Retirement Plan

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Defining Workplace Goals is a Vital First Step to an Effective Retirement Plan

Retirement plans can be as unique as your company and its employees. Yet many committees do not take the time to set specific goals for their plans. Without defined goals, it can be difficult to create an effective retirement plan that meets expectations. Here's helpful guidance about defining your plan goals and offering this benefit which helps everyone save toward retirement success.

> Each time you discuss the company's 401(k) plan, it is an opportunity to identify goals and align plan design.

Aligning plan goals with specific features has the potential to improve outcomes. Plan considerations might include who is eligible, whether or not to make employer contributions and if it makes sense to automatically enroll and regularly notch up participant deferrals – called auto-escalation.

Proactively identifying specific goals helps you offer a more competitive benefit that can:

- enhance recruiting and retention
- boost savings rates
- save you and your employees money
- improve retirement readiness and financial wellbeing

IDENTIFYING KEY PLAN GOALS

Identifying 401(k) plan goals is a vital first step in effective plan management. Without clearly defined goals, plans often fall short in key areas, including fiduciary governance, investment offerings, participation and engagement.

Here are three common goals business owners should consider as they begin to think about designing a 401(k) benefit that meets their needs, as well as those of their business and employees:

Tax savings for owners | One of the more common ways employers utilize the company's retirement plan is to maximize their contributions. Whether a pre-tax deferral through a 401(k) and/or by adding a profit sharing contribution, the employer usually works closely with a TPA to find ways to maximize their saving opportunities.

Another way employers use this benefit is by saving through a Roth[1]. The Roth 401(k) does not have income restrictions, and you can save up to the general 401(k) limit. Roth contributions are a way to add tax planning flexibility in current and future years.

And for companies that offer employer contributions – such as a match or profit sharing – they are deductible to the business. This may lower the overall tax burden, especially for sole proprietors, S-Corps, LLCs and other pass-through entity small businesses.[2]

Proactive initiatives to enhance successful retirements | Much like a parent has their best interest in mind for their children, plan fiduciaries should always act in the best interest of the plan's participants. In doing so, two ideas that can help are auto enrollment and auto escalation. This is where participants are automatically enrolled into the plan and then contributions are increased gradually over time (typically 1% per year up to 10-15% of earnings). Automatic features have been shown to improve participation and savings rates.

> According to a recent study, **90% of participants remain in the plan following automatic enrollment.** Moreover, **83% of employees say they don't mind being auto enrolled** at a deferral rate of 6%.[3]

The third activity is re-enrollment to rebalance participants into an appropriate investment mix. Generally, the participants are re-enrolled into the plan's QDIA.

By doing this, the asset allocation is aligned with the participants risk/reward glide path towards retirement.

Recruit, reward, and retain top talent | When workers are evaluating multiple job offers, the quality of your 401(k) plan can make or break their decision to join your company.

A plan that entices employees to save for retirement at a meaningful rate— by offering employer matching contributions, automatic enrollment and auto escalation, for example—has significant potential to be an attractive benefit that can help you stand out in a competitive labor market.

Providing employees with a powerful retirement plan benefit also enables them to invest more appropriately for the future, including during periods of market turbulence. Having access to a 401(k) plan affords them the advantage of time-tested investing strategies, such as dollar cost averaging, by contributing a portion of every paycheck.

SUCCESSFUL PLAN DESIGN STARTS WITH PROACTIVE PLANNING

Designing a 401(k) benefit that mirrors your goals for the plan may seem intimidating, but it doesn't have to be. First and foremost, we can help you develop a proactive mindset that defines the plan's goals and takes the appropriate steps toward achieving them.

> No 401(k) plan design is one-size-fits-all. Which is why we are here to help you offer a 401(k) plan that reflects your goals and meets the needs of your business and employees.

[1] The plan needs to allow Roth contributions.

[2] Please consult your plan's Third Party Administrator (TPA) and tax advisor for specific details.

