and it was a huge success. However, because the plan is successful at 3%, they're hesitant to raise it in fear that people might begin opting out," says Conti.

DESIGN CHANGES TO PROMOTE RETIREMENT READINESS

Let's look at an example where the TPA recommended their plan sponsor make just a minor adjustment to their plan that resulted in a serious difference for employees. "A client of mine which is a doctor's office had a cross-tested 401(k) plan with a 3% safe-harbor contribution and a 2% profit-sharing contribution, both non-elective," says Horst. "So they were essentially giving employees 5% without requiring them to contribute anything. As a result, the contribution rate was almost nonexistent because participants didn't have any skin in the game."

To address this problem, Horst spoke to his client about retirement readiness and how they could best help their employees. "I encouraged them to add a matching contribution of 25% up to 4% of pay, and auto enrollment at 4%," he relates. "So now, employees need to save 4% to get the full company match, and when they do that's now a total of 10% savings versus the 5% being saved before. It did cost the employer an extra 1%, but they understood what a huge impact they could have on helping their employees retire with dignity down the road. They wanted to help make that happen."

MAKING RETIREMENT READINESS A REALITY

TPAs can influence retirement outcomes when they convince plan

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Suggestions for Improving Automatic Enrollment Utilization in Retirement Plans

In January 2013, Transamerica Retirement Solutions sent a letter to the U.S. Department of Treasury providing our perspective on the administrative and fiduciary challenges associated with the utilization of automatic enrollment and escalation features, with an overall premise that:

- Penalties for non-compliance with "auto" provisions are high relative to the impact of the compliance error, but
- Deterrents to automatic enrollment and escalation can be easily resolved.

Proposed remedies fall into two categories:

- Regulatory remedies, which would be addressed by the IRS.
- Plan design and education remedies, which would be addressed by retirement plan service providers.

Regulatory remedies would:

1. Establish a corrective option that equitably resolves the error of missed deferrals, but does not deter utilization of automatic enrollment.
2. Limit the maximum period for which companies would have to make corrective contributions.
3. Extend the current "brief exclusion period" under EPCRS from three months to six months.
4. Simplify the "missed earnings" calculation.

Plan design and education remedies would:

1. Make the identification of eligible employees simpler and streamline the plan entry process.
2. Define matching formulas that encourage participants to defer at higher percentages but do not cost the plan sponsor more with increased plan participation.
3. Provide education and diagnostic materials that enable plan sponsors and participants to better understand:
   - » the seriousness of the retirement savings shortfall in the United States;
   - » participation statistics that define a "healthy" retirement plan;
   - » the actual health and performance of their own plan; and
   - » why automatic enrollment/escalation is beneficial and generally welcomed by the majority of employees.

sponsors of the best course of action to take, but only to the extent that the law and plan regulations allow. Will there be any new legislation tilting the scales in favor of retirement plan participants? I sure hope so. In fact, my company, Transamerica Retirement Solutions, has already reached out to the U.S. Department of Treasury in January of this year to let them know our thoughts about retirement reform (see sidebar).

I also asked the TPAs what they thought could be done to drive change from a regulatory perspective. "Add another safe harbor, one that's 50 cents on the dollar up to 8% of savings," suggests Horst. "I think it's essential, because how much sponsors match isn't as important as the match cap."

Conti adds: "I think the 'top heavy' rules have become a big issue that's only getting bigger — they discourage a lot of small companies from having plans," he says.

Marsh sums it all up: "The whole mindset has to change entirely, but I do believe that with a change in messaging over every aspect of the process the result will be there, but the result will be very slow over time." PC

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