5 Top Mistakes Retirement Plan Sponsors Make

And how to avoid making them.

By Benedict A Mitchell Jr.

Having had the privilege of working in the retirement plan industry since 1996, I have witnessed tremendous change. Through my tenure, the retirement plan industry has increased in both size and complexity. According to the Employee Benefit Research Institute at the start of 2012, the total "U.S. Retirement Plan Assets" approached $23.7 trillion with $18.0 trillion of that amount in tax-qualified assets. (1). A large percentage of U.S. workers are taking advantage of their company sponsored retirement plans as their main vehicle to save for retirement. One should reasonably expect Plan Fiduciaries to make certain they are offering their employees the ideal solution available and to take on the relentless challenge of improving their respective retirement plans. I am writing this article to illuminate the most common mistakes Retirement Plan Sponsors make in the hope that future retirees can obtain the ability to retire with dignity. Prudent Retirement Plan Sponsors can greatly improve the retirement outcomes of their plan participants by setting measurable goals, understanding their fiduciary role, monitoring their plans investment offering by benchmarking performance and fees, measuring the retirement readiness of their plan participants and giving them the resources to make sound investment decisions as well as hiring a Retirement Plan Advisor that is a specialist in the industry.

Failure to set goals. *"Your goal should be just out of reach, but not out of sight." (2).* I have always been a believer in putting ones goals down on paper and to periodically review the progress. Any retirement plan with less than 100% participation has room for improvement! A basic goal is to annually benchmark your plan with several key considerations in mind for each demographic segment of your plan; Portfolio Allocation, Years to Retirement, Participation / Deferral rates and to document the participants Income Replacement Percentage. By documenting these criteria, you should be able to recognize the need for improvement as well as develop a strategy to implement the appropriate solution. A plan sponsor should also determine how well prepared their participants are by comparing their plan and demographics against the marketplace with similar sized organizations. If you set measurable goals, you should be able to document the growth of your retirement plan as well as measure how well prepared your employees are to truly retire someday.

Failure to understand the fiduciary role as a plan sponsor. The basic premise of acting as a Retirement Plan Fiduciary is to always act solely in the best interests of the plan beneficiaries.

The four rules for fiduciaries to follow are:

Prudent Person Rule - Fiduciaries must carry out all duties with the care, skill, prudence and diligence that a person acting in a like capacity and familiar with such matters would use. Such as selecting and monitoring investments and service level of outside providers.

Diversification Rule - Participants should be given a broad range of investment alternatives so they can create their own portfolio based on their own risk and reward criteria.

Exclusive Benefit Rule - As a Retirement Plan Fiduciary one should always act solely in the best interests of the plan beneficiaries including defraying reasonable administrative expenses.

Follow the Plan Documents – Abide by the plan documents when making plan decisions.

Failure to monitor investments and Complacency. Granted, this is a broad topic but I believe it is the easiest to remedy. On August 26th 2014, the S&P 500 Index managed to finish at a record high for the 30th time this year and finally closed over 2,000. It's logical to assume most retirement plans have benefitted from the market recovery and surge since 2008. However, retirement plans with a disproportionately high allocation to cash equivalents since 2008 have experienced a drag on performance. Additionally, Retirement Plans with Fee's out of line with their peers have missed out on the markets performance as well.

"We shall have no better conditions in the future if we are satisfied with all those which we have at present." – Thomas Edison (3)

An all too common refrain of Retirement Plan Sponsors has been "If it ain't broke, don't fix it."(4). Although we have experienced a resurgence in our equity markets, it would be appropriate for plan sponsors to take this market swoon as an opportunity to reevaluate their investment offering with added emphasis on the fee's incurred from all interested parties. A few suggestions for plan sponsors as they evaluate their 408(b)(2) fee disclosure notices would be to ask the following questions of your service providers:

- Has the plan achieved an asset level where Institutional Fund Shares Classes are warranted?
- Are there any funds that can be replaced with a less expensive alternative and still achieve similar performance results?

> ***An example of why you should have conversations on fee's… "Walmart Settles Landmark 401(k) Fees Class Action Lawsuit.*** *The company has settled a $13.5 million class action lawsuit with employee Jeremy Braden and others. The suit claimed that the retailer, along with Bank of America's Merrill Lynch unit, passed along "unreasonably high fees and expenses" to Walmart's 2 million workers." (5)*

- Does the vendor offer less expensive passively managed alternatives?

- As one of our service providers, what are your suggestions to help us reduce the overall plan cost?

Failure to adequately prepare your plan participants for retirement.

On August 18th, 2014 Nanci Hellmich wrote an article for USA Today publicizing a recent survey which stated "A third of people (36%) in this country have nothing saved for retirement, a new survey shows. In fact, 14% of people 65 and older have no retirement savings; 26% of those 50 to 64 have nothing saved; 33%, 30 to 49; and 69%, 18 to 29, according to the survey of 1,003 adults, conducted for Bankrate.com. "Regardless of age, there is no better time than the present to start saving for retirement," says Bankrate.com chief financial analyst Greg McBride, CFA. "The key to a successful retirement is to save early and aggressively." Other recent research shows that many people aren't saving nearly enough for their golden years." (6)

As plan sponsors review their plans demographics they should place an emphasis on educating their youngest workers to foster a habit of saving. A plan design technique to consider for the next plan year is to offer an automatic enrollment provision as well as to work with your vendor to consider an annual deferral rate increase program. If your plan has not already done so, it is certainly time to consider adding the Roth 401(k) deferral provision to your plan. The question of "To Roth or Not to Roth" is more often answered by the two demographics that typically contribute a portion to the Roth 401(k) being younger workers and those that are within 10 years of their retirement date.

Working with the wrong Financial Advisor. On too many occasions, Plan Sponsors select an advisor of convenience rather than an advisor that specializes in Qualified Retirement Plans. Working with an advisor that welcomes the fiduciary responsibility of being a plan advisor is tantamount.

How to avoid the most common mistakes plan sponsors make? Hire an advisor that specializes in Qualified Retirement Plans. In the 2014 retirement plan study called "The Value of a Professional Retirement Plan Advisor, a fundamental research study sponsored by Fidelity Investments, Franklin Templeton Investments, John Hancock Investments, MFS Investment Management, MassMutual Financial Group, Principal Financial Group, and Transamerica Retirement Solutions for the benefit of the Retirement Advisor Council, EACH Enterprise LLC, 2014" soundly illustrates this point. The Study concluded, "Plan sponsors who retain the services of a Professional Retirement Plan Advisor entirely dedicated to the business reap tremendous benefits from the partnership. Most salient is the enhanced participant retirement readiness that stems from repeated measurements, participant reporting, plan design changes, participant guidance, and advice. Specialized Advisors apply a wealth of insight and experience to create an environment conducive to participation and contribution levels that lead to retirement success.” (7)

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Citations.

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2 inspirational-quotes.info/goals1.html – Denis Waitley and Remi Witt
3 notable-quotes.com/e/edison_thomas.html
4 en.wikipedia.org/wiki/Bert_Lance Thomas Bertram "Bert" Lance (June 3, 1931 – August 15, 2013) was an American businessman who served as Director of the Office of Management and Budget under President Jimmy Carter in 1977 who is credited with saying “If it ain’t broke, don’t fix it”
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