[3] Principal Retirement Income Solutions Data. March 2019.

Fiduciary Best Practices: Why Investment Oversight is Important for 401(k) Committees

Selecting and monitoring investment options for your company's retirement plan is just one part of your fiduciary responsibility. How do you evaluate, benchmark and assess your plan and what other expertise or protection should you consider?

> An investment committee has a lot of responsibilities, including selecting and monitoring the investment options for the retirement plan; but there are plenty of resources available to help make informed decisions.

By being proactive and educated on these topics, you can reduce the risk of lawsuits related to excessive fees or violations of ERISA. In recent years, class action lawsuits have been filed against plan sponsors for breaching their fiduciary duty. Thus, it's important to understand fiduciary duty, plan oversight and guidance, as well as available advisory services and protection.

YOUR FIDUCIARY RESPONSIBILITIES

As a fiduciary, the plan sponsor/employer is required to act solely in the interest of the participants. The Department of Labor states that the primary responsibility of fiduciaries is to act prudently and diversify the plan's investments to minimize the risk of large losses.[1]

To assist with this oversight, investment committees often include advisors with specific fiduciary knowledge:

- A 3(21) advisor serves in a co-fiduciary capacity to the plan and shares investment fiduciary responsibility and liability with other plan fiduciaries. A 3(21) advisor provides counsel and guidance but does not have discretion. Responsibility for investment decisions rests with the plan sponsor.
- A 3(38) advisor or investment manager is a fiduciary that assumes full discretionary control over the investment selection and monitoring decisions for the plan. When you hire a 3(38) fiduciary advisor, the plan fiduciaries remove themselves from the ongoing investment decision-making process.

INVESTMENT POLICY STATEMENT

Every investment committee should have an Investment Policy Statement (IPS). Think of the IPS as a roadmap for your plan's investments. It provides governance and helps ensure that the plan's objectives and investment approach are aligned. It also is a framework for the committee to evaluate the retirement plan's performance.

[1] Department of Labor. "Fiduciary Responsibilities". DOL.gov.

EVALUATE, BENCHMARK AND ASSESS

Investment committees should regularly monitor the plan's investment performance and compliance. Assistance from a fiduciary expert can be very helpful when conducting these reviews.

Here are steps to consider:

- **Evaluate**: Are the goals and objectives as outlined in the IPS being attained? Review the investment lineup and the funds' fee structure to ensure they are reasonable. Also, make sure to review deliverables and fees with investment service providers, third-party administrators and vendors.
- **Benchmark**: Compare your plan to market indices or similar plans to help benchmark performance on an appropriate basis. Be sure to work with an investment advisor familiar with overall market conditions and who can review historical performance.
- **Assess**: Based on the review of fees, performance and other criteria, decide whether changes to the investment lineup, service agreements and/or outside experts need to be made.

WHAT IS FIDUCIARY LIABILITY INSURANCE?

As a plan sponsor, strongly consider obtaining fiduciary liability insurance. Simply, this provides legal protection for the employer and those acting in a fiduciary role if there is a claim of a fiduciary duty breach or mismanagement of the retirement plan. While it's not required by law and it does not protect against acts of fraud, fiduciary liability policies will pay defense costs and judgment awards if a company is found liable.

It's important to note that this differs from an ERISA fidelity bond, which protects the plan against losses caused by fraud or dishonesty.

Fiduciary liability premiums range from several hundred to a few thousand dollars per year, depending upon a company's needs. According to one report, "most small businesses with fewer than 100 employees will pay less than $1,500 per year."[2]

FIDUCIARY OVERSIGHT, FINANCIAL INTEGRITY

Oversight of a retirement plan and its investment lineup is a tremendous responsibility with significant consequences if not managed properly. To protect the financial integrity of your plan, it is best to work with fiduciary experts, including qualified 3(21) or 3(38) advisors. A well-managed plan and investment strategy can help deliver an optimized plan that enables employees to confidently pursue their retirement goals.

> If you would like help selecting and monitoring investments for your company's 401(k) plan, please contact us. We are happy to answer any questions you may have about our services or how we can assist you in meeting your fiduciary responsibilities.

2 Counterpart. "Fiduciary Liability Insurance." Feb. 1, 2022.

Why Plan Fiduciaries Need to **Pay Careful Attention to Retirement Plan Fees**

Competitive benchmarking is a way to measure and compare fees associated with running your retirement plan. Explore the most frequently asked questions about plan costs and benchmarking.

> Retirement plan fees can take many different forms, making it difficult to determine whether they're reasonable. In this article, we'll discuss why fiduciaries need to pay careful attention to fees and how benchmarking can help you make informed decisions. We'll also explore some of the most frequently asked questions about retirement plan fees and how to benchmark them.

WHY IS UNDERSTANDING YOUR PLAN COSTS SO IMPORTANT?

For starters, it helps you fulfill your fiduciary duties and safeguard you, your plan and your committee from excessive fee lawsuits. Plan sponsors have specific responsibilities to understand plan fees under ERISA, the law that governs most workplace retirement plans.

ERISA requires plan fiduciaries to:

— Monitor and benchmark service providers and other plan expenses to make sure that fees are reasonable based on the level and quality of services being delivered

— Monitor and review the plan's investment options regularly to make sure they're performing in line with expectations

— Disclose plan, investment and fee information to participants so they can make informed decisions on investing their savings

Fees typically fall into three categories:

1. **Administrative:** These are costs associated with the plan's day-to-day operations, including recordkeeping, accounting, legal, trustee and other related expenses.

2. **Investments:** The largest share of plan expenses are investment costs that include investment management and investment-related services; they are often charged as a percentage of plan assets. It's important to pay attention to investment fees because they aren't always clear or easy to understand. Additionally, investment fees that are too high may significantly diminish participants' savings over time.

3. **Individual services:** Generally, these fees are associated with optional plan features, such as loans. These costs may be passed directly onto participants who opt to take advantage of them.

Fees are charged in different forms too, such as a flat fee, a percentage of assets and/or a combination of both. They may be charged on a one-time or on an ongoing basis, depending upon the services received.

As fiduciaries, plan sponsors must engage in a thorough process to ensure that plan fees are reasonable, and the benchmarking process is carefully documented.

WHAT IS THE BEST WAY TO ANALYZE 401(K) PLAN COSTS?

Benchmarking is the process of comparing costs and value for the services being received by your retirement plan with plans of a similar size and type. Issuing requests for proposal (RFPs) is a common approach to benchmarking, but it isn't the only solution.

Other benchmarking resources include:

- Retirement plan consultant databases
- General benchmarking data
- Recordkeeping data

HOW OFTEN SHOULD YOU BENCHMARK YOUR 401(K) PLAN?

Generally, smaller plans may benchmark their fees and services every three years while larger plans may do an annual review. "Kicking the tires" on your plan expenses on a regular basis is a good way to confirm that costs are in line with plans like yours (or not).

NEED HELP UNDERSTANDING YOUR 401(K) PLAN FEES?

Making sense of your plan fees and recognizing whether or not you're getting the most value for your plan dollars can be complex. We can help you review and evaluate your plan costs so you can make informed decisions on how to manage them efficiently and cost-effectively. Once you understand your plan fees, you'll be better able to carry out your fiduciary responsibilities and feel more confident that you're doing what's best.

> To learn more about plan fees and how to benchmark them, contact us today. We're here to help you navigate the complexities of retirement plan management and toward ensuring that your plan is running efficiently and cost-effectively.

For more information on how we support retirement plan sponsors and participants, **visit our website or contact us directly.**

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This information was developed as a general guide to educate plan sponsors and is not intended as authoritative guidance or tax/legal advice. Each plan has unique requirements and you should consult your attorney or tax advisor for guidance on your specific situation.